Highlight

Highlight Communications AG

2Q2019 INTERIM REPORT AS OF **JUNE 30, 2019**

The sales and earnings performance of the Highlight Group continues to be significantly influenced by the consolidation of Constantin Medien AG.

- Consolidated sales climbed by 7.2 % year-on-year to CHF 229.9 million.
- As expected, EBIT declined from CHF 10.1 million to CHF 1.6 million.
- The consolidated net profit for the period was also down year-on-year at CHF –1.8 million.
- The share of earnings attributable to Highlight's shareholders was CHF –0.5 million, corresponding to earnings per share of CHF –0.01.
- The equity ratio was 33.8 % as of the end of the first half of 2019 (December 31, 2018: 35.3 %).

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In the first half of 2019, revenues on the German movie theater market amounted to around EUR 430 million – an increase of 5.7 % compared with the first six months of the previous year (around EUR 407 million). Audience figures likewise rose by 6.5 % to around 49 million (same period of 2018: around 46 million). In contrast to 2018, there was no football World Cup in the reporting period luring audiences to their televisions rather than movie theaters.

The most-attended movies in the first half of the year were “Avengers: Endgame” (released on April 24, 2019) with around 5.0 million viewers, “Der Junge muss an die frische Luft” (released on December 25, 2018) with an audience of around 3.6 million, “Bohemian Rhapsody” (released on October 31, 2018) with around 3.5 million viewers, “How to Train Your Dragon: The Hidden World” (released on February 7, 2019) with an audience of around 2.2 million, and “Captain Marvel” (released on March 7, 2019) with around 2.0 million viewers. All the figures cited are taken from release, i.e. in some cases from 2018.

Home entertainment

The declining trend on the conventional home entertainment market continues, while the digital sales channels are gaining in importance. Revenues of EUR 496 million were generated in the period from January to June 2019, down 10 % on the same period of 2018 (EUR 552 million). However, these figures do not include SVoD (subscription video-on-demand), an area that is experiencing substantial growth and generated revenues of EUR 565 million in the reporting period (same period of 2018: EUR 411 million).

The downturn on the conventional market overall was attributable to a declining revenue volume from the sale and rental of physical media (DVD and Blu-ray), which fell by around 20 % to EUR 319 million (same period of 2018: EUR 399 million). By contrast, digital exploitation (electronic sell-through and transactional video-on-demand) enjoyed strong growth again, with revenues up 16 % on the previous year (EUR 152 million) to EUR 177 million.

Operational development

In the first half of 2019, the output deal with ProSiebenSat.1 Media SE was renewed for another three years. This new agreement relates to films that start shooting in the period from January 1, 2019, to December 31, 2021.

In addition, various library deals were concluded with several TV exploiters and streaming platforms, including ProSiebenSat.1, Netflix, Amazon, Telepool and RTL Nitro.

Theatrical production

In the first half of 2019, shooting started for a total of two own productions: “Das perfekte Geheimnis” – a Bora Dagtekin film starring Elyas M´Barek, Karoline Herfurth and Florian David Fitz – and the German-language remake of the French comedy “Contra” (aka “Le Brio”), directed by Sönke Wortmann.

In the same period, the Constantin Film Group acquired the exploitation rights for movies including “After We Collided” (the sequel to the hit film “After Passion”), “La belle époque”, “Play”, “The Best is Yet to Come” and “Shadow”.

Theatrical distribution

Nine Constantin Film Group movies were released in German theaters in the first six months of the year: the licensed titles “Belleville Cop”, “The Upside”, “The Beach Bum”, “After Passion” and “A Dog’s Journey” as well as the own and co-productions “Ostwind – Aris Ankunft”, “Kirschblüten & Dämonen”, “Der Fall Collini” and “The Silence”.

Home entertainment

Notable new releases in the home entertainment market in the first half of 2019 included the licensed titles “Welcome Home”, “Backtrace”, and “Belleville Cop” as well as the Constantin Film own and co-productions “Der Vorname” and “Asphaltgorillas”. The third season of the international Constantin Film TV series “Shadowhunters” and the TV series “Parfum” were also launched on the market.

License trading/TV exploitation

In German free-TV exploitation, sales in the second quarter of this year were generated in particular by the license starts for the theatrical movies “The Girl on the Train” and “Office Christmas Party” (both ProSieben). In pay-TV exploitation, license starts included “Fünf Freunde und das Tal der Dinosaurier” (Sky).

TV service production

The shows produced by Constantin Entertainment GmbH in the reporting period included further episodes of the quiz show “Genial daneben” (for SAT.1), the German docusoap “Frauentausch” (for RTL2), and “Shopping Queen” (for VOX). Moovie GmbH shot “Die Toten am Meer” on behalf of Degeto.

Constantin Television GmbH filmed further episodes of the popular daily show “Dahoam is Dahoam” and the TV series “Der Kroatien-Krimi”, among other things. In addition, shooting was completed for the SAT.1 production “Todesfrist”. Rat Pack Filmproduktion GmbH finished shooting the high-end series “Die Welle” (for Netflix) and the TV movies “Risiko Pille” (for NDR) and “Experiment Ost” (for ZDF). Hager Moss Film GmbH filmed “Saupreißn: Ein Passau-Krimi” and the TV drama “Auf dem Grund” on behalf of Degeto.

Analysis of non-financial performance indicators

Theatrical distribution

Of the Constantin Film titles released in German theaters in the first half of 2019, “After Passion” most notably met expectations, attracting an audience of around 1.1 million (including previews). Among the theatrical releases of all German productions in the first half of 2019, “Der Fall Collini” generated the most revenues at around EUR 6.2 million and “Ostwind – Aris Ankunft” attracted the biggest audience (around 747,000). In the distributor ranking, the Constantin Film Group therefore improved to fifth place (previous year: sixth place).

Home entertainment

In the period from January to June 2019, the Highlight Group achieved a share of 2 % on the German video sell-through market without its sales partners Paramount Home Entertainment and Universal Home Entertainment. The market position of the same period of 2018 (4 %), which particularly resulted from the excellent sales figures of the hit production “Fack Ju Göhte 3”, was therefore not maintained, as expected. The development in the first half of 2019 is chiefly due to the good sales figures for the blockbuster “Der Vorname”. The physical sales of the movie totaled 90,000 units. In addition, there were 200,000 VoD transactions in digital sales.

License trading/TV exploitation

The only theatrical film that was broadcast for the first time in the second quarter of 2019 was the thriller "The Girl on the Train", which achieved an audience of 1.13 million on ProSieben and a market share of 4.1 % of the overall market.

TV service production

In TV exploitation, very good ratings were generated again in the second quarter of 2019 and expectations were met. This related in particular to the Rat Pack production "Mein Freund, das Ekel" (broadcast on ZDF with approx. 7.86 million viewers and an overall market share of 25.5 %), the Olga Film production "Kommissarin Lucas: Polly" (broadcast on ZDF with approx. 5.61 million viewers and an overall market share of around 19.5 %) and the Westside production "Daheim in den Bergen – Liebesleid" (broadcast on ARD with 4.11 million viewers and an overall market share of 14 %).

"Dahoam is Dahoam" also delivered solid ratings in the first half of 2019 with an average overall market share of around 16 %. The Hager Moss Film GmbH production "Hartwig Seeler – Gefährliche Erinnerung", a new crime series for ARD, achieved an outstanding overall market share of 20.1 % in May.

BUSINESS DEVELOPMENT OF THE SPORTS- AND EVENT-MARKETING SEGMENT

Sector-specific situation

Deutsche Fussball Liga GmbH (DFL), which markets the broadcast rights for the Bundesliga and Bundesliga 2, is planning a new marketing concept together with the Federal Antitrust Office from the 2021/22 season. The three key changes under this concept are as follows:

First, the DFL aims to abolish the single-buyer-rule. This rule, which was only introduced for the current 2017 to 2021 cycle, prevents any company from securing all live-rights across a season on an exclusive basis. Second, the league is expected to relax the transmission obligations currently in place, meaning that providers distributing live signals, solely via one distribution technology, would be entitled to acquire all rights from the next cycle onwards. Third, the DFL is likely to rearrange live rights so that the number of packages offered on the market would decrease from five to four, thus reducing supply.

These three measures aim to drive competition and ultimately increase the revenues from media rights sales, which in the current 2017 to 2021 cycle amount to EUR 1.16 billion per annum on average. Rights are expected to be awarded in late 2019 or early 2020.

Operational development

Following the conclusion of the marketing process of the commercial rights to the UEFA Champions League and the UEFA Europa League for the 2018/19 to 2020/21 seasons, the TEAM Group's work was focused on development of the club competition rights for the 2021/22 to 2023/24 seasons. This development will be prepared in cooperation with UEFA.

Further focal points in the first half of 2019 were the ongoing support to UEFA's commercial partners and UEFA as well as preparations to support their activation of rights for the UEFA Europa League final in Baku and the UEFA Champions League final in Madrid. This year marked the first time in the history of these two club competitions, that all four finalists have come from a single country. The two London sides Chelsea FC and Arsenal FC met in Azerbaijan while Tottenham Hotspur competed against Liverpool FC in the Spanish capital.

Analysis of non-financial performance indicators

The UEFA Champions League final was once more broadcast in over 200 countries around the world and attracted a total audience of approximately 94 million across all platforms. These figures underline the final's continued status as one of the world's leading annual sports events.

In the UK, the match was seen by a total of 7.7 million viewers. 5.6 million of these viewers followed the match via their television sets, making it the highest ever pay-TV audience in the UK for any sports and non-sports event.

The UEFA Europa League final was broadcast in over 100 countries around the world and was seen by an average of 40 million viewers. Looking at the total number of viewers who watched the game live for at least one minute, the match reached an estimated 199 million.

BUSINESS DEVELOPMENT OF THE SPORTS SEGMENT

Sector-specific situation

According to the measurement and data analysis company Nielsen Holdings plc, the overall advertising trend grew slightly year-on-year (+0.1 %) for the first time after the first half of 2019 thanks to a successful June for the advertising industry.

The big winners of the first half of the year are the out-of-home marketers, which again grew significantly in June compared to the previous year and posted growth of nearly 9 % in the first half of the year. The second-strongest media class is online with growth of nearly 7 %. Viewed separately, the mobile segment of the online sector continued to boast the strongest growth in the first half of the year with 24.1 %. The only other media class with slight growth (+0.9 %) is radio. All other media groups saw a decline in advertising revenues in the first half of 2019: TV –1.3 %, newspapers –1.7 %, general-interest magazines –3.5 %, specialist magazines and cinema both –3.6 %.

Operational development

In the first half of the year, the program portfolio for the SPORT1 platforms was expanded with the following football rights: matches of the UEFA European Under-21 Championship, the German A and B Juniors Championship and the Juniors DFB Cup Final. In addition, SPORT1 acquired rights in volleyball (DVV Cup Final), beach volleyball (FIVB Beach Volleyball World Championships 2019), motorsport (Porsche Mobil 1 Supercup, Audi Sport Seyffarth R8 LMS Cup and highlight rights to the DTM), handball (international matches of the German Handball Association), in American football (German Bowl until 2024) and to the multisport events European Games 2019 and Ruhr Games 2019. With the new docutainment format "Operation Auto" launched in April, SPORT1 increased its involvement in docutainment, followed in June by the new format "Die PS PROFIS – Fahrschule".

On January 24, 2019, eSPORTS1 was successfully launched as the first e-sports station in the German-speaking region. Its line-up includes at least 1,200 live hours of top international and national events each year, as well as highlight programs and self-produced magazine shows. The new pay-TV channel reports around the clock on the best-known titles, such as League of Legends, Dota 2, Counter-Strike, Overwatch, Hearthstone, Fortnite, and FIFA 19. High-profile content partners such as ESL, Blizzard Entertainment, FIFA, DFL Deutsche Fussball Liga, and Sportradar are also involved. Since its launch, eSPORTS1 has been offered on the platforms of Vodafone Deutschland, Telekom, Unitymedia, 1&1, T-Mobile Austria, A1 Telekom, UPC Schweiz, and Zattoo and on the new eSPORTS1 app.

In marketing, SPORT1 MEDIA acquired advertising customers including ŠKODA, Unibet, Mäurer & Wirtz, LIQUI MOLY, and Bratislavská organizácia for the IIHF Ice Hockey World Championships 2019. In addition, the partnership with Telefónica Deutschland was expanded further: The highlights magazine show “Bundesliga Pur – Lunchtime” has been broadcast from Germany’s highest TV studio in Munich’s O2 Tower every Sunday since January.

In addition to the talk show “Ringlstetter”, the comedy show “Mittermeier!” and Bayerischer Rundfunk’s “Gesundheitsshow”, PLAZAMEDIA began producing studio productions for the entertainment station sixx in the second quarter of 2019. In addition, PLAZAMEDIA provided production services for ZDF in connection with the Bundesliga and UEFA European Under-21 Championship. Furthermore, extensive series production services were realized for Amazon, DAZN and SPORT1.

Analysis of non-financial performance indicators

In SPORT1’s free-TV offering, market shares among viewers aged three and over and in the core target group of 14- to 59-year-old men fell short of the previous year in the first half of 2019, as expected, due in particular to the loss of the UEFA Europa League. A positive impact was made by the upward trend in ice hockey with the IIHF Ice Hockey World Championships 2019, the DEL and the Champions Hockey League as well as the stable Bundesliga Sundays with “CHECK24 Doppelpass”, “Bundesliga Pur” and “Bundesliga Pur – Lunchtime”. Particular ratings highlights in the reporting period were the final of the World Darts Championship on January 1, the Ice Hockey World Championships in May and the Bundesliga shows.

Pay-TV distribution remained high as of June 30, 2019, with a total of 2.36 million subscribers to SPORT1+ (June 30, 2018: 2.10 million) and 1.15 million subscribers to SPORT1 US (June 30, 2018: 1.50 million), which was replaced by eSPORTS1 on January 24, 2019.

In the digital sector, the comparability of the 2019 and 2018 performance indicators was influenced by the thematically strong year 2018 with the Olympic Games and the FIFA World Cup, for which SPORT1 had acquired rights to highlight clips of all World Cup matches for its digital platforms, which accordingly generated high reach. Adjusted for these extraordinary effects, the individual performance indicators developed at a consistently high level, as expected.

In mobile, page impressions (PIs) and visits fell in the second quarter of 2019 compared to the same period of the previous year. However, this change was less pronounced over the first half of the year as a whole. In the case of visits in particular, numbers remained close to the level of the first half of 2018.

Online PIs and visits declined in both the quarterly and half-year comparison due to the shift in content use from online to mobile. The thematically strong year 2018 with the Olympic Games and the FIFA World Cup also contributed to this significant difference.

Video views on the SPORT1 platforms (video-on-demand and livestream) declined in both the second quarter and first half of 2019 compared with the corresponding periods of the previous year. Video views on YouTube fell in the second quarter of 2019 compared with the same period of the previous year, while they increased slightly year-on-year in the first half of 2019.

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

Results of Group operations

(CHF million)	Jan. 01 to June 30, 2019	Jan. 01 to June 30, 2018	Change
Sales	**222.9**	**214.5**	**7.2 %**
EBIT	**1.6**	**10.1**	**–84.2 %**
Net profit for the period	**–1.8**	**3.2**	**–156.3 %**
Net profit attributable to shareholders	**–0.5**	**3.3**	**–115.2 %**
Earnings per share (CHF)	**–0.01**	**0.06**	**–116.7 %**

It should be noted regarding the following statements on sales and earnings performance that Constantin Medien AG was consolidated for the first time effective March 31, 2018 and allocated to the Sports segment. The company's consolidation period was thus only three months in the first half of 2018, but a full six months for the current reporting period. Comparability with prior-year figures is therefore limited.

The increase in sales is largely due to these different consolidation periods in the Sports segment (up CHF 19.1 million). By contrast, the Film segment reported a reduction of CHF 6.3 million and the Sports- and Event-Marketing segment an increase of CHF 2.9 million. Capitalized film production costs and other own work capitalized was down by CHF 22.2 million at CHF 48.9 million on account of productions.

Consolidated operating expenses remained virtually constant year-on-year at CHF 285.5 million (CHF 282.1 million). An increase in personnel expenses of CHF 19.1 million was nearly offset by lower cost of materials and licenses (down CHF 8.2 million) and depreciation, amortization and impairment (down CHF 7.4 million).

The lower EBIT primarily results from the Sports segment which, as expected, contributed CHF –8.4 million to earnings in the first half of 2019. The fact that this decline is not reflected to the same extent in the consolidated net profit for the period is firstly because net finance costs improved by CHF 1.4 million to CHF –2.3 million and secondly because tax expenses decreased by CHF 2.1 million to CHF 1.1 million.

Results of segment operations

Film segment

(CHF million)	Jan. 01 to June 30, 2019	Jan. 01 to June 30, 2018	Change
Segment sales	**140.9**	**147.2**	**–4.3 %**
Segment earnings	**–2.5**	**3.2**	**–178.1**

The drop in sales in the Film segment reflects the fact that, as expected, the exceptionally high revenue achieved in home entertainment in the first half of 2018 – in particular as a result of the new release of the blockbuster "Fack Ju Göhte 3" – could not be repeated in the first six months of the current fiscal year.

Other segment income, which is largely influenced by capitalized film production costs, was also down by CHF 22.9 million year-on-year at CHF 52.4 million (previous year's period: CHF 75.3 million). This decline reflects the lower production volume at present compared to the first half of 2018. Segment expenses fell by CHF 23.4 million to CHF 195.9 million (previous year's period: CHF 219.3 million), though this did not fully offset the reduction in sales and other income.

Sports- and Event-Marketing segment

(CHF million)	Jan. 01 to June 30, 2019	Jan. 01 to June 30, 2018	Change
Segment sales	**32.9**	**30.0**	**9.7%**
Segment earnings	**16.2**	**14.9**	**8.7%**

The increase in the external sales of the Sports- and Event-Marketing segment results from the higher agency commission that the TEAM Group generated as a result of the successful marketing of UEFA club competitions for the 2018/19 to 2020/21 seasons. This increase did not fully impact segment earnings on account of the rise in segment expenses of CHF 1.4 million to CHF 16.8 million.

Sports segment

(CHF million)	Jan. 01 to June 30, 2019	Jan. 01 to June 30, 2018	Change
Segment sales	**56.4**	**37.2**	**51.6%**
Segment earnings	**–8.4**	**–4.4**	**–90.9%**

Owing to the different consolidation periods of Constantin Medien AG in the first half of 2018 (three months) and the first half of 2019 (six months), it is not yet possible to make any meaningful statement on the performance of the Sports segment.

The costs of holding activities remained virtually constant as against the first half of 2018 at CHF 3.6 million (CHF 3.7 million).

Net assets situation

(CHF million)	June 30, 2019	Dec. 31, 2018	Change
Balance sheet total	**653.8**	**638.6**	**2.4%**
Equity	**221.2**	**225.6**	**–2.0%**
Equity ratio (in %)	**33.8**	**35.3**	**–1.5 points**
Current financial liabilities	**180.6**	**149.0**	**21.2%**
Cash and cash equivalents	**47.5**	**52.5**	**–9.5%**

On the assets side, non-current assets rose by CHF 30.5 million to CHF 443.8 million (December 31, 2018: CHF 413.3 million). The increase is essentially a result of the first-time capitalization of right-of-use assets of CHF 41.8 million in connection with the adoption of IFRS 16, Leases.

Current assets were down by CHF 15.3 million year-on-year at CHF 210.0 million as of the end of the first half of 2019 (December 31, 2018: CHF 225.3 million). In particular, this was due to declines in trade accounts receivable and other receivables (down CHF 8.2 million), contract assets (down CHF 3.7 million) and cash and cash equivalents (down CHF 5.0 million).

On the equity and liabilities side, non-current liabilities rose by CHF 32.6 million to CHF 69.3 million (December 31, 2018: CHF 36.7 million), largely on account of the first-time recognition of lease liabilities (CHF 35.3 million) as a result of the adoption of IFRS 16. By contrast, current liabilities declined by CHF 13.1 million in total to CHF 363.3 million (December 31, 2018: CHF 376.4 million). An increase in financial liabilities (CHF 31.6 million) was offset by a reduction in advance payments received of CHF 21.6 million and in trade accounts payable and other liabilities of CHF 26.2 million.

The main reasons for the reduction in consolidated equity (including non-controlling interests) are the consolidated net loss for the period of CHF 1.8 million, dividend distributions of CHF 1.2 million, changes in non-controlling interests (down CHF 0.5 million) and other items recognized in equity of CHF –0.8 million.

Financial situation

As a result of the adoption of IFRS 16 and the rise in financial liabilities coupled with the lower cash and cash equivalents, net debt rose by CHF 45.1 million to CHF 141.6 million as of the end of the first half of 2019 (December 31, 2018: CHF 96.5 million). This represents gearing of 64.0% in relation to equity.

Operating activities generated a net cash inflow of CHF 15.8 million in the period from January to June 2019. The drop of CHF 65.3 million as against the same period of the previous year (CHF 81.1 million) was primarily due to changes in net working capital.

Net cash used in investing activities declined by CHF 139.1 million to CHF 47.4 million (previous year's period: CHF 186.5 million). The main reasons for this were significantly lower payments for film assets (down CHF 32.9 million) and the fact that payments of CHF 103.7 million were made for the acquisition of shares in Constantin Medien AG in the first half of 2018.

Financing activities led to a cash inflow of CHF 27.0 million (previous year's period: cash outflow of CHF 32.2 million), essentially attributable to net borrowing of CHF 33.1 million (previous year's period: net debt repayment of CHF 31.9 million).

REPORT ON RISKS AND OPPORTUNITIES

There were no significant changes in the Highlight Group's risks and opportunities in the first half of 2019. A detailed description of the risk management system and the risk and opportunity profile can be found in the management report of our 2018 annual report.

FORECAST

Sector-specific situation

Film segment

The forecast in our 2018 annual report, in which we predicted average annual growth of 1.2% for the German movie theater market up until 2022 based on a PwC study, has now been updated in line with the FFA's evaluation report regarding the film charge from 2019 to 2026. Accordingly, a 2% annual decline in the movie theater market is now being forecast.

The statements on the development of the physical and digital home entertainment market in the 2018 annual report remain valid.

Sports- and Event-Marketing segment

In June of this year, the media planning and buying company ZenithOptimedia forecast that global advertising expenditure will increase by 4.6 % to around USD 639 billion in 2019 as a whole. The growth rate is therefore significantly below the previous year's of 6.4 %, but according to ZenithOptimedia is nevertheless to be seen as a strong figure in light of the extraordinarily good performance in 2018.

Sports segment

According to its latest Ad Spend Forecast for 2019, the Dentsu Aegis Network is predicting minimal growth in advertising spending of 0.4 % in Germany; growth of 0.5 % is expected in 2020. The reasons cited by the agency for the investment restraint being shown by German companies are the high degree of maturity of the market, which is curbing total spending, and the German industry's uncertain economic forecasts. A recovery in the local market is not expected until 2020, when major political issues such as Brexit and punitive tariffs will be sorted out.

Based on the Ad Spend Forecast, advertising spending in digital channels will grow by 7.1 % in 2019, but spending in other media will decline more sharply than expected. According to the Dentsu Aegis Network, the German advertising market is driven by the segments online video, addressable tv, digital audio and digital out-of-home. The convergence of channels, especially in the TV and out-of-home business, offers new digital advertising opportunities, which will stimulate growth in the longer term.

Focal points

Film segment

According to current planning for the theatrical production/acquisition of rights business area, there are at least eleven promising projects in the pipeline for the second half of 2019. In particular, these include the own productions "Kaiserschmarrndrama" and "Wrong Turn" as well as the co-productions "Ostwind – Der große Orkan", "Stasikomödie" and "Eiffel in Love", an international co-production.

In theatrical distribution, five film releases are currently planned for the second half of 2019, including the film adaptation of the juvenile detective story "Die drei !!!", "Leberkäsjunkie" (the sixth adaptation from Rita Falk's best-selling book series), "Eine ganz heiße Nummer 2.0", the new Bora Dagtekin film "Das perfekte Geheimnis" and the licensed title "La belle époque".

In the third quarter of this year, the free-TV sector of the license trading/TV exploitation business area will mainly be defined by sales from the theatrical movies "Florence Foster Jenkins" and "Sauerkrautkoma". In pay-TV exploitation, sales will be generated from titles including "A Beautiful Day" (pay-per-channel, Sky).

In the TV service production business area, Constantin Film's subsidiaries are preparing numerous new projects, including the high-end series "Wir Kinder vom Bahnhof Zoo" (Amazon), "Das Unwort" (ZDF) and "Hammerfreundinnen" (ZDF). Internationally, a series based on the "Resident Evil" video games as well as other projects such as "Unwind" and "Highway of Tears" are in preparation.

Sports- and Event-Marketing segment

In the second half of 2019, the TEAM Group's activities will focus on three topics: the further development of the commercial rights to the UEFA club competitions in close cooperation with the Union of European Football Associations and other stakeholders, the support of UEFA business partners and UEFA itself in the planning of the marketing activities coming up this season, and the preparation of the marketing process for the commercial rights to the UEFA Champions League and the UEFA Europa League for the 2021/22 to 2023/24 seasons. The aim in this cycle will again be to market the TV and sponsorship rights of these three club competitions in the best possible manner, to achieve the performance targets agreed with UEFA, and thus obtain an automatic contract extension for subsequent seasons.

Sports segment

SPORT1 will continue to focus on the systematic use, distribution, and capitalization of multimedia content in the second half of 2019. In addition to augmenting the portfolio by acquiring attractive new rights, extending existing partnerships and developing new content cooperations and business areas, the cross-platform exploitation and production of established pillars of programming also remain central. These include the core sports of football in particular – including the Bundesliga, Bundesliga 2, and from August 2019 the DFB Pokal – as well as motorsports, ice hockey, basketball, volleyball, boxing, darts, tennis, US sports, and e-sports.

Given the still massive growth in the digital and cross-platform use of media content, Sport1 GmbH will continue to promote the digital diversification of the SPORT1 brand in fiscal year 2019 while at the same time creating new content and marketing environments. The fundamental priorities here are the development of new mobile offerings, the further intensification of social media activities, and the expansion of the video segment via proprietary apps and video brand channels or the use of new social media video offerings. The activities also include proprietary content and formats in the rapidly growing e-sports segment – such as the pay service eSPORTS1 launched in January 2019 and the new eSPORTS1 app as further milestones.

PLAZAMEDIA is focusing on sophisticated and complex live sports productions and non-live formats, the development of innovative production technologies, content management solutions and technical content distribution. In addition to conventional broadcast activities, the expansion of the PLAZAMEDIA portfolio is focused in particular on the development of new and existing digital production activities, products, and services. Cooperations with various renowned partners here are opening up access to new markets and players. The aim is to build on existing business relationships on the basis of the diverse range of services, to tap new business areas and customer groups, and thus to provide the customer portfolio as a whole with a broader basis in fiscal year 2019.

Financial targets of the Highlight Group

On the basis of these activities, we continue to forecast consolidated sales of between CHF 520 million and CHF 540 million as well as a consolidated net profit attributable to shareholders of between CHF 20 million and CHF 22 million for 2019 as a whole.

Notes and forward-looking statements

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

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

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

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

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

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

as of June 30, 2019 – Highlight Communications AG, Pratteln

CONSOLIDATED BALANCE SHEET

as of June 30, 2019 (unaudited) – Highlight Communications AG, Pratteln

ASSETS (TCHF)	June 30, 2019	Dec. 31, 2018
Non-current assets		
In-house productions	154,624	151,364
Third-party productions	25,267	34,087
Film assets	179,891	185,451
Other intangible assets	60,148	62,220
Goodwill	133,431	133,531
Property, plant and equipment	13,736	17,555
Right-of-use assets	41,835	–
Investments in associated companies	53	54
Non-current receivables	10,931	13,343
Other financial assets	871	9
Deferred tax assets	2,876	1,141
	443,772	413,304
Current assets		
Inventories	6,850	5,860
Trade accounts receivable and other receivables	134,541	142,709
Contract assets	19,764	23,507
Other financial assets	416	–
Income tax receivables	974	736
Cash and cash equivalents	47,473	52,530
	210,018	225,342
Total assets	653,790	638,646

EQUITY AND LIABILITIES (TCHF)	June 30, 2019	Dec. 31, 2018
Equity		
Subscribed capital	63,000	63,000
Treasury stock	–6,258	–6,258
Capital reserve	–67,674	–67,203
Other reserves	–34,767	–34,356
Retained earnings	243,448	244,287
Equity attributable to shareholders	197,749	199,470
Non-controlling interests	23,469	26,112
	221,218	225,582
Non-current liabilities		
Financial liabilities	–	934
Lease liabilities	35,319	–
Other liabilities	167	1,958
Pension liabilities	4,168	3,563
Deferred tax liabilities	29,630	30,204
	69,284	36,659
Current liabilities		
Financial liabilities	180,633	149,004
Lease liabilities	8,408	–
Advance payments received	50,526	72,111
Trade accounts payable and other liabilities	108,767	135,015
Contract liabilities	6,368	8,131
Provisions	5,226	7,856
Income tax liabilities	3,360	4,288
	363,288	376,405
Total equity and liabilities	653,790	638,646

The notes on pages 20 – 29 are an integral part of these consolidated interim financial statements.

CONSOLIDATED INCOME STATEMENT

January 1 to June 30, 2019 (unaudited) – Highlight Communications AG, Pratteln

(TCHF)	Jan. 01 to June 30, 2019	Jan. 01 to June 30, 2018
Sales	229,927	214,478
Capitalized film production costs and other own work capitalized	48,884	71,127
Other operating income	8,283	6,644
Costs for licenses, commissions and materials	–27,183	–21,754
Costs for purchased services	–86,598	–100,229
Cost of materials and licenses	–113,781	–121,983
Salaries	–71,786	–54,986
Social security, pension costs	–9,558	–7,227
Personnel expenses	–81,344	–62,213
Amortization and impairment on film assets	–45,767	–59,279
Amortization, depreciation and impairment on intangible assets and property, plant and equipment	–5,687	–3,659
Amortization, depreciation and impairment on right-of-use assets	–4,102	–
Amortization, depreciation and impairment	–55,556	–62,938
Other operating expenses	–35,114	–34,721
Impairment/reversals of impairment on financial assets	307	–221
Losses/gains from the derecognition of financial assets measured at amortized cost	–3	–28
Profit from operations	1,603	10,145
Earnings from investments in associated companies	–	–
Financial income	2,349	1,988
Financial expenses	–4,675	–5,715
Financial result	–2,326	–3,727
Profit before taxes	–723	6,418
Current taxes	–1,760	–4,954
Deferred taxes	684	1,773
Taxes	–1,076	–3,181
Net profit for the period	–1,799	3,237
thereof shareholders' interests	–506	3,343
thereof non-controlling interests	–1,293	–106

Earnings per share (CHF)		
Earnings per share attributable to shareholders (basic)	–0.01	0.06
Earnings per share attributable to shareholders (diluted)	–0.01	0.06
Average number of shares in circulation (basic)	56,742,499	59,602,577
Average number of shares in circulation (diluted)	56,742,499	59,602,577

The notes on pages 20 – 29 are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS

January 1 to June 30, 2019 (unaudited) – Highlight Communications AG, Pratteln

(TCHF)	Jan. 01 to June 30, 2019	Jan. 01 to June 30, 2018
Net profit for the period	**–1,799**	**3,237**
Currency translation differences	–340	–1,847
Gains/losses from cash flow hedges	–118	1,759
Items that may be reclassified to the income statement in future	**–458**	**–88**
Actuarial gains and losses of defined benefit pension plans	–326	747
Gains/losses from financial assets at fair value through other comprehensive income/loss	–7	–
Items that will not be reclassified to the income statement in future	**–333**	**747**
Total other comprehensive income/loss, net of tax	**–791**	**659**
Total comprehensive income/loss	**–2,590**	**3,896**
thereof shareholders' interests	–1,250	4,255
thereof non-controlling interests	–1,340	–359

The notes on pages 20 – 29 are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

January 1 to June 30, 2019 (unaudited) – Highlight Communications AG, Pratteln

	Equity attributable to shareholders							
(TCHF)	Sub-scribed capital	Treasury stock	Capital reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance as of December 31, 2018	63,000	–6,258	–67,203	–34,356	244,287	199,470	26,112	225,582
Currency translation differences	–	–	–	–293	–	–293	–47	–340
Gains/losses from cash flow hedges	–	–	–	–118	–	–118	–	–118
Items that may be reclassified to the income statement in future	–	–	–	–411	–	–411	–47	–458
Actuarial gains/losses of defined benefit pension plans	–	–	–	–	–326	–326	–	–326
Gains/losses from financial assets at fair value through other comprehensive income	–	–	–	–	–7	–7	–	–7
Items that will not be reclassified to the income statement in future	–	–	–	–	–333	–333	–	–333
Total other comprehensive income/loss, net of tax	–	–	–	–411	–333	–744	–47	–791
Net profit for the period	–	–	–	–	–506	–506	–1,293	–1,799
Total comprehensive income/loss	–	–	–	–411	–839	–1,250	–1,340	–2,590
Dividend payments	–	–	–	–	–	–	–1,247	–1,247
Change in non-controlling interests	–	–	–471	–	–	–471	–56	–527
Balance as of June 30, 2019	63,000	–6,258	–67,674	–34,767	243,448	197,749	23,469	221,218
Balance as of December 31, 2017	63,000	–45	–54,956	–32,841	256,414	231,572	4,842	236,414
Retrospective change to the accounting method due to IFRS 9 and IFRS 15	–	–	–	–	–347	–347	–	–347
Balance as of January 1, 2018	63,000	–45	–54,956	–32,841	256,067	231,225	4,842	236,067
Currency translation differences	–	–	–	–1,594	–	–1,594	–253	–1,847
Gains/losses from cash flow hedges	–	–	–	1,759	–	1,759	–	1,759
Items that may be reclassified to the income statement in future	–	–	–	165	–	165	–253	–88
Actuarial gains/losses of defined benefit pension plans	–	–	–	–	747	747	–	747
Items that will not be reclassified to the income statement in future	–	–	–	–	747	747	–	747
Total other comprehensive income/loss, net of tax	–	–	–	165	747	912	–253	659
Net profit for the period	–	–	–	–	3,343	3,343	–106	3,237
Total comprehensive income/loss	–	–	–	165	4,090	4,255	–359	3,896
Sale of treasury stock	–	2,000	–	–	10,221	12,221	–	12,221
Dividend payments	–	–	–11,355	–	–	–11,355	–1,092	–12,447
Change in the scope of consolidation	–	–8,183	–	–	–41,434	–49,617	25,650	–23,967
Balance as of June 30, 2018	63,000	–6,228	–66,311	–32,676	228,944	186,729	29,041	215,770

The notes on pages 20 – 29 are an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

January 1 to June 30, 2019 (unaudited) – Highlight Communications AG, Pratteln

(TCHF)	Jan. 01 to June 30, 2018	Jan. 01 to June 30, 2017
Net profit for the period	–1,799	3,237
Deferred taxes	–684	–1,773
Current taxes	1,760	4,954
Financial result (without currency result)	2,533	1,714
Earnings from investments in associated companies	–	–
Amortization, depreciation and impairment on non-current assets	55,556	62,938
Gain (–)/loss (+) from disposal of non-current assets	–4	21
Other non-cash items	–15	405
Increase (–)/decrease (+) in inventories, trade accounts receivable and other assets not classified to investing or financing activities	11,334	38,078
Decrease (–)/increase (+) in trade accounts payable and other liabilities not classified to investing or financing activities	–49,182	–19,256
Dividends received from associated companies	–	–
Interest paid	–800	–6,896
Interest received	24	24
Income taxes paid	–3,188	–3,761
Income taxes received	277	1,407
Cash flow from operating activities	**15,812**	**81,092**
Payments for the acquisition of companies/shares in companies (less cash and cash equivalents acquired)	–	–103,695
Payments for intangible assets	–2,189	–825
Payments for film assets	–45,121	–78,010
Payments for property, plant and equipment	–2,979	–4,195
Payments for financial assets	–941	–
Proceeds from disposal of intangible assets and film assets	1,017	–
Proceeds from disposal of property, plant and equipment	2,782	234
Proceeds from disposal of financial assets	–	35
Cash flow for investing activities	**–47,431**	**–186,456**
Proceeds from sale of treasury stock	–	12,221
Payments for purchase of non-controlling interests	–527	–
Repayment of current financial liabilities	–8,422	–43,157
Repayment of lease liabilities	–4,396	–
Proceeds from receipt of current financial liabilities	41,558	11,212
Dividend payments	–1,247	–12,447
Cash flow from/for financing activities	**26,966**	**–32,171**
Cash flow for the reporting period	**–4,653**	**–137,535**
Cash and cash equivalents at the beginning of the reporting period	52,530	186,553
Effects of currency differences	–404	–740
Cash and cash equivalents at the end of the reporting period	47,473	48,278
Change in cash and cash equivalents	**–4,653**	**–137,535**

The notes on pages 20 – 29 are an integral part of these consolidated interim financial statements.

1. GENERAL INFORMATION ON THE GROUP

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

Highlight Communications AG's Board of Directors authorized the publication of these unaudited, condensed consolidated interim financial statements on August 21, 2019.

2. ACCOUNTING AND VALUATION PRINCIPLES

The unaudited, condensed consolidated interim financial statements for the period from January 1 to June 30, 2019 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, 2018.

With the exception of the first-time adoption of new or amended standards and interpretations described in note 3, the accounting and valuation policies applied when preparing the condensed consolidated interim financial statements remained consistent with those applied in the consolidated financial statements for fiscal year 2018 (see 2018 annual report, notes to the consolidated financial statements, note 4).

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

The Film and Sports segments are subject to seasonal fluctuations. The Film segment's sales depend on the respective theatrical release dates and the subsequent exploitation chain. The Sports segment generates lower sales in the summer months due to lower advertising income, which depends on broadcasting rights to sporting events. This leads to fluctuations in terms of sales and segment earnings in the quarters of the fiscal year.

When preparing the condensed consolidated interim financial statements, the management is required to make estimates and assumptions that affect the reported assets, liabilities, contingent liabilities and contingent assets at the balance sheet date, as well as income and expenses of the reporting period (see 2018 annual report, notes to the consolidated financial statements, note 5 as well as the amendments in note 4 of these condensed consolidated interim financial statements).

3. CHANGES TO ACCOUNTING POLICIES

3.1 Adoption of IFRS 16 "Leases"

The IASB published the final version of IFRS 16 "Leases" in January 2016. The Standard replaces IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

The Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 provides for a single accounting model for lessees. All assets and liabilities under leases are recognized in the balance sheet unless the lease has a term of twelve months or less or the lease is for a low-value asset. The lessor still distinguishes between finance and operating leases for accounting purposes.

IFRS 16 is effective for the first time for annual periods beginning on or after January 1, 2019. The Highlight Group has chosen modified retrospective application.

In accordance with IFRS 16.C7, comparative information for earlier periods is not restated. Its adoption essentially affects the leases previously classified as operating leases.

In accordance with the option provided by IFRS 16.5, short-term leases with a term of not more than twelve months (and without a purchase option) and leases for low-value assets (i.e. typically less than TEUR 5 per asset) were not accounted for in accordance with IFRS 16, but rather recognized as other operating expenses on a straight-line basis over the term of the lease. Furthermore, in accordance with IFRS 16.15, no lease classes are separated into lease and non-lease components; instead, all contract components are recognized as a lease. The Highlight Group also applied the practical expedients of IFRS 16.C3(b) and did not review contracts that were not classified as leases under IAS 17 "Leases" in conjunction with IFRIC 4 "Determining whether an Arrangement contains a Lease" according to the definition of a lease in IFRS 16. Contracts classified as leases in accordance with IAS 17 continue to be treated as such. The Highlight Group does not exercise the option provided by IFRS 16.4 for intangible assets, and still accounts for intangible assets in accordance with the principles of IAS 38.

The Group has leases for various items of plant equipment, machinery, vehicles and real estate. When adopting IFRS 16, the right-of-use asset for the lease asset was measured at the value of the lease liability, adjusted for prepaid or deferred lease payments. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The Group's weighted average incremental borrowing rate was between 0.16 % and 3.23 %. In accordance with IFRS 16.C10(d), the initial direct costs were not taken into account when measuring the right-of-use asset at the date of initial application.

For leases previously classified as finance leases, the carrying amount of the lease asset in accordance with IAS 17 immediately before the adoption of IFRS 16 and the carrying amount of the lease liability in accordance with IAS 17 were recognized as the initial carrying amount of the right-of-use asset and the lease liability in accordance with IFRS 16. The measurement principles of IFRS 16 are only applied thereafter.

The reconciliation of the rental and lease obligations not shown in the balance sheet as of December 31, 2018 to the lease liabilities recognized as of January 1, 2019 is as follows:

(TCHF)	Building and room rental	Vehicles	Other	Total
Lease and rental obligations not shown in the balance sheet as of December 31, 2018	**42,043**	**1,024**	**485**	**43,552**
Rental and lease obligations reported under other financial liabilities as of December 31, 2018	242	–	973	1,215
Discounting	–2,811	–25	–35	–2,871
Short-term leases	–1,689	–116	–2	–1,807
Leases for low-value assets	–	–	–72	–72
Variable lease payments	–3,569	–	–	–3,569
Reasonably certain extension and termination options	5,633	–	–	5,633
Adjustments due to changes in indices impacting variable payments	612	–	–	612
Non-lease components	–769	–	–	–769
Intangible assets	–	–	–250	–250
Other	102	–16	–	86
Lease liabilities due to the first-time adoption of IFRS 16 as of January 1, 2019	**39,794**	**867**	**1,099**	**41,760**
Lease liabilities from finance leases as of January 1, 2019	–	–	1,164	1,164
Total lease liabilities as of January 1, 2019	**39,794**	**867**	**2,263**	**42,924**

The quantitative impact of the adoption of IFRS 16 on the consolidated balance sheet as of January 1, 2019 is shown by the table below:

(TCHF)	Dec. 31, 2018	Adjustments IFRS 16	Reclassi-fications IFRS 16	Jan. 01, 2019
Non-current assets				
In-house productions	151,364	–	–	151,364
Third-party productions	34,087	–	–	34,087
Film assets	185,451	–	–	185,451
Other intangible assets	62,220	–	–	62,220
Goodwill	133,531	–	–	133,531
Property, plant and equipment	17,555	–	–1,340	16,215
Right-of-use assets	–	39,902	1,340	41,242
Investments in associated companies	54	–	–	54
Non-current receivables	13,343	–	–	13,343
Other financial assets	9	–	–	9
Deferred tax assets	1,141	1,112	–	2,253
	413,304	**41,014**	**–**	**454,318**
Current assets				
Inventories	5,860	–	–	5,860
Trade accounts receivable and other receivables	142,709	–	–	142,709
Contract assets	23,507	–	–	23,507
Income tax receivables	736	–	–	736
Cash and cash equivalents	52,530	–	–	52,530
	225,342	**–**	**–**	**225,342**
Total assets	**638,646**	**41,014**	**–**	**679,660**
Equity				
Subscribed capital	63,000	–	–	63,000
Treasury stock	–6,258	–	–	–6,258
Capital reserve	–67,203	–	–	–67,203
Other reserves	–34,356	–	–	–34,356
Retained earnings	244,287	–	–	244,287
Equity attributable to shareholders	199,470	–	–	199,470
Non-controlling interests	26,112	–	–	26,112
	225,582	**–**	**–**	**225,582**
Non-current liabilities				
Financial liabilities	934	–	–934	–
Lease liabilities	–	34,324	934	35,258
Other liabilities	1,958	–1,788	–	170
Pension liabilities	3,563	–	–	3,563
Deferred tax liabilities	30,204	1,112	–	31,316
	36,659	**33,648**	**–**	**70,307**
Current liabilities				
Financial liabilities	149,004	–	–230	148,774
Lease liabilities	–	7,436	230	7,666
Advance payments received	72,111	–	–	72,111
Trade accounts payable and other liabilities	135,015	–70	–	134,945
Contract liabilities	8,131	–	–	8,131
Provisions	7,856	–	–	7,856
Income tax liabilities	4,288	–	–	4,288
	376,405	**7,366**	**–**	**383,771**
Total equity and liabilities	**638,646**	**41,014**	**–**	**679,660**

There were no onerous leases as of the adoption date of IFRS 16, hence there was no impairment on right-of-use assets.

The difference between the right-of-use assets from leases and the current and non-current lease liabilities of TCHF 1,858 relates to corrections of deferred lease liabilities from the adoption of IFRS 16.

The adoption of IFRS 16 “Leases” also requires additional disclosures in the notes. The Highlight Group will present these in full for the first time in the consolidated financial statements as of December 31, 2019.

3.2 Summary of new accounting policies for leases

Lease liabilities

At the inception of the lease, the Group recognizes lease liabilities measured at the present value of the lease payments to be made over the term of the lease. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate and amounts expected to be payable under residual value guarantees. Lease payments also include the exercise price of a purchase option that the Group can exercise with reasonable certainty and the payments of penalties for terminating the lease early if the Group exercises the option. Variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

If it is not practicable to determine the interest rate implicit in the lease, the Group uses the incremental borrowing rate at the inception of the lease to calculate the present value of the lease payments. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

After the inception of the lease, the amount of the lease liability is increased by the interest accreted and reduced by the lease payments made. Furthermore, the carrying amount of the lease liabilities is remeasured if there is a change in the term of the lease, a change in the significant fixed lease payments or a change in the acquisition-date value of the lease asset.

Right-of-use assets

The Group recognizes right-of-use assets at the inception of the lease, i.e. when the underlying asset is available for use. Right-of-use assets are measured at cost less cumulative depreciation and impairment and adjusted for the remeasurement of lease liabilities. The cost of a right-of-use asset comprises the amount of the lease liabilities recognized, the initially incurred direct costs and the lease payments made at or before the inception of the lease, less any lease incentives received. If the Group is not reasonably certain that it will acquire ownership of the lease asset at the end of the lease term, the capitalized right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

4. CHANGE IN JUDGMENT/ESTIMATION UNCERTAINTY

Leases

The Group determines the lease term as the non-cancellable lease term and all periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option and all periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option. The Group assesses whether it is reasonably certain to exercise the extension option at its own discretion. This means that management takes into account all relevant factors that create an economic incentive to extend the lease. After the inception of the lease, the Group reassesses the term of the lease when a material event or change in circumstances (such as a change in business strategy) occurs within the Group's control and affects its ability to exercise or not exercise the option.

In the initial measurement of the lease liability and the right-of-use asset from the sale/leaseback transaction for the PLAZAMEDIA GmbH broadcasting center, it was deemed reasonably certain that the purchase option would be exercised on termination of the lease. Accordingly, the right-of-use asset is written down over its economic life, which is longer than the fixed duration of the lease.

5. CHANGES IN THE SCOPE OF CONSOLIDATION

In the first quarter of 2019, Highlight Communications AG increased its shareholding in Constantin Medien AG, which was already fully consolidated, from 79.18 % to 79.44 %. This is a transaction between equity providers that reduced equity by TCHF 527.

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

6.1 Film assets

As of June 30, 2019, film assets decreased by TCHF 5,560 compared to December 31, 2018. In-house productions rose by TCHF 3,260, while third-party productions declined by a total of TCHF 8,820. This reduction was essentially due to higher amortization and impairment on film assets than investment.

6.2 Other financial assets

Sport1 GmbH acquired 5.56 % of the shares in AGF Videoforschung GmbH at a price of TCHF 518 in mid-March 2019. The purchase price was paid in cash.

Highlight Communications AG acquired 0.23 % of the shares in Highlight Event and Entertainment AG at a price of TCHF 423 in the first quarter of 2019. The purchase price was paid in cash.

Sport1 GmbH acquired 10 % of the shares in Summacum GmbH on June 28, 2019. The purchase price was paid in the form of a cash contribution of TCHF 3 and a media-for-equity contribution of TCHF 333.

The new equity investments are irrevocably recognized at fair value through other comprehensive income (FVTOCI).

The equity investments in AGF Videoforschung GmbH and Summacum GmbH are assigned to level 3 of the fair value hierarchy. They are strategic financial investments of Constantin Medien AG. The shares in Highlight Event and Entertainment AG are assigned to level 1.

6.3 Contract assets

The carrying amount of contract assets declined from TCHF 23,507 to TCHF 19,764.

6.4 Cash and cash equivalents

Cash and cash equivalents declined from TCHF 52,530 to TCHF 47,473 as of June 30, 2019. Financing activities resulted in a cash inflow of TCHF 26,966, primarily as a result of the borrowing of current financial liabilities. The Group's investing activities used cash of TCHF 47,431, which was essentially due to payments for film assets. Operating activities generated a positive cash flow of TCHF 15,812.

6.5 Equity

The number of directly and indirectly held non-voting treasury shares in Highlight Communications AG was 6,257,501 as of June 30, 2019 (December 31, 2018: 6,257,501).

The increase in the equity investment in Constantin Medien AG from 79.18 % to 79.44 % shown in equity led to a reduction in capital reserves of TCHF 471 and a reduction in non-controlling interests of TCHF 56.

The remeasurement of pension obligations led to a drop in retained earnings of TCHF 326 on account of the reduction in the discount rate in particular.

Other reserves totaled TCHF -34,767 as of the end of the reporting period (December 31, 2018: TCHF -34,356). As of June 30, 2019 these relate to the translation of the equity of companies that do not use Swiss francs as their functional currency (TCHF -34,510; December 31, 2018: TCHF -34,217) and from other cash flow hedge reserves of TCHF -257 (December 31, 2018: TCHF -139).

6.6 Lease liabilities

PLAZAMEDIA GmbH entered into a sale/leaseback agreement for the storage system on January 28, 2019. The sale price is TEUR 408 and the net monthly lease payment is TEUR 7. The lease term is 60 months. In this context, Constantin Medien AG assumed a directly enforceable guarantee for all liabilities of PLAZAMEDIA GmbH arising from the agreement. The guarantee is perpetual and is capped at TEUR 563.

PLAZAMEDIA GmbH entered into a sale/leaseback agreement for part of the new broadcast center on January 30, 2019. The sale price is TEUR 3,537 and the net monthly lease payment is TEUR 63. The lease term is 60 months. In this context, Constantin Medien AG assumed a directly enforceable guarantee for all liabilities of PLAZAMEDIA GmbH arising from the agreement. The guarantee is perpetual and is capped at TEUR 4,930. This lease contains a purchase option (TEUR 177) to buy back assets after the end of the lease. It is reasonably certain that the option will be exercised.

6.7 Contract liabilities

The carrying amount of contract liabilities declined from TCHF 8,131 to TCHF 6,368.

6.8 Amortization, depreciation and impairment

(TCHF)	Jan. 01 to June 30, 2019	Jan. 01 to June 30, 2018
Scheduled amortization on film assets	43,740	56,047
Scheduled amortization on intangible assets	3,163	2,230
Scheduled depreciation on property, plant and equipment	2,524	1,429
Scheduled amortization/depreciation on right-of-use assets	4,102	–
Scheduled amortization/depreciation	**53,529**	**59,706**
Impairment on film assets	2,027	3,232
Impairment	**2,027**	**3,232**

6.9 Financial result

Financial income

(TCHF)	Jan. 01 to June 30, 2019	Jan. 01 to June 30, 2018
Interest and similar income	28	29
Gains from changes in the fair value of financial instruments	1,088	558
Currency exchange gains	1,233	1,401
Total	**2,349**	**1,988**

Financial expenses

(TCHF)	Jan. 01 to June 30, 2019	Jan. 01 to June 30, 2018
Interest and similar expenses	2,443	1,999
Losses from changes in the fair value of financial instruments	805	302
Currency exchange losses	1,026	3,414
Interest expenses from lease liabilities	401	–
Total	**4,675**	**5,715**

7. DIVIDEND

Proposed dividends are only recognized once the proposal for the appropriation of retained earnings is approved by the Annual General Meeting. At the Annual General Meeting for fiscal year 2018, which was held on June 20, 2019, the Board of Directors proposed a dividend distribution of CHF 0.20 per share from reserves from capital contributions. The dividend was approved by the Annual General Meeting and distributed from July 1, 2019.

8. DISCLOSURES ON FINANCIAL RISK MANAGEMENT

8.1 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:

Fair value hierarchy

June 30, 2019 (TCHF)		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	FVTPL /no category	–	1,226	–	1,226
Financial assets (equity instruments)	FVTOCI	416	–	871	1,287
Financial liabilities measured at fair value					
Financial liabilities with hedging relationships	AC	–	366	–	366
Derivative financial instruments	FLTPL	–	956	–	956
Financial liabilities	FLTPL	–	–	73	73

December 31, 2018 (TCHF)		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	FVTPL /no category	–	1,290	–	1,290
Financial assets (equity instruments)	FVTOCI	–	–	9	9
Financial liabilities measured at fair value					
Financial liabilities with hedging relationships	AC	–	223	–	223
Derivative financial instruments	FLTPL	–	1,485	–	1,485
Financial liabilities	FLTPL	–	–	74	74

AC: Financial assets at amortized cost
FVTOCI: Financial assets at fair value through OCI
FVTPL: Financial assets at fair value through profit or loss
FLTPL: Financial liabilities at fair value through profit or loss

Disclosures on level 3 financial instruments:

	Investment in Geenee Inc.	Preference shares	AGF Videoforschung GmbH	Summacum GmbH	Other investments	Financial liabilities
Fair value on December 31, 2017	**–**	**–**	**–**	**–**	**–**	**–**
Change in the scope of consolidation	–	–	–	–	9	74
Fair value on December 31, 2018	**–**	**–**	**–**	**–**	**9**	**74**
Gains/(losses) through equity	–	–	8	–	–	–1
Purchase	–	–	518	336	–	–
Fair value on June 30, 2019	**–**	**–**	**526**	**336**	**9**	**73**

The financial assets measured at fair value 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 derivative financial instruments.

The preference shares assigned to level 3 of the fair value hierarchy and the shares in Geenee Inc. had already been written down in full in previous years. There were no indications of a reversal of impairment in the reporting period. The fair values of the equity investments in AGF Videoforschung GmbH and Summacum GmbH are their respective purchase prices (adjusted for currency effects) as they were acquired in the first half of 2019. For reasons of materiality, other non-current equity instruments totaling TCHF 9 (December 31, 2018: TCHF 9) are recognized at historical cost. There was an earn-out liability of TCHF 73 (December 31, 2018: TCHF 74) recognized as a level 3 financial instrument as of the end of the reporting period. Deviations from the planning of Hager Moss Film GmbH would not give rise to any material changes to this earn-out liability.

There were no reclassifications between the individual levels of the fair value hierarchy. They are reclassified quarterly in each reporting period if circumstances requiring a different classification arise.

8.2 Financial assets and liabilities at amortized cost

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

8.3 Fair value of non-financial assets and liabilities

As of June 30, 2019 or December 31, 2018, there were no non-financial assets or liabilities measured at fair value.

9. SEGMENT REPORTING

Segment information January 01 to June 30, 2019

(TCHF)	Film	Sports- and Event-Marketing	Sports	Other	Recon-ciliation	Group
External sales	140,852	32,876	56,440	–	–	230,168
Intragroup sales	56	–	–	–	–297	–241
Total sales	140,908	32,876	56,440	–	–297	229,927
Other segment income	52,414	67	4,811	–	–125	57,167
Segment expenses	–195,869	–16,782	–69,648	–3,614	422	–285,491
thereof amortization, depreciation	*–45,804*	*–641*	*–7,084*	*–*	*–*	*–53,529*
thereof impairment	*–2,027*	*–*	*–*	*–*	*–*	*–2,027*
Segment earnings	**–2,547**	**16,161**	**–8,397**	**–3,614**	**–**	**1,603**
Time reference of sales						
Over time	66,099	–	24,430	–	–	90,529
Point in time	74,753	32,876	32,010	–	–	139,639
	140,852	**32,876**	**56,440**	**–**	**–**	**230,168**
Sales by product						
Film	74,753	–	–	–	–	74,753
Production services	66,099	–	–	–	–	66,099
Sports- and Event-Marketing	–	32,876	–	–	–	32,876
Platform	–	–	45,620	–	–	45,620
Services	–	–	10,820	–	–	10,820
	140,852	**32,876**	**56,440**	**–**	**–**	**230,168**

Segment information January 01 to June 30, 2018

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

The elimination of inter-segment transactions is reported in the “Reconciliation” column.

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

Compared to the consolidated financial statements as of December 31, 2018, financial commitments, contingent liabilities and other unrecognized financial obligations decreased by TCHF 67,145 to TCHF 131,879 as of June 30, 2019 on account of the adoption of IFRS 16 in particular.

11. RELATED PARTY DISCLOSURES

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

Related party disclosures

(TCHF)	June 30, 2019	Dec. 31, 2018
Receivables	–	–
Liabilities	58	59

(TCHF)	Jan. 01 to June 30, 2019	Jan. 01 to June 30, 2018
Sales and other income	–	–
Cost of materials and licenses and other expenses	26	88

Parent company and its direct subsidiaries

(TCHF)	June 30, 2019	Dec. 31, 2018
Receivables	23,371	3,619
Liabilities	1,754	1,754

(TCHF)	Jan. 01 to June 30, 2019	Jan. 01 to June 30, 2018
Sales and other income	24	–
Cost of materials and licenses and other expenses	–	–

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

There were liabilities to various members of the Board of Directors and Managing Directors of TCHF 58 as of June 30, 2019 (December 31, 2018: TCHF 59).

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

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

12. EVENTS AFTER THE BALANCE SHEET DATE

Constantin Television GmbH and lüthje schneider hörl Film OHG founded Lüthje Schneider Film GmbH with share capital of EUR 25,000 on July 4, 2019. Constantin Television GmbH holds an interest of 51 % in the company. By way of shareholder resolution, the company was renamed "PSSST! Film GmbH" at the end of July.

Furthermore, Highlight Communications AG released a disclosure in accordance with section 10 of the *Wertpapiererwerbs- und Übernahmegesetz* (WpÜG – German Securities Acquisition and Takeover Act), announcing the decision to make a public delisting tender offer to the shareholders of Constantin Medien AG, which is 79.44 % owned by Highlight Communications AG (EUR 2.30 per share in Constantin Medien AG). Thus, the Board of Directors is continuing its previously communicated strategy of streamlining the Group's structure. The offer documents and other notifications relating to the delisting offer will be published on the Internet under www.offerdelisting.com at the appropriate time. The publication of the offer document is still subject to the usual approval by the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin – German Federal Financial Supervisory Authority).

At the Annual General Meeting on July 24, 2019, the shareholders of Constantin Medien AG voted by a clear majority to approve the renaming of the company to Sport1 Medien AG as proposed by the Management Board and the Supervisory Board. This will take effect from January 1, 2020.

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