Highlight

Highlight Communications AG


# 2Q2017

# Interim Report as of June 30, 2017

**The Highlight Group's figures for the first half of the year were in line with planning for the year as a whole.**

- Compared to the very strong figure for the same period of the previous year, consolidated sales fell by 22.3% to CHF 160.4 million.
- As expected, EBIT declined from CHF 13.9 million to CHF 6.9 million.
- The consolidated net profit for the period was also down year-on-year at CHF 4.4 million.
- The share of earnings attributable to Highlight shareholders was CHF 4.0 million, corresponding to earnings per share of CHF 0.08.
- As a result of the capital increase implemented, the equity ratio rose significantly from 36.7% to 49.3%.

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# INTERIM MANAGEMENT REPORT

## BUSINESS DEVELOPMENT OF THE FILM SEGMENT

### Sector-specific situation

#### Theatrical distribution

In the first half of 2017, revenues on the German movie market amounted to around EUR 483.6 million – an increase of 12.1 % compared with the first six months of 2016 (around EUR 431.4 million). Attendance figures rose by 10.4 % to around 56.1 million (same period of 2016: around 50.8 million). The main reason for both of these developments was an extremely strong second quarter that included a number of high-profile new theatrical releases.

The most-attended movie in the first half of the year was the sequel "Fifty Shades Darker" with around 3.4 million viewers, followed by the remake of the classic fairytale "Beauty and the Beast" (around 3.3 million viewers), the action franchise "Fast & Furious 8" (around 3.2 million viewers), "Guardians of the Galaxy 2" (around 2.5 million viewers) and "Pirates of the Caribbean: Salazar's Revenge" (around 2.4 million viewers).

#### Home entertainment

The declining trend on the German home entertainment market continued. Revenues of EUR 593 million were generated in the period from January to June 2017, down 8.6 % on the same period of 2016 (EUR 649 million). However, these figures do not include SVoD (subscription video-on-demand), an area that is experiencing substantial growth.

As previously, the downturn was attributable to falling proceeds from the sale and rental of physical media (DVD and Blu-ray), which declined by 13.1 % to EUR 479 million (same period of 2016: EUR 551 million). By contrast, digital exploitation (electronic sell-through and transactional video-on-demand) continued to perform positively, with revenues up 16.3 % year-on-year to EUR 114 million (same period of 2016: EUR 98 million).

### Operational development

In early April, the Constantin Film Group extended the existing framework license agreement with ProSiebenSat.1 Media SE. The new exploitation rights encompass all national and international Constantin Film theatrical productions with filming commencing in 2017 and 2018, which will be broadcast on the ProSiebenSat.1 Group's TV stations in the coming years.

A corresponding multi-year license agreement was concluded with the pay-TV provider Sky Deutschland in late June. Under this agreement, Sky has secured extensive linear and on-demand rights for exclusive TV premieres of Constantin theatrical movies in both Germany and Austria, including "Fack Ju Göhte 3" and "Das Pubertier".

#### Theatrical production

The first half of 2017 saw the start of filming for the third installment of the successful "Fack Ju Göhte" series as well as "Gorillas", the adaptation of a short story by the best-selling author Ferdinand von Schirach. Other movies in production included "Benjamin Blümchen" and "The Famous Five 5", the reboot of the extremely successful movie series with a new, younger cast.

In the same period, the Constantin Film Group acquired the exploitation rights for movies including the rapper biopic "All Eyez on Me", the remake of the classic "Papillon" and the war drama "The 12th Man".

#### Theatrical distribution

Six Constantin Film Group movies were released in German theaters in the first six months of the year: the licensed titles "A Dog's Purpose" and "All Eyez on Me" and the own and co-productions "Resident Evil: The Final Chapter", "Timm Thaler", "Tiger Girl" and "Axolotl Overkill". "Tiger Girl" and "Axolotl Overkill" are the result of Constantin Film's "Alpenrot" initiative, which aims to promote talented young filmmakers and help them bring their creative projects to the big screen.

### Home entertainment

Notable new releases in the first half of 2017 included the licensed titles “The Light Between Oceans”, “Girl on the Train”, “Dirty Office Party” and “Florence Foster Jenkins”, the Constantin Film co-production “Verrückt nach Fixi”, as well as the first season of the international Constantin Film TV series “Shadowhunters”.

### License trading/TV exploitation

The second season of “Shadowhunters”, which was broadcast in the USA in the first half of 2017, also achieved extremely good ratings. Following on from this success, the US cable broadcaster Freeform has already commissioned a third season. In German TV exploitation, sales in the second quarter were generated in particular by the license starts for the theatrical movies “Step Up All In” (ProSieben) and “Männerhort” (SAT.1) on free-TV. In pay-TV exploitation, notable license starts included “Fack Ju Göhte 2”, “Gut zu Vögeln” and “Dirty Grandpa” (all on Teleclub).

### TV service production

The daily shows produced by Constantin Entertainment GmbH in the second quarter of 2017 included “Schicksale” and “Schulexperten – Jugendhelfer im Einsatz” (both for SAT.1), “Das Modegesicht” (for RTL) and “Work Out” (for RTL 2). Moovie GmbH began filming the high-profile five-part ZDF detective series “Die Protokollantin”, starring Iris Berben and Moritz Bleibtreu in the leading roles. Constantin Television GmbH filmed the thirteenth season of the daily show “Dahoam is Dahoam”. This series will continue to run until at least mid-2018.

## Analysis of non-financial performance indicators

### Theatrical distribution

Of the Constantin Film titles released in German theaters in the first half of 2017, only the franchise installment “Resident Evil: The Final Chapter” met expectations, attracting an audience of around 320,000 (including previews). In the distributor rankings for the first six months of the current year, the Constantin Film Group therefore placed twelfth in terms of both sales and attendance figures (previous year: sixth).

### Home entertainment

In the period from January to June 2017, the Highlight Group achieved a share of 3 % on the German video sell-through market without its sales partners Paramount Home Entertainment and Universal Home Entertainment. As expected, this meant that the market position in the same period of the previous year (5 %), which was largely driven by the exceptionally high sales figures for the blockbuster “Fack Ju Göhte 2”, was not repeated.

### License trading/TV exploitation

The area of TV exploitation again enjoyed good ratings in the second quarter of 2017 and expectations were met. In particular, this was thanks to the initial broadcasts of the movies “Fack Ju Göhte 1” on SAT.1 (4.08 million viewers, 12.8 % share of overall market), “Dampfnudelblues” on ARD (2.95 million, 11.9 % share of overall market) and “Männerhort” on SAT.1 (1.84 million viewers, 5.9 % share of overall market).

### TV service production

The daily show “Dahoam is Dahoam” achieved a near-constant market share of 15 % (overall market) for episodes of the thirteenth season. On average, the daily formats produced by Constantin Entertainment GmbH for SAT.1 also recorded stable double-digit market shares in the second quarter of 2017.

## BUSINESS DEVELOPMENT OF THE SPORTS- AND EVENT-MARKETING SEGMENT

### Sector-specific situation

In the media sector, the market for virtual reality (VR) in the ten biggest markets – including the USA, Japan, China, Germany and Russia – is expected to reach a volume of USD 15 billion by 2021. This corresponds to annual growth of 77 % from 2016 onwards. Leading global sports organizations are increasingly recognizing the value of this technology and are trialing corresponding services. VR was also a central theme at the finals of this year's UEFA Europa League and UEFA Champions League. For example, an initiative by the sports network BT Sport allowed fans in the United Kingdom to watch both matches free of charge in VR and 4K ultra-HD across various channels – including YouTube and BT Sport's own channels – and experience the action as if they were sitting in the stadium themselves. In Germany, a cooperation between Sky Deutschland and Sony allowed PlayStation Plus subscribers to enjoy a VR broadcast of the UEFA Champions League final.

On the sponsorship side, European football clubs are increasingly engaging in eSports, purchasing teams whose players take part in official tournaments, wear the club colors and attend fan events. In this way, clubs including VfL Wolfsburg, Manchester City, Paris Saint-Germain, PSV Eindhoven and Sporting Lisbon are enhancing their brand and extending the reach of the sport beyond the traditional football experience by offering innovative content with the aim of actively addressing and involving young fans.

### Operational development

In the second quarter of 2017, the TEAM Group focused in particular on sales negotiations for the current marketing of rights (TV and sponsorship rights) for the UEFA Champions League and the UEFA Europa League for the 2018/19 to 2020/21 seasons. In the area of TV rights, contracts have already been concluded for key markets including the United Kingdom, Germany, Italy and France.

The TEAM Group also supported commercial partners and UEFA in the successful staging of the finals of both competitions, which took place in Stockholm on May 24 (UEFA Europa League) and Cardiff on June 3 (UEFA Champions League). Manchester United defeated Ajax Amsterdam in the UEFA Europa League final, while Real Madrid CF triumphed over Juventus in the UEFA Champions League final. This made Real Madrid CF the first team in the Champions League history to retain the coveted title.

### Analysis of non-financial performance indicators

The final of the UEFA Champions League was again broadcast in more than 200 countries and seen by around 160 million viewers worldwide, with viewing figures peaking at roughly 350 million. This again underlines its status as the world's most viewed annual sporting event.

In Spain, 13.8 million viewers tuned in to the match, corresponding to a market share of 58.1 % – a similar level to the 2015 final between FC Barcelona and Juventus.

An average of some 62 million football fans watched the final of the UEFA Europa League, which was broadcast in more than 100 countries. This represents a year-on-year increase of 24 % (previous year: around 50 million). Similarly, viewing figures peaked at around 180 million compared with approximately 160 million in the previous year.

## RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL SITUATION OF THE HIGHLIGHT GROUP

### Results of Group operations

| (CHF million) | Jan. 01 to June 30, 2017 | Jan. 01 to June 30, 2016 | Change |
|---|---|---|---|
| **Sales** | 160.4 | 206.5 | –22.3 % |
| **EBIT** | 6.9 | 13.9 | –50.4 % |
| **Net profit for the period** | 4.4 | 8.1 | –45.7 % |
| **Net profit attributable to shareholders** | 4.0 | 8.2 | –51.2 % |
| **Earnings per share (in CHF)** | 0.08 | 0.19 | –57.9 % |

The lower sales essentially result from the Film segment, which achieved very high sales in the first half of 2016. This was due to the extraordinarily good sales figures for the hit movies “Fack Ju Göhte 2” and “Look Who’s Back” in home entertainment exploitation. However, capitalized film production costs and other own work capitalized rose by CHF 25.7 million to CHF 79.8 million, with the result that the Group’s total output was only CHF 20.5 million or 7.9 % below the previous year’s figure at CHF 240.2 million (previous year’s period: CHF 260.7 million).

Consolidated operating expenses declined by CHF 20.3 million or 7.8 % to CHF 238.3 million (previous year’s period: CHF 258.6 million). This development is primarily due to lower amortization and impairment losses on film assets (CHF –30.8 million). By contrast, the cost of materials and licenses climbed by CHF 12.5 million on account of productions.

As the decline in consolidated operating expenses was weaker overall than the reduction in total output, EBIT remained below the level for the first half of 2016. Furthermore, in the previous year there had been a one-time accounting profit of CHF 2.6 million from the deconsolidation of Highlight Event and Entertainment AG and Pokermania GmbH.

The fact that the decline in EBIT is not reflected to the same extent in the consolidated net profit for the period is because the financial result improved by CHF 2.5 million to CHF –1.3 million (previous year’s period: CHF –3.8 million). In addition to the lower share of earnings attributable to shareholders, the decline in earnings per share is due to an increase in the average number of shares in circulation.

### Results of segment operations

#### Film segment

| (CHF million) | Jan. 01 to June 30, 2017 | Jan. 01 to June 30, 2016 | Change |
|---|---|---|---|
| **Segment sales** | 131.2 | 176.9 | –25.8 % |
| **Segment result** | –3.2 | 0.8 | –500.0 % |

The drop in sales in the Film segment reflects the fact that, as expected, the exceptionally high sales achieved in the home entertainment business area in the first half of 2016 were not repeated in the first six months of the current fiscal year.

Other segment income, which is largely influenced by capitalized film production costs, was up by CHF 24.7 million year-on-year at CHF 84.8 million (previous year’s period: CHF 60.1 million). This increase reflects the higher current production volume compared to the first half of 2016. Segment expenses fell by CHF 16.9 million to CHF 219.3 million (previous year’s period: CHF 236.2 million), though this did not fully offset the reduction in sales.

### Sports- and Event-Marketing segment

| (CHF million) | Jan. 01 to June 30, 2017 | Jan. 01 to June 30, 2016 | Change |
|---|---|---|---|
| **Segment sales** | **29.2** | **29.4** | **–0.7 %** |
| **Segment earnings** | **12.9** | **12.8** | **0.8 %** |

The slight decline in the external sales of the Sports- and Event-Marketing segment was compensated by savings in segment expenses of CHF 0.3 million, with the result that segment earnings remained virtually unchanged.

### Other Business Activities segment

| (CHF million) | Jan. 01 to June 30, 2017 | Jan. 01 to June 30, 2016 | Change |
|---|---|---|---|
| **Segment sales** | **0.0** | **0.2** | **n/a** |
| **Segment earnings** | **0.0** | **2.7** | **n/a** |

The former Other Business Activities segment was discontinued in the first quarter of 2016 by way of resolution of the Board of Directors.

The costs of holding activities rose by CHF 0.5 million in the reporting period to CHF 2.8 million (previous year's period: CHF 2.3 million).

## Net assets situation

| (CHF million) | June 30, 2017 | Dec. 31, 2016 | Change |
|---|---|---|---|
| **Balance sheet total** | **466.7** | **368.5** | **26.6 %** |
| **Equity** | **230.2** | **135.3** | **70.1 %** |
| **Equity ratio (in %)** | **49.3** | **36.7** | **12.6 points** |
| **Current financial liabilities** | **73.5** | **52.3** | **40.5 %** |
| **Cash and cash equivalents** | **62.6** | **88.5** | **–29.3 %** |

On the assets side of the balance sheet, non-current assets increased by CHF 19.1 million to CHF 170.9 million (December 31, 2016: CHF 151.8 million), essentially as a result of additions to film assets (CHF 15.6 million) and a rise in non-current receivables due from third parties (CHF 3.3 million).

Current assets were up by CHF 79.1 million at CHF 295.8 million as of the end of the first half of 2017 (December 31, 2016: CHF 216.7 million). This was due in particular to a significant increase in trade accounts receivable and other receivables due from third parties of CHF 87.9 million, which was partially offset by the drop in cash and cash equivalents.

On the equity and liabilities side of the balance sheet, the growth in financial liabilities (CHF 21.2 million) offset a reduction in advance payments received of CHF 12.9 million to CHF 53.5 million and in trade accounts payable and other liabilities due to third parties of CHF 3.2 million to CHF 83.3 million. Furthermore, income tax liabilities decreased by CHF 2.4 million to CHF 2.0 million.

The significant increase in consolidated equity (including non-controlling interests) is primarily due to the capital increase from authorized capital performed in the second quarter of 2017. 15,750,000 new shares were issued at a subscription price of EUR 5.20 per share. These shares will be underwritten by a Swiss bank and fully placed with Highlight Event and Entertainment AG. Furthermore, equity was increased by the consolidated net profit for the period of CHF 4.4 million.

### Financial situation

As a result of the rise in financial liabilities coupled with the lower cash and cash equivalents, net debt amounted to CHF 10.9 million as of the end of the first half of 2017 (December 31, 2016: net liquidity of CHF 36.2 million). In relation to equity, this represents a gearing of 4.7 %.

Operating activities generated a net cash inflow of CHF 25.2 million in the period from January to June 2017. The reduction of CHF 23.2 million as against the same period of the previous year (CHF 48.4 million) was primarily due to the decline in advance payments received and other changes in net working capital.

Net cash used in investing activities increased – as a result of significantly higher payments for film assets in particular – by CHF 49.6 million to CHF 70.3 million (previous year's period: CHF 20.7 million). Financing activities led to a cash inflow of CHF 18.8 million (previous year's period: cash outflow of CHF 23.5 million), essentially attributable to net borrowing of CHF 20.4 million (previous year's period: net debt repayment of CHF 20.9 million).

## REPORT ON RISKS AND OPPORTUNITIES

On June 12, 2017, Highlight Communications AG announced its 25 % capital increase. These shares will be underwritten by a Swiss bank and fully placed with Highlight Event and Entertainment AG. Due to the existing commercial register ban, there is a risk that it may not be possible to enter the newly created shares at the commercial register office and that the whole capital increase could be further delayed or become impossible as a result. At the Annual General Meeting of Constantin Medien AG on August 23, 2017, all Supervisory Board members and the Chairman of the Management Board were voted out. The individuals proposed by Highlight Event and Entertainment AG were elected to the Supervisory Board. As a result of this event, we expect that the commercial register ban brought about by Constantin Medien AG will be retracted in the foreseeable future if it has not already been lifted by court order before then.

Other than this, there were no significant changes in the first half of 2017. A detailed description of the risk management system and the risk and opportunity profile can be found in the management report of our 2016 annual report.

## FORECAST

### Sector-specific situation

#### Film segment

There were only minor changes in the sector-specific situation in the reporting period compared with the forecast in our 2016 annual report.

#### Sports- and Event-Marketing segment

Regarding the development of global advertising expenditure, the media planning and buying company ZenithOptimedia estimated growth of 4.2 % to around USD 559 billion for 2017 as a whole in June of this year. This lower level of growth compared with the previous year (4.8 %) is due to the additional expenditure in connection with the US presidential election, the Olympic Games and European Football Championship in 2016.

### Focal points

#### Film segment

According to current planning for the theatrical production/acquisition of rights business area, there are at least five promising projects in the pipeline for the second half of 2017. In particular, these include the animated adaptation of the Cornelia Funke novel "Drachenreiter", the new Sönke Wortmann project "Der Vorname", as well as "The Silence" and "Das geheime Leben der Bäume".

In theatrical distribution, eight releases are planned for the second half of 2017. These include the Constantin Film co-productions “Das Pubertier”, “Ostwind – Aufbruch nach Ora” and “Grießnockerlaffäre” – the fourth adaptation of Rita Falk’s best-selling novels – which have already been released to great success. Other highlights between now and the end of the year include the drama “Jugend ohne Gott” as well as “Fack Ju Göhte 3” and “Dieses bescheuerte Herz”, both starring Elyas M’Barek in the leading role.

In the third quarter of this year, the free-TV sector of the license trading/TV exploitation business area will mainly be defined by sales for the theatrical movie “Love, Rosie”. In pay-TV exploitation, sales will be generated from titles including “Gut zu Vögeln” (Sky Cinema).

Constantin Film subsidiaries are preparing a number of new projects in TV service production, including “Schattengrund”, “Als wär’s das letzte Mal”, “Die Geschichte eines Parfums”, and “Bier Royal”.

### Sports- and Event-Marketing segment

In the second half of 2017, the TEAM Group will continue to focus on the optimal global marketing of the TV and sponsorship rights for the UEFA Champions League and the UEFA Europa League for the 2018/19 to 2020/21 seasons. It will strive to achieve the targets agreed with UEFA as early as possible to allow an automatic contract extension for the subsequent seasons (2021/22 to 2023/24).

## Financial targets of the Highlight Group

On the basis of these activities, we are continuing to forecast consolidated sales of between CHF 360 million and CHF 380 million as well as a consolidated net profit attributable to shareholders of between CHF 18 million and CHF 20 million for 2017 as a whole.

### *Notes and forward-looking statements*

*For calculation-related reasons, rounding differences of +/– one unit may arise and the percentages shown may not precisely reflect the absolute figures to which they relate.*

*This document contains forward-looking statements that are based on estimates and expectations of the Group management. Words such as “anticipate”, “intend”, “expect”, “can/could”, “plan”, “intended”, “further improvement”, “target is” and similar expressions are intended to identify forward-looking statements.*

*Forward-looking statements are not historical facts. They are subject to risks, uncertainties and factors, of which most are difficult to assess and which in general are beyond the control of the Group management. Should one or more of these risks or uncertainties materialize, or should underlying expectations not occur or assumptions prove to be incorrect, the actual results, performance or achievements of the Highlight Group may differ significantly from those described explicitly or implicitly in the forward-looking statements. Highlight Communications AG does not intend to continuously update the forward-looking statements contained in this document.*

*Although every effort has been made to ensure that the provided information and facts are correct, and that the opinions and expectations are reasonable, no liability or warranty as to the completeness, correctness, adequacy and/or accuracy of any forward-looking statements in this document is assumed.*

*The information within our interim report is originally published in German. Discrepancies or differences created in the translation are not binding and have no legal effect for compliance or enforcement purposes. If any questions arise related to the accuracy of the information contained in the translation, please refer to the German version of our interim report, which is the official and only binding version.*

# CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**as of June 30, 2017 – Highlight Communications AG, Pratteln**

# CONSOLIDATED BALANCE SHEET

**as of June 30, 2017 (unaudited) – Highlight Communications AG, Pratteln**

| **ASSETS** (TCHF) | June 30, 2017 | Dec. 31, 2016 |
|---|---|---|
| Non-current assets | | |
| In-house productions | 104,529 | 85,529 |
| Third-party productions | 38,355 | 41,745 |
| Film assets | 142,884 | 127,274 |
| Other intangible assets | 210 | 333 |
| Goodwill | 17,611 | 17,499 |
| Property, plant and equipment | 3,290 | 3,371 |
| Investments in associated companies and joint ventures | 55 | 54 |
| Non-current receivables due from third parties | 3,723 | 355 |
| Other financial assets | 65 | 95 |
| Deferred tax assets | 3,052 | 2,824 |
| | 170,890 | 151,805 |
| Current assets | | |
| Inventories | 3,124 | 2,484 |
| Trade accounts receivable and other receivables due from third parties | 212,174 | 124,283 |
| Receivables due from related parties | 16,973 | 705 |
| Other financial assets | 200 | 206 |
| Income tax receivables | 777 | 546 |
| Cash and cash equivalents | 62,573 | 88,502 |
| | 295,821 | 216,726 |
| Total assets | 466,711 | 368,531 |

| **EQUITY AND LIABILITIES** (TCHF) | June 30, 2017 | Dec. 31, 2016 |
|---|---|---|
| Equity | | |
| Subscribed capital | 47,250 | 47,250 |
| Treasury stock | –45 | –45 |
| Underwritten share capital | 89,585 | – |
| Capital reserve | –108,135 | –108,135 |
| Other reserves | –39,074 | –40,515 |
| Retained earnings | 236,571 | 232,055 |
| Equity attributable to shareholders | 226,152 | 130,610 |
| Non-controlling interests | 4,047 | 4,680 |
| | 230,199 | 135,290 |
| Non-current liabilities | | |
| Advance payments received | – | 15,696 |
| Other liabilities | 2,007 | 1,522 |
| Pension liabilities | 6,400 | 6,651 |
| Deferred tax liabilities | 10,311 | 10,348 |
| | 18,718 | 34,217 |
| Current liabilities | | |
| Financial liabilities | 73,472 | 52,259 |
| Advance payments received | 53,524 | 50,716 |
| Trade accounts payable and other liabilities due to third parties | 83,273 | 86,497 |
| Liabilities due to related parties | 338 | 365 |
| Provisions | 5,193 | 4,830 |
| Income tax liabilities | 1,994 | 4,357 |
| | 217,794 | 199,024 |
| Total equity and liabilities | 466,711 | 368,531 |

*The notes on pages 16 – 20 are an integral part of these consolidated interim financial statements.*

# CONSOLIDATED INCOME STATEMENT

**January 1 to June 30, 2017 (unaudited) – Highlight Communications AG, Pratteln**

| (TCHF) | Jan. 01 to June 30, 2017 | Jan. 01 to June 30, 2016 |
|---|---|---|
| Sales | 160,356 | 206,544 |
| Capitalized film production costs and other own work capitalized | 79,809 | 54,109 |
| Total output | 240,165 | 260,653 |
| Other operating income | 5,065 | 11,810 |
| Costs for licenses, commissions and materials | –11,762 | –8,925 |
| Costs for purchased services | –91,480 | –81,815 |
| Cost of materials and licenses | –103,242 | –90,740 |
| Salaries | –47,820 | –45,510 |
| Social security, pension costs | –5,724 | –5,950 |
| Personnel expenses | –53,544 | –51,460 |
| Amortization and impairment on film assets | –56,257 | –86,665 |
| Amortization, depreciation and impairment on intangible assets and property, plant and equipment | –1,062 | –1,401 |
| Amortization, depreciation and impairment | –57,319 | –88,066 |
| Other operating expenses | –24,236 | –28,294 |
| Profit from operations | 6,889 | 13,903 |
| Earnings from investments in associated companies and joint ventures | – | 37 |
| Financial income | 2,535 | 1,726 |
| Financial expenses | –3,822 | –5,548 |
| Financial result | –1,287 | –3,822 |
| Profit before taxes | 5,602 | 10,118 |
| Current taxes | –1,755 | –1,527 |
| Deferred taxes | 540 | –445 |
| Taxes | –1,215 | –1,972 |
| Net profit for the period | 4,387 | 8,146 |
| thereof shareholders' interests | 4,014 | 8,160 |
| thereof non-controlling interests | 373 | –14 |

| Earnings per share (CHF) | | |
|---|---|---|
| Earnings per share attributable to shareholders (basic) | 0.08 | 0.19 |
| Earnings per share attributable to shareholders (diluted) | 0.08 | 0.19 |
| Average number of shares in circulation (basic) | 49,119,382 | 43,026,958 |
| Average number of shares in circulation (diluted) | 49,119,382 | 43,026,958 |

*The notes on pages 16 – 20 are an integral part of these consolidated interim financial statements.*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS

**January 1 to June 30, 2017 (unaudited) – Highlight Communications AG, Pratteln**

| (TCHF) | Jan. 01 to June 30, 2017 | Jan. 01 to June 30, 2016 |
|---|---|---|
| Net profit for the period | 4,387 | 8,146 |
| Unrealized gains/losses from currency translation | 1,552 | –59 |
| Reclassification of realized gains/losses to the income statement | – | –227 |
| Currency translation differences | 1,552 | –286 |
| Gains/losses from cash flow hedges | –52 | 418 |
| **Items that may be reclassified to the income statement in future** | **1,500** | **132** |
| Actuarial gains and losses of defined benefit pension plans | 502 | –1,527 |
| Gains/losses from financial assets at fair value through other comprehensive income/loss | – | 1,901 |
| **Items that will not be reclassified to the income statement in future** | **502** | **374** |
| **Total other comprehensive income/loss, net of tax** | **2,002** | **506** |
| **Total comprehensive income/loss** | **6,389** | **8,652** |
| thereof shareholders' interests | 5,957 | 8,942 |
| thereof non-controlling interests | 432 | –290 |

*The notes on pages 16 – 20 are an integral part of these consolidated interim financial statements.*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**January 1 to June 30, 2017 (unaudited) – Highlight Communications AG, Pratteln**

| | Equity attributable to shareholders | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (TCHF) | Subscribed capital | Treasury stock | Underwritten share capital | Capital reserve | Other reserves | Retained earnings | Total | Non-controlling interests | Total equity |
| Balance as of January 1, 2017 | 47,250 | –45 | – | –108,135 | –40,515 | 232,055 | 130,610 | 4,680 | 135,290 |
| Currency translation differences | – | – | – | – | 1,493 | – | 1,493 | 59 | 1,552 |
| Gains/losses from cash flow hedges | – | – | – | – | –52 | – | –52 | – | –52 |
| Items that may be reclassified to the income statement in future | – | – | – | – | 1,441 | – | 1,441 | 59 | 1,500 |
| Actuarial gains/losses of defined benefit pension plans | – | – | – | – | – | 502 | 502 | – | 502 |
| Gains/losses from financial assets at fair value through other comprehensive income | – | – | – | – | – | – | – | – | – |
| Items that will not be reclassified to the income statement in future | – | – | – | – | – | 502 | 502 | – | 502 |
| Total other comprehensive income/loss, net of tax | – | – | – | – | 1,441 | 502 | 1,943 | 59 | 2,002 |
| Net profit for the period | – | – | – | – | – | 4,014 | 4,014 | 373 | 4,387 |
| Total comprehensive income/loss | – | – | – | – | 1,441 | 4,516 | 5,957 | 432 | 6,389 |
| Capital increase | – | – | 89,585 | – | – | – | 89,585 | – | 89,585 |
| Purchase of treasury stock | – | – | – | – | – | – | – | – | – |
| Sale of treasury stock | – | – | – | – | – | – | – | – | – |
| Dividend payments | – | – | – | – | – | – | – | –1,065 | –1,065 |
| Change in non-controlling interests | – | – | – | – | – | – | – | – | – |
| Other changes | – | – | – | – | – | – | – | – | – |
| Balance as of June 30, 2017 | 47,250 | –45 | 89,585 | –108,135 | –39,074 | 236,571 | 226,152 | 4,047 | 230,199 |
| Balance as of January 1, 2016 | 47,250 | –2,132 | – | –107,913 | –40,651 | 199,806 | 96,360 | 7,467 | 103,827 |
| Currency translation differences | – | – | – | – | –12 | – | –12 | –274 | –286 |
| Gains/losses from cash flow hedges | – | – | – | – | 418 | – | 418 | – | 418 |
| Items that may be reclassified to the income statement in future | – | – | – | – | 406 | – | 406 | –274 | 132 |
| Actuarial gains/losses of defined benefit pension plans | – | – | – | – | – | –1,525 | –1,525 | –2 | –1,527 |
| Gains/losses from financial assets at fair value through other comprehensive income | – | – | – | – | – | 1,901 | 1,901 | – | 1,901 |
| Items that will not be reclassified to the income statement in future | – | – | – | – | – | 376 | 376 | –2 | 374 |
| Total other comprehensive income/loss, net of tax | – | – | – | – | 406 | 376 | 782 | –276 | 506 |
| Net profit for the period | – | – | – | – | – | 8,160 | 8,160 | –14 | 8,146 |
| Total comprehensive income/loss | – | – | – | – | 406 | 8,536 | 8,942 | –290 | 8,652 |
| Purchase of treasury stock | – | –2,649 | – | – | – | –13,682 | –16,331 | – | –16,331 |
| Sale of treasury stock | – | 150 | – | – | – | 769 | 919 | – | 919 |
| Dividend payments | – | – | – | – | – | – | – | –876 | –876 |
| Change in non-controlling interests | – | – | – | – | – | – | – | – | – |
| Other changes | – | – | – | – | – | – | – | –2,766 | –2,766 |
| Balance as of June 30, 2016 | 47,250 | –4,631 | – | –107,913 | –40,245 | 195,429 | 89,890 | 3,535 | 93,425 |

*The notes on pages 16 – 20 are an integral part of these consolidated interim financial statements.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

### January 1 to June 30, 2017 (unaudited) – Highlight Communications AG, Pratteln

| (TCHF) | Jan. 01 to June 30, 2017 | Jan. 01 to June 30, 2016 |
|---|---|---|
| Net profit for the period | 4,387 | 8,146 |
| Deferred taxes | –540 | 445 |
| Current taxes | 1,755 | 1,527 |
| Financial result (without currency result) | 974 | 3,281 |
| Earnings from investments in associated companies and joint ventures | – | –37 |
| Amortization, depreciation and impairment on non-current assets | 57,319 | 88,066 |
| Gain (-)/loss (+) from disposal of non-current assets | 1 | –2,696 |
| Other non-cash items | –478 | –100 |
| Increase (-)/decrease (+) in inventories, trade accounts receivable and other assets not classified to investing or financing activities | –16,958 | 6,418 |
| Decrease (-)/increase (+) in trade accounts payable and other liabilities not classified to investing or financing activities | –16,235 | –51,877 |
| Dividends received from associated companies and joint ventures | – | – |
| Interest paid | –711 | –1,143 |
| Interest received | 18 | 26 |
| Income taxes paid | –4,605 | –6,417 |
| Income taxes received | 240 | 2,787 |
| **Cash flow from operating activities** | **25,167** | **48,426** |
| | | |
| Payments for intangible assets | –1 | –282 |
| Payments for film assets | –69,461 | –29,380 |
| Payments for property, plant and equipment | –872 | –538 |
| Payments for financial assets | – | –577 |
| Payments for sale of companies/shares in companies (net) | – | –7,616 |
| Proceeds from disposal of property, plant and equipment | 46 | 49 |
| Proceeds from disposal of financial assets | 31 | 17,676 |
| **Cash flow for investing activities** | **–70,257** | **–20,668** |
| | | |
| Payments for purchase of treasury stock | – | –2,680 |
| Proceeds from sale of treasury stock | – | 919 |
| Payments for purchase of non-controlling interests | –537 | – |
| Repayment of current financial liabilities | –1,938 | –49,561 |
| Proceeds from receipt of current financial liabilities | 22,372 | 28,650 |
| Dividend payments | –1,065 | –876 |
| **Cash flow from/for financing activities** | **18,832** | **–23,548** |
| **Cash flow for/from the reporting period** | **–26,258** | **4,210** |
| | | |
| Cash and cash equivalents at the beginning of the reporting period | 88,502 | 106,407 |
| Effects of currency differences | 329 | –61 |
| Cash and cash equivalents at the end of the reporting period | 62,573 | 110,556 |
| **Change in cash and cash equivalents** | **–26,258** | **4,210** |

*The notes on pages 16 – 20 are an integral part of these consolidated interim financial statements.*

# NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**as of June 30, 2017 (unaudited) – Highlight Communications AG, Pratteln**

## 1. GENERAL INFORMATION ON THE GROUP

The parent company Highlight Communications AG is based at Netzibodenstrasse 23b, Pratteln, Switzerland.

Highlight Communications AG's Board of Directors authorized the publication of these unaudited, condensed consolidated interim financial statements on August 31, 2017.

## 2. ACCOUNTING AND VALUATION PRINCIPLES

The unaudited, condensed consolidated interim financial statements for the period from January 1 to June 30, 2017 have been prepared in accordance with the International Accounting Standard on Interim Financial Reporting (IAS 34).

The condensed consolidated interim financial statements do not include all explanations and disclosures required for the financial statements for the full fiscal year and should be read in conjunction with the consolidated financial statements of the company as of December 31, 2016.

The accounting and valuation policies applied in the consolidated financial statements for fiscal year 2016 remained consistent with those applied in the condensed consolidated interim financial statements (see 2016 annual report, notes to the consolidated financial statements, note 4). The mandatory first-time adoption of new or amended standards and interpretations has had no material effect on these condensed consolidated interim financial statements (see also 2016 annual report, notes to the consolidated financial statements, note 2.2).

The condensed consolidated interim financial statements have been prepared in Swiss francs, which is the functional and reporting currency of the Group's parent company. In general, the amounts are reported in thousands of Swiss francs (TCHF) unless stated otherwise.

The Film segment is subject to seasonal fluctuations, as sales depend on the respective theatrical release dates and the subsequent exploitation chain. This leads to fluctuations in terms of sales and segment earnings in the quarters of the fiscal year.

When preparing the condensed consolidated interim financial statements, the management is required to make estimates and assumptions that affect the reported assets, liabilities, contingent liabilities and contingent assets at the balance sheet date, as well as income and expenses of the reporting period (see 2016 annual report, notes to the consolidated financial statements, note 5).

## 3. EXPLANATORY NOTES TO SELECTED ITEMS OF THE BALANCE SHEET AND THE INCOME STATEMENT

The balance sheet total amounted to TCHF 466,711 as of June 30, 2017 after TCHF 368,531 as of December 31, 2016. While non-current assets increased by TCHF 19,085, as a result of growth in in-house productions in particular, current assets rose by TCHF 79,095 as of June 30, 2017. This increase resulted essentially from a rise in trade accounts receivable and other receivables from TCHF 124,283 to TCHF 212,174. This was partly offset by cash and cash equivalents, which declined by TCHF 25,929. On the equity and liabilities side, non-current liabilities fell by TCHF 15,499, mainly as a result of a drop in advance payments received from customers, while current liabilities were up by TCHF 18,770. In addition, equity rose by TCHF 94,909 to TCHF 230,199.

### Film assets

As of June 30, 2017, film assets increased by TCHF 15,610 as against December 31, 2016. In-house productions rose by TCHF 19,000, while third-party productions declined by a total of TCHF 3,390. This reduction was due essentially to higher amortization and impairment on film assets compared to investments.

### Current assets

As against December 31, 2016, current receivables fell by TCHF 104,159 as of the end of the reporting period. This was due in particular to the rise of TCHF 87,877 in other receivables – particularly as a result of the capital increase - and the increase of TCHF 16,268 in receivables due from related parties.

Other current financial assets decreased by TCHF 6 to TCHF 200 on account of currency effects.

Cash and cash equivalents declined from TCHF 88,502 to TCHF 62,573 as of June 30, 2017. Financing activities resulted in a cash inflow of TCHF 18,832, primarily as a result of the borrowing of current financial liabilities. The Group's investing activities used cash of TCHF 70,257, which was due essentially to payments for film assets. Operating activities generated a positive cash flow of TCHF 25,167.

## Equity

The Board of Directors of Highlight Communications AG used the company's authorized capital to issue 15,750,000 shares with a nominal value of CHF 1 per share in the second quarter of 2017. The subscription price was set at EUR 5.20 per share. The shares will be underwritten by a Swiss bank und fully placed with Highlight Event and Entertainment AG. Due to the existing commercial register ban, it was not yet possible to enter the newly created shares at the commercial register office.

The number of directly and indirectly held non-voting treasury shares in Highlight Communications AG was 44,983 as of June 30, 2017 (December 31, 2016: 44,983). No treasury shares were sold or bought in the period under review.

Equity increased by TCHF 94,909 to TCHF 230,199 as of June 30, 2017, essentially as a result of the above capital increase. The remeasurement of pension liabilities led to a further increase of TCHF 502 on account of the higher discount rate in particular. The net profit for the period of TCHF 4,387 also contributed to a positive effect. Other reserves totaled TCHF –39,074 as of the end of the reporting period (December 31, 2016: TCHF –40,515). As of June 30, 2017, these relate to the translation of the equity of companies that do not use Swiss francs as their functional currency (TCHF –37,787; December 31, 2016: TCHF -39,280) and from other cash flow hedge reserves of TCHF –1,287 (December 31, 2016: TCHF –1,235). Non-controlling interests declined by TCHF 633 in total as a result of dividend payments.

## Liabilities

Non-current liabilities decreased by TCHF 15,499 compared to the end of the year, while current liabilities rose by a total of TCHF 18,770. Financial liabilities climbed by TCHF 21,213 to TCHF 73,472. Trade accounts payable rose by TCHF 1,991 at the same time. Other liabilities declined by TCHF 5,215. Non-current and current advance payments received fell by a total of TCHF 12,888.

## Sales and other income

Sales amounted to TCHF 160,356 in the reporting period after TCHF 206,544 in the same period of the previous year. Sales in the Sports- and Event-Marketing segment fell by TCHF 244 and by a total of TCHF 45,715 in the Film segment. Capitalized film production costs and other own work capitalized increased by TCHF 25,700 year-on-year.

## Operating expenses

Cost of materials and licenses climbed by TCHF 12,502 year-on-year. The increase is due primarily to the higher production volume in the Film segment compared to the first half of 2016.

Personnel expenses amounted to TCHF 53,544 in the reporting period and were thus up by TCHF 2,084 compared to the previous year's level.

Amortization, depreciation and impairment on film assets, intangible assets and property, plant and equipment totaling TCHF 57,319 (previous year's period: TCHF 88,066) comprise amortization and depreciation of TCHF 56,188 (previous year's period: TCHF 87,022) and impairment of TCHF 1,131 (previous year's period: TCHF 1,064).

## Financial result

In the reporting period, the financial result improved by a total of TCHF 2,535 compared to the same period of the previous year. Cash flow hedge expenses of TCHF 460 (previous year's period: TCHF 544) were reclassified from other comprehensive income (OCI) to the financial result in profit or loss in the first half of 2017.

## 4. FINANCIAL INSTRUMENTS

### Fair value of financial assets and liabilities

The table below shows the allocation of financial assets and liabilities measured at fair value to the three levels of the fair value hierarchy:

| June 30, 2017 (TCHF) | | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| Financial assets measured at fair value | | | | | |
| Derivative financial instruments | FVPL/without category | – | 451 | – | 451 |
| Financial assets at fair value through profit or loss | FVPL | 65 | – | 200 | 265 |
| Financial assets (equity instruments) | FVOCI | – | – | – | – |
| Financial liabilities measured at fair value | | | | | |
| Derivative financial instruments | FLPL/without category | – | 2,816 | – | 2,816 |

**Disclosures on level 3 financial instruments:**

| Designation of the financial instrument | Long-term shares | Short-term shares |
|---|---|---|
| **Fair value on January 1, 2016** | **3,082** | **350** |
| Gains/(losses) through profit or loss | 11 | – |
| Gains/(losses) through equity | –1,365 | 18 |
| Sale | –1,728 | –162 |
| **Fair value on December 31, 2016** | **–** | **206** |
| Gains/(losses) through equity | – | –6 |
| **Fair value on June 30, 2017** | **–** | **200** |

| December 31, 2016 (TCHF) | | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| Financial assets measured at fair value | | | | | |
| Derivative financial instruments | FVPL/without category | – | 2,102 | – | 2,102 |
| Financial assets at fair value through profit or loss | FVPL | 95 | – | 206 | 301 |
| Financial assets (equity instruments) | FVOCI | – | – | – | – |
| Financial liabilities measured at fair value | | | | | |
| Derivative financial instruments | FLPL/without category | – | 3,341 | – | 3,341 |

The financial assets measured at fair value through profit or loss and included in level 1 are measured using market prices. The derivative financial instruments in level 2 are measured at current market rates. A discounted cash flow method was used to determine the fair value of level 2 financial instruments.

The change in the fair value of the financial assets shown in level 3 is due to currency translation effects of a total amount of TCHF –6.

There were no reclassifications between the individual levels of the fair value hierarchy.

### Financial assets and liabilities at amortized cost

Given the short remaining term, the carrying amounts of current financial receivables and liabilities as of the end of the reporting period are approximately the fair value. Non-current receivables are discounted according to their remaining term. Their carrying amounts are therefore also approximately their fair value.

### Fair value of non-financial assets and liabilities

As of June 30, 2017 or December 31, 2016, there were no non-financial assets or liabilities measured at fair value.

## 5. SEGMENT REPORTING

The comparative figures of the Other Business Activities segment comprise the activities of the subsidiaries Highlight Event and Entertainment AG and Pokermania GmbH until their sale in the first quarter of 2016. Furthermore, the business activities of Comosa AG were allocated to the Sports- and Event-Marketing segment until its disposal in the fourth quarter of 2016.

**Segment information January 01 to June 30, 2017**

| (TCHF) | Film | Sports- and Event-Marketing | Other Business Activities | Other | Reconciliation | Group |
|---|---|---|---|---|---|---|
| External sales | 131,204 | 29,152 | – | – | – | 160,356 |
| Other segment income | 84,845 | 77 | – | – | –48 | 84,874 |
| Segment expenses | –219,276 | –16,348 | – | –2,765 | 48 | –238,341 |
| *thereof amortization, depreciation* | *–55,712* | *–476* | *–* | *–* | *–* | *–56,188* |
| *thereof impairment* | *–1,131* | *–* | *–* | *–* | *–* | *–1,131* |
| **Segment earnings** | **–3,227** | **12,881** | **–** | **–2,765** | **–** | **6,889** |
| Non-allocable items: | | | | | | |
| Earnings from investments in associated companies and joint ventures | | | | | | – |
| Financial income | | | | | | 2,535 |
| Financial expenses | | | | | | –3,822 |
| **Profit before taxes** | | | | | | **5,602** |

**Segment information January 01 to June 30, 2016**

| (TCHF) | Film | Sports- and Event-Marketing | Other Business Activities | Other | Reconciliation | Group |
|---|---|---|---|---|---|---|
| External sales | 176,919 | 29,396 | 229 | – | – | 206,544 |
| Other segment income | 60,054 | 40 | 5,873 | – | –48 | 65,919 |
| Segment expenses | –236,211 | –16,646 | –3,430 | –2,321 | 48 | –258,560 |
| *thereof amortization, depreciation* | *–86,551* | *–450* | *–1* | *–* | *–* | *–87,002* |
| *thereof impairment* | *–1,064* | *–* | *–* | *–* | *–* | *–1,064* |
| **Segment earnings** | **762** | **12,790** | **2,672** | **–2,321** | **–** | **13,903** |
| Non-allocable items: | | | | | | |
| Earnings from investments in associated companies and joint ventures | | | | | | 37 |
| Financial income | | | | | | 1,726 |
| Financial expenses | | | | | | –5,548 |
| **Profit before taxes** | | | | | | **10,118** |

## 6. FINANCIAL COMMITMENTS, CONTINGENT LIABILITIES AND OTHER UNRECOGNIZED FINANCIAL OBLIGATIONS

Compared to the consolidated financial statements as of December 31, 2016, financial commitments, contingent liabilities and other unrecognized financial obligations decreased by TCHF 3,712 to TCHF 63,858 as of June 30, 2017.

## 7. RELATED PARTY DISCLOSURES

As part of its normal business activities, the company maintains relations with associated companies, the major shareholder and its subsidiaries in addition to companies controlled by members of the Board of Directors.

**Related party disclosures**

| (TCHF) | June 30, 2017 | Dec. 31, 2016 |
|---|---|---|
| Receivables | 16,579 | 611 |
| Liabilities | 58 | 80 |

| (TCHF) | Jan. 01 to June 30, 2017 | Jan. 01 to June 30, 2016 |
|---|---|---|
| Sales and other income | – | – |
| Cost of materials and licenses and other expenses | 25 | 25 |

**Parent company and its direct subsidiaries**

| (TCHF) | June 30, 2017 | Dec 31, 2016 |
|---|---|---|
| Receivables | 394 | 94 |
| Liabilities | 280 | 285 |

| (TCHF) | Jan. 01 to June 30, 2017 | Jan. 01 to June 30, 2016 |
|---|---|---|
| Sales and other income | 297 | 24 |
| Cost of materials and licenses and other expenses | 381 | 270 |

As in the previous year, there were no transactions with associated companies or joint ventures in the reporting year.

There were liabilities to various members of the Board of Directors and Managing Directors of TCHF 58 as of June 30, 2017 (December 31, 2016: TCHF 80). The receivables due from related parties chiefly relate to transactions with Highlight Event and Entertainment AG.

Related parties include the members of the Board of Directors, the members of Group management and their relatives.

Highlight Communications AG did not perform services for companies controlled by related parties in the year under review or the previous year's period.

## 8. EVENTS AFTER THE BALANCE SHEET DATE

At the Annual General Meeting of Constantin Medien AG on August 23, 2017, all Supervisory Board members and the Chairman of the Management Board were voted out. The individuals proposed by Highlight Event and Entertainment AG were elected to the Supervisory Board.

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