Highlight

Highlight Communications AG

2Q2016

Interim Report as of June 30, 2016

The Highlight Group generated sales and earnings significantly higher than the comparative figures for the previous year in the first half of 2016.

- Consolidated sales were up by 63.0 % year-on-year at CHF 206.5 million.
- EBIT virtually doubled from CHF 7.2 million to CHF 13.9 million.
- The consolidated net profit for the period improved strongly from CHF 0.6 million to CHF 8.1 million.
- Highlight shareholders benefited from this in particular, with their share of earnings climbing from CHF 0.8 million to CHF 8.2 million.
- This lifted earnings per share from CHF 0.02 to CHF 0.19.
- Net liquidity amounted to CHF 26.7 million as of the end of the first half of 2016 (December 31, 2015: CHF 2.1 million).

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INTERIM MANAGEMENT REPORT

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In the first half of 2016, industry revenues of the German movie market amounted to around EUR 431.4 million – a drop of 17 % compared to the same period of 2015 (around EUR 520 million). Attendance figures were down by as much as 19 % at around 50.8 million (same period of 2015: around 62.7 million). The main factor behind this development was the start of the European Football Championship on June 10, which prompted film distributors not to release any more high-profile productions even before this event began.

The most successful new release in the first half of the year was the CGI comedy "Zootopia", which was seen by around 3.7 million people, followed by "The Revenant" (around 2.8 million), the comic book adaptation "Deadpool" (around 2.7 million), the remake of the classic "The Jungle Book" (around 1.8 million) and "Captain America: Civil War" (around 1.7 million movie goers).

Home entertainment

Revenues on the German home entertainment market declined by 5.4 % in the period from January to May 2016* to EUR 563 million (same period of 2015: EUR 595 million) – not including the figures of the fast-growing SVoD business (subscription video-on-demand).

This decrease resulted from continuing declines in proceeds from the sale and rental of physical media (DVD and Blu-ray) by 8.5 % to EUR 475 million (same period of 2015: EUR 519 million). By contrast, digital exploitation (electronic sell-through and transactional video-on-demand) still performed positively with sales up by 15.8 % on the figure for the previous year (EUR 76 million) at EUR 88 million.

** Data for the first half of 2016 were not available at the editorial closing date.*

Operational development

In May, the Constantin Film Group extended its contract with Elyas M'Barek, the star of the movies "Fack Ju Göhte", "Fack Ju Göhte 2" and "Türkisch für Anfänger". The Constantin Film Group is also continuing its cooperation with Bora Dagtekin, the writer and director of these hit productions.

Theatrical production

The first half of 2016 saw the start of filming on "Griessnockerlaffäre" – already the fourth adaptation of the Rita Falk crime series – and the Constantin Film co-production "Jugend ohne Gott", based on the novel by Ödön von Horváth.

In the acquisition of rights area, the Constantin Film Group secured the exploitation rights to the comedy "War on Everyone", the thriller "Safe Neighborhood" and the animated movie "Die Reise des Elefanten Soliman".

Theatrical distribution

Following the release of the co-production "Gut zu Vögeln" and the licensed title "Dirty Grandpa" in German theaters in the first three months of 2016, the Constantin Film Group released two other licensed titles in the second quarter: "Ratchet & Clank" and "Everybody wants Some!!".

Home entertainment

The Highlight Group's home entertainment releases in the first half of 2016 included the TV movie "Die Hebamme 2", starring Josefine Preuß, as well as the box-office hits "Fack Ju Göhte 2" and "Look Who's Back". Both theatrical movies went straight to the top of the German sales charts on being released.

License trading/TV exploitation

The first quarter of 2016 saw the start of the first season of "Shadowhunters" by the US broadcaster Freeform. The Constantin Film Group was commissioned with a second season. In the second quarter, the start of licenses for theatrical movies including "The Mortal Instruments – City of Bones" and "Delivery Man" (both shown on ProSieben) in free-TV had a particular impact on sales. In pay-TV, the licenses began for "Look Who's Back" and "Ostwind 2" (both shown on Sky).

TV service production

Constantin Entertainment GmbH productions included the dailies "Schicksale" (for SAT.1), "All about Love", "Die Strassencops Süd" (both for RTL II), "Die Trovatos" (for RTL) and "Shopping Queen" (for VOX) in the second quarter of 2016. At Moovie GmbH, filming on the historic two-parter "Das Sacher" began at the end of April. In addition, the first take of the second season of the highly successful TV series "Schuld" was completed in the middle of June. Both projects are being produced for ZDF.

Constantin Television GmbH was commissioned by Bayerischer Rundfunk to produce a further 300 episodes of the daily "Dahoam is Dahoam", the eleventh season of which was filmed in the reporting period. This means that this series will continue to run until the middle of 2018.

Analysis of non-financial performance indicators

Theatrical distribution

The comedy "Dirty Grandpa", starring Robert De Niro, was seen by around 1.3 million people (including previews), and therefore placed eleventh in the German movie charts in the first half of 2016. The results for the other titles fell short of expectations. In the distributor rankings for the first six months of the current year, the Constantin Film Group – as in the previous year – was sixth in terms of both revenues and attendance figures.

Home entertainment

In the period from January to May 2016*, the Highlight Group achieved a share of 5 % on the German video sell-through market without its sales partners Paramount Home Entertainment and Universal Home Entertainment. Its market position therefore improved as against the same period of the previous year (3 %).

** Data for the first half of 2016 were not available at the editorial closing date.*

License trading/TV exploitation

There were good TV ratings again in this business area in the second quarter of 2016 and expectations were met. In particular, this was thanks to the initial broadcasts of the movies "Da geht noch was" on SAT.1 (2.46 million viewers, 8 % share of overall market), "The Mortal Instruments – City of Bones" on ProSieben (2.79 million, 8.6 % share of overall market) and "Parker" on ProSieben (2.24 million viewers, 8.2 % share of overall market).

TV service production

The "Schuldig" episode of the ZDF detective series "Kommissarin Lucas" was seen by an audience of 5.6 million when broadcast on May 14 (18.9 % share of overall market) and the ZDF service production "Ein gefährliches Angebot" was seen by 4.9 million viewers when broadcast on April 11 (15.2 % share of overall market). The daily formats produced by Constantin Entertainment GmbH for SAT.1 were stable on average in the second quarter with double-digit market shares.

BUSINESS DEVELOPMENT OF THE SPORTS- AND EVENT-MARKETING SEGMENT

Sector-specific situation

The trend of premium sports media rights shifting towards pay-TV in key markets appears to continue in 2016. In March 2016, for example, the pay-TV broadcaster Sky agreed to a six-year deal (from 2019 to 2024) with Formula One Management (FOM) to move coverage of Formula One exclusively to pay-TV in the UK and Ireland.

On the sponsorship side, UEFA EURO 2016 is estimated to generate approximately EUR 400 million in sponsorship revenues, a 27 % uplift compared to the previous edition. In addition, the UEFA EURO 2016 emphasized the increasing commercial importance of the biggest kits suppliers.

Operational development

In the second quarter of 2016, the TEAM Group was focused in particular on the active support of commercial partners and UEFA in the successful handling of the UEFA Europa League final in Basel on May 18 and the UEFA Champions League final in Milan on May 28.

Sevilla FC beat Liverpool FC in the UEFA Europa League. In the UEFA Champions League final, Real Madrid CF faced off against Club Atlético de Madrid and took home club football's most coveted trophy.

Parallel to this, preparations continued for the upcoming marketing of rights (TV and sponsorship rights) for the 2018/19 to 2020/21 seasons.

Analysis of non-financial performance indicators

The "local derby" between Real Madrid CF and Club Atlético de Madrid was aired in more than 200 countries to an estimated global average audience in the region of 160 million viewers and an estimated global unique reach of 380 million viewers, confirming its status as the world's most watched annual sporting event.

In Spain, the game was watched by 10.6 million viewers (62.0 % market share) – an increase of 24 % on last season's final.

The final of the UEFA Europa League was aired in more than 100 countries to an estimated global average audience in the region of 50 million viewers and with an estimated global unique reach of 160 million viewers.

BUSINESS DEVELOPMENT OF THE OTHER BUSINESS ACTIVITIES SEGMENT

On February 2, 2016, the Board of Directors of Highlight Communications AG decided to no longer pursue the activities of the Other Business Activities segment and to sell the equity investment in Highlight Event & Entertainment AG to Bernhard Burgener. For further details, please refer to the notes to the consolidated interim financial statements, note 3.

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

Results of Group operations

(CHF million)	Jan. 01 to June 30, 2016	Jan. 01 to June 30, 2015	Change
Sales	**206.5**	**126.7**	**63.0%**
EBIT	**13.9**	**7.2**	**93.1%**
Net profit for the period	**8.1**	**0.6**	**1,250.0%**
Net profit attributable to shareholders	**8.2**	**0.8**	**925.0%**
Earnings per share (in CHF)	**0.19**	**0.02**	**850.0%**

Both the Film segment (+72.2%) and the Sports- and Event-Marketing segment (+33.0%) contributed to the increase in sales. Furthermore, capitalized film production costs and other own work capitalized increased by CHF 33.6 million to CHF 54.1 million, with the result that the Group's total output rose by CHF 113.5 million or 77.0% to CHF 260.7 million (previous year's period: CHF 147.2 million).

At CHF 258.6 million, consolidated operating expenses were up by CHF 106.8 million or 70.4% on the prior-year figure (CHF 151.8 million). This development is primarily due to a rise in the cost of materials and licenses in connection with productions (CHF +33.8 million) and significantly higher amortization and impairment on film assets (CHF +66.9 million).

The strong growth in consolidated net profit for the period relative to EBIT is essentially a result of the fact that the tax expense (income taxes and deferred taxes) was virtually unchanged at CHF 2.0 million, while the financial result – owing to currency effects in particular – improved by CHF 1.9 million to CHF –3.8 million (previous year's period: CHF –5.7 million). These effects are based on the change in the Swiss franc/euro exchange rate triggered by the decision of the Swiss National Bank in mid-January 2015 to lift the cap of CHF 1.20 per euro.

Results of segment operations

Film segment

(CHF million)	Jan. 01 to June 30, 2016	Jan. 01 to June 30, 2015	Change
Segment sales	**176.9**	**102.7**	**72.2%**
Segment result	**0.8**	**0.9**	**–11.1%**

The sales increase in the Film segment was based firstly on the start of home entertainment marketing of the Constantin Film box-office hits "Fack Ju Göhte 2" and "Look Who's Back", which both achieved extremely good sales figures. Secondly, the TV series "Shadowhunters" (first season), which the Constantin Film Group produced for the US network Freeform, began broadcasting in the reporting period.

Other segment income, which is largely influenced by capitalized film production costs, was up by CHF 30.6 million year-on-year at CHF 60.1 million (previous year's period: CHF 29.5 million). This growth reflects the higher production volume at present compared to the first half of 2015. Segment expenses also rose significantly by CHF 104.9 million to CHF 236.2 million (previous year's period: CHF 131.3 million), which primarily results from the cost of materials and licenses as well as amortization and impairment on movies being exploited.

Sports- and Event-Marketing segment

(CHF million)	Jan. 01 to June 30, 2016	Jan. 01 to June 30, 2015	Change
Segment sales	**29.4**	**22.1**	**33.0 %**
Segment result	**12.8**	**9.7**	**32.0 %**

The increase in the external sales of the Sports- and Event-Marketing segment was due to the higher agency commissions that the TEAM Group generated as a result of the successful marketing of rights for the UEFA club competitions (2015/16 to 2017/18 seasons).

Other segment income was down by CHF 3.3 million at TCHF 40, in particular as a result of the loss of exchange rate gains from the measurement of balance sheet items. Segment expenses rose slightly by CHF 0.8 million to CHF 16.6 million (previous year's period: CHF 15.8 million).

Other Business Activities segment

(CHF million)	Jan. 01 to June 30, 2016	Jan. 01 to June 30, 2015	Change
Segment sales	**0.2**	**1.8**	**–88.9 %**
Segment result	**2.7**	**–0.6**	**550.0 %**

The current external sales of the Other Business Activities segment cannot be compared with those for the previous year on account of the sale of Highlight Event & Entertainment AG and Pokermania GmbH in the first quarter of 2016. Overall, however, these deconsolidations led to a significant improvement in the segment result.

The costs of holding activities decreased by CHF 0.4 million in the reporting period to CHF 2.3 million (previous year's period: CHF 2.7 million).

Net assets situation

(CHF million)	June 30, 2016	Dec. 31, 2015	Change
Balance sheet total	**366.7**	**458.0**	**–19.9 %**
Equity	**93.4**	**103.8**	**–10.0 %**
Equity ratio (in %)	**25.5**	**22.7**	**2.8 points**
Current financial liabilities	**83.8**	**104.3**	**–19.7 %**
Cash and cash equivalents	**110.6**	**106.4**	**3.9 %**

On the assets side of the balance sheet, non-current assets decreased by CHF 63.1 million to CHF 177.0 million (December 31, 2015: CHF 240.1 million), essentially as a result of the decline in film assets of CHF 57.5 million due to exploitation.

Current assets were down by CHF 28.2 million at CHF 189.7 million as of the end of the first half of 2016 (December 31, 2015: CHF 217.9 million). This was primarily due to a significant decrease in trade accounts receivable and other receivables due from third parties (CHF –14.6 million) and in other financial assets (CHF –14.5 million).

On the equity and liabilities side of the balance sheet, trade accounts payable and other liabilities due to third parties were down by CHF 30.5 million at CHF 67.2 million. Furthermore, current and non-current advance payments received fell by CHF 27.2 million in total to CHF 93.6 million. In addition, financial liabilities were reduced by CHF 20.5 million to CHF 83.8 million.

The decline in consolidated equity (including non-controlling interests) essentially results from the acquisition and sale of treasury stock (CHF –15.4 million) and other changes (CHF –2.8 million). By contrast, equity was increased by the consolidated net profit for the period of CHF 8.1 million. In relation to the now lower balance sheet total, the notional equity ratio was a very solid 25.5 % as of the end of the first half of 2016.

Financial situation

As a result of the reduction in financial liabilities coupled with the increase in cash and cash equivalents of CHF 4.2 million, net liquidity increased significantly by CHF 24.6 million as against December 31, 2015 (CHF 2.1 million) to CHF 26.7 million.

Operating activities generated a net cash inflow of CHF 48.4 million in the period from January to June 2016. The reduction of CHF 74.3 million as against the same period of the previous year (CHF 122.7 million) was primarily due to the decline in advance payments received and other changes in net working capital.

Owing to proceeds from the disposal of financial assets in particular, the cash used in investing activities decreased by CHF 12.6 million to CHF 20.7 million (previous year's period: CHF 33.3 million), while cash used in financing activities was CHF 5.2 million lower at CHF 23.5 million (previous year's period: CHF 28.7 million). The main reason for this is the dividend distribution for fiscal year 2015 that has not yet been paid.

REPORT ON RISKS AND OPPORTUNITIES

There were no changes in the risks and opportunities for the Highlight Group in the first half of 2016. A detailed description of the risk management system and the risk and opportunity profile can be found in the management report in our 2015 annual report.

FORECAST

Sector-specific situation

Film segment

There were no significant changes in the sector-specific situation in the reporting period as compared to the forecast in the 2015 annual report of Highlight Communications AG.

Sports- and Event-Marketing segment

Regarding the development of global advertising expenditure, the media planning and buying company ZenithOptimedia estimated a growth of 4.1 % to around USD 537 billion for this year in June 2016. The reduction of 0.5 percentage points compared to the forecast published in March is mainly the result of the currency devaluation in Argentina, in the absence of which a 4.5 % growth would have been estimated for this year.

Focal points

Film segment

According to current planning for the theatrical production/acquisition of rights business area, there are at least nine promising projects in the pipeline for the second half of 2016. In particular, they include the adaptations of the novels "Das Pubertier" and "Dieses bescheuerte Herz", the tragicomedy "Verpiss Dich, Schneewittchen" and the third installment of the "Ostwind" series.

In theatrical distribution, eight releases are planned for the second half of 2016, including Steven Spielberg's "The BFG – Big Friendly Giant", released on July 21, the bestseller adaptations "The Light Between Oceans" and "The Girl on the Train", the tragicomedy "Florence Foster Jenkins" and the big-screen adaptation of the TV classic "Timm Thaler".

The free-TV sector of the license trading/TV exploitation business area will mainly be defined by the sales for the theatrical movies “Fack Ju Göhte” and “The Famous Five 3” in the third quarter of this year. “The Green Inferno” and others will generate sales in pay-TV exploitation.

Constantin Film subsidiaries are preparing a number of new projects in TV service production, including “Alle meine Frauen”, “Der siebte Tag”, “Der König von Berlin” and “Am Ende geht man nackt”.

Sports- and Event-Marketing segment

The TEAM Group will be focused on the 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 in the second half of 2016. The aim is to conclude as many contracts as possible on the best possible terms.

Financial targets of the Highlight Group

In light of these positive prospects, we are confirming our forecast for the year of consolidated sales between CHF 440 and CHF 460 million and a consolidated net profit attributable to shareholders of between CHF 18 and CHF 20 million.

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, 2016 – Highlight Communications AG, Pratteln

CONSOLIDATED BALANCE SHEET

as of June 30, 2016 (unaudited) – Highlight Communications AG, Pratteln

ASSETS (TCHF)	June 30, 2016	Dec. 31, 2015
Non-current assets		
In-house productions	116,481	163,690
Third-party productions	27,166	37,382
Film assets	143,647	201,072
Other intangible assets	704	812
Goodwill	17,572	17,553
Property, plant and equipment	3,986	4,504
Investment property	–	3,300
Investments in associated companies and joint ventures	58	209
Non-current receivables due from third parties	5,816	564
Receivables due from associated companies and joint ventures	–	5,185
Other financial assets	1,445	3,181
Deferred tax assets	3,817	3,735
	177,045	**240,115**
Current assets		
Inventories	3,321	3,969
Trade accounts receivable and other receivables due from third parties	74,777	89,395
Receivables due from related parties	93	191
Receivables due from associated companies and joint ventures	–	–
Other financial assets	205	14,653
Income tax receivables	718	3,258
Cash and cash equivalents	110,556	106,407
	189,670	**217,873**
Total assets	**366,715**	**457,988**
EQUITY AND LIABILITIES (TCHF)		
Equity		
Subscribed capital	47,250	47,250
Treasury stock	–4,631	–2,132
Capital reserve	–107,913	–107,913
Other reserves	–40,245	–40,651
Retained earnings	195,429	199,806
Equity attributable to shareholders	89,890	96,360
Non-controlling interests	3,535	7,467
	93,425	**103,827**
Non-current liabilities		
Advance payments received	31,393	47,089
Other liabilities	1,336	243
Pension liabilities	12,179	10,979
Deferred tax liabilities	9,664	9,333
	54,572	**67,644**
Current liabilities		
Financial liabilities	83,807	104,290
Advance payments received	62,249	73,757
Trade accounts payable and other liabilities due to third parties	67,228	97,696
Liabilities due to related parties	281	333
Liabilities due to associated companies and joint ventures	–	–
Provisions	4,389	5,100
Income tax liabilities	764	5,341
	218,718	**286,517**
Total equity and liabilities	**366,715**	**457,988**

The notes on pages 16 – 22 are an integral part of these consolidated interim financial statements.

CONSOLIDATED INCOME STATEMENT

January 1 to June 30, 2016 (unaudited) – Highlight Communications AG, Pratteln

(TCHF)	Jan. 01 to June 30, 2016	Jan. 01 to June 30, 2015
Sales	206,544	126,657
Capitalized film production costs and other own work capitalized	54,109	20,507
Total output	260,653	147,164
Other operating income	11,810	11,851
Costs for licenses, commissions and materials	–8,925	–8,903
Costs for purchased services	–81,815	–48,044
Cost of materials and licenses	–90,740	–56,947
Salaries	–45,510	–39,847
Social security, pension costs	–5,950	–5,811
Personnel expenses	–51,460	–45,658
Amortization and impairment on film assets	–86,665	–19,695
Amortization, depreciation and impairment on intangible assets and property, plant and equipment	–1,401	–1,459
Amortization, depreciation and impairment	–88,066	–21,154
Other operating expenses	–28,294	–28,007
Profit from operations (EBIT)	13,903	7,249
Earnings from investments in associated companies and joint ventures	37	724
Financial income	1,726	2,613
Financial expenses	–5,548	–8,291
Financial result	–3,822	–5,678
Profit before taxes	10,118	2,295
Current taxes	–1,527	–1,399
Deferred taxes	–445	–299
Taxes	–1,972	–1,698
Net profit for the period	8,146	597
thereof shareholders' interests	8,160	843
thereof non-controlling interests	–14	–246
Earnings per share (CHF)		
Earnings per share attributable to shareholders, basic	0.19	0.02
Earnings per share attributable to shareholders, diluted	0.19	0.02
Weighted average number of shares (basic)	43,026,958	44,434,350
Weighted average number of shares (diluted)	43,026,958	44,434,350

The notes on pages 16 – 22 are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS

January 1 to June 30, 2016 (unaudited) – Highlight Communications AG, Pratteln

(TCHF)	Jan. 01 to June 30, 2016	Jan. 01 to June 30, 2015
Net profit for the period	**8,146**	**597**
Unrealized gains/losses from currency translation	–59	–14,385
Reclassification of realized gains/losses to the income statement	–227	–
Currency translation differences	–286	–14,385
Gains/losses from cash flow hedges	418	–146
Items that may be reclassified to the income statement in future	**132**	**–14,531**
Actuarial gains and losses of defined benefit pension plans	–1,527	–23
Gains/losses from financial assets at fair value through other comprehensive income/loss	1,901	1,132
Items that will not be reclassified to the income statement in future	**374**	**1,109**
Total other comprehensive income/loss, net of tax	**506**	**–13,422**
Total comprehensive income/loss	**8,652**	**–12,825**
thereof shareholders' interests	8,942	–12,205
thereof non-controlling interests	–290	–620

The notes on pages 16 – 22 are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

January 1 to June 30, 2016 (unaudited) – Highlight Communications AG, Pratteln

	Equity attributable to shareholders							
(TCHF)	Subscribed capital	Treasury stock	Capital reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
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 and 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/loss	–	–	–	–	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**
Balance as of January 1, 2015	**47,250**	**–2,816**	**–104,560**	**–27,836**	**184,494**	**96,532**	**10,348**	**106,880**
Currency translation differences	–	–	–	–14,011	–	–14,011	–374	–14,385
Gains/losses from cash flow hedges	–	–	–	–146	–	–146	–	–146
Items that may be reclassified to the income statement in future	**–**	**–**	**–**	**–14,157**	**–**	**–14,157**	**–374**	**–14,531**
Actuarial gains and losses of defined benefit pension plans	–	–	–	–	–23	–23	–	–23
Gains/losses from financial assets at fair value through other comprehensive income/loss	–	–	–	–	1,132	1,132	–	1,132
Items that will not be reclassified to the income statement in future	**–**	**–**	**–**	**–**	**1,109**	**1,109**	**–**	**1,109**
Total other comprehensive income/loss, net of tax	**–**	**–**	**–**	**–14,157**	**1,109**	**–13,048**	**–374**	**–13,422**
Net profit for the period	–	–	–	–	843	843	–246	597
Total comprehensive income/loss	**–**	**–**	**–**	**–14,157**	**1,952**	**–12,205**	**–620**	**–12,825**
Purchase of treasury stock	–	–	–	–	–	–	–	–
Sale of treasury stock	–	–	–	–	–	–	–	–
Dividend payments	–	–	–	–	–8,887	–8,887	–1,414	–10,301
Change in non-controlling interests	–	–	–757	–	–	–757	–1,094	–1,851
Other changes	–	–	–	–	–	–	–	–
Balance as of June 30, 2015	**47,250**	**–2,816**	**–105,317**	**–41,993**	**177,559**	**74,683**	**7,220**	**81,903**

The notes on pages 16 – 22 are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

January 1 to June 30, 2016 (unaudited) – Highlight Communications AG, Pratteln

(TCHF)	Jan. 01 to June 30, 2016	Jan. 01 to June 30, 2015
Net profit for the period	8,146	597
Deferred taxes	445	299
Current taxes	1,527	1,399
Financial result (without currency result)	3,281	499
Earnings from investments in associated companies and joint ventures	–37	–724
Amortization, depreciation and impairment on non-current assets	88,066	21,154
Gain (–)/loss (+) from disposal of non-current assets	–2,696	17
Other non-cash items	–100	1,625
Increase (–)/decrease (+) in inventories, trade accounts receivable and other assets not classified to investing or financing activities	6,418	27,289
Decrease (–)/increase (+) in trade accounts payable and other liabilities not classified to investing or financing activities	–51,877	77,482
Dividends received from associated companies and joint ventures	–	200
Interest paid	–1,143	–844
Interest received	26	73
Income taxes paid	–6,417	–6,648
Income taxes received	2,787	249
Cash flow from operating activities	**48,426**	**122,667**
Change in cash and cash equivalents due to acquisitions of companies/shares in companies (net)	–	65
Payments for intangible assets	–282	–44
Payments for film assets	–29,380	–31,615
Payments for property, plant and equipment	–538	–1,004
Payments for financial assets	–577	–1,506
Proceeds from sale of companies/shares in companies (net)	–7,616	724
Proceeds from disposal of property, plant and equipment	49	108
Proceeds from disposal of financial assets	17,676	–
Cash flow for investing activities	**–20,668**	**–33,272**
Payments for purchase of treasury stock	–2,680	–
Proceeds from sale of treasury stock	919	–
Payments for purchase of non-controlling interests	–	–1,916
Repayment of current financial liabilities	–49,561	–16,463
Proceeds from receipt of current financial liabilities	28,650	–
Dividend payments	–876	–10,301
Cash flow for financing activities	**–23,548**	**–28,680**
Cash flow from the reporting period	**4,210**	**60,715**
Cash and cash equivalents at the beginning of the reporting period	106,407	44,773
Effects of currency differences	–61	–3,386
Cash and cash equivalents at the end of the reporting period	110,556	102,102
Change in cash and cash equivalents	**4,210**	**60,715**

The notes on pages 16 – 22 are an integral part of these consolidated interim financial statements.

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 10, 2016.

2. ACCOUNTING AND VALUATION PRINCIPLES

The unaudited, condensed consolidated interim financial statements for the period from January 1 to June 30, 2016 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, 2015.

The accounting and valuation policies applied in the consolidated financial statements for fiscal year 2015 remained consistent with those applied in the condensed consolidated interim financial statements (see 2015 annual report, notes to the consolidated financial statements, note 4). The mandatory first-time adoption of new and amended standards and interpretations has had no material effect on these condensed consolidated interim financial statements (see also 2015 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 2015 annual report, notes to the consolidated financial statements, note 5).

3. CHANGES IN SCOPE OF CONSOLIDATION

Divestments

Highlight Communications AG sold its fully consolidated 75.374 % subsidiary Highlight Event & Entertainment AG (Other Business Activities segment), including its subsidiaries Highlight Event AG and Escor Automaten AG, to Mr. Bernhard Burgener for TCHF 18,282 on February 3, 2016. The sale price consisted of cash remuneration of TCHF 4,631 and 2,200,000 bearer shares in Highlight Communications AG held by the buyer worth TCHF 13,651. The cash inflow of TCHF 4,631 is offset by a cash outflow due to sold cash and cash equivalents of TCHF 12,429. The deconsolidation resulted in income of TCHF 3,964 in the first quarter of 2016, which is reported in other operating income (Other Business Activities segment). The net assets as of the date of disposal amount to TCHF 18,996 (TCHF 14,318 of which relating to shareholders) and, in addition to investment property (TCHF 3,300), essentially include trade accounts receivable and other receivables due from third parties (TCHF 4,445), cash and cash equivalents (TCHF 12,429) and pension liabilities (TCHF 1,091) in addition to trade accounts payable and other liabilities due to third parties (TCHF 238).

Highlight Communications AG sold the fully consolidated 50.004 % subsidiary Pokermania GmbH (Other Business Activities segment) to its fellow shareholder for EUR 1 on March 31, 2016. The cash inflow of CHF 1 is offset by a cash outflow due to sold cash and cash equivalents of TCHF 7. The deconsolidation resulted in income of TCHF 1,867 in the first quarter of 2016, which is reported in other operating income (Other Business Activities segment). An expense of TCHF 3,153 was incurred in the first quarter of 2016 due to impairment losses on remaining loans, which is reported under other operating expenses. The sale of Pokermania GmbH resulted in a total expense of TCHF 1,286. The net assets as of the date of disposal amount to TCHF -3,280 (TCHF -1,640 of which relating to shareholders), and essentially include cash and cash equivalents (TCHF 7), other assets (TCHF 9), liabilities to Rainbow Home Entertainment AG (TCHF 3,153) and other liabilities (TCHF 141). Positive currency translation differences of TCHF 227 were reclassified from equity to profit or loss as of the date of disposal.

Highlight Communications AG sold the associated company Paperflakes AG, plus loans granted to this company, to Highlight Event and Entertainment AG for TCHF 1,475 on February 28, 2016. The purchase price was settled in cash. The deconsolidation of the associated company resulted in income of TCHF 28 in the first quarter of 2016, which is reported in earnings from investments in associated companies and joint ventures.

Highlight Communications AG sold the associated company Holotrack AG, plus loans granted to this company, and the other equity investment Pulse Evolution Corporation, plus loans granted to this company, to Highlight Event and Entertainment AG for TCHF 1,910 and TCHF 2,227 respectively on February 28, 2016. The purchase price for these two sales was settled by way of offsetting a receivable of Highlight Event & Entertainment AG in the amount of TCHF 3,997 and a cash payment of TCHF 140. The deconsolidation of the associated company resulted in income of TCHF 9 in the first quarter of 2016, which is reported in earnings from investments in associated companies and joint ventures. The sale of Pulse Evolution Corporation was at carrying amount.

Highlight Communications AG sold the associated company Kuuluu Interactive Entertainment AG to Highlight Event and Entertainment AG for CHF 1 on March 31, 2016. The disposal of the company, including the cost of impairment losses on loans, resulted in a loss of TCHF 2,038 in the first quarter of 2016, which is reported in financial expenses.

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

The balance sheet total amounted to TCHF 366,715 as of June 30, 2016 after TCHF 457,988 as of December 31, 2015. While non-current assets declined by TCHF 63,070 in total as a result of a drop in film assets in particular, current assets decreased by a total of TCHF 28,203 as of June 30, 2016. The decline in current assets was essentially due to the decrease in other financial assets of TCHF 14,448 mainly as a result of the disposal of shares in Constantin Medien AG. There was also a reduction in trade accounts receivable and other receivables from TCHF 89,395 to TCHF 74,777. On the equity and liabilities side, non-current liabilities fell by TCHF 13,072, essentially as a result of advance payments received from customers, while current liabilities were down by TCHF 67,799. Under current liabilities, advance payments received from customers declined by TCHF 11,508 and financial liabilities by TCHF 20,483. In addition, equity was down by TCHF 10,402 at TCHF 93,425.

Film assets

As of June 30, 2016, film assets decreased by TCHF 57,425 compared to December 31, 2015. In-house productions declined by TCHF 47,209 and third-party productions decreased by a total of TCHF 10,216.

Current assets

As against December 31, 2015, current receivables fell by TCHF 14,716 as of the reporting date. This was due to the decrease of TCHF 11,859 in trade accounts receivable, of TCHF 2,759 in other receivables and the TCHF 98 decline in receivables due from related parties.

Other current financial assets decreased by TCHF 14,448 to TCHF 205. The change is mainly due to the disposal of Constantin Medien AG shares in the second quarter of 2016.

Cash and cash equivalents rose from TCHF 106,407 to TCHF 110,556 as of June 30, 2016. Financing activities resulted in a cash outflow of TCHF 23,548, primarily as a result of the repayment of financial liabilities and the purchase of treasury stock. The Group's investing activities used cash of TCHF 20,668, which was essentially due to payments for film assets and the sale of Highlight Event & Entertainment AG and Pokermania GmbH. This was offset by the disposal of Constantin Medien shares. Operating activities generated a positive cash flow of TCHF 48,426.

Equity

As of June 30, 2016, the number of directly and indirectly held non-voting treasury shares in Highlight Communications AG was 4,631,451 (December 31, 2015: 2,131,751). 2,649,700 treasury shares were acquired for TCHF 16,331 and 150,000 treasury shares were sold for TCHF 919 in the reporting period.

Equity fell by TCHF 10,402 from TCHF 103,827 to TCHF 93,425 as of June 30, 2016. The acquisition and sale of treasury stock reduced retained earnings by TCHF 12,913 in total. The remeasurement of pension liabilities led to a further decline of TCHF 1,525, on account of the reduction in the discount rate in particular. The proceeds from the sale of Constantin Medien shares of TCHF 1,918 recognized in retained earnings and the net profit for the period of TCHF 8,160 contributed to a positive effect. As of the end of the reporting period, other reserves totaled TCHF -40,245 (December 31, 2015: TCHF -40,651). As of June 30, 2016 these relate to the translation of the equity of companies that do not use Swiss francs as their functional currency (TCHF -38,144; December 31, 2015: TCHF -38,132) and from other cash flow hedge reserves of TCHF -2,101 (December 31, 2015: TCHF -2,519). Non-controlling interests declined by TCHF 2,766 in total as a result of the disposals of Highlight Event & Entertainment AG and Pokermania GmbH.

Liabilities

Non-current liabilities decreased by TCHF 13,072 compared to the end of the year, while current liabilities fell by a total of TCHF 67,799. Financial liabilities declined by TCHF 20,483 to TCHF 83,807. At the same time, trade accounts payable were down by TCHF 9,599 and other liabilities by a total of TCHF 20,869. Non-current and current advance payments received fell by a total of TCHF 27,204.

Sales and other income

Sales in the reporting period amounted to TCHF 206,544 after TCHF 126,657 in the same period of the previous year. Sales in the Sports- and Event-Marketing segment increased by TCHF 7,277 and those in the Film segment rose by TCHF 74,180. Capitalized film production costs and other own work capitalized increased by TCHF 33,602 year-on-year.

Operating expenses

Cost of materials and licenses climbed by TCHF 33,793 year-on-year. The increase is primarily due to the higher production volume in the Film segment compared to the first half of 2015.

Personnel expenses amounted to TCHF 51,460 in the reporting period and were thus up by TCHF 5,802 compared to the previous year's level.

Amortization, depreciation and impairment on film assets, intangible assets and property, plant and equipment totaling TCHF 88,066 (previous year's period: TCHF 21,154) comprise amortization and depreciation of TCHF 87,002 (previous year's period: TCHF 19,329) and impairment of TCHF 1,064 (previous year's period: TCHF 1,825).

Financial result

In the reporting period, the financial result improved by a total of TCHF 1,856 compared to the same period of the previous year, mainly as a result of exchange rate effects.

Cash flow hedge expenses of TCHF 544 (previous year's period: TCHF 0) were reclassified from other comprehensive income/loss (OCI) to profit or loss in the first half of 2016.

5. 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, 2016 (TCHF)		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	FVPL/without category	–	2,007	–	2,007
Financial assets at fair value through profit or loss	FVPL	96	–	205	301
Financial assets (equity instruments)	FVOCI	–	–	1,349	1,349
Financial liabilities measured at fair value					
Derivative financial instruments	FLPL/without category	–	3,464	–	3,464

Disclosures on level 3 financial instruments:

Designation of the financial instrument	Long-term shares	Short-term shares
Fair value on January 1, 2015	1,712	1,624
Gains/(losses) through profit or loss	5	–903
Currency translation differences through equity	24	–262
Acquisition	1,341	–
Sale	–	–109
Fair value on December 31, 2015	**3,082**	**350**
Gains/(losses) through profit or loss	11	–
Currency translation differences through equity	–16	17
Sale	–1,728	–162
Fair value on June 30, 2016	**1,349**	**205**

December 31, 2015 (TCHF)		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	FVPL/without category	–	4,391	–	4,391
Financial assets at fair value through profit or loss	FVPL	99	–	2,067	2,166
Financial assets (equity instruments)	FVOCI	14,303	–	1,365	15,668
Financial liabilities measured at fair value					
Financial liabilities with hedging relationships in accordance with IAS 39	without category	–	576	–	576
Derivative financial instruments	FLPL/without category	–	4,347	–	4,347

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 sales in the amount of TCHF 1,890 and currency translation effects of a total amount of TCHF 12. The currency effects recognized in profit or loss are reported under financial result.

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

No non-financial assets or non-financial liabilities were measured at fair value as of June 30, 2016.

6. SEGMENT REPORTING

As a result of the sale of the subsidiaries Highlight Event & Entertainment AG and Pokermania GmbH in the first quarter of 2016, the Other Business Activities segment comprises only the period from January 1 to March 31, 2016.

Segment information January 01 to June 30, 2016

(TCHF)	Film	Sports- and Event-Marketing	Other Business Activities	Other	Recon-ciliation	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 result	**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**

Segment information January 01 to June 30, 2015

(TCHF)	Film	Sports- and Event-Marketing	Other Business Activities	Other	Recon-ciliation	Group
External sales	102,739	22,119	1,799	–	–	126,657
Other segment income	29,466	3,329	76	–	–513	32,358
Segment expenses	–131,344	–15,755	–2,491	–2,689	513	–151,766
thereof amortization, depreciation	*–18,686*	*–421*	*–222*	–	–	*–19,329*
thereof impairment	*–1,825*	–	–	–	–	*–1,825*
Segment result	**861**	**9,693**	**–616**	**–2,689**	**–**	**7,249**
Non-allocable items:						
Earnings from investments in associated companies and joint ventures						724
Financial income						2,613
Financial expenses						–8,291
Profit before taxes						**2,295**

7. FINANCIAL COMMITMENTS, CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

Compared to the consolidated financial statements as of December 31, 2015, financial commitments, contingent liabilities and other financial obligations increased by TCHF 52,950 to TCHF 107,475 as of June 30, 2016.

8. RELATED PARTY DISCLOSURES

As part of its normal business activities, the company maintains relations with associated companies, joint ventures, the major shareholder and its subsidiaries in addition to companies controlled by members of the Board of Directors. The table below shows the scope of the transactions performed in the reporting period:

Joint ventures

(TCHF)	June 30, 2016	Dec. 31, 2015
Receivables	–	–
Liabilities	–	–

(TCHF)	Jan. 01 to June 30, 2016	Jan. 01 to June 30, 2015
Sales and other income	–	4,045
Cost of materials and licenses and other expenses	–	3,783

Associated companies

(TCHF)	June 30, 2016	Dec. 31, 2015
Receivables	–	5,185
Liabilities	–	–

(TCHF)	Jan. 01 to June 30, 2016	Jan. 01 to June 30, 2015
Sales and other income	–	–
Cost of materials and licenses and other expenses	–	–

Other related parties

(TCHF)	June 30, 2016	Dec. 31, 2015
Receivables	–	–
Liabilities	79	55

(TCHF)	Jan. 01 to June 30, 2016	Jan. 01 to June 30, 2015
Sales and other income	–	–
Cost of materials and licenses and other expenses	25	135

Parent company and its direct subsidiaries

(TCHF)	June 30, 2016	Dec. 31, 2015
Receivables	93	191
Liabilities	202	278

(TCHF)	Jan. 01 to June 30, 2016	Jan. 01 to June 30, 2015
Sales and other income	24	32
Cost of materials and licenses and other expenses	270	122

Other related party transactions essentially include the relations to various members of the Board of Directors and Managing Directors, which resulted in liabilities of TCHF 79 as of June 30, 2016 (December 31, 2015: TCHF 55).

The equity investments in Highlight Event & Entertainment AG, Holotrack AG, Paperflakes AG, Kuuluu Interactive Entertainment AG and Pulse Evolution Corporation were sold to Bernhard Burgener and his related parties in the first half of the year (see note 3 for further information).

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

Highlight Communications AG did not perform significant services for companies controlled by related parties in the reporting period or in the same period of the previous year.

All transactions with related parties are carried out at arm's length conditions.

9. EVENTS AFTER THE BALANCE SHEET DATE

In connection with the current share buy-back program, another 90,000 treasury shares were acquired for a purchase price of TCHF 581 in July 2016.

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