Highlight

Highlight Communications AG

Annual Report 2017

KEY FIGURES

	in TCHF	2017	2016
Consolidated balance sheet	Balance sheet total	512,792	368,531
	Film assets	161,814	127,274
	Cash and cash equivalents	186,553	88,502
	Financial liabilities	77,172	52,259
	Equity	236,414	135,290
	Equity ratio	46.1%	36.7%
Consolidated income statement	Sales	374,313	441,656
	■ Film	315,625	382,783
	■ Sports- and Event-Marketing	58,688	58,644
	Profit from operations (EBIT)	25,384	35,756
	■ Film	9,678	11,948
	■ Sports- and Event-Marketing	27,262	25,381
	Net profit (Highlight shareholders)	22,731	19,742
	Earnings per share (CHF)	0.41	0.46
	Earnings per share (EUR)	0.37	0.42
Consolidated statement of cash flows	Cash flow from operating activities	139,503	135,219
	Cash flow for investing activities	–140,130	–97,365
	thereof payments for film assets	–134,765	–105,062
	Cash flow from/for financing activities	90,569	–55,634
	thereof dividend payments	–19,951	–876
	Cash flow from/for the reporting period	89,942	–17,780
Personnel	Average number of employees	977	894

CONTENTS

EVENTS IN 2017

Q1

JANUARY

On January 20, Jannis Niewöhner wins the Bavarian Film Award in the “Best New Actor” category. The award is conferred for his performance in the Constantin Film co-production “Jugend ohne Gott”, which was released in German cinemas at the end of August 2017.

Bavarian Film Award for Jannis Niewöhner for his role in “Jugend ohne Gott”

World premiere at the Berlinale: “Tiger Girl”

FEBRUARY

In mid-February, the Constantin Film co-production “Tiger Girl” celebrates its world premiere at the Berlinale. The film was produced as part of Constantin Film’s “Alpenrot” initiative, which aims to promote talented young filmmakers and help them bring their projects to the big screen.

The Constantin Film own production “Resident Evil: The Final Chapter” takes USD 238 million internationally by the end of February. The six films in the “Resident Evil” series have therefore generated total box office takings of more than USD 1 billion – a result never before achieved by a franchise from an independent producer.

Box office success for “Resident Evil: The Final Chapter”

“Goldene Kamera” for Wotan Wilke Möhring

MARCH

On March 1, Constantin Film AG reports that the contract of its CEO Martin Moszkowicz has been extended by another four years. Mr. Moszkowicz has held this position since 2014. In addition to corporate management and strategy, he is also responsible for areas including theatrical movie production, global distribution, movie purchasing, marketing and press relations, corporate communications, and legal affairs.

At the ceremony for the German film and TV award “Goldene Kamera” on March 4, Wotan Wilke Möhring is the winner in the “Best national actor” category. He receives the award for his role in the three-part TV production “Winnetou”, which was produced by the Constantin Film subsidiary Rat Pack Filmproduktion for RTL.

On March 31, one of the Grimme Awards 2017 goes to the team behind the TV movie “Ein Teil von uns”, a Constantin Television GmbH production for ARD.

Grimme Award 2017 for “Ein Teil von uns”

Q2

APRIL

On April 3, Constantin Film AG announces the extension of its framework license agreement with ProSiebenSat.1. The new exploitation rights encompass all Constantin Film own/co-productions with filming commencing in 2017 and 2018, which will then be broadcast on the ProSiebenSat.1 Group’s TV stations.

At the award ceremony for the “Romy” – the Austrian awards for film and TV productions – the Constantin drama “Terror – Ihr Urteil” wins the prize in the “TV event of the year” category. The production was broadcast in Germany, Austria, and Switzerland in October 2016 and achieved high market shares everywhere.

The international Constantin Film TV series “Shadowhunters” continues to generate very good ratings in the USA. Following on from this success, the cable broadcaster Freeform commissions a third season in April.

“Romy” award for “Terror – Ihr Urteil”

MAY

Filming for the crime series “Die Protokollantin”, produced by Moovie GmbH for ZDF, begins in mid-May. The five episodes featuring Iris Berben, Moritz Bleibtreu, and Peter Kurth are planned to be broadcast in 2018.

On May 19, the TV production “Winnetou” is awarded the Bavarian TV Award in the “TV movies/series/mini-series” category.

JUNE

Highlight Communications AG announces the implementation of a capital increase from authorized capital of 15.75 million shares. All newly issued shares were underwritten by a Swiss bank and fully placed with Highlight Event and Entertainment AG, which thus holds a 25.0% share in Highlight Communications AG.

At the end of June, Constantin Film AG announces the conclusion of a multi-year license agreement with Sky Deutschland. Under this agreement, Sky secures extensive linear and on-demand rights for exclusive TV premieres of Constantin theatrical movies.

Q3

JULY

In early July, filming begins in Franconia on "Fünf Freunde und das Tal der Dinosaurier", the fifth adaptation of the bestselling Famous Five children's book series by Enid Blyton. Following the major success of the first four installments, which all drew in well over a million viewers, the latest movie is filmed with a new, younger cast. "Fünf Freunde und das Tal der Dinosaurier" enjoyed great success on its release in German theaters in mid-March this year.

AUGUST

"Grießnockerlaffäre", the fourth big-screen adaptation of a bestselling Rita Falk crime novel, draws more than 130,000 viewers into (almost exclusively) Bavarian cinemas on its opening weekend. It thus considerably outperforms the first three adaptations ("Dampfnudelblues", "Winterkartoffelknödel", and "Schweinskopf al dente"), which all achieved five-digit audience figures on their release.

Bestselling whodunit on the big screen: "Grießnockerlaffäre"

SEPTEMBER

"Ostwind 3" seamlessly follows up on the theatrical success of the two preceding films, reaching the milestone of one million viewers in mid-September. The Constantin Film co-production was thus only the third German movie to attract an audience of more than a million in 2017.

After winning the "Romy" in April, the interactive TV production "Terror – Ihr Urteil" is also awarded the coveted European TV prize Rose d'Or in the "Best TV movie" category on September 19.

Jutta Hoffmann wins the German Actors Award 2017 on September 22 for her outstanding performance in the leading role of the Constantin Television TV production "Ein Teil von uns".

More than a million viewers in 2017: "Ostwind 3"

Q4

OCTOBER

The celebrated world premiere of the Constantin Film co-production "Nur Gott kann mich richten" takes place at the Zurich Film Festival on October 1. Just a few days later, the film set in the Frankfurt gangster underworld wins the Hessian Film Award.

On October 6, "Grießnockerlaffäre" marks another milestone when it becomes the first film in the Rita Falk series to draw more than 800,000 moviegoers, bringing the total number of tickets sold for all four installments to more than 2.4 million.

Hessian Film Award for "Nur Gott kann mich richten"

NOVEMBER

On its release in German theaters, the comedy "Fack Ju Göhte 3" is just as successful as the first two installments. In mid-November – after just 24 days of exploitation – it surges past the five-million viewer mark and is already the most-watched movie of 2017. The number of viewers rises to six million by the end of the year.

Most-watched movie of 2017: "Fack Ju Göhte 3"

DECEMBER

On December 1, the Highlight shareholders approve all proposals put forward by the Board of Directors at the Annual General Meeting for fiscal year 2016. These include a dividend payment of CHF 0.30 per bearer share and authorization to increase the share capital by a maximum of CHF 31.5 million by December 1, 2019.

On December 4, Constantin Film AG announces the conclusion of an exclusive agreement with the renowned screenwriter Doron Wisotzky. In addition to screenwriting work, this three-year contract also covers finding and developing source material for future theatrical movies.

Foreword by the Chairman

Dear shareholders and other interested parties,

The Highlight Group is looking back on an eventful and successful fiscal year 2017, in which we managed to achieve the financial targets we had set ourselves as well as making important strategic preparations for the future development of our company.

One key factor here was the capital increase that we implemented in the second quarter. The inflow of cash from this transaction enabled us to make a public takeover offer to the shareholders of Constantin Medien AG, which was successfully implemented in mid-February 2018 with an acceptance rate of 48.4 %. Together with the share of around 30 % already held by Highlight Event and Entertainment AG, we thus have a very sound majority of around 78.4 % of the share capital and voting rights of Constantin Medien AG. In addition, all legal disputes between the Highlight Group and Constantin Medien AG were terminated at the end of September 2017, allowing our business activities to return to normal.

The Constantin Film Group once again renewed the license agreements with its long-standing TV partners ProSiebenSat.1 (free-TV) and Sky Deutschland (pay-TV), thereby ensuring the television broadcasting of its theatrical productions in the coming years, too. In TV service production, the major international production “Shadowhunters” continued to achieve such good ratings in the USA that the cable broadcaster Freeform commissioned a third season.

Productions implemented for the German TV market included the high-end series “Die Protokollantin” and “Parfum,” which will be broadcast this year on ZDF and ZDFneo respectively. With the series “Parfum” in particular, the Constantin Film Group entered new territory, as – at the same time as its launch on ZDFneo – all episodes will also be available worldwide on the streaming service Netflix. This form of production of high-quality German-language series with subsequent international exploitation is to be expanded further in the future.

The Highlight Group also developed highly gratifying in financial terms in the past year. At CHF 374.3 million, our consolidated sales were at the upper end of the expected range (between CHF 360 million and CHF 380 million). We significantly exceeded the forecast for consolidated net profit attributable to shareholders (between CHF 18 million and CHF 20 million) with a figure of CHF 22.7 million, representing a 15.2 % increase compared to the previous year (CHF 19.7 million). Our accounting ratios also improved further – particularly as a result of the capital increase – with the notional equity ratio rising from 36.7 % to 46.1 % and net liquidity increasing from CHF 36.2 million to CHF 109.4 million.

At CHF 315.6 million, external sales in the Film segment were down on the previous year’s level (CHF 382.8 million), as expected. This decline was primarily due to the fact that no international in-house production was released in 2017, which also meant that no income was generated from minimum guarantees. Segment earnings declined by CHF 2.2 million year-on-year to CHF 9.7 million.

Nonetheless, 2017 was also a very successful year for the Constantin Film Group, as three films attracted more than a million viewers each in German cinemas. This very strong performance was topped off by the comedy “Fack Ju Göhte 3,” which became the most-watched movie of the year with six million tickets sold. With a total of over 21 million viewers, the “Fack Ju Göhte” series has thus become the most successful original franchise of all time. The Constantin Film Group consequently advanced to fourth place in the ranking of distributors on the German movie market – ahead of the major studios Sony, Fox, and Paramount.

In the past year, the TEAM Group moved a good way closer to its goal of achieving the targets agreed with UEFA as early as possible. Contracts with existing sponsors were renewed and a new sponsor was gained. In addition, the TV rights for some key markets have already been sold. These activities have not yet had any effect on the figures for the Sports- and Event-Marketing segment. External sales remained on a par with the previous year at CHF 58.7 million, while segment earnings improved by CHF 1.9 million to CHF 27.3 million due to cost savings.

At present, the Constantin Film distribution slate for the current year comprises a total of eleven movies, four of which will be licensed titles. The youth adventure "Fünf Freunde und das Tal der Dinosaurier" already had a very successful theatrical release in mid-March. We also expect a good or very good performance from the new Sönke Wortmann film "Der Vorname," from the remake of the classic "Papillon," and from "Sauerkrautkoma" – the fifth adaptation of Rita Falk's crime novel series. The home entertainment business area will primarily benefit from the release of the hit movies "Fack Ju Göhte 3" and "Dieses bescheuerte Herz."

In Sports- and Event-Marketing, the Group will press ahead with marketing the TV and sponsorship rights for the two UEFA club football competitions for the 2018/19 to 2020/21 seasons. The TEAM Group will also continue to focus on active support of UEFA and the commercial partners in the current season.

Finally, on behalf of the entire Board of Directors, I would like to thank all employees of our Group for their successful work in 2017, which was as always performed with energy, commitment and expertise. I would also like to thank you, our shareholders, for your continued trust in the Highlight Group, which we intend to justify again in the new fiscal year.

Yours,

B. Burgener

Bernhard Burgener
Chairman and Delegate of the Board of Directors

Members of the Board of Directors

Bernhard Burgener (born 1957) Chairman and Delegate of the Board of Directors
Businessman. Mr. Burgener has worked in the film business since 1982. His professional career began in 1983 with the founding of Rainbow Video AG (today: Rainbow Home Entertainment AG), Pratteln. Mr. Burgener was a shareholder of Highlight Communications AG from 1994 to 2016 and its Delegate of the Board of Directors until 1999. In May 1999, he took the company public and from 1999 to 2008, he was responsible for the activities of the Highlight Group as the Chairman of its Board of Directors.

Since 2008, Mr. Burgener has again acted as Delegate of the Board. Since being elected as the new Chairman of the Board of Directors by the Annual General Meeting of Highlight Communications AG in 2011, he has been performing both functions simultaneously. Mr. Burgener was also the CEO of Constantin Medien AG from 2008 until 2015. In addition, he was the CEO of Constantin Film AG from 2009 until 2013 and he has been the Chairman of the Supervisory Board of Constantin Film AG since 2014.

René Camenzind (born 1951) Non-executive member of the Board of Directors
Businessman. Mr. Camenzind began his professional career in 1974 at Mythen Center, Schwyz, becoming its manager in 1990. In 2003 he was elected President of the Board of Directors of Mythencenter Holding AG. Since 2004, Mr. Camenzind has been a member of Highlight Communications AG's Board of Directors.

Martin Hellstern (born 1934) Non-executive member of the Board of Directors
Businessman. Mr. Hellstern's work in the media industry began in 1963 at Rialto Film AG, Zurich, which he gradually built into the largest independent film company in Switzerland. He was a member of the Board of Directors and a shareholder of the largest Swiss cinema operator KITAG, of Teleclub AG as well as still of CineStar SA, Lugano. Mr. Hellstern has been a shareholder of Highlight Communications AG since 2003 and a member of the company's Board of Directors since 2004.

Peter von Büren (born 1955) Executive member of the Board of Directors
Businessman. Mr. von Büren exercised various management activities at Highlight Communications AG since 1994. In 1999, he became a member of the Highlight Group's management where he has been Head of IT, Human Resources and Investor Relations as well as CFO. Since 2015, Mr. von Büren has been a member of the Board of Directors of Highlight Communications AG. In addition, he was elected to the Supervisory Board of Constantin Film AG in 2016.

Corporate governance

INTRODUCTION

The Highlight Group welcomes the corporate governance rules as they heighten transparency for shareholders. As a Swiss company, Highlight Communications AG largely complies with the rules issued by Swiss stock exchange SIX. The organization of our management bodies complies with the leading "Codes of Best Practice".

The articles of incorporation of Highlight Communications AG take into account the statutory requirements and duties of the Annual General Meeting in the areas of corporate governance and remuneration.

1. GROUP STRUCTURE

Highlight Communications AG is a holding company headquartered in Pratteln/BL.

1.1 Operative Group structure

Highlight Communications AG and its Group companies make up the Highlight Group, hereinafter referred to as the "Highlight Group". The operative structure of the Highlight Group consists of the two segments "Film" as well as "Sports- and Event-Marketing".

1.2 Listed companies

Highlight Communications AG

Highlight Communications AG has its registered offices in Pratteln/BL, Switzerland, and has been listed on the Frankfurt stock exchange since 1999. It is a member of the Prime Standard (ISIN: CH 000 653 9198, German WKN number: 920 299, ticker: HLG). As of December 31, 2017, the market capitalization of the company was around EUR 320.76 million at a closing stock price for the year of EUR 5.10.

1.3 Non-listed companies

Further information on the key subsidiaries and the scope of consolidation of Highlight Communications AG can be found under note 3 in the notes to the consolidated financial statements.

1.4 Principal shareholders

As of December 31, 2017, Highlight Communications AG was aware of the following shareholders with a share of more than 5 % of its subscribed capital:

Constantin Medien AG	32.70 %
Stella Finanz AG	20.19 %
Highlight Event and Entertainment AG	25.00 %

The rest is held by various institutional investors and funds as well as private investors.

Highlight Communications AG maintains an active stock buy-back program. Depending on market conditions, shares of up to a maximum amount of 10 % of the company's subscribed capital as stipulated by Swiss law may be bought back.

In the year under review, 20,000 treasury shares were bought back and 20,000 shares were sold. As of December 31, 2017, treasury stock comprised 44,983 shares, equivalent to 0.07 % of the company's subscribed capital.

1.5 Cross-holdings

As of December 31, 2017, the company does not have any cross-holdings of capital or voting rights in/with other companies.

2. CAPITAL STRUCTURE

2.1 Capital

Highlight Communications AG's subscribed capital amounts to CHF 63,000,000 and is divided into 63,000,000 bearer shares with a nominal value of CHF 1 each; all shares subscribed are paid up. In the period under review, a capital increase was implemented in connection with a takeover offer.

2.2 Authorized capital

On December 1, 2017, the Annual General Meeting established authorized share capital of CHF 31,500,000 and empowered the Board of Directors to execute a capital increase by issuing 31,500,000 bearer shares at CHF 1 each within a period of two years. A partial increase is permitted.

2.3 Changes in capital – changes in nominal value

In the period under review, the Board of Directors implemented a capital increase by issuing 15.75 million bearer shares. Up until June 12, 2017, the Board of Directors was authorized by the 2015 Annual General Meeting to create up to 23,625,000 new bearer shares from the authorized share capital.

2.4 Shares, participating and profit-sharing rights

There are no preferential, participating or profit-sharing rights.

2.5 Restrictions on the transferability of shares and registration of nominees

There are no restrictions on the transferability of shares. The bylaws of Highlight Communications AG do not provide for any percentage clauses or conditions for shareholder registration; no nominees are registered.

3. BOARD OF DIRECTORS

The Board of Directors is the company's highest management body, responsible for the strategic orientation of the company and the monitoring of Group management. Each member of the Board of Directors is elected by the shareholders. The Board of Directors proposes the election of the Chairman and the members of the compensation committee for the Annual General Meeting. The Vice Chairman and the members of the audit committee are elected by the Board of Directors.

3.1 Members of the Board of Directors

The Board of Directors currently comprises four members. The list below provides an overview of the composition of the Board of Directors on December 31, 2017, the functions of the individual members within the Highlight Group, their nationality and their significant activities and interests outside the Highlight Group:

Bernhard Burgener

Chairman and Delegate of the Board of Directors, member of the Board of Directors since 1994
Swiss national, businessman, entrepreneur; responsible for the Highlight Group's strategy, executive member.

Other (corporate) activities and interests:
Chairman of the Supervisory Board of Constantin Film AG, Munich, Germany
President of the Board of Directors of Constantin Film und Entertainment AG, Zurich, Switzerland
Chairman of the Board of Trustees of T.E.A.M. Vorsorgestiftung, Lucerne, Switzerland
President of the Board of Directors of Rainbow Home Entertainment AG, Pratteln, Switzerland
President and Delegate of the Board of Directors of Highlight Event and Entertainment AG, Pratteln, Switzerland
President of the Board of Directors of Highlight Event AG, Emmen, Switzerland
President of the Board of Directors of Lechner Marmor AG, Laas, Italy
President of the Board of Directors of Club de Bâle SA, Basel, Switzerland
President of the Board of Directors of Comosa AG, Zurich, Switzerland
President of the Board of Trustees of Cineprotect Stiftung, Pratteln, Switzerland
President of FC Basel 1893, Basel, Switzerland
President of the Board of Directors of FC Basel Holding AG, Basel, Switzerland
President of the Board of Directors of FC Basel 1893 AG, Basel, Switzerland
President of the Board of Directors of Stadiondienst AG, Basel, Switzerland
Member of the Board of Trustees of Skywall Dr Stiftung, Lucerne, Switzerland
Member of the Board of Trustees of EurAsia Heart – A Swiss Medical Foundation, Zurich, Switzerland

René Camenzind

Member of the Board of Directors since 2004
Swiss national, businessman, entrepreneur, non-executive member; no material business relations are maintained with the Highlight Group.

Other (corporate) activities and interests:
President of the Board of Directors of Mythen Center AG, Schwyz, Switzerland
President of the Board of Directors of Mythencenter Holding AG, Schwyz, Switzerland
President of the Board of Directors of Alpicana AG, Ingenbohl, Switzerland
President of the Board of Directors of RC Holding AG, Ingenbohl, Switzerland
Member of the Board of Directors of Lechner Marmor AG, Laas, Italy
Member of the Board of Directors of CBE Marmor & Handels AG, Ibach, Switzerland

Martin Hellstern

Member of the Board of Directors since 2004
Swiss national, businessman, entrepreneur, non-executive member; no material business relations are maintained with the Highlight Group.

Other (corporate) activities and interests:
Member of the Board of Directors of CineStar SA, Lugano, Switzerland
President and Delegate of the Board of Directors of Praesens-Film AG, Zurich, Switzerland

President of the Board of Directors of Atlantis Investment AG, Wil, Switzerland
Delegate of the Board of Directors of Atlantic-Immobilien und Investment AG, Zurich, Switzerland
Member of the Board of Directors of Stella Movie SA, Comano, Switzerland
President of the Board of Directors of Stella Investment AG, Glarus, Switzerland
Member of the Board of Directors of Allied Enterprises AG, Wil, Switzerland
Chairman of the Management Board of MPLC Switzerland GmbH, Zurich, Switzerland
President of the Board of Directors of Kart-Bahn-Wohlen AG, Switzerland

Peter von Büren
Member of the Board of Directors since 2015
Swiss national, businessman, CFO, executive member.

Other (corporate) activities and interests:
Member of the Supervisory Board of Constantin Film AG, Munich, Germany
Member of the Board of Directors of Constantin Film und Entertainment AG, Zurich, Switzerland
Vice President of the Board of Directors of Rainbow Home Entertainment AG, Pratteln, Switzerland
Member of the Board of Trustees of T.E.A.M. Vorsorgestiftung, Lucerne, Switzerland
Member of the Board of Directors of Highlight Event and Entertainment AG, Pratteln, Switzerland
Member of the Board of Directors of Highlight Event AG, Emmen, Switzerland
Member of the Board of Directors of Escor Automaten AG, Düdingen, Switzerland
President of the Board of Directors of CBE Marmor & Handels AG, Ibach, Switzerland
Member of the Board of Directors of Comosa AG, Zurich, Switzerland
Member of the Board of Trustees of Cineprotect Stiftung, Pratteln, Switzerland
Member of the Board of Directors of FC Basel Holding AG, Basel, Switzerland
Member of the Board of Directors of Stadiondienst AG, Basel, Switzerland

3.2 Election and tenure

The Board of Directors comprises at least three members who are generally elected at the ordinary Annual General Meeting for the period of one year. Reelection is possible at all times.

3.3 Internal organization

3.3.1 Constituent meeting and allocation of duties

The Board of Directors is responsible for supervising, monitoring and overseeing management activities. It is the company's highest body. Apart from the election of the Chairman of the Board of Directors and the compensation committee by the Annual General Meeting, the Board of Directors constitutes itself. It appoints the Vice Chairman and the Secretary.

3.3.2 Meetings of the Board of Directors

The Board of Directors meets at least once a quarter. Resolutions are passed with an absolute majority of the votes present. In the year under review, the Board of Directors met a total of six times.

3.3.3 Committees

By way of resolution dated June 2, 2005, the Board of Directors established an audit committee comprising Bernhard Burgener (Chairman), René Camenzind and Martin Hellstern. The composition of this committee was unchanged in the year under review.

At the Annual General Meeting on December 1, 2017, the members of the Board of Directors René Camenzind and Martin Hellstern were elected to the compensation committee to decide on matters concerning compensation for the Board of Directors and Group management.

3.4 Allocation of duties

Management and representative authorization are based on the law, decisions of the Board of Directors and entries in the commercial register.

3.5 Internal management and supervision instruments

The Highlight Group's management information system is structured as follows: The financial statements (income statement, balance sheet and statement of cash flows) for the individual subsidiaries are prepared on a quarterly basis. These figures are consolidated and condensed per segment and for the Group. At the same time, the figures are compared with the previous year and the budget. The Chief Financial Officer informs the Board of Directors regularly of the company's business performance and trends in the relevant business indicators. A Group-wide internal control system (ICS) was implemented and documented. The Internal Audit ensures the periodic evaluation and maintenance of the ICS in the main Group companies and tests its effectiveness. External controlling instruments are provided by the auditors.

4. MANAGEMENT

The following disclosures were correct as of December 31, 2017.

4.1 Members of management

4.1.1 Group management

Bernhard Burgener, Chairman and Delegate of the Board of Directors
Swiss national, responsible for Group strategy, established Rainbow Home Entertainment AG (formerly Rainbow Video AG), Pratteln, in 1983. Shareholder from 1994 to 2016, Delegate of the Board of Directors until 2011, Chairman and Delegate of the Board of Directors since 2011.

Peter von Büren, Member of the Board of Directors, CFO, Head of IT, Human Resources and Investor Relations
Swiss national, businessman, various management activities in the Highlight Group since 1994, a member of Group management since 1999, member of the Board of Directors since 2015.

Dr. Paul Graf, Managing Director, Head of Mergers & Acquisitions and Secretary of the Board of Directors
Swiss national, businessman, previously Managing Director of electronics at Ciba Specialty Chemicals, a member of Group management since 2000.

His responsibilities have ceased for the time being, as he was elected Chairman of the Supervisory Board of Constantin Medien AG on August 23, 2017.

4.1.2 TEAM (Sports- and Event-Marketing segment)

Martin Wagner, Chairman of the Board of Directors
Swiss national, lawyer, member of the Board of Directors of Team Holding AG, T.E.A.M. Television Event And Media Marketing AG and Team Football Marketing AG since 2002, Chairman of the Board of Directors of these three companies since 2017.

Jamie Graham, CEO
British national, Marketing Executive, worked in the media sponsorship and marketing sector in London from 1989 to 2001, and after that was Managing Director at ZenithOptimedia Group London until 2007; since then, he has worked at TEAM initially as Director Marketing and as CEO from 2012.

Simon Crouch, COO
British national, chartered accountant, worked at Arthur Anderson Ltd. (now Deloitte) in London from 1996 until 2000; he was Senior Consultant at Spectrum Strategy Consultants in London from 2000 until 2008; since then, he has worked at TEAM initially as Director Strategy and as Managing Director Marketing as well as COO from 2012.

Jan Werner, CFO and member of the Board of Directors
Swiss national, finance and accounting graduate, worked for various companies from 2004 until 2011, including Warner Music Group and Ifolor as Finance Director and CFO, and has been CFO and member of the Board of Directors at TEAM since 2011.

Thomas Schmidt, Managing Director Media & TV Sales
German national, Sales Executive, worked in media, communication and marketing in Germany from 1992 to 2001; he worked as Project Leader Sales at Highlight Communications AG from 2001 until 2002, and after that as Head of Sales. Since 2012, he has been with TEAM as Managing Director Media & TV Sales.

Tom Houseman, Managing Director Legal & Business Affairs
British national, lawyer, worked at ISL Worldwide AG, Lucerne, from 1990 to 2001 and at FIFA, Zurich, as Head of Legal Affairs and a member of the Management Board of FIFA Marketing until 2007, then at Wharf House Pte Ltd, Singapore, as Managing Director and Board Member, then at UFA Sports Asia Pte Ltd, Singapore, and, since March 2013, as Managing Director Legal & Business Affairs at TEAM.

Kerstin Lutz, Managing Director Sponsorship
Swiss national, master's degree in sports administration, International Project Manager at Octagon Birkholz + Jedlicki GmbH in Germany from 1997 to 2000, with TEAM since 2000, first as Marketing Manager, from 2004 to 2012 as Head of Account Management, from 2012 to 2015 as Director Sponsorship, and since 2015 as Managing Director Sponsorship.

Ian Warbrick, Director Sponsorship Sales
British national, postgraduate diploma from Cambridge University, Strategy Consultant at Accenture from 2001 to 2003, Sponsorship Director at Ogilvy Action from 2004 to 2007, then Head of Sponsorship Sales and since 2016 Director Sponsorship Sales at TEAM.

Thomas Höher, Director Media Rights Sales
German national, Sales Executive, worked for various companies in the telecommunications and banking sectors from 1999 to 2002, including VIAG Interkom (now O2) and Consors AG, at Deutsche Telekom AG from 2002 to 2007, including as project manager for FIFA World Cup 2006 sponsorship for T-Mobile International AG, at TEAM in various positions since 2007 and as Director Media Rights Sales since October 2017.

Oliver Holland, Director of Business Affairs
British national, lawyer, legal consultant at Bird & Bird from 2001 to 2005, European Counsel at EA Sports from 2005 to 2007, Senior Legal Counsel at Sky Sports (UK) from 2007 to 2012, then at TEAM as Head of Legal and, from 2015 on, as Director of Business Affairs.

4.1.3 Rainbow Home Entertainment (Film segment)

Franz Woodtli, Managing Director of Rainbow Home Entertainment
Swiss national, businessman, at Rainbow Home Entertainment AG since 1985, Managing Director in charge of home entertainment since 1999, many years of management experience within the Highlight Group.

4.1.4 Constantin Film (Film segment)

Martin Moszkowicz, CEO
German national, producer and Managing Director since 1991, today CEO, responsible for the production of film and television, theatrical distribution/marketing and press relations, international license trading, international distribution and sales including marketing and press relations, film purchasing of German-language productions for German theatrical release.

Hanns Beese, CFO
German national, CFO since 2004, responsible for the areas of finance, accounting, risk management, information technology, management and organization.

Franz Woodtli, Board member cinema and home entertainment
Swiss national, Board member cinema and home entertainment since 2004, responsible for home entertainment, distribution/sales and exploitation of auxiliary rights.

Oliver Berben, Board member TV, entertainment and digital media
German national, Board member TV, entertainment and digital media since 2017, responsible for the development and production of all national and international productions for which no theatrical exploitation is planned.

4.2 Further corporate activities and interests

None.

5. COMPENSATION, SHARES AND LOANS

Information on the compensation and shares of members of the Board of Directors and the management team as well as loans to these parties can be found in the "Remuneration report" section of this annual report.

The articles of incorporation of Highlight Communications AG take into account the statutory requirements and duties of the Annual General Meeting in the areas of corporate governance and remuneration.

6. SHAREHOLDERS' RIGHTS

6.1 Restrictions on voting rights, voting by proxy

6.1.1 All restrictions on voting rights

There are no restrictions on voting rights. At the Annual General Meeting, there is one vote per share held. All shareholders may vote by proxy at the Annual General Meeting.

6.1.2 Statutory rules on participation in the Annual General Meeting

The provisions of the Swiss law of obligations apply.

6.2 Statutory quorum

The statutory provisions apply.

6.3 Procedure for convening the Annual General Meeting

The provisions of the Swiss law of obligations apply.

6.4 Agenda

The provisions of the Swiss law of obligations apply.

6.5 Registration in the share book

The shares subscribed by Highlight Communications AG are bearer shares and are therefore not registered.

7. CHANGE OF CONTROL AND DEFENSE MEASURES

7.1 Duty to bid

A party acquiring shares in the company is not required to lodge a public bid pursuant to Sections 135 and 163 of the Swiss Financial Market Infrastructure Act.

7.2 Change-of-control clause

The shares of Highlight Communications AG in Team Holding AG and Team Holding AG's shares in other TEAM Group companies are subject to a share transfer restriction declaration under the terms of TEAM's agency agreement with UEFA. Under the terms of this agency agreement, UEFA also has a termination right in the event of a change in control of Highlight Communications AG.

8. AUDITORS

8.1 Duration of auditor mandate

The statutory auditor for Highlight Communications AG is elected for a period of one year subject to a resolution passed by the Annual General Meeting. PricewaterhouseCoopers AG in Lucerne audited our annual financial statements for the year ending December 31, 2001 for the first time. Mr. Matthias von Moos is the auditor in charge since fiscal year 2014.

8.2 Auditing fees

A sum of TCHF 180 was paid for auditing services of PricewaterhouseCoopers AG in fiscal year 2017. Additional fees of TCHF 3 were invoiced by PricewaterhouseCoopers AG for tax consulting relating to Highlight Communications AG and the Group.

9. INFORMATION POLICY

As a listed company and a member of the Prime Standard, the Highlight Group is subject to the strict stock market rules issued by Deutsche Börse AG. This includes compulsory quarterly reporting, the issue of an annual report as well as the publication of ad-hoc disclosures.

These documents are distributed via defined channels and issued on demand. In addition, the website at www.highlight-communications.ch is kept continuously updated and includes all key information about the company.

Publications are available from the IR department, which will also accept requests for inclusion in the distribution list. This is also possible via the company's website.

Remuneration report

This remuneration report for fiscal year 2017 sets out the remuneration system and remuneration to members of the Board of Directors and the management team of Highlight Communications AG. The content and scope of the details comply with the regulations of the Ordinance Against Excessive Compensation in Stock-Exchange Companies (VegüV), passed by the Swiss Federal Council, which came into force on January 1, 2014, and the Corporate Governance Directive (RCGL) of the SIX Swiss Exchange. Remuneration is posted in accordance with the "accrual principle".

The remuneration report of March 27, 2018 of Highlight Communications AG for the fiscal year ending December 31, 2016 has been audited by the statutory auditor. The audit was limited to the disclosures in accordance with Art. 14 – 16 VegüV.

As part of implementation of VegüV, the compensation committee devised proposals for overall remuneration of the Board of Directors, the Chairman of the Board of Directors, the individual members of the Board of Directors, overall remuneration of the management team as well as the individual members of the management team and the members of the committees. The corresponding proposals were submitted by the compensation committee to the full Board of Directors for a resolution. In accordance with the articles of incorporation, the General Meeting once a year, usually at the ordinary Annual General Meeting, separately approves the maximum total amounts of fixed remuneration for the members of the Board of Directors and of the management team for the fiscal year following the Annual General Meeting and the maximum total amounts of variable remuneration of the members of the Board of Directors and of the management team for the past fiscal year. The company's articles of incorporation make a provision for members of the management team who are appointed after approval of the maximum total amount to be allowed to receive additional remuneration.

1. RESPONSIBILITIES AND AUTHORIZATIONS FOR REMUNERATION

The full Board of Directors is responsible for ensuring that the remuneration process is fair, transparent and monitored effectively. The chosen remuneration process is intended to provide adequate compensation for services rendered and a suitable incentive for the individual members of the Board of Directors and the management team, taking into account the longer-term interests of shareholders and the company's success.

The main tasks of the full Board of Directors are:

a. Determining the principles of the remuneration strategy
b. Determining the level and composition of overall remuneration for the Chairman of the Board of Directors
c. Determining the level and composition of individual overall remuneration for the Vice Chairman and the other members of the Board of Directors
d. Remuneration of committee members
e. Determining the level and composition of overall remuneration and individual remuneration for the Delegate as well as the individual members of the management team (see sections 2.1 and 2.1.1)

As two of four members of the Board of Directors were also members of the compensation committee, they implicitly performed the tasks mentioned in points a – e in the meetings of the Board of Directors in the year under review.

2. REMUNERATION TO MEMBERS OF THE BOARD OF DIRECTORS

2.1 Principles

The level of remuneration of the members of the Board of Directors is geared towards the role and degree of responsibility of the individual members.

Remuneration to the Board of Directors consists of the following elements:

- Directors' fee (paid as cash remuneration)
- Pension benefits

The remuneration structure ensures that the Board of Directors is focused on the long-term success of Highlight Communications AG and takes into account the workload and responsibility of the individual members of the Board of Directors.

With due consideration of the maximum amount approved by the Annual General Meeting, at the request of the compensation committee, the full Board of Directors usually decides on the level of the Directors' and committee's fees at its discretion once a year.

2.1.1 Directors' fee

The members of the Board of Directors of Highlight Communications AG receive fixed remuneration. The full Board of Directors determines the level of fixed remuneration at the request of the compensation committee. The level of remuneration is geared towards the role and degree of responsibility of the member of the Board of Directors. No attendance fees are paid to the members of the Board of Directors.

The Directors' fee also includes remuneration for work in the compensation committee, comprising the Directors René Camenzind and Martin Hellstern, and in the audit committee, comprising the Directors Bernhard Burgener (Chairman), René Camenzind and Martin Hellstern.

2.1.2 Pension benefits

Pension benefits consist of all contributions by the employer to old-age and risk insurance as well as employer's contributions for social security, the unemployment insurance and family compensation fund (AHV, ALV, FAK) and the accident and health insurances (BU, NBU and KTG).

2.2 Remuneration to the individual members of the Board of Directors

Fiscal year 2017

In 2017, the executive and non-executive members of the Board of Directors received overall remuneration of TCHF 124.6 (2016: TCHF 90.1). Compensation for the various activities at the subsidiaries is set out in section 3 "Remuneration to members of the management team".

Overall compensation of the members of the Board of Directors for their work on the Board of Directors increased by 38% compared to the previous year. This increase is due to the first-time transition of individual members' Board of Directors remuneration to payment on an accrual basis in 2016.

audited

The individual members of the Board of Directors received the following remuneration (in TCHF):

(TCHF) Name/role	Directors' fee, gross	Pension benefits	Total remuneration as member of the Board of Directors
Bernhard Burgener, Chairman and Delegate, executive member	10.0	0.6	10.6
Peter von Büren, executive member	10.0	0.6	10.6
René Camenzind, non-executive member	50.0	1.7	51.7
Martin Hellstern, non-executive member	50.0	1.7	51.7
Total	**120.0**	**4.6**	**124.6**

audited

Fiscal year 2016

(TCHF) Name/role	Directors' fee, gross	Pension benefits	Total remuneration as member of the Board of Directors
Bernhard Burgener, Chairman and Delegate, executive member	5.0	0.4	5.4
Peter von Büren, executive member	5.0	0.4	5.4
René Camenzind, non-executive member	25.0	1.9	26.9
Dr. Dieter Hahn, non-executive member[1]	25.0	1.9	26.9
Martin Hellstern, non-executive member	25.0	0.5	25.5
Total	**85.0**	**5.1**	**90.1**

[1] *Dr. Dieter Hahn left the Board of Directors as of the date of the 2016 Annual General Meeting.*

No remuneration not in line with the market was granted to current or former members of the Board of Directors or related parties either in the year under review or in fiscal year 2016, and no such remuneration is outstanding.

3. REMUNERATION TO MEMBERS OF THE MANAGEMENT TEAM

3.1 Principles

The level of remuneration of the members of the management team is geared towards the role and degree of responsibility of the individual member, and consists of the following elements:

- Basic remuneration (paid as cash remuneration), including use of a company car for private and business purposes
- Variable remuneration (paid as cash remuneration)
- Indirect remuneration for activities at subsidiaries (paid as cash remuneration)
- Pension benefits

At the request of the compensation committee, the full Board of Directors usually decides on the level of overall compensation at its discretion once a year, taking account of the maximum amount approved by the Annual General Meeting, and also decides on variable remuneration and the underlying company-specific targets once a year.

3.1.1 Basic remuneration

The members of the management team (including the executive members of the Board of Directors) receive fixed remuneration in cash, which has been contractually agreed in the employment contract with due consideration of the role and degree of responsibility.

As a benefit in kind, all members of the management team have the option of using a company car for private and business purposes.

3.1.2 Variable remuneration

The members of the management team (including the executive members of the Board of Directors) also receive variable remuneration. The level of variable remuneration is based on the calculation of the average share price for each period from January 1 to October 31, multiplied by a numerator determined by the Board of Directors in accordance with performance and length of service. Variable remuneration is paid in cash with no resolution to the contrary by the Board of Directors. The remuneration is always paid in the fourth quarter of the reporting year.

At present, there are no stock, option or similar participation programs that give entitlement to (physical) subscription of shares in Highlight Communications AG.

3.1.3 Indirect remuneration for activities at subsidiaries

In addition to the fixed Directors' fee as described in section 2.1.1, various members of the Board of Directors and management team of Highlight Communications AG receive further remuneration for their activities on the Board of Directors or Supervisory Board and/or operating or advisory activities at (direct or indirect) subsidiaries of Highlight Communications AG. This essentially involves fixed basic remuneration, with the exception of remuneration for the Supervisory Board members of Constantin Film AG, where variable remuneration is possible, up to a maximum of 50 % of basic remuneration.

3.1.4 Pension benefits

Pension benefits consist of all contributions by the employer to old-age and risk insurance as well as employer's contributions for social security, the unemployment insurance and family compensation fund (AHV, ALV, FAK) and the accident and health insurances (BU, NBU and KTG).

3.2 Overall remuneration to members of the management team in the year under review

Fiscal year 2017

In 2017, the three members of the management team (including executive members of the Board of Directors, BoD) received overall remuneration of TCHF 3,192 (2016: TCHF 3,028). The overall compensation of the members of the management team thus increased slightly compared to the previous year.

audited

(TCHF) Name/role	Basic remuneration, gross[1]	Variable remuneration, gross	Indirect remuneration for activities at subsidiaries	Pension benefits	Total remuneration as member of the management team	Total remuneration as member of the Board of Directors[2]	Total remuneration
Bernhard Burgener, Chairman and Delegate of the BoD, executive member of the BoD (highest remuneration)	833	476	139	232	1,680	11	1,691
Peter von Büren, executive member of the BoD	375	294	18	114	801	11	812
Other member of the management team	318	252	17	102	689	-	689
Total	**1,526**	**1,022**	**174**	**448**	**3,170**	**22**	**3,192**

[1] *Basic remuneration also includes flat-rate expenses and a portion for private use of the company car.*
[2] *Details on remuneration as a member of the Board of Directors are set out in section 2.*

audited

Fiscal year 2016

(TCHF) Name/role	Basic remu-neration, gross[1]	Variable remu-neration, gross	Indirect remuneration for activities at subsidiaries	Pension benefits	Total remuneration as member of the manage-ment team	Total remu-neration as member of the Board of Directors[2]	Total remu-neration
Bernhard Burgener, Chairman and Delegate of the BoD, executive member of the BoD (highest remuneration)	833	405	179	230	1,647	5	1,652
Peter von Büren, executive member of the BoD	375	247	3	110	735	5	740
Other member of the management team	318	209	11	98	636	–	636
Total	**1,526**	**861**	**193**	**438**	**3,018**	**10**	**3,028**

[1] *Basic remuneration also includes flat-rate expenses and a portion for private use of the company car.*
[2] *Details on remuneration as a member of the Board of Directors are set out in section 2.*

No remuneration not in line with the market was granted to current or former members of the management team or related parties either in the year under review or in fiscal year 2016, and no such remuneration was outstanding.

4. ADVISORY BOARD

Highlight Communications AG did not have an Advisory Board in the year under review or in the previous year.

5. BENEFITS, CONTRACTUAL AGREEMENTS ON LEAVING HIGHLIGHT COMMUNICATIONS AG

No members of the Board of Directors or the management team have a contract with Highlight Communications AG that grants them severance pay on leaving Highlight Communications AG.

The employment contracts with members of the management team provide for notice periods of twelve months.

6. LOANS AND CREDITS TO EXECUTIVE BODIES

As of December 31, 2017 and December 31, 2016, there were no outstanding loans or credits granted by Highlight Communications AG to current or former members of the Board of Directors, the management team or related parties.

7. REMUNERATION TO RELATED PARTIES

7.1 Loans and credits to related parties on conditions not available on the market

As of December 31, 2017 and December 31, 2016, there were no outstanding loans or credits granted by Highlight Communications AG to related parties.

7.2 Other remuneration to related parties on conditions not available on the market

As of December 31, 2017 and December 31, 2016, the company had not paid any non-market-compliant remuneration to related parties.

8. REMUNERATION TO FORMER MEMBERS OF EXECUTIVE BODIES

In the reporting year, no compensation was paid to former members of executive bodies, nor is any such compensation outstanding.

9. MANAGEMENT CONTRACTS

There are no management contracts with third parties.

10. SHAREHOLDINGS IN HIGHLIGHT COMMUNICATIONS AG

As of December 31, 2017, the members of the Board of Directors and the management team (including related parties) held a total of 1.40% of the outstanding bearer shares in Highlight Communications AG (previous year: 1.86%). This decrease in capital shares (with an unchanged number of shares) is attributable to the capital increase at Highlight Communications AG published on June 12, 2017. As a result of the capital increase, the capital shares were diluted.

The individual members of the Board of Directors and the management team (including related parties) held the following stakes in Highlight Communications AG:

	2017		2016	
	Number of shares	Share of capital	Number of shares	Share of capital
Bernhard Burgener	-	-	-	-
René Camenzind	628,715	1.00%	628,715	1.33%
Martin Hellstern	200,000	0.32%	200,000	0.42%
Peter von Büren	-	-	-	-
Dr. Paul Graf	50,000	0.08%	50,000	0.11%

Report of the statutory auditor

to the General Meeting of Highlight Communications AG

Pratteln

We have audited the remuneration report of Highlight Communications AG for the year ended 31 December 2017. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labeled 'audited' on pages 17 to 20 of the remuneration report.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report of Highlight Communications AG for the year ended 31 December 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Matthias von Moos	Matthias Christen
Audit expert Auditor in charge	Audit expert

Lucerne, 27 March 2018

PricewaterhouseCoopers AG, Werftestrasse 3, Postfach, CH-6002 Luzern, Switzerland
Telefon: +41 58 792 62 00, Telefax: +41 58 792 62 10, www.pwc.ch

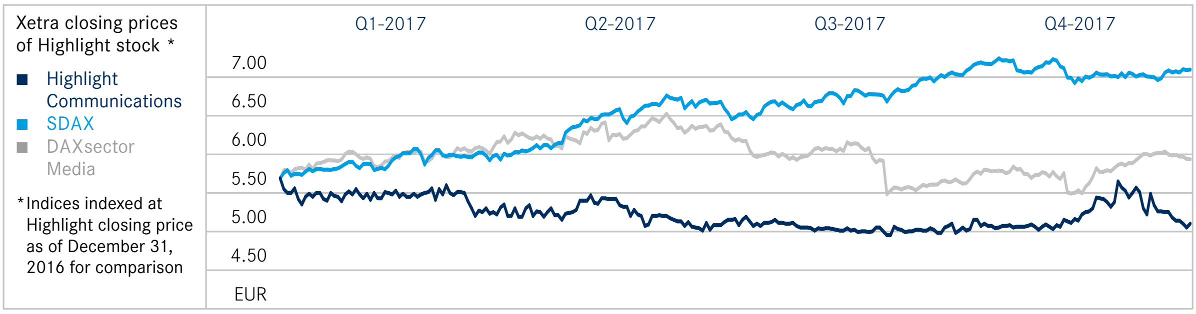
Well-deserved reward: The team of the Constantin Film blockbuster "Fack Ju Göhte 3" was thrilled by the Bavarian Film Awards' audience award.

Highlight stock

The good business performance of the Highlight Group was again not reflected in its share price in 2017.

- The closing price for the year of EUR 5.10 was 10.4 % less than the previous year’s closing price (EUR 5.69).
- However, market capitalization climbed from EUR 268.6 million to EUR 320.8 million as a result of the capital increase.
- The average number of shares traded per day fell from around 15,400 to a little over 6,200.

2017



Stock markets reach record levels

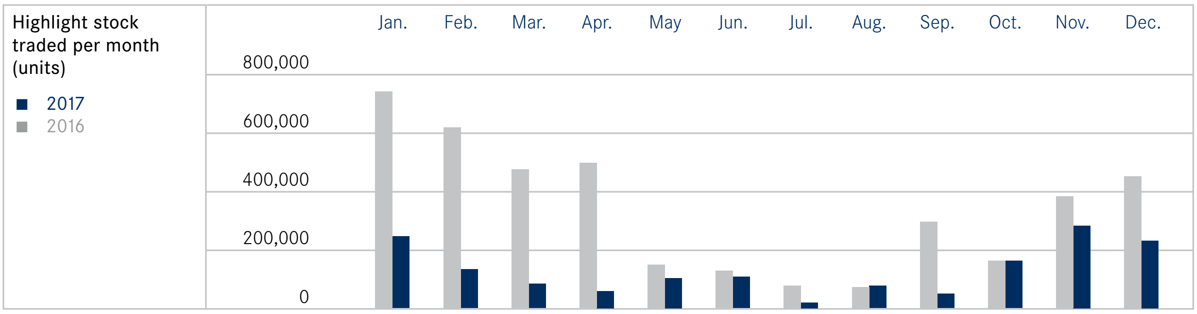
Investors will remember 2017 as a very positive year for the global stock markets. Almost all major benchmark indices achieved high double-digit percentages increases, with many of them marking historic highs over the course of the year. As a result of this development, considerably higher returns could be achieved with stocks than in other asset classes (bonds, fixed-rate securities, interest, etc.) in the past year.

The upswing was driven primarily by robust growth in the global economy at a rate above the long-term average. This was also accompanied by an usually synchronous expansion of the national economies in the USA, Europe, and Japan and by rising corporate profits. All of this was further supported by low inflation rates, the continued expansionary monetary policy of the central banks, and persistently low interest rates. Even political risks and geopolitical crises did not manage to dim the optimistic mood on the stock markets.

For example, the Dow Jones Industrial Average Index, which had already increased significantly in 2016, rose by another 25.1 % in this context. After quoting below 20,000 points still in mid-January, the US benchmark index broke past one thousand-point mark after another over the course of the year and closed at 24,719 points at the end of December. The Japanese Nikkei 225 index also displayed a very good performance, posting an increase of 19.5 % to 22,847 points. By contrast, the Euro Stoxx 50 developed rather modestly with an increase of 6.5 % to 3,504 points.

The Swiss Market Index (SMI), which maps the price performance of the 20 highest-capitalized Swiss companies, achieved a good result again after two weaker years. It reached its high for the year of 9,469 points in mid-December before closing the year at 9,382 points, up 14.1 % compared to December 31, 2016.

The DAX also performed better than it had done for a long time. With a closing price of 12,912 points, it achieved a 12.5 % increase – its biggest annual gain since 2013. The SDAX small cap index performed even better, closing up 24.9 % at 11,887 points. The index for German media stocks (DAXsector Media), which had recorded a loss in the previous year, achieved a slight increase of 4.4 % again in 2017 at 396 points.



Highlight stock remains undervalued

Unfortunately, Highlight's stock did not benefit from the generally very positive development – particularly in SDAX stocks – in the period from January to December 2017. After a variable price performance, it recorded a decline of 10.4 % as of the end of the year.

The price of our stock already dropped 6.0 % from EUR 5.69 (December 31, 2016) to EUR 5.35 over the first six trading days. During the subsequent sideways movement, the price then ranged within a corridor of EUR 5.39 to EUR 5.60, before falling to EUR 5.20 again in mid-March. Highlight's stock was down 8.6 % when it closed at EUR 5.30 on March 31.

The publication of our very positive sales and earnings figures for fiscal year 2016 led to a recovery in the first four weeks of the second quarter, bringing the share price back to a level of EUR 5.47. However, it fell to EUR 5.01 again by mid-June in the course of the subsequent downward trend. With a closing price of EUR 5.16 at the end of the quarter, a decrease of 9.3 % was therefore recorded for the first half of 2017.

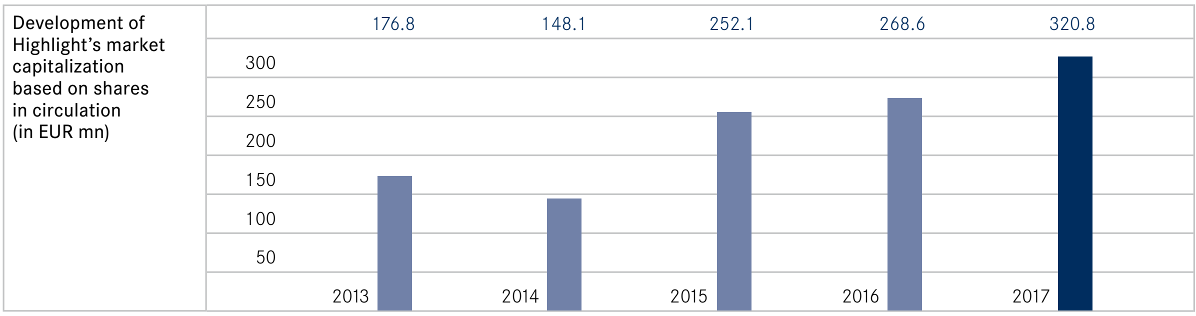
The whole of the third quarter and the first half of the fourth quarter were characterized by a general sideways trend, with the price of our stock varying between EUR 4.95 and EUR 5.15 in this period. In mid-November, a clear upward trend then began, driving the share price up to EUR 5.65. However, Highlight's stock could not hold this level for long and ended 2017 at a price of EUR 5.10. Its 52-week high as of that date was EUR 5.67 (November 29) while its 52-week low was EUR 4.95 (August 29 and 30).

Further decline in trading volume

In the reporting period, around 1.56 million Highlight shares were traded on Deutsche Börse AG's Xetra trading system. This represents a year-on-year decline of 60.2 % (previous year: around 3.92 million). The average number of shares traded per day consequently fell from around 15,400 to a little over 6,200.

Dividend payment of CHF 0.20 planned

Despite the unsatisfactory price performance of Highlight's stock, we wish to allow our shareholders to share in our company's economic performance again. After generating earnings per share of CHF 0.41 in the reporting year, the Board of Directors will therefore propose to the Annual General Meeting to be held in June, 2018, to approve a dividend of CHF 0.20 per authorized share for fiscal year 2017.



Significant rise in subscribed capital

As a result of the capital increase announced on June 12 last year, Highlight Communications AG's subscribed capital rose from CHF 47.25 million to CHF 63.0 as of December 31, 2017. It is divided into 63.0 million bearer shares each with a nominal value of CHF 1.00. The number of treasury shares remained unchanged at 44,983 as of the end of the reporting year. This corresponds to 0.07 % of the subscribed capital. After deducting these shares, there were 62.96 million shares in circulation as of the end of the reporting period.

Our company's principal shareholders are Constantin Medien AG with a share of 32.7 %, Highlight Event and Entertainment AG (25.0 %) and Stella Finanz AG (20.19 %). Further significant share packages are held by members of the Board of Directors and by private and institutional investors. As of December 31, 2017, the free float amounted to 22.04 % as per Deutsche Börse AG's index weighting.

Investor relations activities characterized by active communication

One of the main areas of our investor relations activities is informing investors, analysts and the financial press in a manner that is as detailed and comprehensive as possible. The basis for this is primarily our timely 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 Highlight Group in the form of press releases and ad-hoc disclosures.

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 were available to field questions from market players at the German Equity Forum – Europe's most important investors' fair for small and medium-sized enterprises – in 2017. Our stated aim is to use this type of public relations work to achieve a fair valuation of Highlight's stock and to convince potential shareholders of the intrinsic value of an investment in our company.

In addition to direct communication, our website (www.highlight-communications.ch) is the main information tool for all interested parties. It offers all relevant facts on the history and the current development of the Highlight Group in a clearly laid-out format. In order to ensure equal treatment of all market players, new documents and information are always published on this medium in a timely manner. In addition to annual reports, interim reports, press releases, and ad-hoc disclosures, this relates mainly to transactions with treasury shares. The dates for the most important publications and events have been clearly compiled in our financial calendar.

Information on Highlight stock as of December 31, 2017

Subscribed capital	CHF 63.0 million
Number of shares	63,000,000
Stock class	Ordinary bearer shares
Shares in circulation	62.96 million
Market capitalization (based on shares in circulation)	EUR 320.8 million
Year-end price	EUR 5.10
52-week high (November 29)	EUR 5.67
52-week low (August 29 and 30)	EUR 4.95
Earnings per share	EUR 0.37

Key data of Highlight stock

Securities code number (WKN)	920 299
ISIN	CH 000 653 9198
Ticker	HLG
Reuters identification code	HLGZ.DE
Index	DAXsector Media
Traded at	Berlin, Dusseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart, Xetra

Report on the Highlight Group’s situation

The business performance of the Highlight Group was highly positive overall in 2017.

- At CHF 374.3 million, consolidated sales were at the upper end of the forecast corridor (between CHF 360 million and CHF 380 million).
- The consolidated net profit attributable to shareholders improved by 15.2 % year-on-year to CHF 22.7 million.
- Earnings per share fell slightly from CHF 0.46 to CHF 0.41 as a result of the higher number of shares following the capital increase.
- This capital increase also raised the equity ratio from 36.7 % to 46.1 % and net liquidity from CHF 36.2 million to CHF 109.4 million.

2017

Award-winning comedy thriller: The Bavarian Film Awards' producers' award went to Kerstin Schmidbauer for the Constantin Film co-production "Grießnockerlaffäre".

Most-watched movie of 2017: "Fack Ju Göhte 3"

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 and the Sports- and Event-Marketing segments.

Film segment

In its Film segment, Highlight Communications AG wholly owns Constantin Film AG, Munich, which, together with its German and foreign subsidiaries, is Germany's leading producer and exploiter of productions in the entire fictional and non-fictional audiovisual sector. Its activities comprise development, production and exploitation of the rights to the films it produces and acquires. Self-produced theatrical movies are marketed both in Germany and worldwide, while third-party productions are exploited mainly in German-speaking countries. All stages of the exploitation chain from theatrical distribution and home entertainment releases down to TV broadcasting are fully utilized in exploitation. 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 und Entertainment AG, Zurich, 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 of these rights 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/Universal Home Entertainment on the German market.

The main sources of income in the Film segment result from exploitation of the rights to the films it produces and acquires across all stages of the exploitation chain, as well as from production orders for TV broadcasters and other exploiters in the audiovisual sector. Other earnings are generated from national and international grants from film funding. The main expense items consist of acquisition and exploitation rights for screenplays and source material, 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 global marketing of major international sports events. As one of the world's leading agencies in this area, it exclusively markets the UEFA Champions League, the UEFA Europa League and the UEFA Super Cup on behalf of the Union of European Football Associations (UEFA).

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

CONTROL SYSTEM AND PERFORMANCE INDICATORS

Group management

Highlight Communications AG's Board of Directors is responsible for the strategic orientation and management of the Highlight Group. By contrast, responsibility for operating activities lies with the management body of the relevant subsidiary. At Team Holding AG, this body is the Board of Directors, which consists of four members, and at Constantin Film AG it is the Management Board, which is also made up of four people. 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 was 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 and 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 individual segments:

- In theatrical distribution, 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.
- In the home entertainment business area, market share generated from the rental and sale of DVDs and Blu-rays is a performance indicator for the success of the Highlight Group.

Extremely successful bestseller adaptation: "Dieses bescheuerte Herz"

- In license trading/TV exploitation and TV service production, range and market share are important parameters for the success of a broadcast format with the public. These values are often the basis for decisions on commissioning productions by the TV broadcasters in the future.
- 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 working closely with renowned and experienced screenwriters, directors and producers with extensive expertise in producing theatrical movies and TV formats at home and abroad, and attempts to secure them with appropriate contracts.
- Technical and content-related expertise are crucial factors, not only in view of the increasingly digital and convergent media 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 Sports- and Event-Marketing segment, trusting business relationships with rights-holders as well as existing and potential sponsors are crucial to the marketing of international major sports events. The same applies to persistently high ratings to be achieved by TV broadcasting.

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 carried out in accordance with a large number of media, data protection, copyright and regulatory requirements.

Film segment

In the Film segment, the Highlight Group is also subject to statutory regulations with particular significance. These include the regulations of the Copyright Protection Act. Furthermore, it must comply with the German Youth Protection Act, which regulates the commitment to age classifications for movies and video films in association with the FSF – a German organization for the voluntary self-regulation of television.

The German Film Subsidies Act (FFG) was amended with the aim of economically invigorating the German theatrical movie industry. One of the new law's significant changes is the targeted promotion of screenplays. The FFG was finally approved by the Federal Council of Germany on December 16, 2016 and therefore became effective on January 1, 2017.



German theatrical movie producers – such as the Constantin Film Group – are dependent on funding. The announcement by Minister of Culture Prof. Monika Grütters that the German Federal Film Fund (DFFF) would be increased by EUR 25 million to EUR 75 million was put into practice in the second half of 2017. Starting from 2018, as much as EUR 125 million will be available from the DFFF's various different subsidy funds. The DFFF is therefore the most important funding institution. Like similar bodies in other countries, it funds production activities in the respective location. In addition, the subsidy fund of the Film- und Medienstiftung NRW (Film and Media Foundation North Rhine-Westphalia) was increased by EUR 2.5 million to a total of EUR 14.45 million.

MARKET RESEARCH AND DEVELOPMENT

Both on the national and the international level, collection and analysis of market data in the areas of audience, user and customer research is important to the development and enhancement of the business areas in which the Group operates so that trends in the respective industry segments and changes in patterns of consumer behavior can be anticipated or responded to quickly. Furthermore, the data and findings obtained are used by the companies of the Highlight Group to provide customers, business partners and the advertising industry with authoritative and sound information for assessing their investment decisions.

In-house productions in the Film segment partially undergo an audience test in the form of screenings. Awareness figures are also collected for current theatrical releases, partly in order to assess the effect of marketing activities for the film in question and optimize these if necessary.

In addition to these purely quantitative performance measures, qualitative data – relating to research of advertising effectiveness, for example – is also an important basis for assessing, classifying and aligning the production, exploitation and marketing activities within the various segments. Wide-ranging studies and research work on the development of the media industry are also used here, as well as surveys, screenings and audience tests relating to the Group's products. The level of market acceptance of elaborate source material is tested even prior to their respective production.

Successful continuation of youth's adventure series: "Ostwind – Aufbruch nach Ora"

ECONOMIC REPORT

GENERAL ECONOMIC ENVIRONMENT

The calculations published by the International Monetary Fund (IMF) in January 2018 show that the global economy grew by 3.7 % in 2017 (2016: 3.2 %). This upturn was based on almost synchronous growth in around 120 countries whose economic output accounts for roughly three-quarters of global gross domestic product. Development of this kind had last been observed in 2010. The second half of 2017 in particular was characterized by strong growth in world trade, an upturn in investment activities between industrialized nations, and a higher production volume in emerging and developing countries. Accordingly, the output of these national economies rose by 4.7 % last year (2016: 4.4 %).

For the group of industrialized nations, the IMF calculated an increase of 2.3 % (2016: 1.7 %). The Japanese economy recorded a significant recovery with growth of 1.8 % (2016: 0.9 %), whereas the 1.7 % increase in the UK was lower than in the previous year (1.9 %). The economy in the euro area posted growth of 2.4 %, well above the previous year's level (1.8 %). This positive development was also driven by former problem countries such as France (1.8 %), Italy (1.6 %) and Spain (3.1 %), which are evidently on the right path now.

For Switzerland, the State Secretariat for Economic Affairs (SECO) issued a forecast in mid-December 2017 indicating a moderate increase in gross domestic product (GDP) of 1.0 % (2016: 1.5 %). The year-on-year decrease was primarily due to a weak first half of the year in which growth was almost entirely attributable to the industrial sector. In the second half of the year, foreign trade (+3.4 %) and equipment investments (+2.8 %) in particular then increasingly benefited from the global economic upturn.

In 2017, the German economy recorded its strongest growth since 2011. Based on provisional calculations published by the German Federal Statistical Office (Destatis) in mid-January 2018, price-adjusted GDP rose by 2.2 % (2016: 1.9 %). The main growth drivers were private consumer spending with an increase of 2.0 %, higher investments at many companies (+3.0 %) and the strong global economy, which resulted in a new record for exports of German products (+4.7 %).

There is a similarly positive situation in the Austrian economy, for which the Institute for Economic Research (WIFO) forecast an increase in real GDP of 3.0 % (2016: 1.5 %) in mid-December 2017 – the strongest growth in seven years. This upturn was particularly based on expanding foreign trade (+5.5 %) and significantly higher gross capital investment (+5.3 %). By contrast, private consumer spending stagnated at the previous year's level (1.5 %).



MEDIA AND ENTERTAINMENT MARKET ENVIRONMENT IN GERMANY

The development of the media and entertainment industry in Germany is closely linked to that of the economy as a whole. However, companies generally respond to economic changes in their spending on advertising more directly and more promptly than consumers. Overall, the market in Germany is characterized by moderate yet steady and long-term growth. The current drivers are still the increasingly widespread use of digital devices such as smartphones and tablets, as well as the expansion of broadband technologies and infrastructure.

The audit company PricewaterhouseCoopers (PwC) forecast sales growth of 2.8 % to around EUR 78.4 billion for the media and entertainment industry as a whole in Germany for 2017. The increase was only 2.0 % in the previous year.

The growth of the market as a whole was chiefly driven by digital media content. For example, the online advertising and video game segments generated considerably higher than average growth rates of 7.6 % and 13.5 % respectively, while the traditional media of television (+0.5 %) and radio (+0.7 %) almost stagnated. Newspapers (-0.2 %) and magazines (-1.4 %) even recorded sales declines. By contrast, spending in the sports area (marketing of rights and sponsorship) grew by 5.4 % in the past year.

Coveted award: Wotan Wilke Möhring received the German Film and TV Award "Goldene Kamera" for his performance in the three-part TV movie "Winnetou".

Management report: Film segment

Report on business performance and the situation

2017

Best family entertainment: "Das Pubertier"

SECTOR-SPECIFIC SITUATION

Theatrical distribution

At around EUR 1.056 billion, revenues on the German movie market were up 3.2 % year-on-year in 2017 (2016: around EUR 1.023 billion). Audience figures rose by 1.0 % to approximately 122 million (2016: around 121 million). There was a significant increase for German own and co-productions, which achieved a market share of 23.9 % in terms of viewers (2016: 22.7 %). This corresponds to growth of around 5.3 % compared to the previous year.

Of all the movies released in Germany in 2017, 32 drew an audience of more than a million people (including previews). The most successful was the Constantin Film own production "Fack Ju Göhte 3" with 6.0 million viewers, followed by "Star Wars: The Last Jedi" (5.2 million), "Despicable Me 3" (around 4.6 million), "Fifty Shades Darker" (around 3.4 million) and "Beauty and the Beast" (around 3.4 million).

Home entertainment

The declining trend on the German home entertainment market continued. At EUR 1.337 billion, sales were down 7.8 % year-on-year in 2017 (previous year: EUR 1.45 billion), whereby these figures do not include the fast-growing SVoD business (subscription video-on-demand). This decrease again resulted mostly from falling revenues volumes for sales and rentals of physical media (DVD and Blu-ray). While income of EUR 1.106 billion was generated in this area in 2016, the figure fell to EUR 0.974 billion in the past year – a drop of 12.0 %.

By contrast, digital exploitation (electronic sell-through and transactional video-on-demand) remained on a growth path, with revenues rising significantly by 27.0 % from EUR 0.22 billion to EUR 0.28 billion, though this was not enough to offset the decline in physical media.

OPERATIONAL DEVELOPMENT

Filming begins for nine theatrical movies

In the period from January to December 2017, a total of nine own and co-productions were implemented. There was a focus on the area of family entertainment, for which three projects were implemented: the film version of Cornelia Funke's bestseller "Dragon Rider" (CGI), the big-screen adaptation of "Benjamin the Elephant", to be distributed by Studiocanal, and "Fünf Freunde und das Tal der Dinosaurier". The fifth installment of the extremely successful "The Famous Five" series was filmed with a new, younger cast.

Filming also began for "Sauerkrautkoma", which is likewise the fifth adaptation of Rita Falk's highly popular crime novels. In the premium class of film genres, comedy, the Constantin Film Group produced another crowd-puller with "Fack Ju Göhte 3". Particularly thanks to the long-standing collaboration with the writer and director Bora Dagtekin, the "Fack Ju Göhte" trilogy has thus become by far the most successful German original franchise of all time.

Cult comedy thriller: "Grießnockerlaffäre"

Excellent performance in theatrical distribution

The Constantin Film Group released a total of thirteen movies in German theaters in 2017 out of the 16 originally planned. The film slate consisted of eleven own/co-productions and two licensed titles. Particularly good audience figures were achieved by the two own productions "Fack Ju Göhte 3" and "Dieses bescheuerte Herz" as well as the co-production "Ostwind – Aufbruch nach Ora".

Home entertainment marketing down on the previous year's level

In the home entertainment area, digital sales continued to gain in importance. As expected, however, the previous year's strong market position, chiefly characterized by the major sales success of the hit movies "Fack Ju Göhte 2" and "Look Who's Back", could not be maintained. The main reason for this was a generally weaker portfolio of new releases, while catalog business saw a very solid development again.

Major license launches in TV exploitation/license trading

Various license sales of in-house and third-party productions were again concluded in 2017. As in the previous year, the conventional exploitation stages free-TV and pay-TV/pay-per-view (PPV) accounted for almost all significant transactions in terms of sales in this business area.

In free-TV, the start of the initial licenses for "Pompeii" (ProSiebenSat.1), "Tarzan" (ProSiebenSat.1), "Fack Ju Göhte" (ProSiebenSat.1), "Schweinskopf al dente" (Degeto/ARD), and "The Famous Five 4" (ProSiebenSat.1) had a particular impact on sales. There were also initial licenses in the pay-TV sector for films including "Gut zu Vögeln" (Sky), "Office Christmas Party" (Sky), "Timm Thaler oder das verkaufte Lachen" (Sky), and "Das Pubertier" (Sky).

In addition, the streaming platform Netflix purchased the SVoD rights to the Constantin Film productions "Fack Ju Göhte" and "Türkisch für Anfänger" for the German-speaking region.

The long-standing cooperation with the ProSiebenSat.1 Group for exclusive free-TV exploitation and downstream exploitation of pay-TV rights was continued. The new exploitation rights encompass all Constantin Film own and co-productions with filming commencing in 2017 and 2018. The license agreement with the pay-TV broadcaster Sky Deutschland was also extended, allowing it to secure extensive linear and on-demand rights for exclusive TV premieres of Constantin theatrical movies.

Further expansion of TV service production

Both national and international fictional TV production were further stepped up in 2017. Nationally, the main highlights included the miniseries "Die Protokollantin", "Bier Royal", and "Die Heiland: Wir sind Anwalt". In addition, feature films such as "Schattengrund" and the series "Der Kroatien-Krimi" and "Kommissarin Lucas" were produced – to name just a few. In the year under review, work began on the third season of the major production "Shadowhunters" for the US network Freeform. The series "Parfum" – produced nationally for ZDF/ZDFneo and internationally for Netflix – is opening up new avenues for global marketing of high-end German-language series.

In the entertainment area, further episodes were produced of the well-known daily shows "Schicksale" (SAT.1) and "Shopping Queen" (VOX) in addition to the weekly show "Frauentausch" (RTL2).

Hit franchise comes to an end: "Resident Evil: The Final Chapter"

ANALYSIS OF NON-FINANCIAL PERFORMANCE INDICATORS

Focus on long-term collaboration

The size of the theatrical movie market is defined primarily by the commercial qualities of the movies released each year. The movies that the Constantin Film Group offered up to audiences in the past fiscal year were worked on by numerous producers with creative control, a large number of executive producers and many filmmakers, writers, directors, and actors, some of whom have agreed to work with Constantin for some time to come. For example, in early December 2017 an exclusive agreement was concluded with the renowned screenwriter Doron Wisotzky. In addition to screenwriting work, this three-year contract also covers finding and developing source material for future theatrical movies.

Three movies seen by more than a million in theatrical distribution

In 2017, three of the Constantin Film Group's own and co-productions attracted more than a million viewers in German cinemas. Well in the lead was the comedy "Fack Ju Göhte 3", which drew in 6.0 million viewers by the end of the year, making it the most-watched movie of the year. The Constantin Film Group thus repeated the popular success of this franchise for the second time, writing film history.

The youth adventure "Ostwind – Aufbruch nach Ora" was also among the big winners in 2017 with around 1.1 million viewers. The third movie to attract a million viewers was the adaptation of the bestseller "Dieses bescheuerte Herz", which – even though it was not released until December 21 – won an audience of around 1.2 million in the last few days of the year. The co-production "Grießnockerlaffäre" also achieved excellent results, becoming the first film in the Rita Falk series to draw more than 800,000 viewers into (almost exclusively Bavarian) cinemas.

Based on these successes, the Constantin Film Group placed fourth among distributors in Germany in terms of both sales and audience figures. It thus came out ahead of the US studios Sony, Fox, and Paramount and all other independent exploiters.

In addition, the own production "Resident Evil: The Final Chapter" took USD 312 million internationally by the end of March 2017. The six films in the "Resident Evil" series have therefore generated total box office takings of more than USD 1 billion – a result never before achieved by a franchise from an independent producer.

Long-standing small screen crowd-pleaser: “Kommissarin Lucas”

Two new releases with good sales figures in home entertainment

Of all the new releases in the past year, only “Ostwind – Aufbruch nach Ora” and “Resident Evil: The Final Chapter” met the sales expectations. The action spectacular starring Milla Jovovich hit the stores at the start of July and sold a total of 220,000 DVDs and Blu-rays. In addition, there were 180,000 paid downloads. The sales figures for “Ostwind – Aufbruch nach Ora” (which went on sale at the start of December) amounted to 185,000 date carriers in physical sales and 52,000 downloads in digital sales.

In addition, the hit comedy “Fack Ju Göhte 2”, which was already released in the previous year, became a long-running success in the catalog charts in 2017, selling around 250,000 DVDs and Blu-rays.

TV exploitation still at a good level

In TV exploitation/license trading, initial broadcasts of Constantin Film theatrical productions in particular again achieved good ratings on free-TV in 2017. The most successful with audiences was “Schweinskopf al dente” (ARD, 14.9 % share of overall market), followed by “The Hundred-Foot Journey” (ARD, 11.6 % share of overall market) and “Frau Müller muss weg!” (SAT.1, 10.6 % share of overall market).

Consistently high ratings in TV service production

In addition to the thirteenth and fourteenth seasons of “Dahoam is Dahoam”, which at times even expanded on the established double-digit market share, the broadcast of the two-part ORF/ZDF service production “Das Sacher” in particular was extremely successful with 7.17 million and 6.17 million viewers (overall market). The “Löwenherz” episode of the ZDF detective series “Kommissarin Lucas” also enjoyed excellent ratings with a share of over 20 % (overall market), as did the feature film “Der 7. Tag” (ZDF, 18.9 % share of overall market) and the four-parter “Schuld 2”, which was also broadcast by ZDF and achieved shares of between 13.9 % and 17.8 % of the overall market.

Another double: After its victory in the 2017 UEFA Champions League final, Real Madrid CF also took the UEFA Super Cup.

Management report: Sports- and Event-Marketing segment

Report on business performance and the situation

2017

Premium European football in three UEFA formats: Champions League, Europa League and Super Cup

SECTOR-SPECIFIC SITUATION

In the area of sports media rights, there are signs of growing interest on the part of digital service providers. For example, Facebook launched a new wrestling tournament with the US wrestling entertainment series WWE in December that will be live-streamed exclusively on the Facebook Watch video platform. Amazon's live-streaming portal Twitch also joined forces with the professional basketball league NBA to broadcast at least six games a week from the second-tier G League. This agreement allows for the medium of video to be used in a unique and exciting way that appeals to young viewers with its focus on fan comments and new technologies.

OPERATIONAL DEVELOPMENT

Focus on marketing of UEFA competitions

In the marketing process for the commercial rights to the UEFA Champions League and the UEFA Europa League for the 2018/19 to 2020/21 seasons, the TEAM Group held many successful talks with existing and potential partners in the year under review. In the area of TV rights, contracts have already been concluded for some key markets. With regard to sponsorship rights, contracts with existing sponsors were successfully extended and a new sponsor was contractually secured.

Another key area of TEAM's activities was designing the format and commercial concept for both competitions for the upcoming three-year cycle (2021/22 to 2023/24 seasons).


Finals in the spotlight

In operational business, the TEAM Group supported both the commercial partners and UEFA with the successful handling of the three highlights of the European club football season. The UEFA Europa League final between Manchester United and Ajax Amsterdam took place in Stockholm on May 24. This was followed by the UEFA Champions League final between Real Madrid CF and Juventus Turin in Cardiff on June 3. The winners of these two matches (Manchester United and Real Madrid CF) then faced off for the UEFA Super Cup in Skopje on August 8.

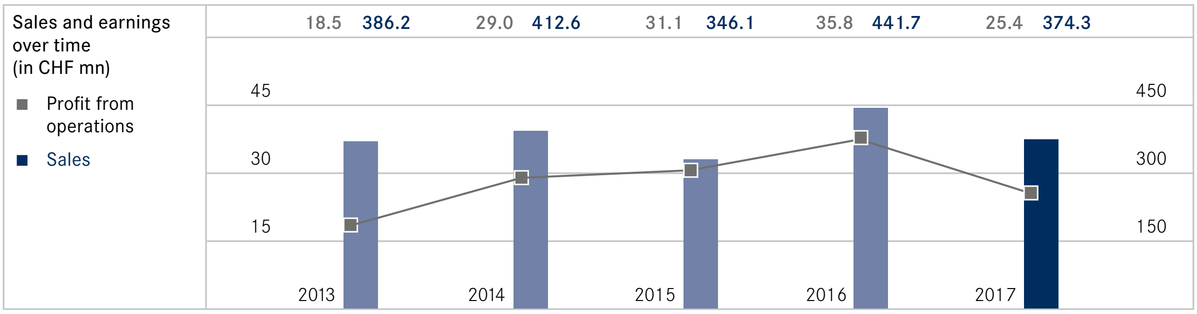
ANALYSIS OF NON-FINANCIAL PERFORMANCE INDICATORS

New audience records for the UEFA Europa League final and the UEFA Super Cup

The final of the UEFA Champions League was again broadcast in more than 200 countries and achieved an average global TV audience of around 160 million viewers, peaking at as many as roughly 350 million. The UEFA Champions League final thus once again confirmed its status as the world’s most viewed annual sporting event.

The audience for the UEFA Europa League final, which was broadcast in more than 100 countries, averaged an estimated 62 million viewers and peaked at approximately 180 million. Compared to the previous year (with an average of around 50 million viewers and a peak level of around 160 million), interest in this event has thus increased significantly.

The UEFA Super Cup, which was broadcast in more than 90 countries, also achieved a record result of more than 50 million viewers.



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

OVERALL ASSESSMENT OF THE REPORTING PERIOD

The business performance of the Highlight Group was highly positive overall in 2017. At CHF 374.3 million, consolidated sales were at the upper end of the forecast corridor of between CHF 360 million and CHF 380 million. The consolidated net profit attributable to shareholders improved by 15.2 % year-on-year to CHF 22.7 million. It thus significantly exceeded the earnings forecast of CHF 18 million to CHF 20 million. Earnings per share recorded a slight decline from CHF 0.46 to CHF 0.41 due to a considerably larger number of shares (up 30.6 % year-on-year) as a result of the capital increase.

This capital increase also caused the notional equity ratio to rise from 36.7 % to 46.1 % and net liquidity to increase from CHF 36.2 million to CHF 109.4 million.

RESULTS OF GROUP OPERATIONS

Further increase in production volume

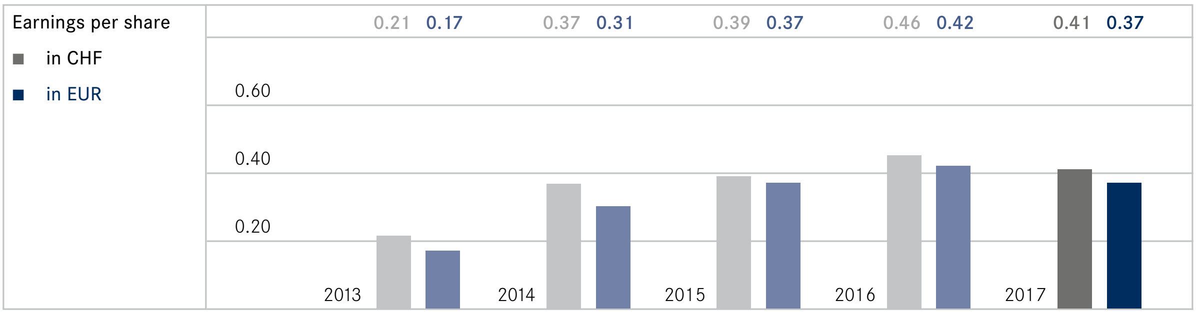
In the period from January to December 2017, the Highlight Group generated consolidated sales of CHF 374.3 million, down CHF 67.4 million or 15.3 % on the level from 2016 (CHF 441.7 million) as expected. This decrease was primarily due to considerably lower sales in the TV exploitation/license trading business area of the Film segment, as in contrast to the previous year no international Constantin Film production was released.

Due to a higher production volume, capitalized film production costs and other own work capitalized increased by CHF 21.0 million to CHF 141.6 million (previous year's period: CHF 120.6 million). However, this increase did not fully offset the decline in sales, with the effect that the Highlight Group's total output of CHF 515.9 million was down CHF 46.4 million or 8.3 % on the previous year's level (CHF 562.3 million). Other operating income declined by CHF 8.4 million to CHF 11.8 million (previous year's period: CHF 20.2 million).

EBIT impacted by one-off costs

Consolidated operating expenses totaled CHF 502.3 million in the year under review, corresponding to a decrease of CHF 44.4 million or 8.1 % as against the previous year (CHF 546.7 million). This development was chiefly due to amortization, depreciation and impairment – particularly on film assets – which fell by CHF 69.0 million to CHF 116.7 million (previous year's period: CHF 185.7 million). Because amortization on film assets is performance-based, reflecting the loss in value of the film rights used based on the recoverable sales, the decrease therefore primarily results from the lower sales in the Film segment in 2017.

At CHF 198.0 million, the cost of materials and licenses was approximately at the previous year's level (CHF 196.6 million), while personnel expenses increased by CHF 5.6 million to CHF 113.8 million (previous year's period: CHF 108.2 million). Other operating expenses posted a substantial increase of CHF 17.6 million or 31.3 % to CHF 73.8 million (previous year's period: CHF 56.2 million), which was primarily due to one-off expenses for the takeover offer to the shareholders of Constantin Medien AG as well as additional legal and consulting costs.



Particularly due to these additional costs, EBIT decreased as expected to CHF 25.4 million compared to the previous year's figure (CHF 35.8 million), which also included a one-off effect of CHF 2.7 million from the Other Business Activities segment. The EBIT margin consequently also fell from 8.1 % to 6.8 %.

Consolidated net profit up 16.7 %

The financial result improved considerably from CHF -8.8 million to CHF +5.7 million, primarily due to currency effects. Financial income climbed by CHF 9.7 million to CHF 13.0 million (previous year's period: CHF 3.3 million), while financial expenses decreased by CHF 4.8 million to CHF 7.3 million (previous year's period: CHF 12.1 million).

Taking into account tax expenses (current and deferred taxes), which increased by CHF 0.7 million to CHF 7.4 million year-on-year, the Highlight Group reported a consolidated net profit for fiscal year 2017 of CHF 23.7 million. This marks an increase of CHF 3.4 million or 16.7 % as against the previous year (CHF 20.3 million). CHF 1.0 million (previous year's period: CHF 0.5 million) of this profit is attributable to non-controlling interests.

The share of profit attributable to shareholders of Highlight Communications AG thus amounted to CHF 22.7 million, representing an increase of CHF 3.0 million or 15.2 % as against the previous year (CHF 19.7 million). Based on an average of 56.1 million (previous year's period: 42.9 million) shares in circulation during the reporting year, this resulted in earnings per share of CHF 0.41 (previous year's period: CHF 0.46).

RESULTS OF SEGMENT OPERATIONS

Film: Decline in sales and earnings due to lack of income from international theatrical releases

The Constantin Film Group largely achieved its targets in fiscal year 2017, with the effect that the business performance was in line with expectations. Nine own and co-productions were implemented in theatrical production, while in theatrical distribution 13 of the 16 originally planned movies were released. Three titles from this distribution slate drew audiences of more than a million moviegoers in Germany, with "Fack Ju Göhte 3" in the lead as the most-watched movie of 2017. Accordingly, sales in this business area were also well above the previous year's figure.

As anticipated, sales in the home entertainment business area – which had particularly benefited from exceptionally high sales figures for the hit films "Fack Ju Göhte 2" and "Look Who's Back" in 2016 – fell short of the previous year's level. The same applies to the TV exploitation/license trading area, which had benefited from high financing proceeds from the international own production "Resident Evil: The Final Chapter" in the previous year. By contrast, income from TV service productions remained at a consistently high level, primarily due to the continuing strong performance of dailies, weeklies, and fictional miniseries.

As a result of these developments, the Film segment generated external sales of CHF 315.6 million in the year under review, down CHF 67.2 million on the figure for the previous year (CHF 382.8 million). Other segment income, which is primarily influenced by capitalized film production costs, rose by CHF 20.6 million to CHF 153.0 million (previous year's period: CHF 132.4 million) as a result of the higher production volume. At the same time, segment expenses fell by CHF 44.3 million to CHF 458.9 million (previous year's period: CHF 503.2 million), mainly due to considerably lower scheduled amortization on film assets. At CHF 9.7 million, segment earnings were down CHF 2.2 million or 18.5 % compared to the previous year's figure (CHF 11.9 million).

Annual kick-off for the European football club championships: the UEFA Super Cup

Sports- and Event-Marketing: Increase in earnings due to reduced costs

In the past year, the TEAM Group focused in particular on marketing of the commercial rights to the UEFA Champions League and the UEFA Europa League (for the 2018/19 to 2020/21 seasons). Many successful talks were held with existing and potential partners for this purpose. In the area of TV rights, contracts have already been concluded for some key markets. With regard to sponsorship rights, contracts with existing sponsors were successfully extended and a new sponsor was contractually secured.

At CHF 58.7 million, external sales in the Sports- and Event-Marketing segment were virtually unchanged from the previous year's level (CHF 58.6 million). Other income decreased by CHF 2.1 million to CHF 0.5 million, while segment expenses were reduced by CHF 4.0 million to CHF 31.9 million. Accordingly, segment earnings improved by CHF 1.9 million or 7.5 % to CHF 27.3 million (previous year's period: CHF 25.4 million).

Holding costs rise to CHF 11.6 million due to high one-off expenses

The costs of holding activities rose by CHF 7.3 million in the reporting year to CHF 11.6 million (previous year's period: CHF 4.3 million). This increase was driven by one-off expenses for the capital increase and the successfully completed takeover offer to the shareholders of Constantin Medien AG, as well as by additional legal and consulting costs of CHF 6.5 million.

NET ASSETS SITUATION

Balance sheet total up 39.2 % year-on-year

Compared to the end of 2016 (CHF 368.5 million), the Highlight Group's balance sheet total grew by CHF 144.3 million to CHF 512.8 million as of December 31, 2017.

On the assets side of the balance sheet, this increase was attributable to both current and non-current assets. The CHF 40.6 million increase in non-current assets to CHF 192.4 million (December 31, 2016: CHF 151.8 million) is largely due to changes in film assets of CHF 34.5 million. Despite this development, the share of total assets attributable to non-current assets decreased year-on-year from 41.2 % to 37.5 %.

At CHF 320.4 million, current assets were up CHF 103.7 million compared to the previous year's figure (CHF 216.7 million). This was due in particular to a significant increase in cash and cash equivalents to CHF 186.6 million (December 31, 2016: CHF 88.5 million), which was mainly based on the cash inflow of CHF 87.8 million from the capital increase. In addition, trade accounts receivable and other receivables due from third parties rose slightly by CHF 2.6 million to CHF 126.9 million (December 31, 2016: CHF 124.3 million).

Successful TV adaptation of bestseller whodunit: "Der 7. Tag"

Film assets increase to CHF 161.8 million

The value of film assets as of the end of the reporting year totaled CHF 161.8 million, representing an increase of CHF 34.5 million as against December 31, 2016 (CHF 127.3 million). This total consisted of in-house productions of CHF 126.0 million (December 31, 2016: CHF 85.5 million) and third-party productions of CHF 35.9 million (December 31, 2016: CHF 41.7 million). The increase in in-house productions was mainly attributable to the higher production volume in comparison to the previous year.

Additions to film assets amounted to CHF 136.8 million in the year under review – an increase of CHF 26.9 million as against the previous year (CHF 109.9 million). This was offset by amortization of CHF 113.1 million (previous year's period: CHF 174.5 million) and impairment losses of CHF 3.3 million (previous year's period: CHF 9.0 million).

Reduction in non-current liabilities

On the equity and liabilities side of the balance sheet, non-current liabilities fell by CHF 12.9 million to CHF 21.3 million (December 31, 2016: CHF 34.2 million). This was chiefly due to a CHF 15.7 million decline in advance payments received. Pension liabilities also decreased by CHF 2.5 million to CHF 4.2 million, whereas non-current deferred tax liabilities rose by CHF 4.9 million to CHF 15.2 million.

At CHF 255.1 million, current liabilities were up CHF 56.1 million compared to the previous year's figure (CHF 199.0 million). This increase was firstly due to a CHF 35.3 million rise in trade accounts payable and other liabilities due to third parties to CHF 121.8 million (December 31, 2016: CHF 86.5 million). Secondly, financial liabilities increased by CHF 24.9 million to CHF 77.2 million (December 31, 2016: CHF 52.3 million).

Significant increase in equity

Consolidated equity (including non-controlling interests) recorded an increase of CHF 101.1 million to CHF 236.4 million (December 31, 2016: CHF 135.3 million). This development was mainly attributable to the capital increase, which was implemented in the second quarter of 2017 and generated net issue proceeds of CHF 87.8 million. In addition, the increase was also driven by the consolidated net profit (CHF 23.7 million) and currency differences (CHF 8.4 million) from translating the equity of subsidiaries whose functional currency is not Swiss francs. Equity was reduced by the dividend payments of CHF 20.0 million.

In relation to the likewise considerably higher balance sheet total, this resulted in a notional equity ratio of 46.1 % as of December 31, 2017 – an improvement of 9.4 percentage points compared to December 31, 2016 (36.7 %). The adjusted equity ratio (after netting advance payments received against film assets and cash and cash equivalents against financial liabilities) came to 61.0 % (December 31, 2016: 54.1 %). For detailed information on the development of consolidated equity please see the consolidated financial statements (pages 78 and 79).

Consistently high ratings: miniseries "Schuld 2"

FINANCIAL SITUATION

Further rise in net liquidity

As of December 31, 2017, the Highlight Group had cash and cash equivalents of CHF 186.6 million, corresponding to an increase of CHF 98.1 million as against the end of 2016 (CHF 88.5 million). This includes a sum of CHF 135.9 million that is earmarked for the takeover offer to the shareholders of Constantin Medien AG. Financial liabilities increased by CHF 24.9 million to CHF 77.2 million (December 31, 2016: CHF 53.3 million) with the result that net liquidity was up by CHF 73.2 million at CHF 109.4 million as of the end of fiscal year 2017 (December 31, 2016: CHF 36.2 million).

Operating activities generated a net cash inflow of CHF 139.5 million in the year under review. Compared to fiscal year 2016 (CHF 135.2 million), this represents a slight increase of CHF 4.3 million, which is particularly attributable to changes in net working capital.

Net cash used in investing activities climbed by CHF 42.7 million as against the previous year (CHF 97.4 million) to CHF 140.1 million. This increase was firstly due to a CHF 29.7 million rise in payments for film assets to CHF 134.8 million (previous year's period: CHF 105.1 million). Secondly, it resulted from declines in both the cash inflow from disposals of financial assets (CHF 17.8 million) and the cash outflow from sales of companies/shares in companies (CHF 7.8 million).

The cash generated by the Highlight Group's financing activities amounted to CHF 90.6 million in fiscal year 2017 (previous year's period: cash used of CHF 55.6 million). This significant change was chiefly due to the inflow of CHF 87.8 million from the capital increase. In addition, it was also influenced by net borrowing of current financial liabilities of CHF 23.2 million, whereas in the previous year there had been net repayment of liabilities of CHF 52.1 million. These factors were countered in particular by the higher dividend payments of CHF 20.0 million (previous year's period: CHF 0.9 million).

Ability to pay guaranteed at all times

The Highlight Group has access to credit facilities with floating interest rates as external sources of financing, which have been partially utilized. These facilities are loans that usually have a remaining term of one month. The corresponding interest rates were between 1.25 % and 1.9 % in the euro area in the year under review. For other foreign currencies, especially USD and CAD, interest rates were between 1.7 % and 2.0 %.

The only internal sources of financing are the returns on operating activities. Given the 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.

Prize-winning TV drama: “Ein Teil von uns”

PERSONNEL REPORT

In fiscal year 2017, the Highlight Group employed an average number of 977 people in total (previous year: 894), including freelance staff. 130 of these (previous year: 128) worked in Switzerland, 838 (previous year: 753) in Germany, and 9 (previous year: 13) worked in Austria.

REPORT ON RISKS AND OPPORTUNITIES

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 opportunity and risk management system (RMS) has been implemented.

RISK MANAGEMENT SYSTEM

The RMS is defined in a directive. Highlight Communications AG uses the definition from German Accounting Standard 20 “Group Management Report” issued by the Accounting Standards Committee of Germany (ASCG), which defines risks (opportunities) as “possible future developments or events that may lead to a negative (positive) deviation from forecasts/targets for the company”. The RMS follows the general principles of the overall framework for “enterprise risk management”, as developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The following objectives are pursued:

- Creating freedom of action by means of early and systematic identification of opportunities and risks
- Increasing reaction speed through transparency and timely communication of opportunities and risks
- Supporting the company management in assessing the expected development of the Group with its main opportunities and risks
- Reducing potential liability risks
- Raising employees’ awareness of risk-conscious and autonomous self-monitoring
- Ensuring the company’s continued existence as a going concern

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 and committee members, or the management members and department managers of the individual subsidiaries. The factors underlying the risks and opportunities are identified and assessed on a quarterly basis and approved by the risk officers. At Group level, the reported factors are standardized and consolidated where appropriate. Potential risks to the company as a going concern are required to be reported immediately. Please also refer to the report on risks and opportunities of Constantin Film AG.

In the periodic report, the cause and effects of the factors are described, as well as possible early warning indicators and measures that are planned or have already been taken. If a loss or a measure can be quantified meaningfully, this value is determined and stated. If quantification is not reasonably possible, the possible loss is described verbally and classified in one of the categories "immaterial", "limited", "high" or "serious". The same applies to the probability of occurrence with the categories "low", "medium", "high" and "very high".

The product of the probability of occurrence and the level of loss results in the following risk levels:

- Small risks
  Small risks are immaterial to the company and no risk reduction measures must be agreed.
- Medium risks
  Medium risks exist in the case of a limited level of loss and a medium probability of occurrence. There is no need for immediate action. Efficient and effective measures are sufficient to reduce medium risks or to overcome them quickly if they occur.
- Significant risks
  In comparison to medium risks, significant risks have a higher level of loss and/or a higher probability of occurrence. They should be reduced by means of suitable controls or process optimization. If possible, suitable measures should be used to reduce the significant gross risk to the medium or small risk level.
- Large risks
  Large risks may in some circumstances threaten the existence of an organizational unit or of the entire Highlight Group as a going concern. Measures to reduce the gross risk are imperative and must be initiated immediately. The implementation of the measures is monitored by the management. Large risks must be reported to the management immediately, independently from the periodic reporting.

The net risk is derived from the potential gross loss, the probability of occurrence, and the effect of the measures. To improve the structure, risks are divided into the categories of regulatory risks, business and market risks, operational risks, financial risks, legal risks, and compliance risks.

In particular, risks beyond the control of the Group and risks arising from legal regulation often cannot be actively managed and avoided. Furthermore, risks with an extremely low or non-measurable probability of occurrence combined with a potentially major effect are not reliably determined. This includes unexpected and unavoidable events (force majeure).

INFORMATION ON INDIVIDUAL RISKS

Individual risks, their risk factors and their effects are set out below. The risks are presented in groups in line with the RMS risk categories. The presentation in the risk report has a higher level of aggregation than in the RMS itself. Within each category, the risks whose impact on the net assets, financial position and results of operations is considered highest are listed first. Unless otherwise specified, the risks apply to all segments. If the classification of the risk does not make any reference to the measures taken, then this relates to classification as a gross risk. If a risk factor may threaten the existence of a significant organizational unit as a going concern, this is referred to in the following. The same applies if a risk threatens the existence of the Group as a going concern.

Regulatory risks

The Highlight Group's business models are highly dependent on legislation, legal practice, and regulatory interventions by public authorities

Regulatory interventions, changes in legislation, or legal proceedings may have a negative impact on the cost or revenue structure. For example, they could lead to restrictions for customers when purchasing licenses. A drastic change in licensing practice in the Film segment could have a negative impact on the business model. The following factors have a notable effect on this risk:

- The European Commission has further specified its plans for a digital single market. Geoblocking is to be prohibited for certain content. The aim of the new directive is to prevent Internet users from being unable to use digital services that they pay for when traveling or on vacation. Under the draft law, the country-of-origin principle is also to apply to online offers from broadcasting companies that accompany broadcasts (live streaming and on-demand catch-up). For the Constantin Film Group, this means that it may no longer be possible to issue on-demand licenses exclusively for individual countries in the future.
- The new German Film Subsidies Act (FFG) came into force on January 1, 2017. The aim of the new law is to make subsidies more efficient. For example, subsidies are to be focused on fewer but more promising films. Another important change is that now that the new law has come into force there are no longer any "success loans", i.e. subsidies granted that are repaid on the basis of success are indirectly available to producers such as Constantin Film AG and its subsidiaries again in that the repaid success loans add to the general subsidy funds.
- The current planning in the Film segment is based on various national and international film funding programs, the design of which could change in a negative way.

As countermeasures, the Highlight Group keeps track of the relevant rulings and legislative proposals and attempts to form contacts with political decision-makers by means of lobbying and external studies.

In light of the possible effects, this risk continues to be classified as significant overall.

Business and market risks

The Highlight Group requires access to licenses and source material

The Highlight Group requires access to exploitation rights for its product portfolio. The following factors have a notable effect on this risk:

- In the Film segment, access to and acquisition of rights to literary works, exploitation rights and screenplays, as well as the conclusion of contracts with successful directors, actors and licensors are important factors for the production of TV and theatrical movies. The Constantin Film Group therefore has decades of experience working closely with renowned and experienced screenwriters, directors and producers with extensive expertise in producing theatrical movies and TV formats at home and abroad.
- In the Film segment, third-party productions are generally acquired on individual film markets. Various prices are paid here depending on the particular project and the specific market. Usually, the film has not yet been made at this point, but the rights are sold in advance for financing. Nonetheless, films bought at a high price can adversely affect the Group's net assets, financial position, and results of operations if they are a complete failure.

These risks are monitored by experienced employees responsible for purchasing rights and licenses at the relevant subsidiaries. Firstly, source material, films, and rights are acquired on a long-term basis where possible in order to build up an inventory of material that reduces uncertainty in the planning period. Secondly, the development of alternative formats and in-house productions is being continuously expanded so as to create a certain degree of independence from third-party rights. In the Film segment, the "Constantin Film" brand plays an important role as the leading independent German film producer and distributor.

Overall, this risk continues to be classified as significant.

The Highlight Group is in intense competition regarding sales of its products

The Group's sales planning assumes certain market shares, audience figures and proceeds from the different stages of exploitation. If these assumptions are not matched, the planned sales may not be achieved. There is also a risk that it may not be possible to adapt the cost structure in a timely manner. The following factors are notable in this context:

- Market changes in the movie-theater or the home entertainment sector, such as falling audience and sales figures or growing competition, could be linked with a drop in prices for productions and licensed products. The expiry of framework agreements or a deterioration in the economic situation of licensees can lead to falling sale prices for licenses and thus threaten the intrinsic value of the film assets.
- A strong competitive environment could result in decreasing margins in theatrical distribution business.

The Group's diversification in unrelated products and markets reduces the risk of competition in an individual area/segment. Because market shares and audience figures in particular are key factors for the amount of revenue that can be generated, the Highlight Group endeavors to gain possession of attractive program content for TV stations and other platforms and for its theatrical movies and TV productions in order to increase its competitiveness and to raise the profile and enhance the appeal of products through higher expenses for marketing them.

Accordingly, this risk continues to be classified as significant.

The Highlight Group is dependent on customers and business partners

Like any other enterprise, the Highlight Group is dependent on customers, suppliers and other business partners. The media and entertainment industry involves specific requirements. If contracts with key customers or business partners expire, are not extended and/or are terminated during their term, this could have a significant negative impact on sales and earnings in subsequent periods. The following factors are significant in this context:

- In the Sports- and Event-Marketing segment, the TEAM Group is dependent on the major client UEFA.
- With regard to the exploitation of theatrical productions, the Group is dependent on Sky Deutschland Fernsehen GmbH & Co. KG at the pay-TV exploitation stage, as a considerable portion of its pay-TV license sales is generated with this partner. If framework agreements are not extended, or are extended only at considerably worse terms, this could result in declining sales for the Highlight Group.
- There is a dependence on the major German TV stations and on the number/size of the stations overall. In the Film segment, a considerable part of production costs is covered by sublicensing TV transmission rights to theatrical movies. The attainable margins could be lower than planned due to a strong position held by the TV stations.

Cultivating relationships with customers and business partners represents a key management task. Compliance with contractual agreements and the quality of goods supplied and services performed are reviewed on a regular basis.

Overall, this risk continues to be classified as significant.

The business models are dependent on catering to customers' tastes and the way in which content is consumed, and reacting quickly to changes

The changes in patterns of use and the technical possibilities for handling media may have the effect that consumers use Highlight Group's product portfolio less than planned, causing it to lose appeal, range or relevance and meaning that the planned sales consequently are not achieved. The following factors are particularly relevant:

- Due to technical possibilities for producing illegal copies of movies and the lack of legal protection against breaches of copyright, there is a risk of lost sales.
- The changing market environment for in-home viewing is likely to result in significant changes in consumer behavior and the provider structure in the medium term. Analyzing the opportunities and risks for content producers as a result of this development, which is driven chiefly by IP-based offers such as SVoD, is a central topic of the Constantin Film Group's strategic discussions.

By means of targeted market research and analyses of use, the Highlight Group is attempting to anticipate future trends in terms of both content and technological developments, as is also reflected in the Film segment's digitalization strategy. The appeal of the products is enhanced by developing consumer-friendly programming and source material. The effects of piracy are reduced by means of lobbying, awareness campaigns, and systematic prosecution of violations.

Overall, this risk continues to be classified as a medium risk.

Legal risks

The Highlight Group is subject to risks from legal disputes

As an international enterprise, the Highlight Group is exposed to a number of legal risks. These particularly include risks relating to copyright law, company law and securities trading law. The outcomes of currently pending and future legal proceedings often cannot be reliably predicted, meaning that, among others, court rulings or decisions by public authorities may result in expenses that are not covered, or not fully covered, by insurance policy benefits and could have a negative impact.

As part of the legal support for operating activities, legal risks are identified and assessed qualitatively and quantitatively in terms of their probability of occurrence and potential impact.

Based on the assessments made and the measures taken, this risk is still classified as small.

Operational risks

In the Film segment, the production of a theatrical or TV movie is a cost-intensive and long-term project

Production costs for a German theatrical movie with an average budget are between EUR 3 million and EUR 7 million, while major international productions can be many times this amount. The period from the initial idea to the final marketing stage may last several years. The following factors have a notable effect on this risk:

- In TV service productions, the cost risk can be high due to development costs. In the event of non-commissioning, these costs are often only partially borne by the respective broadcaster. Even in the case of an order, there is no requirement for these costs to be added as initial costs to the budget of the respective TV provider.
- For TV broadcasters, in terms of tying up big-spending advertising partners, successful coverage and market share performance are important when buying and producing program content. This is why program providers are increasingly reserving the option to back out of a format commissioned in their contracts with producers if it fails to meet ratings expectations. Therefore, producers increasingly face the risk of having productions canceled at short notice.
- In the unlikely event of a delay or cancelation of a theatrical or TV service production due to unforeseeable market or project developments, it is possible that already delivered or commissioned services may no longer be usable and additional costs may arise from renewed commissioning of the services.
- The lack of budget discipline in terms of release expenses can cause an overspend on film-related marketing costs and reduce a film’s contribution margin.
- In contrast to theatrical movies, international TV series cannot be financed largely by way of advance sales based on the script. Sales cannot generally be made until at least one completed pilot episode has been presented. As a result, production costs have already reached an advanced stage by the time any sales take place.

If there are budget overruns in the production of a movie, this could negatively affect a movie's planned contribution margin and therefore its earnings. In addition to the regular monitoring of production costs, movie insurance and completion bonds in particular are agreed to help ensure the completion of a movie.

Constantin Film AG is applying for formats at various broadcasters and program providers/distribution platforms in Germany and abroad and has entered into development contracts for series and non-series formats. Thanks to its long-term experience in producing movies, Constantin Film AG has usually managed to fully cover production costs with the exploitation sales in the past. Furthermore, Constantin Film AG kept film productions on schedule and on budget and largely avoided unplanned costs or insured against them.

Overall, this risk continues to be classified as a medium risk.

The Highlight Group is dependent on a secure and well-functioning IT infrastructure

The Highlight Group depends on smooth functioning of its IT systems in order to ensure smooth operations. Despite security measures such as access control systems, contingency plans and an uninterruptible power supply for critical systems, back-up systems and regular data mirroring, it cannot be ruled out that the protection against damage from a failure of its IT systems may prove insufficient.

In the event of a failure of the IT systems, theft of company data or manipulation of the company's IT, there could be negative effects on operations and thus on earnings.

The risks with regard to unauthorized access to company data are largely eliminated by using virus scanners and firewall systems. In addition, the Group has taken measures to keep the existing IT service landscape in line with the current technological standard and to counteract the obsolescence process in device and program technology. Broadcasting-related technology is often available in duplicate form and its functionality is monitored in a timely manner.

Taking into account the effects of the countermeasures, this risk continues to be classified in the medium risk level.

The Highlight Group is dependent on the creativity, commitment and expertise of its employees

The future success of the Highlight Group depends to a significant extent on the performance of its managers and employees. There is intense and increasing competition for staff with the relevant qualifications and knowledge of the industry.

The Highlight Group therefore cannot guarantee that it will be able to retain its highly qualified and committed staff and gain new employees with the relevant qualifications in future.

If qualified staff or key personnel leave the Group, this could lead to a loss of expertise and give rise to unplanned costs for the recruitment and orientation of new staff, which would have negative effects on earnings.

To minimize this risk, target agreement and feedback discussions are held on a regular basis. In addition, the Highlight Group offers an attractive work environment, appropriate compensation, and opportunities for development. To increase the Group's appeal as an employer on the recruitment market, increased investments have been made in social networks and job portals.

Overall, this risk continues to be classified in the small risk level.

The Highlight Group could have insufficient insurance against damages and claims

The Highlight Group decides on the type and scope of insurance cover on the basis of a business analysis of the costs and benefits in order to cover the risks it considers significant. However, the Highlight Group cannot guarantee that it will not suffer losses or that no claims will be raised that go beyond the scope of the existing insurance cover.

If the Highlight Group suffers material damages for which there is no insurance cover, or only insufficient insurance cover, this could have negative effects on earnings. In the event of damages, third-party claims or replacement investments would have to be financed from own resources.

Overall, this risk continues to be classified in the small risk level.

Legal disputes with Constantin Medien AG

Following the Annual General Meeting of Highlight Communications AG on December 30, 2016, Constantin Medien AG raised an objection to any entries in the commercial register and applied to the Basel-Landschaft Ost Civil District Court for a commercial register ban on entries by Highlight Communications AG on March 27, 2017.

On June 12, 2017, the Board of Directors of Highlight Communications AG resolved to use the authorized capital to increase the share capital to a total of CHF 63 million by issuing 15.75 million new shares. The new shares were acquired by Highlight Event and Entertainment AG. On September 26, 2017, Constantin Medien AG decided to end all legal disputes at Swiss courts in connection with and as part of an overall resolution of the main disputes with Highlight Communications AG, Highlight Event and Entertainment AG, and Stella Finanz AG. On September 28, 2017, the Basel-Landschaft Canton Court lifted the ban on commercial register entries by Highlight Communications AG and ordered the commercial register to enter the capital increase immediately.

On September 29, 2017, Constantin Medien AG published its financial statements for the first half of 2017 with the retroactive deconsolidation of the Highlight Group as of June 12, 2017 (Film and Sports- and Event-Marketing segments), including its subsidiaries.

Negative press releases on the strategic orientation are also impacting the Constantin Film Group. The company name "Constantin" is frequently giving rise to confusion among business partners. This confusion could well result in disadvantages for the Constantin Film Group when orders are placed. A loss of orders or cancellation of service productions could have a negative impact on earnings. Furthermore, the confusion could cause damage to the Constantin Film Group's reputation.

As a result of the takeover offer by Highlight Communications AG and Studhalter Investment AG, the legal disputes were settled. Due to the new shareholder structure with clear majorities, this risk is classified as only a small risk now.

Compliance risks

Despite the existing control and monitoring systems in the Highlight Group, these may prove insufficient to prevent violations of the law by employees, representatives, external service providers or partners, and to detect violations of the law that have already taken place

It is not possible for the Highlight Group to comprehensively monitor the activities of employees, representatives and partners in paving the way for business with customers. If it transpires that persons whose actions are attributable to the Highlight Group accept or grant unfair advantages in connection with paving the way for business or use other corrupt business practices, this could lead to legal sanctions under Swiss and German law and under the law of other countries in which the Highlight Group operates. Possible sanctions could include substantial fines or a loss of orders.

This could have a negative impact on earnings and cause damage to the Highlight Group's reputation.

Accordingly, this risk continues to be classified in the small risk level.

Financial risks

The Group is exposed to various financial risks resulting from its operating and financing activities. Financial risks can be broken down into the categories of liquidity risks, credit risks and market risks (including currency risks, interest rate risks and price risks).

The risks associated with financing are described in detail in note 8, disclosures on financial risk management, of the notes to the consolidated financial statements. The Group uses corresponding hedges for currency and interest rate risks where appropriate.

The Highlight Group is subject to the credit risk

A credit risk exists if a debtor cannot pay a receivable or cannot pay it on time. Credit risks include direct counterparty risk and the risk of deterioration in credit quality.

Potential risks of default on customer receivables are assessed regularly and allowances for bad debts are recognized if necessary. Furthermore, the Group also hedges the risk of default due to insolvency of a debtor by obtaining credit rating information. Therefore, the Group rates its credit quality for receivables that are neither overdue nor impaired as predominantly good.

Default on receivables from customers could have a negative impact on earnings.

Taking into account the measures implemented, this risk continues to be classified as a small risk.

The Highlight Group is subject to liquidity risks

Liquidity risks arise when the Group's payment obligations cannot be covered by its available liquidity or by corresponding credit facilities. As of the end of the reporting period, the Highlight Group had liquidity reserves taking into account the available short-term credit facilities. Nonetheless, it cannot be ruled out that the guarantee or master credit agreements in place will be cancelled or not renewed by individual banks or investors, with the result that the Highlight Group, even taking into account the free working capital facilities, is forced to borrow further debt capital on the capital market or from banks, at short notice or in the medium term, to finance new projects or to refinance existing financial liabilities.

Therefore, there is the risk that, in the event of a deterioration of the Group's economic situation, further funding may not be available or not be available to a sufficient extent, or could only be available at more disadvantageous terms. If the Highlight Group does not service the respective loans when due or does not repay them following termination or at the end of their term, there is a risk that the respective lender may liquidate the assets pledged as security by the Highlight Group. In the event of such liquidation, there is a risk that assets might have to be sold below their actual value, which would have a significant negative impact on earnings.

Overall, this risk continues to be classified in the small risk level.

The Highlight Group is exposed to currency risks

These currency risks mainly relate to the euro, the US dollar and the Canadian dollar.

In significant transactions, the Group attempts to reduce currency risks by using suitable derivative financial instruments. However, it cannot be ensured that the currency hedging measures taken by the Group are sufficient, and that fluctuations in exchange rates will not have a negative impact on earnings.

In view of the fact that the EUR/CHF exchange rate recovered in the past reporting period compared to the previous years, this risk is currently still assessed as a medium risk.

The Highlight Group is subject to the risk of changes in interest rates

Interest rate risks primarily relate to current and non-current financial liabilities. There is also an interest rate risk resulting from the mismatching of maturities.

At the current time, the Highlight Group has fixed-rate and floating-rate current financial liabilities and fixed-rate non-current financial liabilities.

Risks from changes in the interest rates for financial liabilities may have a negative impact on earnings.

Overall, this risk continues to be classified in the small risk level.

The Highlight Group is subject to risks in the measurement of financial and non-financial assets

As of the end of the reporting period, the Highlight Group held material financial and non-financial assets such as film assets, other intangible assets, goodwill and preference shares as well as other non-current financial assets.

The Highlight Group's goodwill and film assets are tested for impairment at least once a year or more frequently if there are indications of impairment.

If there is no market value available, the evaluation approach includes management estimates and assumptions on the basis of premises that reflect the most recent information available. The actual development, which is often beyond the control of the company, may outstrip the assumptions made and necessitate an adjustment of the carrying amounts. This may have a negative impact on earnings.

Overall, this risk continues to be classified in the medium risk level.

Despite proper processes and careful checks, the Highlight Group cannot rule out risks in connection with future tax or social security audits

Highlight Communications AG believes that the tax returns and details for the social security agencies prepared within the Group were submitted completely and correctly. Nonetheless, there is a risk that additional tax claims could be made, particularly in light of the complex regulations on sales tax and withholding tax in the media industry. In the event of a social security audit within the Highlight Group, it also cannot be ruled out that the social security agency may arrive at a different perception of the social security contributions, resulting in additional claims against the Highlight Group.

If differing tax assessments or additional social security claims arise, this could have a negative impact on earnings.

Overall, this risk continues to be classified in the small risk level.

OPPORTUNITY MANAGEMENT SYSTEM

Similarly to risk management, the Highlight Group's opportunity management has the objective of implementing the strategic and operational goals rapidly and efficiently by means of specific activities. Opportunities may arise in any area. Identifying opportunities and taking advantage of them in a target-oriented way is a management task that is involved in day-to-day decision-making.

To improve the structuring and communication of the opportunity portfolio, the existing risk management system (RMS) was supplemented by the identification and assessment of opportunities. The corresponding guidelines and procedures also apply.

In line with the definition of the term "risk", the Highlight Group defines an opportunity as a possible future development or event that may lead to a positive deviation from forecasts/targets for the company. This means that events that are already included in the budget planning or the medium-term planning do not represent opportunities according to this definition and are not reported below. As with risks, opportunities are classified in four categories: "minor", "medium", "significant" and "high".

INFORMATION ON INDIVIDUAL OPPORTUNITIES

Individual opportunities, their factors, and their effects are set out below. The opportunities are presented in groups in line with the RMS opportunity categories. The presentation in the opportunity report has a higher level of aggregation than in the RMS itself.

Business and market opportunities

The Highlight Group sees opportunities in implementing the digital transformation strategy

Advancing digitization is changing the individual patterns of media use. For some time, the Highlight Group has been vigorously developing its business models, thus actively promoting digital transformation within the Group, for example by way of licensing agreements with digital distribution providers, new forms of digital marketing or productions for international and national providers such as Netflix. The broad operational positioning that covers the categories of Sports- and Event-Marketing and Film and Entertainment, the excellent and in several cases leading market positions of the Group's business, and its strong, well-known brands represent clear advantages in a media world that is undergoing massive upheaval.

The planning of the sales that can be generated using these business models is based on cautious assumptions. There is the chance that actual development will be far better than the assumptions made and that digital transformation results in increased sales more quickly than anticipated.

The opportunity continues to be classified as medium.

Operational opportunities

The Highlight Group sees opportunities in the exploitation and development of licenses, formats and source material that have already been secured, as well as in the connection to a distinctive network

The Highlight Group already has a range of exploitation and/or marketing rights for sports and entertainment events that are important for its operating activities in the different segments, as well as film rights and source material. This establishes the basis for generating sales beyond the planning period as well. The Group's image and the maintenance and updating of a distinctive network will continue to facilitate access to these rights in the future.

Attractive film rights and source material for films that have already been secured could lead to higher sales than planned along the entire exploitation chain if they suit customers' tastes better than expected. In particular, there is the option of international relaunches of existing established intellectual property/brands belonging to the Constantin Film Group.

This opportunity continues to be classified as medium.

The Highlight Group sees opportunities in the cooperation with UEFA

Based on the TEAM Group's long-term collaboration with UEFA for marketing the commercial rights to the UEFA Champions League, the UEFA Europa League, and the UEFA Super Cup until the 2020/21 season, the prospects for continuation of the close cooperation with the Union of European Football Associations for further seasons until 2023/24 are – subject to TEAM's ongoing performance – very strong.

This opportunity continues to be classified as medium.

SUMMARY OF THE OPPORTUNITY AND RISK SITUATION

In line with the RMS directive, the risks and opportunities reported by the individual risk officers are combined, aggregated, and assessed at the level of the Group as a whole. The decentralized Group structure is taken into account here. The officers at the company concerned are responsible for full and accurate identification, assessment and communication of opportunities and risks.

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 currently considers the Highlight Group to be equipped to deal with the residual risks that are not reduced by countermeasures.

In summary, three risk clusters can be identified: The first category comprises risks originating externally, which arise in particular from regulatory interventions and legal requirements and are difficult to influence. These topics are monitored closely in order to identify unfavorable developments at an early stage. In general, the effect of these topics is inherently not short-term, meaning that it is possible to respond to them with adjustments in the planning process. The second category covers topics that the Group management knowingly accepts for reasons relating to the implementation of the business strategy. These include in particular risks arising from film and TV production, access to license rights and source material, sales-, taste- and consumer-related risks. The Group management believes that the effects of these risks are manageable in relation to the income opportunities arising from the business areas concerned. By monitoring key indicators, it is possible to identify whether this relationship between risk and opportunity is worsening on a long-term basis in individual areas. If so, this can be addressed by adapting the strategy. The last group comprises operational risks and particularly includes business risks, safety and security plans, contractual/financial obligations, ensuring liquidity, and legal risks. These are controlled by the Group management by way of guidelines and process checks and by consulting external advisors, thereby ensuring that the residual risk remains at an economically acceptable level.

The Group management continues to see the biggest opportunities in the rigorous expansion of the digital strategy and the potential afforded by a transformation of the media world. There are further opportunities arising from the continuous maintenance of existing business relationships, the establishment of new partnerships, and the diversification of business activities in the two established segments.

All the Group companies are established in their respective sectors, can access a broad network of technical and creative energy, and respond quickly to changes. Accordingly, the Group management believes that the measures taken keep the risk to an economically acceptable level and considers the Group's risk-bearing capacity to be sufficient. At the same time, it is rigorously pursuing the existing opportunities.

INTERNAL CONTROL SYSTEM (ICS) AND RISK MANAGEMENT SYSTEM IN RELATION TO THE GROUP ACCOUNTING PROCESS

The Highlight Group's accounting-related ICS comprises the measures to ensure complete, correct and timely transfer of relevant information required for the preparation of the financial statements and the consolidated financial statements as well as the Group management report. This is intended to minimize risks of misstatements in the accounting and external reporting.

Like the risk management system, the ICS also follows the general principles of the overall framework for "enterprise risk management", as developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Accounting within the Highlight Group is organized on a decentralized basis. While separate departments exist at the levels of the subgroups, Highlight Communications AG supports its direct subsidiaries with specific accounting-related issues. The separate financial statements of Highlight Communications AG and its subsidiaries are prepared in accordance with the legal regulations of the individual countries. To fulfill the requirements to prepare consolidated financial statements in accordance with the provisions of IFRS, reconciliations are prepared for all companies included in the Group and are reported to Group Accounting. The accounting provisions in the Highlight Group regulate uniform accounting policies and define a uniform chart of accounts throughout the Group in accordance with the applicable IFRS provisions. Laws, accounting standards and other pronouncements are analyzed on an ongoing basis with regard to whether and to what extent they are relevant and how they affect the accounting. Relevant requirements are, for example, set out in the Group accounting directive and communicated. Together with the financial reporting calendar that applies throughout the Group, they represent the basis for the process of preparing the financial statements. In addition, supplementary procedural instructions, standardized report forms, IT systems as well as IT-based reporting and consolidation processes support the process of uniform and correct Group accounting. Where necessary, we also use external service providers, for instance to measure pension liabilities. The qualifications of the employees involved in the accounting process are ensured by means of suitable selection processes and regular training.

The specific control activities performed at Group level to ensure proper and reliable Group accounting comprise the analysis and, where necessary, the correction of the separate financial statements presented by the Group companies. Clear delimitations of responsibilities and process-integrated controls such as the use of the dual control principle constitute additional control measures. The correctness and effectiveness of the internal control system is ensured on an annual basis by process-independent auditing activities by the Internal Audit department and is regularly reported to the Group management and the Board of Directors.

RISKS AND OPPORTUNITIES OF HIGHLIGHT COMMUNICATIONS AG

The financial statements of Highlight Communications AG are largely impacted by the risks and opportunities of the subsidiaries, as it is directly involved as a financial holding company and parent company. Accordingly, the above-mentioned opportunities and risks also apply to Highlight Communications AG.

The risks and opportunities may impact Highlight Communications AG at a different time from when they impact the operating subsidiaries.

FORECAST

GENERAL ECONOMIC ENVIRONMENT

The global economy is set to generate its strongest growth since a long time in 2018. In its January forecast, the International Monetary Fund (IMF) anticipates growth of 3.9 %, representing an increase of 0.2 percentage points compared to its estimate from October 2017. According to the IMF, the main drivers for this increase will be industrialized nations, for which it anticipates an average increase of 2.3 %.

It expects to see a particularly strong upturn in the USA (+2.7 %) as a result of President Trump's tax reform. The United States' trading partners are also expected to take advantage of this boost in the short term. For the euro area, the IMF anticipates growth of 2.2 % this year, corresponding to a slightly less dynamic development than in the previous year.

For Germany, the IMF has raised its forecast significantly by 0.5 percentage points to 2.3 %. The German economic research institutes are even more optimistic: The Institute for the World Economy anticipates a 2.5 % increase in gross domestic product (GDP), while the ifo Institute is even forecasting growth of 2.6 %. They both consider the German economy to be well on its way to a boom with a broad-based upturn driven both by exports and by the construction industry as well as private consumer spending.

The Swiss State Secretariat for Economic Affairs (SECO) is forecasting a dynamic development for the Swiss economy, too, which will likely be reflected in GDP growth from 1.0 % in 2017 to 2.3 % in the current year. In addition to a further increase in exports, the experts at SECO also anticipate greater momentum in equipment investments, while private consumer spending is expected to rise only moderately.

MEDIA AND ENTERTAINMENT MARKET ENVIRONMENT IN GERMANY

PricewaterhouseCoopers (PwC) expects the media and entertainment sector in Germany to generate robust growth of 2.4 % per year on average in the period from 2018 to 2021. This would then correspond to a market volume of EUR 85.7 million in 2021, driven both by a positive development in advertising sales (average annual increase of 2.6 %) and by rising sales proceeds (average annual increase of 2.1 %). In both these areas, the growth drivers are still digital media such as the internet video segment, for which PwC forecasts average growth of 10.0 % per year.

FOCAL POINTS IN FISCAL YEAR 2018

Film segment

Sector-specific situation

The slight decline forecast for the German theatrical movie market of 0.9 % per year until 2020 is, in particular, countered by estimated annual increases of 1.8 % on the TV market, with subscription services being the fastest growing segment. This means an improvement in the order situation for in-house/service productions beyond classic TV. The current offering allows users to consume content anytime and anywhere, and therefore to be independent from broadcast schedules. It remains to be seen how much the opportunities afforded by streaming services will be used in the future and how individualized media consumption and how pronounced personalized use becomes. Another potential growth market is the rising prevalence of mobile, Internet-enabled devices.

Declining sales on the physical home entertainment market are offset by increases of 17.9 % on average in the digital segment. According to estimates, the digital segments TVoD and SVoD will grow by an average of 10.4 % and 19.2 % respectively per year until 2020.

Focal points

In the theatrical production/acquisition of rights area, the Constantin Film Group is still focused on the continuous optimization of the consistently high quality of its national and international in-house productions. The goal is to produce titles that are heavily geared towards the audience’s emotional needs and that are ideally based on well-known brands or are of an event nature. However, productions with smaller budgets and a correspondingly manageable moviegoer risk are attractive if they have a convincing concept. Each production is centered around an analysis of the audience segment to be addressed.

The theatrical movie market, like other market segments as well, is experiencing a bestseller effect, i.e. audiences are generally focusing on fewer titles, but are consuming these to a greater extent. For smaller-scale titles, production of which cannot be completely given up for portfolio reasons, this means increasing pressure on production costs.

In the theatrical distribution business area, the Constantin Film Group is continuing to implement 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 the most favorable time. As theatrical exploitation and the associated brand launch remain the foundation for the subsequent exploitation stages, the Constantin Film Group will design its strategy on a product-by-product basis. This means that quantities depend on the extent to which promising titles can be produced or acquired.

As things currently stand, nine (secured) new theatrical releases are intended for 2018. They consist of three licensed titles and six own and co-productions including “Fünf Freunde und das Tal der Dinosaurier”, “Verpiss Dich, Schneewittchen!”, “The Silence”, “Sauerkrautkoma”, and “Der Vorname”.

In home entertainment, the market position is expected to improve year-on-year in fiscal year 2018 based on the hit movies “Fack Ju Göhte 3”, “Dieses bescheuerte Herz”, and “Fünf Freunde und das Tal der Dinosaurier”. A balanced portfolio of new releases, the consistently good sales figures for catalog products, and the digital sales generated by the Constantin Film Group itself are other factors behind the positive prospects for the current fiscal year.

In free-TV exploitation, sales in 2018 will be generated by productions including “Ostwind 2”, “Abschussfahrt”, and “Auf Augenhöhe”. Titles expected to play a major role in sales for pay-TV include “Ostwind – Aufbruch nach Ora”, “Resident Evil: The Final Chapter”, and “Das Pubertier”.

The subsidiaries of Constantin Film AG are constantly working to develop innovative TV formats in the TV service production business area. In addition to conventional service production for German TV networks, other key areas are the generation of rights through in-house productions and concept developments and the expansion of international TV production.

Constantin Film AG expects to see an improvement in the order situation in this business area for the next few months, which will also be positively affected by the increasingly aggressive purchasing policy of the major SVoD providers. Constantin Film subsidiaries are therefore preparing a number of projects for 2018, such as the miniseries “Parfum – Part 2” and “Wir Kinder vom Bahnhof Zoo” as well as “Der Club der singenden Metzger”, “Harald Juhnke”, “Die Welle”, and the film series “Der Kroatien-Krimi (Parts 5 and 6)” and “Daheim in den Bergen (Parts 3 and 4)”. The English-language productions currently being prepared include the series “Shadowhunters (Season 4)”, “Perfumes”, “Resident Evil”, and “The Infernal Devices”.

With its TV service productions and the TV exploitation of its theatrical productions, the Constantin Film Group also expects to achieve ratings above the respective network’s average in the current year.

Sports- and Event-Marketing segment

Sector-specific situation

The sponsorship consulting company IEG forecasts that global sponsorship expenditure will increase by 4.9 % (previous year: 4.3 %) to USD 65.8 billion (previous year: USD 62.7 billion) in 2018. The company expects to see the highest percentage growth in the Asia/Pacific region again (5.7 % after 5.8 % in the previous year), but the European region is also expected to increase significantly by 5.1 % (previous year: 4.5 %). For North America, the world's largest sponsorship market, IEG is projecting a rise of 4.5 % (previous year: 3.6 %) to USD 24.2 billion, with around 70 % of this figure going into sports.

Focal points

The TEAM Group will focus on best possible, worldwide marketing of the TV and sponsorship rights for the UEFA Champions League and the UEFA Europa League for the 2018/19 to 2020/21 seasons in the current fiscal year. It will strive to achieve the targets agreed with UEFA as early as possible to allow an automatic contract extension for the subsequent seasons (2021/22 to 2023/24).

Financial targets of the Highlight Group

There is uncertainty regarding the performance of new theatrical releases in the Film segment in 2018. Nonetheless, it is assumed that Constantin Film AG will release successful films in Germany again in the current fiscal year. Candidates with high commercial potential at the box office include "Fünf Freunde und das Tal der Dinosaurier", "Der Vorname", and "Sauerkrautkoma" – the fifth installment of the successful Rita Falk series. Overall, however, income from German theatrical exploitation is expected to be considerably lower than in the previous year, as the theatrical slate for 2018 does not include any outstanding titles like "Fack Ju Göhte 3".

In home entertainment, sales in Germany will probably be roughly on par with the previous year. Top titles in the exploitation slate for 2018 include "Fack Ju Göhte 3" and "Dieses bescheuerte Herz". As the remaining 17 episodes of the third season of "Shadowhunters" are to be delivered to Netflix this year, significant financing proceeds from global distribution comparable to the previous year's figure will also be generated, which are allocated to the home entertainment area.

Sales in license trading/TV exploitation will be slightly higher than in the previous year. This is primarily determined by the commencement of license periods, the contract volumes of past theatrical slates, and contracted financing proceeds from global distribution. The global distribution of international own productions is expected to bring in comparable sales to the previous year's level. It is too early to assess the commissioning situation in TV service production. Overall, we anticipate unchanged sales and a year-on-year increase in earnings in the Film segment in fiscal year 2018.

In the Sports- and Event-Marketing segment, the euro-based forecast sales and earnings targets are unchanged within the current contract agreement for marketing the UEFA Champions League and the UEFA Europa League. It is still too early to assess how the exchange rate of the Swiss franc and the euro will affect these sales and earnings.

In light of this, we are forecasting consolidated sales of between CHF 520 million and CHF 540 million with a consolidated net profit attributable to shareholders of between CHF 18 million and CHF 20 million for fiscal year 2018.

Pratteln, March 2018

The Board of Directors

Notes and forward-looking statements

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. These 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 annual 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 annual report, which is the official and only binding version.

Red carpet in Munich: The team of the Constantin Film own production "Dieses bescheuerte Herz" celebrated the world premiere of the hit movie with more than 1,200 thrilled guests.

Consolidated financial statements

as of December 31, 2017 of Highlight Communications AG, Pratteln

2017

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2017

Highlight Communications AG, Pratteln

ASSETS (TCHF)	Note	Dec. 31, 2017	Dec. 31, 2016
Non-current assets			
In-house productions		125,951	85,529
Third-party productions		35,863	41,745
Film assets	6.1	161,814	127,274
Other intangible assets	6.2	200	333
Goodwill	6.2	17,997	17,499
Property, plant and equipment	6.3	3,761	3,371
Advance payments for shares in affiliated companies	3.1	3,296	–
Investments in associated companies and joint ventures	6.4	57	54
Non-current receivables due from third parties	6.7	2,735	355
Other financial assets	6.6	35	95
Deferred tax assets	6.12	2,519	2,824
		192,414	151,805
Current assets			
Inventories	6.5	4,027	2,484
Trade accounts receivable and other receivables due from third parties	6.8/6.9	126,907	124,283
Receivables due from related parties	11	828	705
Other financial assets	6.6	–	206
Income tax receivables	6.11	2,063	546
Cash and cash equivalents	6.10	186,553	88,502
		320,378	216,726
Total assets		512,792	368,531

The notes on page 82 - 141 are an integral part of the consolidated financial statements.

EQUITY AND LIABILITIES (TCHF)	Note	Dec. 31, 2017	Dec. 31, 2016
Equity	6.13		
Subscribed capital		63,000	47,250
Treasury stock		–45	–45
Capital reserve		–54,956	–108,135
Other reserves		–32,841	–40,515
Retained earnings		256,414	232,055
Equity attributable to shareholders		231,572	130,610
Non-controlling interests		4,842	4,680
		236,414	135,290
Non-current liabilities			
Advance payments received	6.17	–	15,696
Other liabilities		1,924	1,522
Pension liabilities	6.19	4,200	6,651
Deferred tax liabilities	6.22	15,163	10,348
		21,287	34,217
Current liabilities			
Financial liabilities	6.16	77,172	52,259
Advance payments received	6.17	47,741	50,716
Trade accounts payable and other liabilities due to third parties	6.15	121,840	86,497
Liabilities due to related parties	11	464	365
Provisions	6.20	5,024	4,830
Income tax liabilities	6.21	2,850	4,357
		255,091	199,024
Total equity and liabilities		512,792	368,531

The notes on page 82 - 141 are an integral part of the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT 2017

Highlight Communications AG, Pratteln

(TCHF)	Note	Jan. 01 to Dec. 31, 2017	Jan. 01 to Dec. 31, 2016
Sales	7.1	**374,313**	**441,656**
Capitalized film production costs and other own work capitalized	7.2	**141,557**	**120,628**
Total output		**515,870**	**562,284**
Other operating income	7.3	**11,814**	**20,161**
Costs for licenses, commissions and materials		–23,810	–23,477
Costs for purchased services		–174,206	–173,108
Cost of materials and licenses	7.4	**–198,016**	**–196,585**
Salaries		–101,163	–94,450
Social security, pension costs		–12,647	–13,782
Personnel expenses		**–113,810**	**–108,232**
Amortization and impairment on film assets	6.1	–114,762	–182,956
Amortization, depreciation and impairment on intangible assets and property, plant and equipment	6.2/6.3	–1,933	–2,762
Goodwill impairment	6.2	–	–
Amortization, depreciation and impairment		**–116,695**	**–185,718**
Other operating expenses	7.5	**–73,779**	**–56,154**
Profit from operations		**25,384**	**35,756**
Earnings from investments in associated companies and joint ventures	6.4	**6**	**42**
Financial income	7.6	12,975	3,295
Financial expenses	7.7	–7,297	–12,089
Financial result		**5,678**	**–8,794**
Profit before taxes		**31,068**	**27,004**
Current taxes		–3,354	–5,581
Deferred taxes		–4,023	–1,137
Taxes	7.8	**–7,377**	**–6,718**
Net profit		**23,691**	**20,286**
thereof shareholders' interests		22,731	19,742
thereof non-controlling interests		960	544

Earnings per share (CHF)		
Earnings per share attributable to shareholders (basic)	0.41	0.46
Earnings per share attributable to shareholders (diluted)	0.41	0.46
Average number of shares in circulation (basic)	56,094,058	42,939,548
Average number of shares in circulation (diluted)	56,094,058	42,939,548

The notes on page 82 - 141 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS 2017

Highlight Communications AG, Pratteln

(TCHF)	Jan. 01 to Dec. 31, 2017	Jan. 01 to Dec. 31, 2016
Net profit	**23,691**	**20,286**
Unrealized gains/losses from currency translation	8,443	–1,237
Reclassification of realized gains/losses to the income statement	–	–227
Currency translation differences	8,443	–1,464
Gains/losses from cash flow hedges	–502	1,284
Items that may be reclassified to the income statement in future	**7,941**	**–180**
Actuarial gains/losses of defined benefit pension plans	1,628	1,919
Gains/losses from financial assets at fair value through other comprehensive income/loss	–	552
Items that will not be reclassified to the income statement in future	**1,628**	**2,471**
Other comprehensive income/loss, net of tax	**9,569**	**2,291**
Total comprehensive income/loss	**33,260**	**22,577**
thereof shareholders' interests	32,033	22,356
thereof non-controlling interests	1,227	221

The notes on page 82 - 141 are an integral part of the consolidated financial statements. .

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2017

Highlight Communications AG, Pratteln

(TCHF)	Note	Equity Subscribed capital	 Treasury stock
Balance as of January 1, 2017		47,250	-45
Currency translation differences		–	–
Gains/losses from cash flow hedges		–	–
Items that may be reclassified to the income statement in future		–	–
Actuarial gains/losses of defined benefit pension 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		–	–20
Sale of treasury stock		–	20
Dividend payments		–	–
Capital increase		15,750	–
Change in non-controlling interests		–	–
Other changes		–	–
Balance as of December 31, 2017	6.13	63,000	–45
Balance as of January 1, 2016		47,250	–2,132
Currency translation differences		–	–
Gains/losses from cash flow hedges		–	–
Items that may be reclassified to the income statement in future		–	–
Actuarial gains/losses of defined benefit pension 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		–	–2,785
Sale of treasury stock		–	4,872
Dividend payments		–	–
Change in non-controlling interests		–	–
Other changes		–	–
Balance as of December 31, 2016	6.13	47,250	–45

The notes on page 82 - 141 are an integral part of the consolidated financial statements.

attributable to shareholders					
Capital reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
-108,135	-40,515	232,055	130,610	4,680	135,290
–	8,176	–	8,176	267	8,443
–	–502	–	–502	–	–502
–	7,674	–	7,674	267	7,941
–	–	1,628	1,628	–	1,628
–	–	–	–	–	–
–	–	1,628	1,628	–	1,628
–	7,674	1,628	9,302	267	9,569
–	–	22,731	22,731	960	23,691
–	7,674	24,359	32,033	1,227	33,260
–	–	–93	–113	–	–113
–	–	93	113	–	113
–18,886	–	–	–18,886	–1,065	–19,951
72,065	–	–	87,815	–	87,815
–	–	–	–	–	–
–	–	–	–	–	–
–54,956	–32,841	256,414	231,572	4,842	236,414
–107,913	–40,651	199,806	96,360	7,467	103,827
–	–1,148	–	–1,148	–316	–1,464
–	1,284	–	1,284	–	1,284
–	136	–	136	–316	–180
–	–	1,926	1,926	–7	1,919
–	–	552	552	–	552
–	–	2,478	2,478	–7	2,471
–	136	2,478	2,614	–323	2,291
–	–	19,742	19,742	544	20,286
–	136	22,220	22,356	221	22,577
–	–	–14,412	–17,197	–	–17,197
–	–	24,441	29,313	–	29,313
–	–	–	–	–876	–876
–222	–	–	–222	–2,132	–2,354
–	–	–	–	–	–
–108,135	–40,515	232,055	130,610	4,680	135,290

CONSOLIDATED STATEMENT OF CASH FLOWS 2017

Highlight Communications AG, Pratteln

(TCHF)	Note	Jan. 01 to Dec. 31, 2017	Jan. 01 to Dec. 31, 2016
Net profit		23,691	20,286
Deferred taxes		4,023	1,137
Current taxes		3,354	5,581
Financial result (without currency result)		2,992	5,240
Earnings from investments in associated companies and joint ventures	6.4	–6	–42
Amortization, depreciation and impairment on non-current assets		116,695	185,718
Gain (-)/loss (+) from disposal of non-current assets	7.3/7.5	121	–2,634
Other non-cash items	7.6	–7,304	90
Increase (-)/decrease (+) in inventories, trade accounts receivable and other assets not classified to investing or financing activities		1,404	–2,067
Decrease (-)/increase (+) in trade accounts payable and other liabilities not classified to investing or financing activities		2,498	–72,589
Dividends received from associated companies and joint ventures		9	8
Interest paid		–1,784	–1,692
Interest received		197	73
Income taxes paid		–6,695	–6,788
Income taxes received		308	2,898
Cash flow from operating activities		139,503	135,219

The notes on page 82 - 141 are an integral part of the consolidated financial statements.

(TCHF)	Note	Jan. 01 to Dec. 31, 2017	Jan. 01 to Dec. 31, 2016
Change in cash and cash equivalents due to acquisitions of companies/shares in companies (net)		–	–
Payments for intangible assets	6.2	–48	–837
Payments for film assets		–134,765	–105,062
Payments for property, plant and equipment	6.3	–2,175	–1,065
Payments for financial assets		–	–577
Payments for/proceeds from sale of companies/shares in companies (net)		–	–7,812
Payments for purchase of non-controlling interests	3.1	–3,296	–
Proceeds from disposal of intangible assets and film assets		–	29
Proceeds from disposal of property, plant and equipment		88	94
Proceeds from disposal of financial assets		66	17,865
Cash flow for investing activities		**–140,130**	**–97,365**
Proceeds from capital increase		87,815	–
Payments for purchase of treasury stock	6.13	–113	–3,546
Proceeds from sale of treasury stock	6.13	113	919
Payments for purchase of non-controlling interests	6.13	–537	–
Repayment of current financial liabilities		–41,840	–86,210
Proceeds from receipt of current financial liabilities		65,082	34,079
Dividend payments		–19,951	–876
Cash flow from/for financing activities		**90,569**	**–55,634**
Cash flow from/for the reporting period		**89,942**	**–17,780**
Cash and cash equivalents at the beginning of the reporting period		88,502	106,407
Effects of currency differences		8,109	–125
Cash and cash equivalents at the end of the reporting period		186,553	88,502
Change in cash and cash equivalents		**89,942**	**–17,780**
thereof cash and cash equivalents earmarked for the takeover offer		135,901	–

Two material non-cash transactions took place in the previous year's period. The other non-cash items of TCHF 7,304 include foreign currency gains arising from the receivable from capital increase.

The notes on page 82 - 141 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

Highlight Communications AG, Pratteln

1. GENERAL INFORMATION

The consolidated financial statements of the Highlight Group were adopted by the Board of Directors of Highlight Communications AG on March 27, 2018, and require the approval of the Annual General Meeting to be held in June, 2018.

1.1 General information on the Group

The parent company Highlight Communications AG is based at Netzibodenstrasse 23b, Pratteln, Switzerland. Up until its deconsolidation as of June 12, 2017, Highlight Communications AG was included in the consolidated financial statements of Constantin Medien AG, Ismaning, Germany. From September 28, 2017 onward, Highlight Communications AG is included in the consolidated financial statements of Highlight Event and Entertainment AG, Pratteln, Switzerland.

The company is listed on the regulated market (Prime Standard) of the Frankfurt stock exchange.

The operating activities of Highlight Communications AG comprise the segments Film as well as Sports- and Event-Marketing. The companies of the Other Business Activities segment were sold in the previous year. Please see note 9 for further information on segment reporting.

1.2 Basis of presentation

The consolidated financial statements of Highlight Communications AG were prepared in accordance with the International Financial Reporting Standards (IFRS) and the additional provisions of Swiss Commercial law. All IFRSs/IASs and SICs/IFRICs applicable as of December 31, 2017, were complied with.

A list of the subsidiaries, associated companies and joint ventures included in the consolidated financial statements can be found in these notes. The effects of the first-time consolidation and deconsolidation of subsidiaries, associated companies and joint ventures are shown in the section “Scope of consolidation” (see note 3).

The income statement was prepared in line with the nature of expense method. The annual financial statements of the companies included in the consolidated financial statements are based on uniform accounting policies in line with their respective business activities. The consolidated financial statements are prepared based on historical cost; exceptions to this are described in the accounting policies (see note 4).

In preparing the consolidated financial statements in accordance with IFRS, the management is required to make estimates and assumptions influencing the income, expenses, assets, liabilities as well as contingent liabilities and assets reported as of the end of the reporting period. These estimates and assumptions are based on the management’s best possible assessment based on past experience and other factors including the estimate of future events. Estimates and judgments 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. More detailed information on the basis of estimates can be found separately under the respective balance sheet item (see note 5).

The financial statements have been prepared in Swiss francs, which is the functional and reporting currency of the Group’s parent company. Amounts are reported in thousands of Swiss francs (TCHF) unless stated otherwise. For calculation-related reasons, rounding differences of +/- one unit (TCHF) may arise and the percentages shown may not precisely reflect the absolute figures to which they relate.

2. ACCOUNTING

2.1 Relevant standards and interpretations applied for the first time

Standards/amendments/interpretations		Mandatory application for fiscal years starting on or after
IAS 7	Statement of Cash Flows – disclosure initiative (amendment)	January 1, 2017

IAS 7, Statement of Cash Flows – disclosure initiative (amendment)

The objective of the amendment is that entities provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

These amendments entailed additional disclosures in the notes to the consolidated financial statements of Highlight Communications AG but had no material influence on its net assets, financial position, or results of operations (see note 6.16).

2.2 Relevant standards, revised standards and interpretations published but not yet adopted

The Highlight Group waived early adoption of the following relevant new and revised standards and interpretations whose adoption is not yet required for Highlight Communications AG:

Standards/amendments/interpretations		Mandatory application for fiscal years starting on or after
IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from Contracts with Customers (including clarifications)	January 1, 2018
IFRS 16	Leases	January 1, 2019

IFRS 9, Financial Instruments (2010, 2013 and 2014)

On July 24, 2014, the IASB published the final version of IFRS 9, Financial Instruments. This version compiles the results of the phases classification and measurement of financial assets (2009) and financial liabilities (2010), impairment (2014) and hedge accounting (2013), in which the project to replace IAS 39 Financial Instruments: Recognition and Measurement was implemented.

The Highlight Group adopted the new standard IFRS 9 (2009) for the Group's consolidated financial statements at an early stage starting from July 1, 2010.

The existing provisions for financial liabilities have largely been adopted. The only significant change relates to financial liabilities in the fair value option, for which fair value fluctuations owing to changes in the company's own default risk are recognized in other comprehensive income (OCI).

The new impairment model moves the focus to generally earlier loss allowances. IFRS 9 stipulates three levels that will determine the amount of loss and interest recognition in the future:

- Level 1: Losses expected on addition must be recognized in the amount of the present value of the 12-month expected credit losses.
- Level 2: If the credit risk has increased significantly, the loss allowance must be increased up to the amount of losses expected for the full remaining term.
- Level 3: In the event of an objective indication of impairment, interest revenue is recognized on the basis of the net carrying amount.

IFRS 9 extends the scope of the hedged items to which hedge accounting can potentially be applied. A further fundamental difference compared to the hedge accounting model presented in IAS 39 is the abolition of the 80% to 125% interval for effective hedges and the provision requiring quantitative assessment of the effectiveness of hedges. In the IFRS 9 model, there must be evidence of an economic relationship between the hedged item and the hedging instrument without there being quantitative limits. On first-time adoption of IFRS 9, an entity has a one-time option to choose between hedge accounting under IFRS 9 and the previous guidance under IAS 39. The variant chosen applies to all current and future hedge accounting.

The standard replaces all earlier versions of IFRS 9 and is effective for annual periods beginning on or after January 1, 2018. The Highlight Group will adopt the standard for the first time for the annual period beginning on January 1, 2018. It is expected to have only a minor impact on the consolidated financial statements.

Whereas IAS 39 requires only the recognition of credit losses that have already occurred, the new provisions under IFRS 9 stipulate that expected future losses must also be taken into account when recognizing a loss allowance. The application of the new impairment model under IFRS 9 in the case of debt instruments results in slight changes in the amount of impairment losses. Loss allowances for trade accounts receivable and contract assets are determined using the simplified approach. On first-time adoption, the changed valuation method results in an additional impairment loss of around TCHF 117 to TCHF 175. The additional impairment loss is primarily attributable to the requirement to recognize a loss allowance for performing financial assets, too. The effects of the transition are recognized in retained earnings as of January 1, 2018.

The Highlight Group will apply the regulations of IFRS 9 on hedge accounting prospectively starting from January 1, 2018. All hedges that go beyond December 31, 2017 will be continued.

In addition, there are new and considerably more extensive disclosures in the notes.

IFRS 15, Revenue from Contracts with Customers (including clarifications)

The objective of IFRS 15 is to inform users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The core principle is implemented with a five-step model framework:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation

IFRS 15 is effective for annual financial statements prepared by an entity for reporting periods beginning on or after January 1, 2018. Early adoption is permitted. The Highlight Group will adopt the standard retrospectively for the annual period beginning on January 1, 2018. Based on the results of the contract analyses regarding the effects of IFRS 15 on the Highlight Group's consolidated financial statements, we do not expect the implementation of IFRS 15 to result in significant changes in sales recognition. We consequently do not expect the application of IFRS 15 to have any significant quantitative effects on the consolidated financial statements.

IFRS 16, Leases

The standard provides for a single accounting model for lessees. For lessees, this model means that all assets and liabilities under leases are recognized in the balance sheet. If their term is no more than 12 months or if they are low-value assets, capitalization is optional. For accounting purposes the lessor still distinguishes between finance and operating leases.

The new standard is effective for annual periods beginning on or after January 1, 2019. Voluntary early adoption is possible if IFRS 15 has also already been adopted at this time. The Highlight Group is currently examining the possible effects of implementing the amendments.

3. SCOPE OF CONSOLIDATION

3.1 Acquisitions and divestments

Under a contract dated January 1, 2018, and with economic effect from the same date, Constantin Film Produktion GmbH, Munich, acquired 100 % of Mythos Film GmbH, Berlin, and also indirectly acquired its wholly-owned subsidiaries Mythos Film Verwaltungs GmbH, Berlin, and Mythos Film Produktions GmbH und Co. KG, Berlin. As a result of gaining control, this equity investment will be fully consolidated from the acquisition date on.

The payment of CHF 3.296 million for the acquisition of this transaction was made in December 2017.

Apart from this, there were no other acquisitions or divestments in the 2017 reporting period.

3.2 Other changes

In the year under review, Constantin Television GmbH was merged with PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH. The company was subsequently renamed Constantin Television GmbH.

This transaction did not affect these consolidated financial statements.

3.3 Overview of fully consolidated companies

Königskinder Music GmbH, in which Constantin Film AG holds a 50 % interest, is included in consolidation on the basis of de facto control. As the two managing directors of this company are related parties of Constantin Film AG, Constantin Film AG currently has the ability to control key activities of this investee. Constantin Film AG is also subject to the variable returns from this company, and can significantly influence their amount through the two managing directors.

Fully consolidated companies as of December 31, 2017

	Activity	Country	Currency	Subscribed capital	Share in capital*	Voting rights of the respective parent company
Team Holding AG	Holding company	CH	CHF	250,000	100%	100%
Team Football Marketing AG	Exploitation of sports rights	CH	CHF	6,340,000	95.27%	100%
T.E.A.M. Television Event And Media Marketing AG	Marketing of sports events	CH	CHF	200,000	100%	100%
Rainbow Home Entertainment AG	Distribution	CH	CHF	200,000	100%	100%
Constantin Film und Entertainment AG	Acquisition and development of content	CH	CHF	500,000	100%	100%
Highlight Communications (Deutschland) GmbH	Marketing	DE	EUR	256,000	100%	100%
Constantin Film AG	Film production and distribution	DE	EUR	12,742,600	100%	100%
Constantin Media GmbH audiovisuelle Produktionen	Acquisition and development of content	DE	EUR	26,000	100%	100%
Constantin Film Produktion GmbH	Film and TV production	DE	EUR	105,100	100%	100%
Constantin Film Services GmbH	Service provider	DE	EUR	25,000	100%	100%
Constantin Film Development Inc.	Acquisition and development of content	US	USD	530,000	100%	100%
Constantin Film International GmbH	International film production	DE	EUR	105,000	100%	100%
Constantin Pictures GmbH	International film and TV production	DE	EUR	25,000	100%	100%
Constantin Entertainment GmbH	TV entertainment production	DE	EUR	200,000	100%	100%
Constantin Entertainment Polska Sp z.o.o.	TV entertainment production	PL	PLN	54,000	100%	100%
Constantin Entertainment Croatia d.o.o.	TV entertainment production	HR	HRK	20,000	100%	100%
Constantin Entertainment Hellas EPE**	TV entertainment production	GR	EUR	15,000	100%	100%
Constantin Entertainment SRB d.o.o.	TV entertainment production	RS	RSD	526,944	100%	100%
Constantin Entertainment Israel Ltd.	TV entertainment production	IL	ILS	50,000	56.25%	56.25%
Constantin Entertainment Hungary Kft.	TV entertainment production	HU	HUF	3,000,000	100%	100%
Constantin Entertainment RO SRL***	TV entertainment production	RO	RON	10,000	100%	100%
Constantin Entertainment Bulgarien EOOD	TV entertainment production	BG	BGN	5,000	100%	100%
Constantin Entertainment CZ s.r.o.	TV entertainment production	CZ	CZK	200,000	100%	100%
Constantin Entertainment Slovakia s.r.o.****	TV entertainment production	SK	EUR	25,000	100%	100%
Olga Film GmbH	Film and TV production	DE	EUR	603,000	95.52%	95.52%
Moovie GmbH	Film and TV production	DE	EUR	104,000	100%	100%
Rat Pack Filmproduktion GmbH	Film and TV production	DE	EUR	103,000	51%	51%
Westside Filmproduktion GmbH	Film and TV production	DE	EUR	103,000	51%	51%
Constantin Film Verleih GmbH	License trading and theatrical distribution	DE	EUR	250,000	100%	100%’
Constantin Film Licensing, Unipessoal Lda*****	License trading	PT	EUR	5,000	100%	100%
Constantin Music Verlags-GmbH	Exploitation of music rights	DE	EUR	70,000	100%	100%
Constantin Music GmbH	Exploitation of music rights	DE	EUR	25,000	90%	90%
Königskinder Music GmbH	Record label and music consulting	DE	EUR	50,000	50%	50%
Constantin Film Production Services GmbH	Film and TV production	DE	EUR	100,000	100%	100%
Nadcon Film GmbH	International film and TV production	DE	EUR	100,000	51%	51%
Constantin Television GmbH (vormals PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH)	TV entertainment production	DE	EUR	100,000	100%	100%
Rainbow Home Entertainment Ges.m.b.H.****	Distribution	AT	EUR	363,364	100%	100%

* *Direct and/or indirect share held by the Group.*
** *0.2% are held by Constantin Film Produktion GmbH.*
*** *0.1% are held by Constantin Film Produktion GmbH.*
**** *3% are held by Constantin Film Produktion GmbH.*
***** *50% are held by Constantin Film AG.*
****** *In liquidation.*

3.4 Overview of companies not included in consolidation

Owing to a lack of business activities, the following subsidiaries of Highlight Communications AG are individually and collectively insignificant in providing a true and fair view of the Group's net assets, financial position and results of operations. These companies are therefore not included in Highlight Communications AG's scope of consolidation. The non-consolidated companies have been reported at a carrying amount of TCHF 0 (previous year: TCHF 0). The companies are currently inactive and have no operations. Their assumed fair value is equal to their carrying amount.

Companies not included in consolidation as of December 31, 2017

	Country	Currency	Subscribed capital	Share in capital
Impact Pictures LLC*	USA	USD	1,000	51%
T.E.A.M. UK**	UK	GBP	1	100%

* *Share held by Constantin Pictures GmbH, Germany.*

** *Share held by T.E.A.M. Television Event And Media Marketing AG, Switzerland.*

3.5 Overview of associated companies

The following associated company is included in the consolidated financial statements using the equity method:

	Share in capital	Period recognized in the consolidated financial statements	Currency	Subscribed capital
BECO Musikverlag GmbH	50%	Jan. 01 to Dec. 31, 2017	EUR	25,565

The annual financial statements of BECO Musikverlag GmbH as of December 31, 2016 were used for reporting as the annual financial statements as of December 31, 2017 have not yet been prepared.

Financial information on the associated companies can be found in note 6.4.

4. SUMMARY OF THE KEY ACCOUNTING POLICIES

4.1 Methods of consolidation

All significant subsidiaries are included in the consolidated financial statements. Subsidiaries are companies that Highlight Communications AG controls directly or indirectly. Highlight Communications AG controls an investee when all the following criteria are met:

- control of the investee,
- risks from or rights to variable returns from its exposure in the investee, and
- the ability to utilize its control so as to influence the amount of returns from the investee.

Highlight Communications AG monitors on an ongoing basis whether it controls an investee when facts or circumstances indicate that one or more of the three control criteria have changed.

If Highlight Communications AG holds less than a majority of the voting or similar rights in the investee, Highlight Communications AG takes into account all relevant facts and circumstances in assessing whether it controls an investee, including:

- a contractual arrangement with other parties entitled to vote,
- rights resulting from other contractual arrangements,
- potential voting rights held by Highlight Communications AG, other parties entitled to vote or other parties, and
- all additional facts and circumstances which indicate that Highlight Communications AG can currently determine the relevant business activities, including voting patterns at prior general meetings.

Structured companies are included in the consolidated financial statements if the Group controls them on the basis of the nature of its relationship with them.

First-time capital consolidation is implemented by offsetting the cost (consideration rendered) of the investment against the remeasured pro rata share of equity in the subsidiary as of the date of acquisition. For this purpose, assets and liabilities (including contingent liabilities) are stated at their fair values regardless of the amount of any non-controlling interests in equity. Incidental costs of acquisition are recognized as an expense. If an acquisition is gradual, shares held before control is obtained are remeasured at fair value as of the time of acquisition and added to the consideration rendered. Gains or losses resulting from remeasurement are recognized in profit or loss. The remaining positive difference is recognized as goodwill, which is tested for impairment annually or when there are indications of impairment. Any impairment loss resulting from this is recognized in profit or loss. Any negative difference arising from capital consolidation is reported in full as income in the year incurred after re-assessment. For each acquisition, the acquirer can elect to measure non-controlling interests either at fair value (full goodwill method) or at the pro rata identifiable net assets (partial goodwill method).

An associated company is a company in which Highlight Communications AG has significant influence. Significant influence is the ability to participate in the financial and business policy decisions of the investee, but not control or joint control of these decisions.

A joint venture is a joint arrangement in which parties exercise joint control of the arrangement and have rights to the net assets of the arrangement. Joint control is the contractually agreed common control of an arrangement. It exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Associated companies and joint ventures are measured using the equity method. Equity investments are recognized at cost at the time of acquisition. Any goodwill identified is included in the carrying amount of the investment and is not recognized as separate goodwill. The results of associated companies and joint ventures are absorbed into the Group pro rata and allocated to the carrying amount of the investment. Profit distributions by these companies reduce their carrying amount. If there are objective indications of impairment, impairment losses are recognized in profit or loss. Changes recognized in the equity of associated companies and joint ventures are recognized by the Group in the amount of its interest and shown in the statement of changes in consolidated equity. Items recognized in other comprehensive income (OCI) in the financial statements of associated companies and joint ventures (e.g. currency translation differences) are shown in the consolidated financial statements as a separate item in other comprehensive income (OCI).

Companies are deconsolidated when they are no longer controlled. Deconsolidation is shown as the disposal of all assets attributable to the subsidiary including goodwill, liabilities and the differences from currency translation. Expenses and income incurred prior to this date are still included in the consolidated financial statements.

The effects of intragroup transactions are eliminated. Receivables and liabilities between fully consolidated companies are netted off and intragroup profits are eliminated. Intragroup income is offset against the corresponding expenses.

Non-controlling interests represent the share of earnings and net assets not attributable to the shareholders of the parent company. Non-controlling interests are reported separately in the consolidated income statement, the consolidated statement of comprehensive income/loss and the consolidated balance sheet. They are reported in the consolidated balance sheet under equity but separately from the equity attributable to the shareholders of the parent company.

The effects of transactions with non-controlling interests that do not result in a loss of control are recognized in equity as transactions with equity providers. If transactions lead to a loss of control the resulting profit or loss is recognized in profit or loss. The profit or loss also includes effects from the remeasurement of the retained shares at fair value.

4.2 Currency translation

Functional currency

The functional currency of Highlight Communications AG and the reporting currency of the Group is Swiss francs. The functional currency is the local currency for a majority of the Group companies.

Measurement of balances and transactions in foreign currency

Transactions in currencies that are not the functional currency of the Group company in question are recognized by the companies using the exchange rate in effect on the transaction date.

Monetary assets and liabilities are translated at the closing rate as of the end of the reporting period.

Gains or losses from the settlement of these transactions and gains or losses from the translation of monetary assets and liabilities are recognized in profit or loss. Gains or losses from qualified cash flow hedges and monetary items classified as the Group's net investments in a foreign operation constitute an exception to this. These gains or losses are shown in other comprehensive income (OCI). Translation differences on non-monetary financial instruments classified as held for sale and financial investments in equity instruments not held for trading are also recognized in other comprehensive income (OCI). Translation differences on fair value adjustments of monetary financial instruments classified as held for sale are recognized in equity.

Currency translation in the Group

The balance sheet items of foreign subsidiaries with a functional currency other than Swiss francs are translated in accordance with the functional currency concept at the middle rate at the end of the reporting period while income statement items are translated at annual average exchange rates. Goodwill and fair value adjustments from purchase price allocation are also translated at the exchange rate at the end of the reporting period. Any translation differences or differences from currency translation in amounts carried forward from previous years resulting from this are recognized in OCI.

When a foreign Group company is sold, the cumulative translation differences from the translation of the assets and liabilities of that company which were recognized in OCI are recognized as part of the gain or loss on its sale.

Exchange rates

Closing rates are based on the middle rate on the last trading day of the fiscal year.

		Rate at balance sheet date		Annual average rate	
		Dec. 31, 2017	Dec. 31, 2016	Jan. 01 to Dec. 31, 2017	Jan. 01 to Dec. 31, 2016
Euro	(EUR)	1,16945	1,07197	1,11151	1,09001
US dollar	(USD)	0,97619	1,01901	0,98462	0,98519
British pound	(GBP)	1,31716	1,25767	1,26829	1,33489
Canadian dollar	(CAD)	0,77772	0,75810	0,75907	0,74376

4.3 Fair value measurement

The Group measures its financial instruments, including derivatives, and non-financial assets and liabilities measured at fair value at the end of each reporting period. In addition, the fair value of financial instruments measured at amortized cost is disclosed in note 8.

Fair value is the price that independent market participants would receive or pay under normal market conditions as of the measurement date when selling an asset or transferring a liability (exit price).

In measuring this, it is assumed that the sale/transfer takes place on the priority market (market with the largest volume) for this asset/liability. If a priority market is not available, the most advantageous market must be used to measure fair value. The fair value of an asset or liability is measured assuming that market participants act in their economic best interest when pricing the asset or liability.

Counterparty non-performance risk is measured using the Standard & Poor's model (AAA – CCC). The risk of default is calculated using a percentage for each rating category. An entity's own rating is determined using a peer group model approach. Third-party credit risk is taken into account when measuring the fair value of financial assets and derivative financial instruments. An entity's own credit risk is taken into account in the measurement of debt instruments and derivative financial instruments.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring non-financial liabilities and an entity's own equity instruments, a transfer to another market participant is assumed. An exit scenario is assumed here. When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available, an entity shall measure the instruments from the perspective of a market participant that holds the identical item as an asset.

The Group applies measurement methods that are appropriate in the circumstances and for which there are sufficient data to measure fair value. In doing so, the use of relevant, observable input factors is maximized and that of non-observable input factors is minimized.

All assets and liabilities that are measured at fair value or for which the fair value is disclosed in the notes are assigned to the following levels of the fair value hierarchy based on the lowest input significant overall for measurement:

- Level 1: (non-adjusted) prices quoted on active markets accessible to the Group on the measurement date for identical assets or liabilities
- Level 2: other input factors than the quoted prices listed in level 1 that can be observed either directly or indirectly for the asset or liability
- Level 3: input factors that are not observable for the asset or liability

The fair value of non-current financial instruments measured at amortized cost is calculated for the disclosures in the notes by discounting the forecast future cash flows using the interest rates currently applicable for financial instruments with similar conditions and remaining terms if a level 1 measurement is not possible. Matched term interest rates are calculated annually as of the end of each reporting period.

For assets and liabilities that are measured at fair value on a recurring basis, the Group determines as of the end of the reporting period whether there were transfers between the levels of the fair value hierarchy based on the lowest input factor significant overall to measurement.

Information on the measurement methods used and the input factors for determining the fair value of assets and liabilities can be found in notes 6, 7 and 8.

4.4 Film assets

Film assets include purchased rights to third-party productions (i.e. films produced outside the Group) and the costs of films produced within the Group (own and co-productions) plus the cost of developing new projects. The acquisition of rights to third-party productions usually includes movie theater, home entertainment and TV rights.

The costs for third-party productions include minimum guarantees. The individual payments of the minimum guarantee are recognized as advances and capitalized as film assets on delivery and acceptance of the material.

In-house productions are carried at cost. This cost also includes the financing costs that can be allocated to the production in question. Costs for releasing the film, such as press and marketing costs, are also incurred but not capitalized and instead are recognized immediately in other operating expenses.

A performance-based amortization method is applied to film rights (both third-party and in-house productions) that represents the loss in value of film assets based on the recoverable sales. Under the individual film forecast method, the amortization for a film in a period is calculated by the formula “sales generated by the film in the period divided by the film’s estimated total remaining sales and multiplied by the residual carrying amount of the film”. The sales used as a basis for calculating amortization include all income generated by the film. This income is adjusted for home entertainment costs when calculating amortization in connection with home entertainment sales. The maximum period for estimating sales is ten years for films as recognized in the film assets of the Highlight Group.

The estimate of the total sales is reviewed at the end of each quarter and adjusted if necessary. The quotient for the amortization for the period is calculated on the basis of any (adjusted) total sales. Each film is also tested for impairment at the end of each reporting period and if there are indications of impairment. If the cost or the carrying amount of the film is not covered by its estimated total sales less release costs yet to be incurred, the film is written down to its value in use. Estimated cash flows are discounted with an individual interest rate that takes into account the terms of the different periods of exploitation. Estimated cash flows can vary significantly as a result of a number of factors such as market acceptance. The Group examines and revises the cash flow forecasts and amortization expenses as soon as any changes arise in previous forecasts. Impairment losses on film assets are reversed if there are indications that the reasons for the original write-down have ceased to apply, resulting in a higher recoverable amount. They must not exceed the amortized cost. Reversals of impairment are offset against losses in value in the fiscal year.

Capitalized costs for the development of new projects (particularly script rights) are regularly reviewed to determine whether they can still be used as a basis for film productions. If, three years after first-time capitalization of costs for a project, the start of filming or the sales of the rights cannot be specifically determined, the costs are written off in full. Any indications of early impairment are recognized accordingly.

4.5 Other intangible assets

This category essentially includes computer programs and intangible assets identified in the process of purchase price allocation. They are measured at cost less straight-line amortization and impairment. Please also see the comments in the section "Impairment of non-financial assets" (see note 4.8). Amortization on computer programs is calculated on the basis of the term or the standard useful life of three to six years.

Development costs for individual projects are capitalized as internally developed intangible assets if all of the following criteria for capitalization are met:

- proof of the technical feasibility of completing the assets
- the intention to complete the asset
- the ability to use the future asset
- future economic benefits
- the availability of adequate technical, financial and other resources
- the ability to reliably measure the expenditure attributable to the intangible asset during its development

Development costs that do not meet these criteria are recognized as an expense.

Internally developed intangible assets are measured at cost. Capitalized costs are amortized over their useful life once the development phase is complete and utilization is possible. The amortization period is determined according to the economic life and is three to six years. Development costs not eligible for capitalization are reported in the income statement as they arise.

Customer relationships identified during purchase price allocations are also reported under intangible assets. Their carrying amount is their fair value as of the time of acquisition less necessary amortization.

4.6 Goodwill

Goodwill is carried at cost less any cumulative impairment losses. The cost of goodwill is the total of

(i) the fair value of the consideration transferred as of the acquisition date,

(ii) the amount of any non-controlling interests and

(iii) the fair value of shares of the acquired company previously held by the acquirer in a step acquisition less the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Non-controlling interests can be measured on a transaction basis either at fair value (full goodwill method) or at the proportional share of the net assets of the company acquired (partial goodwill method). In the latter case, the goodwill is recognized only at the percentage share of the acquirer in the goodwill.

Goodwill is allocated to cash-generating units expected to benefit from the combination on recognition. The cash-generating units to which goodwill is allocated are the organizational units in the segments.

4.7 Property, plant and equipment

Property, plant and equipment comprises leasehold improvements, technical equipment and machinery, other equipment, operating and office equipment, advance payments and assets under construction.

Leasehold improvements are measured at cost less depreciation and impairment. Scheduled depreciation is usually carried out over the term of the respective rental agreement lease (of up to 27.5 years). Technical equipment and other equipment, operating and office equipment are measured at cost less depreciation and impairment. Depreciation is recognized on a straight-line basis over the standard useful life of three to 11 years. Repairs and maintenance expenses are expensed as and when incurred. More extensive renovation work or improvements are capitalized. Renovation work is also depreciated over the above mentioned expected useful life. Costs and the associated cumulative depreciation are derecognized on disposal. Any resulting gains or losses are recognized in profit or loss in the fiscal year. If the cost of specific components of an item of property, plant and equipment is material, these components are recognized and depreciated individually.

4.8 Impairment of non-financial assets

Goodwill at the level of cash-generating units and intangible assets with an indefinite useful life are tested for impairment at least once per year or more frequently if there are indications of impairment. Highlight Communications AG carries out annual impairment testing as of December 31 of each fiscal year. Impairment testing is carried out for other intangible assets and property, plant and equipment if there are indications of any impairment. Indications of impairment include, for example, a marked drop in the fair value of an asset, significant changes in the business environment, substantial evidence of obsolescence or a change in expected income. The basis for the impairment test is the calculation of the recoverable amount, which is the higher of fair value less costs to sell or the value in use of an asset. If the recoverable amount is determined on the basis of value in use, this will be based on the forecast future cash flows. Impairment is recognized if the recoverable amount is less than the carrying amount.

If the amount of impairment exceeds the goodwill assigned to the cash-generating unit, the unit's other assets must be written down proportionately in line with their carrying amounts. This is not the case if the carrying amount in question would be less than the higher of the fair value less costs to sell or the value in use.

Impairment recognized in prior periods on intangible assets, not including goodwill, and property, plant and equipment is reversed if the reasons for impairment no longer apply. Reversals of write-downs are recognized in profit or loss and cannot exceed the theoretical amortized cost.

4.9 Inventories

Inventories, consisting of DVDs and Blu-rays in particular, are recognized at the lower of cost or net realizable value (sales-oriented, loss-free measurement). The net realizable value is the estimated sale price in normal business less costs to sell. The cost is determined using the first-in, first-out (FIFO) method.

Impairment on merchandise is recognized on the basis of coverage analyses. This means that the management analyzes whether merchandise is impaired per product on the basis of past movements and the products in stock. If this analysis shows that certain products have become impaired this is recognized accordingly. Further impairment losses are recognized for damaged or defective merchandise.

Inventories also include service productions in development that have not yet been ordered by the broadcaster (see note 4.16). In addition, inventories include trade receivables not yet invoiced.

4.10 Financial instruments

The management classifies financial assets as of the time of acquisition and checks whether the criteria for classification are complied with at regular intervals. Their cost includes transaction costs. Transaction costs for financial assets measured at fair value through profit or loss are recognized in profit or loss immediately.

Regular way purchases and sales of financial assets are accounted for at the settlement date.

Financial assets and financial liabilities are usually not offset. They are only netted if the entity currently has the right to offset the amounts and intends to settle on a net basis.

Derivative financial instruments and separable embedded derivatives are measured at fair value as of the trading date on first-time and subsequent recognition. These instruments must be categorized as "held for trading" if they are not part of a designated hedge. Gains/losses from fluctuations in value are recognized immediately in profit or loss.

Write-downs on receivables are generally recognized in separate allowance accounts. They are derecognized at the same time as the corresponding impaired receivable. Amounts in the allowance account are only derecognized against the carrying amount of impaired financial assets if the issue in question is past the statute of limitations.

Financial assets at amortized cost

Under IFRS 9 (2009), financial assets are recognized at amortized cost if the business model allows for the financial asset to be held and the terms of the instrument result only in cash flows that represent interest payments and principal repayments. Financial instruments that do not meet these criteria are recognized at fair value.

The financial instruments assigned to this category are recognized at amortized cost using the effective interest method.

Current trade accounts receivable and other current receivables are carried at amortized cost. Interest-free monetary receivables with a maturity of more than one year are discounted with a matching interest rate.

Receivables from customers are stated at the lower recoverable amount if there are doubts as to their collectability. Impairment is assumed when objective indications – including in particular the credit quality of the respective customer, current industry-specific economic developments, the analysis of past defaults and the loss of an active market for the financial asset – indicate that the company will not receive all amounts at their due dates. The reported carrying amounts of the current receivables are the approximate fair values.

In some cases portfolio impairment losses are also recognized for receivables in different risk classes. Historic rates of default are calculated for these classes. The corresponding receivables are then corrected by the average rate of default.

Cash and cash equivalents comprise cash in hand and bank balances, call and demand deposits at banks and other financial institutes. These are only reported as cash and cash equivalents if they can be converted into amounts of cash determined in advance at any time, are subject to only minor fluctuations in value and have a remaining maturity of three months or less from the date of acquisition. Cash and cash equivalents are measured at amortized cost.

Financial assets at fair value

Financial assets that cannot be recognized at amortized cost are recognized at fair value.

Financial instruments recognized at amortized cost can be measured at fair value using the fair value option if this prevents or significantly reduces accounting mismatches.

Equity instruments are always measured at fair value. On first-time recognition there is the irrevocable option to show realized and unrealized changes in value in other comprehensive income rather than in the income statement, provided that the equity instrument is not held for trading. Amounts recognized in other comprehensive income (OCI) cannot be reclassified to profit or loss in the future.

The fair value is the market price as of the end of the reporting period. If no market price is available, the fair value is determined on the basis of similar market transactions or using recognized measurement methods. If the fair value of an active financial instrument cannot be reliably determined, the cost may be the best estimate.

The effects of the currency translation of monetary items are recognized in the income statement, while the currency translation effects of non-monetary items are recognized in other comprehensive income with the change in fair value.

Financial liabilities at amortized cost

Current and non-current financial liabilities, trade accounts payable, advance payments received and other liabilities not including derivative financial instruments are measured at amortized cost. Low-interest and interest-free non-current liabilities are recognized at present value on acquisition and discounted on an accrual basis until maturity. Liabilities from outstanding invoices are reported under trade accounts payable and other liabilities. Non-current liabilities are measured using the effective interest method.

For compound financial instruments such as convertible bonds, the debt and equity components they contain are separated and recognized/measured separately.

Financial liabilities at fair value

Financial liabilities are classified as held for trading if they are purchased for sale in the near future. Derivative financial instruments with a negative market value at the end of the reporting period are always assigned to this category, except for derivatives that are financial guarantees or derivatives that are designated as hedging instruments and effective as such (hedge accounting). Derivative financial instruments with a negative fair value at the end of the reporting period are reported under other liabilities.

Hedging instruments

As an international enterprise, the Group is exposed to currency fluctuations. Both derivative and primary financial instruments are used to hedge foreign currency fluctuations. Hedge accounting means hedging against changes in the fair value of assets, liabilities or unrecognized firm commitments under contracts for sale or purchase (fair value hedges). Currency forwards, currency swaps and non-derivative financial assets and liabilities are designated as hedging instruments, either in full or in part. Non-derivative financial assets and liabilities are used to hedge unrecognized contracts for sale and license agreements in foreign currency. Furthermore, the Group uses cash flow hedges to hedge against the currency risk on future cash flows.

In a fair value hedge, the changes in the fair value of the hedged item attributable to the hedged risk and the change in the fair value of the hedging derivate are reported net in the income statement. When hedging unrecognized firm commitments under contracts for sale or purchase (hedged item), the cumulative change in the fair value of the hedged item is recognized as a separate asset or liability. In addition, a corresponding profit or loss is reported so that this is offset against the change in the fair value of the hedging instrument.

In a cash flow hedge, the effective portion of the change in the fair value of the derivative is recognized in other comprehensive income and in equity under other reserves. The ineffective portion of changes in fair value is immediately recognized in the income statement. At the end of the hedge, the amounts recognized in other comprehensive income are reclassified to the income statement.

Such hedges are considered highly effective in terms of compensating the risks of changes in the fair value of the hedged item and the hedging instrument. They are assessed on an ongoing basis to determine if they actually were effective for the whole reporting period for which the hedge was defined. The effectiveness of the hedge is reviewed on the basis of prospective and retrospective effectiveness tests. The prospective effectiveness test uses the critical terms match method. The dollar-offset method is used for the retrospective effectiveness test. Effectiveness describes the degree to which changes in the value of the hedged item and the hedging instrument offset each other. Compensation within a range of 80 % to 125 % is considered an effective hedge. The hedges are without exception in this range.

At the inception of the hedge, both the hedge and the risk management goals and strategies of the Group for hedging are formally stipulated and documented.

4.11 Pension liabilities

Post-employment benefits comprise employee pension benefits. These are divided into defined benefit and defined contribution plans.

A defined contribution plan is a plan in which contributions are paid to a government or private pension scheme on the basis of statutory or private terms and the company has no further benefit obligations on payment of these contributions. The contributions are recognized in profit or loss on maturity.

For defined benefit plans, the present value of defined benefit obligations is calculated each year by an independent actuary using the projected unit credit method. The actuarial assumptions on which the calculations are based are determined by market expectations, at the end of the reporting period, for the period over which the obligations are to be settled. The pension plans are funded. The plan assets are recognized at fair value.

Actuarial gains and losses arise from changes in the assumptions made, deviations between the actual and forecast return on plan assets and differences between benefits acquired and those calculated using actuarial assumptions. These are recognized in other comprehensive income (OCI) under “Items that will not be reclassified to the income statement in future”. The current service cost and net interest are recognized in profit or loss under personnel expenses. A reduction in contributions within the meaning of IAS 19 occurs when the employer must pay larger contributions than the service cost. Special events such as plan amendments that change employee claims, curtailments and settlements are recognized in profit or loss.

In addition, the TEAM Group maintains a provident fund for its management staff. This fund manages another savings facility in addition to the pension plan required by law. The fund participates in the capital of Team Football Marketing AG. The dividend income of Team Football Marketing AG is added to the additional savings deposits of the members of management. No contributions for this additional savings facility were charged to the income statement. This provident fund of the management staff is not relevant under IAS 19.

4.12 Other provisions, contingent liabilities and contingent assets

Provisions are recognized for present legal or constructive obligations to third parties arising from past events for which an outflow of cash or other resources is likely in order to settle the obligation. Another requirement for recognition is that the amount of the obligation can be reliably estimated.

Provisions are measured in the amount of the most likely expenditure. Non-current provisions with a material interest effect are carried at the present value of the expected outflow calculated using current interest rates.

Provisions for onerous contracts (pending losses) are recognized when the unavoidable costs of meeting the obligations of a contract exceed the economic benefits expected to be received under it. Impairment on assets relating to this contract is recognized before the provision is recognized.

Possible obligations whose existence (occurrence/non-occurrence) must be confirmed by future events, or obligations whose extent cannot be reliably determined are disclosed as contingent liabilities. Contingent assets are not capitalized, but disclosed as for contingent liabilities if economic benefits are likely for the Group.

4.13 Current taxes

Current taxes are calculated on the basis of the results for the fiscal year and in accordance with the national tax laws of the respective tax jurisdiction. Forecast and actual additional tax payments or refunds for previous years are also taken into account.

Deferred tax assets and liabilities are recognized in line with the liability method. Deferred taxes are recognized in the consolidated financial statements for temporary differences between the carrying amounts and the tax carrying amounts of assets and liabilities and for tax loss carryforwards. Deferred tax assets on deductible temporary differences and tax loss carryforwards are reported only to the extent that it can be assumed with sufficient probability that the respective company will have sufficient taxable income against which temporary differences and unutilized loss carryforwards can be used.

Deferred taxes for temporary differences in the separate financial statements are calculated on the basis of the tax rates that apply in the individual countries as of the realization date or that will apply in future.

Deferred tax assets and deferred tax liabilities have been netted where they relate to the same tax debtor/creditor and the same type of tax and offset each other in the same fiscal year. Deferred tax assets and liabilities arising in the individual consolidated companies are netted.

Deferred taxes on items recognized directly in other comprehensive income (OCI) are also recognized in other comprehensive income (OCI) and not in the income statement.

No deferred tax liabilities were recognized on temporary differences in connection with shares in subsidiaries provided that it is likely that these temporary differences will not reverse in the foreseeable future and Highlight Communications AG is not able to determine the time at which these temporary differences will reverse.

4.14 Equity

Bearer shares outstanding are classified as equity. If the Group acquires treasury shares, the amount paid for the shares including the attributable transaction costs is deducted from equity. The consideration received when treasury shares are sold or issued is added to equity.

4.15 Sales recognition

Trade accounts receivable are recognized as soon as the significant risks and rewards of ownership of the goods and services sold are transferred to the buyer. Appropriate provisions are recognized for additional expenses in connection with such transactions, including expenses for returned products.

Revenue from the exchange of services is recognized in profit or loss only when services of different types and values have been exchanged and the amount of the revenue can be reliably determined.

In the Film segment, sales from theatrical films are recognized from the time of their release. The amount of sales is directly dependent on the number of people who go to see the film. In line with standard practice in the industry, the film rental reported by the movie theater operators to the distributor is recognized as the distribution component of the total movie theater proceeds. Film rentals are calculated on the basis of a percentage of the box office takings.

Income from service productions is determined using the percentage of completion (PoC) method to recognize the share of total sales in the reporting period (see note 4.16).

Sales from licenses for TV (pay/free) rights are recognized as of the date on which the license takes effect, generally 18 to 32 months after the commencement of movie exploitation. With these forms of exploitation of film rights, sales are realized on expiry of the contractual holdback period. They are therefore realized as of the date on which the respective license becomes available.

In global distribution, the Group usually receives minimum guarantees for the exploitation rights sold (movie theater, home entertainment, TV rights). These are allocated to the various sales types. They are allocated on the basis of past experience in line with corporate planning at the following general rates: 25 % for movie theater rights, 15 % for home entertainment rights and 60 % for TV rights. The corresponding sales are recognized as follows: movie sales on theatrical release, home entertainment sales six months after theatrical release, TV sales 24 months after theatrical release. Sales from global distribution without any minimum guarantee are recognized on the royalty settlements being received from the licensees.

For home entertainment exploitation, sales from DVDs und Blu-rays sold are recognized as of release, taking into account the expected returns of merchandise. For digital purchase and rental transactions, sales are also recognized from release, based on the number of digital transactions. Sales from licenses for home entertainment rights are recognized as of the date on which the license takes effect.

Sales in the Sports- and Event-Marketing segment are recognized in accordance with the contracts for the respective project. The Group receives a share of the earnings from the project in question. This share contains fixed remuneration and a variable component based on the income generated by the project. Project earnings are calculated by project accounting. The annual accounting period for project accounting does not have to be the same as the fiscal year. In the event that previous expectations no longer match current expectations, the variable income from this project is adjusted over the remaining project term in line with the latest forecasts.

Income received for services which are provided over a certain time period and for which the customer is periodically charged are recognized over the period in which the service is provided.

The sales are recognized net of invoiced value added tax, trade discounts and volume rebates.

Dividend income is recognized in the fiscal year in which the right to receive payment arises. Interest income is recognized pro rata temporis using the effective interest method.

4.16 Long-term service production

Service productions are recognized using the percentage of completion method if the necessary requirements are met. Total contract sales and costs relating to this are recognized in profit or loss according to the stage of completion, provided the earnings from a service production can be determined reliably.

In determining the stage of completion, the method of physical completion is used for dailies and weeklies (output-oriented method) while the cost-to-cost method is used for TV movies and event shows. Sufficient certainty with regard to earnings from a service production when determining the stage of completion with the cost-to-cost method is usually achieved at the time the rough cut version is accepted by the broadcaster.

If the earnings from a service production cannot be reliably determined, sales are only recognized in the amount of the costs already incurred (zero profit method). If the uncertainties no longer apply at a later date and the earnings from a service production can be estimated reliably, pro rata profits are realized in line with the percentage of completion. If it is likely that the total cost of the production will exceed its total proceeds the expected loss is expensed immediately.

Service productions in progress are reported as a net figure in the balance sheet under either trade accounts receivable or payable in the amount of the difference between realized sales and invoices. Service productions in development that have not yet been ordered by the broadcaster are recognized under inventories.

4.17 Operating leases

In the Group, there are operating leases in which the Group is the lessee and the economic owner of the leased asset is the lessor. The related lease payments are recognized on a straight-line basis as other operating expenses in the income statement over the term of the lease.

4.18 Government grants

Project promotion

Project promotion as a contingently repayable loan

Project film promotions are provided in the form of a contingently repayable interest-free loan in accordance with the requirements of the Film Promotion Act and/or the relevant regional promotions (rules of the Bavarian Film Promotion Fund ("FFF Bayern") for example). These are repayable as soon as or if the producer's income from a film exceeds a certain amount. These are government grants for assets. In the balance sheet, they are deducted from the carrying amount of the film assets in the amount which is sufficiently certain not to have to be repaid.

The grants are recognized in profit or loss using a reduced amortization amount of capitalized cost over the exploitation cycle of a film.

The amount which is sufficiently certain not to have to be repaid can usually be determined at the time of release. If it is determined at a later date that a further part of the loan is repayable, the carrying amount of the film asset is raised by this amount and a liability is recognized at the same time for the corresponding obligation.

Project subsidies

Project subsidies are non-refundable subsidies that a producer is entitled to depending on the number of people who go to see the (subsidized) film in theatrical exploitation for financing the project costs of a subsequent film. These are government grants for assets. The subsidies granted are deducted from the carrying amount of the subsidized film in the balance sheet when filming on the subsequent film commences.

The grants are recognized in profit or loss using a reduced amortization amount of capitalized cost over the exploitation cycle of a film.

Project film promotion in accordance with BKM (DFFF) regulations

Project film promotion in accordance with BKM (DFFF) regulations are grants that do not have to be repaid and serve to refund the production costs of a theatrical film after clearly defined requirements are fulfilled.

These are government grants for assets. Project film promotions granted are deducted from the carrying amount of the film in the balance sheet no later than the time of the film's release. Prior to theatrical release these are capitalized as other receivables. At the same time, deferred income is reported under other liabilities.

The grants are recognized in profit or loss using a reduced amortization amount of capitalized cost over the exploitation cycle of a film.

Distribution loans

Distribution loan as a contingently repayable loan

Distribution loans are provided in the form of a contingently repayable interest-free loan in accordance with the requirements of the Film Promotion Act and/or the relevant regional promotions (rules of the Bavarian Film Promotion Fund ("FFF Bayern") for example). These are repayable as soon as or if the distributor's income from a film exceeds a certain amount.

These are government grants for expenses already incurred. These are recognized as a reduction of release costs by the amount which is sufficiently certain not to have to be repaid. These grants are recognized in the periods in which the corresponding release costs are incurred.

The amount which is sufficiently certain not to have to be repaid can usually be determined at the time of release. If it is determined at a later date that a further part of the loan is repayable, this is posted as an expense and the corresponding amount recognized as a liability.

Sales subsidies

Sales subsidies are non-repayable subsidies which a distributor is entitled to depending on the number of people who go to see the (subsidized) film in the theatrical exploitation for financing the release costs for a subsequent film. These are government grants for expenses already incurred. The sales subsidies granted are recognized in profit or loss as a reduction of release costs at the time of the subsequent film's release.

The extent of Swiss film grants is of immaterial significance. The accounting policies described above apply analogously to Swiss film grants.

5. JUDGMENT/ESTIMATION UNCERTAINTY

In preparing the consolidated financial statements in accordance with IFRS, the management is required to make estimates and assumptions influencing the income, expenses, assets, liabilities as well as contingent liabilities and assets reported as of the end of the reporting period. These estimates and assumptions are based on the management's best possible assessment based on past experience and other factors including estimates of future events. Estimates and judgments 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.

The key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the reported income, expenses and contingent liabilities within the next twelve months are discussed below.

5.1 Impairment of non-financial assets

To assess whether assets have become impaired, the expected future cash flows from the use and possible disposal of such assets are estimated per cash-generating unit. The estimates and assumptions are based on premises that reflect the most recent information available. The actual cash flows may differ significantly from the discounted future cash flows based on these estimates. Changes in sales and cash flow forecasts could lead to impairment.

5.2 Financial assets

Der beizulegende Zeitwert von finanziellen Vermögenswerten, die auf organisierten Märkten gehandelt werden, wird durch den am Bilanzstichtag notierten Marktpreis bestimmt. Der beizulegende Zeitwert von finanziellen Vermögenswerten, für die kein aktiver Markt besteht, wird unter Anwendung von Bewertungsmethoden ermittelt. Zu den Bewertungsmethoden gehören die Verwendung der jüngsten Geschäftsvorfälle zwischen sachverständigen, vertragswilligen und unabhängigen Geschäftspartnern, der Vergleich mit dem beizulegenden Zeitwert eines anderen, im Wesentlichen identischen Finanzinstruments, die Analyse von diskontierten Cashflows sowie die Verwendung anderer Bewertungsmodelle, die auf Annahmen des Managements basieren. Der Konzern ermittelt zu jedem Bilanzstichtag sowie bei Vorliegen entsprechender Anhaltspunkte, ob eine Wertminderung eines finanziellen Vermögenswerts oder einer Gruppe von finanziellen Vermögenswerten vorliegt.

5.3 Service productions

In determining the stage of completion of productions according to the percentage of completion method (PoC), the cost-to-cost method (realization of results in the amount of production costs incurred as of the end of the reporting period in proportion to the expected total production costs) or the method of physical completion are applied. The expected production cost and the stage of completion are calculated on the basis of estimates. Changes in estimates have a direct effect on earnings generated.

5.4 Provisions for expected returns of merchandise

The Group’s provisions for expected returns of merchandise are based on an analysis of contractual or legal obligations, historical trends and the Group’s experience. On the basis of information currently available, management considers these provisions to be adequate. As they are based on management estimates, they may have to be revised upon better information becoming available. Such adjustments could have an effect on the provisions recognized and the sales in future periods.

5.5 Provisions for litigation

The Group companies are involved in various legal disputes. On the basis of current knowledge, the Group assumes that its provisions are adequate. However, further litigation could arise resulting in costs not covered by the existing provisions. Moreover, it cannot be ruled out that the extent and the costs of legal disputes could increase. Such changes may affect the provisions recognized for litigation in future reporting periods.

5.6 Pension liabilities

Pension liabilities and the associated net pension costs for each period are calculated by way of actuarial measurement. Such measurement is based on key premises, including discounting factors, salary trends and pension trends. The discounting factors used are determined on the basis of the returns at the end of the reporting period on high quality corporate or government bonds of a consistent currency and term. The premises used can differ from actual development owing to fluctuations in the market and economic situation. This can have a material impact on pension obligations. Differences resulting from this are recognized in other comprehensive income (OCI) in the period in which they arise.

5.7 Taxes

Extensive estimates are required to determine deferred tax assets and liabilities. Some of these estimates are based on an interpretation of existing tax laws and regulations. Management is of the opinion that the estimates are appropriate and take sufficient account of any uncertainty in the tax assets and liabilities recognized. In particular, the deferred tax assets arising from loss carryforwards that can be offset are dependent on future profits being generated. Deferred tax claims arising from remeasurement are also dependent on future profits. Moreover, tax loss carryforwards expire after a certain number of years in some countries. Actual profits may differ from estimates. Such changes may affect the deferred tax assets and liabilities recognized in future reporting periods.

6. NOTES TO INDIVIDUAL ITEMS OF THE BALANCE SHEET

6.1 Film assets

(TCHF)	Third-party productions	In-house productions	Total film assets
Acquisition and production costs 2017			
Balance on January 1, 2017	498,158	1,050,660	1,548,818
Currency translation differences	27,863	101,750	129,613
Additions	3,463	133,348	136,811
Disposals	4,821	4,841	9,662
Balance on December 31, 2017	**524,663**	**1,280,917**	**1,805,580**
Accumulated amortization/value adjustments 2017			
Balance on January 1, 2017	456,413	965,131	1,421,544
Currency translation differences	24,608	92,514	117,122
Amortization for the year	13,538	99,608	113,146
Impairment	523	2,807	3,330
Write-ups	1,461	253	1,714
Disposals	4,821	4,841	9,662
Balance on December 31, 2017	**488,800**	**1,154,966**	**1,643,766**
Acquisition and production costs 2016			
Balance on January 1, 2016	468,572	989,176	1,457,748
Currency translation differences	–3,290	–10,854	–14,144
Additions	37,556	72,367	109,923
Disposals	4,680	29	4,709
Balance on December 31, 2016	**498,158**	**1,050,660**	**1,548,818**
Accumulated amortization/value adjustments 2016			
Balance on January 1, 2016	431,190	825,486	1,256,676
Currency translation differences	–2,850	–10,558	–13,408
Amortization for the year	26,894	147,600	174,494
Impairment	5,948	3,018	8,966
Write-ups	89	415	504
Disposals	4,680	–	4,680
Balance on December 31, 2016	**456,413**	**965,131**	**1,421,544**
Net carrying amounts on December 31, 2017	**35,863**	**125,951**	**161,814**
Net carrying amounts on December 31, 2016	**41,745**	**85,529**	**127,274**

Impairment losses of TCHF 3,330 (previous year's period: TCHF 8,966) were recognized in the year under review as the value in use no longer covers the acquisition costs or the carrying amount of certain films due to a lack of market acceptance. The pre-tax discount rates used for determination of impairment are between 1.23 % and 4.21 % (previous year: between 0.18 % and 4.74 %). The disposals relate to co-productions and third-party productions to which the distribution rights expired in the year under review. Write-ups are recognized for projects for which a write-down has been recognized in the past and whose forecast revenues for the remaining exploitation period are considerably higher than the previous year's estimates.

In the year under review, the Highlight Group received project subsidies and project promotion loans of TCHF 20,850 (previous year's period: TCHF 16,544), which were deducted from the capitalized production costs.

Deferred project promotion loans amounted to TCHF 3,264 as of December 31, 2017 (previous year: TCHF 4,313). Project promotions of TCHF 849 were repaid in the year under review (previous year's period: TCHF 1,356).

In addition, sales subsidies and distribution loans of TCHF 5,840 (previous year's period: TCHF 2,050) were recognized in the consolidated income statement in fiscal year 2015 as a reduction of release costs. These grants are recognized in the periods in which the corresponding release costs are incurred.

Deferred distribution loans amounted to TCHF 0 (previous year: TCHF 0) as of December 31, 2017. Distribution loans of TCHF 2,187 (previous year's period: TCHF 331) were repaid over the year under review. As of December 31, 2017, there were receivables for subsidies and grants of TCHF 15,203 (previous year: TCHF 14,633).

Directly attributable financing costs of TCHF 1,010 (previous year's period: TCHF 1,140) were capitalized in the year under review. The costs to be capitalized were calculated using the interest rates from the funds borrowed specifically for the financing. The financing interest rate varied from 2.8 % to 4.5 % (previous year: 2.3 % to 4.5 %).

6.2 Other intangible assets and goodwill

(TCHF)	Purchased intangible assets	Internally developed intangible assets	Total intangible assets	Goodwill
Acquisition and production costs 2017				
Balance on January 1, 2017	6,465	2,959	9,424	23,420
Currency translation differences	277	208	485	824
Additions	48	–	48	–
Disposals	38	–	38	–
Balance on December 31, 2017	**6,752**	**3,167**	**9,919**	**24,244**
Accumulated amortization/ value adjustments 2017				
Balance on January 1, 2017	6,132	2,959	9,091	5,921
Currency translation differences	259	208	467	326
Amortization for the year	199	–	199	–
Disposals	38	–	38	–
Balance on December 31, 2017	**6,552**	**3,167**	**9,719**	**6,247**
Acquisition and production costs 2016				
Balance on January 1, 2016	7,209	2,982	10,191	24,003
Changes in scope of consolidation	–959	–600	–1,559	–491
Currency translation differences	–21	–23	–44	–92
Additions	237	600	837	–
Disposals	1	–	1	–
Balance on December 31, 2016	**6,465**	**2,959**	**9,424**	**23,420**
Accumulated amortization/value adjustments 2016				
Balance on January 1, 2016	6,412	2,967	9,379	6,450
Changes in scope of consolidation	–959	–	–959	–491
Currency translation differences	–24	–23	–47	–38
Amortization for the year	704	15	719	–
Disposals	1	–	1	–
Balance on December 31, 2016	**6,132**	**2,959**	**9,091**	**5,921**
Net carrying amounts on December 31, 2017	**200**	**–**	**200**	**17,997**
Net carrying amounts on December 31, 2016	**333**	**–**	**333**	**17,499**

Goodwill

Total goodwill of TCHF 17,997 (previous year: TCHF 17,499) was recognized in the balance sheet as of December 31, 2017. The table below shows the allocation of goodwill:

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
Constantin Film Verleih GmbH	12,025	12,025
Constantin Entertainment GmbH	4,065	3,727
Constantin Television GmbH (previous year: PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH)	1,857	1,699
Other	50	48
Total	**17,997**	**17,499**

The goodwill of PolyScreen Produktionsgesellschaft für Film mbH was transferred to Constantin Television GmbH as a result of the merger and renaming mentioned in note 3.2.

Goodwill was tested for impairment at the level of the cash-generating units in the respective segment. The recoverable amounts are equal to the value in use in impairment testing for goodwill. The basis of the discounted cash flow method in the Highlight Group is future cash flows derived from detailed three-year earnings planning. For the impairment test of Constantin Film Verleih GmbH, the growth rate beyond the detailed planning period was set at 1 % (previous year: 1 %), for other items this was set at between 0 % and 2.0 % (previous year: 0 % to 2.0 %). The capital asset pricing model (CAPM) was used to calculate the costs of capital and a peer group was referred to. As of December 31, 2017, the CAPM-based discount factor before taxes for the impairment test of Constantin Film Verleih GmbH was set at 11.70 % (previous year: 9.74 %), for other items this was set at 7.66 % (previous year: 7.57 %).

Goodwill underwent the annual impairment test as of December 31, 2017. As in the previous year, this did not result in any impairment losses.

Corporate planning was also supplemented by further alternative scenarios for the possible development of the Highlight Group and these were also used for the purposes of impairment testing. Even using more conservative scenarios concerning sales growth, the discount factor and the EBIT margin, no further goodwill impairment was required.

6.3 Property, plant and equipment

(TCHF)	Leasehold improvements	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and assets under construction	Total property, plant and equipment
Acquisition and production costs 2017					
Balance on January 1, 2017	5,291	2,278	13,111	–	20,680
Currency translation differences	58	211	526	31	826
Additions	20	73	1,500	582	2,175
Disposals	237	8	2,594	–	2,839
Balance on December 31, 2017	**5,132**	**2,554**	**12,543**	**613**	**20,842**
Accumulated depreciation 2017					
Balance on January 1, 2017	4,595	2,151	10,563	–	17,309
Currency translation differences	42	201	425	–	668
Depreciation for the year	342	112	1,280	–	1,734
Disposals	147	8	2,475	–	2,630
Balance on December 31, 2017	**4,832**	**2,456**	**9,793**	**–**	**17,081**
Acquisition and production costs 2016					
Balance on January 1, 2016	5,192	2,283	12,967	–	20,442
Changes in scope of consolidation	–	–	–85	–	–85
Currency translation differences	–6	–22	–64	–	–92
Additions	105	17	943	–	1,065
Disposals	–	–	650	–	650
Balance on December 31, 2016	**5,291**	**2,278**	**13,111**	**–**	**20,680**
Accumulated depreciation 2016					
Balance on January 1, 2016	4,090	1,990	9,858	–	15,938
Changes in scope of consolidation	–	–	–61	–	–61
Currency translation differences	–3	–23	–56	–	–82
Depreciation for the year	508	184	1,351	–	2,043
Disposals	–	–	529	–	529
Balance on December 31, 2016	**4,595**	**2,151**	**10,563**	**–**	**17,309**
Net carrying amounts on Dec. 31, 2017	**300**	**98**	**2,750**	**613**	**3,761**
Net carrying amounts on Dec. 31, 2016	**696**	**127**	**2,548**	**–**	**3,371**

6.4 Investments in associated companies

As in the previous year, the Group has investments in one associated company that is included in the consolidated financial statements using the equity method.

Carrying amounts

(TCHF)	
Balance on December 31, 2015	**209**
Disposals	–189
Dividends/repayments of capital	–8
Share of earnings	42
Balance on December 31, 2016	**54**
Dividends/repayments of capital	–9
Share of earnings	6
Currency translation	6
Balance on December 31, 2017	**57**

Financial information

(TCHF)	Jan. 01 to Dec. 31, 2017	Jan. 01 to Dec. 31, 2016
Earnings after taxes	13	–260
Earnings of discontinued operations, net of tax	–	–
Other earnings (OCI)	–	–
Total earnings	**13**	**–260**

	31.12.2017	31.12.2016
Contingent liabilities (proportional)	–	–

For updating reasons, the annual financial statements of BECO Musikverlag GmbH as of December 31, 2016 were used for reporting on associated companies as the annual financial statements as of December 31, 2017 have not yet been prepared. No circumstances arose in the current fiscal year that would have necessitated an adjustment to the annual financial statements used as a basis.

6.5 Inventories

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
Net balance		
Unfinished goods and services	2,210	843
Blu-rays/DVDs	1,803	1,625
Other merchandise	14	16
Total	**4,027**	**2,484**

Unfinished goods and services essentially relate to service productions in development that have not yet been ordered by the broadcaster.

Impairment losses of TCHF 107 (previous year's period: TCHF 448) were recognized in the year under review and impairment losses of TCHF 13 (previous year's period: TCHF 21) were reversed.

6.6 Other financial assets

(TCHF)	Current assets Dec. 31, 2017	Current assets Dec. 31, 2016	Non-current assets Dec. 31, 2017	Non-current assets Dec. 31, 2016
Financial assets at fair value through profit or loss				
Preference shares	–	206	–	–
Real estate funds	–	–	35	95
Total	**–**	**206**	**35**	**95**

Other current financial assets amounted to TCHF 0 (previous year: TCHF 206). In the previous year, they comprised preference shares in a Canadian company, which were acquired in connection with the production of the movie "Resident Evil: Retribution". No preference shares (previous year's period: TCHF 162) were sold at carrying amount in the year under review. Because a repurchase of the preference shares by the issuer is no longer to be expected in the coming fiscal years either, there was an impairment loss of TCHF 201 (previous year's period: TCHF 0) and a currency translation effect totaling TCHF -5 (previous year's period: TCHF 18).

The shares in Constantin Medien AG were sold in the previous year.

Other non-current financial assets include investment securities of TCHF 35 (previous year: TCHF 95) and interests in Geenee Inc., Delaware, of TCHF 0 (previous year: TCHF 0) as of December 31, 2017. The shares in Pulse Evolution Corporation were sold in the previous year.

The investment securities were acquired in previous fiscal years with the aim of profitably investing the retained earnings of a subsidiary and to use them if liquidity is needed. This led to ongoing monitoring of its fair value by the management of Olga Film GmbH in order to be able to react quickly in the event of value fluctuations. These assets will be utilized if necessary. In line with this, these securities were allocated to the "at fair value through profit or loss" category. Securities of TCHF 66 were sold in the year under review (previous year: TCHF 0).

4.54% of the shares in Geenee Inc. are held by Rainbow Home Entertainment AG while Constantin Entertainment GmbH holds 0.46%. The equity investment is measured at fair value in the statement of comprehensive income and assigned to level 3 of the fair value hierarchy (see note 8.5). Owing to financial difficulties at Geenee Inc., there was a total impairment loss in the previous year that was recognized in other comprehensive income (OCI) (see note 6.13). There were no indications of a reversal of impairment in the year under review.

The remaining 5% interest in Mister Smith Entertainment Ltd., London, is reported under this item in the category "at fair value through other comprehensive income" at the carrying amount of TCHF 0 (previous year: TCHF 0). As there is no active market for these shares and a fair value cannot be reliably determined, this equity investment is carried at cost, which is equal to the carrying amount as of the reclassification date, and assigned to level 3 of the fair value hierarchy (see note 8.5).

6.7 Non-current receivables

Non-current receivables of TCHF 2,735 in total (previous year: TCHF 355) essentially relate to the value added tax for sales not yet recognized under IFRS. The receivables are discounted in line with their maturity.

6.8 Trade accounts receivable

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
Trade accounts receivable		
Current receivables	46,814	39,473
PoC receivables	13,628	6,509
Gross amount	**60,442**	**45,982**
Individual write-downs	–4,484	–4,249
Portfolio write-downs	–75	–55
Net amount	**55,883**	**41,678**

The carrying amount of receivables not yet due and receivables that are overdue by up to 90 days is approximately their fair value.

Impairment losses

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
Balance impairment losses on January 1	**4,304**	**4,929**
Currency translation differences	363	–37
Additions	116	101
Consumption	–130	–124
Reversals	–94	–565
Balance impairment losses on December 31	**4,559**	**4,304**

Impairment losses on trade accounts receivable comprise additions to impairment, income from the reversal of impairment losses and expenses for the derecognition of receivables.

Maturity profile

			(Days)				
(TCHF)	Carrying amount	neither impaired nor overdue	less than 90	between 91 and 180	between 181 and 270	between 271 and 365	more than 365
December 31, 2017							
Trade accounts receivable	55,883	50,761	4,633	269	70	54	96
December 31, 2016							
Trade accounts receivable	41,678	39,074	2,286	77	91	6	144

Currency profile

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
CHF	1,490	735
EUR	30,162	25,440
USD	24,225	15,502
Other	6	1
Total	**55,883**	**41,678**

6.9 Other receivables

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
Prepaid expenses	10,322	11,458
Input tax	675	2,982
Other taxes	134	204
Advance payments	476	875
Suppliers with debit balances	306	455
Receivables due from personnel	594	327
Receivables from loans	34,929	45,137
Subsidies receivables	15,203	14,633
Positive fair value of underlying transactions in hedging relationships	706	482
Positive fair value of derivative financial instruments in hedging relationships	17	819
Positive fair value of derivative financial instruments without hedging relationships	2,015	1,283
Other assets	5,647	3,950
Total	**71,024**	**82,605**

Advance payments include advance payments for various future projects in the Film segment.

The receivables from loans include current loans in connection with the production “Resident Evil 6” to the co-producer Davis Film/Impact Pictures. In addition, this item also includes a current loan of TCHF 31,051 (previous year: TCHF 28,365) in connection with the disposal of treasury shares. In line with the market, the loan is subject to an interest rate of 1.0 %. The acquirer of the shares settled CHF 4.6 million of the outstanding receivable in the first quarter of 2018. The subsidies receivables are subject to interest rates of between 2.76 % and 4.5 %.

The carrying amount for all current financial assets is approximately their fair value.

Maturity profile

(TCHF)	Other receivables	thereof not relevant under IFRS 7*	Total relevant under IFRS 7	thereof neither impaired nor overdue as of the closing date	Overdue (days) less than 90	between 91 and 180	between 181 and 270	between 271 and 365	more than 365
December 31, 2017									
Prepaid expenses	10,322	10,322	–	–	–	–	–	–	–
Input tax	675	675	–	–	–	–	–	–	–
Other taxes	134	134	–	–	–	–	–	–	–
Advance payments	476	476	–	–	–	–	–	–	–
Suppliers with debit balances	306	–	306	306	–	–	–	–	–
Receivables due from personnel	594	15	579	579	–	–	–	–	–
Receivables from loans	34,929	–	34,929	34,929	–	–	–	–	–
Subsidies receivables	15,203	–	15,203	15,203	–	–	–	–	–
Positive fair value of underlying transactions in hedging relationships	706	706	–	–	–	–	–	–	–
Positive fair value of derivative financial instruments in hedging relationships	17	–	17	17	–	–	–	–	–
Positive fair value of derivative financial instruments without hedging relationships	2,015	–	2,015	2,015	–	–	–	–	–
Other assets	5,647	–	5,647	5,647	–	–	–	–	–
Total	**71,024**	**12,328**	**58,696**	**58,696**	**–**	**–**	**–**	**–**	**–**
December 31, 2016									
Prepaid expenses	11,458	11,458	–	–	–	–	–	–	–
Input tax	2,982	2,982	–	–	–	–	–	–	–
Other taxes	204	204	–	–	–	–	–	–	–
Advance payments	875	875	–	–	–	–	–	–	–
Suppliers with debit balances	455	–	455	455	–	–	–	–	–
Receivables due from personnel	327	15	312	312	–	–	–	–	–
Receivables from loans	45,137	–	45,137	45,137	–	–	–	–	–
Subsidies receivables	14,633	–	14,633	14,523	–	110	–	–	–
Positive fair value of underlying transactions in hedging relationships	482	482	–	–	–	–	–	–	–
Positive fair value of derivative financial instruments in hedging relationships	819	–	819	819	–	–	–	–	–
Positive fair value of derivative financial instruments without hedging relationships	1,283	–	1,283	1,283	–	–	–	–	–
Other assets	3,950	47	3,903	3,903	–	–	–	–	–
Total	**82,605**	**16,063**	**66,542**	**66,432**	**–**	**110**	**–**	**–**	**–**

** Not relevant under IFRS 7: These are not financial instruments.*

Currency profile

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
CHF	4,681	4,890
EUR	62,145	60,248
USD	810	1,358
CAD	3,386	12,594
Other	2	3,515
Total	**71,024**	**82,605**

6.10 Cash and cash equivalents

Interest is paid on call money and short-term sight deposits. The interest rate varies between 0% and 0.25% (previous year: 0% to 0.25%). Cash and cash equivalents of CHF 135.9 million are earmarked for the takeover offer and have a waiver on utilization.

6.11 Income tax receivables

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
Income taxes Germany	1,907	312
Income taxes rest of the world	156	234
Total	**2,063**	**546**

6.12 Deferred tax assets

Breakdown of deferred tax assets

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
Tax loss carryforwards	10,883	5,364
Intangible assets/film assets	2,182	4,261
Property, plant and equipment	1	4
Trade accounts receivable	9,904	16
Inventories	12,672	6,942
Trade accounts payable	3,808	1,931
Other liabilities	440	474
Advance payments received	185	4,283
Provisions	771	353
Pension liabilities	493	793
Total	**41,339**	**24,421**
Netting with deferred tax liabilities	–38,820	–21,597
Deferred tax assets (net)	**2,519**	**2,824**

Maturities

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
Current deferred tax assets	168	162
Non-current deferred tax assets	2,351	2,662

The Group has total loss carryforwards of TCHF 33,592 (previous year: TCHF 25,502) for which no deferred tax assets were recognized. These are scheduled to expire as follows:

2017 (TCHF)	Expiry date			
	<1 year	1–5 years	>5 years	thereof without expiry
	–	7,843	25,749	8,281

2016 (TCHF)	Expiry date			
	<1 year	1–5 years	>5 years	thereof without expiry
	–	6,219	19,283	7,543

Deferred tax assets are measured at the tax rates applicable in the individual countries at the realization date or in future.

Changes in deferred taxes

(TCHF)	Jan. 01 to Dec. 31, 2017	Jan. 01 to Dec. 31, 2016
Changes in deferred tax assets (assets and liabilities)	–5,120	–1,926
thereof:		
Changes in income statement	–4,023	–1,137
Changes in other comprehensive income/loss	–104	–790
Changes in scope of consolidation	–	–96
Changes in currency translation	–993	97

6.13 Equity

Changes in equity are shown in the consolidated statement of changes in equity.

Capital increase

The Board of Directors of Highlight Communications AG used the company's authorized capital to issue 15,750,000 bearer shares with a nominal value of CHF 1.00 per share in the second quarter of 2017, causing the company's share capital to increase to CHF 63,000,000. The subscription price was set at EUR 5.20 per share. The shares were underwritten by a Swiss bank and fully placed with Highlight Event and Entertainment AG, which thus holds a 25% stake in Highlight Communications AG. After deducting the capital increase costs of TCHF 1,770, this resulted in net issue proceeds of TCHF 87,815. The inflow of funds from the capital increase was used for the planned takeover offer to the shareholders of Constantin Medien AG, which was published on December 18, 2017.

Share capital

As of December 31, 2017, the fully paid-up share capital of the parent company, Highlight Communications AG, totaled CHF 63,000,000 (previous year: CHF 47,250,000), divided into 63,000,000 bearer shares with a par value of CHF 1.00 per share (previous year: 47,250,000 bearer shares of CHF 1.00 per share).

A dividend of CHF 0.30 per share was paid for fiscal year 2016 in the year under review.

Treasury stock

As of December 31, 2017, the separately reported item "Treasury stock" amounted to TCHF -45 (previous year: TCHF -45). The amount reflects the nominal capital of treasury shares. As of December 31, 2017, the number of directly held non-voting treasury shares was 44,983 shares in Highlight Communications AG (previous year: 44,983). In the period under review, 20,000 treasury shares were acquired at a transaction value of TCHF 113 and 20,000 treasury shares were sold at a transaction value of TCHF 113.

Capital reserve

As of December 31, 2017, the Group's capital reserve amounted to a total of TCHF -54,956 (previous year: TCHF -108,135).

The change in the capital reserve is chiefly due to the capital increase performed in the second quarter of 2017. The capital reserve increased by TCHF 72,065 in total as a result of this transaction. In addition, dividend payments of TCHF 18,886 were made.

The reduction in the capital reserve in the previous year (TCHF -222) was attributable to the increase shown in equity in the equity investment in Mood Factory AG, Pratteln, from 52% to 100% and the increase in shares in Moovie GmbH, Berlin, from 75.5% to 100%.

Non-controlling interests

Dividend payments in the reporting year amounted to TCHF 1,065 (previous year's period: TCHF 876) and the net profit for the period attributable to non-controlling interests was TCHF 960 (previous year's period: TCHF 544). Differences from currency translation amounted to TCHF 267 (previous year's period: TCHF -316).

In the previous year, the deconsolidation of Highlight Event and Entertainment AG, Pokermania GmbH, and Comosa AG combined with the increase in the equity investments in Mood Factory AG and Moovie GmbH also led to a decrease in non-controlling interests of TCHF 2,132.

Other reserves

As of the end of the reporting period, other reserves totaled TCHF -32,841 (previous year: TCHF -40,515). As of December 31, 2017, these relate to the translation of the equity of companies that do not use Swiss francs as their functional currency (TCHF -31,104; previous year: TCHF -39,280) and from other cash flow hedge reserves of TCHF -1,737 (previous year: TCHF -1,235).

The changes in other components of equity in fiscal years 2017 and 2016 were as follows:

Other comprehensive income/loss (OCI)

2017 (TCHF)	Before taxes	Tax effect	After taxes
Unrealized gains/losses from currency translation	8,443	–	8,443
Currency translation differences	8,443	–	8,443
Gains/losses from cash flow hedges	–687	185	–502
Items that may be reclassified to the income statement in future	**7,756**	**185**	**7,941**
Actuarial gains/losses of defined benefit pension plans	1,917	–289	1,628
Items that will not be reclassified to the income statement in future	**1,917**	**–289**	**1,628**
Other comprehensive income/loss	**9,673**	**–104**	**9,569**

2016 (TCHF)	Before taxes	Tax effect	After taxes
Unrealized gains/losses from currency translation	–1,237	–	–1,237
Reclassification of realized gains/losses to the income statement	–227	–	–227
Currency translation differences	–1,464	–	–1,464
Gains/losses from cash flow hedges	1,493	–209	1,284
Items that may be reclassified to the income statement in future	**29**	**–209**	**–180**
Actuarial gains/losses of defined benefit pension plans	2,500	–581	1,919
Gains/losses from financial assets at fair value through other comprehensive income/loss	552	–	552
Items that will not be reclassified to the income statement in future	**3,052**	**–581**	**2,471**
Other comprehensive income/loss	**3,081**	**–790**	**2,291**

Breakdown of other comprehensive income/loss (OCI) attributable to shareholders

(TCHF)	Currency translation differences	Gains/losses from cash flow hedges	Actuarial gains/losses of defined benefit obligation plans	Gains/losses from financial assets at fair value through other comprehensive income/loss
Balance on January 1, 2016	**–38,132**	**–2,519**	**–5,110**	**–8,004**
Items that may be reclassified to the income statement in future	–1,148	1,284	–	–
Items that will not be reclassified to the income statement in future	–	–	1,926	552
Balance on December 31, 2016	**–39,280**	**–1,235**	**–3,184**	**–7,452**
Items that may be reclassified to the income statement in future	8,176	–502	–	–
Items that will not be reclassified to the income statement in future	–	–	1,628	–
Balance on December 31, 2017	**–31,104**	**–1,737**	**–1,556**	**–7,452**

Information on capital management

In managing capital, the Highlight Group pays particular attention to ensuring that the continuation of the Group's operating activities is guaranteed. Consolidated equity is the most important control parameter in this respect.

Highlight Communications AG aims to increase the capital provided to the company by the capital market and to generate an appropriate return for shareholders. The parent company uses its equity for this purpose by acquiring equity investments and co-financing the expansion of their operating activities. The Highlight Group can also distribute a dividend, pay back capital to the shareholders or issue new shares. The aim of management in this is to use equity and borrowed capital efficiently in order to ensure financial flexibility on the basis of a solid capital structure and thereby guarantee sufficient liquidity resources. Liquidity consists of the inflows from operating activities, cash on hand and the borrowings available.

The liquidity of the Highlight Group is managed centrally for all segments by Highlight Communications AG. This does not include Constantin Film AG, which manages its own liquidity independently of Highlight Communications AG. In addition to a liquidity report and liquidity planning to assess its liquidity status, Highlight Communications AG essentially uses its gearing and net debt ratios, defined as current and non-current financial liabilities less cash and cash equivalents, to monitor its liquidity resources.

The equity management of Highlight Communications AG comprises all items of equity reported in the balance sheet. Highlight Communications AG also monitors the borrowed capital of the Film and Sports- and Event-Marketing segments in the context of Group management. Debt capital is monitored non-centrally by Highlight Communications AG and Constantin Film AG.

Financial ratios and other conditions must be complied with for borrowed funds, and information must be provided.

The credit agreements of Highlight Communications AG and Constantin Film AG include compliance with certain financial covenants. The financial covenants of the Highlight Group relate to EBIT (Constantin Film Group: EBITDA), gearing, the economic equity ratio and reported equity including non-controlling interests as well as the ratio of net financial liabilities to profit from operations. If the conditions on borrowed funds are violated, the interest rate may increase and a termination option may arise. The financial covenants had not been violated as of December 31, 2017.

6.14 Overview of provisions and liabilities

Maturity profile

Dec. 31, 2017 (TCHF)	less than 1 year	1 to 5 years	over 5 years	Total
Non-current liabilities				
Other liabilities	–	497	1,427	1,924
Pension liabilities	–	–	4,200	4,200
Deferred tax liabilities	15	15,148	–	15,163
Total	**15**	**15,645**	**5,627**	**21,287**
Current liabilities				
Financial liabilities	77,172			77,172
Advance payments received	47,741			47,741
Trade accounts payable	45,912			45,912
Liabilities due to related parties	464			464
Other liabilities	75,928			75,928
Provisions	5,024			5,024
Income tax liabilities	2,850			2,850
Total	**255,091**			**255,091**

Dec. 31, 2016 (TCHF)	less than 1 year	1 to 5 years	over 5 years	Total
Non-current liabilities				
Advance payments received	–	15,696	–	15,696
Other liabilities	–	393	1,129	1,522
Pension liabilities	–	–	6,651	6,651
Deferred tax liabilities	–	10,348	–	10,348
Total	**–**	**26,437**	**7,780**	**34,217**
Current liabilities				
Financial liabilities	52,259			52,259
Advance payments received	50,716			50,716
Trade accounts payable	23,024			23,024
Liabilities due to related parties	365			365
Other liabilities	63,473			63,473
Provisions	4,830			4,830
Income tax liabilities	4,357			4,357
Total	**199,024**			**199,024**

6.15 Trade accounts payable and other liabilities

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
Trade accounts payable	45,912	23,024
Other liabilities	75,928	63,473
Total	**121,840**	**86,497**

Trade accounts payable

Apart from the customary retentions of title, the reported trade accounts payable are not secured in any other way. They essentially relate to licensing and services.

Overall, the trade accounts payable are non-interest-bearing and short-term, which means that their carrying amount is approximately their fair value.

Trade accounts payable contain PoC liabilities of TCHF 8,734 (previous year: TCHF 2,866).

Currency profile

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
CHF	1,703	681
EUR	40,150	17,740
USD	4,024	4,543
Other	35	60
Total	**45,912**	**23,024**

Other current liabilities

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
Liabilities from conditional loan repayment (subsidies)	17,907	11,064
Personnel-related liabilities	12,707	11,177
Value-added tax liabilities	742	1,472
Other taxes	5,678	5,217
Social security	361	469
Deferred income	6,468	5,427
Customers with credit balances	147	86
Commissions and licenses	22,642	21,124
Negative fair value of underlying transactions in hedging relationships	117	240
Negative fair value of derivative financial instruments in hedging relationships	1,775	1,906
Negative fair value of derivative financial instruments without hedging relationships	2,329	1,525
Other current liabilities	5,055	3,766
Total	**75,928**	**63,473**

As of December 31, 2017, there is no longer any contingent purchase price liability from the acquisition of Poly-Screen Produktionsgesellschaft für Film und Fernsehen mbH (previous year: TCHF 268). The contingent purchase price component was paid during the fiscal year.

Currency profile

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
CHF	14,035	11,875
EUR	46,577	37,612
USD	15,316	13,986
Total	**75,928**	**63,473**

6.16 Financial liabilities

As of the end of the reporting period, there were current liabilities to banks of TCHF 77,172 (previous year: TCHF 52,259), TCHF 17,172 (previous year: TCHF 22,259) of which relate to the financing of film projects.

The Highlight Group had free short-term credit facilities totaling around TCHF 164,197 (previous year: TCHF 161,295) as of the end of the reporting period. Of this, the Constantin Film Group's credit facilities (production financing and license trading facilities) are secured by the film rights reported as film assets in the amount of TCHF 159,300 (previous year: TCHF 124,723) and the resulting proceeds from exploitation in addition to receivables of TCHF 46,102 (previous year: TCHF 37,297). The security interests of the banks serve as collateral for all current and future receivables of the banks from Constantin Film AG. The banks are entitled to liquidate this collateral if necessary. They will be transferred by the banks back to Constantin Film AG after all secured claims have been satisfied. Highlight Communications AG's credit facility of TCHF 60,000 (previous year: TCHF 30,000) is secured by the shares in Constantin Film AG. The amounts utilized are all due on demand in 2018. Interest pooling arrangements are available for certain short-term bank overdraft liabilities.

Reconciliation of liabilities arising from financing activities

			Non-cash items				
(TCHF)	Jan. 01, 2017	Cash changes	Changes in scope of consolidation	Currency translation	Change in the fair value	Other	Dec. 31, 2017
Current liabilities	52,259	23,242	–	1,671	–	–	**77,172**
Non-current liabilities	–	–	–	–	–	–	–
Lease liabilities	–	–	–	–	–	–	–
Assets held to hedge non-current liabilities	–	–	–	–	–	–	–
Total liabilities arising from financing activities	**52,259**	**23,242**	–	**1,671**	–	–	**77,172**

Currency profile

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
CHF	60,000	30,000
EUR	11,533	8,703
USD	1,953	408
CAD	3,686	13,148
Total	**77,172**	**52,259**

6.17 Advance payments received

Advance payments received totaling TCHF 47,741 (previous year: TCHF 66,412) essentially include amounts received from license sales and advance payments from customers in the amount of TCHF 15,696 (previous year: TCHF 47,089). TCHF 0 (previous year: TCHF 15,696) of these advance payments have to be classified as non-current.

6.18 Long-term service production

Receivables from customers for service productions amount to TCHF 13,628 (previous year: TCHF 6,509). Liabilities to customers for service productions amount to TCHF 8,734 (previous year: TCHF 2,866). These are reported under trade accounts receivable and trade accounts payable respectively.

Proceeds from service production for the period amount to TCHF 107,015 (previous year's period: TCHF 119,119). Total costs incurred for contracts in progress and reported profits (less any reported losses) amount to TCHF 22,135 (previous year's period: TCHF 13,334).

6.19 Pension liabilities

6.19.1 Defined benefit pension plans

The defined benefit pension plans in place relate to the Swiss companies of the Highlight Group. Practically all employees and pensioners of these companies are insured in various pension plans. These pension plans have ties to various collective facilities. These are independent legal entities in the form of foundations for the purpose of retirement and invalidity pensions for employees and their surviving dependents after their death.

The pension plans grant more than the individual benefits demanded by law in the event of invalidity, death, old age and resignation. The risk benefits are defined on the basis of the insured salary. The retirement pension is calculated on the basis of the projected interest-bearing savings and a conversion rate.

Through these defined benefit pension plans, the Group is exposed to actuarial risks such as longevity, interest rate risk as well as market and investment risk.

Companies abroad have defined contribution plans only.

Funding agreements for future contributions

The Swiss occupational pension scheme (BVG – Swiss Federal Law on Occupational Retirement, Surviving Dependents' and Disability Pension and related ordinances) stipulates the minimum pension benefits. Legislation prescribes minimum annual amounts for employers. However, an employer can also pay higher contributions than those prescribed by law. These contributions are set out in the pension plan/regulations. In addition, an employer can also pay non-recurring contributions or advances to the scheme. However, these contributions cannot be paid back to the employer, but they are available to the employer in order to settle future employer contributions (employer contribution reserve).

Even if the pension plan has a statutory excess, the law still demands annual minimum contributions. For active insured parties, both the employer and the employee must pay contributions. The employer contribution must at least equal the employee contributions. The minimum annual contributions are dependent on the age and insured salary of the insured party. They are set out in the pension plan/regulations.

In the event that an insured party changes employer before reaching pension age, termination benefits (accrued savings) are payable. These are transferred by the pension scheme to the pension plan of the new employer.

As described above, the pension plans/regulations prescribe minimum requirements for contributions. The pension plans/regulations do not stipulate additional funding requirements provided that the pension plan has a statutory excess. If, however, funding is insufficient, additional contributions ("restructuring contributions") are required from the insured party and the employer until pension obligations are covered again.

The forecast employer contributions for fiscal year 2018 amount to TCHF 1,282.

Maturity profile of defined benefit obligation

(TCHF)	2017	2016
Less than 1 year	1,724	1,298
Weighted average maturity of defined benefit obligation (in years)	16.1	16.9

Change in defined benefit liabilities

The defined benefit liabilities recognized in the consolidated balance sheet are calculated as follows:

Pension liabilities

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
Present value of defined benefit obligation	37,004	37,291
Fair value of plan assets	32,804	30,640
Balance sheet amount	**4,200**	**6,651**

Development of defined benefit obligation

(TCHF)	2017	2016
Present value of defined benefit obligation as of January 1	**37,291**	**43,411**
Changes in scope of consolidation	–	–6,063
Current service cost (without employee contributions and administrative expenses)	1,934	2,190
Employee contributions	893	909
Interest cost	227	285
Curtailment, settlement	–1,052	–
Benefits paid	–1,468	–1,315
Actuarial losses/(gains) from experience adjustments	–612	–1,848
Actuarial losses/(gains) from changes in financial assumptions	–209	362
Actuarial losses/(gains) from changes in demographic assumptions	–	–640
Present value of defined benefit obligation as of December 31	**37,004**	**37,291**
thereof actively insured persons	34,524	34,703
thereof pensioners	2,480	2,588

Development of plan assets

(TCHF)	2017	2016
Fair value of assets as of January 1	**30,640**	**32,432**
Changes in scope of consolidation	–	–4,927
Interest income	187	210
Employee contributions	893	909
Employer contributions	1,536	3,043
Administrative expenses of the foundation	–80	–86
Benefits paid	–1,468	–1,315
Actuarial (losses)/gains from experience adjustments	1,096	374
Fair value of assets as of December 31	**32,804**	**30,640**

Retirement benefit expenses broke down as follows:

(TCHF)	Jan. 01 to Dec. 31, 2017	Jan. 01 to Dec. 31, 2016
Current service cost (without employee contributions and administrative expenses)	1,934	2,190
Administrative expenses of the foundation	80	86
Effects from curtailments and settlements	–1,052	–
Net interest cost (income)	40	75
Total income statement	**1,002**	**2,351**

Plan assets

The plan assets are divided among the individual investment categories as follows:

(TCHF)	2017	2016
Cash and cash equivalents	158	140
Bonds with quoted market prices on active markets	10,365	14,323
Bonds without quoted market prices	174	174
Shares with quoted market prices on active markets	8,142	2,851
Real estate	12,101	11,304
Other	1,864	1,848
Total	**32,804**	**30,640**

The actual return on plan assets in the year under review amounted to TCHF 1,283 (previous year's period: TCHF 584).

Actuarial assumptions

The calculation of the pension provision was based on the following assumptions (in %):

	2017	2016
Discount rate	0.65	0.60
Pension trend	0.00	0.00
Salary trend	1.50	1.50
Average life expectancy after pension men (in years)	22.50	22.38
Average life expectancy after pension women (in years)	25.53	25.42

As in the previous year, the new BVG 2015 generation table was used for the actuarial assumptions for mortality, disability and employee turnover.

Sensitivity analysis

Changes in one of the key actuarial assumptions that would reasonably be expected to be possible as of the end of the reporting period would affect the pension obligation as follows:

	Discount rate (incl. change in interest rate applied)		Pension trend		Salary trend		Average life expectancy
2017 (TCHF)	+25 BP	–25 BP	+25 BP	–25 BP	+25 BP	–25 BP	+ 1 year
Effect on defined benefit obligation	–984	1,036	764	–	256	–249	968

	Discount rate (incl. change in interest rate applied)		Pension trend		Salary trend		Average life expectancy
2016 (TCHF)	+25 BP	–25 BP	+25 BP	–25 BP	+25 BP	–25 BP	+ 1 year
Effect on defined benefit obligation	–982	1,047	681	–	267	–259	962

Although the analysis does not fully reflect the forecast cash outflow from the pension plans, it shows an approximation of the sensitivity of assumptions. The same method (present value of defined benefit pension obligations calculated with the projected unit credit method as of the end of the reporting period) was used as for the calculation of the pension liabilities recognized in the consolidated balance sheet.

6.19.2 Defined contribution plans

The expenses recognized in profit or loss for defined contribution plans (including state plans) amounted to TCHF 3,336 in the year under review (previous year's period: TCHF 3,848).

6.20 Provisions

(TCHF)	Jan. 01, 2017	Currency translation differences	Consumption	Reversal	Addition	Dec. 31, 2017
Licenses and returns	3,372	284	1,390	1,140	2,590	3,716
Provisions for litigation risks	24	2	10	12	12	16
Other provisions	1,434	108	–	250	–	1,292
Total	**4,830**	**394**	**1,400**	**1,402**	**2,602**	**5,024**
thereof non-current provisions	–	–	–	–	–	–
thereof current provisions	4,830	394	1,400	1,402	2,602	5,024

(TCHF)	Jan. 01, 2016	Currency translation differences	Consumption	Reversal	Addition	Dec. 31, 2016
Licenses and returns	4,782	–17	2,873	2,571	4,051	3,372
Provisions for litigation risks	50	–1	27	10	12	24
Other provisions	268	–18	19	–	1,203	1,434
Total	**5,100**	**–36**	**2,919**	**2,581**	**5,266**	**4,830**
thereof non-current provisions	–	–	–	–	–	–
thereof current provisions	5,100	–36	2,919	2,581	5,266	4,830

Provisions for licenses and returns were recognized for uninvoiced licenses from licensors and risks of expected returns of Blu-rays and DVDs sold. The provision for returns is based on an analysis of contractual or legal obligations, historical trends and the Group's experience.

The provisions for litigation risks were recognized to provide for various pending and possible legal proceedings.

Other provisions were recognized for impending losses relating to a project in the Film segment.

As in the previous year, there were no non-current provisions as of the end of the reporting period.

6.21 Income tax liabilities

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
Income taxes Switzerland	2,020	1,926
Income taxes Germany	807	2,390
Income taxes rest of the world	23	41
Total	**2,850**	**4,357**

6.22 Deferred tax liabilities

Breakdown of deferred tax liabilities

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
Intangible assets/film assets	30,193	20,775
Inventories	17	12
Trade accounts receivable	2,441	2,166
Other receivables	88	635
Trade accounts payable	7,196	5,060
Advance payments received	13,893	3,297
Pension liabilities	155	–
Total	**53,983**	**31,945**
Netting with deferred tax assets	–38,820	–21,597
Deferred tax liabilities (net)	**15,163**	**10,348**

Maturities

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
Current deferred tax liabilities	15	–
Non-current deferred tax liabilities	15,148	10,348

7. NOTES TO INDIVIDUAL ITEMS OF THE INCOME STATEMENT

7.1 Sales

Please see the segment reporting under note 9 for a breakdown of sales.

Sales from exchanging services of different types and values amounted to TCHF 1,153 in the reporting period (previous year's period: TCHF 80) and are assigned to the Film segment.

7.2 Capitalized film production costs and other own work capitalized

Capitalized film production costs amount to TCHF 141,557 (previous year's period: TCHF 120,028). Other own work capitalized reported in the previous year in the amount of TCHF 600 (period under review: TCHF 0) related to internally developed intangible assets.

7.3 Other operating income

(TCHF)	Jan. 01 to Dec. 31, 2017	Jan. 01 to Dec. 31, 2016
Income from the reversal of provisions and deferred liabilities	1,315	1,442
Income relating to other periods	46	196
Reversal of impairment	107	691
Recharges	639	1,590
Currency exchange gains	3,066	2,443
Income from rents and leases	7	12
Income from the disposal of non-current assets	74	33
Income from deconsolidation	–	7,706
Income from settlements of claims for damages and settlement agreements	3,126	3,554
Miscellaneous operating income	3,434	2,494
Total	**11,814**	**20,161**

Income from settlements of claims for damages and settlement agreements primarily consists of income from compensation for copyright violations.

Income from the reversal of provisions and deferred liabilities is primarily due to the discontinuation of obligations for licenses as well as the reversal of other provisions and deferred liabilities.

Miscellaneous operating income contains a number of items that cannot be allocated to separate items.

7.4 Cost of materials and licenses

(TCHF)	Jan. 01 to Dec. 31, 2017	Jan. 01 to Dec. 31, 2016
Licenses and commissions	5,174	4,960
Other costs of material	18,636	18,517
Total licenses, commissions and material	**23,810**	**23,477**
Production costs	159,589	159,013
Services	1,406	1,970
Overages in the Film segment	13,211	12,125
Total purchased services	**174,206**	**173,108**

7.5 Other operating expenses

(TCHF)	Jan. 01 to Dec. 31, 2017	Jan. 01 to Dec. 31, 2016
Rental costs	6,292	6,507
Repair and maintenance costs	708	967
Advertising and travelling expenses	4,503	4,638
Legal, consulting and auditing costs	14,722	10,352
Expenses for additions to impairment losses and the write-off of receivables	348	5,234
IT costs	2,321	2,028
Administrative costs	1,131	1,014
Other personnel-related expenses	1,355	1,455
Insurance, dues and fees	899	766
Expenses relating to other periods	68	117
Price losses	3,770	1,698
Vehicle costs	817	860
Bank fees	176	144
Distribution costs	81	122
Losses from the disposal of non-current assets	195	60
Other taxes	143	146
Release and promotion expenses and profit-sharing	32,852	16,084
Miscellaneous operating expenses	3,418	3,962
Total	**73,799**	**56,154**

Legal, consulting and auditing costs include the costs of auditing the consolidated and separate financial statements, tax consulting fees and the costs of legal advice including for ongoing legal proceedings and copyright violations.

Release and promotion expenses include the costs of promoting and distributing theatrical movies and of releasing home entertainment titles. Costs for prints and advertisements and for profit-sharing increased in the period under review.

In the previous year, the item “Expenses for additions to impairment losses and the write-off of receivables” mainly included write-downs on remaining loans to Pokermania GmbH and Comosa AG of TCHF 4,484.

Miscellaneous operating expenses include a number of items that cannot be allocated to separate items.

7.6 Financial income

(TCHF)	Jan. 01 to Dec. 31, 2017	Jan. 01 to Dec. 31, 2016
Interest and similar income	211	93
Compounding of receivables	1	6
Gains from changes in the fair value of financial instruments	2,398	1,148
Currency exchange gains	10,365	2,048
Total	**12,975**	**3,295**

7.7 Financial expenses

(TCHF)	Jan. 01 to Dec. 31, 2017	Jan. 01 to Dec. 31, 2016
Interest and similar expenses	2,094	2,116
Write-down of financial assets and non-current securities	351	2,038
Losses from changes in the fair value of financial instruments	3,157	2,333
Currency exchange losses	1,695	5,602
Total	**7,297**	**12,089**

The write-downs of financial assets and non-current securities in the previous year included an impairment loss on non-current receivables of TCHF 2,038 from the associated company Kuuluu Interactive Entertainment AG, which was sold in the first quarter of 2016.

As in the previous year, several derivative financial instruments were not in a formal hedge in the year under review. However, there were still economic hedges. This resulted in higher income and expenses from the measurement of derivative financial instruments in the financial result.

7.8 Taxes

Income taxes paid or owed in the individual countries and deferred taxes are recognized as taxes. The expected tax rate of 21 % (previous year: 21 %) relates to the tax rate applicable at the domicile of Highlight Communications AG.

Effective tax rate reconciliation

(TCHF)	Jan. 01 to Dec. 31, 2017	Jan. 01 to Dec. 31, 2016
Profit before taxes	31,068	27,004
Expected taxes based on a tax rate of 21 %	–6,524	–5,671
Differing tax rates	1,505	1,473
Reversal of deferred tax assets	191	66
Write-down on deferred tax assets	–863	–204
Tax-exempt income	3	310
Permanent differences	77	–36
Tax rate changes	–1	37
Non-deductable expenses	–656	–842
Aperiodic income taxes	30	8
Other effects	–238	–49
Unrecognized deferred taxes	–901	–1,810
Actual tax expense	**–7,377**	**–6,718**
Effective tax rate in %	**23.7**	**24.9**

8. DISCLOSURES ON FINANCIAL RISK MANAGEMENT

8.1 Financial instruments by class

The table below shows the carrying amounts and fair values of financial instruments by class and a breakdown into the various categories of financial instruments in accordance with IAS 39 and IFRS 9 (2009).

Disclosures IFRS 7: Classes as of December 31, 2017

ASSETS (TCHF)
Cash and cash equivalents
Trade accounts receivable
PoC receivables
Other receivables (current)
Financial assets at fair value
Other receivables
Derivative financial instruments with hedging relationships in accordance with IAS 39
Other assets (underlying transactions in hedging relationships in accordance with IAS 39)
Other financial assets (current)
Financial assets at fair value (equity instruments)
Financial assets at fair value (equity instruments)
Non-current receivables and other receivables
Other financial assets (non-current)
Financial assets at fair value
Financial assets at fair value (equity instruments)

LIABILITIES (TCHF)
Financial liabilities (current and non-current)
Trade accounts payable (current and non-current)
PoC liabilities
Other liabilities (current and non-current)
Financial liabilities at amortized cost
Non-current liabilities (non-cash items)
Financial liabilities at fair value
Derivative financial instruments with hedging relationships in accordance with IAS 39
Other liabilities (underlying transactions in hedging relationships in accordance with IAS 39)

AGGREGATED BY CATEGORY (ASSETS AND LIABILITIES IN TCHF)
Financial assets at amortized cost
Financial assets (equity instruments)
Financial assets at fair value
Financial liabilities at amortized cost
Financial liabilities at fair value

The class of non-current financial assets measured at fair value through profit or loss comprises only securities that were designated as "measured at fair value through profit or loss" in previous fiscal years on account of the risk management strategy. As of December 31, 2017, PoC receivables of TCHF 13,628 (previous year: TCHF 6,509) and PoC liabilities of TCHF 8,734 (previous year: TCHF 2,866) as well as non-current non-cash liabilities of TCHF 1,924 (previous year: TCHF 1,522) are reported in a separate line as "no category", as they do not come under the scope of application of IAS 39 fallen.

Non-current receivables are discounted according to their remaining term (see note 6.7).

Classification category IFRS 9 (2009) and IAS 39	Carrying amount Dec. 31, 2017	thereof not relevant under IFRS 7*	Valuation in the balance sheet under IFRS 9 (assets)/IAS 39 (liabilities) Amortized cost	Fair value through OCI	Fair value through profit or loss	Fair value Dec. 31, 2017
AC	186,553	–	186,553	–	–	186,553
AC	42,255	–	42,255	–	–	42,255
without category	13,628	–	13,628	–	–	13,628
FVPL	2,015	–	–	–	2,015	2,015
AC	69,114	–11,622	57,492	–	–	57,492
without category	17	–	–	–	17	17
without category	706	–706	–	–	–	–
FVPL	–	–	–	–	–	–
FVOCI	–	–	–	–	–	–
AC	2,735	–	2,735	–	–	2,735
FVPL	35	–	–	–	35	35
FVOCI	–	–	–	–	–	–
OL	77,172	–	77,172	–	–	77,172
OL	37,178	–	37,178	–	–	37,178
without category	8,734	–	8,734	–	–	8,734
OL	72,171	–11,864	60,307	–	–	60,307
without category	1,924	–	1,924	–	–	1,924
FLPL	2,329	–	–	–	2,329	2,329
without category	1,775	–	–	1,530	245	1,775
without category	117	–117	–	–	–	–
AC	300,657	–11,622	289,035	–	–	289,035
FVOCI	–	–	–	–	–	–
FVPL	2,050	–	–	–	2,050	2,050
OL	186,521	–11,864	174,657	–	–	174,657
FLPL	2,329	–	–	–	2,329	2,329

**Not relevant under IFRS 7: It does not concern financial instruments.*

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

Disclosures IFRS 7: Classes as of December 31, 2016

ASSETS (TCHF)
Cash and cash equivalents
Trade accounts receivable
Receivables due from associated companies and joint ventures (current and non-current)
Other receivables (current)
Financial assets at fair value
Other receivables
Derivative financial instruments with hedging relationships in accordance with IAS 39
Other assets (underlying transactions in hedging relationships in accordance with IAS 39)
Other financial assets (current)
Financial assets at fair value (equity instruments)
Financial assets at fair value (equity instruments)
Non-current receivables and other receivables
Other financial assets (non-current)
Financial assets at fair value
Financial assets at fair value (equity instruments)

LIABILITIES (TCHF)
Financial liabilities (current and non-current)
Trade accounts payable (current and non-current)
Other liabilities (current and non-current)
Financial liabilities at amortized cost
Financial liabilities at fair value
Derivative financial instruments with hedging relationships in accordance with IAS 39
Other liabilities (underlying transactions in hedging relationships in accordance with IAS 39)

AGGREGATED BY CATEGORY (ASSETS AND LIABILITIES IN TCHF)
Financial assets at amortized cost
Financial assets (equity instruments)
Financial assets at fair value
Financial liabilities at amortized cost
Financial liabilities at fair value

Classification category IFRS 9 (2009) and IAS 39	Carrying amount Dec. 31, 2016	thereof not relevant under IFRS 7*	Valuation in the balance sheet under IFRS 9 (assets)/IAS 39 (liabilities) Amortized cost	Fair value through OCI	Fair value through profit or loss	Fair value Dec. 31, 2016
AC	88,502	–	88,502	–	–	88,502
AC	41,678	–	41,678	–	–	41,678
AC	–	–	–	–	–	–
FVPL	1,283	–	–	–	1,283	1,283
AC	80,726	–15,581	65,145	–	–	65,145
without category	819	–	–	75	744	819
without category	482	–482	–	–	–	–
FVPL	206	–	–	–	206	206
FVOCI	–	–	–	–	–	–
AC	355	–	355	–	–	355
FVPL	95	–	–	–	95	95
FVOCI	–	–	–	–	–	–
OL	52,259	–	52,259	–	–	52,259
OL	23,024	–	23,024	–	–	23,024
OL	61,689	–13,219	48,470	–	–	48,470
FLPL	1,525	–	–	–	1,525	1,525
without category	1,906	–	–	1,431	475	1,906
without category	240	–240	–	–	–	–
AC	211,261	–15,581	195,680	–	–	195,680
FVOCI	–	–	–	–	–	–
FVPL	1,584	–	–	–	1,584	1,584
OL	136,972	–13,219	123,753	–	–	123,753
FLPL	1,525	–	–	–	1,525	1,525

Not relevant under IFRS 7: It does not concern financial instruments.

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

8.2 Offsetting

For derivative financial instruments, according to the contractual agreements in the event of insolvency, all asset and liability derivatives with the counterparty in question are offset and only the net amount of the receivable or liability remains. As offsetting is only legally enforceable in the event of insolvency and the Group neither has a legal right to offset amounts at the current time nor does it intend to settle on a net basis, the derivative financial instruments are reported in the consolidated balance sheet on a gross basis.

Receivables from and liabilities to associated companies and joint ventures are shown in the balance sheet on a net basis if there is an unconditional and legally enforceable right to offset them and the Group intends to settle on a net basis.

Cash and cash equivalents and financial liabilities are reported net as well, if there is an unconditional and legally enforceable right to offset and it is intended to settle on a net basis.

The tables below show an overview of the offsetting performed or contractually intended:

Offsetting as of December 31, 2017

Offsetting of financial assets

(TCHF)	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the balance sheet	Net amounts of financial assets shown in the balance sheet	Related amounts not offset in the balance sheet	Net amount
Financial assets at fair value through profit or loss	2,015	–	2,015	–91	1,924
Derivative financial instruments with hedging relationships	17	–	17	–17	–
Cash and cash equivalents	–	–	–	–	–

Offsetting of financial liabilities

(TCHF)	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the balance sheet	Net amounts of financial liabilities shown in the balance sheet	Related amounts not offset in the balance sheet	Net amount
Financial liabilities at fair value through profit or loss	2,329	–	2,329	–91	2,238
Derivative financial instruments with hedging relationships	245	–	245	–17	228
Financial liabilities (current and non-current)	–	–	–	–	–

Offsetting as of December 31, 2016

Offsetting of financial assets

(TCHF)	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the balance sheet	Net amounts of financial assets shown in the balance sheet	Related amounts not offset in the balance sheet	Net amount
Financial assets at fair value through profit or loss	1,283	–	1,283	–155	1,128
Derivative financial instruments with hedging relationships	819	–	819	–145	674
Receivables due from associated companies and joint ventures (current and non-current)	–	–	–	–	–
Cash and cash equivalents	5,897	–	5,897	–	5,897

Offsetting of financial liabilities

(TCHF)	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the balance sheet	Net amounts of financial liabilities shown in the balance sheet	Related amounts not offset in the balance sheet	Net amount
Financial liabilities at fair value through profit or loss	1,525	–	1,525	–155	1,370
Derivative financial instruments with hedging relationships	475	–	475	–145	330
Liabilities due to associated companies and joint ventures (current and non-current)	–	–	–	–	–
Financial liabilities (current and non-current)	22,259	–	22,259	–	22,259

8.3 Net results

Net results by category in accordance with IFRS 7

2017 (TCHF)	from interest	from subsequent measurement: Changes in fair value	Currency translation	Valuation allowances	Others	2017	2016
Loans and receivables (AC)	155	–	5,498	–360	–232	5,061	–6,069
Financial assets at fair value through OCI (FVOCI)	–	–	–	–	–	–	552
Financial assets at fair value through profit or loss (FVPL)	–	2,197	–	–	–	2,197	1,156
Financial liabilities and other liabilities (OL)	–2,051	–	3,668	–	1,303	2,920	–2,746
Financial liabilities at fair value through profit or loss (FLPL)	–	–2,956	–	–	–	–2,956	–2,330

2016 (TCHF)	from interest	from subsequent measurement: Changes in fair value	Currency translation	Valuation allowances	Others	2016	2015
Loans and receivables (AC)	–36	–	548	–6,309	–272	–6,069	–3,412
Financial assets at fair value through OCI (FVOCI)	–	1,918	–	–1,366	–	552	2,766
Financial assets at fair value through profit or loss (FVPL)	–	1,145	11	–	–	1,156	–770
Financial liabilities and other liabilities (OL)	–1,981	–	–2,197	–	1,432	–2,746	–292
Financial liabilities at fair value through profit or loss (FLPL)	–	–2,330	–	–	–	–2,330	–77

Expenses for valuation allowances on loans and receivables (amortized cost) also include income from reversals of write-downs.

The “Others” item mainly shows the effects of the reversal of deferred liabilities.

8.4 Management of financial risks

The Group is exposed to various financial risks resulting from its operating and financing activities. Financial risks can be broken down into liquidity risks, credit risks and market risks (including currency risks, interest rate risks and price risks). These risks are monitored centrally within the Highlight Group. The risk situation is tracked by the risk manager on the basis of a risk management directive that applies to the whole Group using standardized risk reports and reported to the Board of Directors of Highlight Communications AG. Please also see the presentation of risks in the Group management report.

8.4.1 Liquidity risks

A liquidity risk arises if future payment obligations of the Group cannot be covered by available liquidity or corresponding credit facilities. In order to limit this risk, suitable processes are in place within the Highlight Group, with which cash inflows or outflows and maturities are monitored and controlled on an ongoing basis. Highlight Communications AG and the Highlight Group had sufficient liquidity reserves taking into account the available short-term credit facilities as of the end of the reporting period.

The liquidity risk tables show the maturity structure of the primary financial liabilities and an analysis of the cash outflows from derivative financial liabilities and assets. These are undiscounted cash flows.

Liquidity risk

2017 (TCHF)	Carrying amount Dec. 31, 2017	Cash flows 2018			Cash flows 2019			Cash flows 2020-2022		
		Fixed interest	Variable interest	Repayment	Fixed interest	Variable interest	Repayment	Fixed interest	Variable interest	Repayment
Liabilities due to banks, bonded loans and similar liabilities	77,172	–	1,050	77,172	–	–	–	–	–	–
Other non-interest-bearing financial liabilities	97,485	–	–	97,485	–	–	–	–	–	–
Derivative financial liabilities										
Currency derivatives without hedging relationships	2,329	–	–	8,959	–	–	23,274	–	–	–
Currency derivatives in connection with fair value/ cash flow hedges	1,775	–	–	16,948	–	–	451	–	–	–
Derivative financial assets										
Derivatives without hedging relationships	2,015	–	–	12,011	–	–	23,003	–	–	–
Currency derivatives in connection with fair value/ cash flow hedges	17	–	–	2,876	–	–	–	–	–	–

2016 (TCHF)	Carrying amount Dec. 31, 2016	Cash flows 2017			Cash flows 2018			Cash flows 2019-2021		
		Fixed interest	Variable interest	Repayment	Fixed interest	Variable interest	Repayment	Fixed interest	Variable interest	Repayment
Liabilities due to banks, bonded loans and similar liabilities	52,259	–	375	52,259	–	–	–	–	–	–
Other non-interest-bearing financial liabilities	71,494	–	–	71,494	–	–	–	–	–	–
Derivative financial liabilities										
Currency derivatives without hedging relationships	1,525	–	–	17,359	–	–	1,514	–	–	18,919
Currency derivatives in connection with fair value/ cash flow hedges	1,906	–	–	23,999	–	–	15,305	–	–	–
Derivative financial assets										
Derivatives without hedging relationships	1,283	–	–	6,260	–	–	18,985	–	–	5,341
Currency derivatives in connection with fair value/ cash flow hedges	819	–	–	7,035	–	–	–	–	–	3,097

In general, the Group companies are responsible for the management of cash and cash equivalents on their own, including current deposits of excess liquidity and the procurement of loans to bridge liquidity bottlenecks. Highlight Communications AG partly supports its subsidiaries in credit financing and at times acts as a coordinator with banks for purposes of maintaining the most cost-effective coverage of financial requirements. In addition, the Group's credit quality enables efficient use of the capital markets for its financing activities. This also includes the ability to issue equity and debt instruments on the capital market. It should be noted that various projects, especially in the film business, and other financing activities such as the purchase of non-controlling interests and the acquisition of treasury shares, can influence liquidity differently over time.

Despite unused working capital facilities, it may be necessary to borrow further debt capital on the capital market or from banks both in order to refinance existing liabilities and to finance new projects. There is therefore the risk that, in the event of a deterioration of the economic situation, funding may not be available to a sufficient extent or could only be available at significantly more disadvantageous terms.

8.4.2 Credit risks

A credit risk exists if a debtor cannot pay a receivable or cannot pay it on time or assets pledged as collateral lose value and therefore cause financial losses. Credit risks include the direct counterparty risk and the risk of deterioration in credit quality.

Financial institutions with which the Highlight Group performs transactions must have a good credit quality. In addition, any risks to cash and cash equivalents are minimized by allocating cash deposits among several banks. Furthermore, potential risks of default on customer receivables are assessed regularly and allowances for bad debts are recognized if necessary. In significant cases, the company also hedges the risk of default by a creditor by obtaining credit rating information.

Risks from the international distribution of film licenses are minimized by concluding business only with companies of reliable credit quality, by transferring rights to the contractual partner only after payment, and/or entering into transactions in exchange for corresponding collateral (e.g. letters of credit).

The maximum credit risk of the Highlight Group is equal to the carrying amount of its financial assets.

8.4.3 Market risks

Currency risk

The Highlight Group is exposed to currency risks in its ordinary business activities. This primarily relates to the euro, the US dollar and the Canadian dollar. Exchange rate movements can lead to undesirable and unforeseen earnings and cash flow volatilities.

Each subsidiary is subject to risks associated with exchange rate fluctuations when it performs transactions with international contractual partners and incurs future cash flows in a currency other than its functional currency. The Highlight Group does not enter into any operating activities in currencies that are otherwise considered to be especially prone to risk.

Currency translation differences in net operating income and net finance costs of TCHF 7,966 (previous year's period: TCHF -2,809) were recognized in profit or loss in the year under review.

In addition, currency differences from the translation of foreign subsidiaries of TCHF 8,443 (previous year's period: TCHF -1,464) and from cash flow hedges of TCHF -502 (previous year's period: TCHF 1,284) were recognized in other comprehensive income (OCI).

Interest risk

An interest risk arises when market interest rates fluctuate, which could improve or worsen the proceeds from deposits or payments for money borrowed. In addition, due to the mismatching of maturities, there is a risk of changes in interest rates which is actively controlled in the Group, in particular by monitoring changes in the yield curve.

The risk of change in interest rates to which the Group is exposed primarily relates to financial liabilities. The Group currently does not utilize financial instruments to hedge the risk of changes in interest rates, although interest pooling arrangements are available to some extent for bank overdraft liabilities.

Fixed interest agreements provide protection against additional expenses in phases of rising interest rates. They have the disadvantage that the company does not profit from corresponding developments in times of falling interest rates. Fixed interest agreements provide sufficient planning security for financial liabilities without flexible regulations on utilization and repayment. By contrast, for credit agreements with high flexibility, variable interest agreements take into account future fluctuations in credit utilization. For further information on financial liabilities please see note 6.16. If necessary, there is also the option to establish a fixed interest base using interest hedges.

Other price risks

Other price risks are defined as the risk that the fair value or future cash flows of a financial instrument could fluctuate as a result of changes in market prices not already arising from interest or currency risks. Other price risks apply to financial assets measured at fair value. These financial assets are not hedged.

8.5 Fair value of financial and non-financial assets and liabilities

Fair value of financial assets and liabilities

The following table shows the allocation of financial assets and liabilities measured at fair value to the three levels of the fair value hierarchy:

Fair value hierarchy

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

2016 (TCHF)			Level 1	Level 2	Level 3	Total
Financial assets measured at fair value						
	Derivative financial instruments	FVPL/without category	–	2,102	–	2,102
	Financial assets at fair value through profit or loss	FVPL	95	–	206	301
	Financial assets (equity instruments)	FVOCI	–	–	–	–
Financial liabilities measured at fair value						
	Financial liabilities with hedging relationships in accordance with IAS 39	without category	–	–	–	–
	Derivative financial instruments	FLPL/without category	–	3,431	–	3,431

Disclosures on level 3 financial instruments:

Designation of the financial instrument	Long-term shares	Short-term shares
Fair value on December 31, 2015	**3,082**	**350**
Gains/(losses) through profit or loss	11	–
Gains/(losses) through equity	–1,365	18
Sale	–1,728	–162
Fair value on December 31, 2016	**–**	**206**
Gains/(losses) through profit or loss	–	–201
Gains/(losses) through equity	–	–5
Fair value on December 31, 2017	**–**	**–**

The financial assets measured at fair value through profit or loss and included in level 1 are measured using stock market prices. The derivative financial instruments in level 2 are measured at current market rates. The 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 assigned to level 3 is due to impairment losses of TCHF 201 (previous year's period: TCHF 1,366) and currency translation effects of TCHF -5 in total (previous year's period: TCHF 30). In the same period of the previous year, there were also sales totaling TCHF 1,890. The impairment losses in the same period of the previous year relate to the shares in Geenee Inc., Delaware, which are unlisted and assigned to level 3 of the fair value hierarchy. This company was written down in full as a result of financial difficulties. The fair value of these shares as of December 31, 2017 is TCHF 0 (previous year: TCHF 0). Please see note 6.6 for further information on level 3 financial assets.

The currency effects recognized in profit or loss are reported under "financial expenses".

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.

Financial assets and liabilities at amortized cost

Given the short remaining term, the carrying amounts of current financial receivables and liabilities as of the end of the reporting period are approximately the fair value.

Non-current receivables are discounted according to their remaining term. Their carrying amounts are therefore also approximately their fair value.

Fair value of non-financial assets and liabilities

As of December 31, 2017 and December 31, 2016, there were no non-financial assets or liabilities measured at fair value.

8.6 Use of hedging instruments

In significant transactions, particularly in US dollars and euro, as well as in Canadian dollars in the previous year, the Group attempts to minimize currency risks by using suitable derivative and non-derivative financial instruments. Derivative financial instruments are transacted with banks. The financial instruments predominantly relate to future cash flows in foreign currencies for film projects and loans. The Group ensures that the amount of the hedge does not exceed the value of the hedged item.

The Group entered into a series of currency forwards and currency swaps for hedging purposes in the current fiscal year. If possible, these are accounted for as fair value hedges. The hedged items essentially relate to pending rights purchases and sales in US dollars. Furthermore, currency forwards were bought as an economic hedge for recognized foreign currency receivables and liabilities and, in the previous year, to hedge the profit distribution of an international subsidiary of Constantin Entertainment GmbH.

8.6.1 Fair values of hedging instruments in hedges

Hedging instruments and derivative financial instruments in hedges

	Dec. 31, 2017		Dec. 31, 2016	
(TCHF)	Assets	Liabilities	Assets	Liabilities
Currencies – Fair value hedges (derivates as hedging instruments)				
Hedge - Foreign currency forward	–	123	744	475
Currencies – Cash flow hedges (derivates as hedging instruments)				
Hedge - Foreign currency forward	17	1,652	75	1,431
Total	**17**	**1,775**	**819**	**1,906**

Fair value hedges

As of December 31, 2017, derivatives with a nominal amount of TCHF 4,362 (previous year: TCHF 15,717) were designated as hedging instruments in fair value hedges. The hedged items relate essentially to pending rights purchases and sales (firm commitments) in US dollars.

The net gains and losses from these hedging instruments and the net gains and losses from the associated hedged items are shown in the table below:

Gains and losses from fair value hedges

	Jan. 01 to Dec. 31, 2017		Jan. 01 to Dec. 31, 2016	
(TCHF)	Gain	Loss	Gain	Loss
Currencies – Fair value hedges (derivates as hedging instruments)				
Hedge	1,063	569	1,099	821
Underlying transaction	569	1,063	821	1,099
Total	**1,632**	**1,632**	**1,920**	**1,920**

In effective hedges, the effects of changes in the fair value of hedged items and hedges were reported net in the income statement.

Cash flow hedges

As of December 31, 2017, derivatives with a nominal amount of TCHF 15,913 (previous year: TCHF 33,719) were designated as hedging instruments in cash flow hedges. The hedged items are essentially forecast transactions that are highly likely to occur.

In the reporting year, the measurement of derivatives led to unrealized losses before taxes of TCHF 1,887 (previous year's period: gains of TCHF 322) in other comprehensive income (OCI) and the reclassification of expenses of TCHF 1,200 (previous year's period: expenses of TCHF 1,171) in profit or loss to net finance costs. It is expected that the amounts from cash flow hedges recognized in other comprehensive income (OCI) as of December 31, 2017 will be reclassified to the income statement in fiscal year 2018.

8.6.2 Derivative financial instruments without a hedge

Derivatives that are not or no longer included in a hedge are still used to hedge a financial risk from operating activities. The hedging instruments are closed out if the operating hedged item no longer exists or is no longer expected.

The nominal amounts and fair values of derivatives not designated in hedge accounting as of December 31, 2017 and 2016 are as follows:

Derivative financial instruments without a hedge

(TCHF)	Dec. 31, 2017 Nominal value	Dec. 31, 2017 Fair value	Dec. 31, 2016 Nominal value	Dec. 31, 2016 Fair value
Foreign currency forwards (sale)				
PLN	–	–	480	–3
USD	33,093	1,948	30,943	–1,396
ZAR	–	–	711	37
USD/ZAR-Swap	–	–	3,543	–110
thereof credit balance	33,093	1,948	642	42
thereof debit balance	–	–	35,035	–1,514
Foreign currency forwards (acquisition)				
USD	34,154	–2,262	32,701	1,230
thereof credit balance	1,921	67	29,944	1,241
thereof debit balance	32,233	–2,329	2,757	–11

8.7 Sensitivities

The sensitivity analysis shows the effects of possible changes in market interest rates on earnings before taxes or equity. Changes in market interest rates affect interest income and expenses on floating-rate financial instruments. The interest rate sensitivity analysis was prepared assuming a change in the market interest rate of 100 basis points upwards and downwards.

The Group's currency sensitivities were calculated for the main currency pairings of EUR/CHF, EUR/USD and EUR/CAD (each expressed in Swiss francs) assuming that the underlying exchange rate of the pairing fluctuates by 10% in either direction with all other currency parameters remaining the same. The sensitivity analysis does not include translation risks. The following table shows the effects of a change in the exchange rate of 10%. The closing rate was used for the sensitivity analysis.

Sensitivity analysis

Dec. 31, 2017 (TCHF)	Interest rate risk –1 %	+1 %
Financial assets		
Cash and cash equivalents	–1,866	1,866
Trade accounts receivable	–	–
Other receivables (current and non-current)	–	–
Derivative financial instruments	–	–
Other financial assets (current and non-current)	–	–
Financial liabilities		
Trade accounts payable (current and non-current)	–	–
Other liabilities (current and non-current)	–	–
Derivative financial instruments	–	–
Financial liabilities (current and non-current)	772	–772
Total increase/decrease	**–1,094**	**1,094**
thereof through equity	–	–
thereof through profit or loss	–	–

Dec. 31, 2016 (TCHF)	Interest rate risk –1 %	+1 %
Financial assets		
Cash and cash equivalents	–885	885
Trade accounts receivable	–	–
Receivables due from associated companies and joint ventures (current and non-current)	–	–
Other receivables (current and non-current)	–	–
Derivative financial instruments	–	–
Other financial assets (current and non-current)	–	–
Financial liabilities		
Trade accounts payable (current and non-current)	–	–
Other liabilities (current and non-current)	–	–
Derivative financial instruments	–	–
Financial liabilities (current and non-current)	523	–523
Total increase/decrease	**–362**	**362**
thereof through equity	–	–
thereof through profit or loss	–	–

	Exchange rate risk									
	EUR/CHF		EUR/USD		EUR/CAD		Total		Other price risks	
	–10%	+10%	–10%	+10%	–10%	+10%	–10%	+10%	–10%	+10%
	–13,855	13,855	–57	70	–2	4	–13,914	13,929	–	–
	–87	87	–2,025	2,476	–	–	–2,112	2,563	–	–
	–3,092	3,092	–71	88	–308	375	–3,471	3,555	–	–
	–	–	1,451	–1,774	–	–	1,451	–1,774	–	–
	–	–	–	–	–	–	–	–	–4	4
	82	–82	450	–551	–	–	532	–633	–	–
	406	–406	1,306	–1,596	–	–	1,712	–2,002	–	–
	1,016	–1,016	–3,556	4,346	–	–	–2,540	3,330	–	–
	–	–	178	–218	336	–409	514	–627	–	–
	–15,530	**15,530**	**–2,324**	**2,841**	**26**	**–30**	**–17,828**	**18,341**	**–4**	**4**
	–	–	–	–	–	–	388	–503	–	–
	–	–	–	–	–	–	–18,216	18,844	–	–

	Exchange rate risk									
	EUR/CHF		EUR/USD		EUR/CAD		Total		Other price risks	
	–10%	+10%	–10%	+10%	–10%	+10%	–10%	+10%	–10%	+10%
	–691	691	–17	20	–3	4	–711	715	–	–
	–68	68	–1,418	1,733	–	–	–1,486	1,801	–	–
	–	–	–	–	–	–	–	–	–	–
	–2,844	2,844	–123	151	–1,145	1,399	–4,112	4,394	–	–
	–	–	–3,453	4,220	–	–	–3,453	4,220	–	–
	–	–	–	–	–18	23	–18	23	–10	10
	64	–64	414	–505	–	–	478	–569	–	–
	25	–25	1,271	–1,554	–	–	1,296	–1,579	–	–
	3,062	–3,062	2,635	–3,221	–	–	5,697	–6,283	–	–
	–	–	38	–45	1,195	–1,461	1,233	–1,506	–	–
	–452	**452**	**–653**	**799**	**29**	**–35**	**–1,076**	**1,216**	**–10**	**10**
	–	–	–	–	–	–	2,804	–2,747	–	–
	–	–	–	–	–	–	–3,880	3,963	–	–

9. SEGMENT REPORTING

The segment information below is based on the management approach.

Segments and segment reporting are defined on the basis of the internal reporting of the organizational units to the chief operating decision maker with regard to the allocation of resources and the assessment of earnings power. 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 earnings. The Group's management does not rate the segments on the basis of their assets and liabilities.

The Group consists of the Film segment and the Sports- and Event-Marketing segment. Group functions of Highlight Communications AG are shown under "Other" and do not represent an operating segment. These include actual Group Management, Corporate Finance, Investor Relations, Controlling, Legal, Group Accounts, Corporate Communications, Internal Audit and Human Resources. Segment earnings are defined as EBIT as this figure is used internally for performance measurement.

The activities of Constantin Film AG and its subsidiaries plus the Highlight Communications equity investments in Rainbow Home Entertainment and its subsidiaries are combined in the Film segment as they have similar business features and are comparable in terms of the type of their products, services, processes, customers and sales methods. Its activities comprise the production of films, the exploitation of the rights to the films it produces and acquires and the distribution of theatrical, DVD/Blu-ray and TV movies.

The Sports- and Event-Marketing segment comprises the activities of Team Holding AG, whose principal project is to market the UEFA Champions League via its subsidiaries. Its other marketing projects are the UEFA Europa League and the UEFA Super Cup. Furthermore, in the previous year the business activities of Comosa AG, whose purpose is the planning and performance of sports and entertainment events in addition to the brokerage, acquisition and exploitation of rights of all kinds, were assigned to this segment until it was sold in the fourth quarter of 2016.

The comparative figures of the Other Business Activities segment comprise the activities of the subsidiaries Highlight Event and Entertainment AG and Pokermania GmbH until their sale in the first quarter of 2016.

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

Segment information 2017

(TCHF)	Film	Sports- and Event-Marketing	Other Business Activities	Other	Recon-ciliation	Group
External sales	315,625	58,688	–	–	–	374,313
Other segment income	152,987	456	–	–	–72	153,371
Segment expenses	–458,934	–31,882	–	–11,556	72	–502,300
thereof amortization, depreciation	*–112,591*	*–774*	–	–	–	*–113,365*
thereof impairment	*–3,330*	–	–	–	–	*–3,330*
Segment earnings	**9,678**	**27,262**	**–**	**–11,556**	**–**	**25,384**
Non-allocable items						
Earnings from investments in associated companies and joint ventures						6
Financial income						12,975
Financial expenses						–7,297
Profit before taxes						**31,068**

Segment information 2016

(TCHF)	Film	Sports- and Event-Marketing	Other Business Activities	Other	Recon-ciliation	Group
External sales	382,783	58,644	229	–	–	441,656
Other segment income	132,360	2,636	5,873	–	–80	140,789
Segment expenses	–503,195	–35,899	–3,430	–4,245	80	–546,689
thereof amortization, depreciation	*–175,864*	*–887*	*–1*	–	–	*–176,752*
thereof impairment	*–8,966*	–	–	–	–	*–8,966*
Segment earnings	**11,948**	**25,381**	**2,672**	**–4,245**	**–**	**35,756**
Non-allocable items						
Earnings from investments in associated companies and joint ventures						42
Financial income						3,295
Financial expenses						–12,089
Profit before taxes						**27,004**

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

Segment information by region

Jan. 01 to Dec. 31, 2017 (TCHF)	Switzerland	Germany	Rest of Europe	Rest of world	Total
External sales	88,390	177,832	23,416	84,675	374,313
Non-current assets	16,091	170,986	48	–	187,125

Jan. 01 to Dec. 31, 2016 (TCHF)	Switzerland	Germany	Rest of Europe	Rest of world	Total
External sales	94,233	187,837	34,559	125,027	441,656
Non-current assets	16,768	131,727	36	–	148,531

External sales by products

(TCHF)	2017	2016
Service production	107,015	119,119
Film	208,610	263,664
Sports- and Event-Marketing	58,688	58,644
Other Business Activities	-	229
Total external sales	**374,313**	**441,656**

External sales by customers

	2017		2016	
(TCHF)	nominal	in %	nominal	in %
Customer A (Sports- and Event-Marketing segment)	58,688	16	59,412	13
Customer B (Film segment)	44,706	12	58,644	13
Customer C (Film segment)	31,369	8	55,545	13
Sales with other customers	239,550	64	268,055	61
Total external sales	**374,313**	**100**	**441,656**	**100**

In total, the Highlight Group generated more than 10% of its total sales with two customers (previous year's period: three customers). These sales relate both to the Film segment and the Sports- and Event-Marketing segment.

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

10.1 Overview

Financial commitments, contingent liabilities and other unrecognized financial obligations

(TCHF)	Contingent liabilities	Purchase commitments for licenses	Other unrecognized financial obligations	Rental and lease obligations (operating lease contracts)	Total
As of December 31, 2017					
Due within one year	10,525	12,752	6,614	5,090	34,981
Due between one year and five years	–	146	13,869	15,959	29,974
Due after five years	–	–	44	13,683	13,727
Total	**10,525**	**12,898**	**20,527**	**34,732**	**78,682**
As of December 31, 2016					
Due within one year	9,648	8,607	7,352	4,415	30,022
Due between one year and five years	–	306	13,842	9,796	23,944
Due after five years	–	–	61	13,543	13,604
Total	**9,648**	**8,913**	**21,255**	**27,754**	**67,570**

10.2 Contingent liabilities

As of December 31, 2017, there were guarantees to various TV stations for the completion of service productions totaling TCHF 10,525 (previous year: TCHF 9,648). As there are no indications that the collateralized service productions will not be completed as contractually agreed, it is not expected that material actual liabilities will result from the contingent liabilities.

10.3 Purchase commitments for licenses

The Group secures its access to future film rights by concluding license agreements. Film purchasing and production preparations result in future financial obligations of TCHF 12,898 (previous year: TCHF 8,913).

10.4 Other unrecognized financial obligations

Other financial obligations not recognized in the balance sheet comprise future obligations not yet recognized from the development of in-house productions in the amount of TCHF 20,527 (previous year: TCHF 21,255).

10.5 Rental and lease obligations

The Highlight Group rents and leases offices, warehouses, vehicles and facilities. The total rental and lease expenses for the year under review amounted to TCHF 6,081 (previous year's period: TCHF 6,340).

The minimum lease obligations as of December 31, 2017 are as shown in the table below. The minimum lease obligations are calculated based on the respective uncancellable terms of the lease.

Rental and lease obligations

(TCHF)	Building and room rental	Vehicle lease	Other rental and lease obligations	Rental and lease obligations (operating lease contracts)
As of December 31, 2017				
Due within one year	4,817	208	65	5,090
Due between one year and five years	15,845	62	52	15,959
Due after five years	13,683	–	–	13,683
Total	**34,345**	**270**	**117**	**34,732**
As of December 31, 2016				
Due within one year	4,131	209	75	4,415
Due between one year and five years	9,652	101	43	9,796
Due after five years	13,543	–	–	13,543
Total	**27,326**	**310**	**118**	**27,754**

11. RELATED PARTY DISCLOSURES

As part of its normal business activities, the company maintains relations with associated companies and with companies controlled by members of the Board of Directors. Up until its deconsolidation in the second quarter of 2017, Highlight Communications AG was included in the consolidated financial statements of Constantin Medien AG.

In June 2017, the Board of Directors of Highlight Communications AG used the company's authorized capital to issue 15,750,000 bearer shares. The subscription price was set at EUR 5.20 per share. The shares were underwritten by a Swiss bank and fully placed with Highlight Event and Entertainment AG, which thus holds a 25 % stake in Highlight Communications AG.

Related party disclosures

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
Receivables	675	611
Liabilities	464	80

(TCHF)	Jan. 01 to Dec. 31, 2017	Jan. 01 to Dec. 31, 2016
Sales and other income	491	710
Cost of materials and licenses and other expenses	775	73

Parent company and its direct subsidiaries

(TCHF)	Dec. 31, 2017	Dec. 31, 2016
Receivables	153	94
Liabilities	–	285

(TCHF)	Jan. 01 to Dec. 31, 2017	Jan. 01 to Dec. 31, 2016
Sales and other income	185	294
Cost of materials and licenses and other expenses	–	613

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

Other expenses for management services by Constantin Medien AG, the direct parent company until June 12, 2017, were incurred in the amount of TCHF 96 in the reporting year (previous year's period: TCHF 96).

As of December 31, 2017, there were further liabilities to various members of the Board of Directors and managing directors of TCHF 80 (previous year: TCHF 80). The receivables due from related parties chiefly relate to transactions with Highlight Event and Entertainment AG.

The equity investments in Highlight Event and Entertainment AG, Holotrack AG, Paperflakes AG, Kuuluu Interactive Entertainment AG, Pulse Evolution Corporation and Comosa AG were sold to Bernhard Burgener and his related parties in the previous year.

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

Highlight Communications AG did not perform services for companies controlled by related parties in the year under review or the previous period.

Please see the remuneration report for information on the remuneration of the Board of Directors and members of the Group's management, and note 9 to the annual financial statements of Highlight Communications AG for details of their shareholdings. There are no deviations between Swiss and international accounting law.

12. DISCLOSURES ON EVENTS AFTER THE BALANCE SHEET DATE

Under a contract dated January 1, 2018, and with economic effect from the same date, Constantin Film Produktion GmbH, Munich, acquired 100% of Mythos Film GmbH, Berlin, and also indirectly acquired its wholly-owned subsidiaries Mythos Film Verwaltungs GmbH, Berlin, and Mythos Film Produktions GmbH und Co. KG, Berlin. As a result of gaining control, this equity investment will be fully consolidated from the acquisition date on.

As a result of the successful voluntary public takeover offer, Highlight Communications AG acquired 48.39% of the Constantin Medien AG shares. The acceptance period ended on February 5, 2018.

Following the successful takeover offer to Constantin Medien AG (CMAG), Highlight Communications (HLC) and Highlight Event and Entertainment AG (HLEE) are restructuring their equity investments and thus streamlining the Group structure. To this end, Highlight Communications AG firstly acquired HLEE's equity investment in CMAG (amounting to 29.99% of the CMAG shares) at a price of EUR 2.30 per share on March 22, 2018. At the same time, HLEE acquired CMAG's equity investment in HLC (amounting to 19.71% of the HLC shares) for EUR 5.20 per share. The purchase prices each total around EUR 64.6 million.

Report of the statutory auditor

to the General Meeting of Highlight Communications AG

Pratteln

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Highlight Communications AG and its subsidiaries (the Group) which comprise the consolidated balance sheet as at 31 December 2017, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 74 to 141) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PricewaterhouseCoopers AG, Werftestrasse 3, Postfach, 6002 Luzern
Telefon: +41 58 792 62 00, Telefax: +41 58 792 62 10, www.pwc.ch

Our audit approach

Overview

Overall Group materiality: CHF 1,600,000

We concluded full scope audit work at 18 Group companies. Our audit scope addressed 89% of sales. Additionally, we concluded reviews at a further 14 Group companies, which addressed an additional 10% of sales.

As key audit matters, the following areas of focus were identified:

- Sales recognition
- Valuation of film assets

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

pwc

Overall Group materiality	CHF 1,600,000
How we determined it	5% of the profit before taxes
Rationale for the materiality benchmark applied	We chose profit before taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark for materiality considerations.

We agreed with the Audit Committee that we would report to them misstatements above CHF 80,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Sales recognition

Key audit matter	*How our audit addressed the key audit matter*
a) Film segment We consider sales recognition in the Film segment to be a key audit matter because the recognition of sales from in-house and third party productions over the different periods of exploitation may differ significantly from the invoice date and the date on which payment is received. b) Sports and Event Marketing segment We consider sales recognition in the Sports and Event Marketing segment to be a key audit matter because the entire segment's sales stem from a single contract. This agency agreement with UEFA comprises the global marketing of the commercial rights relating to the UEFA Champions League and the UEFA Europa League on behalf of and on account of UEFA. The income of the Highlight Group from this agency agreement consists a fixed element and a variable element, which is based on the revenues from marketing these two competitions. However, the annual accounting period for the competitions does not correspond with the Group's financial year. Hence, the proper recording in the appropriate period of the revenues from this agency agreement is of particular importance. Please refer to note 4.15 (sales recognition) in the notes to the consolidated financial statements.	We performed the following audit procedures at Group companies that recorded significant sales in the Film segment and the Sports and Event Marketing segment: • We examined the design of the internal controls relating to the measurement and the recognition of sales. • We assessed the consistency of the sales recognition methods used, taking into account the accounting policies set out in note 4.15 to the consolidated financial statements. • In the Film segment, we examined in addition on a sample basis whether sales were recorded correctly and in the right period. • In the Sport and Event Marketing segment, we examined whether the recorded income from this agency agreement for the 2016/2017 season ending in the financial year 2017 was in line with the contractual terms and conditions. • Further, we examined whether the underlying definitive financial results of the competitions had been approved by UEFA and the related variable consideration paid. • For the ongoing 2017/2018 season, we examined whether the accrued income from the agency agreement was correctly booked, taking

	into account the contractual terms and conditions and the expected financial results of this period. In doing so, we relied on the calculation of the expected marketing revenues of both competitions, which are reconciled periodically with UEFA. We included in our assessment the outcomes of our interviews with Management about the current and the expected financial results of the current season and our experience of the accuracy of the prior year's accruals. On the basis of the audit evidence we obtained, we concluded that the sales recognition methods of the Highlight Group and the recorded revenues of the Film segment and the Sports and Event Marketing segment are based on appropriate evidence and tenable assumptions.

Valuation of film assets

Key audit matter	*How our audit addressed the key audit matter*
The impairment testing of film assets was deemed a key audit matter for the following two reasons: Film assets, comprising in-house and third party productions, in the amount of CHF 162 million represent a significant share (32%) of the assets. There is significant scope for judgement in determining the assumptions used to forecast the revenues and cash flows in the different periods of exploitation and in determining the discount rates. These estimates and the scope for judgement can have a material impact on valuation, units of production amortisation and any potential impairments. Please refer to note 4.4 (film assets) and note 5 (judgement/estimation uncertainty) and note 6.1 (notes to individual items of the balance sheet – film assets) in the notes to the consolidated financial statements.	For Group companies that disclosed significant film assets, we performed the following procedures: • We examined the design of the internal controls relating to the valuation of film assets. • We assessed the consistency of the application of the valuation model for film assets. • In addition, for a number of samples, we examined the units of production amortisation and the impairment tests relating to specific film projects. • In doing so, we checked the plausibility of the forecasting assumptions underlying the amortisation calculations and impairment tests by comparing them with the contractual terms and conditions and discussing them with Management. • We discussed with Management and the project leaders whether and to what extent the results from the initial period of exploitation (cinema) or other indicators led to additional impairment of the book value of specific films. • We compared the discount rate with the cost of capital of the Group and of comparable enterprises, taking into account country-specific particularities.

- For the above-mentioned samples, we examined also the mathematical accuracy of the calculation of the units of production amortisation and of any potential impairments.

With regard to the valuation of film assets, we consider the assessments of the Board of Directors and Management to be based on appropriate and consistently applied assumptions and correct conclusions.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of Highlight Communication AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may

involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

pwc

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Furthermore, we refer to the fact that the Board of Directors did not convene an ordinary General Meeting within six months of the end of the 2016 financial year, which is contrary to the provisions of art. 699 para. 2 CO.

PricewaterhouseCoopers AG

Matthias von Moos	Matthias Christen
Audit expert Auditor in charge	Audit expert

Lucerne, 27 March 2018

Financial statements

as of December 31, 2017 of Highlight Communications AG, Pratteln

BALANCE SHEET AS OF DECEMBER 31, 2017

Highlight Communications AG, Pratteln

ASSETS (TCHF)	Dec. 31, 2017	Dec. 31, 2016
Current assets		
Cash and cash equivalents	138,962	1,625
Other current receivables		
due from third parties	43	28,398
due from shareholder	31,051	–
due from Group entities	93	116
Prepaid expenses/accrued income	102	22
	170,251	30,161
Non-current assets		
Non-current receivables		
due from Group entities	6,189	10,000
Equity investments	209,927	209,927
Licenses	–	–
	216,116	219,927
Total assets	386,367	250,088

EQUITY AND LIABILITIES (TCHF)	Dec. 31, 2017	Dec. 31, 2016
Liabilities		
Current liabilities		
Trade accounts payable		
due to third parties	481	684
due to shareholders	278	211
Current interest-bearing liabilities		
due to banks	60,000	30,000
due to Group entities	16,008	–
Other current liabilities		
due to third parties	607	21
Deferred income/accrued expenses	3,652	501
Current provisions	–	250
	81,026	31,667
Equity		
Subscribed capital	63,000	47,250
Legal capital reserves		
Reserves from capital contributions	77,715	24,537
Other legal capital reserves	2,063	2,063
Voluntary retained earnings	67,798	67,798
Profit carried forward	77,009	59,550
Net profit/loss for the year	17,992	17,459
Treasury shares		
against reserves from capital contributions	–236	–236
	305,341	218,421
Total equity and liabilities	386,367	250,088

INCOME STATEMENT 2017

Highlight Communications AG, Pratteln

(TCHF)	2017	2016
License income	164	135
Other income	346	40
Income from equity investments	29,530	28,320
Total income	30,040	28,494
License expenses	–112	–73
Personnel expense	–3,606	–3,384
Office and administrative expense	–9,506	-3,923
Write-downs on receivables due from Group entities	–7,500	–7,200
Total expense	–20,724	–14,580
Earnings before interest and taxes (EBIT)	9,316	13,914
Financial expense		
Interest expense	–395	–512
Price losses	–1	–
Financial income		
Interest income	50	83
Income from securities	–	3,949
Price gains	9,022	26
Profit/loss before taxes	17,992	17,459
Income taxes	–	–
Net profit/loss for the year	17,992	17,459

NOTES TO THE FINANCIAL STATEMENTS 2017

Highlight Communications AG, Pratteln

1. ACCOUNTING

These financial statements were prepared in accordance with the provisions on commercial accounting of the Swiss Code of Obligations. The material items of the balance sheet are accounted for as shown below.

Securities with a market price

Securities with a market price are measured at their market price on the reporting date. A fluctuation reserve was not recognized.

Foreign currency positions

The functional currency is the Swiss franc (CHF). Transactions in foreign currencies are translated into the functional currency CHF at the exchange rate as of the transaction date. Balance sheet items are translated at the closing rate.

Other current receivables

Other current receivables are recognized at nominal value less any necessary impairment losses. All changes in value are recognized in income.

Equity investments

Equity investments are measured individually. They are recognized at cost less any necessary impairment losses. Additional impairment losses are recognized at the discretion of the Board of Directors.

Treasury shares

From fiscal year 2015, treasury shares are recognized at cost without subsequent remeasurement.

2. DETAILS ON INDIVIDUAL ITEMS

Cash and cash equivalents

A capital increase of CHF 89.6 million (EUR 81.9 million) was carried out in the year under review in order to launch a takeover bid for Constantin Medien AG. This is the reason for the increase in cash funds. Cash and cash equivalents of CHF 135.9 million are earmarked for the takeover bid and are subject to a stipulated waiver of usage.

Current interest-bearing liabilities due to banks

Financial liabilities were increased by CHF 30 million due to the takeover bid in the year under review.

Equity

On June 12, 2017, the Board of Directors used authorized capital to issue 15.75 million shares with a nominal value of CHF 1. The price per share was EUR 5.20. The shares were underwritten by a Swiss bank and fully placed with Highlight Event and Entertainment AG. This increased equity by CHF 89.6 million (EUR 81.9 million) less transaction costs of CHF 1.8 million.

Income from equity investments

This item contains dividends from Group entities.

Income from securities

In the previous year, there were gains from the disposal of Constantin Medien shares and treasury shares.

Price gains

In the period under review, there were operating foreign currency gains of CHF 2.6 million on other current receivables and foreign currency gains of CHF 6 million from the capital increase.

Office and administrative expense

This item contains management expenses, consulting expenses and investor relations costs. There was a non-recurring effect of elevated costs of legal services and for the capital increase in the reporting period on account of the takeover bid.

Amortization, depreciation and write-downs

In the previous year, write-downs on receivables due from Group entities amounted to CHF 7.2 million (subordination). Write-downs on receivables due from Group entities as a result of subordination amounted to CHF 7.5 million in the reporting year.

3. PLEDGED ASSETS AS COLLATERAL FOR OWN OBLIGATIONS

	Dec. 31, 2017	Dec. 31, 2016
Shares in Constantin Film AG		
Number	12,742,600	12,742,600
Carrying amount in TCHF	132,151	132,151
Credit facility used		
TCHF	60,000	30,000

4. CONTINGENT LIABILITIES

Joint liability exists in respect to Group value-added taxation under Section 22 of the Swiss Value-Added Tax Act.

5. NOTES ON MAIN INVESTMENTS

The list of all companies with own legal identity, including minority investments held directly or indirectly by the holding company and consolidated at the level of the Highlight Group, can be found in section 3 of the consolidated financial statements in this annual report.

6. CHANGE IN LEGAL CAPITAL RESERVES

FTA-confirmed reserves from capital contributions in TCHF:

(TCHF)	Confirmed	Unconfirmed	Total
Balance on January 1, 2017	24,537	0	24,537
Dividend payment	–18,886	0	–18,886
Premium from capital increase	–	72,065	72,065
Balance on December 31, 2017	5,650	72,065	77,715

The legal capital reserves were increased by an amount of CHF 72.1 million in the year under review on account of the capital increase. The dividend of CHF 18.9 million was paid in full from reserves from capital contributions. The reserves from capital contributions from the capital increase in 2017 have not yet been declared to the Swiss Federal Tax Administration and are therefore not yet confirmed.

7. SHAREHOLDER STRUCTURE

Shareholders with holdings of over 5%	Dec. 31, 2017	Dec. 31, 2016
Constantin Medien AG	32.70%	60.53%
Highlight Event and Entertainment AG	25.00%	0.00%
Stella Finanz AG	20.19%	9.99%

For the stakes held by members of the Board of Directors and the Group management as well as their related parties, refer to note 9.

The Board of Directors is aware of no other material shareholdings (over 5%).

8. TREASURY SHARES (HELD DIRECTLY OR INDIRECTLY VIA SUBSIDIARIES)

	Number of shares	Carrying amount TCHF	Transaction value TCHF
Balance on January 1, 2017	44,983	236	–
Sales	20,000	113	113
Acquisitions	20,000	113	113
Balance on December 31, 2017	44,983	236	–

	Number of shares	Carrying amount TCHF	Transaction value TCHF
Balance on January 1, 2016	2,131,751	10,321	–
Sales	4,871,451	27,282	29,279
Acquisitions	2,784,683	17,197	17,197
Balance on December 31, 2016	44,983	236	–

9. INFORMATION ON THE SHAREHOLDINGS OF THE BOARD OF DIRECTORS AND THE GROUP MANAGEMENT

As of December 31, 2017, the individual members of the Board of Directors and the Groupmanagement (including related parties) held the following number of shares in the company:

	2017	2016
Bernhard Burgener, Chairman and Delegate, executive member	–	–
René Camenzind, non-executive member	628,715	628,715
Martin Hellstern, non-executive member	200,000	200,000
Peter von Büren, executive member	–	–
Dr. Paul Graf, Managing Director	50,000	50,000

10. NUMBER OF FULL-TIME EQUIVALENTS

The average number of full-time equivalents over the year was not more than 10 employees.

11. ADDITIONAL INFORMATION, STATEMENT OF CASH FLOWS AND MANAGEMENT REPORT

Additional information, the statement of cash flows and the management report have been waived in accordance with article 961d (1) of the Swiss Code of Obligations as Highlight Communications AG prepares consolidated financial statements in accordance with a recognized accounting standard.

12. EVENTS AFTER THE BALANCE SHEET DATE

Under a contract dated January 1, 2018, and with economic effect from the same date, Constantin Film Produktion GmbH, Munich, acquired 100 % of Mythos Film GmbH, Berlin, and also indirectly acquired its wholly-owned subsidiaries Mythos Film Verwaltungs GmbH, Berlin, and Mythos Film Produktions GmbH und Co. KG, Berlin. As a result of gaining control, this equity investment will be fully consolidated from the acquisition date on.

As a result of the successful voluntary public takeover offer, Highlight Communications AG acquired 48.39 % of the Constantin Medien AG shares. The acceptance period ended on February 5, 2018.

Following the successful takeover offer to Constantin Medien AG (CMAG), Highlight Communications (HLC) and Highlight Event and Entertainment AG (HLEE) are restructuring their equity investments and thus streamlining the Group structure. To this end, Highlight Communications AG firstly acquired HLEE's equity investment in CMAG (amounting to 29.99 % of the CMAG shares) at a price of EUR 2.30 per share on March 22, 2018. At the same time, HLEE acquired CMAG's equity investment in HLC (amounting to 19.71 % of the HLC shares) for EUR 5.20 per share. The purchase prices each total around EUR 64.6 million.

PROPOSAL FOR THE APPROPRIATION OF RETAINED EARNINGS AND THE LEGAL RESERVES FROM CAPITAL CONTRIBUTIONS

Highlight Communications AG, Pratteln

PAYMENT OF A DIVIDEND FROM LEGAL RESERVES FROM CAPITAL CONTRIBUTIONS

(TCHF)	**2017**
Payment of a dividend of CHF 0.08 per share	5,040
Withdrawal from the legal reserves from capital contributions	**5,040**

APPROPRIATION OF AVAILABLE RETAINED EARNINGS

(TCHF)	**2017**
Profit carried forward	77,009
Net profit for the year	17,992
Available retained earnings	**95,001**

The Board of Directors recommends to the Annual General Meeting the following resolution for the appropriation of retained earnings:

(TCHF)	
Retained earnings	95,001
Dividend payment of CHF 0.12 per share	7,560
Carryforward to new account	87,441

The Board of Directors is proposing a total distribution of CHF 0.20 per entitled share to the Annual General Meeting for fiscal year 2017. This consists of a distribution from the confirmed reserves from capital contributions of CHF 0.08 per bearer share and from retained earnings of CHF 0.12 per bearer share.

The dividend proposal applies to all shares. The treasury shares as of the date of payment of the dividend are not dividend-entitled. Accordingly, the amount of the dividend as well as the withdrawal from the legal reserves from capital contributions depends on the number of shares held as treasury stock as of the date on which the dividend is paid.

Report of the statutory auditor

to the General Meeting of Highlight Communications AG

Pratteln

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Highlight Communications AG which comprise the balance sheet as at 31 December 2017, the income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (pages 150 to 155) as at 31 December 2017 comply with Swiss law and the articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall materiality: CHF 900,000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

- Impairment of equity investments

PricewaterhouseCoopers AG, Werftestrasse 3, Postfach, 6002 Luzern
Telefon: +41 58 792 62 00, Telefax: +41 58 792 62 10, www.pwc.ch

Audit scope
We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 900,000
How we determined it	0.5% of net assets
Rationale for the materiality benchmark applied	We chose net assets as the benchmark because it is a generally accepted benchmark for materiality considerations for a holding company.

We agreed with the Audit Committee that we would report to them misstatements above CHF 45,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of equity investments

Key audit matter	*How our audit addressed the key audit matter*
Equity investments in the amount of CHF 210 million are a significant item on the company's balance sheet, representing more than 54% of total assets. Equity investments are valued individually. The recoverability of equity investments depends on the economic substance and the future results or cash flows. The Board of Directors and Management have considerable scope to apply their judgement in determining the assumptions underlying forecasts of future results and cash flows. Owing to the significance of this balance sheet item to the financial statements as a whole and owing to the scope for judgement involved in determining the relevant input factors and the assumptions used in the valuation model, we consider the impairment testing of the equity investments as a key audit matter. The impairment testing of equity investments is performed on the basis of future results or cash flows. Please refer to note 1 (Accounting) and note 5 (Notes on main investments) in the notes to the financial statements for 2017.	The impairment testing of equity investments was performed separately for each of the two main equity investments, Team Holding AG, Lucerne and Constantin Film AG, Munich. The calculations were performed by an independent company in the 2015 financial year and updated in the year under review by the Management of Highlight Communications AG. We assessed the assumptions and forecasts made by Management by examining critically the most important assumptions used in forecasting future revenues and profits. This included a comparison of the assumptions concerning revenues and profits from the prior year with the results that were actually realised in the year under review in order to identify, in retrospect, any assumptions regarding budgeted revenues and results that were too optimistic. We checked for plausibility the discount rates and the assumptions that were used. The assumptions used were consistent and in line with our expectations. We consider the valuation process to be an appropriate and adequate basis for the impairment testing of the equity investments. The results of our audit support the reasonableness of the assumptions applied by the Board of Directors and Management.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Furthermore, we refer to the fact that the Board of Directors did not convene an ordinary General Meeting within six months of the end of the 2016 financial year, which is contrary to the provisions of art. 699 para. 2 CO.

PricewaterhouseCoopers AG

Matthias von Moos

Audit expert
Auditor in charge

Matthias Christen

Audit expert

Lucerne, 27 March 2018

Imprint
Publisher and responsible for content: Highlight Communications AG, Pratteln, March 2018. Design, copy, layout and production: GFD Finanzkommunikation, Frankfurt am Main. Pictures: dpa Picture-Alliance, Frankfurt am Main (cover and pages 2, 24/25, 30/31, 38/39, 44/45, 70/71), Constantin Film Group, Munich (pages 2, 3, 32, 33, 34, 35, 36, 37, 40, 41, 42, 43, 51, 52, 53), TEAM Group, Lucerne (pages 46, 47, 50)

Highlight

Highlight Communications AG

Events 2018

Cinema	Cannes Film Festival	May 8 – 19
	Locarno Film Festival	August 1 – 11
	Venice Film Festival	September 2 – 12
	Toronto Film Festival	September 6 – 16
Football	UEFA Europa League final	May 16
	UEFA Champions League final	May 26
Investor Relations	Interim reports	May/August/November
	Annual General Meeting	June
	German Equity Forum	November 26 – 28

Highlight Communications AG

Netzibodenstrasse 23b
4133 Pratteln/Switzerland
info@hlcom.ch
Phone +41(0)61-816 96 96
highlight-communications.ch