Highlight

Highlight Communications AG

2Q2018

Interim Report as of **June 30, 2018**

The half-year figures of the Highlight Group were significantly influenced by the first-time consolidation of Constantin Medien AG.

- Consolidated sales increased by 33.7 % year-on-year to CHF 214.5 million.
- EBIT improved by 46.4 % to CHF 10.1 million.
- As a result of higher financing costs and a rise in tax expenses, the consolidated net profit for the period was down on the previous year's level at CHF 3.2 million.
- The share of earnings attributable to Highlight shareholders was CHF 3.3 million, corresponding to earnings per share of CHF 0.06.
- The equity ratio declined from 46.1 % to 37.2 % as a result of the change in the scope of consolidation.

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Theatrical distribution

In the first half of 2018, revenues on the German movie theater market amounted to around EUR 407 million – a decrease of 16.9 % compared with the first six months of the previous year (around EUR 489 million). Attendance figures likewise fell by 16.9 % to around 46 million (same period of 2017: around 55.3 million). The main reasons for the decline in both areas were firstly only a few high-quality films and secondly the unusually good weather and the beginning of the football World Cup on June 14.

The most-attended movies in the first half of the year were “Star Wars: The Last Jedi” (already in theaters since December 14, 2017) with around 5.9 million viewers, “Avengers: Infinity War” with an audience of around 3.3 million, “Fifty Shades Freed” with around 3.0 million viewers, “Deadpool 2” with an audience of around 2.1 million, and the Constantin Film own production “Dieses bescheuerte Herz” (already in theaters since December 21, 2017) with around 2.0 million viewers.

Home entertainment

The declining trend on the conventional home entertainment market continued. Revenues of EUR 552 million were generated in the period from January to June 2018, down 7 % on the same period of 2017 (EUR 593 million). However, these figures do not include SVoD (subscription video-on-demand), an area that is experiencing substantial growth and generated revenues of EUR 411 million in the reporting period (same period of 2017: EUR 218 million).

The downturn on the conventional market overall was attributable to the continued decline in revenues from the sale and rental of physical media (DVD and Blu-ray), which declined by around 17 % to EUR 399 million (same period of 2017: EUR 478 million). By contrast, digital exploitation (electronic sell-through and transactional video-on-demand) enjoyed strong growth again, with revenues up 33 % on the previous year (EUR 114 million) to EUR 152 million.

Operational development

In the first half of 2018, various library deals encompassing around 110 titles were concluded with several TV exploiters – including Netflix, ProSiebenSat.1, and RTL2.

In addition, the framework agreements with the successful actor Elyas M’Barek and hit author and director Bora Dagtekin were extended until 2021 and 2020 respectively.

Theatrical production

In the first half of 2018, shooting started for a total of four own and co-productions: the screen adaptation of the Peter Wohlleben bestseller “Das geheime Leben der Bäume”, the sequels to the comedy “Eine ganz heisse Nummer” and the Doris Dörrie film “Hanami 2” (current title: “Kirschblüten & Dämonen”) and the international production “Polar” – an adaptation of the action-noir comic series of the same name.

In the same period, the Constantin Film Group acquired the exploitation rights for movies including “After” – a drama/romance film directed by Jenny Gage.

Theatrical distribution

Five Constantin Film Group movies were released in German theaters in the first six months of the year: the licensed titles “The Etruscan Smile” and “You Were Never Really Here” as well as the own and co-productions “Nur Gott kann mich richten”, “Fünf Freunde und das Tal der Dinosaurier”, and “Verpiss Dich, Schneewittchen!”.

Home entertainment

Notable new releases in the home entertainment market in the first half of 2018 included the licensed titles "Better Watch Out", "Acts of Violence", and "The 12th Man" as well as the Constantin Film own and co-productions "Fack Ju Göhte 3", "Tigermilch", and "Jugend ohne Gott". The second season of the international Constantin Film TV series "Shadowhunters" was also launched on the market.

License trading/TV exploitation

In German free TV exploitation, sales in the second quarter of this year were generated in particular by the license starts for the theatrical movies "Fack Ju Göhte 2" and "Look Who's Back" (both ProSieben). In pay TV exploitation, license starts included "A Dog's Purpose" (Teleclub).

TV service production

The shows produced by Constantin Entertainment GmbH in the second quarter of 2018 included further episodes of the quiz show "Genial daneben" (for SAT.1) and the dailies "Schicksale" (for SAT.1), "Kunze & Steves" (for RTL), and "Shopping Queen" (for VOX). Olga Film GmbH continued shooting the miniseries "Die Heiland: Wir sind Anwalt" for Rundfunk Berlin-Brandenburg (rbb) and began adapting the Jan Weiler bestseller "Kühn hat zu tun" for WDR. On behalf of Degeto, Moovie GmbH began shooting the TV comedy "Platzhirsche". Constantin Television GmbH filmed another season of the daily show "Dahoam is Dahoam". In addition, additional episodes of the series "Der Kroatien-Krimi" were completed.

Analysis of non-financial performance indicators

Theatrical distribution

Of the Constantin Film titles released in German theaters in the first half of 2018, only the sequel "Fünf Freunde und das Tal der Dinosaurier" met expectations, attracting an audience of around 500,000 (including previews). Thanks to the top film "Dieses bescheuerte Herz", which was released back in mid-December 2017, the Constantin Film Group nevertheless took sixth place in the distributor ranking (previous year: twelfth).

Home Entertainment

In the period from January to June 2018, the Highlight Group achieved a share of 4 % 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 was improved as against the same period of 2017 (3 %). The positive development is chiefly due to the very good sales figures for the hit movie "Fack Ju Göhte 3," physical sales of which totaled 390,000 DVDs and Blu-rays. There were also 685,000 digital sales transactions.

License trading/TV exploitation

The area of TV exploitation again enjoyed good ratings in the second quarter of 2018 and expectations were met. In particular, this was thanks to the initial broadcasts of the movies "Look Who's Back" on ProSieben (2.4 million viewers, 8.3 % share of overall market), and "Fantastic Four (2015)" (also on ProSieben) with 2 million viewers and a 6.0 % share of the overall market.

TV service production

The new TV series "Daheim in den Bergen" – a Westside GmbH production for ARD Degeto – achieved high ratings with its initial broadcasts on May 4 and 11, 2018. The first episode achieved a 13.4 % share of the overall market. Episode two fell just short of this with a 13.2 % share of the overall market. The daily show "Dahoam is Dahoam" (BR) again achieved constant market shares in double digits. The quiz show "Genial daneben" (SAT.1.) achieved a share of 12.9 % of the overall market with two episodes broadcast in mid-July.

BUSINESS DEVELOPMENT OF THE SPORTS- AND EVENT-MARKETING SEGMENT

Sector-specific situation

In sports sponsoring, football clubs and associations are increasingly focusing on eSports. Now that clubs like FC Schalke 04, Manchester City and Paris Saint-Germain have been active in eSports for some time, more and more internationally renowned football leagues are also seeking a presence in this interactive sports scene. For example, the Spanish La Liga and the US MLS both founded their own eSports leagues in 2018. They have thus followed the example of other major football associations – such as the German Bundesliga or the French Ligue 1 – which have long been staging competitions in league format. Particular incentives for activities in this area are the enhancement of the brand and football as a sport beyond the traditional experience and appealing to and involving young fans.

In the first six months of this year, the media and telecommunications industry was characterized by major company mergers, the total worldwide value of which the Thomson Reuters news agency reported at USD 322.5 billion. This corresponds to a more-than-sixfold increase compared to the previous year. Many of these acquisitions were driven by traditional media companies striving to reposition themselves in the competition with younger technology platforms such as Amazon and Netflix. For all these companies, offering exclusive content, including sports content, is an opportunity to distinguish themselves from the competition. As a result, a bidding war can be expected for sports rights, which could further boost marketing revenues in the near future.

Operational development

In the second quarter of 2018, the TEAM Group continued to focus 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, further contracts have been concluded in key markets.

In addition, further progress was made in the ongoing process of continuous further development of the format and the commercial concept for both competitions.

Moreover, the TEAM Group supported commercial partners and UEFA in the successful staging of the finals of both competitions, which took place in Lyon on May 16 (UEFA Europa League) and Kiev on May 26 (UEFA Champions League). Atlético Madrid defeated Olympique Marseille in the UEFA Europa League final, while Real Madrid CF triumphed over Liverpool FC in the UEFA Champions League final. This made Real Madrid CF the first team in the Champions League's history to win the coveted title three times in a row.

Analysis of non-financial performance indicators

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

In Spain, 10.1 million viewers tuned in to the match, corresponding to a market share of 60.2 %. In Great Britain, the live broadcast on the pay TV station BT Sport 2 was watched by 4.3 million viewers (market share of 22.8 %) – the highest figure that BT Sport has ever achieved.

An average of some 60 million football fans watched the final of the UEFA Europa League, which was broadcast in more than 100 countries. Audience interest was thus roughly on a par with the previous year (approximately 62 million). The same applies to the peak figure of around 180 million.

BUSINESS DEVELOPMENT OF THE SPORTS SEGMENT

Sector-specific situation

According to the information and media company Nielsen Media Research, the German gross advertising market totaled EUR 14.9 billion in the first half of 2018 – a year-on-year increase of 0.6 %. The sharpest growth, with an increase of 68 %, was again posted by advertising on mobile devices (total volume first half of 2018: EUR 0.441 billion). The radio media group grew by 2.9 % to EUR 0.93 billion, while TV saw a 0.1 % drop compared to the same period of 2017 with gross spending of around EUR 7.0 billion. The same applies to the desktop media group with a total volume of EUR 1.2 billion, equating to a 5.0 % decline. Movie theater advertising also declined by 13.2 %.

In production, major sporting events continue to offer an ideal opportunity to deploy new technologies. The trend in the international sports market – adapted to the altered usage patterns and shorter attention spans of end customers – is increasingly toward shorter, more action-packed forms of familiar sports, which also offers new opportunities in production.

Operational development

The program portfolio for the SPORT1 platforms was expanded in the first half of 2018 with the following football rights: live and highlight rights to the DFB-Pokal from season 2019/20 up to and including 2021/22, the UEFA Youth League until 2020/21, the finals of the UEFA Women's Champions League until 2018/19, highlight summaries of the 2. Bundesliga on Friday and Sunday evenings from the start of the second half of the 2017/18 season, and highlight clips from all matches of the 2018 FIFA World Cup™ and the 2018 UEFA European Under-17 Championship.

In addition, SPORT1 acquired rights in motorsport (FIA WEC, FIA Formula 2, and Porsche Carrera Cup), volleyball (women's and men's Bundesliga from 2018/19 to 2020/21 and Nations League 2018), American football (German Football League), ice hockey (NHL Global Series Challenge 2018), handball (international matches of German national teams), hockey (Indoor Hockey World Cup 2018 and German Championship 2018) and eSports (EA SPORTS™ FIFA 18 Global Series, TAG Heuer Virtual Bundesliga, ESL Spring Championship 2018, and ESL One Dota 2).

As part of the 360° strategy, SPORT1 launched its new video platform in January, which bundles its entire video and VoD offering centrally. The customizable football app "iM Football" was relaunched in June on the occasion of the 2018 FIFA World Cup™. In marketing, SPORT1 MEDIA acquired the following advertising customers in the reporting period, among others: Zurich Insurance and Toyota (Winter Olympic Games), ŠKODA, Betway and Campingaz (Ice Hockey European Championship), and CHECK24, LG Electronics, bwin, and Tipico (2018 FIFA World Cup™).

In June, PLAZAMEDIA put into operation Europe's most state-of-the-art, IP-based broadcasting center in Ismaning. In addition to the regular recording of the talk show "Ringlstetter," the studio production "Gesundheitsshow" was implemented for Bayerischer Rundfunk including additional production services in the first half of 2018.

Extensive series production services were rendered for ZDF and SPORT1 in connection with the UEFA Champions League, the UEFA Europa League, the Bundesliga, the 2. Bundesliga, and the 2018 FIFA World Cup™. In addition, PLAZAMEDIA took over the provision and operation of technical infrastructure and the technical production services for DAZN and Amazon Music's sports radio, produced the international football match between Japan and Paraguay for Nippon TV as well as digitalizing content and establishing an archive for the DKB Handball-Bundesliga.

Analysis of non-financial performance indicators

In free TV, market shares among viewers aged three and over and in the new core target group of 14- to 59-year-old men fell short of previous years in the first six months of 2018, as expected, due chiefly to the loss of Bundesliga rights on Monday evenings. Particular ratings highlights included the World Darts Championship final on January 1 with a new audience record, the K.O. matches of Borussia Dortmund and RB Leipzig in the UEFA Europa League, the Ice Hockey World Championships in May, and Bundesliga shows such as "Der CHECK24 Doppelpass," which increased its season average to a million viewers.

Pay TV distribution remained high as of June 30, 2018, with a total of 2.10 million subscribers to SPORT1+ (June 30, 2017: 2.11 million) and 1.50 million subscribers to SPORT1 US (June 30, 2017: 1.49 million).

In the mobile segment, visits increased in the reporting period compared to the first half of 2017, while page impressions (PIs) dropped off slightly. In terms of content, this stable reach was thanks in particular to the international and national football competitions, the Ice Hockey World Championships, Formula 1, and the Grand Slam tennis tournaments. In terms of products, it is attributable to the continuous enhancement and optimization of SPORT1's mobile offerings.

Online, there was a slight year-on-year increase in PIs and a decline in visits in the first half of 2018, with the latter still due to the ongoing shift of content use from online to mobile.

Video views on the SPORT1 platforms and the SPORT1 YouTube channels developed very positively in the reporting period. This was due primarily to the introduction of an internal video unit for even more effective implementation of the video strategy, the new media library of high-quality video rights launched in January and the expansion of the video and livestream offering on YouTube.

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

Results of segment operations

(CHF million)	Jan. 01 to June 30, 2018	Jan. 01 to June 30, 2017	Change
Sales	**214.5**	**160.4**	**33.7 %**
EBIT	**10.1**	**6.9**	**46.4 %**
Consolidated net profit for the period	**3.2**	**4.4**	**–27.3 %**
Net profit attributable to shareholders	**3.3**	**4.0**	**–17.5 %**
Earnings per share (CHF)	**0.06**	**0.08**	**–25.0 %**

It should be noted regarding the following statements on the development of sales and earnings that Constantin Medien AG was included in consolidation for the first time effective March 31, 2018, and was allocated to the new Sports segment. As the prior-year figures for the Highlight Group have not been adjusted, comparisons with the first half of 2017 are of limited significance only.

The increase in sales results from this first-time consolidation on the one hand (CHF 37.3 million) and from the Film segment on the other. In particular, this was thanks to the extraordinarily good sales figures for the hit movies "Ostwind – Aufbruch nach Ora" and "Fack Ju Göhte 3" in home entertainment exploitation. By contrast, capitalized film production costs and other own work capitalized was down by CHF 8.7 million at CHF 71.1 million. Nonetheless, the Group's total output climbed from CHF 240.2 million to CHF 285.6 million.

Consolidated operating expenses increased by CHF 43.8 million to CHF 282.1 million (previous year's period: CHF 238.3 million). This development primarily resulted from increases in the cost of materials and licenses (CHF 18.8 million), personnel expenses (CHF 8.7 million) and other operating expenses (CHF 10.5 million).

As the increase in consolidated operating expenses was weaker overall than the rise in total output, EBIT was significantly higher than the comparative figure for the first half of 2017. The fact that this improvement is not reflected in consolidated net profit for the period to the same extent is firstly because financing costs rose by CHF 1.9 million to CHF 5.7 million (previous year's period: CHF 3.8 million). Secondly, tax expenses increased by CHF 2.0 million to CHF 3.2 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 (up 21.3 %).

Results of segment operations

Film segment

(CHF million)	Jan. 01 to June 30, 2018	Jan. 01 to June 30, 2017	Change
Segment sales	**147.2**	**131.2**	**12.2 %**
Segment earnings	**3.2**	**–3.2**	**200.0 %**

The rise in sales in the Film segment primarily results from high revenue in home entertainment. Other segment income, which is largely influenced by capitalized film production costs, was down by CHF 9.5 million year-on-year at CHF 75.3 million (previous year's period: CHF 84.8 million). This decline reflects the slightly lower production volume at present compared to the first half of 2017. By contrast, segment expenses remained at exactly the same level as in the previous year at CHF 219.3 million.

Sports- and Event-Marketing segment

(CHF million)	Jan. 01 to June 30, 2018	Jan. 01 to June 30, 2017	Change
Segment sales	**30.0**	**29.2**	**2.7 %**
Segment earnings	**14.9**	**12.9**	**15.5 %**

In addition to the slight increase in sales, the improvement in segment earnings is based on an increase in other income of CHF 0.1 million and savings in segment expenses of CHF 0.9 million.

Sports segment

(CHF million)	Jan. 01 to June 30, 2018	Jan. 01 to June 30, 2017	Change
Segment sales	**37.2**	**n/a**	**n/a**
Segment earnings	**–4.4**	**n/a**	**n/a**

As a result of the first-time consolidation of Constantin Medien AG – without adjusting the prior-year figures for the Highlight Group – it is not yet possible to make any statement on the performance of the Sports segment.

The costs of holding activities rose by CHF 0.9 million to CHF 3.7 million in the reporting period (previous year's period: CHF 2.8 million).

Net assets situation

(CHF million)	June 30, 2018	Dec. 31, 2017	Change
Balance sheet total	**580.0**	**512.8**	**13.1 %**
Equity	**215.8**	**236.4**	**–8.7 %**
Equity ratio (in %)	**37.2**	**46.1**	**–8.9 points**
Current financial liabilities	**121.3**	**77.2**	**57.1 %**
Cash and cash equivalents	**48.3**	**186.6**	**–74.1 %**

On the assets side, non-current assets rose by CHF 211.9 million to CHF 404.3 million (December 31, 2017: CHF 192.4 million). This development is largely due to a marked increase in goodwill (CHF 104.9 million) and other intangible assets (CHF 78.9 million) as a result of the majority stake in Constantin Medien AG. Furthermore, the value of film assets climbed by CHF 18.7 million to CHF 180.5 million.

Current assets were down by CHF 144.7 million at CHF 175.7 million as of the end of the first half of 2018 (December 31, 2017: CHF 320.4 million). In particular, this was a result of a significant decline in cash and cash equivalents of CHF 138.3 million. In addition, trade accounts receivable and other receivables decreased by CHF 21.2 million to CHF 106.5 million.

The increase on the equity and liabilities side is essentially based on increases in deferred tax liabilities (CHF 18.8 million), financial liabilities (CHF 44.1 million) and advance payments received (CHF 14.5 million).

The main reasons for the reduction in consolidated equity (including non-controlling interests) are changes in the scope of consolidation, including in particular the first-time consolidation of Constantin Medien AG, which led to a drop of CHF 20.6 million. Equity was increased by the consolidated net profit for the period of CHF 3.2 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 73.0 million as of the end of the first half of 2018 (December 31, 2017: net liquidity of CHF 109.4 million). This represents a debt ratio of 33.8 % in relation to equity.

Operating activities generated a net cash inflow of CHF 81.1 million in the period from January to June 2018. The rise of CHF 55.9 million as against the same period of the previous year (CHF 25.2 million) was primarily due to changes in net working capital.

Net cash used in investing activities climbed – as a result of the acquisition of the majority stake in Constantin Medien AG in particular – by CHF 116.2 million to CHF 186.5 million (previous year’s period: CHF 70.3 million). Financing activities resulted in a cash outflow of CHF 32.2 million (previous year’s period: inflow of CHF 18.8 million), essentially as a result of the net repayment of debt of CHF 31.9 million (previous year’s period: net borrowing of CHF 20.4 million).

REPORT ON RISKS AND OPPORTUNITIES

There were no significant changes in the Highlight Group’s risks and opportunities in the first half of 2018. A detailed description of the risk management system and the risk and opportunity profile can be found in the management report of our 2017 annual report.

FORECAST

Sector-specific situation

Film segment

In deviation from the forecast in our 2017 annual report, total sales of EUR 1.2 billion by 2021 are currently predicted for the German movie theater market, which would equate to average annual growth of 1.6 %. This is mainly due to rising ticket prices rather than higher audience numbers.

The statements on the development of the physical and digital home entertainment market in the 2017 annual report remain valid.

Sports- and Event-Marketing segment

In June of this year, the media planning and buying company ZenithOptimedia forecast that global advertising expenditure will increase by 4.6 % to around USD 579 billion in 2018 as a whole. The growth is thus much higher than in the previous year (4.0 %), which ZenithOptimedia attributes primarily to the major sporting events (Olympic Games in South Korea and football World Cup in Russia).

Sports segment

In its spring forecast for the advertising market, VAUNET, the central association of private audiovisual media in Germany, predicts that advertising sales for audio and audiovisual media in Germany will total EUR 6 billion in 2018. Television's net advertising sales will increase by between 1.0 % and 1.5 % to approximately EUR 4.7 billion (2017: EUR 4.6 billion, +0.7 %). Television advertising's share in the advertising market is expected to reach around 31 % of the overall market in 2018 (2017: 30 %). The association expects growth in net advertising sales from in-stream video advertising of between 15 % and 20 % to around EUR 0.6 billion (2017: EUR 0.5 billion, +21.2 %). In total, sales from video advertising will increase by between 2.3 % and 3.3 % (2017: +2.3 %) to a high of EUR 5.2 billion in 2018.

For the next five years, VAUNET forecasts dynamic innovation and growth in advertising sales of a double-digit percentage, especially for non-linear and interactive formats of audio and audiovisual media. The association continues to anticipate stable positive development and moderate growth for linear content. At the same time, very dynamic competition is expected in the years to come with continuing fragmentation and increasing convergence of content and advertising formats.

Focal points

Film segment

According to current planning for the theatrical production/acquisition of rights business area, there are at least seven promising projects in the pipeline for the second half of 2018. These include the continuation of Rita Falk's hit book series under the title "Leberkäsjunkie", the screen adaptation of the juvenile detective stories "Die drei Ausrufezeichen", another adaptation of a novel by Ferdinand von Schirach ("Der Fall Collini"), "Ostwind 4 – Aris Ankunft" under the new director Theresa von Eltz, and the major international production "Monster Hunter" directed by Paul W. Anderson and starring Milla Jovovich in the leading role.

In theatrical distribution, another four film releases are currently planned in the second half of 2018, including the Sönke Wortmann comedy "Der Vorname" with Florian David Fitz, Iris Berben, and Christoph Maria Herbst in the leading roles, "Papillon" – a new version of the classic crime thriller by Franklin J. Schaffner – and "Sauerkrautkoma", the fifth adaptation from Rita Falk's series of bestsellers.

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 from the theatrical movie "Grießnockerlaffäre". In pay-TV exploitation, sales will be generated from titles including "Dieses bescheuerte Herz" (pay-per-view, Sky).

Constantin Film subsidiaries are preparing a number of new projects in TV service production, including "Das Wochenende", "Master Butcher's Singing Club", "Schuld 3" – a Ferdinand von Schirach adaptation – "Wendezeit", episodes three and four of "Daheim in den Bergen", and further episodes of the ZDF series "Kommissarin Lucas".

Sports- and Event-Marketing segment

In the second half of 2018, the TEAM Group will again 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).

Sports segment

At SPORT1, the focus in fiscal year 2018 remains on consistent multimedia content use, distribution, and capitalization. As well as augmenting the portfolio by acquiring attractive new rights, extending existing partnerships and developing new content cooperations and business areas, the cross-platform exploitation and production of established pillars of programming also remain central. These include the core sports of football – especially the Bundesliga and the 2. Bundesliga – ice hockey, motorsport, boxing, basketball, volleyball, darts and US sports.

Given the still massive growth in the digital and cross-platform use of media content, Sport1 GmbH is continuing to promote the digital diversification of the SPORT1 brand in fiscal year 2018 while also creating new content and marketing environments, e.g. with regard to addressable TV. The fundamental priorities here are the development of new mobile offerings, the further intensification of social media activities, and the expansion of the video segment via proprietary apps and video brand channels and the use of new social media video offerings. The activities also include proprietary content and formats in the eSports segment, which continues to grow rapidly in Germany.

At PLAZAMEDIA, the main challenge is to compensate for the loss of the framework production agreement with Sky. In addition to creating sophisticated and complex live sports productions and non-live formats, the priorities in fiscal year 2018 are to develop and enhance innovative production technologies, content management solutions, and production-related content distribution.

In the wake of the expansion of the PLAZAMEDIA portfolio, the particular focus, aside from conventional broadcast activities, is the enhancement and development of new digital production activities, products, and services – with regard to the increasing fragmentation of media distribution channels such as specific OTT or OVP solutions. Here, distribution partnerships with various renowned partners provide access to new players and markets. The aim is to build on existing business relationships on the basis of the diverse range of services, to tap into new business areas and customer groups, and thus to base the customer portfolio as a whole on a broad foundation.

Financial targets of the Highlight Group

On the basis of these activities, we continue to forecast consolidated sales of between CHF 520 million and CHF 540 million as well as a consolidated net profit attributable to shareholders of between CHF 18 million and CHF 20 million for 2018 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, 2018 – Highlight Communications AG, Pratteln

CONSOLIDATED BALANCE SHEET

as of June 30, 2018 (unaudited) – Highlight Communications AG, Pratteln

ASSETS (TCHF)	June 30, 2018	Dec. 31, 2017
Non-current assets		
In-house productions	143,867	125,951
Third-party productions	36,674	35,863
Film assets	180,541	161,814
Other intangible assets	79,110	200
Goodwill	122,866	17,997
Property, plant and equipment	12,691	3,761
Advance payments for shares in affiliated companies	–	3,296
Investments in associated companies and joint ventures	56	57
Non-current receivables	6,593	2,735
Other financial assets	10	35
Deferred tax assets	2,456	2,519
	404,323	192,414
Current assets		
Inventories	5,443	4,027
Trade accounts receivable and other receivables	106,507	127,735
Contract assets	14,719	–
Income tax receivables	724	2,063
Cash and cash equivalents	48,278	186,553
	175,671	320,378
Total assets	579,994	512,792

EQUITY AND LIABILITIES (TCHF)		
Equity		
Subscribed capital	63,000	63,000
Treasury stock	–6,228	–45
Capital reserve	–66,311	–54,956
Other reserves	–32,676	–32,841
Retained earnings	228,944	256,414
Equity attributable to shareholders	186,729	231,572
Non-controlling interests	29,041	4,842
	215,770	236,414
Non-current liabilities		
Other liabilities	2,168	1,924
Pension liabilities	3,679	4,200
Deferred tax liabilities	33,991	15,163
	39,838	21,287
Current liabilities		
Financial liabilities	121,307	77,172
Advance payments received	62,192	47,741
Trade accounts payable and other liabilities	122,198	122,304
Contract liabilities	5,499	–
Provisions	8,630	5,024
Income tax liabilities	4,560	2,850
	324,386	255,091
Total equity and liabilities	579,994	512,792

The notes on pages 18 – 28 are an integral part of these consolidated interim financial statements.

CONSOLIDATED INCOME STATEMENT

January 1 to June 30, 2018 (unaudited) – Highlight Communications AG, Pratteln

(TCHF)	Jan. 01 to June 30, 2018	Jan. 01 to June 30, 2017
Sales	214,478	160,356
Capitalized film production costs and other own work capitalized	71,127	79,809
Total output	285,605	240,165
Other operating income	6,644	5,065
Costs for licenses, commissions and materials	–21,754	–11,762
Costs for purchased services	–100,229	–91,480
Cost of materials and licenses	–121,983	–103,242
Salaries	–54,986	–47,820
Social security, pension costs	–7,227	–5,724
Personnel expenses	–62,213	–53,544
Amortization and impairment on film assets	–59,279	–56,257
Amortization, depreciation and impairment on intangible assets and property, plant and equipment	–3,659	–1,062
Amortization, depreciation and impairment	–62,938	–57,319
Other operating expenses	–34,721	–24,236
Impairment/reversals of impairment on financial assets	–221	–
Losses/gains from the derecognition of financial assets measured at amortized cost	–28	–
Profit from operations	10,145	6,889
Earnings from investments in associated companies and joint ventures	–	–
Financial income	1,988	2,535
Financial expenses	–5,715	–3,822
Financial result	–3,727	–1,287
Profit before taxes	6,418	5,602
Current taxes	–4,954	–1,755
Deferred taxes	1,773	540
Taxes	–3,181	–1,215
Net profit for the period	3,237	4,387
thereof shareholders’ interests	3,343	4,014
thereof non-controlling interests	–106	373

Earnings per share (CHF)		
Earnings per share attributable to shareholders (basic)	0.06	0.08
Earnings per share attributable to shareholders (diluted)	0.06	0.08
Average number of shares in circulation (basic)	59,602,577	49,119,382
Average number of shares in circulation (diluted)	59,602,577	49,119,382

The notes on pages 18 – 28 are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS

January 1 to June 30, 2018 (unaudited) – Highlight Communications AG, Pratteln

(TCHF)	Jan. 01 to June 30, 2018	Jan. 01 to June 30, 2017
Net profit for the period	**3,237**	**4,387**
Currency translation differences	–1,847	1,552
Gains/losses from cash flow hedges	1,759	–52
Items that will be reclassified to the income statement in future	**–88**	**1,500**
Actuarial gains and losses of defined benefit pension plans	747	502
Items that will not be reclassified to the income statement in future	**747**	**502**
Total other comprehensive income/loss, net of tax	**659**	**2,002**
Total comprehensive income/loss	**3,896**	**6,389**
thereof shareholders' interests	4,255	5,957
thereof non-controlling interests	–359	432

The notes on pages 18 – 28 are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

January 1 to June 30, 2018 (unaudited) – Highlight Communications AG, Pratteln

	Equity attributable to shareholders							
(TCHF)	Sub-scribed capital	Treasury stock	Capital reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance as of December 31, 2017	**63,000**	**–45**	**–54,956**	**–32,841**	**256,414**	**231,572**	**4,842**	**236,414**
Retrospective change to the accounting method due to IFRS 9 and IFRS 15	**–**	–	–	–	**–347**	**–347**	**–**	**–347**
Balance as of January 1, 2018	**63,000**	**–45**	**–54,956**	**–32,841**	**256,067**	**231,225**	**4,842**	**236,067**
Currency translation differences	–	–	–	–1,594	–	–1,594	–253	–1,847
Gains/losses from cash flow hedges	–	–	–	1,759	–	1,759	–	1,759
Items that will be reclassified to the income statement in future	–	–	–	**165**	–	**165**	**–253**	**–88**
Actuarial gains/losses of defined benefit pension plans	–	–	–	–	747	747	–	747
Items that will not be reclassified to the income statement in future	**–**	–	–	–	**747**	**747**	**–**	**747**
Total other comprehensive income/loss, net of tax	–	–	**–**	**165**	**747**	**912**	**–253**	**659**
Net profit for the period	–	–	–	–	3,343	3,343	–106	3,237
Total comprehensive income/loss	–	–	**–**	**165**	**4,090**	**4,255**	**–359**	**3,896**
Sale of treasury stock	–	2,000	–	–	10,221	12,221	–	12,221
Dividend payments	–	–	–11,355	–	–	–11,355	–1,092	–12,447
Change in the scope of consolidation	–	–8,183	–	–	–41,434	–49,617	25,650	–23,967
Balance as of June 30, 2018	**63,000**	**–6,228**	**–66,311**	**–32,676**	**228,944**	**186,729**	**29,041**	**215,770**

	Equity attributable to shareholders								
(TCHF)	Sub-scribed capital	Treasury stock	Fully underwrit-ten 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 will 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
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
Dividend payments	–	–	–	–	–	–	–	–1,065	–1,065
Balance as of June 30, 2017	**47,250**	**–45**	**89,585**	**–108,135**	**–39,074**	**236,571**	**226,152**	**4,047**	**230,199**

The notes on pages 18 – 28 are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

January 1 to June 30, 2018 (unaudited) – Highlight Communications AG, Pratteln

(TCHF)	Jan. 01 to June 30, 2018	Jan. 01 to June 30, 2017
Net profit for the period	3,237	4,387
Deferred taxes	–1,773	–540
Current taxes	4,954	1,755
Financial result (without currency result)	1,714	974
Earnings from investments in associated companies and joint ventures	–	–
Amortization, depreciation and impairment on non-current assets	62,938	57,319
Gain (-)/loss (+) from disposal of non-current assets	21	1
Other non-cash items	405	–478
Increase (-)/decrease (+) in inventories, trade accounts receivable and other assets not classified to investing or financing activities	38,078	–16,958
Decrease (-)/increase (+) in trade accounts payable and other liabilities not classified to investing or financing activities	–19,256	–16,235
Dividends received from associated companies and joint ventures	–	–
Interest paid	–6,896	–711
Interest received	24	18
Income taxes paid	–3,761	–4,605
Income taxes received	1,407	240
Cash flow from operating activities	81,092	25,167
Payments for the acquisition of companies/shares in companies (less cash and cash equivalents acquired)	–103,695	–
Payments for intangible assets	–825	–1
Payments for film assets	–78,010	–69,461
Payments for property, plant and equipment	–4,195	–872
Proceeds from disposal of property, plant and equipment	234	46
Proceeds from disposal of financial assets	35	31
Cash flow for investing activities	–186,456	–70,257
Proceeds from sale of treasury stock	12,221	–
Payments for purchase of non-controlling interests	–	–537
Repayment of current financial liabilities	–43,157	–1,938
Proceeds from receipt of current financial liabilities	11,212	22,372
Dividend payments	–12,447	–1,065
Cash flow for/from financing activities	–32,171	18,832
Cash flow for the reporting period	–137,535	–26,258
Cash and cash equivalents at the beginning of the reporting period	186,553	88,502
Effects of currency differences	–740	329
Cash and cash equivalents at the end of the reporting period	48,278	62,573
Change in cash and cash equivalents	–137,535	–26,258

The notes on pages 18 – 28 are an integral part of these consolidated interim financial statements.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

as of June 30, 2018 (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 23, 2018.

2. ACCOUNTING AND VALUATION PRINCIPLES

The unaudited, condensed consolidated interim financial statements for the period from January 1 to June 30, 2018 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, 2017.

With the exception of the first-time adoption of new or amended standards and interpretations described in note 3, the accounting and valuation policies applied when preparing the condensed consolidated interim financial statements remained consistent with those applied in the consolidated financial statements for fiscal year 2017 (see 2017 annual report, notes to the consolidated financial statements, note 4).

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 and Sports segments are subject to seasonal fluctuations. The Film segment's sales depend on the respective theatrical release dates and the subsequent exploitation chain. The Sports segment generates lower sales in the summer months due to lower advertising income, which depends on broadcasting rights to sporting events. 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 2017 annual report, notes to the consolidated financial statements, note 5).

3. CHANGES TO ACCOUNTING POLICIES

The mandatory first-time adoption of the following accounting standards and interpretations as of January 1, 2018, resulted in the following material changes in these condensed consolidated interim financial statements.

3.1 First-time adoption of IFRS 9, Financial Instruments (2010, 2013 and 2014)

On July 24, 2014, the IASB published the final version of IFRS 9, Financial Instruments. The standard replaces IAS 39, Financial Instruments: Recognition and Measurement, and is mandatory for reporting periods from January 1, 2018.

The first-time adoption of these requirements has no material effects on the results of operations, net assets and financial position.

The Highlight Group exercises the option for simplified first-time adoption. The cumulative effects of the adoption of IFRS 9 are recognized in retained earnings through other comprehensive income as of January 1, 2018. Comparative information of preceding periods is not adjusted.

The Highlight Group adopted IFRS 9 (2009), Classification and Measurement of Financial Assets, for the Group's consolidated financial statements at an early stage starting from July 1, 2010. No changes resulted from the allocation of financial liabilities to the measurement categories according to IFRS 9.

The new impairment model moves the focus to generally earlier loss allowances. Accordingly, expected future losses must also be recognized as expenses on initial recognition. In addition to financial assets, the requirements on impairment are also applicable to contract assets according to IFRS 15.

Loss allowances for trade accounts receivable and contract assets to be recognized according to IFRS 15 for the first time from January 1, 2018, are determined according to the simplified impairment model of lifetime credit losses (simplified approach).

The maturity-specific allowance factors are based on historical and forward-looking information. The expected losses over the remaining term are determined as percentages or on the basis of available ratings depending on the number of days overdue. The percentages are based on historical loss rates, which are adjusted for forward-looking estimates.

The first-time adoption of IFRS 9 resulted primarily in the following cumulative adjustment effects recognized in retained earnings as of January 1, 2018:

(TCHF)	Total
Increase in impairment on trade accounts receivable and other receivables (non-current)	24
Increase in impairment on trade accounts receivable and other receivables (current)	317
Impairment on assets initially recognized according to IFRS 15	6
Total	**347**

The first-time adoption of the new impairment model had no material effects on cash and cash equivalents or receivables from associated companies.

The impairment on financial assets according to IAS 39 as of December 31, 2017, is reconciled to the opening balance sheet as of January 1, 2018, according to IFRS 9 as follows:

Impairment on financial assets incl. contract assets

(TCHF)	non-current trade accounts receivable (AC)	current trade accounts receivable (AC)	other current receivables (AC)	contract assets
Total according to IAS 39 (Dec. 31, 2017)	**–**	**4,559**	**1,730**	**–**
Change resulting from first-time adoption of IFRS 9	24	297	20	6
Total according to IFRS 9 (Jan. 01, 2018)	**24**	**4,856**	**1,750**	**6**

AC: Financial assets at amortized cost

The introduction of IFRS 9 extends the scope of the hedged items to which hedge accounting can potentially be applied. In addition, there will be no retrospective effectiveness test in the future. There must be evidence of an economic relationship between the hedged item and the hedging instrument without there being quantitative limits.

On first-time adoption of IFRS 9, an entity has a one-time option to choose between hedge accounting under IFRS 9 and the previous guidance under IAS 39. The variant chosen applies to all current and future hedge accounting. The Highlight Group applies the regulations of IFRS 9 on hedge accounting prospectively starting from January 1, 2018. All hedges that went beyond December 31, 2017, were continued.

The adoption of IFRS 9, Financial Instruments, also requires additional disclosures in the notes according to IFRS 7, Financial Instruments: Disclosures. These relate in particular to disclosures on impairment and hedge accounting. The Highlight Group will present these additional disclosures in full for the first time in the consolidated financial statements as of December 31, 2018.

3.2 First-time adoption of IFRS 15, Revenue from Contracts with Customers (including clarifications)

In May 2014, the IASB issued the new standard IFRS 15, Revenue from Contracts with Customers. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, in particular and is mandatory for reporting periods from January 1, 2018.

The standard stipulates a principles-based five-step model for determining and recognizing revenue and is applicable to all contracts with customers.

The Highlight Group exercises the option for simplified first-time adoption and does not reassess contracts that were entirely fulfilled before the date of first-time adoption. In accordance with the standard's transitional provisions, the previous year's figures were not adjusted.

A significant financing component is not accounted for if the period between when a promised good or service is transferred to a customer and when the customer pays for that good or service will be one year or less.

The Highlight Group has capitalized no costs of contract acquisition and no costs of contract fulfillment, as these are immaterial.

Overall, no material quantitative changes in sales recognition arose from the implementation of IFRS 15.

The adjustments in connection with the first-time adoption of IFRS 15 are as follows:

(TCHF)	Carrying amount according to IAS 18/IAS 11 Dec. 31, 2017	Reclassification	Carrying amount according to IFRS 15 Jan. 01, 2018
ASSETS			
Trade accounts receivable and other receivables *	127,735	–13,628	114,107
Contract assets *	**–**	**13,628**	**13,628**
EQUITY AND LIABILITIES			
Trade accounts payable and other liabilities	122,304	–5,018	117,286
Provisions (current)	5,024	–3,716	1,308
Contract liabilities	**–**	**8,734**	**8,734**

** The carrying amounts as of January 1, 2018, are presented before the impairment recognized on contract assets according to IFRS 9. Please refer to the remarks on the first-time adoption of IFRS 9.*

The table only shows the items affected by the change resulting from the first-time adoption of IFRS 15.

The reclassifications mainly relate to receivables and liabilities from contract manufacturing, which are recognized under contract assets and liabilities according to IFRS 15. These are netted per customer contract. In addition, expected returns of merchandise are recognized according to IFRS 15.

Due to the acquisition of Constantin Medien AG, there are sales in the Sports segment. Constantin Medien AG's advertising revenues are generally recognized when the corresponding advertisement is broadcasted or appears to the consumer. Discounts and commission fees for the advertising agencies are deducted directly from revenues. There are generally no financing components, as the contracts with the advertising agencies are concluded for one year. Production services and broadcast management are generally recognized in relation to specific periods using the output-based method.

The adoption of IFRS 15, Revenue from Contracts with Customers likewise requires additional disclosures in the notes. The Highlight Group will present these full for the first time in the consolidated financial statements as of December 31, 2018, in addition to the disclosures on the disaggregation of sales by category in note 9.

4. CHANGE IN JUDGMENT/ESTIMATION UNCERTAINTY

Impairment of financial assets (debt instruments)

The requirements for the recognition of impairment on financial assets, which is based on the expected loss model, include substantial judgments regarding the extent to which expected credit losses can be influenced by changes in economic factors. Financial assets are to be divided into different risk classes according to historical and expected probabilities of default (for example, due to the general economic situation and related forecasts). Loss allowances must be recognized before loss events occur.

At the Highlight Group, expected losses are defined as the weighted average of the credit losses or using available ratings, with these being weighted by the respective probabilities of default. The estimates always account for the possibility of default and the possibility of non-default, even if the most probable scenario is non-default.

5. CHANGES IN THE SCOPE OF CONSOLIDATION

5.1 First-time consolidations of Constantin Medien AG

On December 18, 2017, Highlight Communications AG together with a third party made the shareholders of Constantin Medien AG, Ismaning, Germany, a voluntary public takeover offer and thus acquired 48.39 %. At the end of March 2018, additional shares of 29.99 % were acquired by Highlight Event and Entertainment AG, the parent company, so control was obtained as of the end of March 2018. Both transactions are classified as one transaction, as they represent one transaction from an economic perspective. The company is allocated to the Sports segment.

In accordance with IFRS, the cost of the acquisition of Constantin Medien AG amounts to CHF 196.7 million. This corresponds to the fair value of the equity investment previously held.

The identified assets and liabilities as of March 31, 2018, are as follows:

(TCHF)	**Total**
Non-current assets	
Intangible assets	77,069
Other intangible assets	3,196
Property, plant and equipment	6,467
Other non-current financial assets	49,626
Deferred tax assets	297
Current assets	
Inventories	152
Trade accounts receivable	21,645
Other receivables	15,941
Cash and cash equivalents	92,039
Non-current liabilities	
Other non-current liabilities	–98
Deferred tax liabilities	–2,032
Deferred tax liabilities (revaluation)	–18,312
Current liabilities	
Current financial liabilities	–75,178
Trade accounts payable	–19,229
Other liabilities	–22,035
Provisions	–10,634
Income tax liabilities	–276
Identified assets and liabilities (net)	**118,638**
Goodwill	103,740
Non-controlling interests	–25,650
Cost of the acquisition	**196,728**
Cash and cash equivalents acquired (cash inflow)	92,039
Total cash outflow	**104,689**

The other non-current financial assets of CHF 49.6 million relate to shares in Highlight Communications AG. These are classified as treasury shares by the Highlight Group on first-time consolidation. The deferred tax liabilities (remeasurement) consist of the tax liabilities in connection with the acquisition of intangible assets.

The provisional purchase price allocation (PPA) results in goodwill of TCHF 103,740 and intangible assets (patents and licenses) of TCHF 77,069. These constitute the positive difference between the purchase price paid and the fair values of the acquired assets and assumed liabilities including deferred taxes and primarily represent strategic synergy and development potential expected in the Sports segment in the future. Goodwill was accounted for and measured in line with the partial goodwill method.

The intangible assets primarily relate to the “Sport 1” brand and the various rights in sports business. The main sources of income are advertising revenues, distribution revenues, and revenues from the performance of production services. Sales relate to products for platforms and services.

Constantin Medien AG is an international media company based in Germany. Its program portfolio includes the SPORT1 platforms with the following rights:

Football with live and highlight rights to the DFB-Pokal from the 2019/2020 season up to and including the 2021/2022 season, the UEFA Youth League until 2020/21, and the finals of the UEFA Women’s Champions League until 2018/19, highlight summaries of the 2. Bundesliga on Friday and Sunday evenings from the start of the second half of the 2017/18 season, highlight clips from all games of the 2018 FIFA World Cup™ and the 2018 UEFA European Under-17 Championship, motorsport with the FIA WEC, FIA Formula 2, the Porsche Carrera Cup, and the new “Porsche GT Magazin” show, volleyball with the women’s and men’s Bundesliga from 2018/2019 to 2020/2021 and the Nations League 2018, American football with the German Football League (GFL), ice hockey with the NHL Global Series Challenge 2018, handball with international matches of German national teams, hockey with the Hockey World Cup 2018 and the German Championship 2018, and eSports with the EA SPORTS™ FIFA 18 Global Series, the TAG Heuer Virtual Bundesliga, the ESL Spring Championship 2018, and ESL One Dota 2. Since March 2018, SPORT1 has bundled its activities on external platforms in the newly established New Platforms unit. In the area of social media, SPORT1 reaches more than 5 million fans on channels including Facebook, Instagram, Twitter, and YouTube. SPORT1 has a very important brand in Germany.

Constantin Medien AG’s portfolio also includes PLAZAMEDIA. In June 2018, PLAZAMEDIA commissioned Europe’s most state-of-the-art, IP-based broadcasting center. In addition to the regular recording of the talk show “Ringlstetter,” the studio production “Gesundheitsshow” was created for Bayerischer Rundfunk including additional production services in the first half of 2018. Extensive series production services were rendered for ZDF and SPORT1 in connection with the UEFA Champions League, the UEFA Europa League, the Bundesliga and the 2. Bundesliga, and the 2018 FIFA World Cup™. In addition, PLAZAMEDIA took over the provision and operation of technical infrastructure and the technical production services for DAZN and Amazon Music’s sports radio, produced the international soccer match between Japan and Paraguay for Nippon TV, and digitalized content and established an archive for the DKB Handball-Bundesliga. PLAZAMEDIA was also responsible for the implementation of several events for well-known customers at the “ziegelei101” venue in the first half of 2018.

The Highlight Group will report Constantin Medien AG in the Sports segment and will benefit from its digital platforms, SPORT1 brand name, network, and synergies in future. For this reason, the goodwill is justified.

Assuming that Constantin Medien AG had been included in the consolidated financial statements starting from January 1, 2018, this would result in consolidated pro-forma net sales of CHF 70.5 million and a consolidated pro-forma net loss of CHF 8.7 million. Starting from April 1, 2018, consolidated sales of CHF 37.2 million and a net loss of CHF 3 million were assumed by the Highlight Group for the second quarter of 2018 as a result of the first-time consolidation.

5.2 Other changes

Under a contract dated January 1, 2018, and with economic effect from the same date, Constantin Film Produktion GmbH, Munich, acquired 100 % of Mythos Film GmbH, Berlin, and also indirectly acquired its wholly-owned subsidiaries Mythos Film Verwaltungs GmbH, Berlin, and Mythos Film Produktions GmbH und Co. KG, Berlin. As a result of gaining control, this equity investment will be fully consolidated from the acquisition date on. The company primarily produces own and co-productions for the German market. The Group acquired it in order to further expand its production activities. The purchase price according to IFRS 3 comprises a cash purchase price of TCHF 3,043. The payment for the acquisition was made in December 2017.

The assets taken from the provisional annual financial statements at fair value include property, plant and equipment and intangible assets of TCHF 107, film assets of TCHF 1,836, deferred tax assets of TCHF 141 and current assets comprising receivables (TCHF 487) and cash and cash equivalents (TCHF 701). These are offset by liabilities assumed at fair value totaling TCHF 723.

The provisional purchase price allocation results in non-tax-deductible goodwill of TCHF 494. This constitutes the positive difference between the purchase price paid and the fair values of the acquired assets and assumed liabilities including deferred taxes and primarily represents strategic synergy and development potential among the productions.

As a result of the first-time consolidation of the companies as of January 1, 2018, sales revenues of TCHF 1,862 and earnings after taxes of TCHF 640 were included in the Highlight Group's consolidated interim financial statements.

Under a contract dated June 21, 2018, and with economic effect from the same date, Constantin Television GmbH, Munich, acquired 100% of Hager Moss Film GmbH, Munich. As a result of gaining control, this equity investment will be fully consolidated from the acquisition date on. The company primarily produces service productions for the German market. The Group acquired it in order to further expand its production activities. The purchase price according to IFRS 3 comprises a cash purchase price of TCHF 1,697 and a conditional purchase price component (earn-out agreement) with a fair value of TCHF 244. The full payment was recognized under non-current liabilities.

The assets taken from the provisional half-year financial statements at fair value include property, plant and equipment and intangible assets of TCHF 62, film assets of TCHF 2,961 and current assets comprising inventories (TCHF 345), receivables (TCHF 1,407) and cash and cash equivalents (TCHF 294). These are offset by liabilities assumed at fair value (TCHF 3,831).

The provisional purchase price allocation results in non-tax-deductible goodwill of TCHF 703. This constitutes the positive difference between the purchase price paid and the fair values of the acquired assets and assumed liabilities including deferred taxes and primarily represents strategic synergy and development potential among the productions.

Including the company from the start of the fiscal year until the first-time consolidation as of June 21, 2018, would have had the following effects on the Highlight Group's results of operations, financial position and net assets: sales of TCHF 2,207 and earnings after taxes of TCHF 1. The effective date of the first-time consolidation is June 21, 2018. Because there are no significant reconciling items to be taken into account, the statement of financial position and the income statement of Hager Moss Film GmbH as of June 30, 2018, are used for the first-time consolidation of the company for reasons of materiality.

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

The balance sheet total amounted to TCHF 579,994 as of June 30, 2018 after TCHF 512,792 as of December 31, 2017. Non-current assets increased by TCHF 211,909 in total. This was primarily due to the first-time consolidation of Constantin Medien AG, which increased goodwill by TCHF 103,740 and intangible assets by TCHF 77,069. Current assets fell by a total of TCHF 144,707, especially because of the reduction in cash and cash equivalents of TCHF 138,275. On the equity and liabilities side, liabilities increased by TCHF 87,846 in total. Financial liabilities and advance payments received rose by TCHF 58,586. Equity fell by TCHF 20,644.

Film assets

As of June 30, 2018, film assets increased by TCHF 18,727 as against December 31, 2017. This increase is primarily attributable to the production costs of "Shadowhunters – season 3" and "Polar".

Current assets

As against December 31, 2017, current receivables (not including contract assets) fell by TCHF 7,600 as of the end of the reporting period.

The carrying amount of contract assets increased from TCHF 13,628 to TCHF 14,719.

Cash and cash equivalents declined from TCHF 186,553 to TCHF 48,278 as of June 30, 2018. Financing activities resulted in a cash outflow of TCHF 32,171, primarily as a result of the repayment of current financial liabilities. The Group's investing activities used cash of TCHF 186,456, which was due essentially to the acquisitions of the companies described in note 5 and payments for film assets. Operating activities generated a positive cash flow of TCHF 81,092.

Equity

The number of directly and indirectly held non-voting treasury shares in Highlight Communications AG was 6,227,501 as of June 30, 2018 (December 31, 2017: 44,983).

Due to the first-time consolidation of Constantin Medien AG as of March 31, 2018, the number of treasury shares increased to 8,227,501, while retained earnings declined by TCHF 41,434. In the second quarter, 2,000,000 treasury shares were sold for TCHF 12,221. The remeasurement of pension liabilities led to an increase in retained earnings of TCHF 747 on account of changes in assumptions and a slightly higher discount rate in particular. The net profit for the period of TCHF 3,343 also contributed to a positive effect. Other reserves totaled TCHF –32,676 as of the end of the reporting period (December 31, 2017: TCHF –32,841). As of June 30, 2018, these relate to the translation of the equity of companies that do not use Swiss francs as their functional currency (TCHF –32,698; December 31, 2017: TCHF –31,104) and from other cash flow hedge reserves of TCHF 22 (December 31, 2017: TCHF –1,737). In addition, dividends of TCHF 11,355 were distributed.

The first-time consolidation of Constantin Medien AG resulted in an increase in non-controlling interests of TCHF 25,650. Dividend distributions of TCHF 1,092 were made in the reporting period. The consolidated net profit for the period attributable to non-controlling interests amounted to TCHF –106. Currency effects amounted to TCHF –253.

Liabilities

The increase in non-current liabilities by a total of TCHF 18,551 is mainly attributable to a rise in deferred tax liabilities – due to the first-time consolidation of Constantin Medien AG.

As against December 31, 2017, current liabilities increased by TCHF 69,295. This is primarily attributable to the increase in current financial liabilities by TCHF 44,135. In addition, advance payments received rose from TCHF 47,741 as of December 31, 2017, to TCHF 62,192.

The carrying amount of contract liabilities decreased from TCHF 8,734 to TCHF 5,499.

Sales and other income

Sales amounted to TCHF 214,478 in the reporting period after TCHF 160,356 in the same period of the previous year. External sales in the Film segment increased by TCHF 16,023 to TCHF 147,227; sales of the Sports- and Event-Marketing segment rose by TCHF 879. With external sales of TCHF 37,220, the new Sports segment added as a result of the first-time consolidation of Constantin Medien AG likewise made a significant contribution to the increase in consolidated sales totaling TCHF 54,122.

Capitalized film production costs and other own work capitalized decreased by TCHF 8,682.

Operating expenses

Operating expenses increased by a total of TCHF 43,763 as against the first half of 2017. This also reflects the effects of the first-time consolidation of Constantin Medien AG as of March 31, 2018.

Amortization, depreciation and impairment on film assets, intangible assets and property, plant and equipment totaling TCHF 62,938 (previous year's period: TCHF 57,319) comprise amortization and depreciation of TCHF 59,706 (previous year's period: TCHF 56,188) and impairment of TCHF 3,232 (previous year's period: TCHF 1,131). Impairment of film assets in the current fiscal year chiefly results from the theatrical production "Verpiss Dich, Schneewittchen!", as the number of moviegoers was considerably lower than expected, and from adjusted revenue estimates for in-house and third-party productions.

Financial result

In the reporting period, the financial result worsened by a total of TCHF 2,440 compared to the same period of the previous year. This change is due in particular to higher interest expenses and a drop in exchange rate gains.

7. DIVIDEND

Proposed dividends are only recognized once the proposal for the appropriation of retained earnings is approved by the Annual General Meeting. At the Annual General Meeting for fiscal year 2017, which was held on May 18, 2018, the Board of Directors proposed a dividend distribution of CHF 0.20 per share from reserves from capital contributions. The dividend was approved by the Annual General Meeting and distributed from May 28, 2018.

8. 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, 2018 (TCHF)		**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Derivative financial instruments	FVPL/without category	–	1,726	–	1,726
Financial assets at fair value through profit or loss	FVPL	–	–	–	–
Financial assets (equity instruments)	FVOCI	–	–	10	10
Financial liabilities measured at fair value					
Financial liabilities at amortized cost	FLPL	–	–	244	244
Derivative financial instruments	FLPL/without category	–	1,715	–	1,715

Dec. 31, 2017 (TCHF)		**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Derivative financial instruments	FVPL/without category	–	2,032	–	2,032
Financial assets at fair value through profit or loss	FVPL	35	–	–	35
Financial assets (equity instruments)	FVOCI	–	–	–	–
Financial liabilities measured at fair value					
Derivative financial instruments	FLPL/without category	–	4,104	–	4,104

AC: Financial assets at amortized cost
FVOCI: Financial assets at fair value through OCI
FVPL: Financial assets at fair value through profit or loss
FLPL: Financial liabilities at fair value through profit or loss

Disclosures on level 3 financial instruments:

Designation of the financial instrument	Long-term shares	Short-term shares	Earn-out agreement Hager Moss Film GmbH
Fair value as of December 31, 2016	**–**	**206**	**–**
Gains/(losses) through profit or loss	–	–201	–
Gains/(losses) through equity	–	–5	–
Fair value as of December 31, 2017	**–**	**–**	**–**
Addition to scope of consolidation	10	–	244
Fair value as of June 30, 2018	**10**	**–**	**244**

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 preference shares assigned to level 3 of the fair value hierarchy and the shares in Geenee Inc. had already been written down in full in previous years. For reasons of materiality, the other non-current equity instruments totaling TCHF 10 are recognized at historical cost.

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, 2018 or December 31, 2017, there were no non-financial assets or liabilities measured at fair value.

9. SEGMENT REPORTING

Segment information January 01 to June 30, 2018

(TCHF)	Film	Sports- and Event-Marketing	Sports	Other	Recon-ciliation	Group
External sales	147,227	30,031	37,220	–	–	214,478
Group sales	–	–	51	–	–51	–
Total sales	147,227	30,031	37,271	–	–51	214,478
Other segment income	75,332	225	2,355	–	–141	77,771
Segment expenses	–219,313	–15,406	–43,984	–3,650	249	–282,104
thereof amortization, depreciation	*–56,578*	*–236*	*–2,892*	–	–	*–59,706*
thereof impairment	*–3,232*	–	–	–	–	*–3,232*
Segment earnings	**3,246**	**14,850**	**–4,358**	**–3,650**	**57**	**10,145**
Timing of sales recognition						
Over a period of time	44,489	–	15,971	–	–	60,460
At a specific date	102,738	30,031	21,249	–	–	154,018
	147,227	**30,031**	**37,220**	**–**	**–**	**214,478**
External sales by products						
Platform	–	–	31,542	–	–	31,542
Services	–	–	5,678	–	–	5,678
Production services	44,489	–	–	–	–	44,489
Film	102,738	–	–	–	–	102,738
Sports- and Event-Marketing	–	30,031	–	–	–	30,031
	147,227	**30,031**	**37,220**	**–**	**–**	**214,478**

Segment information January 01 to June 30, 2017

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

The figures of Constantin Medien AG, which has been fully consolidated since March 31, 2018, are reported under the Sports segment. The Sports segment mainly comprises activities in the TV and digital areas with the umbrella brand SPORT1 and in the areas of production, content solutions services, and content marketing with PLAZAMEDIA.

10. FINANCIAL COMMITMENTS, CONTINGENT LIABILITIES AND OTHER UNRECOGNIZED FINANCIAL OBLIGATIONS

Compared to the consolidated financial statements as of December 31, 2017, financial commitments, contingent liabilities and other unrecognized financial obligations increased by TCHF 127,212 to TCHF 205,894 as of June 30, 2018. The increase is attributable to the first-time consolidation of Constantin Medien AG.

Financial commitments, contingent liabilities and other unrecognized financial obligations

(TCHF)	Contingent liabilities	Purchase commitments for licenses	Other unrecognized financial obligations	Rental and lease obligations (operating lease contracts)	Total
As of June 30, 2018					
Due within one year	10,416	39,820	24,869	8,794	83,899
Due between one year and five years	–	57,407	26,735	22,926	107,068
Due after five years	–	–	2,210	12,717	14,927
Total	**10,416**	**97,227**	**53,814**	**44,437**	**205,894**
As of December 31, 2017					
Due within one year	10,525	12,752	6,614	5,090	34,981
Due between one year and five years	–	146	13,869	15,959	29,974
Due after five years	–	–	44	13,683	13,727
Total	**10,525**	**12,898**	**20,527**	**34,732**	**78,682**

11. 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, 2018	Dec. 31, 2017
Receivables	–	675
Liabilities	61	464

(TCHF)	Jan. 01, to June 30, 2018	Jan. 01, to June 30, 2017
Sales and other income	–	–
Cost of materials and licenses and other expenses	88	25

Parent company and its direct subsidiaries

(TCHF)	June 30, 2018	Dec. 31, 2017
Receivables	3,501	153
Liabilities	–	–

(TCHF)	Jan. 01, to June 30, 2018	Jan. 01, to June 30, 2017
Sales and other income	–	297
Cost of materials and licenses and other expenses	–	381

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 61 as of June 30, 2018 (December 31, 2017: TCHF 80).

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.

12. EVENTS AFTER THE BALANCE SHEET DATE

The management and the Board of Directors are not aware of any events that occurred after the balance sheet date and have a significant impact on the net assets, financial position and results of operations of the Highlight Group.

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