Highlight

Highlight Communications AG

Interim Report as of June 30, 2014

Red carpet in Berlin:
The comedy "Fack ju Göhte" was recognized as the best-visited film of 2013 at the German Film Awards 2014.

At a glance: Events in the second quarter of 2014

APRIL Filming for the crime comedy "Winterkartoffelknödel", the second adaptation of Rita Falk's best-selling series of novels about provincial policeman Franz Eberhofer, is wrapped up on April 4. Following the great success of the first part ("Dampfnudelblues"), which was shown exclusively in Bavarian movie theaters last summer and attracted an audience of more than half a million, "Winterkartoffelknödel" is set for a Germany-wide release in mid-October 2014.

MAY On May 8, the successful Constantin Film comedy "Fack ju Göhte" receives the CIVIS Media Prize in Berlin. The award recognizes contributions which promote the peaceful coexistence of people of different national, ethnic, religious or cultural backgrounds.

At the German Film Awards on May 9, the Constantin Film co-production "Ostwind" is recognized as the best children's film of 2013. The German Film Award in the category of "Best-Visited Film" goes to "Fack ju Göhte".

In late May, Highlight Event & Entertainment AG (HLEE) announces a strategic partnership with the Women's Tennis Association (WTA). The cooperation relates to the WTA Finals event, where the best eight players from the past season compete against each other. Among other things, HLEE will be responsible for the brand identity and the event visual identity.

JUNE Constantin Film AG receives the CineEurope Independent Film Award at the European cinema association UNIC's annual congress in mid-June. This prestigious award serves to recognize the company's achievements over the past 30 years, during which time Constantin Film has played a central role in the development of the film industry in Germany and abroad.

Following its release in early May, the home cinema version of "Fack ju Göhte" enjoys five consecutive weeks at the top of the German DVD sales charts. Around 900,000 DVDs and Blu-rays of the film are sold in German-speaking regions by the end of July. In addition, more than 600,000 paid transactions in electronic sell-through make "Fack ju Göhte" the most successful title in digital marketing in German-speaking regions by some distance.

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PREFACE

Dear shareholders and other interested parties,

In the first six months of the current fiscal year, the Highlight Group generated sales and earnings well in excess of the comparative figures for the first half of 2013.

Consolidated sales increased by 38.3 % year-on-year, from CHF 156.4 million to CHF 216.3 million. The Group's total output rose by 16.7 % to CHF 240.6 million (previous year's period: CHF 206.1 million). Consolidated operating expenses increased by 13.8 %, from CHF 209.9 million to CHF 238.8 million, largely as a result of a boost in amortization on film assets in connection with film exploitation.

As a result of these developments, EBIT improved by 64.4 % year-on-year to CHF 9.7 million (previous year's period: CHF 5.9 million). Consolidated net profit for the period increased by 34.1 % to CHF 5.9 million (previous year's period: CHF 4.4 million), of which CHF 5.6 million was attributable to Highlight shareholders (previous year's period: CHF 4.2 million). Earnings per share therefore rose by 44.4 %, from CHF 0.09 to CHF 0.13.

The first half of 2014 saw a particularly encouraging performance in the Film segment, with external sales of CHF 190.0 million – up 45.4 % on the first six months of the previous year (CHF 130.7 million). This sales growth was partially offset by a decrease in other segment income and a higher level of expenses, especially in the area of amortization. Despite this, segment earnings more than doubled from CHF 1.6 million in the first half of the previous year to CHF 3.8 million.

The main reason for this strong performance was the successful Constantin Film comedy "Fack ju Göhte". Having attracted a cinema audience of more than seven million in Germany alone, the title has also set new standards in terms of home entertainment exploitation. Following its release in early May, it went straight to the top of the German DVD sales charts and, a one-week interruption aside, stayed there until the end of July. Around 900,000 DVDs and Blu-rays of the film were sold in German-speaking regions during this time, while more than 600,000 paid transactions in electronic sell-through meant that it was more successful in digital marketing than any previous production.

In the theatrical distribution business area, an eventful start to the year was followed by a relatively calm second quarter for the Constantin Film Group, with the Football World Cup in Brazil meaning that only one new film was released ("Irre sind männlich"). Despite this, Constantin Film achieved a share of the German movie market of 7.8 % in terms of audience figures and 7.2 % in terms of revenues in the first half of the year, thereby reinforcing its position as the country's leading independent distributor.

The TEAM Group secured further major deals 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) in the second quarter. TV rights were sold in markets including France, Poland and Bulgaria, as well as the Asia-Pacific region (India, Indonesia, Hong Kong and Thailand).

External sales in the Sports- and Event-Marketing segment increased slightly by 3.3 % to CHF 24.8 million in the first six months of the current fiscal year (previous year's period: CHF 24.0 million). As expenses fell by CHF 0.5 million to CHF 14.7 million at the same time as a result of cost savings, segment earnings improved by 15.9 %, from CHF 8.8 million to CHF 10.2 million.

Highlight Event AG had a busy schedule in the period from April to June. In addition to the annual handling of the Eurovision Song Contest and the Vienna Philharmonic Orchestra's Summer Night Concert, there were another two tasks to be addressed: a memorial concert commemorating the 100th anniversary of the outbreak of the First World War, which was performed by the Vienna Philharmonic Orchestra in the presence of a high-profile audience in Sarajevo, and – for the first time – the support of the Eurovision Young Musicians project, a talent competition for young European artists in the field of classical music. All of these events were successfully realized to the full satisfaction of the respective organizers and sponsors.

Another undoubted highlight was the conclusion of a new strategic partnership with the Women's Tennis Association (WTA). As part of this cooperation, Highlight Event & Entertainment AG will, among other things, be responsible for the brand identity and visual identity of the annual WTA Finals event, where the best eight players from the past season play against each other.

In the first half of 2014, the Other Business Activities segment generated external sales of CHF 1.5 million (previous year's period: CHF 1.6 million) and other income of CHF 0.3 million (previous year's period: CHF 0.5 million). Adjusted for expenses of CHF 3.2 million (previous year's period: CHF 3.5 million), this resulted in a segment loss of CHF 1.4 million, a figure that was at the previous year's level and that was attributable to development activities in the area of online/social gaming.

Based on the positive operating outlook for the second half of the year, particularly with regard to the theatrical releases of the successful dance franchise "Step Up: All In (3D)" and the adaptation of the best-selling novel "Schossgebete", we are continuing to forecast consolidated sales of between CHF 380 million and CHF 410 million and a consolidated net profit for the Highlight Group in 2014 as a whole.

HIGHLIGHT STOCK

Development of the capital markets

Unsettled by the growing unrest in Ukraine, the global stock markets initially trended downward at the start of the second quarter of 2014. A significant upturn began in mid-April, however, which caused some benchmark indices to mark new all-time highs. This upward trend was aided by the still very expansive monetary policies of the major central banks, especially the US Federal Reserve, the European Central Bank and the Bank of Japan. But prices were also driven by a clear decline in risk aversion on the part of many investors, especially in view of the euro debt crisis.

Under these favorable conditions, the American Dow Jones Industrial Average Index, for example, reached a historic high of around 16,950 points in mid-June. Overall, the Dow Jones gained 3.1 % in the period from April to June (1.5 % since the start of the year) and closed the quarter at 16,827 points. The clear loser among the leading benchmark indices was the Japanese Nikkei 225, which fell by 6.9 % to 15,162 points in the first half of 2014.

Among the European benchmark indices, the Swiss Market Index (SMI) performed the best. After growth of 3.1 % in the first three months, it climbed by another 1.2 % in the second quarter to 8,555 points and exceeded the 8,750-point mark – for the first time since 2007 – again in mid-June. In the first six months of the current year, the SMI thus gained 4.3 %.

The DAX, which surpassed the magic 10,000-point threshold for the first time at the start of June, closed at 9,833 points and thus ended the first half of 2014 with growth of 2.9 %. The small cap index SDAX achieved growth of 3.0 % to 7,385 points in the second quarter, growing by 8.8 % on the start of the year. The index for German media stocks (DAXsector Media), which closed at 328 points, rose by 3.2 % in the period from April to June but still fell by 3.8 % over the half-year as a whole.

Performance of Highlight stock in the second quarter of 2014

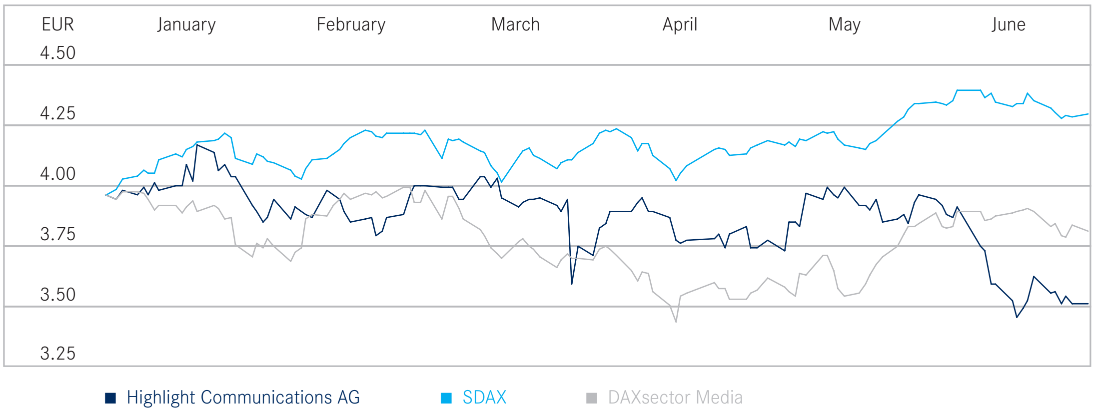
The price of Highlight stock did not benefit from the generally positive stock market climate in the period from April to June 2014. After the first two trading weeks were characterized by significantly rising prices, the quotation declined continually until the start of May, falling back to EUR 3.74. Another increase then brought the price of Highlight stock back to a level of EUR 4.00 by mid-May, which – after another slight downturn – was approximately maintained until the end of the month.

From June 10, the price then sank to EUR 3.46 within a few days due to relatively heavy, non-news-driven selling pressure with medium trading volumes (between 14,000 and 35,000 shares per trading day). After a brief recovery phase, Highlight stock closed Xetra trading at EUR 3.52 on June 30, thus losing 11.3 % since the start of the year. As of the end of the first half of the year, the 52-week high was EUR 4.18 (January 17, 2014), while the 52-week low was EUR 3.43 (November 7, 2013).

In the second quarter of 2014, 1.07 million Highlight shares were traded on the Xetra trading system of Deutsche Börse AG (second quarter of 2013: 2.17 million). The average per trading day therefore declined to 17,270 shares (second quarter of 2013: 34,450 shares). The same is true for the first half of the year as a whole, in which the trading volume decreased from 5.5 million shares (around 44,100 per trading day) to just under 2.5 million shares (around 19,800 per trading day). In Deutsche Börse AG's trading volume ranking for the segments below the DAX, Highlight stock was therefore placed 117th as of June 30, 2014 (March 31, 2014: 110th). In terms of free float market capitalization, it was number 112 (March 31, 2014: 110).

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

As of June 30, 2014, the subscribed capital of Highlight Communications AG was unchanged at CHF 47.25 million. It is 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 first half of 2014. These account for 5.75 % of the subscribed capital. After deducting these shares, there were 44.53 million shares in circulation.

52.39 % of Highlight's shares are still held by Constantin Medien AG. Further significant share packages are held by members of the Board of Directors as well as private and institutional investors. As of June 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 5.05

Information on Highlight stock as of June 30, 2014

ISIN/ticker	CH 000 653 9198/HLG
Index	DAXsector Media
Closing price	EUR 3.52
52-week high	EUR 4.18
52-week low	EUR 3.43
Subscribed capital	CHF 47.25 million
Shares in circulation	44.53 million
Market capitalization (in relation to shares in circulation)	EUR 156.7 million

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

In the second quarter of 2014, the Board of Directors member Dr. Erwin V. Conradi acquired a total of 23,000 Highlight shares, thereby increasing his holdings to 200,000 shares. Highlight Communications AG did not receive any notifications from the other members of the Board of Directors or the Group management regarding acquisition or sales transactions subject to reporting in the reporting period.

As of June 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 second 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 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 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 source of financing in the Sports- and Event-Marketing segment is the agency commission associated with the marketing of TV and sponsorship rights.

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 the full-service agency Pokermania GmbH, Cologne, which specializes in the development of online gaming business models and the social gaming market. These 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 commission associated with the marketing of TV and sponsorship rights as well as the income resulting from the marketing of social/online gaming products. The main expense items here consist of technical costs as well as costs relating to the development and programming of new social/online 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 currently consists of four members; at Constantin Film AG it is the Management Board, which is made up of three people, while Highlight Event & Entertainment AG also 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 moviegoing 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 that is 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 changes have occurred with regard to the legal influencing factors in the Film segment:

In film production, the Constantin Film Group uses various national and international public film subsidies. 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 now been cut by EUR 10 million to EUR 60 million, and current medium-term financial planning involves a further reduction to EUR 50 million in 2015.

Market research and development

In comparison 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

This year's film market in Cannes (from May 14 to 23) was relatively calm, with very few truly high-quality commercial titles with big names on offer – in the same way as at the 2014 Berlinale or last year's film markets in Cannes, Toronto and Los Angeles. This development in the international production landscape means that the conclusion of corresponding exploitation agreements at the major film markets has now become more the exception than the rule.

In Germany, the period under review saw growing criticism concerning the reduction of the DFFF subsidy volume to EUR 60 million for 2014 that has now been resolved. For example, the Board of Directors of the German Movie Theater Association (HDF KINO e.V.) published an open letter stating that the cutbacks would damage the entire German film industry, particularly when it comes to international projects. The letter added that it was entirely unclear as to why short-term budget targets were being given precedence over proven cultural and economic successes.

TV service production

Topics discussed at the German Producers Day included the system of TV production in Germany. In particular, criticism was aimed at the total buyout model that has been common practice since the start of TV service production, under which a commissioning broadcaster has unlimited exploitation rights to productions. This removes the possibility of producers of participating in the value of their output and generating equity from the revenue generated in order to allow them to develop better, innovative formats. Accordingly, the German Producers Alliance in particular is proposing a license model under which the respective client would acquire a license for initial exploitation only, i.e. for a defined number of broadcasts within a defined period. Producers would assume a share of the calculated production costs in return.

Theatrical distribution

German movie theaters generated revenues of around EUR 422 million in the first half of 2014, down 8.7 % on the first six months of the previous year (around EUR 462 million). In the same period, the number of movie tickets sold saw a slightly more pronounced decrease of 9.4 % to around 52 million (first half of 2013: around 57.4 million).

This drop was due in particular to a relatively weak second quarter in which audience figures were down significantly year-on-year, particularly in May and June. The reasons for this included the Football World Cup, which began in mid-June and prompted most distributors to refrain from high-quality releases, as well as the fact that some of the blockbusters released prior to the World Cup that had performed extremely well internationally failed to meet expectations by some distance in Germany.

The most popular movie in the second quarter of 2014 was the CGI comedy "Rio 2" with just over 1.6 million viewers. However, this was nowhere near the performance of Martin Scorsese's stock exchange drama "The Wolf of Wall Street", which was already released in January 2014 and attracted an audience of nearly 2.4 million.

The market share of German films, which amounted to an outstanding 41.7 % after the first three months of the current year, declined to 28.6 % on a half-yearly basis. However, this still represented a clear improvement on the same period of the previous year (25.7 %). The most successful German production was the blockbuster "Der Medicus", which was released in the previous year and attracted a further 2.4 million viewers in the first six months of 2014, followed by the Matthias Schweighöfer comedy "Vaterfreuden" (with an audience of a good 2.3 million) and the Constantin Film blockbuster "Fack ju Göhte" (with an audience of just under 1.5 million).

Home entertainment

According to forecasts issued by Gesellschaft für Konsumforschung (GfK), the German home entertainment industry generated total revenues of EUR 634 million in the period from January to May 2014*), down 6.1 % on the same period of the previous year (EUR 675 million). This decrease was attributable primarily to the physical video sell-through market.

The overall video sell-through market generated revenues of EUR 518 million to the end of May, a decrease of 7.3 % on the same period of the previous year (EUR 559 million). Retail revenues of EUR 491 million were generated from the sale of DVDs and Blu-ray discs, 8.4 % less than in the previous year's period (EUR 536 million). DVDs accounted for revenues of EUR 331 million, down 12.0 % on the previous year's period (EUR 376 million), whereas revenues from the sale of Blu-ray discs remained unchanged year-on-year at EUR 160 million.

The digital video sell-through market continued to develop positively, although it remains a niche market in terms of absolute figures. In the first five months of 2014, revenues in this area increased by 13.0 % to EUR 26 million (previous year's period: EUR 23 million).

According to GfK, total revenues of EUR 137 million (including subscription video-on-demand = SVoD) or EUR 116 million (excluding SVoD) were generated on the video rental market in the period from January to May 2014, thereby largely corresponding to the prior-year figures (EUR 130 million including SVoD; EUR 116 million excluding SVoD). The downturn in revenues from rentals of physical data carriers from EUR 86 million to EUR 78 million was offset by substantial growth in the area of digital rentals. The continued growth in sales of web-enabled TVs in particular meant that revenues from video-on-demand and pay-per-view transactions increased from EUR 44 million to EUR 58 million (including SVoD, which accounted for revenues of EUR 21 million in the period from January to May 2014).

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

License trading/TV exploitation

Free-to-air TV stations are increasingly competing with pay-TV broadcasters, download portals and streaming platforms, with pay-TV even designated as the fastest growing segment on the German TV market in some cases. However, this market position could soon be threatened by a new competitor following the official announcement in mid-May that the leading US online video subscription service Netflix intends to start business in Germany this year.

Netflix currently has around 48 million customers worldwide and a stock market valuation of around USD 20 billion. As is already the case in other countries, the video streaming portal in Germany is expected to offer a mixture of Hollywood productions, local content and original programming. As exclusivity is an important factor when it comes to attracting customers, Netflix will attempt to secure global rights for attractive programs from the major US studios.

One plus point for Netflix could be the fact that the current license agreements of the German pay-TV channels are set to expire in a few years from now. In addition, streaming platforms like Netflix, amazon prime and Watchever offer two major benefits: customers do not require a set-top box, a cable or a smartcard, and they only have to make a one-off decision to subscribe, with subsequent use of the service "feeling" as if it is free of charge.

Operating performance

"Winterkartoffelknödel" in post-production and start of filming for "The Famous Five 4"

Filming for the crime comedy "Winterkartoffelknödel", the second adaptation of Rita Falk's best-selling series of novels about provincial policeman Franz Eberhofer, was wrapped up in early April. The movie is currently in post-production. Following the great success of the first part ("Dampfnudelblues"), which was shown exclusively in Bavarian movie theaters last summer and attracted an audience of more than half a million, "Winterkartoffelknödel" is set for a Germany-wide release in mid-October 2014.

In late June, filming for the fourth part of the successful "Famous Five" movie series – based on the children's books of the same name by best-selling author Enid Blyton – began in Munich in late June. This Constantin Film co-production with SamFilm GmbH is scheduled for release in late January 2015.

Launch of another ZDF project in TV service production

At MOOVIE – the art of entertainment GmbH, filming for the six-part mini-series "Schuld", based on the novel by Ferdinand von Schirach, began in April 2014. This service production for ZDF follows on from the "Verbrechen" series, which enjoyed a successful reception. Popular actor Moritz Bleibtreu will play the leading role in "Schuld".

Filming for the ZDF two-part series "Die Abrechnung", which began in late February 2014, was completed in the period under review. The drama, which is expected to be broadcast in the fall this year, portrays the collapse of a drugstore empire.

Constantin Entertainment with further Sat.1 productions

Constantin Entertainment GmbH produced further episodes of the Sat.1 daily shows "Schicksale" and "Im Namen der Gerechtigkeit" in the second quarter of 2014. In addition, filming began on the new Sat.1 service production "In Gefahr – Ein verhängnisvoller Moment", which is also being produced in a daily format.

Outside Germany, the subsidiaries of Constantin Entertainment GmbH produced successful formats in Poland (including new seasons of the proven formats "Kuchenne Rewolucje" and "Nasz Nowy Dom"), Israel ("The Voice of Israel 3" and the cooking show "Game of Chefs") and Hungary ("Magannyomozok", a scripted reality show about a detective agency) in particular.

Limited theatrical distribution activities

In light of the strong competition from the Football World Cup, the Constantin Film Group released only one new film in German movie theaters in the second quarter of 2014. The co-production "Irre sind männlich", with stars including Fahri Yardim, Milan Peschel, Marie Bäumer and Josefine Preuß, performed in line with expectations.

Expansion of market position in home entertainment business

In the period from January to May 2014*), the Highlight Group expanded its market position on the German-speaking home entertainment market. It benefited in particular from the new releases under the Constantin Film label, especially "Fack ju Göhte" and "The Mortal Instruments: City of Bones". The licensed title "Ender's Game", which went on sale in early March 2014, also generated strong sales figures.

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

Further films licensed for TV broadcasting

In the second quarter of 2014, sales in the Constantin Film Group's license trading business area resulted from the start of the initial licenses for "Agent Ranjid rettet die Welt" (ZDF), "The Three Musketeers" (ProSiebenSat.1), "Carnage" (ARD), "Wickie and the Treasure of the Gods" (ProSiebenSat.1) and "Blutzbrüdaz" (ProSiebenSat.1), among other things. Sales development in the pay-TV sector was driven in particular by the initial licenses for "Fack ju Göhte" (Sky), "The Famous Five 2" (Disney), "Parker" (ProSiebenSat.1), "Scary Movie 5" (Sky), "So Undercover" (Sky and Teleclub) and "The Texas Chainsaw Massacre – The Legend Is Back" (Sky).

Analysis of non-financial performance indicators

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

Constantin Film AG continues to be firmly committed to retaining talent. Accordingly, it has spent decades working very closely with renowned and experienced screenwriters and producers with extensive expertise in producing movie and TV formats in Germany and abroad.

Numerous high ratings in TV service production

The "Kettenreaktion" episode of the "Kommissarin Lucas" crime series, which was produced by Olga Film GmbH on behalf of ZDF, achieved a very encouraging market share of 20.5 % of the total audience on its initial broadcast in mid-May 2014.

In addition, no fewer than three productions by Constantin Entertainment GmbH exceeded expectations. The Sat.1 daily "Schicksale" achieved a good average market share of 13.5 % in April 2014. The broadcast of the comedy "Mario Barth deckt auf!" on RTL in early May performed even better, achieving a market share of 20 %. Meanwhile, the dating documentary "Flirt oder Fiasko" on VOX proved to be so popular in May, reaching a market share of up to 8.3 %, that the broadcaster has commissioned another 60 episodes.

Constantin Film remains Germany's leading independent distributor

In the theatrical distribution business area, the Constantin Film Group was again represented with one film in the top ten of the German movie charts in the first six months of the current year. The successful comedy "Fack ju Göhte", which was released in November 2013, attracted just under 1.5 million viewers in the period from January to June 2014 – enough for seventh place on the list.

Including the performance of all of its films screened in German movie theaters in the first half of 2014, the Constantin Film Group achieved an audience market share of 7.8 %, placing it fourth behind Warner, Universal and Fox. In terms of revenues, it was ranked fifth behind Warner, Universal, Fox and Disney with a share of 7.2 %. These placings served to confirm Constantin Film's position as Germany's most successful independent distributor.

Home entertainment exploitation enjoys extremely good sales

In the first five months of 2014*), the home entertainment business area benefited from extremely good sales of both new releases and catalog titles. For example, the Constantin Film co-production "The Mortal Instruments: City of Bones", which went on sale in mid-January 2014, went straight to the top of the German sales charts and stayed in the top ten until mid-March 2014. A total of 230,000 copies of this title had been sold in German-speaking regions by the end of May.

Having attracted a cinema audience of more than seven million in Germany alone, the Bora Dagtekin comedy “Fack ju Göhte” also enjoyed a fantastic start to its home entertainment exploitation. Almost 700,000 units were delivered for the release date in early May 2014, of which 680,000 had been sold by the end of the month. Sales of the title had reached around 900,000 by the end of July. “Fack ju Göhte” also set new standards in terms of digital marketing: with 300,000 downloads in just 10 days, the film exceeded the normal threshold for digital transactions – an unprecedented result for a film production. In the meantime, the number of digital transactions has increased to more than 600,000.

With these two high-quality new releases and a host of successful secondary market releases, the Highlight Group achieved a joint market share of 11 % (previous year’s period: 9 %) on the German video sell-through market in the period from January to May 2014 in collaboration with its distribution partner Paramount Home Entertainment.

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

“The Three Musketeers” achieves good ratings in TV exploitation

The initial TV broadcast of the adaptation of the novel “The Three Musketeers” on ProSieben in late April 2014 was seen by almost 3.4 million viewers, giving it a good overall market share of 10.1 %. In the target demographic of 14-to-49-year-olds, the market share was as high as 18 %.

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

Sector-specific situation

According to Forbes, live broadcasts of sporting events are the “last bastion in appointment TV” – occasions that are followed by millions of sports fans simultaneously. Accordingly, the value of sports rights continues to rise as advertisers find it more and more difficult to reach their target audience in other program environments. This is due to the growth in the number of broadcasters, the popularity of streaming services and the increased availability of new devices like smartphones and tablets. As such, live broadcasts of sporting events are practically the only genre still capable of attracting a large TV audience, and especially the highly sought-after target group of young men.

The 2014 Football World Cup is a perfect recent example of the huge audiences that sports, and football in particular, can offer to broadcasters and sponsors. The event began on June 12, and FIFA reported that the first round of games in the group stage had broken all kinds of viewing records. They set new standards in this year’s viewing figures throughout the world, with millions and millions of football fans glued to their TVs, especially in countries such as Brazil, Japan, Germany, the United Kingdom, Argentina, France, the Netherlands and Italy. Since most of the games in the knockout rounds and the final did not take place until July, more new records in terms of viewing figures can undoubtedly be expected.

Operating performance

Further deals secured in the 2015/16 to 2017/18 marketing cycle

In the second quarter of 2014, the TEAM Group secured further major deals 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). TV rights were sold in markets including France, Poland and Bulgaria, as well as the Asia-Pacific region (India, Indonesia, Hong Kong and Thailand). The finals of both competitions, which were held in May, served as a good sales argument during this period.

In the area of sponsorship and licensing rights, concrete negotiations for both competitions were held with existing and new partners in the period under review, and further deals are expected to be announced in the second half of 2014.

Dramatic finals

The TEAM Group's operating activities in the second quarter of 2014 focused on providing active support for commercial partners and UEFA in connection with the successful handling of the finals of the UEFA Champions League and the UEFA Europa League. The final of the UEFA Europa League between SL Benfica and Sevilla FC was held in Turin on May 14. Sevilla FC won the trophy on penalties after an exciting game, meaning that SL Benfica's unlucky streak continued with the eighth successive final defeat.

The Spanish-only UEFA Champions League final between Real Madrid CF and Club Atlético de Madrid took place in Lisbon on May 24. In the 22nd final since the launch of the UEFA Champions League, Real Madrid CF equalized just before the end of the 90 minutes to take the game into extra time, where they scored another three goals to secure what turned out to be a clear victory. This meant that Real Madrid CF lifted the coveted trophy for the tenth time in all – and for the first time in twelve years.

Analysis of non-financial performance indicators

UEFA Champions League final remains a viewer magnet

The "local derby" between Real Madrid CF and Club Atlético de Madrid was followed on TV by an average of around 165 million viewers worldwide, with the peak viewing figure measured at 380 million. This meant that the UEFA Champions League final reinforced its position as the largest annual sporting event ahead of the Super Bowl.

The highest national viewing figure for the game was recorded in Brazil at 20 million, while the highest market share of 70% (= 12.7 million TV viewers) was registered in Spain. Even in Germany, more than 7.4 million football fans followed the game (corresponding to an overall market share of 28.4%) despite the fact that no German team made it to the final this year.

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 drink industry was the biggest spender by some distance, 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

Successful handling of the Eurovision Song Contest

In the second quarter of 2014, Highlight Event AG initially supported the European Broadcasting Union (EBU) in the successful handling of the Eurovision Song Contest, which was held in Copenhagen from May 6 to 10. All of the contractual agreements with sponsors and TV partners were fulfilled. Good work was performed to the full satisfaction of the EBU and host broadcaster Danish Radio (DR) in the areas of hospitality, sponsors' TV presence (program sponsorship, trailers and on-screen credits), branding, the Eurovision Village fan area, sponsor care, online activities and merchandising in particular.

High-profile guests attend the concerts of the Vienna Philharmonic Orchestra

In the reporting period, another highlight in the area of the cooperation with the Vienna Philharmonic Orchestra was the Summer Night Concert, which was held at the Schönbrunn Palace Garden near Vienna on May 29, 2014 under the musical direction of renowned conductor Christoph Eschenbach. At this event, Highlight Event AG was able to successfully realize the activities of the main sponsor Rolex in particular. This included a reception for guests and various media aspects, such as the presence of the sponsor's logo on the big screens and the opening and closing sequences for the TV broadcast.

The Sarajevo concert, which was extremely important both for the Vienna Philharmonic Orchestra and the EBU, also proved to be a highly successful event. The concert was at the heart of the commemorations marking the 100th anniversary of the outbreak of the First World War. In front of an impressive open-air setting, guests at the concert included numerous heads of state, the entire local diplomatic corps and the heads of various major public broadcasters, including France Television, RAI (Italy) and ORF (Austria), as well as the EBU Executive Board.

Successful start to the Eurovision Young Musicians project

The Eurovision Young Musicians project, a talent competition for young European artists in the field of classical music, was managed by Highlight Event AG for the first time and also proved to be a success. The event, which was held on the Cathedral Square in Cologne on May 31, 2014, fulfilled all of the strategic considerations that had been discussed in advance. This included the involvement of the Vienna Philharmonic Orchestra, with the winner of the competition being given the chance of a solo performance with the orchestra, and the participation of Rolex as the main sponsor of the event.

Conclusion of a new cooperation

On May 27, 2014, Highlight Event & Entertainment AG (HLEE) announced the conclusion of a strategic partnership with the Women's Tennis Association (WTA). The cooperation relates to the WTA Finals event, where the best eight players from the past season compete for the trophy and substantial prize money. HLEE has created the claim "On Top of the World" for the WTA Finals. Its responsibilities will include the brand identity and the event visual identity.

Continuous development of FunPoker software

The activities of Pokermania GmbH in the second quarter of 2014 again focused on the targeted development of its "white-label" software FunPoker. The aim of this development work is to integrate additional forms of poker in order to acquire new players, including in an international environment.

Analysis of non-financial performance indicators

Growth in viewing figures for the Eurovision Song Contest

The grand final of the 2014 Eurovision Song Contest was shown live by 37 public broadcasters and viewed by an average of 61 million TV viewers – a clear increase on the prior-year figure of 55 million. Particularly high viewing figures were registered in Denmark (89 % market share), the Netherlands (65 % market share) and the winning country Austria (53 % market share).

Strong media presence for the concerts of the Vienna Philharmonic Orchestra

Despite unfavorable weather conditions once again, the Vienna Philharmonic Orchestra's open-air Summer Night Concert was enjoyed by around 60,000 enthusiastic visitors on site, as well as being broadcast in more than 80 countries – including Kenya for the first time.

The same applies for the memorial concert by the orchestra in Sarajevo on June 28, 2014, which was shown live or delayed by around 30 international TV stations, as well as being broadcast by around 30 radio stations (mainly live). The press conference prior to the event was attended by all leading global media sources, including the New York Times, China Central Television (CCTV) and NHK/Japan.

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

Results of Group operations

In the first half of 2014, the Highlight Group generated consolidated sales of CHF 216.3 million, up CHF 59.9 million or 38.3 % on the prior-year figure of CHF 156.4 million. The increase is attributable to the largest extent to the Film segment.

Although capitalized film production costs and other own work capitalized declined by CHF 25.3 million to CHF 24.4 million (previous year's period: CHF 49.7 million) as a result of the lower production volume in the period under review, the Group's total output was up significantly on the first six months of 2013 at CHF 240.6 million (previous year's period: CHF 206.1 million). Other operating income decreased slightly by CHF 2.0 million to CHF 7.8 million (previous year's period: CHF 9.8 million).

Consolidated operating expenses rose by CHF 28.9 million or 13.8 % to CHF 238.8 million after CHF 209.9 million in the first half of 2013. This was due primarily to amortization, depreciation and impairment, which increased by CHF 46.5 million to CHF 76.8 million. The reason for this development was the global theatrical release of the Constantin Film own production "Pompeii" in particular, which required the capitalized production costs for the film to be amortized.

The cost of materials and licenses declined by CHF 18.0 million to CHF 79.7 million as a result of productions, while personnel expenses were down only slightly on the first half of 2013 at CHF 48.9 million (previous year's period: CHF 50.4 million). By contrast, other operating expenses increased by CHF 1.8 million to CHF 33.3 million.

As total output increased to a greater extent than costs, EBIT rose by CHF 3.8 million or 64.4 % year-on-year to CHF 9.7 million (previous year's period: CHF 5.9 million), meaning that the EBIT margin improved from 3.8 % in the first half of 2013 to 4.5 %.

Earnings from investments in associated companies and joint ventures amounted to CHF 0.1 million in the period from January to June 2014 compared with CHF –0.1 million in the first six months of the previous year. Financial income decreased by CHF 2.5 million to CHF 1.6 million while financial expenses fell by CHF 0.8 million to CHF 3.3 million, meaning that the financial result declined from TCHF –4 to TCHF –1,711.

After tax expenses (income taxes and deferred taxes) of CHF 2.2 million (previous year's period: CHF 1.4 million), the Highlight Group generated a consolidated net profit of CHF 5.9 million in the first half of 2014. This represents an increase of 34.1 % on the same period of the previous year (CHF 4.4 million). CHF 0.3 million of this figure (previous year's period: CHF 0.2 million) is attributable to non-controlling interests, meaning that CHF 5.6 million (previous year's period: CHF 4.2 million) is attributable to Highlight shareholders. Based on the average number of shares in circulation, earnings per share increased by 44.4 % to CHF 0.13 in the reporting period (previous year's period: CHF 0.09).

Results of segment operations

With external sales of CHF 190.0 million, the Film segment exceeded the corresponding prior-year figure (CHF 130.7 million) by CHF 59.3 million or 45.4 %. This development results both from theatrical distribution and license trading with the global distribution of the film “Pompeii” and from home entertainment with the outstanding performance of the hit comedy “Fack ju Göhte”.

By contrast, other income in the Film segment, which was attributable primarily to capitalized film production costs, declined by CHF 27.2 million to CHF 32.3 million (previous year’s period: CHF 59.5 million). Segment expenses increased by CHF 29.9 million year-on-year to CHF 218.5 million (previous year’s period: CHF 188.6 million), particularly as a result of the rise in amortization on film assets in connection with film exploitation. Despite the higher level of costs, segment earnings more than doubled from CHF 1.6 million in the first half of 2013 to CHF 3.8 million in the period under review.

The Sports- and Event-Marketing segment generated external sales of CHF 24.8 million, an increase of CHF 0.8 million or 3.3 % on the first half of 2013 (CHF 24.0 million). Other income remained almost unchanged at just under CHF 0.2 million, while segment expenses fell by CHF 0.5 million to CHF 14.7 million as a result of cost savings (previous year’s period: CHF 15.2 million). Accordingly, segment earnings improved by 15.9 % to CHF 10.2 million (previous year’s period: CHF 8.8 million).

External sales in the Other Business Activities segment were down slightly year-on-year at CHF 1.5 million (previous year’s period: CHF 1.6 million). The same applies to other income, which declined from CHF 0.5 million to CHF 0.3 million. As expenses also fell by CHF 0.3 million to CHF 3.2 million (previous year’s period: CHF 3.5 million), the segment loss was nearly unchanged as against the first half of 2013 at CHF 1.4 million. Once again, the marketing of the Vienna Philharmonic Orchestra (New Year’s Day Concert and Summer Night Concert at Schönbrunn Palace) and the Eurovision Song Contest was concluded with a profit. The segment’s loss resulted from the online/social gaming area.

The costs of holding activities declined by CHF 0.3 million to CHF 2.8 million in the first six months of the current fiscal year (previous year’s period: CHF 3.1 million).

Net assets situation

As of June 30, 2014, the total assets of the Highlight Group amounted to CHF 366.9 million, down CHF 76.4 million as against the end of 2013 (CHF 443.3 million). On the asset side of the balance sheet, one of the reasons for this development was the decrease in non-current assets of CHF 31.5 million to CHF 212.0 million (December 31, 2013: CHF 243.5 million). Despite this, the share of non-current assets in total assets increased by almost three percentage points to 57.8 % (December 31, 2013: 54.9 %).

At the same time, current assets declined by CHF 45.0 million to CHF 154.9 million (December 31, 2013: CHF 199.9 million). This was due in particular to the reduction in trade accounts receivable and other receivables due from third parties (CHF –28.6 million) and cash and cash equivalents (CHF –8.7 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.

The value of film assets amounted to CHF 169.5 million at the reporting date, down CHF 41.5 million as against the end of 2013 (CHF 211.0 million). This was due to the fact that total additions to film assets were significantly lower than scheduled amortization and impairment on films being exploited. CHF 131.3 million of the total value of film assets related to in-house productions (December 31, 2013: CHF 175.2 million), while CHF 38.2 million related to third-party productions (December 31, 2013: CHF 35.8 million).

On the equity and liabilities side of the balance sheet, non-current liabilities declined by CHF 4.0 million to CHF 14.6 million (December 31, 2013: CHF 18.6 million), largely as a result of the CHF 5.2 million reduction in deferred tax liabilities. Current liabilities decreased substantially by CHF 62.9 million to CHF 254.5 million (December 31, 2013: CHF 317.4 million). This was due in particular to the reduction in current financial liabilities (CHF –48.2 million) and trade accounts payable and other liabilities due to third parties (CHF –20.3 million).

As of June 30, 2014, consolidated equity (including non-controlling interests) was down CHF 9.3 million as against the end of 2013 at CHF 97.9 million (December 31, 2013: CHF 107.2 million). This decrease was due in particular to dividend payments (CHF 8.9 million), losses from the fair value measurement of financial assets (CHF 4.2 million) and the remeasurement of the pension obligation (CHF 1.3 million). By contrast, equity was increased by the consolidated net profit for the period of CHF 5.9 million.

Relative to the significantly lower level of total assets, this resulted in a very sound notional equity ratio of 26.7 % as of June 30, 2014 compared with 24.2 % as of December 31, 2013. The adjusted equity ratio (after netting cash and cash equivalents against financial liabilities and advance payments received against film assets) was 35.5 % (December 31, 2013: 31.5 %).

Financial situation

The cash and cash equivalents of the Highlight Group totaled CHF 35.6 million as of June 30, 2014, down CHF 8.7 million as against the end of 2013 (CHF 44.3 million). At the same time, current financial liabilities were reduced by CHF 48.2 million to CHF 103.8 million (December 31, 2013: CHF 152.0 million). Accordingly, net debt decreased by CHF 39.5 million to CHF 68.2 million in the first half of 2014 (December 31, 2013: CHF 107.7 million). In relation to consolidated equity, this corresponds to gearing of 69.7 % (December 31, 2013: 100.5 %).

The Highlight Group generated net cash from operating activities of CHF 87.4 million in the period from January to June 2014, a significant increase of CHF 73.4 million on the same period of the previous year (CHF 14.0 million). This development was mainly due to changes in net working capital and the cash inflow from the film business.

Net cash used in investing activities declined by CHF 22.1 million year-on-year to CHF 39.3 million (previous year's period: CHF 61.4 million). This was due primarily to the considerably lower level of payments for film assets, which decreased by CHF 24.6 million to CHF 35.5 million (previous year's period: CHF 60.1 million). By contrast, payments for financial assets rose by CHF 2.4 million to CHF 2.6 million (previous year's period: CHF 0.2 million).

Net cash used in the Highlight Group's financing activities amounted to CHF 56.5 million in the first half of 2014 compared with net cash from financing activities of CHF 28.4 million in the same period of the previous year. This was largely due to the net repayment of debt in the amount of CHF 47.6 million in the period under review (previous year's period: net borrowing of CHF 42.9 million).

Based on 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 June 30, 2014, the Highlight Group had a total of 878 employees (June 30, 2013: 842). This figure includes employees on non-permanent, project-related contracts.

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 and results of operations of the Highlight Group.

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 risk management system 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 risk management system 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 opportunities and risks in the reporting period

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

The assessment of other risk factors was updated, with individual expected values resulting from the product of the absolute loss and the probability of occurrence decreasing slightly. This relates in particular to regulatory risks, competition risks and the risk of failing to cater to customers' tastes, as well as the operating risk of theatrical film production costs. The decrease was due mainly to the change in the probability of occurrence to reflect the remaining six months of the fiscal year rather than to a change in the actual risk situation. However, this reassessment of the risk factors did not have a sufficiently pronounced impact to affect the classification of the individual risks.

The updated assessment of opportunities did not result in any changes compared with the presentation in the report on risks and opportunities in the annual report 2013.

This means that the classification of the opportunity and risk situation for the individual risks of the Highlight Group for the first half of 2014 corresponds to the presentation in the report on risks and opportunities for fiscal year 2013.

Summary of the opportunity and risk 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. The Group also 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 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.

Following the end of the Football World Cup, the theatrical distribution business area is expected to see a return to higher audience figures and stable results. Strong performance in the third quarter is likely to be driven by Hollywood productions such as "Transformers: Age of Extinction", "How To Train Your Dragon 2", "Dawn of the Planet of the Apes", "The Expendables 3" and "Hercules", as well as the Constantin Film licensed titles "Step Up: All In (3D)" and "The Hundred-Foot Journey".

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 focus remains on the continuous optimization of the consistently high quality of 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.

Based on current planning, six promising film projects are in the pipeline for the remainder of 2014. One of these projects – "Resident Evil 6" – is an English-language production that is geared towards the international market. The productions for the German movie market include "Ostwind 2 – Die Rückkehr nach Kaltenbach", a sequel to "Fack ju Göhte", and "Er ist wieder da".

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. 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 an 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. The production pipeline for the second half of 2014 includes the adaptation of the Ken Follett bestseller “A Dangerous Fortune” and the service productions “Der Äthiopier” and “Prenzlberg”.

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.

As things stand, another seven Constantin Film movies are expected to be released in German theaters in the period from July to December 2014. The titles scheduled for release in the third quarter are the continuation of the successful dance franchise “Step Up: All In (3D)”, the DreamWorks licensed title “The Hundred-Foot Journey” and the adaptation of Charlotte Roche’s best-selling novel “Schossgebete”. As the Football World Cup meant that considerably fewer films were released in June and July 2014 than would normally be the case, Constantin Film AG expects to see a return to rising audience figures from August 2014 onward.

In the current fiscal year, the home entertainment business area will benefit in particular from the new 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”.

In the third quarter of 2014, sales from free-TV exploitation will mainly be generated from the films “Immortals” (ProSiebenSat.1), “3096 Tage” (ARD) and “The Famous Five” (ProSiebenSat.1), while sales from pay-TV exploitation in the same period will be driven by “Da geht noch was”, “The Mortal Instruments: City of Bones” and “Ostwind”.

Sports- and Event-Marketing segment

Sector-specific situation

The sponsorship measurement consultancy firm IEG is forecasting a rise in global sponsorship spending of 4.1 % (previous year: 3.9 %) to USD 55.3 billion in 2014. IEG again expects the Asia/Pacific region to deliver the biggest percentage growth rate (5.6 % compared with 5.0 % in the previous year), while Central and South America are also likely to post strong growth as a result of the Football World Cup in Brazil (5.0 % compared with 2.6 % in the previous year). By contrast, IEG forecasts a significant reduction in the pace of growth in Europe (2.1 % compared with 2.8 % in the previous year), while the increase in North America is likely to be down only slightly year-on-year at 4.3 % (previous year: 4.5 %).

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 the continuation of the close cooperation with the Union of European Football Associations remain very strong. If contractual performance targets for the ongoing marketing process are achieved, TEAM’s mandate will be automatically 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 for TV rights as well as sponsorship rights are to be concluded on the best possible terms in the current fiscal year.

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 recent 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 the high-quality handling of the events of the Vienna Philharmonic Orchestra and the EBU, as these projects offer the greatest 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 applies in particular 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

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

Against this backdrop, we are continuing to forecast consolidated sales of between CHF 380 million and CHF 410 million and a consolidated net profit for the year as a whole.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

as of June 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 JUNE 30, 2014 (unaudited)

Highlight Communications AG, Pratteln

ASSETS (TCHF)	June 30, 2014	Dec. 31, 2013
Non-current assets		
In-house productions	131,248	175,201
Third-party productions	38,220	35,843
Film assets	169,468	211,044
Other intangible assets	1,646	2,214
Goodwill	17,553	17,597
Property, plant and equipment	4,997	5,117
Investment property	3,900	–
Investments in associated companies and joint ventures	219	402
Non-current receivables due from third parties	1,836	1,068
Receivables due from associated companies and joint ventures	4,164	3,079
Other financial assets	1,682	227
Deferred tax assets	6,535	2,708
	212,000	**243,456**
Current assets		
Inventories	5,208	3,896
Trade accounts receivable and other receivables due from third parties	97,606	126,199
Receivables due from related parties	–	77
Receivables due from associated companies and joint ventures	2,383	2,283
Other financial assets	13,101	17,627
Income tax receivables	1,046	1,632
Cash and cash equivalents	35,574	44,259
Non-current assets held for sale	–	3,900
	154,918	**199,873**
Total assets	**366,918**	**443,329**

The notes on page 31 – 38 are an integral part of the consolidated interim financial statements.

EQUITY AND LIABILITIES (TCHF)	June 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	–27,046	–26,187
Retained earnings	175,481	182,862
Equity attributable to shareholders	88,428	96,675
Non-controlling interests	9,432	10,573
	97,860	**107,248**
Non-current liabilities		
Pension liabilities	7,801	6,015
Provisions	1,000	1,601
Deferred tax liabilities	5,752	11,022
	14,553	**18,638**
Current liabilities		
Financial liabilities	103,821	151,997
Advance payments received	55,651	58,881
Trade accounts payable and other liabilities due to third parties	80,226	100,471
Liabilities due to related parties	266	282
Liabilities due to associated companies and joint ventures	90	26
Provisions	4,817	4,768
Income tax liabilities	9,634	1,018
	254,505	**317,443**
Total equity and liabilities	**366,918**	**443,329**

The notes on page 31 – 38 are an integral part of the consolidated interim financial statements.

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

Highlight Communications AG, Pratteln

(TCHF)	Jan. 1 to June 30, 2014	Jan. 1 to June 30, 2013	April 1 to June 30, 2014	April 1 to June 30, 2013
Sales	**216,261**	**156,360**	**90,530**	**74,431**
Capitalized film production costs and other own work capitalized	**24,385**	**49,698**	**16,584**	**34,434**
Total output	**240,646**	**206,058**	**107,114**	**108,865**
Other operating income	**7,848**	**9,779**	**3,245**	**4,657**
Costs for licenses, commissions and materials	–13,002	–18,448	–6,734	–9,150
Costs for purchased services	–66,728	–79,268	–40,991	–46,991
Cost of materials and licenses	**–79,730**	**–97,716**	**–47,725**	**–56,141**
Salaries	–43,259	–44,690	–22,939	–23,905
Social security, pension costs	–5,650	–5,678	–2,967	–2,995
Personnel expenses	**–48,909**	**–50,368**	**–25,906**	**–26,900**
Amortization and impairment on film assets	–74,952	–27,888	–10,682	–9,966
Amortization, depreciation and impairment on intangible assets and property, plant and equipment	–1,870	–2,375	–892	–1,133
Amortization, depreciation and impairment	**–76,822**	**–30,263**	**–11,574**	**–11,099**
Other operating expenses	**–33,305**	**–31,545**	**–16,367**	**–15,017**
Profit from operations	**9,728**	**5,945**	**8,787**	**4,365**
Earnings from investments in associated companies and joint ventures	**122**	**–127**	**61**	**–132**
Financial income	1,638	4,103	–740	1,837
Financial expenses	–3,349	–4,107	–1,105	–2,577
Financial result	**–1,711**	**–4**	**–1,845**	**–740**
Profit before taxes	**8,139**	**5,814**	**7,003**	**3,493**
Current taxes	–11,112	–1,182	–4,767	–530
Deferred taxes	8,867	–257	2,628	–785
Taxes	**–2,245**	**–1,439**	**–2,139**	**–1,315**
Net Profit	**5,894**	**4,375**	**4,864**	**2,178**
thereof shareholders' interests	5,596	4,168	4,919	2,342
thereof non-controlling interests	298	207	–55	–164

(CHF)	Jan. 1 to June 30, 2014	Jan. 1 to June 30, 2013	April 1 to June 30, 2014	April 1 to June 30, 2013
Earnings per share				
Earnings per share attributable to shareholders, basic	0.13	0.09	0.11	0.05
Earnings per share attributable to shareholders, diluted	0.13	0.09	0.11	0.05
Weighted average number of shares (basic)	44,534,350	45,982,633		
Weighted average number of shares (diluted)	44,534,350	45,982,633		

The notes on page 31 – 38 are an integral part of the consolidated interim financial statements.

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

Highlight Communications AG, Pratteln

(TCHF)	Jan. 1 to June 30, 2014	Jan. 1 to June 30, 2013
Net profit	**5,894**	**4,375**
Currency translation differences	–880	2,205
Items that may be reclassified to the income statement in future	**–880**	**2,205**
Actuarial gains and losses of defined benefit obligation plans	–1,315	766
Gains/losses from financial assets at fair value through other comprehensive income/loss	–4,165	–616
Items that will not be reclassified to the income statement in future	**–5,480**	**150**
Other comprehensive income/loss, net of tax	**–6,360**	**2,355**
Total comprehensive income/loss	**–466**	**6,730**
thereof sharholders' interests	–669	6,437
thereof non-controlling interests	203	293

The notes on page 31 – 38 are an integral part of the consolidated interim financial statements.

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

Highlight Communications AG, Pratteln

(TCHF)	Equity 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 June 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	–	–459
Sale of treasury stock	–	–
Dividend payments	–	–
Change in non-controlling interests	–	–
Other changes	–	–
Balance as of June 30, 2013	**47,250**	**–1,616**

The notes on page 31 – 38 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**
–	–859	–	–859	–21	–880
–	**–859**	–	**–859**	**–21**	**–880**
–	–	–1,241	–1,241	–74	–1,315
–	–	–4,165	–4,165	–	–4,165
–	–	**–5,406**	**–5,406**	**–74**	**–5,480**
–	**–859**	**–5,406**	**–6,265**	**–95**	**–6,360**
–	–	5,596	5,596	298	5,894
–	**–859**	**190**	**–669**	**203**	**–466**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–7,571	–7,571	–1,326	–8,897
–7	–	–	–7	–18	–25
–	–	–	–	–	–
–104,541	**–27,046**	**175,481**	**88,428**	**9,432**	**97,860**

–103,614	**–28,106**	**183,673**	**98,046**	**13,231**	**111,277**
–	2,154	–	2,154	51	2,205
–	**2,154**	–	**2,154**	**51**	**2,205**
–	–	731	731	35	766
–	–	–616	–616	–	–616
–	–	**115**	**115**	**35**	**150**
–	**2,154**	**115**	**2,269**	**86**	**2,355**
–	–	4,168	4,168	207	4,375
–	**2,154**	**4,283**	**6,437**	**293**	**6,730**
–	–	– 1,912	–2,371	–	–2,371
–	–	–	–	–	–
–	–	–7,758	–7,758	–1,666	–9,424
–920	–	–	–920	–1,727	–2,647
–	–	–	–	–	–
–104,534	**–25,952**	**178,286**	**93,434**	**10,131**	**103,565**

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

Highlight Communications AG, Pratteln

(TCHF)	Jan. 1 to June 30, 2014	Jan. 1 to June 30, 2013
Net profit	5,894	4,375
Deferred taxes	–8,867	257
Current taxes	11,112	1,182
Financial result (without currency result)	1,275	1,630
Earnings from investments in associated companies and joint ventures	–122	127
Amortization, depreciation and impairment on non-current assets	76,822	30,263
Gain (–)/loss (+) from disposal of non-current assets	11	–
Other non-cash items	–86	253
Increase (–)/decrease (+) in inventories, trade accounts receivable and other assets not classified to investing or financing activities	26,694	–22,148
Decrease (–)/increase (+) in trade accounts payable and other liabilities not classified to investing or financing activities	–22,394	4,696
Dividends received from associated companies and joint ventures	302	226
Interest paid	–1,562	–1,583
Interest received	152	336
Income taxes paid	–3,586	–9,198
Income taxes received	1,710	3,538
Cash flow from operating activities	**87,355**	**13,954**
Payments for intangible assets	–227	–427
Payments for film assets	–35,500	–60,093
Payments for property, plant and equipment	–1,040	–730
Payments for financial assets	–2,607	–188
Proceeds from disposal of property, plant and equipment	52	23
Cash flow for investing activities	**–39,322**	**–61,415**
Payment for purchase of treasury stock	–	–2,371
Payment for purchase of non-controlling interests	–25	–2,647
Repayment of current financial liabilities	–66,825	–24,553
Proceeds from receipt of current financial liabilities	19,227	67,423
Dividend payments	–8,897	–9,424
Cash flow for/from financing activities	**–56,520**	**28,428**
Cash flow for the reporting period	**–8,487**	**–19,033**
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	–198	844
Cash and cash equivalents at the end of the reporting period	35,574	54,328
Change in cash and cash equivalents	**–8,487**	**–19,033**

The notes on page 31 – 38 are an integral part of the consolidated interim financial statements.

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

Highlight Communications AG, Pratteln

1. General information on the Group

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

Highlight Communications AG's Board of Directors authorized the publication of these unaudited, condensed consolidated interim financial statements on August 12, 2014.

2. Accounting and valuation principles

The unaudited, condensed consolidated interim financial statements for the period from January 1 to June 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 assumptions 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 interpretations of relevance to the Group in the second quarter of 2014: IFRS 15, Revenue from Contracts with Customers (mandatory application for fiscal years starting on or after January 1, 2017) on the one hand and 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) on the other. 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. The effects on these consolidated interim financial statements were not significant.

On June 30, 2014, 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.

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

Total assets amounted to TCHF 366,918 as of June 30, 2014 after TCHF 443,329 as of December 31, 2013. While non-current assets declined by TCHF 31,456 in total as a result of a drop in film assets in particular, current assets decreased by a total of TCHF 44,955 as of June 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 97,606. Cash and cash equivalents also decreased by TCHF 8,685. On the equity and liabilities side, non-current liabilities fell by TCHF 4,085 and current liabilities declined by TCHF 62,938. In addition, equity was down by TCHF 9,388 at TCHF 97,860.

Film assets

As of June 30, 2014, film assets decreased by TCHF 41,576 compared to December 31, 2013. In-house productions declined by TCHF 43,953, while third-party productions increased by a total of TCHF 2,377. 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 as of June 30, 2014 and is equal to the previous carrying amount.

Current assets

As against December 31, 2013, current receivables fell by TCHF 28,570 as of the end of the reporting period. This was due to the decrease of TCHF 15,572 in trade accounts receivable and of TCHF 13,021 in other receivables, as well as 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 100.

Other current financial assets decreased by TCHF 4,526 to TCHF 13,101. 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 declined from TCHF 44,259 to TCHF 35,574 as of June 30, 2014. Financing activities resulted in a cash outflow of TCHF 56,520, due mainly to the repayment of financial liabilities. The Group's investing activities used cash of TCHF 39,322, which was essentially due to payments for film assets. Operating activities generated a positive cash flow of TCHF 87,355.

Equity

As of June 30, 2014, the number of directly and indirectly held non-voting treasury shares in Highlight Communications AG, taking into account those held by subsidiaries, was 2,715,650 (December 31, 2013: 2,715,650).

Equity fell by TCHF 9,388, from TCHF 107,248 to TCHF 97,860 as of June 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 4,165 that was recognized in retained earnings. The remeasurement of the pension obligation also reduced retained earnings by TCHF 1,241 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 859 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 5,894 contributed to a positive effect.

Liabilities

While non-current liabilities decreased by TCHF 4,085 compared to the end of the year, current liabilities fell by a total of TCHF 62,938. Financial liabilities declined by TCHF 48,176 to TCHF 103,821. At the same time, trade accounts payable were down by TCHF 13,430 and other liabilities by a total of TCHF 6,815.

Sales and other income

Sales amounted to TCHF 216,261 in the reporting period after TCHF 156,360 in the same period of the previous year. Sales in the Sports- and Event-Marketing segment increased by TCHF 795 and those in the Film segment rose by TCHF 59,219. Capitalized film production costs and other own work capitalized decreased by TCHF 25,313 year-on-year. This decline is mostly attributable to the Film segment and reflects the lower production volume as compared to the first half of 2013.

Operating expenses

The cost of materials and licenses declined by TCHF 17,986 year-on-year. The reduction is primarily due to the lower production volume in the Film segment compared to the first half of 2013.

Personnel expenses amounted to TCHF 48,909 in the reporting period and were thus down slightly on the previous year's level.

Amortization, depreciation and impairment on film assets, intangible assets and property, plant and equipment totaling TCHF 76,822 (previous year's period: TCHF 30,263) comprise amortization and depreciation of TCHF 70,999 (previous year's period: TCHF 27,931) and impairment of TCHF 5,823 (previous year's period: TCHF 2,332), 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 784 in the period under review (previous year's period: TCHF 825). The cumulative unrecognized pro rata loss was TCHF 3,472 (December 31, 2013: TCHF 2,688).

Financial result

In the reporting period, the financial result was down by a total of TCHF 1,707 compared to the same period of the previous year, which was primarily due to exchange rate effects. In addition, a gain from the disposal of a financial instrument measured at fair value and sold as part of an equity swap transaction was recognized in the amount of TCHF 385 in the comparative period.

6. Dividend

Proposed dividends are only recognized after the motion for the appropriation of retained 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 business activities 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 were 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:

June 30, 2014 (TCHF)		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	FVPL/without category	–	47	–	47
Financial assets at fair value through profit or loss	FVPL	140	–	3,449	3,589
Financial assets (equity instruments)	FVOCI	11,194	–	–	11,194
Financial liabilities measured at fair value					
Financial liabilities with hedging relationships in accordance with IAS 39	without category	–	–	–	–
Derivative financial instruments	FLPL/without category	–	417	–	417

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	20	–
Currency translation differences through equity	–	–1
Acquisition	1,522	–
Sale	–	–360
Fair value June 30, 2014	**1,542**	**1,907**

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 360 and currency translation effects in the amount of TCHF 19. In the second quarter of 2014, Rainbow Home Entertainment AG also 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 June 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 June 30, 2014

(TCHF)	Film	Sports- and Event-Marketing	Other Business Activities	Other	Recon-ciliation	Group
External sales	189,964	24,800	1,497	–	–	216,261
Other segment income	32,279	153	300	–	–499	32,233
Segment expenses	–218,484	–14,728	–3,218	–2,835	499	–238,766
thereof amortization, depreciation	*–70,015*	*–415*	*–569*	–	–	*–70,999*
thereof impairment	*–5,823*	–	–	–	–	*–5,823*
Segment result	**3,759**	**10,225**	**–1,421**	**–2,835**	–	**9,728**
Non-allocable items:						
Earnings from investments in associated companies and joint ventures						122
Financial income						1,638
Financial expenses						–3,349
Profit before taxes						**8,139**

Segment information January 1 to June 30, 2013

(TCHF)	Film	Sports- and Event-Marketing	Other Business Activities	Other	Recon-ciliation	Group
External sales	130,745	24,005	1,610	–	–	156,360
Other segment income	59,453	45	492	–	–513	59,477
Segment expenses	–188,578	–15,248	–3,512	–3,067	513	–209,892
thereof amortization, depreciation	*–26,704*	*–516*	*–711*	–	–	*–27,931*
thereof impairment	*–2,332*	–	–	–	–	*–2,332*
Segment result	**1,620**	**8,802**	**–1,410**	**–3,067**	–	**5,945**
Non-allocable items:						
Earnings from investments in associated companies and joint ventures						–127
Financial income						4,103
Financial expenses						–4,107
Profit before taxes						**5,814**

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 10,991 to TCHF 72,693 as of June 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)	June 30, 2014	Dec. 31, 2013
Receivables	2,383	2,283
Liabilities	90	–

(TCHF)	Jan. 1 to June 30, 2014	Jan. 1 to June 30, 2013
Sales and other income	4,547	5,608
Cost of materials and licenses and other expenses	4,154	5,499

Associated companies

(TCHF)	June 30, 2014	Dec. 31, 2013
Receivables	4,164	3,079
Liabilities	–	26

(TCHF)	Jan. 1 to June 30, 2014	Jan. 1 to June 30, 2013
Sales and other income	45	2
Cost of materials and licenses and other expenses	46	47

Other related parties

(TCHF)	June 30, 2014	Dec. 31, 2013
Receivables	–	–
Liabilities	211	106

(TCHF)	Jan. 1 to June 30, 2014	Jan. 1 to June 30, 2013
Sales and other income	–	–
Cost of materials and licenses and other expenses	359	341

Parent company and its direct subsidiaries

(TCHF)	June 30, 2014	Dec. 31, 2013
Receivables	–	77
Liabilities	55	176

(TCHF)	Jan. 1 to June 30, 2014	Jan. 1 to June 30, 2013
Sales and other income	130	141
Cost of materials and licenses and other expenses	155	172

Other related party transactions essentially include the following:

In the reporting period, expenses of TCHF 203 (previous year's period: TCHF 184) 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 36 as of June 30, 2014 (December 31, 2013: TCHF 31).

As of June 30, 2014, there were further liabilities to various members of the Board of Directors and Managing Directors of TCHF 174 (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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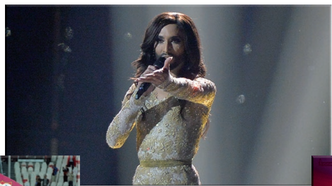
A surprise in Copenhagen: Almost 50 years after the country's first victory with Udo Jürgens, Austria won the Eurovision Song Contest for the second time thanks to Conchita Wurst.

Events 2014

Cinema	Locarno Film Festival	August 6 – 16
	Venice Film Festival	August 27 – September 6
	Toronto Film Festival	September 4 – 14
Football	UEFA Super Cup	August 12
Events	WTA Finals	October 17 – 26
Investor Relations	Interim report	November
	German Equity Forum	November 24 – 26



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