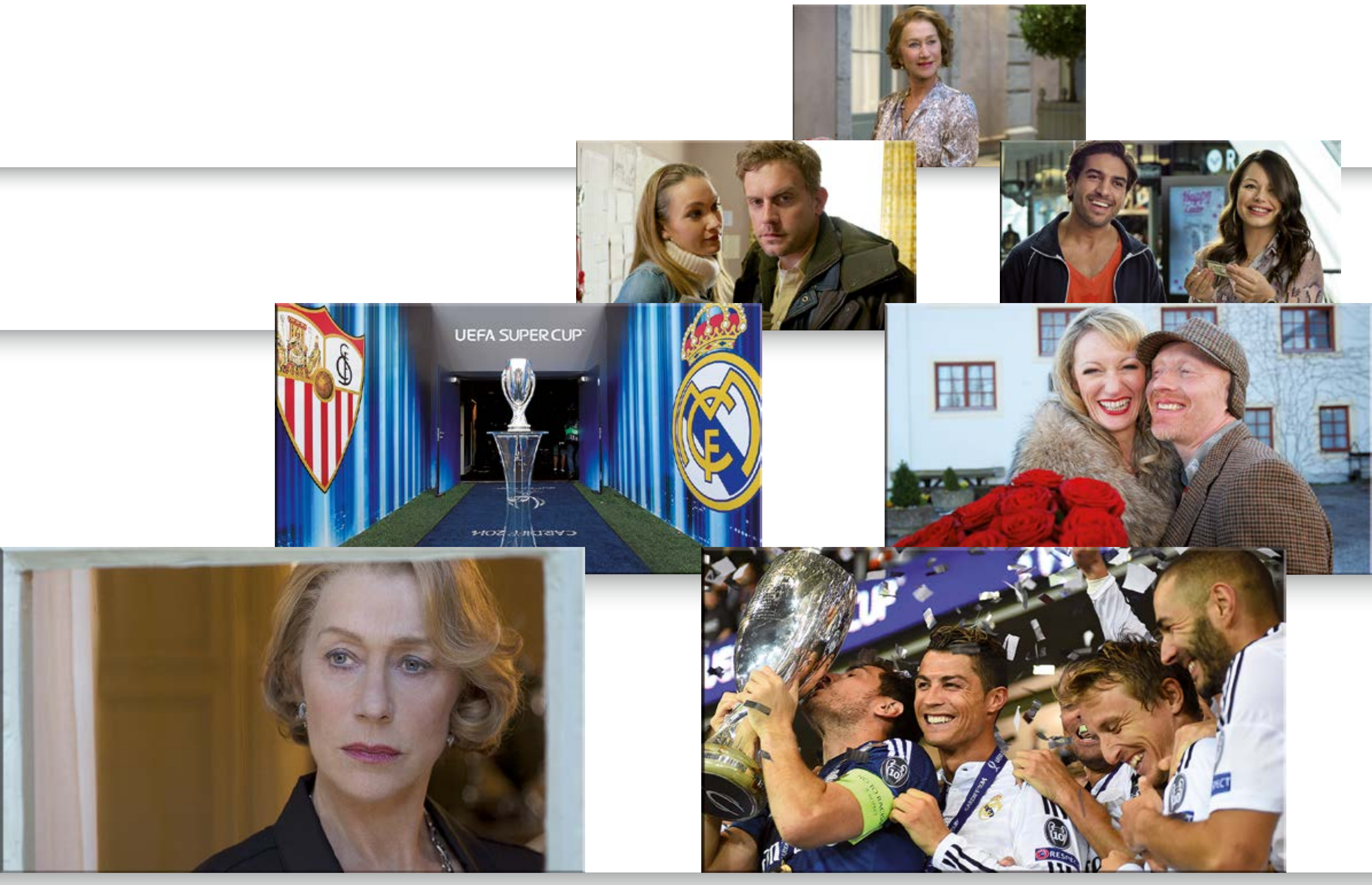
Highlight

Highlight Communications AG

Interim Report as of September 30, 2014



Well-earned reward:
The Constantin Entertainment TV production “Shopping Queen” was awarded the 2014 German Television Award.

At a glance: Events in the third quarter of 2014

JULY Directed by Katja von Garnier, filming on the Constantin Film co-production “Ostwind 2” begins in early July. The sequel to the hit, multi-award winning youth adventure picture “Ostwind” (including the German Film Award in the category “Best Children’s Film”) is expected to be in theaters in mid-May 2015.

AUGUST Principal photography on the fourth part of the hit series “The Famous Five”, based on the books for young adults by the best-selling author Enid Blyton, is completed in Tunis on August 21. The theatrical release of this Constantin Film co-production with SamFilm GmbH is scheduled for the end of January 2015.

After its phenomenal theater performance, “Fack ju Göhte” is also setting new benchmarks in home entertainment exploitation: At the end of August, the comedy directed by Bora Dagtekin crosses the magic line of one million DVDs and Blu-rays sold. In digital marketing, the number of paid downloads by this date is more than 700,000 – a volume not achieved by any movie in Germany before.

SEPTEMBER On September 19, Highlight Communications AG announces that the Swiss lawyer and UEFA General Secretary Gianni Infantino has been elected as a member of the Board of Directors of Team Holding AG. There he succeeds David Taylor, who passed away unfortunately and unexpectedly.

Members of the Highlight Group

Constantin Film
RAINBOW HOME ENTERTAINMENT
TEAM MARKETING
HIGHLIGHT EVENT & ENTERTAINMENT

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PREFACE

Dear shareholders and other interested parties,

In the first nine months of this year, we passed through the bottom of an economic cycle and are now back on track for success. We will exceed our planning for 2014 as a whole.

Consolidated sales rose to CHF 312.2 million and were therefore up by 19.2 % on the figure for the first nine months of the previous year (CHF 262.0 million). The Group's total output also increased from CHF 336.0 million to CHF 345.4 million, while consolidated operating expenses declined slightly from CHF 342.6 million to CHF 340.2 million over the same period.

EBIT rose to CHF 19.3 million – a growth of 164.4 % on the figure for the same period of the previous year (CHF 7.3 million). Consolidated net profit for the period improved by 51.5 % to CHF 10.3 million (previous year's period: CHF 6.8 million) and was therefore at the level that the Highlight Group achieved for 2013 as a whole. CHF 9.6 million of this profit is attributable to Highlight shareholders (previous year's period: CHF 6.1 million), corresponding to a rise in earnings per share of 61.5 % to CHF 0.21 (previous year's period: CHF 0.13).

The fact that all business segments contributed to this improvement in earnings is also highly gratifying in this context. By far the biggest contribution came from the Film segment, where external sales were up by 22.3 % to CHF 272.4 million (previous year's period: CHF 222.7 million). Segment earnings increased by CHF 9.2 million to CHF 9.3 million (previous year's period: CHF 0.1 million), in particular due to the good business development in the home entertainment and TV exploitation areas.

In theatrical distribution, the Constantin Film Group released a total of nine movies in German theaters in the period from January to September 2014, achieving a solid market share of 6.7 % in terms of audience figures and 6.3 % of revenues. The Constantin Film co-production "Fack ju Göhte", released in November 2013, still drew a German audience of around 1.6 million people in the current year. The youth adventure picture "The Famous Five 3" also performed well and was seen by around 1.2 million moviegoers. The two licensed movies "Step Up All In" (seen by around 0.7 million people) and "Need for Speed" (around 0.5 million moviegoers) were also hits with audiences.

In the Sports- and Event-Marketing segment, the TEAM Group made further progress in the marketing of the commercial rights of the UEFA Champions League and the UEFA Europa League (for the 2015/16 to 2017/18 seasons respectively) in the third quarter as well.

In the first nine months of the current fiscal year, the external sales of this segment increased by 1.6 % to CHF 37.1 million (previous year's period: CHF 36.5 million). Expenses were reduced by CHF 1.3 million to CHF 21.7 million as a result of cost savings, with the result that segment earnings improved by 14.6 % to CHF 15.7 million (previous year's period: CHF 13.7 million).

The activities of Highlight Event AG were geared towards the marketing of and preparations for the 2015 New Year's Day Concert by the Vienna Philharmonic Orchestra, making intensive progress in the third quarter of 2014. Initial preparations have begun for the Eurovision Song Contest, which will be held in Vienna next year.

The Other Business Activities segment generated external sales of CHF 2.7 million in the period from January to September 2014, slightly below the figure for the same period of the previous year (CHF 2.8 million). Expenses were reduced by CHF 0.9 million to CHF 4.9 million. The segment's loss, which was essentially due to development activities in online/social gaming, was down overall to CHF 1.7 million (previous year's period: CHF 2.1 million).

In the Film segment, we are assuming that the successful development will continue until the end of the year. This is based on the theatrical slate for the fourth quarter, which comprises five movies in total. The comedy "Männerhort" has already gotten off to an excellent start and has been seen by more than a million people so far. Good figures are also expected from the licensed title "Die Mannschaft", which will be in theaters from November 13. "Die Mannschaft" is an official documentary about the Football World Cup in Brazil and shows – in addition to many small, amusing episodes – the German national team's path from preparations in the training camp to winning the prestigious title.

Against this backdrop and from today's perspective, we are now assuming a consolidated net profit attributable to shareholders of CHF 12 million to CHF 14 million and earnings per share of CHF 0.27 to CHF 0.31 in fiscal year 2014. We adhere to the previous sales forecast and continue to anticipate consolidated sales in a range of CHF 380 million to CHF 410 million.

HIGHLIGHT STOCK

Development of the capital markets

After the setbacks in the months of January and March, the global stock markets experienced their third downward correction in August of this year. In particular, this development was triggered by the geopolitical hot spots in East Ukraine, the Middle East and Iraq. There were also the seeds of discussions to raise key interest rates in the US and the UK in addition to a downturn in the economic situation in the eurozone. However, the first signs of relief in the Ukraine conflict allowed sell-side pressure to ease from the middle of August, which led to a recovery in share prices in the weeks that followed.

In this market environment, the American Dow Jones Industrial Average Index, for example, reached a new record high of around 17,351 points in the middle of September. Although it dropped back to 17,043 points by the end of the month, it generated growth of 1.3 % in the third quarter of 2014 (up 2.8 % since the start of the year). Japan's Nikkei 225 had an even better performance after having been well into negative territory after the first six months. Boosted by a weaker yen, trading closed at 16,174 points at the end of September, corresponding to an increase of 6.7 % in the third quarter (down 0.7 % since the start of the year).

The Swiss Market Index (SMI) continued to hold its pole position among the European benchmarks after the first nine months of the current year. In September – for the first time since 2007 – it again achieved a level of more than 8,800 points and benefited in particular from the strong price performance of the pharma companies Roche and Novartis. Closing at 8,835 points, the SMI again added 3.3 % in the third quarter (up 7.7 % since the start of the year).

By contrast, the DAX, which closed at 9,474 points, fell 3.7 % in value in the period from July to September, thereby losing all the ground it had gained in the first half of the year. It was therefore down 0.8 % in the first nine months. There was a similar story for the SDAX small cap index, which fell to 6,853 points, a negative performance of 7.2 % in the third quarter (up 0.9 % since the start of the year). The index for German media stocks (DAXsector Media), which had dazzled with high double-digit growth rates in the previous year, posted a further decline of 3.2 % to 318 points in the period from July to September (down 6.9 % since the start of the year).

Performance of Highlight stock in the third quarter of 2014

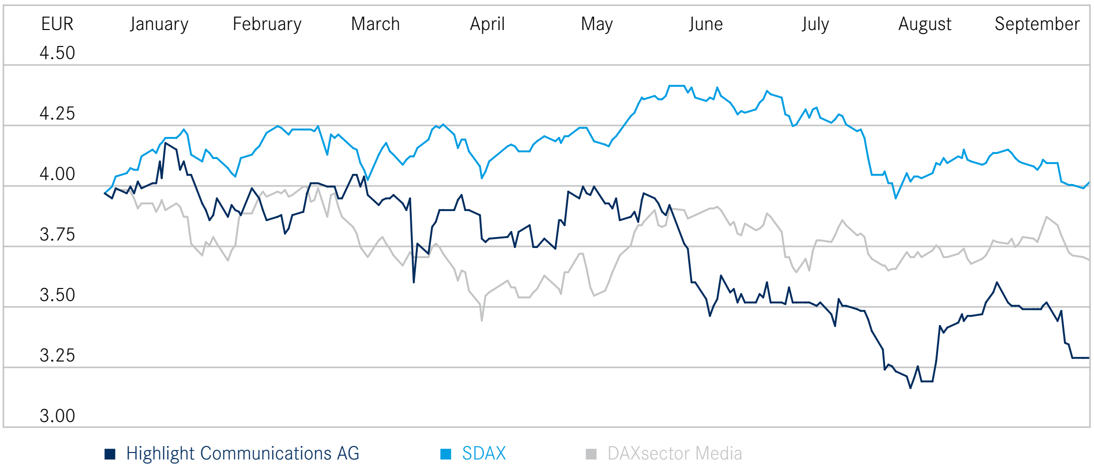
Having begun the quarter under review at its half-year closing price of EUR 3.52, Highlight's stock tracked sideways for the whole of July, fluctuating within a corridor of between EUR 3.42 and EUR 3.60. Owing to the general market weakness in the first two weeks of August, there began a strong downswing, during which the stock reached its lowest closing price for the year to date of EUR 3.16 on August 12.

This was followed by a rise that brought the price of Highlight stock back to a level of EUR 3.60 by the start of September, though it did not hold this for long. From the middle of September, the price decreased again significantly and closed on Xetra at EUR 3.29 at the end of the quarter – down 6.5 % in the reporting quarter and 17.1 % since the start of the year. As of the end of the third quarter, the 52-week high was EUR 4.18 (January 17, 2014) while the 52-week low was EUR 3.15 (August 12, 2014).

In the period from July to September 2014, around 0.71 million Highlight shares were traded on Deutsche Börse AG's Xetra trading system, a decline of 1.31 million as against the same period of the previous year (2.02 million). In line with this, the average turnover per trading day fell from 30,630 shares to 11,040. This also applies to the nine-month period, during which the trading volume declined from 7.53 million shares (around 39,430 per trading day) to 3.18 million (around 16,830 per trading day). In Deutsche Börse AG's corresponding ranking for the segments below the DAX, Highlight shares were therefore placed 119th as of September 30, 2014 (June 30, 2014: 117th). They ranked 115th (June 30, 2014: 112th) in terms of free float market capitalization.

Xetra closing prices of Highlight stock compared to SDAX and DAXsector Media

Indices indexed at Highlight closing price as of December 31, 2013 for comparison.



Subscribed capital and shareholder structure

There were no changes in the subscribed capital of Highlight Communications AG in the third quarter of 2014. As of September 30, 2014, it still amounted to CHF 47.25 million, divided into 47.25 million bearer shares with a nominal value of CHF 1.00 per share. There were no treasury stock transactions in the reporting period, and therefore the number of non-voting treasury shares was still around 2.72 million as of the end of the quarter. These account for 5.75 % of the subscribed capital. After deducting these shares, there were 44.53 million shares in circulation.

There were also no changes in the shareholder structure in the reporting period. 52.39 % of Highlight's shares are still held by Constantin Medien AG. Furthermore, members of the Board of Directors hold further significant share packages in addition to private and institutional investors. As of September 30, 2014, the free float amounted to 41.86 % as per the definition of Deutsche Börse AG.

Investor relations activities

One of the main areas of our investor relations activities is informing investors, analysts and the financial press in a timely and comprehensive manner. The basis for this is primarily our regularly published annual and interim reports, which give a detailed insight into the current performance of our company. We also inform market players about all key events in the form of press releases and ad-hoc disclosures. Extensive information on the Highlight Group is also made available on our website (www.highlight-communications.ch).

However, the core element of our investor relations work is and will remain personal communication by means of active and open dialogs. This is why we conduct presentations and roadshows at international financial centers and participate in events for analysts and investors. Our stated aim is to use this type of public relations work to achieve a fair valuation of Highlight's shares and to convince potential shareholders of the intrinsic value of an investment in our company.

A large number of research institutions currently track Highlight stock. The following studies with price targets have recently been compiled:

Close Brothers Seydler Research	Rating: Buy	Price target: EUR 4.00
DZ BANK	Rating: Buy	Price target: EUR 5.20

Information on Highlight stock as of September 30, 2014

ISIN/ticker	CH 000 653 9198/HLG
Index	DAXsector Media
Closing price	EUR 3.29
52-week high	EUR 4.18
52-week low	EUR 3.15
Subscribed capital	CHF 47.25 million
Shares in circulation	44.53 million
Market capitalization (in relation to shares in circulation)	EUR 146.5 million

Directors' dealings/shareholdings of executive bodies as of September 30, 2014

In the third quarter of 2014, Highlight Communications AG received no notifications from members of the Board of Directors or the Group management regarding acquisition or sales transactions subject to reporting.

As of September 30, 2014, the Chairman and Delegate of the Board of Directors Bernhard Burgener and Board of Directors member René Camenzind each held direct or indirect shareholdings in Highlight amounting to more than 1 % of the subscribed capital. The shareholdings and share interest from options held by the individual members of the Board of Directors and the management of the Highlight Group (including related parties) were as follows as of the end of the third quarter:

Board of Directors	Shareholdings	Share interest from options
Bernhard Burgener, Chairman and Delegate, executive member	2,000,000	–
Martin Wagner, Vice Chairman, executive member	–	–
Antonio Arrigoni, non-executive member	–	–
René Camenzind, non-executive member	628,715	–
Dr. Erwin V. Conradi, non-executive member	200,000	–
Dr. Dieter Hahn, non-executive member	21,000	–
Martin Hellstern, non-executive member	200,000	–
Dr. Ingo Mantzke, executive member	100,000	–
Group management		
Dr. Paul Graf, Managing Director	–	–
Peter von Büren, Managing Director	–	–

INTERIM MANAGEMENT REPORT

BASIC INFORMATION ON THE GROUP

Group structure and operating activities

Highlight Communications AG, listed on the Frankfurt Stock Exchange since May 1999, is an internationally oriented strategic and financial holding company based in Pratteln near Basel. It acts through its operational subsidiaries in the Film, Sports- and Event-Marketing and Other Business Activities segments.

Film segment

In its Film segment, Highlight Communications AG wholly owns Constantin Film AG, Munich, which, together with its subsidiaries and equity interests, is Germany's leading independent producer and distributor of theatrical movies. Its activities comprise the development and production of films and exploitation of the rights to the films it produces and acquires. Self-produced films are usually marketed worldwide, while third-party productions are exploited mainly in German-speaking countries. All stages of the exploitation chain from theatrical distribution and DVD/Blu-ray releases down to TV broadcasting are fully utilized. In addition to theatrical movies, the Constantin Film Group produces fictional and non-fictional products for German and foreign TV broadcasters.

On the Swiss movie market, the Highlight Group is represented by Constantin Film Schweiz AG, Pratteln, which is indirectly wholly-owned by Highlight Communications AG. The company specializes in the production and distribution of movie, television and video productions in addition to providing entertainment and new media services.

Highlight Communications AG has its own distribution organization to best exploit its video rights for its in-house and licensed films. Distribution in Switzerland and Austria is performed by the Rainbow Home Entertainment subsidiaries, which are wholly-owned by the company. Highlight Communications (Deutschland) GmbH works with Paramount Home Entertainment on the German market.

The company's main sources of financing in the Film segment result from the exploitation of the rights to the films it produces and acquires across all stages of the exploitation chain. Further income is generated from production contracts from TV broadcasters as well as national and international film grants. The main expense items consist of acquisition and exploitation rights for screenplays and materials, production costs as well as release and promotion expenses for the individual films (marketing and copies).

Sports- and Event-Marketing segment

In the Sports- and Event-Marketing segment, Highlight Communications AG wholly owns Team Holding AG (TEAM). Based in Lucerne, the TEAM Group specializes in the global marketing of major international sports events. As one of the world's leading agencies in this area, it exclusively markets the UEFA Champions League, the UEFA Europa League and the UEFA Super Cup on behalf of the Union of European Football Associations (UEFA).

The main sources of financing in the Sports- and Event-Marketing segment are the agency commissions associated with the marketing of TV and sponsorship rights, while personnel expenses account for the largest share of expenses.

Other Business Activities segment

The Other Business Activities segment comprises the activities of Highlight Event & Entertainment AG, Lucerne, which is listed on the Swiss stock exchange (SIX Swiss Exchange) and in which Highlight Communications AG holds a 68.725 % stake. The company operates in the event and entertainment business and owns the marketing mandates for the Eurovision Song Contest and the Vienna Philharmonic Orchestra. In addition, the Highlight subsidiary Rainbow Home Entertainment AG holds a 50.004 % stake in Pokermania GmbH, Cologne, which specializes in the development of online gaming business models and the social gaming market. The activities in online/social gaming are allocated to the Other Business Activities segment.

The main sources of financing in the Other Business Activities segment are the agency commissions associated with the marketing of TV and sponsorship rights as well as the income resulting from the marketing of online/social gaming products. The main expense items here are personnel expenses, both in the areas of marketing of TV and sponsorship rights and the development of online/social gaming products.

Control system and performance indicators

Group management

Highlight Communications AG's Board of Directors is responsible for the strategic orientation and management of the Highlight Group. By contrast, responsibility for operating activities lies with the management body of the relevant subsidiary. At Team Holding AG, this body is the Board of Directors, which consists of four members, at Constantin Film AG it is the Management Board, which comprised three people in the reporting period, while Highlight Event & Entertainment AG has a three-member Board of Directors. Management of all activities within the Highlight Group is based on short-term and medium-term planning as well as regular reporting.

Financial performance indicators

The primary objective of the Highlight Group is to increase enterprise value on a sustainable basis. A value management system has been developed and introduced to plan, manage and control business operations. The key financial parameters are the profit from operations (EBIT) and the EBIT margin calculated as the ratio of EBIT to sales. Another key parameter is earnings per share.

Non-financial performance indicators

The economic performance of the Group is also influenced by non-financial performance indicators, which result from the specific requirements of the respective business model in the Film, Sports- and Event-Marketing and Other Business Activities segments:

- In the TV service production business area, range and market share are important parameters for judging the success of a broadcast format with the public. These values often also form the basis for decisions on commissioning productions in the future.
- In the theatrical distribution business area, the audience generated by a film is one of the key factors, as theatrical success usually also impacts on the subsequent stages of exploitation, particularly in the home entertainment area. Despite intensive prior market research in the target groups, the taste of the movie-going public is assessable only to a limited extent. In addition, the movies released by the Constantin Film Group are always in competition with titles brought out concurrently by other distributors. Consequently, even a marketing campaign perfectly geared towards the respective film cannot always attract as many people as expected.
- The Constantin Film Group is exposed to strong competition with regard to the purchase of rights to literary works and screenplays as well as the conclusion of contracts with successful directors, actors and film studios. It therefore has decades of experience of working closely with renowned and experienced screenwriters, directors and producers with extensive expertise in producing movie and TV formats at home and abroad.
- Technical and content-related expertise are crucial factors, not only in view of the increasingly digital and convergent patterns of media use and the transformation towards the use of cross-platform offerings. Accordingly, the recruitment, fostering and retention of well-trained, skilled, committed and creative employees are of great importance.

- Other major indicators for the success of the Highlight Group are a highly-developed network of contacts as well as close, trusting relationships with business partners. In the Film segment, cooperation with screenwriters, directors and producers in Germany and abroad is particularly important. In the Sports- and Event-Marketing and Other Business Activities segments, trusting business relationships with rights-holders as well as existing and potential sponsors are crucial to the marketing of international major sporting and entertainment events.

Legal influencing factors

Highlight Communications AG has to comply with a large number of stock market rules and statutory regulations. As a stock corporation under Swiss law, it follows the Codes of Best Practice of the SIX Swiss Exchange as well as the regulations of the Frankfurt Stock Exchange for the regulated market (Prime Standard). The operating activities of the Highlight subsidiaries and equity interests are conducted in accordance with a large number of media, data protection, copyright and regulatory requirements.

In comparison to the presentation in the report on the Highlight Group's situation in the annual report 2013 of Highlight Communications AG, the following change has occurred with regard to the legal influencing factors in the Film segment:

The Constantin Film Group uses various national and international public film subsidies in film production. The German Federal Government subsidizes the production of movies in Germany in order to improve the economic situation of the domestic film industry, support companies in the film industry, boost their international competitiveness and develop Germany as a film production location on a long-term basis. One important instrument is the German Federal Film Fund (DFFF), which provided subsidies of EUR 70 million in 2013. In the federal budget for 2014, this figure has been cut by EUR 10 million to just EUR 60 million, and current medium-term financial planning involves a further reduction to EUR 50 million in 2015.

Market research and development

Compared to the presentation in the report on the Highlight Group's situation in the annual report 2013 of Highlight Communications AG, there were no changes with regard to the market research and development activities of the companies in the different segments.

REPORT ON BUSINESS PERFORMANCE AND THE SITUATION IN THE FILM SEGMENT

Sector-specific situation

Theatrical production/acquisition of rights

In light of the planned reduction of the DFFF by a further EUR 10 million for 2015, a recent study by the strategy and consulting firm Roland Berger shows the far-reaching consequences this step would have. On the basis of analyses and estimates, the company comes to the conclusion that even a cutback in current DFFF funding of 10 % (= EUR 6 million) – in terms of total subsidies 2012 – would lead to a decline in Germany's film production volume of up to EUR 49 million. The loss of indirect and induced revenues of a further EUR 69 million would also be anticipated.

In total, more than 800 jobs and tax revenues of EUR 16 million would be lost – almost three times the amount saved by cutting the DFFF. In addition to these material losses, one would also expect to see a loss in confidence in Germany as a film-making location among international producers. The authors of the study therefore instead advise increasing the DFFF subsidy volume, maintaining it for as long as possible and abolishing the cap per film currently in place.

TV service production

After ARD responded to the demand for more transparency regarding public broadcaster service productions in September 2013, ZDF also published specific figures for its TV productions for the first time in August 2014. For example, the production budget for “small television plays” ranges from EUR 100,000 to EUR 400,000, while event miniseries can cost up to EUR 2.6 million per episode and a 45-minute episode of an early evening series averages EUR 400,000.

90 % of the annual production volume in film business is generated with TV service productions. It is therefore comprehensible that the distribution of income from these productions is a recurring subject of discussion. Producers in particular, as well as other people concerned who contribute their artistic and creative work, criticize the total buy-out model practiced by television broadcasters and are increasingly demanding appropriate participation in the value of their works – for example in the form of a license model in which the commissioning broadcaster receives only the right to a specific number of broadcasts within a defined period.

Theatrical distribution

After a modest start to the third quarter of 2014 – caused by the Football World Cup – the German movie market recovered significantly in August and September, with weekend box office takings consistently higher than the comparative figures for the previous year from the middle of July. German movie theaters generated revenues of around EUR 648.3 million in the first nine months of the current year (January to September 2013: around EUR 648.9 million) and sold around 79.5 million tickets (January to September 2013: around 81.5 million). The movie market was thus down 0.1 % year-on-year in terms of revenues and down 2.5 % year-on-year in terms of audience figures.

This good interim performance had not been expected as no new release has exceeded the three million viewers mark as of the end of September of this year. This chase was triggered by the release of the science fiction adventure “Transformers: Age of Extinction”, 2014’s highest selling film to date with box office takings of EUR 28.5 million. In terms of moviegoers (2.5 million), it was beaten only by the surprise French hit “Serial (Bad) Weddings”, which was the most seen production with an audience of 2.9 million.

The list of the most successful German films 2014 is still headed by the blockbuster “Der Medicus” (released in 2013) with 2.4 million moviegoers, followed by the Matthias Schweighöfer comedy “Vaterfreuden”, seen by more than 2.3 million people, and the Constantin Film co-production “Fack ju Göhte” (released in 2013) with approximately 1.6 million viewers. Overall, the viewer market share for German productions in the first nine months of this year was 23.4 %, a clear improvement over the same period of the previous year (January to September 2013: 21.4 %).

Home entertainment

For the first eight months of 2014*), Gesellschaft für Konsumforschung (GfK) forecast total revenues of EUR 971 million on the German video sell-through and rental market. The German home entertainment industry was thus down 4.1 % on the previous year’s figure of EUR 1.01 billion.

According to GfK’s forecast, retail revenues of EUR 731 million were generated on sales of DVDs and Blu-ray discs in the period from January to August 2014 (same period of 2013: EUR 784 million). EUR 499 million of these revenues were attributable to DVD sales – down 9.0 % on the previous year’s figure (EUR 554 million). By contrast, revenues from Blu-ray discs remained at roughly the same level as in the same period of the previous year at EUR 232 million (same period of 2013: EUR 230 million).

The upswing on the electronic sell-through market is continuing, with revenues in this area increasing by 15.6 % to EUR 37 million in the first eight months of 2014 (same period of 2013: EUR 32 million). However, the rise in electronic sell-through revenues did not compensate for the decrease in revenues from physical products, with the result that total revenues on the physical and electronic sell-through market declined from EUR 816 million to EUR 768 million.

For the video rental market, GfK forecast total revenues of EUR 203 million (including subscription video-on-demand = SVoD) or EUR 171 million (excluding SVoD) in the period from January to August 2014, thereby largely corresponding to the prior-year figures (EUR 174 million excluding SVoD; EUR 196 million including SVoD). EUR 117 million of these revenues (same period of 2013: EUR 130 million) were attributable to DVD and Blu-ray disc rentals and EUR 86 million (same period of 2013: EUR 66 million) to electronic rentals via video-on-demand or pay-per-view (including SVoD, which generated revenues of EUR 32 million in the period from January to August 2014). The electronic video rental market thus grew by 30.3 %, continuing its positive development from the previous year. This growth is related in particular to rising sales figures for web-enabled TVs, which boost electronic distribution.

**) Data for the first nine months of 2014 was not yet available on the editorial closing date.*

License trading/TV exploitation

According to a representative survey by the German Federal Association for Information Technology, Telecommunications and New Media (BITKOM), the TV set – despite the rapid spread of mobile devices – is essential for the majority of German consumers. Five out of six users (86 %) stated that they could "not at all" do without their televisions, while this share was only 31 % for DVD players, for example. BITKOM names the rising number of smart TVs, which allow more varied use, as one of the main reasons for this popularity.

In this context, the media libraries of free-TV broadcasters, which are currently used by 32 % of all TV viewers, are also riding high. Their use is particularly pronounced among 14-to-29-year-olds at a share of 42 %. This development has led to severe criticism from copyright associations, including the German Directors' Association (BVR) and the German Screenwriters' Association (VDD). They argue that, as a result of the rising free use of media libraries, the creative industry is losing out on income from other forms of exploitation – such as DVD/Blu-ray or paid video-on-demand – and are therefore demanding appropriate compensation.

Operating performance

Filming wrapped on "Ostwind 2", "The Famous Five 4" and "Check It Out"

Directed by Katja von Garnier, the Constantin Film co-production "Ostwind 2" was filmed from early July to the start of September 2014. The sequel to the hit, multi-award winning youth adventure picture "Ostwind" (including the German Film Award in the category "Best Children's Film") is expected to be in theaters in mid-May 2015.

Principal photography on the fourth part of the hit series "The Famous Five", based on the books for young adults by the best-selling author Enid Blyton, was completed in Tunis in the middle of August. The theatrical release of this Constantin Film co-production with SamFilm GmbH is scheduled for the end of January 2015. The comedy "Check It Out", a production by Rat Pack Filmproduktion GmbH, slated for release in mid-May 2015, then was wrapped in the middle of September.

Filming begins for a major TV service production project with ZDF

Since the middle of September 2014, Constantin Television GmbH has been filming the two-parter "A Dangerous Fortune" – adapted from the novel by the bestselling UK author Ken Follet – for ZDF. Directed by Christian Schwochow, the production stars Dominic Thorburn, Nicole de Boer, Rolf Hoppe and Yvonne Catterfeld. A broadcast date for this major production has not yet been set.

Constantin Entertainment GmbH produced further episodes of the daily shows "Schicksale" and "Im Namen der Gerechtigkeit" for Sat.1 and the first episodes of the new Sat.1 daily "In Gefahr – Ein verhängnisvoller Moment" in the third quarter of 2014. In addition, several episodes were taped of the second season of the RTL comedy show "Geht's noch?! Kayas Woche".

Outside Germany, productions by the Constantin Entertainment GmbH subsidiaries in Poland included new seasons of the proven weekly shows "Kuchenne Rewolucje" and "Nasz Nowy Dom" in addition to the daily shows "Malanowski & Partnerzy" and "Ukryta Prawda". "The Voice of Israel 3" and the cooking show "Game of Chefs" were in production in Israel and in Hungary the new scripted reality show "Zsaruk".

Two movies performing well in theatrical distribution

In the theatrical distribution business area, the Constantin Film Group released a total of three films (two licensed titles and one co-production) in German movie theaters in the third quarter of 2014. Viewers loved the fifth instalment of the hit dance franchise "Step Up All In" and the comedy "The Hundred-Foot Journey". However, audience interest in the film version of the Charlotte Roche bestseller "Schossgebete" fell short of expectations.

Consolidation of market position in home entertainment

In the period from January to August 2014*), the Highlight Group consolidated its market position on the German-speaking home entertainment market. In particular, the product portfolio was carried by the new releases under the Constantin Film label, especially the two Constantin Film co-productions "Fack ju Göhte" and "The Mortal Instruments: City of Bones". The licensed title "Ender's Game" and the Constantin Film production "Pompeii" also generated strong sales figures.

**) Data for the first nine months of 2014 was not yet available on the editorial closing date.*

Material contracts in license trading/TV exploitation

In the Constantin Film Group's license trading/TV exploitation business area, the start of the initial licenses for "Immortals" (ProSiebenSat.1), "The Famous Five" (ProSiebenSat.1) and "3096 Tage" (ARD) in particular had a positive impact on sales in the free-TV sector in the third quarter of 2014. There were also the initial pay-TV licenses for "The Mortal Instruments: City of Bones" (Sky), "Da geht noch was" (Sky), "Movie 43" (Teleclub), "Parker" (Teleclub), "Bullet to the Head" (Teleclub) and "Ostwind" (Teleclub).

Analysis of non-financial performance indicators

Long-term commitment of experts and talents in theatrical production/acquisition of rights

Constantin Film AG remains firmly committed to retaining talent, and has therefore spent decades working very closely with renowned and experienced screenwriters and producers with extensive expertise in producing movie and TV formats at home and abroad.

More ratings hits in TV service production

The "Der nette Herr Wong" episode of the "Kommissarin Lucas" crime series, an Olga Film GmbH service production broadcast by ZDF in the middle of September 2014, was watched by 4.35 million viewers, corresponding to a gratifying market share of 16.1 % of total audiences.

Constantin Entertainment GmbH achieved a good average market share of 13.2 % in the target demographic of 14-to-59-year-olds with the Sat.1 daily show “Schicksale” in September 2014. In the same target demographic, the new daily “In Gefahr – Ein verhängnisvoller Moment”, which has been airing in Sat.1’s early evening program since the middle of August 2014, achieved a market share of 10.4 % on average in September. Furthermore, the popular styling documentary “Shopping Queen”, which Constantin Entertainment GmbH creates for VOX, had a market share of 10 % of 14-to-59-year-olds in mid-September 2014.

Constantin Film defends top position among German independent distributors

In the theatrical distribution business area, the Constantin Film Group was again in the top ten of the German movie charts with “Fack ju Göhte” in the first nine months of 2014. The Bora Dagtekin comedy, which was released back in November 2013, still drew an audience of around 1.6 million viewers to theaters this year. The youth adventure movie “The Famous Five 3”, which was seen by around 1.2 million moviegoers, also achieved good results.

Taking into account the performance of all of its movies screened in German theaters in the period from January to September 2014, the Constantin Film Group achieved an audience market share of 6.7 % and of 6.3 % in terms of revenues. It therefore ranked fifth in audience figures behind Fox, Universal, Warner and Disney, and sixth in revenues behind Fox, Universal, Warner, Disney and Paramount. These results mean that Constantin Film has once again secured its top position among German independent distributors.

“Fack ju Göhte” is the absolute bestseller in home entertainment exploitation

After its big theatrical success with more than 7.3 million moviegoers in total, “Fack ju Göhte” also set new standards in home entertainment marketing. At the end of August 2014, the comedy crossed the magic line of one million DVDs and Blu-rays sold with more than 1.05 million units moved by the end of September. In addition there were more than 750,000 paid downloads in digital marketing – a volume not achieved by any movie in this area in Germany before.

Other sales hits in the period January to September 2014 were the adaptation of the bestseller “The Mortal Instruments: City of Bones”, which sold 260,000 physical copies by the end of September, and the science fiction movie “Ender’s Game”, which has so far moved around 150,000 units. The historical epic “Pompeii”, which has been in stores since the start of August, has also generated very encouraging results.

Based on these sales successes, the Highlight Group achieved a joint market share of 11 % (same period of 2013: 10 %) on the German video sell-through market in the months January to August 2014*) in collaboration with its distribution partner Paramount Home Entertainment.

**) Data for the first nine months of 2014 was not yet available on the editorial closing date.*

Convincing ratings in TV exploitation

ARD scored a market share of 12 % of the total audience, the best figure for that day, with the initial TV broadcast of the comedy “Wer’s glaubt wird selig” in mid-August 2014 as part of its “Sommerkino im Ersten” series. The screen adaptation of the well-known play “Carnage” performed even better, attracting 3.61 million viewers (total audience) for ARD in the middle of July, corresponding to a market share of 12.5 %. The second broadcast of the culture clash comedy “Türkisch für Anfänger”, which was also shown on ARD in the middle of July, even drew 4.63 million viewers (total audience).

REPORT ON BUSINESS PERFORMANCE AND THE SITUATION IN THE SPORTS- AND EVENT-MARKETING SEGMENT

Sector-specific situation

In the area of sports media consumption, television is still the world's most important source of information for sports fans. However, the Internet is now also firmly established. In Western Europe in particular, sports consumption on the Internet has risen sharply and this year took print media's place as the second most popular source for the first time. Furthermore, consumption via mobile devices and social media is continuing to grow in most markets. As a result of these developments, rights owners, broadcasters, sponsors and agencies are facing new challenges with regard to bundling, negotiation and sale or purchase of sports rights, while each of these players is looking for ways to profit from increased sports consumption.

Furthermore, the role of fans in the area of compiling and propagating sports content has changed significantly. Since the Football World Cup in Brazil at the latest, football clips uploaded by fans on social networks are being documented and discussed. As a result, many unanswered questions have arisen regarding the exclusivity and control of content. Against this backdrop, the English Premier League, for example, warned football fans in August against uploading videos or images from top games as this violates copyright.

Operating performance

New deals for UEFA competitions

After the positive results achieved in the first half of 2014, the TEAM Group secured further major deals in the third quarter of 2014 as well in the marketing process for the commercial rights of the UEFA Champions League and the UEFA Europa League (for the 2015/16 to 2017/18 seasons respectively).

Further progress was made in the area of sponsorship rights. Given the successfully conducted contract negotiations, it is assumed that further deals can be communicated in the fourth quarter of 2014.

Professional handling of the UEFA Super Cup

TEAM provided operational support for UEFA in August 2014 in the UEFA Champions League and the UEFA Europa League group phase draw and in the handling of the UEFA Super Cup, which was held in Cardiff City Stadium in Wales on August 14. In a purely Spanish "summit" the reigning UEFA Champions League winners Real Madrid CF faced off against this year's UEFA Europa League victor Sevilla FC, whereby Real Madrid CF went ahead 2:0 to secure a further title. The next UEFA Super Cup will take place in Tiflis, Georgia, in August 2015.

Analysis of non-financial performance indicators

UEFA Super Cup garners high viewing figures in Spain

The 2014 UEFA Super Cup match was broadcast in more than 90 countries and watched by a total of around 43 million football fans around the world on their televisions sets. Viewing figures in Spain amounted to 5.1 million, equal to a market share of 42.1 % – the highest level achieved for the broadcast of this event in this country over the past six years. The match – which did not involve any German teams – was met with only slight interest in Germany. It was watched by an average of 3.22 million viewers, corresponding to a market share of 12 % of the total audience. By comparison, last year's broadcast of the match between FC Bayern München and Chelsea FC was seen by an average of 7.68 million football fans, a market share of 30.7 % (total audience).

REPORT ON BUSINESS PERFORMANCE AND THE SITUATION IN THE OTHER BUSINESS ACTIVITIES SEGMENT

Sector-specific situation

Event and entertainment business

Sponsorship expenditure on live music in Germany totaled EUR 21 million in 2013, the same as in the previous year. The beverage industry was by far the biggest spender, accounting for 35 % of the total volume – a further increase on the prior-year figure (33 %). The second-largest sponsor was the automotive and transportation sector, whose share remained unchanged year-on-year at 19 %. It is extremely encouraging to note that more and more industries are discovering music sponsorship as a rewarding investment. For example, the share of sponsorship attributable to the financial sector (banks, insurance companies, etc.) was already as high as 13 % in 2013, while fashion and lifestyle companies accounted for 6 %.

Online/social gaming

According to the industry association G.A.M.E., revenues in the German games market increased by 5 % to just under EUR 2.7 billion in 2013. This makes Germany the largest individual market in Europe and one of the most important markets in the world. Half of all revenues generated in Germany in the past year were attributable to digital transactions (expenditure on mobile devices, browser games, in-game purchases, etc.). This means that revenues in this area have risen by 25 % since 2012, with smartphone and tablet games enjoying comfortably the highest growth rate of 64 %.

Operating performance

Focus on Eurovision Song Contest and 2015 New Year’s Day Concert

Highlight Event AG focused on initial preparations for the Eurovision Song Contest, which will take place in the city hall of the Austrian capital Vienna next year. The first organizational meeting has been held with the broadcasting TV station (ORF) to ensure the smooth handling of the event. In addition, work was focused on first talks with possible sponsors.

The organizational preparations for the 2015 New Year’s Day Concert by the Vienna Philharmonic Orchestra, under the musical direction of renowned Indian conductor Zubin Mehta, have intensively been advanced in the reporting period.

Ongoing development of FunPoker software completed

Following the completion of development work on the FunPoker software, Pokermania GmbH is focusing on broad market penetration and attracting new players. New customer orders in the field of online/social gaming confirm the quality of the programs from the existing software platform. The celebrity mobile game “Recharge – Wastelands”, which was developed with the band Linkin Park, was launched under the Kuuluu brand. The success of this collaboration with Linkin Park led to further interesting meetings with top figures from the entertainment industry also looking to develop a celebrity mobile game with Kuuluu.

Analysis of non-financial performance indicators

Successful marketing thanks to intensive relationships and years of expertise

As Highlight Event AG has been marketing the Eurovision Song Contest since 2004 and the Vienna Philharmonic Orchestra since 2009, it has an intensive network of relationships with TV broadcasters and sponsors that it has built up over the years. Both these close and trusting relationships and the company’s many years of market expertise are also benefitting it in the current marketing process for the ongoing projects.

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

Results of Group operations

In the period from January to September 2014, the Highlight Group generated consolidated sales of CHF 312.2 million – an increase of CHF 50.2 million or 19.2 % as against the same period of the previous year (CHF 262.0 million), which was mainly attributable to the Film segment.

Capitalized film production costs and other own work capitalized amounted to CHF 33.2 million, down CHF 40.7 million on the previous year's figure of CHF 73.9 million due to the current lower production volume in the Film segment. Despite this decline, the Group's total output increased from CHF 336.0 million to CHF 345.4 million. At CHF 14.1 million, other operating income was virtually unchanged as against the first nine months of the previous year (CHF 13.9 million).

Consolidated operating expenses amounted to CHF 340.2 million, a slight decrease of CHF 2.4 million or 0.7 % as against the same period of the previous year (CHF 342.6 million). This decline is primarily attributable to the cost of materials and licenses, which fell by CHF 27.3 million to CHF 116.6 million as a result of productions. In addition, both personnel expenses (down CHF 5.4 million at CHF 72.0 million) and other operating expenses (down CHF 2.8 million at CHF 48.8 million) were reduced. By contrast, amortization, depreciation and impairment rose by CHF 33.2 million to CHF 102.9 million.

These developments resulted in a significant improvement in EBIT of CHF 12.0 million or 164.4 % to CHF 19.3 million (previous year's period: CHF 7.3 million).

Earnings from investments in associated companies and joint ventures amounted to TCHF 162 in the reporting period as against expenses of TCHF 25 in the same period of the previous year. By contrast, the financial result declined by a total of CHF 5.4 million to CHF –5.2 million, primarily due to currency effects. A CHF 2.4 million increase in financial income to CHF 8.4 million was offset by a CHF 7.8 million rise in financial expenses to CHF 13.6 million.

After deducting tax expenses (income taxes and deferred taxes) of CHF 3.9 million (previous year's period: CHF 0.6 million), the Highlight Group reported a consolidated net profit of CHF 10.3 million in the period from January to September 2014. This corresponds to a 51.5 % increase in comparison to the first nine months of the previous year (CHF 6.8 million).

CHF 0.7 million of this net profit (previous year's period: CHF 0.7 million) is attributable to non-controlling interests, while CHF 9.6 million (previous year's period: CHF 6.1 million) is attributable to the shareholders of Highlight Communications AG. In relation to the average number of shares in circulation during the reporting period (44.5 million), this corresponds to earnings per share of CHF 0.21 – a rise of 61.5 % compared to the same period of the previous year (CHF 0.13).

Results of segment operations

Driven by rising income in all business areas, the Film segment generated external sales of CHF 272.4 million in the first nine months of 2014, thus exceeding the previous year's figure (CHF 222.7 million) by CHF 49.7 million or 22.3 %. A particular highlight in this context was the exceptionally strong sale figures for the hit comedy “Fack ju Göhte” in home entertainment exploitation.

Other segment income, which is mainly influenced by capitalized film production costs, fell by CHF 40.4 million to CHF 47.2 million. This decline reflects the lower production volume at present compared to the first nine months of 2013. By contrast, segment expenses were virtually unchanged at CHF 310.3 million (previous year's period: CHF 310.2 million). As a result of these developments, earnings in the Film segment improved considerably by CHF 9.2 million to CHF 9.3 million (previous year's period: CHF 0.1 million).

External sales in the Sports- and Event-Marketing segment amounted to CHF 37.1 million, up CHF 0.6 million or 1.6 % on the first nine months of the previous year (CHF 36.5 million). At the same time, other income rose from CHF 0.2 million to CHF 0.3 million, while segment expenses fell by CHF 1.3 million to CHF 21.7 million as a result of cost savings (previous year's period: CHF 23.0 million). Accordingly, segment earnings increased by 14.6 % to CHF 15.7 million (previous year's period: CHF 13.7 million).

The Other Business Activities segment generated external sales of CHF 2.7 million (previous year's period: CHF 2.8 million) and other income of CHF 0.5 million (previous year's period: CHF 0.8 million). After deducting expenses, which were reduced by CHF 0.9 million to CHF 4.9 million (previous year's period: CHF 5.8 million), the segment reported a loss of CHF 1.7 million for the first nine months of the current fiscal year (previous year's period: CHF 2.1 million). This loss is mainly attributable to activities in the online/social gaming area. By contrast, the marketing projects for the Eurovision Song Contest and the Vienna Philharmonic Orchestra were concluded with a profit.

The costs of holding activities decreased by 9.1 % to CHF 4.0 million in the reporting period (previous year's period: CHF 4.4 million).

Net assets situation

Compared to the end of 2013 (CHF 443.3 million), the balance sheet total of the Highlight Group declined by CHF 61.5 million to CHF 381.8 million as of September 30, 2014. On the asset side of the balance sheet, non-current assets declined by CHF 38.7 million to CHF 204.8 million (December 31, 2013: CHF 243.5 million), mainly as a result of the changes in film assets.

By far the largest decrease within current assets was in trade accounts receivable and other receivables due from third parties, which fell by CHF 19.2 million to CHF 107.0 million (December 31, 2013: CHF 126.2 million). In addition, a property in the amount of CHF 3.9 million that was previously recognized as a current asset was reclassified to non-current assets in the second quarter of 2014. For more information, please refer to note 5 ("Investment property") of the notes to the consolidated interim financial statements.

Film assets amounted to CHF 165.9 million as of September 30, 2014 – a drop of CHF 45.1 million as against the end of 2013 (CHF 211.0 million). CHF 124.2 million of this total related to in-house productions (December 31, 2013: CHF 175.2 million) and CHF 41.7 million to third-party productions (December 31, 2013: CHF 35.8 million). The reduction in in-house productions is due to scheduled amortization and impairment on films being exploited, which exceeded additions in the period under review.

On the equity and liabilities side of the balance sheet, non-current liabilities recorded a decline of CHF 3.0 million to CHF 15.6 million (December 31, 2013: CHF 18.6 million), primarily as a result of the CHF 5.3 million reduction in deferred tax liabilities. Current liabilities decreased by a total of CHF 52.3 million to CHF 265.1 million (December 31, 2013: CHF 317.4 million). There were significant declines in financial liabilities (CHF –45.9 million), advance payments received (CHF –5.3 million) and trade accounts payable and other liabilities due to third parties (CHF –8.9 million).

Consolidated equity (including non-controlling interests) was down CHF 6.1 million as against the end of 2013 at CHF 101.1 million (December 31, 2013: CHF 107.2 million). This decrease primarily results from dividend payments (CHF 8.9 million), losses from the fair value measurement of financial assets (CHF 4.0 million), currency translation differences (CHF 1.4 million) and the remeasurement of the pension obligation (CHF 2.1 million). By contrast, equity was increased by the consolidated net profit for the period of CHF 10.3 million.

In relation to the balance sheet total, now considerably lower, the notional equity ratio was 26.5 % as of the end of the third quarter of 2014 (December 31, 2013: 24.2 %). The adjusted equity ratio (after netting cash and cash equivalents against financial liabilities and advance payments received against film assets) improved from 31.5 % to 36.0 %.

Financial situation

As of September 30, 2014, the Highlight Group had cash and cash equivalents of CHF 47.2 million, representing a slight increase of CHF 2.9 million as against the end of 2013 (CHF 44.3 million). At the same time, financial liabilities decreased by CHF 45.9 million to CHF 106.1 million (December 31, 2013: CHF 152.0 million), allowing for a reduction in net debt from CHF 107.7 million to CHF 58.9 million. In relation to equity, this corresponds to gearing of 58.2 % (December 31, 2013: 100.5 %).

Operating activities generated a net cash inflow of CHF 117.6 million in the period from January to September 2014. The significant increase of CHF 57.8 million compared to the same period of the previous year (CHF 59.8 million) was chiefly due to changes in net working capital and the cash inflow from the film business.

Net cash used in investing activities declined by CHF 34.3 million to CHF 60.5 million as against the first nine months of the previous year (CHF 94.8 million), primarily due to a CHF 36.9 million decrease in payments for film assets to CHF 55.8 million (previous year's period: CHF 92.7 million). By contrast, payments for financial assets rose by CHF 2.8 million to CHF 3.0 million (previous year's period: CHF 0.2 million).

Net cash used in the Highlight Group's financing activities amounted to CHF 53.7 million in the reporting period (previous year's period: net cash from financing activities of CHF 14.8 million). This cash outflow is mainly attributable to net repayment of debt in the amount of CHF 44.8 million (previous year's period: net borrowing of CHF 35.1 million) and dividend payments of CHF 8.9 million (previous year's period: CHF 9.4 million).

On the basis of the present level of cash and cash equivalents and credit facilities available, the Highlight Group was able to meet its payment obligations at all times in the period under review.

PERSONNEL REPORT

As of September 30, 2014, the Highlight Group had a total of 910 employees (September 30, 2013: 869). This figure includes employees on non-permanent, project-related contracts.

EVENTS AFTER THE BALANCE SHEET DATE

Effective October 1, 2014, the media manager Fred Kogel was appointed as an additional member of Constantin Film AG's Management Board. His duties involve the areas of TV, Human Resources, Process Management and Integration.

At the 2014 German Television Awards, which were held in Cologne on October 2, the Constantin Entertainment production “Shopping Queen” took the prize in the category “Best Docutainment”.

REPORT ON RISKS AND OPPORTUNITIES

Risk management system

Entrepreneurial action and taking advantage of opportunities is always associated with risks. To protect the existence of the Highlight Group as a going concern, and to support the company in achieving its goals, an integrated, company-wide risk management system (RMS) has been implemented.

The Highlight Group's RMS comprises risks and opportunities in equal measure. In line with the decentralized Group structure, operational responsibility for dealing with risks lies with the respective risk officers. These are mainly the directors, Management Board members and committee members, and the managing directors and department managers of the individual subsidiaries. At the level of Highlight Communications AG, the reported risks are consolidated, categorized uniformly where appropriate, assessed at Group level, and passed on in the form of a risk report to the Group management on a quarterly basis and to the Board of Directors for approval on an annual basis.

A detailed description of the RMS can be found in the report on risks and opportunities in the annual report 2013 of Highlight Communications AG. The same applies to the individual opportunities and risks and the description of the internal control system in relation to the Highlight Group's accounting process.

Significant changes in risks and opportunities in the reporting period

The Highlight Group's risk and opportunity profile for the coming months after the first nine months of 2014 generally corresponds to the assessments contained in the consolidated financial statements as of December 31, 2013. A detailed presentation of the business risks can be found in the report on risks and opportunities in the annual report 2013 of Highlight Communications AG.

The assessment of the existing risk and opportunity factors was updated. Individual expected values resulting from the product of the absolute loss and the probability of occurrence changed slightly. While these rose slightly for interest and currency risks in addition to risks from regulation, they were down slightly for competition, legal, receivables and tax risks as well as film production. The assessment of opportunities is unchanged. However, the effect of the reassessment of factors has not affected the classification of individual risks. No new risks or opportunities were identified in the reporting period. The current assessment of risk factors by those responsible supports the classification of risks and opportunities provided in the report on risks and opportunities in the annual report 2013 of Highlight Communications AG.

Summary of the risk and opportunity situation

In the opinion of the Group management, the biggest risk factors still relate to regulatory intervention and anticipating customers' tastes and the future use of media. The Group management still considers the greatest opportunities to relate to collaboration with screenwriters, directors and producers at home and abroad and access to attractive material and licenses, which the Highlight Group can attribute not least to its image and its creative and committed staff. In addition, the Group has access to a large portfolio of existing rights and licenses.

Based on the available information and estimates, particularly for probabilities of occurrence, maximum losses and the effect of the countermeasures taken, the Group management of Highlight Communications AG has come to the conclusion that these risks do not represent a threat to the existence of the Group as a going concern. This applies to the risks both on an individual basis and also in combination, provided the effect of the combined risks can be meaningfully simulated or estimated in another way. The Group management considers the Group to be adequately equipped to deal with the residual risks that are not reduced by countermeasures. It believes that the measures taken keep the risk to an economically acceptable level and considers the Group's risk-bearing capacity to be sufficient.

FORECAST

Film segment

Sector-specific situation

Although the continued existence of the DFFF has now been secured until 2016, meaning that it will make a further major contribution to the financing of German movies in the coming years, the government draft of the German federal budget for 2015 that was adopted in early July provides for a further reduction in the DFFF of EUR 10 million to EUR 50 million. In an initial statement, the German Producers Alliance warned that the realization of this measure could endanger Germany’s global competitiveness as a center for movie production. The industry received support from the Minister of State for Culture, Monika Grütters, who will fight to uphold the subsidy volume of EUR 60 million in the coming budget discussions.

In the TV service production business area, the current fiscal year is still expected to see a stable advertising market, which could have a positive impact on the production budgets of private TV stations. In addition to traditional free-TV stations, however, pay-TV and Internet portals are becoming increasingly important as potential clients for service production companies.

In the theatrical distribution business area, a recovering market with stable results is expected in the fourth quarter of 2014. This is based on a varied slate of Hollywood productions such as “The Equalizer”, “Interstellar”, “The Hunger Games: Mockingjay, Part 1”, “The Penguins of Madagascar (3D)”, “The Hobbit: The Battle of the Five Armies” and “Night at the Museum: Secret of the Tomb”. From a German perspective, good results are expected for the Til Schweiger movie “Honig im Kopf”, the sequel “Bibi & Tina – Voll verhext” as well as the Constantin Film titles “Männerhort”, “Winterkartoffelknödel” and “Die Mannschaft”.

On the German home entertainment market, developments in the year to date suggest that digital exploitation formats (electronic sell-through, video-on-demand and pay-per-view) are likely to continue to grow in prominence. For example, Constantin Film AG expects the market share of video-on-demand in the area of home entertainment usage to reach a high double-digit percentage in the next few years.

Focal points in fiscal year 2014

One of the factors for the future success of the Constantin Film Group will be the development of more original ideas and independent brands across all business areas as part of a permanent increase in the overall level of creativity.

In the theatrical production business area, the Constantin Film Group is still focusing on the continuous optimization of the consistently high quality of its national and international in-house productions. The main aim is to produce titles that connect with the audience on an emotional level and that are based on specific brands or have an event nature, for example. However, productions with smaller budgets – and hence a manageable moviegoer risk – are also attractive if they have a convincing concept. In any case, projects must be measured against high creative and commercial standards.

According to current planning, three promising movie projects are in the pipeline for the last three months of 2014: the adaptation of the best-selling novel “Er ist wieder da” with Oliver Masucci and Christoph Maria Herbst in the leading roles, a sequel to “Fack ju Göhte” and the anti-romantic comedy “Gut zu Vögeln”.

In the TV service production business area, existing contacts with the major TV stations are being continually expanded. In addition, the subsidiaries of Constantin Film AG are still working to develop innovative TV formats with a particular focus on creative new developments. For example, one aim is to develop TV series with a consecutive story arc at both national and international level. This means that fictional series or television movies are to be created alongside scripted reality as well. Constantin Film AG’s goal is to have four to five of the twelve series developed on the market in the next 18 months. Another aim is to establish existing brands (such as “The Mortal Instruments”) in the TV sector.

For the next few months, Constantin Film AG expects to see a further improvement in the order situation in this business area, which could also be positively affected by the increasingly aggressive purchasing policy of the major online portals. Among others, the service productions “Der Äthiopier” and “Prenzlberg” are planned in the period from October to December 2014.

In the area of theatrical distribution, Constantin Film AG is continuing to pursue its proven strategy of combining national and international own and co-productions with high-quality third-party productions and releasing these titles in theaters with a suitable press and marketing strategy at a strategically favorable time. As the major US studios in particular are vying for the audience’s attention with high-profile marketing campaigns when launching their major blockbusters, Constantin Film AG will analyze even more carefully when and how to position its films on the German movie market in the future.

Five new releases are scheduled in the fourth quarter of 2014, including the Constantin Film co-productions already released to great acclaim “Männerhort”, seen by more than 1 million people (as of the end of October), and “Winterkartoffelknödel” (around 320,000 moviegoers to date). This is also true of the international own production “Love, Rosie”, which hit German theaters on October 30 and was seen by more than 125,000 people in its opening weekend. By the end of the year these will be followed by the licensed title “The Rewrite” starring Hugh Grant and Marisa Tomei and “Die Mannschaft” – an official documentary about the Football World Cup in Brazil, showing the German national team’s path from preparations in the training camp to winning the prestigious title.

In the current fiscal year, the home entertainment business area will benefit in particular from the release of the theatrical hit “Fack ju Göhte”, which went on sale in early May. Further significant sales are expected from the own productions “Pompeii” and “Tarzan”, as well as the DreamWorks licensed title “Need for Speed” and the young people’s film “The Famous Five 3”.

Sales in free-TV exploitation in the fourth quarter of 2014 will essentially be defined by the start of licensing for the service production “Alles muss raus – Eine Familie rechnet ab”. In pay-TV exploitation sales will be generated by “Ender’s Game” (ProSiebenSat.1), “Tarzan” (Sky), “Walking with Dinosaurs” (Sky) and “Scary Movie 5” (Teleclub) in this period.

Sports- and Event-Marketing segment

Sector-specific situation

Regarding the development of global advertising expenditure, the media planning and purchasing company ZenithOptimedia forecast a rise of 5.3 % in the current year to USD 523 billion in September 2014, thereby marginally adjusting its June estimate (5.4 %) downwards. ZenithOptimedia is assuming that the global advertising market will also grow strongly in the next two years and is likewise forecasting a growth rate of 5.3 % for 2015, set to rise to 5.9 % in 2016. The company’s reasons for this in particular are the dynamic development of social media and improved digital technologies that make online advertising more affordable, more effective and simpler.

Focal points in fiscal year 2014

Following the further extension of TEAM’s mandate to market the commercial rights to the UEFA Champions League, the UEFA Europa League and the UEFA Super Cup (for the 2015/16 to 2017/18 seasons respectively), the prospects for continuation of the close cooperation with the Union of European Football Associations remain very strong. If contractually agreed performance targets are met in this ongoing marketing process, TEAM’s mandate will automatically be extended by a further three seasons (2018/19 to 2020/21). Accordingly, the TEAM Group’s primary target is to achieve an early contract extension with UEFA. To this end, as many new deals as possible are to be concluded on the best possible terms in the current fiscal year, for TV rights as well as sponsorship rights.

Other Business Activities segment

Sector-specific situation

The market for mobile games has enjoyed rapid growth since smartphones and tablets have firmly established themselves among a broad base of buyers, and there is no sign of an end to this development. According to a study by Juniper Research, the global mobile games market is set to grow at a remarkable rate over the next two years. Based on an expected market volume of USD 20.9 billion in 2014, the company is forecasting global income from mobile games of USD 28.9 billion in 2016 – an increase of more than 38 %. According to Juniper Research, this growth will be driven both by new buyer groups and new games offerings.

Focal points in fiscal year 2014

Highlight Event AG's main focus is high-quality handling of the events of the Vienna Philharmonic Orchestra and the EBU, as these projects offer the biggest opportunities for the future. With regard to the projects merchandising of the Eurovision Song Contest and Eurovision Young Musicians, however, there are also sound strategic opportunities to expand the existing business areas even further. This particularly applies to the Eurovision Young Musicians project, which links our existing activities in the field of classical music with those of the EBU, with which we have had a successful partnership for many years.

In addition, online gaming offers a major opportunity to interact with the users/fans in the promising business area of social media, events and entertainment. Accordingly, the activities already implemented are increasingly being expanded.

Financial targets of the Highlight Group

On the basis of these activities and from today's perspective, we are now assuming a consolidated net profit attributable to shareholders of CHF 12 million to CHF 14 million and earnings per share of CHF 0.27 to CHF 0.31 in fiscal year 2014. We adhere to the previous sales forecast and continue to anticipate consolidated sales in a range of CHF 380 million to CHF 410 million.

Please note that actual results can differ significantly from forecast developments if the assumptions on which forward-looking statements are based prove to be inaccurate.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

as of September 30, 2014 of Highlight Communications AG, Pratteln

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 BALANCE SHEET AS OF SEPTEMBER 30, 2014 (unaudited)

Highlight Communications AG, Pratteln

ASSETS (TCHF)	Sep. 30, 2014	Dec. 31, 2013
Non-current assets		
In-house productions	124,202	175,201
Third-party productions	41,677	35,843
Film assets	165,879	211,044
Other intangible assets	1,399	2,214
Goodwill	17,511	17,597
Property, plant and equipment	5,018	5,117
Investment property	3,900	–
Investments in associated companies and joint ventures	379	402
Non-current receivables due from third parties	1,450	1,068
Receivables due from associated companies and joint ventures	2,906	3,079
Other financial assets	1,774	227
Deferred tax assets	4,587	2,708
	204,803	**243,456**
Current assets		
Inventories	4,763	3,896
Trade accounts receivable and other receivables due from third parties	106,961	126,199
Receivables due from related parties	–	77
Receivables due from associated companies and joint ventures	4,045	2,283
Other financial assets	13,045	17,627
Income tax receivables	955	1,632
Cash and cash equivalents	47,223	44,259
Non-current assets held for sale	–	3,900
	176,992	**199,873**
Total assets	**381,795**	**443,329**

The notes on page 31 – 39 are an integral part of the consolidated interim financial statements.

EQUITY AND LIABILITIES (TCHF)	Sep. 30, 2014	Dec. 31, 2013
Equity		
Subscribed capital	47,250	47,250
Treasury stock	–2,716	–2,716
Capital reserve	–104,541	–104,534
Other reserves	–27,576	–26,187
Retained earnings	178,909	182,862
Equity attributable to shareholders	91,326	96,675
Non-controlling interests	9,822	10,573
	101,148	**107,248**
Non-current liabilities		
Pension liabilities	8,819	6,015
Provisions	1,000	1,601
Deferred tax liabilities	5,746	11,022
	15,565	**18,638**
Current liabilities		
Financial liabilities	106,103	151,997
Advance payments received	53,625	58,881
Trade accounts payable and other liabilities due to third parties	91,607	100,471
Liabilities due to related parties	315	282
Liabilities due to associated companies and joint ventures	–	26
Provisions	4,919	4,768
Income tax liabilities	8,513	1,018
	265,082	**317,443**
Total equity and liabilities	**381,795**	**443,329**

The notes on page 31 – 39 are an integral part of the consolidated interim financial statements.

CONSOLIDATED INCOME STATEMENT
JANUARY 1 TO SEPTEMBER 30, 2014 (unaudited)

Highlight Communications AG, Pratteln

(TCHF)	Jan. 1 to Sep. 30, 2014	Jan. 1 to Sep. 30, 2013	July 1 to Sep. 30, 2014	July 1 to Sep. 30, 2013
Sales	**312,232**	**262,042**	**95,971**	**105,682**
Capitalized film production costs and other own work capitalized	**33,168**	**73,926**	**8,783**	**24,228**
Total output	**345,400**	**335,968**	**104,754**	**129,910**
Other operating income	**14,091**	**13,927**	**6,243**	**4,148**
Costs for licenses, commissions and materials	–20,545	–28,527	–7,543	–10,079
Costs for purchased services	–96,070	–115,368	–29,342	–36,100
Cost of materials and licenses	**–116,615**	**–143,895**	**–36,885**	**–46,179**
Salaries	–63,470	–68,798	–20,211	–24,108
Social security, pension costs	–8,511	–8,585	–2,861	–2,907
Personnel expenses	**–71,981**	**–77,383**	**–23,072**	**–27,015**
Amortization and impairment on film assets	–100,110	–66,193	–25,158	–38,305
Amortization, depreciation and impairment on intangible assets and property, plant and equipment	–2,748	–3,544	–878	–1,169
Amortization, depreciation and impairment	**–102,858**	**–69,737**	**–26,036**	**–39,474**
Other operating expenses	**–48,762**	**–51,555**	**–15,457**	**–20,010**
Profit from operations	**19,275**	**7,325**	**9,547**	**1,380**
Earnings from investments in associated companies and joint ventures	**162**	**–25**	**40**	**102**
Financial income	8,408	5,988	6,770	1,885
Financial expenses	–13,646	–5,849	–10,297	–1,742
Financial result	**–5,238**	**139**	**–3,527**	**143**
Profit before taxes	**14,199**	**7,439**	**6,060**	**1,625**
Current taxes	–10,642	–2,007	470	–825
Deferred taxes	6,754	1,381	–2,113	1,638
Taxes	**–3,888**	**–626**	**–1,643**	**813**
Net profit	**10,311**	**6,813**	**4,417**	**2,438**
thereof shareholders' interests	9,566	6,114	3,970	1,946
thereof non-controlling interests	745	699	447	492

(CHF)	Jan. 1 to Sep. 30, 2014	Jan. 1 to Sep. 30, 2013	July 1 to Sep. 30, 2014	July 1 to Sep. 30, 2013
Earnings per share				
Earnings per share attributable to shareholders, basic	0.21	0.13	0.08	0.04
Earnings per share attributable to shareholders, diluted	0.21	0.13	0.08	0.04
Weighted average number of shares (basic)	44,534,350	45,543,875		
Weighted average number of shares (diluted)	44,534,350	45,543,875		

The notes on page 31 – 39 are an integral part of the consolidated interim financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS JANUARY 1 TO SEPTEMBER 30, 2014 (unaudited)

Highlight Communications AG, Pratteln

(TCHF)	Jan. 1 to Sep. 30, 2014	Jan. 1 to Sep. 30, 2013
Net profit	**10,311**	**6,813**
Currency translation differences	–1,431	1,689
Items that may be reclassified to the income statement in future	**–1,431**	**1,689**
Actuarial gains and losses of defined benefit obligation plans	–2,076	815
Gains/losses from financial assets at fair value through other comprehensive income/loss	–3,982	1,814
Items that will not be reclassified to the income statement in future	**–6,058**	**2,629**
Other comprehensive income/loss, net of tax	**–7,489**	**4,318**
Total comprehensive income/loss	**2,822**	**11,131**
thereof sharholders' interests	2,229	10,357
thereof non-controlling interests	593	774

The notes on page 31 – 39 are an integral part of the consolidated interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY JANUARY 1 TO SEPTEMBER 30, 2014 (unaudited)

Highlight Communications AG, Pratteln

	Equity	
(TCHF)	Subscribed capital	Treasury stock
Balance as of January 1, 2014	**47,250**	**–2,716**
Currency translation differences	–	–
Items that may be reclassified to the income statement in future	–	–
Actuarial gains and losses of defined benefit obligation plans	–	–
Gains/losses from financial assets at fair value through other comprehensive income/loss	–	–
Items that will not be reclassified to the income statement in future	–	–
Other comprehensive income/loss, net of tax	–	–
Net profit	–	–
Total comprehensive income/loss	–	–
Purchase of treasury stock	–	–
Sale of treasury stock	–	–
Dividend payments	–	–
Change in non-controlling interests	–	–
Other changes	–	–
Balance as of September 30, 2014	**47,250**	**–2,716**
Balance as of January 1, 2013	**47,250**	**–1,157**
Currency translation differences	–	–
Items that may be reclassified to the income statement in future	–	–
Actuarial gains and losses of defined benefit obligation plans	–	–
Gains/losses from financial assets at fair value through other comprehensive income/loss	–	–
Items that will not be reclassified to the income statement in future	–	–
Other comprehensive income/loss, net of tax	–	–
Net profit	–	–
Total comprehensive income/loss	–	–
Purchase of treasury stock	–	–1,559
Sale of treasury stock	–	–
Dividend payments	–	–
Change in non-controlling interests	–	–
Other changes	–	–
Balance as of September 30, 2013	**47,250**	**–2,716**

The notes on page 31 – 39 are an integral part of the consolidated interim financial statements.

	attributable to the shareholders					
	Capital reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	–104,534	**–26,187**	**182,862**	**96,675**	**10,573**	**107,248**
	–	–1,389	–	–1,389	–42	–1,431
	–	**–1,389**	**–**	**–1,389**	**–42**	**–1,431**
	–	–	–1,966	–1,966	–110	–2,076
	–	–	–3,982	–3,982	–	–3,982
	–	**–**	**–5,948**	**–5,948**	**–110**	**–6,058**
	–	**–1,389**	**–5,948**	**–7,337**	**–152**	**–7,489**
	–	–	9,566	9,566	745	10,311
	–	**–1,389**	**3,618**	**2,229**	**593**	**2,822**
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–7,571	–7,571	–1,326	–8,897
	–7	–	–	–7	–18	–25
	–	–	–	–	–	–
	–104,541	**–27,576**	**178,909**	**91,326**	**9,822**	**101,148**
	–103,614	**–28,106**	**183,673**	**98,046**	**13,231**	**111,277**
	–	1,649	–	1,649	40	1,689
	–	**1,649**	**–**	**1,649**	**40**	**1,689**
	–	–	780	780	35	815
	–	–	1,814	1,814	–	1,814
	–	**–**	**2,594**	**2,594**	**35**	**2,629**
	–	**1,649**	**2,594**	**4,243**	**75**	**4,318**
	–	–	6,114	6,114	699	6,813
	–	**1,649**	**8,708**	**10,357**	**774**	**11,131**
	–	–	–6,639	–8,198	–	–8,198
	–	–	–	–	–	–
	–	–	–7,758	–7,758	–1,666	–9,424
	–920	–	–	–920	–1,727	–2,647
	–	–	–	–	–	–
	–104,534	**–26,457**	**177,984**	**91,527**	**10,612**	**102,139**

CONSOLIDATED STATEMENT OF CASH FLOWS JANUARY 1 TO SEPTEMBER 30, 2014 (unaudited)

Highlight Communications AG, Pratteln

(TCHF)	Jan. 1 to Sep. 30, 2014	Jan. 1 to Sep. 30, 2013
Net profit	10,311	6,813
Deferred taxes	–6,754	–1,381
Current taxes	10,642	2,007
Financial result (without currency result)	3,615	1,812
Earnings from investments in associated companies and joint ventures	–162	25
Amortization, depreciation and impairment on non-current assets	102,858	69,737
Gain (–)/loss (+) from disposal of non-current assets	–11	24
Other non-cash items	111	416
Increase (–)/decrease (+) in inventories, trade accounts receivable and other assets not classified to investing or financing activities	16,041	–25,079
Decrease (–)/increase (+) in trade accounts payable and other liabilities not classified to investing or financing activities	–14,863	13,361
Dividends received from associated companies and joint ventures	302	254
Interest paid	–2,283	–2,281
Interest received	210	437
Income taxes paid	–4,361	–11,015
Income taxes received	1,939	4,692
Cash flow from operating activities	**117,595**	**59,822**
Payments for intangible assets	–280	–696
Payments for film assets	–55,764	–92,659
Payments for property, plant and equipment	–1,678	–1,265
Payments for financial assets	–2,972	–188
Proceeds from disposal of intangible assets and film assets	75	–
Proceeds from disposal of property, plant and equipment	84	34
Cash flow for investing activities	**–60,535**	**–94,774**
Payment for purchase of treasury stock	–	–8,198
Payment for purchase of non-controlling interests	–25	–2,647
Repayment of current financial liabilities	–66,857	–49,446
Proceeds from receipt of current financial liabilities	22,091	84,485
Dividend payments	–8,897	–9,424
Cash flow for/from financing activities	**–53,688**	**14,770**
Cash flow from/for the reporting period	**3,372**	**–20,182**
Cash and cash equivalents at the beginning of the reporting period	44,259	72,517
Change in cash and cash equivalents due to exchange rate movements	–408	751
Cash and cash equivalents at the end of the reporting period	47,223	53,086
Change in cash and cash equivalents	**3,372**	**–20,182**

The notes on page 31 – 39 are an integral part of the consolidated interim financial statements.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2014

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 November 11, 2014.

2. Accounting and valuation principles

The unaudited, condensed consolidated interim financial statements for the period from January 1 to September 30, 2014 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, 2013.

The accounting and valuation policies applied in the consolidated financial statements for fiscal year 2013 remained consistent with those applied in the condensed consolidated interim financial statements (see annual report 2013, notes to the consolidated financial statements, note 4) except for the first-time adoption of new or revised standards and interpretations explained below.

The 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 preparation of the condensed consolidated interim financial statements requires management to use estimates and assumptions that affect the classification and measurement of reported income, expenses, assets, liabilities, contingent liabilities and contingent assets as of the balance sheet date. These estimates and assumptions represent the management's best estimate based on historical experience and other factors, including estimates about future events. Estimates and asumptions are reviewed on an ongoing basis. Changes to estimates are required if the circumstances on which they are based have changed or new or additional information has become available. Such changes are recognized in the reporting period in which the estimate is modified. For additional information, please refer to the annual report 2013, notes to the consolidated financial statements, note 5.

3. Changes in accounting principles

The mandatory adoption of the following accounting standards and interpretations from January 1, 2014 had no material effect on these condensed consolidated interim financial statements respectively no material changes are anticipated for the consolidated financial statements as of December 31, 2014.

Standards/amendments/interpretations		Mandatory application for fiscal years starting on or after
Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)		January 1, 2014
IAS 32	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (amendment)	January 1, 2014
IAS 39	Financial Instruments: Recognition and Measurement – Novation of Derivatives (amendment)	January 1, 2014
IFRIC 21	Levies	January 1, 2014

The Highlight Group began early voluntary adoption of the amendment to IAS 36, Impairment, in fiscal year 2013.

The Highlight Group waived the voluntary early adoption of the new or revised standards and interpretations not yet effective for fiscal year 2014. For additional information, please refer to the annual report 2013, notes to the consolidated financial statements, note 2.

In addition to the standards and interpretations referred to in the annual report, the IASB published the following standards and amendments of relevance to the Group in the first three quarters of 2014: IFRS 15, Revenue from Contracts with Customers (mandatory application for fiscal years starting on or after January 1, 2017), IFRS 9, Financial Instruments, full standard with new regulations for the recognition of impairment losses and changes in the classification and measurement of financial assets and hedges (mandatory application for fiscal years starting on or after January 1, 2018) and amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets, Acceptable Methods of Depreciation and Amortization (mandatory application for fiscal years starting on or after January 1, 2016). The Highlight Group is currently examining the possible effects of implementing the amendments.

4. Changes in scope of consolidation

Constantin Production Services Inc., USA, was merged with Constantin Film Development Inc., USA, on January 1, 2014. This transaction has no effect on these consolidated interim financial statements.

Resident Evil Mexico S. DE R.L. DE C.V. (Mexico LLC), Mexico, was liquidated on June 27, 2014. Impact Pictures Ltd., UK, which was not included in consolidation, was liquidated on July 8, 2014. The fully consolidated DoA Production Ltd., UK, was liquidated on July 15, 2014. The effects of these three liquidations on these consolidated interim financial statements are insignificant.

On June 30, Highlight Communications AG increased its shareholding in Highlight Event & Entertainment AG, which was already fully consolidated, from 68.634 % to 68.725 %. The purchase price for the new shares was TCHF 25.

Rainbow Home Entertainment AG acquired an investment of 24.5 % or TCHF 123 in the newly founded Paperflakes AG, Pratteln, on July 7, 2014. The company is managed as an associated company and included in the consolidated financial statements using the equity method.

5. Explanatory notes to selected items of the balance sheet and the income statement

The balance sheet total amounted to TCHF 381,795 as of September 30, 2014 after TCHF 443,329 as of December 31, 2013. While non-current assets declined by TCHF 38,653 in total as a result of a drop in film assets in particular, current assets decreased by a total of TCHF 22,881 as of September 30, 2014. The decline in current assets essentially resulted from a reduction in trade accounts receivable and other receivables from TCHF 126,199 to TCHF 106,961. Cash and cash equivalents increased by TCHF 2,964. On the equity and liabilities side, non-current liabilities fell by TCHF 3,073 and current liabilities declined by TCHF 52,361. In addition, equity was down by TCHF 6,100 at TCHF 101,148.

Film assets

As of September 30, 2014, film assets decreased by TCHF 45,165 compared to December 31, 2013. In-house productions declined by TCHF 50,999, while third-party productions increased by a total of TCHF 5,834. The reduction in film assets is essentially a result of scheduled amortization on in-house productions.

Investment property

The investment property is a business property of Highlight Event & Entertainment AG in Düdingen. As the management does not consider the sale of the property to be highly likely in the coming months, it was reclassified from “Non-current assets held for sale” to “Investment property”. As a result of the discontinued sale of certain gaming machines for casinos that was already implemented in 2013 and the relocation of the registered office of Highlight Event & Entertainment AG from Düdingen to Lucerne in May 2014, the self-used portion is insignificant and the property is practically held for rental purposes only. The property was measured using the fair value model. The fair value of TCHF 3,900 was calculated by a third-party appraisal and is equal to the previous carrying amount.

Current assets

As against December 31, 2013, current receivables fell by TCHF 17,553 as of the balance sheet date. This was due to the decrease of TCHF 5,147 in trade accounts receivable, of TCHF 14,091 in other receivables and the TCHF 77 decline in receivables due from related parties. By contrast, receivables due from associated companies and joint ventures increased by a total of TCHF 1,762.

Other current financial assets decreased by TCHF 4,582 to TCHF 13,045. The change is mainly due to the effect of the loss of value of the shares held in Constantin Medien AG, which is shown in the statement of other comprehensive income, and the sale of other financial assets.

Cash and cash equivalents rose from TCHF 44,259 to TCHF 47,223 as of September 30, 2014. Financing activities resulted in a cash outflow of TCHF 53,688, due mainly to the repayment of financial liabilities. The Group’s investing activities used cash of TCHF 60,535, which was essentially due to payments for film assets. Operating activities generated a positive cash flow of TCHF 117,595.

Equity

As of September 30, 2014, the number of directly and indirectly held non-voting treasury shares in Highlight Communications AG was 2,715,650 (December 31, 2013: 2,715,650).

Equity fell by TCHF 6,100 from TCHF 107,248 to TCHF 101,148 as of September 30, 2014. This decline was due in part to the distribution of dividends of TCHF 8,897 and the drop in the value of the shares in Constantin Medien of TCHF 3,982 recognized in retained earnings. The remeasurement of the pension obligation also reduced retained earnings by TCHF 1,966, on account of the drop in the discount rate in particular. The increase in shares in Highlight Event & Entertainment AG also led to a TCHF 7 decrease in the capital reserve and a TCHF 18 decrease in non-controlling interests. The reduction in other reserves of TCHF 1,389 results from the translation of the equity of companies that do not use the Swiss franc as their functional currency. The net profit for the period of TCHF 10,311 contributed to a positive effect.

Liabilities

While non-current liabilities decreased by TCHF 3,073 compared to the end of the year, current liabilities fell by a total of TCHF 52,361. Financial liabilities declined by TCHF 45,894 to TCHF 106,103. At the same time, trade accounts payable were down by TCHF 8,978 and other liabilities rose by a total of TCHF 114.

Sales and other income

Sales amounted to TCHF 312,232 in the reporting period after TCHF 262,042 in the same period of the previous year. Sales in the Sports- and Event-Marketing segment increased by TCHF 580 and those in the Film segment rose by TCHF 49,706. Capitalized film production costs and other own work capitalized decreased by TCHF 40,758 year-on-year. This decline is mostly attributable to the Film segment and reflects the lower production volume as compared to the first three quarters of 2013.

Operating expenses

The cost of materials and licenses declined by TCHF 27,280 year-on-year. The reduction is primarily due to the lower production volume in the Film segment compared to the first three quarters of 2013.

Personnel expenses amounted to TCHF 71,981 in the reporting period and were thus below the previous year's level (TCHF 77,383).

Amortization, depreciation and impairment on film assets, intangible assets and property, plant and equipment totaling TCHF 102,858 (previous year's period: TCHF 69,737) comprise amortization and depreciation of TCHF 95,713 (previous year's period: TCHF 67,691) and impairment of TCHF 7,145 (previous year's period: TCHF 2,046), which relates in full to film assets.

Unrecognized pro rata loss of companies accounted for using the equity method

The unrecognized pro rata loss of companies accounted for using the equity method was TCHF 989 in the period under review (previous year's period: TCHF 801). The cumulative unrecognized pro rata loss was TCHF 3,677 (December 31, 2013: TCHF 2,688).

Financial result

In the reporting period, the financial result was down by a total of TCHF 5,377 compared to the same period of the previous year, mainly as a result of exchange rate effects. In addition, financial expenses include an impairment loss on non-current receivables due from the associated company Kuuluu Interactive Entertainment AG of TCHF 1,500 (previous year's period: TCHF 0). In the comparative period, a gain from the disposal of a financial instrument measured at fair value and sold as part of an equity swap transaction, was also recognized in the amount of TCHF 385.

6. Dividend

Proposed dividends are only recognized after the motion for the appropriation of available earnings has been approved by the Annual General Meeting. For fiscal year 2013, the Board of Directors proposed to the Annual General Meeting that took place on May 30, 2014 a dividend distribution of CHF 0.17 per share from legal reserves from capital contributions. The dividend was approved by the Annual General Meeting and distributed from June 10, 2014.

7. Financial risk management

The Group is exposed to various financial risks resulting from its operating and financing activities. Financial risks of relevance to the Group arise from changes in foreign exchange rates, from market risks for financial assets, changes in interest rates, liquidity, credit quality and the solvency of the Group's business partners. There have been no changes in the allocation of financial assets and liabilities to the individual classes compared with the annual consolidated financial statements. For additional information, please refer to the annual report 2013, notes to the consolidated financial statements, note 8.

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:

September 30, 2014 (TCHF)		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	FVPL/without category	–	1,312	–	1,312
Financial assets at fair value through profit or loss	FVPL	128	–	3,314	3,442
Financial assets (equity instruments)	FVOCI	11,377	–	–	11,377
Financial liabilities measured at fair value					
Financial liabilities with hedging relationships in accordance with IAS 39	without category	–	–	–	–
Derivative financial instruments	FLPL/without category	–	154	–	154

Disclosures on level 3 financial instruments:

Designation of the financial instrument	Long-term shares	Short-term shares
Fair value January 1, 2014	–	2,268
Gains/losses through profit or loss	124	–
Currency translation differences through equity	–	37
Acquisition	1,522	–
Sale	–	–637
Fair value September 30, 2014	**1,646**	**1,668**

December 31, 2013 (TCHF)		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	FVPL/without category	–	666	–	666
Financial assets at fair value through profit or loss	FVPL	227	–	2,268	2,495
Financial assets (equity instruments)	FVOCI	15,359	–	–	15,359
Financial liabilities measured at fair value					
Financial liabilities with hedging relationships in accordance with IAS 39	without category	–	506	–	506
Derivative financial instruments	FLPL/without category	–	1,500	–	1,500

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 637 and currency translation effects in the amount of TCHF 161. In addition, in the second quarter of 2014, Rainbow Home Entertainment AG acquired 6.2 % of shares in the unconsolidated company Pulse Entertainment Corporation, USA, at a purchase price of TCHF 1,522. As there is no active market for this non-controlling interest and a fair value cannot be reliably determined, the shares are measured at cost and shown in level 3.

The carrying amount of the financial assets and liabilities measured at market rates is the fair value.

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 in line with their term; their carrying amounts are therefore also approximately their fair value.

Fair value of non-financial assets and liabilities

With the exception of the property (see note 5), there were no non-financial assets or liabilities measured at fair value as of September 30, 2014. As was the case as of December 31, 2013, the property measured at fair value is assigned to level 2.

8. Segment reporting

The following segment information is based on what is commonly known as the management approach.

The management of the company as the chief operating decision maker makes decisions on the allocation of resources to the segments and assesses their success on the basis of key indicators for sales and segment result. The Group's management does not rate the segments on the basis of their assets and liabilities.

Based on the internal management reporting system and the underlying organizational structure of internal reporting, the Group is still divided into the three operating segments Film, Sports- and Event-Marketing and Other Business Activities. The administrative functions of the Highlight Communications AG holding company are reported under Other. The elimination of inter-segment transactions is reported in the reconciliation column.

The segment result is defined as earnings before earnings from investments in associated companies and joint ventures, before financial result and before taxes.

Sales and service transactions between the segments are performed as arm's length transactions.

Segment information January 1 to September 30, 2014

(TCHF)	Film	Sports- and Event-Marketing	Other Business Activities	Other	Recon-ciliation	Group
External sales	272,409	37,078	2,745	–	–	312,232
Other segment income	47,209	314	505	–	-769	47,259
Segment expenses	-310,328	-21,713	-4,942	-4,002	769	-340,216
thereof amortization, depreciation	*-94,362*	*-601*	*-750*	–	–	*-95,713*
thereof impairment	*-7,145*	–	–	–	–	*-7,145*
Segment result	**9,290**	**15,679**	**-1,692**	**-4,002**	–	**19,275**
Non-allocable items:						
Earnings from investments in associated companies and joint ventures						162
Financial income						8,408
Financial expenses						-13,646
Profit before taxes						**14,199**

Segment information January 1 to September 30, 2013

(TCHF)	Film	Sports- and Event-Marketing	Other Business Activities	Other	Recon-ciliation	Group
External sales	222,703	36,498	2,841	–	–	262,042
Other segment income	87,599	215	796	–	-757	87,853
Segment expenses	-310,167	-23,026	-5,754	-4,380	757	-342,570
thereof amortization, depreciation	*-65,835*	*-748*	*-1,108*	–	–	*-67,691*
thereof impairment	*-2,046*	–	–	–	–	*-2,046*
Segment result	**135**	**13,687**	**-2,117**	**-4,380**	–	**7,325**
Non-allocable items:						
Earnings from investments in associated companies and joint ventures						-25
Financial income						5,988
Financial expenses						-5,849
Profit before taxes						**7,439**

9. Financial commitments, contingent liabilities and other financial obligations

Compared to the consolidated financial statements as of December 31, 2013, financial commitments, contingent liabilities and other financial obligations decreased by TCHF 14,161 to TCHF 69,523 as of September 30, 2014.

10. 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. In some cases, the receivables due from associated companies and joint ventures also include loans that arise from the non-binding financing of operative projects.

The table below shows the scope of the transactions performed in the reporting period:

Joint ventures

(TCHF)	Sep. 30, 2014	Dec. 31, 2013
Receivables	3,260	2,283
Liabilities	–	–

(TCHF)	Jan. 1 to Sep. 30, 2014	Jan. 1 to Sep. 30, 2013
Sales and other income	7,589	8,572
Cost of materials and licenses and other expenses	7,062	9,344

Associated companies

(TCHF)	Sep. 30, 2014	Dec. 31, 2013
Receivables	3,691	3,079
Liabilities	–	26

(TCHF)	Jan. 1 to Sep. 30, 2014	Jan. 1 to Sep. 30, 2013
Sales and other income	45	2
Cost of materials and licenses and other expenses	68	134

Other related parties

(TCHF)	Sep. 30, 2014	Dec. 31, 2013
Receivables	–	–
Liabilities	288	106

(TCHF)	Jan. 1 to Sep. 30, 2014	Jan. 1 to Sep. 30, 2013
Sales and other income	–	–
Cost of materials and licenses and other expenses	546	504

Parent company and its direct subsidiaries

(TCHF)	Sep. 30, 2014	Dec. 31, 2013
Receivables	–	77
Liabilities	27	176

(TCHF)	Jan. 1 to Sep. 30, 2014	Jan. 1 to Sep. 30, 2013
Sales and other income	208	1,994
Cost of materials and licenses and other expenses	204	259

Other related party transactions essentially include the following:

In the reporting period, expenses of TCHF 314 (previous year's period: TCHF 277) were incurred under the consulting agreement between the Constantin Film Group and Fred Kogel GmbH, which covers the areas of license trading, TV service production and film distribution. The associated liabilities amounted to TCHF 37 as of September 30, 2014 (December 31, 2013: TCHF 31). This consulting agreement was cancelled as of September 30, 2014.

As of September 30, 2014, there were further liabilities to various members of the Board of Directors and Managing Directors of TCHF 250 (December 31, 2013: TCHF 74).

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.

11. 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 that could significantly influence the net assets, financial position or results of operations of the Highlight Group.

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Events 2015

Cinema	Berlinale	February 5 – 15
	Academy Awards	February 22
	Cannes Film Festival	May 13 – 24
	Locarno Film Festival	August 5 – 15
	Venice Film Festival	August 26 – September 5
	Toronto Film Festival	September 10 – 20
Football	UEFA Europa League final	May 27
	UEFA Champions League final	June 6
Events	Vienna Philharmonic's New Year's Day Concert	January 1
	Vienna Philharmonic's Summer Night Concert	May 14
	Eurovision Song Contest, semifinals	May 19 and 21
	Eurovision Song Contest, final	May 23
	WTA Finals	October
Investor Relations	Annual report 2014	March
	Interim reports	May/August/November
	German Equity Forum	November






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