Highlight

Highlight Communications AG

Annual Report 2016

KEY FIGURES

	in TCHF	**2016**	2015
Consolidated balance sheet	Balance sheet total	**368,531**	457,988
	Film assets	**127,274**	201,072
	Cash and cash equivalents	**88,502**	106,407
	Financial liabilities	**52,259**	104,290
	Equity	**135,290**	103,827
	Equity ratio	**36.7 %**	22.7 %
Consolidated income statement	Sales	**441,656**	346,060
	Film	**382,783**	290,892
	Sports- and Event-Marketing	**58,644**	51,730
	Other Business Activities	**229**	3,438
	Profit from operations (EBIT)	**35,756**	31,131
	Film	**11,948**	17,198
	Sports- and Event-Marketing	**25,381**	21,029
	Other Business Activities	**2,672**	–1,407
	Net profit (Highlight shareholders)	**19,742**	17,515
	Earnings per share (CHF)	**0.46**	0.39
	Earnings per share (EUR)	**0.42**	0.37
Consolidated statement of cash flows	Cash flow from operating activities	**135,219**	174,120
	Cash flow for investing activities	**–97,365**	–124,760
	thereof payments for film assets	**–105,062**	–119,298
	Cash flow from/for financing activities	**–55,634**	14,577
	thereof dividend payments	**–876**	–10,301
	Cash flow from the reporting period	**–17,780**	63,937
Personnel	Average number of employees	**894**	1,082

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EVENTS IN 2016

Q1

JANUARY

The first episode of the international Constantin Film TV production "Shadowhunters" is broadcast on the US network Freeform on January 12. Just one day later, the series launches on the streaming platform Netflix, which has acquired the exploitation rights outside the US from the Constantin Film Group. Netflix has more than 70 million subscribers worldwide and broadcasts that title as an "Original Series".

"Shadowhunters"

FEBRUARY

At an extraordinary meeting on February 2, the Board of Directors of Highlight Communications AG resolves a fundamental reorganization and refocus of the Group. In the future, the Highlight Group will concentrate on its Film and Sports- and Event-Marketing segments and dispose of the Other Business Activities segment. In this context, the equity investment in Highlight Event and Entertainment AG (75.37%) is sold to the Chairman and Delegate of Highlight's Board of Directors, Bernhard Burgener, at the end of February 2016.

MARCH

The Constantin Film blockbuster "Fack Ju Göhte 2" also achieves excellent results in home entertainment exploitation. 250,000 digital transactions are registered in just four days after its release. This figure rises to more than half a million by the middle of March. In terms of physical media, more than 500,000 DVDs and Blu-rays have already been sold by this time.

"Fack Ju Göthe 2"

Q2

APRIL

At the allocation of reference funding for 2015 by the German Federal Film Board at the start of April, the Constantin Film Group is once again named the most successful producer and distributor of German movies. This comes with reference funding of around EUR 2.6 million for production and of around EUR 851,000 for distribution.

Elyas M'Barek receives the German Film Award 2016 for "Fack Ju Göhte 2"

MAY

At the end of May, the Constantin Film own production "Fack Ju Göhte 2" receives the German Film Award in the category "Highest Attendance Film of the Year 2015".

Furthermore, the Constantin Film Group announces the extension of its long-standing collaboration with the movie star Elyas M'Barek and the hit director Bora Dagtekin. A framework agreement was signed with Elyas M'Barek for at least three more movies by 2017, and an exclusive output deal was signed with Bora Dagtekin for two to three more theatrical movies.

JUNE

Photography on the second season of the highly successful TV series "Schuld", produced by Moovie GmbH for ZDF, begins in Berlin in the middle of June. The series is based on the book by bestselling author Ferdinand von Schirach and again stars Moritz Bleibtreu.

Q3

JULY

In mid-July, filming begins on the comedy “Verpiss Dich, Schneewittchen” featuring Josefine Preuß and comedian Bülent Ceylan. The theatrical release is scheduled for the middle of September 2017.

AUGUST

In mid-August, the Constantin Film Group announces a first-look deal with Court Five. The aim of the cooperation is the planning, development and production of cinema and TV projects. The founders of Court Five are together responsible for more than 60 films, including the “Lord of the Rings” trilogy, which have earned nearly USD four billion worldwide and won 18 Oscars.

SEPTEMBER

The Constantin Film co-production “No Manches Frida” is released to great success in the US at the beginning of September. With a box office of around USD five million on its opening weekend, the Spanish-language remake of “Fack Ju Göhte” had the best performance per copy of all movies in North American theaters. It started similarly successful in Mexico, where the comedy took EUR 2.9 million, making it the third-best theatrical opening of all time.

“No Manches Frida”

Q4

OCTOBER

In mid-October, the broadcast of “Terror – Ihr Urteil” makes TV history: At the end of a fictitious court hearing, viewers can vote for the defendant to be found guilty or acquitted. The TV production created by Oliver Berben is broadcast simultaneously in Germany, Austria, Switzerland, Czechia, and Slovakia, and achieves a market share of 20.2% in Germany alone.

“Terror – Ihr Urteil”

NOVEMBER

In Berlin, the Constantin Film satire “Look Who’s Back” is awarded the BAMBI media prize in the “Film National” category in mid-November. The adaptation of the bestseller of the same name was seen by more than a million German moviegoers in 2015.

BAMBI for “Look Who’s Back”

DECEMBER

In mid-December, the international Constantin Film own production “Resident Evil: The Final Chapter” starring Milla Jovovich celebrates its world premiere in Tokyo. It is released in Germany at the end of January 2017.

At the Annual General Meeting for fiscal year 2015 at the end of December, Highlight shareholders adopt resolutions including the following: The Board of Directors is to be reduced to four members and the proposed dividend payment is not approved.

World premiere of “Resident Evil: The Final Chapter”, starring Milla Jovovich, in Tokyo

Foreword by the Chairman

Dear shareholders and other interested parties,

The Highlight Group is looking back on a successful fiscal year 2016 overall, in which we achieved and sometimes even exceeded the goals we set for ourselves. Consolidated sales increased by 27.6% year-on-year to CHF 441.7 million and were thus above the forecasted target of CHF 410 to CHF 430 million.

The consolidated net profit attributable to shareholders was at the upper end of the forecast and improved to CHF 19.7 million– growth of 12.6% compared to 2015. This was also true for earnings per share, which climbed by 17.9% to CHF 0.46.

The accounting ratios were improved as of the reporting date: The equity ratio of 36.7% at the end of 2016 was 14 percentage points up on the previous year's figure (22.7). At the same time, net liquidity climbed sharply from CHF 2.1 million to CHF 36.2 million.

The increase in sales is due primarily to the Film segment, the external sales of which increased by 31.6% year-on-year to CHF 382.8 million. This development was partly thanks to the good performance of "Fack Ju Göhte 2" in home entertainment exploitation. In Germany, the title became both the bestselling DVD in 2016 and the number one in digital sales. In TV exploitation/license trading, high income was also generated from advance sales of the international theatrical and TV productions "Resident Evil: The Final Chapter" and "Shadowhunters."

The theatrical slate for 2016, which largely comprised licensed titles, fell well short of expectations. Nonetheless, both the licensed film "Dirty Grandpa" and the co-production "Schweinskopf al dente" achieved very good results. The Constantin Film own production "Resident Evil: The Final Chapter" enjoyed big success – especially on the Asian markets. Released in mid-December, the action spectacular took USD 238 million internationally by the end of February. The film was a particular hit with audiences in China, where it achieved a box office of over USD 94 million in its opening weekend alone. The six films in the "Resident Evil" series have therefore generated total box office takings of more than USD one billion – a result never before achieved by a franchise from an independent producer.

During the year, the activities of the TEAM Group were dominated primarily by the extensive preparations for the marketing process for the TV and sponsorship rights to the UEFA Champions League and the UEFA Europa League (for the 2018/19 to 2020/21 seasons). Many talks were held with existing and potential partners in connection with this. In addition, TEAM prepared specific recommendations for UEFA on how to further develop and implement the commercial concepts for both competitions in the future.

However, the snag in last year's track record was the continuing dispute with our majority shareholder Constantin Medien AG regarding the future of our Film segment. The Board of Directors of Highlight Communications AG believes that the Film segment, which is represented by Constantin Film AG and its subsidiaries, is an important pillar in the Highlight Group's business model. Selling this segment and focusing on the trading of sports rights would be – in the Board of Directors' assessment – too risky and not a sustainable business model for the Highlight Group in today's market environment.

In the current fiscal year, the Constantin Film distribution slate is expected to comprise 15 own and co-productions and one licensed title. The highlight of this slate is without doubt the third installment of the “Fack Ju Göhte” franchise, which has already delighted an audience of around 15 million in Germany alone. The theatrical release of “Fack Ju Göhte 3” is scheduled for the end of October. We also expect good performance from the youth adventure “Ostwind 3,” which will start at the end of July, and from “Griessnockerlaffäre” – the fourth adaptation from Rita Falk’s bestselling book series. The home entertainment business area is likely to benefit in particular from the new releases of such attractive titles as “The Girl on the Train,” “Resident Evil: The Final Chapter”, and “Ostwind 3.”

The activities in Sports- and Event-Marketing will focus on optimum marketing of the TV and sponsorship rights for the UEFA Champions League and the UEFA Europa League. The TEAM Group 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).

Finally, on behalf of myself and my colleagues on the Board of Directors, I would like to thank all employees of the Highlight Group for the work they have done. Their motivation and commitment are significant factors for the success of our company. I especially thank everyone who has supported our company with trust and fairness in the past year – be it as a shareholder, customer or business partner. We will keep working with all our might to continue the Highlight Group’s success story. We would be delighted if you would continue to support us on this journey.

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 has been a shareholder of Highlight Communications AG since 1994 and was 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, 2016, the market capitalization of the company was around EUR 268.60 million at a closing stock price for the year of EUR 5.69.

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, 2016, Highlight Communications AG was aware of the following shareholders with a share of more than 5 % of its subscribed capital:

Constantin Medien AG	60.53 %
Stella Finanz AG	9.99 %

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, 2,784,683 treasury shares were bought back and 4,871,451 shares were sold. As of December 31, 2016, treasury stock comprised 44,983 shares, equivalent to 0.10 % of the company’s subscribed capital.

1.5 Cross shareholdings

Constantin Medien AG holds 60.53 % of the subscribed capital of Highlight Communications AG.

Due to the sale of the Constantin Medien shares in the year under review, there were no more cross shareholdings as of December 31, 2016.

2. CAPITAL STRUCTURE

2.1 Capital

Highlight Communications AG's subscribed capital amounts to CHF 47,250,000 and is divided into 47,250,000 bearer shares with a nominal value of CHF 1 each; all shares subscribed are paid up.

2.2 Authorized capital

On June 12, 2015, the Annual General Meeting established authorized share capital of CHF 23,625,000 and empowered the Board of Directors to execute a capital increase by issuing 23,625,000 bearer shares at CHF 1 each within a period of two years. A partial increase is permitted. No such capital increase was implemented in the year under review.

2.3 Changes in capital – changes in nominal value

There were no changes in capital in the last three reporting years.

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, 2016, 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
Member of the Board of Directors of Team Holding AG, Lucerne, Switzerland
Member of the Board of Directors of Team Football Marketing AG, Lucerne, Switzerland
Member of the Board of Directors of T.E.A.M. Television Event And Media Marketing AG, Lucerne, 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
Member of the Board of Directors of Club de Bâle SA, Basel, Switzerland
President of the Board of Directors of Comosa AG, Zurich, Switzerland
Resigned from the Board of Directors of Paperflakes AG, PLAZAMEDIA Swiss AG, Holotrack AG, and Pulse Evolution Corporation in the year under review.

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

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 nine 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 30, 2016, 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, 2016.

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 since 1994, 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.

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.

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, President of the Board of Directors of these three companies since 2010.

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, Managing Director & 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, Managing Director & CFO
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 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, 1997 to 2000 International Project Manager at Octagon Birkholz + Jedlicki GmbH in Germany, with TEAM since 2000, first as Marketing Manager, 2004 to 2012 as Head of Account Management, 2012 to 2015 as Director Sponsorship, and since 2015 as Managing Director sponsorship.

4.1.3 Rainbow Home Entertainment (Film segment)

Franz Woodtli, Managing Director Sponsorship 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.

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 32 and 52 of the Federal Act on Stock Exchanges and Stock Trading.

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 either Highlight Communications AG or Constantin Medien 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 210 was paid for auditing services of PricewaterhouseCoopers AG in fiscal year 2016. 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 2016 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 21, 2017 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, and 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 2016

In 2016, the executive and non-executive members of the Board of Directors received overall remuneration of TCHF 90.1 (2015: TCHF 192.9). 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 was down by more than half compared to the previous year. This decrease is due to the first-time transition to payment of individual members' Board of Directors remuneration on an accrual basis and the departure of Hanns Beese.

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

audited

(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
Hanns Beese, non-executive member[1]	–	–	–
René Camenzind, non-executive member	25.0	1.9	26.9
Dr. Dieter Hahn, non-executive member[2]	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] *Hanns Beese left the Board of Directors as of March 8, 2016.*

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

audited

Fiscal year 2015

(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	0.8	10.8
Peter von Büren, executive member	10.0	0.8	10.8
Hanns Beese, non-executive member[1]	10.0	0.8	10.8
René Camenzind, non-executive member	50.0	4.1	54.1
Dr. Dieter Hahn, non-executive member[2]	50.0	4.1	54.1
Martin Hellstern, non-executive member	50.0	2.3	52.3
Total	**180.0**	**12.9**	**192.9**

[1] *On account of his work in an executive role at the parent company Constantin Medien AG, Hanns Beese received the same Directors' fee as an executive member of the Board of Directors of Highlight Communications AG.*

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 2015, 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 2016

In 2016, the three members of the management team (including executive members of the Board of Directors, BoD) received overall remuneration of TCHF 3,028 (2015: TCHF 5,988). The overall compensation of the members of the management team nearly halved compared to the previous year. This is due chiefly to the departure of two members of the management team.

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	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.*

audited

Fiscal year 2015

(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	371	200	224	1,627	11	1,638
Peter von Büren, executive member of the BoD	390	226	10	109	735	11	746
Martin Wagner, Vice Chairman, executive member of the BoD until June 12, 2015[3]	803	294	81	218	1,396	–	1,396
Dr. Ingo Mantzke, executive member of the BoD until April 30, 2015 or rather June 12, 2015[4]	849	598	–	133	1,579	–	1,579
Other member of the management team	329	191	12	97	629	–	629
Total	**3,202**	**1,680**	**303**	**782**	**5,966**	**22**	**5,988**

[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.*

[3] *Martin Wagner, member and Vice Chairman of the Board of Directors, left as an executive member of the Board of Directors and a member of the management team of Highlight Communications AG on June 12, 2015 as part of the streamlining of the Group management. Martin Wagner is still responsible for the TEAM Group as Delegate of the Board of Directors of the TEAM Group and therefore still works for subsidiaries of the company in an operational capacity even after leaving the company's Board of Directors. The amounts reported include both remuneration for his role as member and Vice Chairman of the Board of Directors and member of the management team of Highlight Communications AG, and also for his operational work as Delegate of the Board of Directors of the TEAM Group during the reporting year.*

[4] *The employment relationship with Dr. Ingo Mantzke was terminated by mutual agreement on April 28, 2015. In this context, Dr. Ingo Mantzke stepped down from his executive roles as of the date of the company's last Annual General Meeting. On the basis of a termination agreement, the company made a one-off remuneration payment under the transitional provisions of the VegüV, thereby settling all contractually agreed remuneration that was owed up to the end of the employment relationship, which had been concluded for a fixed contractual term.*

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 2015, 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, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, the company had not paid any non-market-compliant remuneration to related parties.

8. REMUNERATION TO FORMER MEMBERS OF EXECUTIVE BODIES

All remuneration paid to the former Board members Hanns Beese and Dr. Dieter Hahn in 2016 is described in section 2.2. In the reporting year, no further 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, 2016, the members of the Board of Directors and the management team (including related parties) held a total of 1.86 % of the outstanding bearer shares in Highlight Communications AG (previous year: 6.52 %).

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

	2016		2015	
	Number of shares	Share of capital	Number of shares	Share of capital
Bernhard Burgener	–	–	2,200,000	4.66 %
René Camenzind	628,715	1.33 %	628,715	1.33 %
Martin Hellstern	200,000	0.42 %	200,000	0.42 %
Peter von Büren	–	–	–	–
Dr. Paul Graf	50,000	0.11 %	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 2016. 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 2016 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Matthias von Moos	Josef Stadelmann
Audit expert Auditor in charge	Audit expert

Lucerne, 7 April 2017

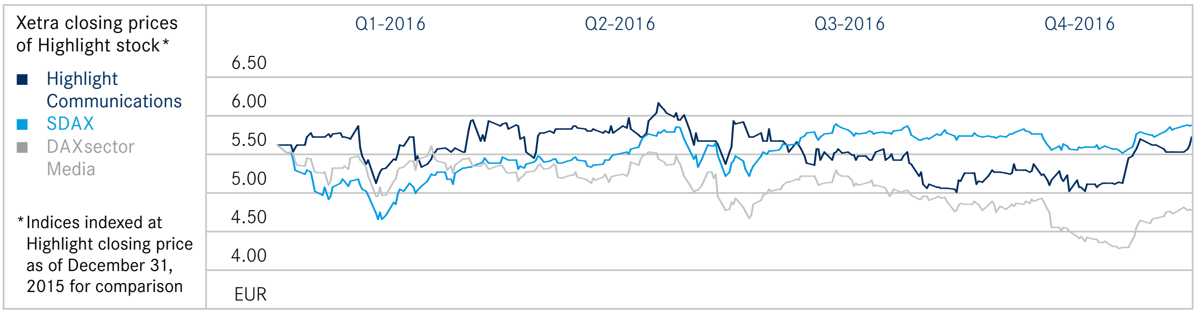
PricewaterhouseCoopers AG, Werftestrasse 3, Postfach, CH-6002 Luzern, Switzerland
Telefon: +41 58 792 62 00, Telefax: +41 58 792 62 10, www.pwc.ch

Outstanding teamwork: The Bavarian Film Award in the “Best New Actor” category went to the ensemble of school student characters in the Constantin Film blockbuster “Fack Ju Göhte 2”.

Highlight stock

The positive business performance of the Highlight Group was not reflected in its share price in 2016.

- The closing price for the year of EUR 5.69 was only slightly higher than the previous year's closing price (EUR 5.59).
- Based on shares in circulation, this resulted in market capitalization of EUR 268.6 million.
- The average number of shares traded per day fell from around 23,500 to around 15,400.



High volatility on stock markets again

Even though the monetary policy of the major central banks remained very loose and key interest rates were still at an extremely low level, the stock markets were characterized by severe fluctuations in 2016. As early as in the first two months, the steady decline in the price of oil and weak economic data from China led to significant slumps on the international stock markets. Among other things, the heavy price losses led to trading being temporarily suspended on Chinese mainland stock exchanges.

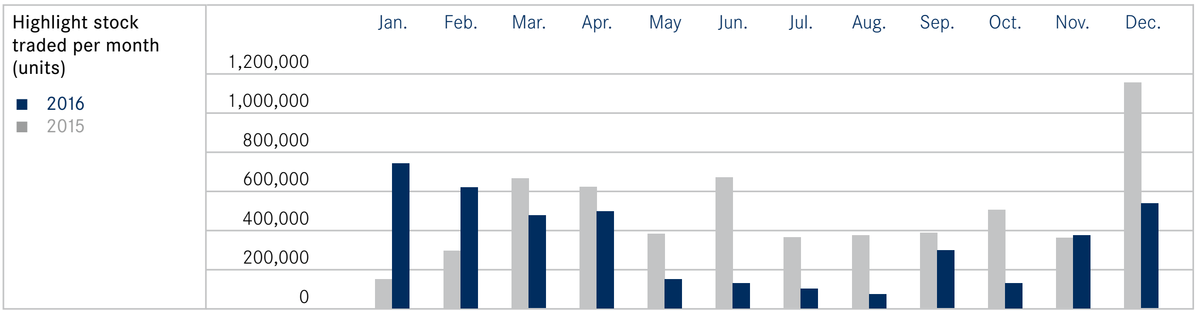
In the strong recovery period that followed, many leading indices again returned to the level at which they had begun the year, before a further price crash in June once more wiped out billions on exchanges around the world. This development was triggered by the referendum in the United Kingdom, which ended with a wholly unexpected vote for the country to leave the European Union (Brexit).

Surprisingly, however, this setback was only short-lived, and the stock markets – driven by easing risk aversion on the part of many investors – again rose significantly in the second half of the year. Even Donald Trump's election as US president that was barely considered possible only briefly interrupted this trend. Under these positive conditions, some leading indices – including the DAX – reached new 52-week highs by the end of the year.

The US stock markets performed very well, with the Dow Jones Industrial Average Index setting a new record high in mid-December of 19,980 points. On December 31, 2016, the American benchmark index closed at 19,763 points, a rise of 13.4 % over the course of the year. The performance of the Japanese Nikkei 225 index was significantly weaker, expanding only marginally by 0.4 % to 19,114 points.

The Swiss Market Index (SMI) was one of the few European indices not to report growth in 2016. It closed at 8,220 points, down by 6.8 % – the weakest twelve-month period of the SMI since 2011. The main reason for this negative trend was the poor development at the three major companies Nestlé (down 3 %), Novartis (down 15 %) and Roche (down 16 %), which together account for around 60 % of the SMI's performance.

The DAX, which fell to 8,699 points in February, rose to 11,481 points by the end of the year, a gain of 6.9 % and its fifth positive year in a row. The SDAX small cap index ended trading at 9,519 points and closed the year with an increase of 4.6 %. By contrast, the index for German media stocks (DAXsector Media), which had dazzled with high double-digit growth in the previous year, fell to 380 points in the period from January to December 2016, thereby losing 14.5 %.



Highlight stock up slightly

The price performance of Highlight stock in the past year resembled a roller-coaster ride with no clear trend. The Xetra closing price at the end of the year was EUR 5.69, a slight increase of 1.8 % compared to the previous year. Highlight's stock thus performed slightly worse than the SDAX but much better than the DAXsector Media.

Having started the year at a closing price of EUR 5.59, the stock rose significantly in the first four weeks of trading to up to EUR 5.83. The price then fell to EUR 5.11 in the space of a few days – due to the general market turbulence caused by China's economic data. However, Highlight's stock more than compensated for this loss by the end of the quarter. It was up 5.0 % when it closed at EUR 5.87 on March 31.

After a brief period of weakness in April, the price steadily rose to reach its highest closing price for the year of EUR 6.12 on May 31. However, almost the whole of June was overshadowed by the influence of the Brexit vote, and the price once more dropped to EUR 5.35. After again rising strongly to EUR 5.90 as of the end of the quarter, the stock closed the first half of 2016 up by 5.5 %.

The entire third quarter was characterized by a gradual downward trend, during which Highlight's stock hit its lowest closing price for the year of EUR 5.00 on September 27. After then tracking sideways until the beginning of December, the price rose to EUR 5.67 within one week of trading and maintained this level until the end of the year.

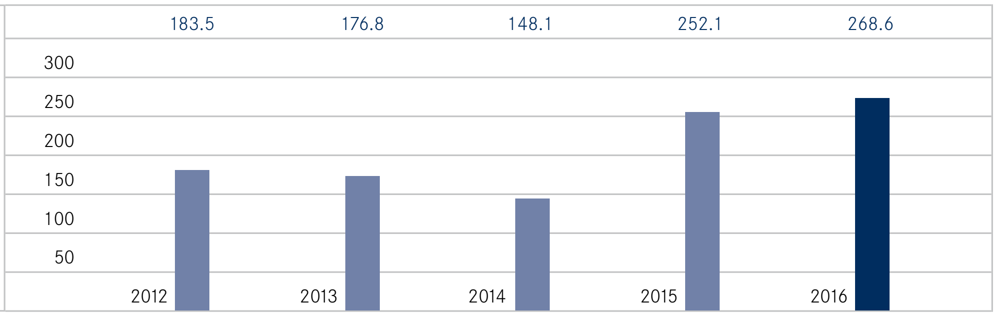
Significant decline in trading volume

In the period from January to December 2016, around 3.92 million Highlight shares were traded on Deutsche Börse AG's Xetra trading system, a decline of 33.8 % as against the previous year (around 5.93 million). The average number of shares traded per day fell from around 23,500 to around 15,400. According to Deutsche Börse AG's ranking for the segments below the DAX, Highlight shares were therefore ranked 128th in terms of trading volume as of the end of the year (December 31, 2015: 126th). They placed 127th (December 31, 2015: 115th) in terms of free float market capitalization.

Dividend payment planned for fiscal year 2016

After Highlight's shareholders voted at the Annual General Meeting not to distribute a dividend for fiscal year 2015 in order to further strengthen the company's financial strength, we would like to resume the payment of a dividend for the year under review. The Board of Directors will therefore propose to the Annual General Meeting for fiscal year 2016 on June 30, 2017 to approve a dividend of CHF 0.20 per authorized share.

Development of Highlight's market capitalization based on shares in circulation (in EUR mn)



Reduction in treasury stock

As of December 31, 2016, the issued capital of Highlight Communications AG still amounted to CHF 47.25 million, divided into 47.25 million bearer shares each with a nominal value of CHF 1.00 per share. The number of treasury shares, which had been around 2.13 million as of the end of 2015, was reduced significantly to around 45,000 over the course of the year under review. These account for approximately 0.1 % of the subscribed capital. Not including these shares, there were 47.21 million shares in circulation as of December 31, 2016.

The majority shareholder of our company is still Constantin Medien AG with a holding of 60.53 %. Further significant share packages are held by members of the Board of Directors and by private and institutional investors. As of December 31, 2016, the free float amounted to 39.46 % as per Deutsche Börse AG's index weighting.

Investor relations activities focusing on direct communication

From the start, the Highlight Group's strategy has been focused on sustainably increasing enterprise value. Ongoing and open communication with capital market participants forms a key element of this strategy. In the year under review as well, we therefore provided the target group of financial analysts, fund managers and institutional investors with comprehensive information at a large number of individual meetings in order to help them to assess our current business situation and the future prospects of the Highlight Group.

In addition, the number of direct contacts with capital providers was intensified. Among other things, this was aided by roadshows and presentations at key financial centers such as Frankfurt, London and Los Angeles. We also provided capital market players at the German Equity Forum – the most important investors' fair for small and medium-sized listed stock corporations in Europe – with detailed insights into the positioning of our business areas in the respective market environment and the overall strategic orientation of the Highlight Group.

However, our website (www.highlight-communications.ch) is still the main information tool for all interested parties. Based on the principle of fair disclosure, all relevant information on the company is published there in a timely manner. This primarily relates to our press releases and insider information, as well as our annual and interim reports, which can either be read online or requested from us in printed form free of charge at any time. 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, 2016

Subscribed capital	CHF 47.25 million
Number of shares	47,250,000
Stock class	Ordinary bearer shares
Shares in circulation	47.21 million
Market capitalization (based on shares in circulation)	EUR 268.6 million
Year-end price	EUR 5.69
52-week high (June 1)	EUR 6.22
52-week low (September 26)	EUR 4.76
Earnings per share	0.42 EUR

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 net assets, financial position, and results of operations developed very positively overall in 2016.

- Consolidated sales were up 27.6% year-on-year at CHF 441.7 million.
- The consolidated net profit attributable to shareholders improved to CHF 19.7 million and was thus at the upper end of the forecast range (CHF 18 to CHF 20 million).
- Earnings per share rose by 17.9% to CHF 0.46.
- As of the end of the year, the equity ratio was 36.7% (December 31, 2015: 22.7%).
- Net liquidity increased significantly by CHF 34.1 million to CHF 36.2 million.

Red carpet in Tokyo: Leading actress Milla Jovovich celebrates the world premiere of the Constantin Film own production "Resident Evil: The Final Chapter" with lots of excited fans.

Over a million moviegoers in Germany: “Dirty Grandpa”

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 Germanys 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).

Hit series in Bavarian dialect: "Schweinskopf al dente"

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.

Other Business Activities segment

The former Other Business Activities segment was disposed on the basis of a Board of Directors' resolution in the first quarter of 2016. In this context, the equity investment in Highlight Event and Entertainment AG was sold to the Chairman and Delegate of Highlight's Board of Directors, Bernhard Burgener.

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 made up of three people. Management of all activities within the Highlight Group is based on short-term and medium-term planning as well as regular reporting.

Successful bestseller adaptation: "The Girl on the Train"

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.
- 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.

Irreverent comedy with an all-star cast: "Office Christmas Party"

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. In Germany, around EUR 220 million a year is spent at federal and state level, mainly on movie funding. At the 2017 German producers' convention on February 9, Minister of Culture Prof. Monika Grütters announced that the German Federal Film Fund (DFFF) will be increased by EUR 25 million before the end of this year and then to EUR 75 million. The DFFF is therefore the most important funding institution. Like similar bodies in other countries, it funds production activities in the respective location.

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.

Homage to the least talented singer of all time: "Florence Foster Jenkins"

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.

ECONOMIC REPORT

GENERAL ECONOMIC ENVIRONMENT

According to the calculations published by the International Monetary Fund (IMF) in January 2017, the growth of the world economy was on par with the previous year at 3.1 % in 2016, which was lower than initially expected. The organization cites the main reason for this as the weak development in the first half of the year, which was characterized by turmoil on the global financial markets and the EU exit vote in the UK. The Brexit vote in particular increased economic and political uncertainty significantly, according to the IMF. However, there was a general improvement in the second half of the year – in particular as a result of greater production in many countries and rising commodity prices.

For emerging and developing countries, this trend was reflected in growth of 6.3 % over the year, a significant improvement year-on-year (4.0 %). However, the economy in the industrialized countries was down on the previous year (1.9 %) with an increase of 1.6 %. The strongest decline was reported by the US economy, which grew by only 1.6 % in 2016 (2015: 2.4 %). The IMF calculated an increase of 1.7 % for the euro area, marking a slight improvement compared to the previous year (1.6 %).

The engine driving this rise was Germany, whose economy – in terms of gross domestic product (GDP) – grew by 1.9 % in 2016 (2015: 1.7 %) according to initial calculations by the German Federal Statistical Office (Destatis). The strongest stimulus came from domestic demand. Adjusted for inflation, private consumer spending was 2.0 % above the previous year's figure and government spending even rose by 4.2 %. This strong growth is due, among other things, to the costs of housing immigrant refugees.

Fantasy epic from renowned director Steven Spielberg: "The BFG – Big Friendly Giant"

The economy in Switzerland has recovered after the previous year's cool-down due to exchange rates. According to projections published by the State Secretariat for Economic Affairs (SECO) published in mid-December 2016, GDP rose by 1.5 % (2015: 0.8 %) in the past year. The main reason for this was the foreign trade sector in particular, which expanded by 4.7 % as a result of strong increases in chemical and pharmaceutical exports. However, private consumer spending fell short of expectations with growth of 0.9 %.

The situation was similar in Austria, where domestic demand in particular recorded strong growth. This upswing was thanks to private households, which benefited from the increase in income as a result of a tax relief and increased their spending. In light of this, the Institute for Economic Research (WIFO) forecast an increase in real economic output of 1.5 % in mid-December 2016 (2015: 1.0 %).

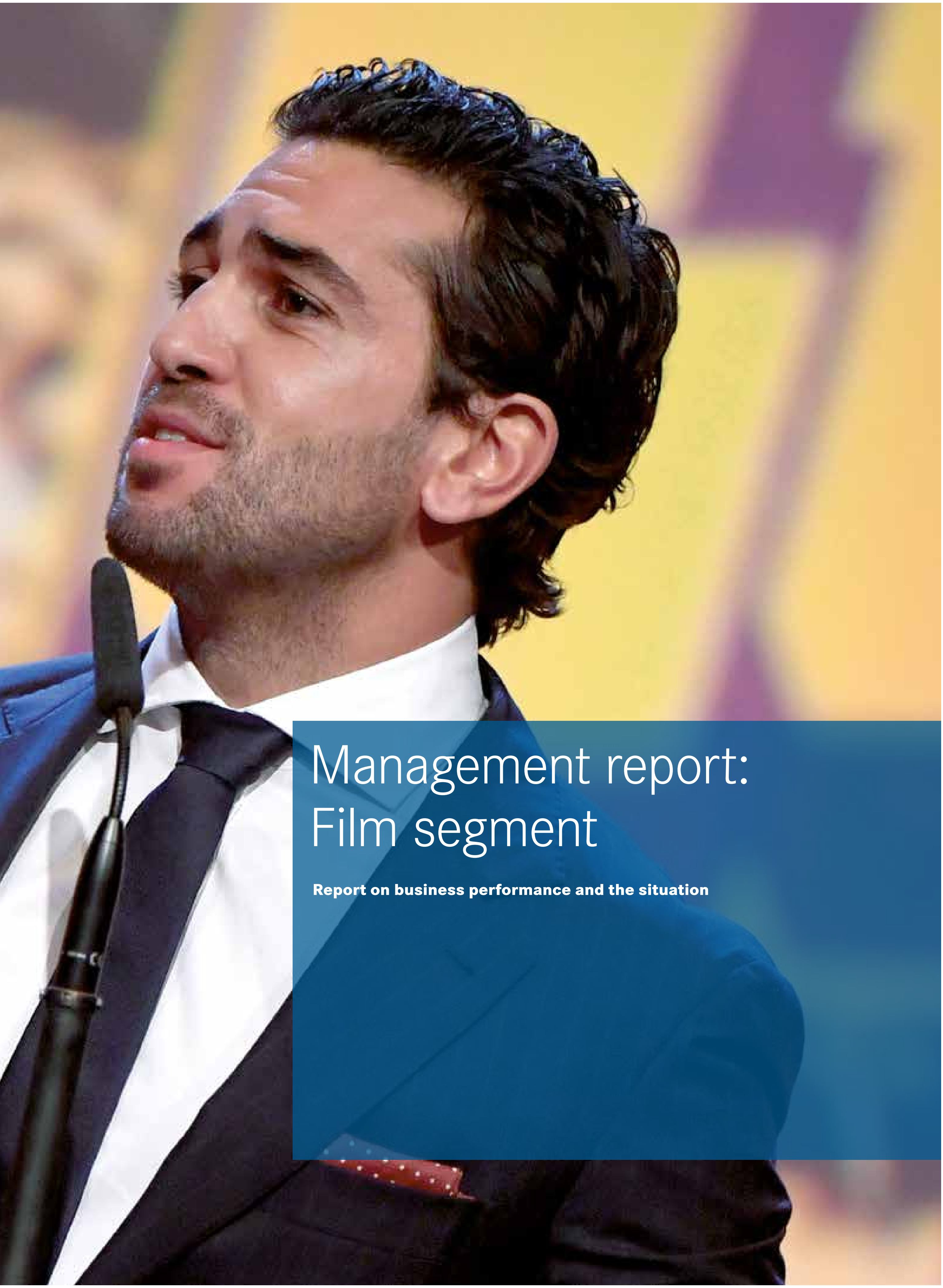
MEDIA AND ENTERTAINMENT MARKET ENVIRONMENT IN GERMANY

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, but also the accelerated expansion of broadband technologies and infrastructure.

The audit company PricewaterhouseCoopers (PwC) forecast sales growth of 2.0 % to around EUR 71.8 billion for the media and entertainment industry as a whole in Germany for 2016. The increase was only 1.0 % in the previous year.

Despite the growth in digital media content, traditional television – as the largest sub-market – was projected to see sales growth of 1.8 % in 2016, while radio broadcasting remained roughly at the previous year's level. The growth of the market as a whole was driven in particular by the areas of online advertising (up 7.5 % against the previous year) and Internet access (up 4.4 %). Magazines approximately held their position (down 0.2 %), while newspapers lost 0.9 % of sales. By contrast, spending in the sports area (marketing of rights and sponsorship) grew by 15.7 % in 2016.


A well-deserved reward: The team around actor Elyas M'Barek and director Bora Dagtekin won the German Film Award in the category of "Highest-Attendance Film".



Management report: Film segment

Report on business performance and the situation

Bestsellers in home entertainment exploitation: “Fack Ju Göhte 2,” “Look Who’s Back” and “Ostwind 2”

SECTOR-SPECIFIC SITUATION

Theatrical distribution

At around EUR 1.023 billion, revenues on the German movie market were down 12.4 % year-on-year in 2016 (2015: around EUR 1.167 billion). Attendance figures dropped by 13.0 % to approximately 121 million (2015: around 139 million). There were significant losses for German own and co-productions, which achieved a market share of 22.7 % in terms of attendance (2015: 27.5 %) – the lowest value since 2012. There was a decline of around 25.0 % compared to the previous year.

Of all the movies released in Germany in 2016, 32 drew an audience of more than a million people (including previews). The most successful were “Zootopia” at around 3.82 million, followed by “Pets” (around 3.81 million), “Finding Dory” (around 3.8 million) and “Rogue One: A Star Wars Story” (around 3.5 million), though “Rogue One” was not released until December 15, 2016 and therefore achieved this figure in a very short time.

Home entertainment

The declining trend on the German home entertainment market is ongoing. At EUR 1.45 billion, sales were down 10.0 % year-on-year in 2016 (2015: EUR 1.61 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 1.41 billion was generated in this area in 2015, the figure fell to EUR 1.23 billion in the past year – a drop of 12.8 %.

By contrast, digital exploitation (electronic sell-through, transactional video-on-demand) remained on a growth path, with revenues rising significantly by 12.0 % from EUR 0.20 billion to EUR 0.22 billion, though this was not enough to offset the decline in physical media.

OPERATIONAL DEVELOPMENT

Eleven movies in production

As in the previous year, a total of eleven own and co-productions were created in fiscal year 2016, including the international own production “Resident Evil: The Final Chapter” and well-known national “brands” such as the fourth adaptation taken from the series of novels by Rita Falk about the country policeman Franz Eberhofer (“Griessnockerlaffäre”) and “Ostwind 3”. Other movies in production included the drama “Jugend ohne Gott”, the children’s book adaptation “Jim Knopf und Lukas der Lokomotivführer”, the adaptations of the novels “Dieses bescheuerte Herz” and “Das Pubertier” plus the comedy “Verpiss Dich, Schneewittchen”.



Good theatrical distribution performance by two movies

The Constantin Film Group released a total of twelve movies in German theaters in 2016 out of the 13 originally planned as the launch of "Timm Thaler" was delayed until 2017. The film slate consisted of three own/co-productions and nine licensed titles. In particular, attendance figures were good for the own production "Schweinskopf al dente" – the third installment of the Rita Falk series – and the licensed title "Dirty Grandpa" starring Robert de Niro and Zac Efron.

"Fack Ju Göhte 2" – bestselling DVD in 2016

Market share increased year-on-year in home entertainment despite declining sales on the market as a whole. As anticipated, this improvement is due primarily to the release of the hit movie "Fack Ju Göhte 2", which topped the German DVD sales charts for the year. The satire "Look Who's Back" and the children's film "Ostwind 2" also achieved very good sales figures. Furthermore, catalog business was solid once again in 2016.

Major license launches in TV exploitation/license trading

Various license sales of in-house and third-party productions were again concluded in 2016. As in the previous year, the conventional exploitation stages free-TV and pay-TV accounted for almost all significant transactions in terms of sales in this business area.

In free-TV, the starts of the initial licenses for "Pompeii" (ProSiebenSat.1), "Need for Speed" (ProSiebenSat.1), "Fack Ju Göhte" (ProSiebenSat.1), "The Mortal Instruments – City of Bones" (ProSiebenSat.1), and the three-part TV production "Winnetou" (RTL) had a particular impact on sales. In the pay-TV sector, there were also the initial licenses for "Frau Müller muss weg!" (Sky), "Männerhort" (Sky), and "Ostwind 2" (Sky).

At the end of January, the streaming platform Netflix acquired the full exploitation rights to the hit Constantin Film movie "Look Who's Back" for all territories outside Germany, the Benelux countries, and Japan. Netflix offers the film exclusively worldwide as a "Netflix Original" across the respective form of exploitation (streaming, DVD/Blu-ray, etc.).

Expansion of TV service production

Both national and international fictional TV production were further stepped up in 2016. Highlights at the national level include mainly the miniseries "Das Sacher. In bester Gesellschaft", "Familie!" and "Schuld 2". Furthermore, the feature film "Terror – Ihr Urteil" created an innovative TV format with active audience involvement. Internationally, work has already begun on the second season of the major production "Shadowhunters" for the US network Freeform.

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). Contrary to the forecast for the past fiscal year, the number of produced daily shows did not grow.

New TV format with active audience participation: “Terror – Ihr Urteil”

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 25 producers with creative control, 20 executive producers and a large number of filmmakers, writers, directors, and actors, some of whom have agreed to work with Constantin for some time to come. In mid-2016, for example, an exclusive output deal was signed with hit director Bora Dagtekin for two to three more theatrical movies. Furthermore, a framework agreement was concluded with movie star Elyas M’Barek for at least three more films by 2017.

One movie seen by more than a million in theatrical distribution

The downward trend on the German movie market in 2016 was also reflected in audience figures for Constantin Film titles. For despite intensive prior market research in target groups, the taste of the movie-going public is hard to assess. This is especially true for the two licensed titles “The BFG – Big Friendly Giant” and “The Light Between Oceans”, whose audience figures fell short of expectations.

The year’s most successful release was the licensed film “Dirty Grandpa” which drew 1.33 million moviegoers into cinemas. Thus, “Dirty Grandpa” was the only Constantin Film title to attract an audience of more than a million; planning for the 2016 theatrical year was based on at least two movies seen by more than a million. The co-production “Schweinskopf al dente” also achieved excellent results and was seen by around 550,000 moviegoers despite being shown almost exclusively in Bavarian movie theaters.

In spite of the lack of hit movies in Germany, the Constantin Film Group placed seventh among distributors in terms of both sales and attendance figures in 2016 (previous year: fourth place for both).

Increased market share in home entertainment

In 2016, the Highlight Group – not including its sales partners Paramount Home Entertainment/Universal Home Entertainment – achieved a market share of 3.25 % on the German video sell-through market, thereby improving its position as against the previous year (2015: 2.83 %). As forecasted, this development was aided mainly by the excellent sales figures for the Constantin Film own and co-productions “Fack Ju Göhte 2”, “Look Who’s Back”, and “Ostwind 2”.

High ratings: “Familie!”

Hit initial broadcasts in TV exploitation

In TV exploitation/license trading, initial broadcasts of Constantin Film theatrical productions in particular again achieved good ratings on free-TV in 2016. The most successful with audiences was the first part of “Fack Ju Göhte” (ProSieben, 18.2 % share of overall market), followed by “Winterkartoffelknödel” (ARD, 14.7 % share of overall market), “The Mortal Instruments – City of Bones” (ProSieben, 8.6 % share of overall market), and “The Famous Five 3” (SAT.1, 6.2 % share of overall market).

Strong ratings for TV service productions

In addition to the eleventh season of “Dahoam is Dahoam”, which at times even expanded on its established double-digit market share, the broadcast of the ARD service production “Terror – Ihr Urteil” in particular was extremely successful. With a 20.2 % share of the overall market, it achieved the highest ratings of all ARD feature films in 2016. The “Schuldig” episode of the ZDF detective series “Kommissarin Lucas” also enjoyed excellent ratings with a share of 18.9 % (overall market), as did the two-parter “Familie!”, which was also broadcast by ZDF and scored an average share of 16.5 % of the overall market.

Dramatic final: In the 2016 UEFA Champions League final, Real Madrid CF finally beats Club Atlético de Madrid in the penalty shoot-out.

Management report: Sports- and Event-Marketing segment

Report on business performance and the situation

Still big magnets for viewers: the UEFA Champions League, the UEFA Europa League and the UEFA Super Cup

SECTOR-SPECIFIC SITUATION

Two trends solidified in the past year: a booming market for sports media rights in China and the growing influence of Chinese investors and brands in European football. In November, for example, the video online platform PPTV, a company of the major Chinese retail corporation Suning Commerce, acquired the broadcast rights for the English Premier League in China. The total license fee for this three-year contract is up to EUR 220 million per season.

Chinese investors are also showing greater interest in the sponsorship of European football teams. In December, Suning Commerce signed a multi-year sponsorship agreement with Inter Milan, which includes the naming rights for its training facility and official sponsorship for its training clothing.

OPERATIONAL DEVELOPMENT

Focus on preparations for marketing of UEFA competitions

The work of the TEAM Group in fiscal year 2016 was defined by the intense preparations for 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) which will be implemented in the current year. A major part of these preparations – for both sponsorship and TV rights – were the many successful talks with existing and potential partners.

Furthermore, TEAM prepared specific recommendations for UEFA on how to further develop and implement the commercial concepts for both competitions for the seasons being marketed.

Successful implementation of finals

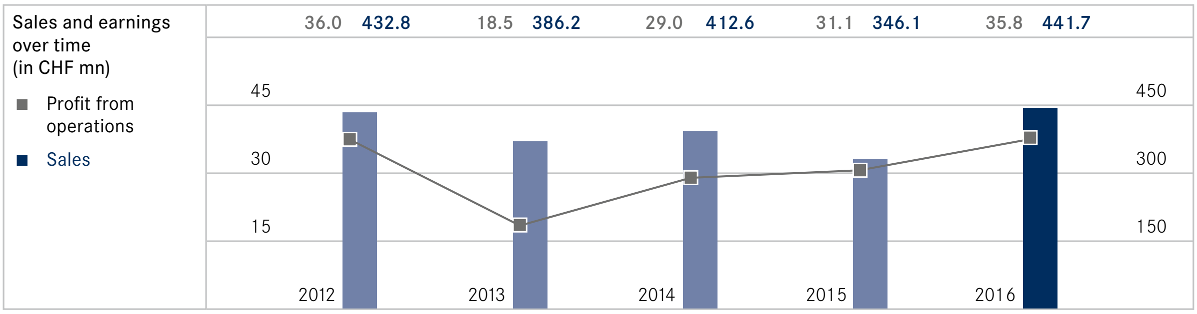
Operating activities focused on the active support of commercial partners and UEFA in the handling of the two big finals and the UEFA Super Cup. In the final of the UEFA Europa League, Liverpool FC met Sevilla FC in Basel on May 18. This was followed by the Spain-versus-Spain UEFA Champions League final between Real Madrid CF and Club Atlético de Madrid in Milan on May 28. The winners of these two matches (Sevilla FC and Real Madrid CF) then faced off for the UEFA Super Cup in Trondheim on August 9.

ANALYSIS OF NON-FINANCIAL PERFORMANCE INDICATORS

Fewer TV viewers worldwide for Champions League final than in previous year

The final of the UEFA Champions League was again broadcast in more than 200 countries and seen by an average of around 160 million viewers (peaking at roughly 380 million). The global audience was therefore less than the previous year's record level (around 180 million on average, peaking at approximately 400 million). By contrast, the number of viewers in Spain was up significantly by 24 % at 10.6 million, corresponding to a market share of 62 %.

The audience for the UEFA Europa League final, which was broadcast live in more than 100 countries, averaged around 50 million viewers and peaked at approximately 160 million.



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 2016. Consolidated sales climbed to CHF 441.7 million, well above the upper limit of the planning horizon, which had been adjusted to between CHF 410 and CHF 430 million in November 2016. Consolidated sales were up 27.6% as against fiscal year 2015 (CHF 346.1 million).

EBIT improved by 15.1% to CHF 35.8 million, while the consolidated net profit for the period rose by 15.3% to CHF 20.3 million. At CHF 19.7 million, the consolidated net profit for the period attributable to shareholders was at the upper end of the forecast corridor of between CHF 18 and CHF 20 million. This raised earnings per share by CHF 0.07 or 17.9% to CHF 0.46.

In addition to the increases in sales and earnings, the Highlight Group further improved its accounting ratios in fiscal year 2016. The notional equity ratio rose to 36.7% as of the end of the year – an increase of 14 percentage points as against the figure for the previous year (22.7%). This was also true for net liquidity, which climbed from CHF 2.1 million to CHF 36.2 million.

RESULTS OF GROUP OPERATIONS

Significant increase in consolidated sales

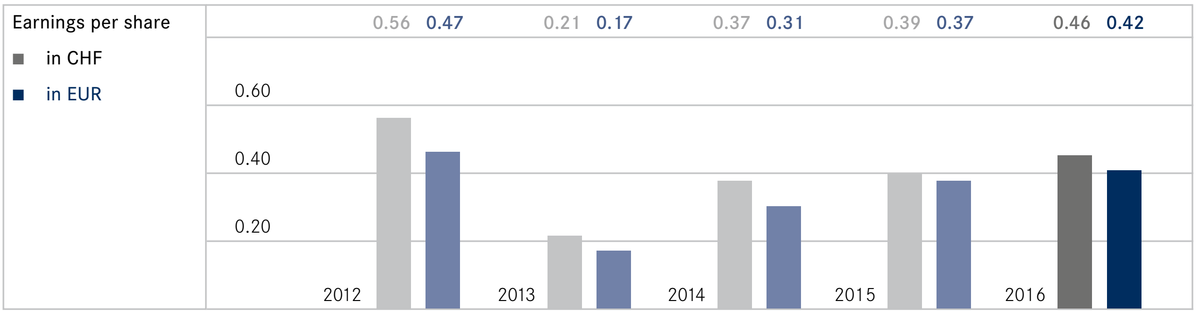
The Highlight Group generated consolidated sales of CHF 441.7 million in the past fiscal year, an increase of CHF 95.6 million or 27.6% as against the previous year (CHF 346.1 million). This development was due essentially to significantly higher sales in the Film segment's home entertainment and TV exploitation/license trading business areas.

At CHF 120.6 million, capitalized film production costs and other own work capitalized were up CHF 48.0 million on the figure for 2015 (CHF 72.6 million). This was a result of the higher production volume in the Film segment compared to the previous year. Accordingly, the total output of the Highlight Group increased by CHF 143.6 million or 34.3% to CHF 562.3 million (previous year's period: CHF 418.7 million). Other operating income remained virtually constant year-on-year at CHF 20.2 million after CHF 20.3 million.

Further EBIT improvement

At CHF 546.7 million in total, consolidated operating expenses were up CHF 138.9 million or 34.1% on the figure for 2015 (CHF 407.8 million). This increase was due primarily to depreciation, amortization and impairment which – as a result of higher scheduled amortization on film assets – rose by CHF 111.9 million to CHF 185.7 million (previous year's period: CHF 73.8 million). Amortization on film assets is performance-based, reflecting the loss in value of the film rights used based on the recoverable sales. The rise in amortization is therefore essentially a result of the higher sales by the Film segment in the reporting year.

Owing to productions, the cost of materials and licenses climbed by CHF 34.5 million to CHF 196.6 million (previous year's period: CHF 162.1 million), while personnel expenses declined by CHF 4.1 million to CHF 108.2 million (previous year's period: CHF 112.3 million) and other operating expenses were down by CHF 3.4 million at CHF 56.2 million (previous year's period: CHF 59.6 million).



Overall, however, the increase in consolidated operating expenses was weaker than the rise in total output, with the result that EBIT improved by CHF 4.7 million or 15.1 % to CHF 35.8 million (previous year's period: CHF 31.1 million).

Earnings per share rise by 17.9 %

Earnings from investments in associated companies and joint ventures decreased by CHF 0.82 million in the reporting year to CHF 0.04 million (previous year's period: CHF 0.86 million), while the financial result fell by CHF 2.3 million in total as a result of measurement and currency effects to CHF -8.8 million (previous year's period: CHF -6.5 million). Financial income declined by CHF 1.0 million to CHF 3.3 million (previous year's period: CHF 4.3 million), while financial expenses increased by CHF 1.3 million to CHF 12.1 million (previous year's period: CHF 10.8 million).

Taking into account tax expenses (current and deferred taxes), which declined by CHF 1.2 million to CHF 6.7 million year-on-year, the Highlight Group reported a consolidated net profit for fiscal year 2016 of CHF 20.3 million. This marks an increase of CHF 2.7 million or 15.3 % as against the previous year (CHF 17.6 million). CHF 0.5 million (previous year's period: CHF 0.1 million) of this profit is attributable to non-controlling interests.

The share of profit attributable to Highlight shareholders is CHF 19.7 million – an improvement of CHF 2.2 million or 12.6 % compared to the previous year (CHF 17.5 million). Based on an average of 42.9 million (previous year's period: 44.5 million) shares in circulation, this resulted in earnings per share of CHF 0.46 – up 17.9 % on the figure for the previous year (CHF 0.39).

RESULTS OF SEGMENT OPERATIONS

Film: Earnings squeezed by high amortization

The Constantin Film Group largely achieved its targets in fiscal year 2016. There were eleven projects in total in theatrical production, including the third installment of the highly successful "Ostwind" series. Twelve movies out of the 13 originally planned were released in German theaters. As anticipated, sales in this business area – which benefited from popular titles such as "Fack Ju Göhte 2" and "Look Who's Back" in 2015 – fell short of the previous year's level.

However, the theatrical success of "Fack Ju Göhte 2" continued in home entertainment exploitation, where the film achieved excellent physical and digital sales figures, resulting in significantly higher sales compared to the previous year. In the TV exploitation/license trading business area, there was also high income from advance sales of the international theatrical and TV productions "Resident Evil: The Final Chapter" and "Shadowhunters".

As a result of these developments, the Film segment generated external sales of CHF 382.8 million in the year under review, thereby outperforming the figure for the previous year (CHF 290.9 million) by 31.6 %. Other segment income, which is largely influenced by capitalized film production costs, rose by 45.0 % to CHF 132.4 million (previous year's period: CHF 91.3 million) as a result of the higher production volume. Segment expenses climbed – in particular on account of a significant increase in amortization – by 37.9 % in total to CHF 503.2 million (previous year's period: CHF 365.0 million), resulting in segment earnings below the previous year's level at CHF 11.9 million (previous year's period: CHF 17.2 million).

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

Sports- and Event-Marketing: Growth in sales and earnings

The TEAM Group focused in particular on the extensive preparations for 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). A major part of these preparations – for both sponsorship and TV rights – were the many successful talks with existing and potential partners.

At CHF 58.6 million, external sales in the Sports- and Event-Marketing segment were up CHF 6.9 million or 13.3 % year-on-year (CHF 51.7 million). The increase was due to the higher agency commissions that the TEAM Group generated as a result of the successful marketing of the UEFA club competitions (2015/16 to 2017/18 seasons). Segment expenses climbed from CHF 33.1 million to CHF 35.9 million, while other income rose from CHF 2.4 million to CHF 2.6 million. Accordingly, segment earnings improved by CHF 4.4 million or 21.0 % to CHF 25.4 million (previous year's period: CHF 21.0 million).

Other Business Activities: Positive contribution to earnings

The Other Business Activities segment was discontinued in the first quarter of 2016 by way of resolution of the Board of Directors. In this context, the equity investment in Highlight Event and Entertainment AG was sold to the Chairman and Delegate of Highlight's Board of Directors, Bernhard Burgener.

Owing to this disposal, the current external sales for the segment are no longer comparable with prior-year figures. Overall, however, the deconsolidation resulted in a significant improvement in segment earnings of CHF 4.1 million to CHF 2.7 million.

Significant reduction in holding costs

The costs of holding activities decreased by CHF 1.5 million in fiscal year 2016 to CHF 4.2 million (previous year's period: CHF 5.7 million).

NET ASSETS SITUATION

Lower balance sheet total year-on-year

As of December 31, 2016, the balance sheet total of the Highlight Group amounted to CHF 368.5 million, a reduction of CHF 89.5 million as against the end of 2015 (CHF 458.0 million).

On the assets side of the balance sheet, the decrease was almost exclusively due to non-current assets, which fell by CHF 88.3 million to CHF 151.8 million (December 31, 2015: CHF 240.1 million). This development was largely influenced by film assets, the value of which fell by CHF 73.8 million, and by receivables due from associated companies and joint ventures, which declined by CHF 5.2 million. The share of total assets attributable to non-current assets was therefore down on the previous year at 41.2 % (52.4 %).

Current assets remained virtually constant as against the end of 2015 (CHF 217.9 million) at CHF 216.7 million. There were significant changes in trade accounts receivable and other receivables due from third parties, which rose by CHF 34.9 million to CHF 124.3 million (December 31, 2015: CHF 89.4 million). By contrast, other financial assets fell by CHF 14.5 million to CHF 0.2 million (December 31, 2015: CHF 14.7 million) and cash and cash equivalents decreased by CHF 17.9 million to CHF 88.5 million (December 31, 2015: CHF 106.4 million).

New TV adaptation of a classic theatrical movie: “Winnetou”

Decline in film assets

The value of film assets as of the end of the reporting year was CHF 127.3 million, a drop of CHF 73.8 million as against December 31, 2015 (CHF 201.1 million). CHF 85.5 million of this total related to in-house productions (December 31, 2015: CHF 163.7 million) and CHF 41.7 million to third-party productions (December 31, 2015: CHF 37.4 million). The decline in in-house productions is due to the fact that additions to film assets were significantly lower than amortization and impairment losses on films being exploited in the year under review.

Additions to film assets amounted to CHF 109.9 million in fiscal year 2016 – a reduction of CHF 15.4 million as against the previous year (CHF 125.3 million). By contrast, amortization on film assets increased by CHF 115.4 million to CHF 174.5 million (previous year’s period: CHF 59.1 million), while impairment losses decreased slightly by CHF 1.2 million to CHF 9.0 million (previous year’s period: CHF 10.2 million).

Further reduction in liabilities

On the equity and liabilities side of the balance sheet, non-current liabilities decreased by CHF 33.4 million in total to CHF 34.2 million (December 31, 2015: CHF 67.6 million), which was largely due to the decline of CHF 31.4 million in advance payments received to CHF 15.7 million (December 31, 2015: CHF 47.1 million).

Current liabilities fell significantly by CHF 87.5 million to CHF 199.0 million (December 31, 2015: CHF 286.5 million). This development was primarily a result of a reduction in financial liabilities, which declined by CHF 52.0 million to CHF 52.3 million (December 31, 2015: CHF 104.3 million). Furthermore, advance payments received were down by CHF 23.1 million at CHF 50.7 million (December 31, 2015: CHF 73.8 million), while trade accounts payable and other liabilities due to third parties fell by CHF 11.2 million to CHF 86.5 million (December 31, 2015: CHF 97.7 million).

Strong improvement in equity ratio

Consolidated equity (including non-controlling interests) climbed by CHF 31.5 million from CHF 103.8 million as of the end of the previous year to CHF 135.3 million. The increase essentially resulted from the consolidated net profit for the period (CHF 20.3 million) and the net income from the acquisition and sale of treasury shares of CHF 12.1 million. In particular, equity was reduced (by CHF 2.4 million) by changes in non-controlling interests.

Relative to the balance sheet total, this equity corresponds to a notional equity ratio of 36.7 % – an improvement of 14 percentage points as against December 31, 2015 (22.7 %). There was a similarly positive development in the adjusted equity ratio (after netting cash and cash equivalents against financial liabilities and film assets against advance payments received), which rose from 44.6 % to 54.1 %. For detailed information on the development of consolidated equity please see the consolidated financial statements (pages 76 and 77).

Fictional two-parter about Vienna's most famous hotel: "Das Sacher. In bester Gesellschaft"

FINANCIAL SITUATION

Significant rise in net liquidity

Cash and cash equivalents amounted to CHF 88.5 million as of the end of fiscal year 2016, down CHF 17.9 million as against December 31, 2015 (CHF 106.4 million). At the same time, financial liabilities were reduced by CHF 52.0 million to CHF 52.3 million (December 31, 2015: CHF 104.3 million) with the result that net liquidity was up by CHF 34.1 million at CHF 36.2 million (December 31, 2015: CHF 2.1 million).

Operating activities generated a net cash inflow of CHF 135.2 million in the year under review – a drop of CHF 38.9 million as against fiscal year 2015 (CHF 174.1 million), which was essentially due to changes in net working capital.

Net cash used in investing activities fell by CHF 27.4 million as against the previous year (CHF 124.8 million) to CHF 97.4 million. On the one hand, the decline was due to payments for film assets, which were CHF 14.2 million lower than in the previous year (CHF 119.3 million) at CHF 105.1 million. On the other, there was cash income from disposals of financial assets of CHF 17.9 million (previous year's period: CHF 0 million) in the reporting year.

The cash used by the Highlight Group's financing activities amounted to CHF 55.6 million in fiscal year 2016 (previous year's period: cash generated of CHF 14.6 million). This development is primarily due to the net repayment of liabilities of CHF 52.1 million, after net new borrowing of CHF 25.6 million in the previous year. In particular, this was offset by the reduction in the dividend distribution and payments for the acquisition of non-controlling interests of CHF 14.1 million in total to CHF 0.9 million (previous year's period: CHF 15.0 million).

External and internal financing sources ensure liquidity

The Highlight Group has access to credit facilities (mostly 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 5.0 % in the euro area in the year under review. For other foreign currencies, especially USD and CAD, interest rates were between 2.0 % and 3.3 %.

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.

PERSONNEL REPORT

As of December 31, 2016, the Highlight Group employed an average number of 894 people in total (December 31, 2015: 1,082), including freelance staff. 128 of these (previous year: 130) worked in Switzerland, 753 (previous year: 939) in Germany, and 13 (previous year: 13) worked in Austria.

Moving TV event: "Schweigeminute"

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 are 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 significant.

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.

The majority shareholder intends to sell the Film segment

The sale of the Film segment and the focus on the Sports- and Event-Marketing segment could give rise to significant cluster risks for the Highlight Group.

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.

In order to minimize this risk, Constantin Film AG will endeavor to prevent further use of the company name "Constantin" by Constantin Medien AG.

Overall, this risk is classified as significant.

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 has been at around 1.08 since mid-2015, the current assessment of this risk results in a change in the classification from a significant risk to 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 TEAM'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.

The Highlight Group sees opportunities in making use of synergies by optimizing internal processes

The opportunity to make use of synergies by optimizing internal processes that was reported in the previous year no longer exists, as the project in question has been discontinued.

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 performance of the global economy is expected to gain momentum in 2017. The International Monetary Fund (IMF) is forecasting further growth in both the industrialized countries and the emerging economies compared to 2016, with the industrialized countries developing at a slower rate. The IMF sees the new administration in the US and an associated change in economic policy as a major influencing factor. At the same time, the course of the new US government means uncertainty. Thus, the change in economic direction could also have a negative impact on the economy of the emerging markets.

The IMF is assuming global economic growth of 3.4 % in 2017 (2016: 3.1 %). The rate of growth will slow slightly in China to 6.5 % (2016: 6.7 %). Growth of 2.3 % is forecast for the US economy (2016: 1.6 %).

According to IMF estimates, the economy in the euro area will expand by 1.6 % in 2017. The Institute for the World Economy (IfW) is also assuming a positive economic performance in the euro area, driven by improved price competitiveness on account of a weaker euro against the US dollar.

Gross domestic product (GDP) in Germany is set to grow by 1.7 % in 2017, according to the IfW. It cites private consumer spending and housing construction due to consistently favorable financing conditions as the key factors behind this. Similarly, a sharp increase in German exports is expected thanks to good prospects on sales markets. The IMF's estimate is somewhat more moderate, with growth on the German economy projected at 1.5 %.

The Swiss State Secretariat for Economic Affairs (SECO) is forecasting a further recovery of the Swiss economy, which will likely be reflected in GDP growth of 1.8 % in the current year (2016: 1.5 %). In addition to an increase in equipment and construction investments, SECO is anticipating a significant recovery in private consumer spending, in particular as a result of a recovery of the labor market.

MEDIA AND ENTERTAINMENT MARKET ENVIRONMENT IN GERMANY

PricewaterhouseCoopers (PwC) is projecting steady growth of 1.7 % on average per year for the German entertainment and media sector until 2020. The advertising market is expected to expand by an annual average of 2.5 %.

This is essentially due to the robust development in revenues from digital advertising in several market segments. The video game and online advertising segments are also following a clear upward trend with average annual growth of 6.6 % and 6.2 % respectively until 2020. However, the sports sector has by far the highest average growth rate at more than 10 %, in particular thanks to revenues from the marketing of media exploitation rights for major sporting events – especially football – and proceeds from jersey sponsorship, equipment contracts, and corporate sponsorship.

The steadily growing digitization trend is reflected in the development of the advertising market. Above all, the expected sales growth is being driven by the successful implementation of digital revenue models, the rising level of online content and the growing number of users.

FOCAL POINTS IN FISCAL YEAR 2017

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 theatrical production/acquisition of rights, 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 area of theatrical distribution, 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, 16 new theatrical releases are intended for 2017. These are one third-party production and 15 own and co-productions. They include "Resident Evil: The Final Chapter", "Timm Thaler", "Jugend ohne Gott", "Griessnockerlaffäre" and "Fack Ju Göhte 3".

The market share in home entertainment is expected to be slightly less than the previous year's in 2017. The previous year was defined by the hit titles "Fack Ju Göhte 2" and "Look Who's Back". The basis for performance in 2017 is essentially expected to be the marketing of attractive titles such as "The Girl on the Train", "Resident Evil: The Final Chapter" and "Timm Thaler". Furthermore, the third installment of the successful "Ostwind" series will be released shortly before the end of the year. 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 fiscal year 2017.

In free-TV exploitation, sales in the first half of 2017 will be generated by productions including "Step Up: All In", "The Hundred-Foot Journey" and "Männerhort". Titles expected to play a major role in sales for pay-TV include "Look Who's Back", "Fantastic Four 3" and "Fack Ju Göhte 2".

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 in addition to 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 2017, such as the miniseries “Die Geschichte eines Parfums”, “Bier Royal”, “Alle meine Frauen”, “Modus – Season 2”, “Die Protokollantin”, “Springflut – Season 2”, and “Der Kroatien-Krimi (Parts 3 and 4)”.

With its TV service productions and the TV exploitation of its theatrical productions, the Constantin Film Group is also assuming ratings above the respective network’s average for the current year.

Sports- and Event-Marketing segment

Sector-specific situation

The sponsorship consulting company IEG is forecasting a further increase in global sponsorship expenditure of 4.5 % (previous year: 4.7 %) to USD 62.8 billion in 2017 (previous year: USD 60.2 billion). IEG again expects to see the highest percentage increase of 5.8 % (previous year: 5.7 %) in the Asia/Pacific region, while Central and South America are at the lower end of projections with a growth rate of 3.4 % (previous year: 4.7 %). For North America, the world’s largest sponsorship market, IEG is projecting a rise of 4.1 % (previous year: 4.5 %) to USD 23.2 billion, with around 70 % of this figure going into sports. Growth of 4.5 % (previous year: 3.9 %) is expected in Europe.

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 2017. Nonetheless, it is assumed that the Constantin Film Group will again achieve audiences of more than a million moviegoers in Germany in the current fiscal year as well. As in previous years, this assumption is supported by the risk-diversifying portfolio effect of an extensive slate. The income from German theatrical exploitation is expected to increase significantly as against the previous year. In particular, the comedy “Fack Ju Göhte 3”, which will provisionally be released in the fall of 2017, has the potential to build on the success of the first two parts. Other candidates with high commercial potential at the box office are “Dieses bescheuerte Herz”, “Jugend ohne Gott”, and the third installment of the hit “Ostwind” series.

In home entertainment, the 2017 exploitation slate will not quite line up with the success of the previous year’s slate, which benefited from the exploitation of titles including the theatrical hits “Fack Ju Göhte 2” and “Look Who’s Back”. As the second season of “Shadowhunters” will be delivered to Freeform and Netflix in the current year, there will be notable financing proceeds from global distribution that will be allocated to home entertainment and TV. Overall, however, home entertainment proceeds are expected to decline year-on-year.

Sales will also be significantly lower than in the previous year in license trading/TV exploitation. This is determined by the commencement of license periods and the contract volumes of past theatrical slates. As financing proceeds from the global distribution of international own productions will also be incurred in this area, sales will be significantly lower than in the previous year. It is too early to assess the commissioning situation in TV service production. Overall, we are currently assuming lower sales for fiscal year 2017 year-on-year with earnings virtually unchanged in the Film segment.

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 360 and CHF 380 million with a consolidated net profit attributable to shareholders of between CHF 18 and CHF 20 million for fiscal year 2017.

Pratteln, April 2017

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.


2010

Coveted award: Oliver Masucci was awarded the BAMBI media prize for his performance in Constantin Film's hit satire "Look Who's Back".

Consolidated financial statements

as of December 31, 2016 of Highlight Communications AG, Pratteln

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2016

Highlight Communications AG, Pratteln

ASSETS (TCHF)	Note	Dec. 31, 2016	Dec. 31, 2015
Non-current assets			
In-house productions		85,529	163,690
Third-party productions		41,745	37,382
Film assets	6.1	127,274	201,072
Other intangible assets	6.2	333	812
Goodwill	6.2	17,499	17,553
Property, plant and equipment	6.3	3,371	4,504
Investment property	6.4	–	3,300
Investments in associated companies and joint ventures	6.6	54	209
Non-current receivables due from third parties	6.9	355	564
Receivables due from associated companies and joint ventures	11	–	5,185
Other financial assets	6.8	95	3,181
Deferred tax assets	6.14	2,824	3,735
		151,805	240,115
Current assets			
Inventories	6.7	2,484	3,969
Trade accounts receivable and other receivables due from third parties	6.10/6.11	124,283	89,395
Receivables due from related parties	11	705	191
Receivables due from associated companies and joint ventures	11	–	–
Other financial assets	6.8	206	14,653
Income tax receivables	6.13	546	3,258
Cash and cash equivalents	6.12	88,502	106,407
		216,726	217,873
Total assets		368,531	457,988

The notes on page 80 – 143 are an integral part of the consolidated financial statements.

EQUITY AND LIABILITIES (TCHF)	Note	Dec. 31, 2016	Dec. 31, 2015
Equity	6.15		
Subscribed capital		47,250	47,250
Treasury stock		–45	–2,132
Capital reserve		–108,135	–107,913
Other reserves		–40,515	–40,651
Retained earnings		232,055	199,806
Equity attributable to shareholders		130,610	96,360
Non-controlling interests		4,680	7,467
		135,290	103,827
Non-current liabilities			
Advance payments received	6.19	15,696	47,089
Other liabilities		1,522	243
Pension liabilities	6.21	6,651	10,979
Deferred tax liabilities	6.24	10,348	9,333
		34,217	67,644
Current liabilities			
Financial liabilities	6.18	52,259	104,290
Advance payments received	6.19	50,716	73,757
Trade accounts payable and other liabilities due to third parties	6.17	86,497	97,696
Liabilities due to related parties	11	365	333
Liabilities due to associated companies and joint ventures	11	–	–
Provisions	6.22	4,830	5,100
Income tax liabilities	6.23	4,357	5,341
		199,024	286,517
Total equity and liabilities		368,531	457,988

The notes on page 80 – 143 are an integral part of the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT 2016

Highlight Communications AG, Pratteln

(TCHF)	Note	Jan. 01 to Dec. 31, 2016	Jan. 01 to Dec. 31, 2015
Sales	7.1	**441,656**	**346,060**
Capitalized film production costs and other own work capitalized	7.2	**120,628**	**72,590**
Total output		**562,284**	**418,650**
Other operating income	7.3	**20,161**	**20,320**
Costs for licenses, commissions and materials		–23,477	–23,557
Costs for purchased services		–173,108	–138,590
Cost of materials and licenses	7.4	**–196,585**	**–162,147**
Salaries		–94,450	–98,347
Social security, pension costs		–13,782	–13,930
Personnel expenses		**–108,232**	**–112,277**
Amortization and impairment on film assets	6.1	–182,956	–69,356
Amortization, depreciation and impairment on intangible assets and property, plant and equipment	6.2/6.3	–2,762	–3,361
Goodwill impairment	6.2	–	–1,094
Amortization, depreciation and impairment		**–185,718**	**–73,811**
Other operating expenses	7.5	**–56,154**	**–59,604**
Profit from operations		**35,756**	**31,131**
Earnings from investments in associated companies and joint ventures	6.6	**42**	**857**
Financial income	7.6	3,295	4,255
Financial expenses	7.7	–12,089	–10,789
Financial result		**–8,794**	**–6,534**
Profit before taxes		**27,004**	**25,454**
Current taxes		–5,581	–3,144
Deferred taxes		–1,137	–4,738
Taxes	7.8	**–6,718**	**–7,882**
Net profit		**20,286**	**17,572**
thereof shareholders' interests		19,742	17,515
thereof non-controlling interests		544	57

Earnings per share (CHF)		
Earnings per share attributable to shareholders (basic)	0.46	0.39
Earnings per share attributable to shareholders (diluted)	0.46	0.39
Average number of shares in circulation (basic)	42,939,548	44,469,500
Average number of shares in circulation (diluted)	42,939,548	44,469,500

The notes on page 80 – 143 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS 2016

Highlight Communications AG, Pratteln

(TCHF)	Jan. 01 to Dec. 31, 2016	Jan. 01 to Dec. 31, 2015
Net profit	**20,286**	**17,572**
Unrealized gains/losses from currency translation	–1,237	–10,606
Reclassification of realized gains/losses to the income statement	–227	–
Currency translation differences	–1,464	–10,606
Gains/losses from cash flow hedges	1,284	–2,519
Items that may be reclassified in the income statement in future	**–180**	**–13,125**
Actuarial gains/losses of defined benefit obligation plans	1,919	745
Gains/losses from financial assets at fair value through other comprehensive income/loss	552	2,766
Items that will not be reclassified in the income statement in future	**2,471**	**3,511**
Other comprehensive income/loss, net of tax	**2,291**	**–9,614**
Total comprehensive income/loss	**22,577**	**7,958**
thereof shareholders' interests	22,356	8,175
thereof non-controlling interests	221	–217

The notes on page 80 – 143 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2016

Highlight Communications AG, Pratteln

(TCHF)	Note	Equity Subscribed capital	Treasury stock
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 obligation plans		–	–
Gains/losses from financial assets at fair value through other comprehensive income/loss		–	–
Items that will not be reclassified to the income statement in future		–	–
Other comprehensive income/loss, net of tax		–	–
Net profit		–	–
Total comprehensive income/loss		–	–
Purchase of treasury stock		–	–2,785
Sale of treasury stock		–	4,872
Dividend payments		–	–
Change in non-controlling interests		–	–
Other changes		–	–
Balance as of December 31, 2016	6.15	47,250	–45
Balance as of January 1, 2015		47,250	–2,816
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 obligation plans		–	–
Gains/losses from financial assets at fair value through other comprehensive income/loss		–	–
Items that will not be reclassified to the income statement in future		–	–
Other comprehensive income/loss, net of tax		–	–
Net profit		–	–
Total comprehensive income/loss		–	–
Purchase of treasury stock		–	–1,944
Sale of treasury stock		–	2,628
Dividend payments		–	–
Change in non-controlling interests		–	–
Other changes		–	–
Balance as of December 31, 2015	6.15	47,250	–2,132

The notes on page 80 – 143 are an integral part of the consolidated financial statements.

attributable to shareholders					
Capital reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
–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
–104,560	–27,836	184,494	96,532	10,348	106,880
–	–10,296	–	–10,296	–310	–10,606
–	–2,519	–	–2,519	–	–2,519
–	–12,815	–	–12,815	–310	–13,125
–	–	709	709	36	745
–	–	2,766	2,766	–	2,766
–	–	3,475	3,475	36	3,511
–	–12,815	3,475	–9,340	–274	–9,614
–	–	17,515	17,515	57	17,572
–	–12,815	20,990	8,175	–217	7,958
–	–	–8,492	–10,436	–	–10,436
–	–	11,701	14,329	–	14,329
–	–	–8,887	–8,887	–1,414	–10,301
–3,353	–	–	–3,353	–1,250	–4,603
–	–	–	–	–	–
–107,913	–40,651	199,806	96,360	7,467	103,827

CONSOLIDATED STATEMENT OF CASH FLOWS 2016

Highlight Communications AG, Pratteln

(TCHF)	Note	Jan. 01 to Dec. 31, 2016	Jan. 01 to Dec. 31, 2015
Net profit		20,286	17,572
Deferred taxes		1,137	4,738
Current taxes		5,581	3,144
Financial result (without currency result)		5,240	3,150
Earnings from investments in associated companies and joint ventures	6.6	–42	–857
Amortization, depreciation and impairment on non-current assets		185,718	73,811
Gain (-)/loss (+) from disposal of non-current assets	7.3/7.5	–2,634	–19
Other non-cash items		90	635
Increase (-)/decrease (+) in inventories, trade accounts receivable and other assets not classified to investing or financing activities		–2,067	2,084
Decrease (-)/increase (+) in trade accounts payable and other liabilities not classified to investing or financing activities		–72,589	79,317
Dividends received from associated companies and joint ventures		8	211
Interest paid		–1,692	–1,591
Interest received		73	123
Income taxes paid		–6,788	–8,607
Income taxes received		2,898	409
Cash flow from operating activities		**135,219**	**174,120**

The notes on page 80 – 143 are an integral part of the consolidated financial statements.

(TCHF)	Note	Jan. 01 to Dec. 31, 2016	Jan. 01 to Dec. 31, 2015
Change in cash and cash equivalents due to acquisitions of companies/shares in companies (net)		–	–488
Payments for intangible assets	6.2	–837	–57
Payments for film assets		–105,062	–119,298
Payments for property, plant and equipment	6.3	–1,065	–1,892
Payments for financial assets		–577	–4,135
Payments for/proceeds from sale of companies/ shares in companies (net)		–7,812	725
Proceeds from disposal of intangible assets and film assets		29	201
Proceeds from disposal of property, plant and equipment		94	184
Proceeds from disposal of financial assets		17,865	–
Cash flow for investing activities		**–97,365**	**–124,760**
Payments for purchase of treasury stock	6.15	–3,546	–10,436
Proceeds from sale of treasury stock	6.15	919	14,329
Payments for purchase of non-controlling interests	6.15	–	–4,668
Repayment of current financial liabilities		–86,210	–34,477
Proceeds from other shareholders	6.15	–	65
Proceeds from receipt of current financial liabilities		34,079	60,065
Dividend payments		–876	–10,301
Cash flow for/from financing activities		**–55,634**	**14,577**
Cash flow for/from the reporting period		**–17,780**	**63,937**
Cash and cash equivalents at the beginning of the reporting period		106,407	44,773
Effects of currency differences		–125	–2,303
Cash and cash equivalents at the end of the reporting period		88,502	106,407
Change in cash and cash equivalents		**–17,780**	**63,937**

Two material non-cash transactions took place in the reporting year. Please refer to notes 3.1 and 6.11 for more detailed information.

The notes on page 80 – 143 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

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 April 5, 2017, and require the approval of the Annual General Meeting of June 30, 2017.

1.1 General information on the Group

The parent company Highlight Communications AG is based at Netzibodenstrasse 23b, Pratteln, Switzerland. Highlight Communications AG is included in the consolidated financial statements of Constantin Medien AG, Ismaning, Germany.

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, Sports- and Event-Marketing and Other Business Activities. The Other Business Activities segment was sold in the reporting 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, 2016, were complied with.

A list of the subsidiaries, joint ventures and associated companies included in the consolidated financial statements can be found in these notes. The effects of the first-time consolidation and deconsolidation of subsidiaries, joint ventures and associated companies 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

The mandatory application of the following relevant accounting standards and interpretations did not result in any material changes in the consolidated financial statements:

Standards/amendments/interpretations		Mandatory application for fiscal years starting on or after
IAS 1	Presentation of Financial Statements – disclosure initiative (amendment)	January 1, 2016
IAS 16	Property, Plant and Equipment and IAS 38, Intangible Assets – clarification of acceptable depreciation and amortization methods (amendment)	January 1, 2016
Annual IFRS improvement process (2012–2014)*		January 1, 2016

* *This specifically relates to the following standards and interpretations: IFRS 5, IFRS 7, IAS 19, IAS 34.*

IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets – clarification of acceptable depreciation and amortization methods (amendment)

The provisions of IAS 16 were amended to clarify when a revenue-based depreciation method is not appropriate for property, plant and equipment. By contrast to the strict prohibition on the use of revenue-based depreciation methods for property, plant and equipment, a rebuttable presumption was added to the provisions of IAS 38:

- The intangible asset is expressed as a measure of revenue (the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold); or
- it can be demonstrated that revenue and the consumption of economic benefits of the intangible asset are highly correlated (the consumption of the intangible asset is directly linked to the revenue generated from using the asset).

The Highlight Group has analyzed the amendments. They have had no material effect.

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
IAS 7	Statement of Cash Flows – disclosure initiative (amendment)	January 1, 2017
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

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.

The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted. As the amendments were published less than a year before their effective date, enterprises do not have to provide comparative figures on first-time adoption. These amendments entail additional disclosures in the notes to the consolidated financial statements of Highlight Communications AG but have no material influence on its net assets, financial position, or results of operations.

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. Voluntary early adoption is possible. The Highlight Group will adopt the standard for the first time for the annual period beginning on January 1, 2018 and is currently examining the possible effects of implementing the amendments.

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. It is currently examining whether it will apply the full retrospective approach or the modified retrospective approach. Furthermore, additional qualitative and quantitative disclosures in the notes are required. As the analysis of the developments and effects of IFRS 15 on the consolidated financial statements of the Highlight Group is not yet complete, comments on the quantitative impact of the adoption of IFRS 15 on the consolidated financial statements are not possible at this time.

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, provided that their term is more than 12 months or that they are not low-value assets. 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 Divestments

Highlight Communications AG sold its fully consolidated 75.374 % subsidiary Highlight Event & Entertainment AG (Other Business Activities segment), including its subsidiaries Highlight Event AG and Escor Automaten AG, to Mr. Bernhard Burgener for TCHF 18,282 on February 3, 2016. The sale price consisted of cash remuneration of TCHF 4,631 and 2,200,000 bearer shares in Highlight Communications AG held by the buyer worth TCHF 13,651. The cash inflow of TCHF 4,631 is offset by a cash outflow due to sold cash and cash equivalents of TCHF 12,429. The deconsolidation resulted in income of TCHF 3,964 in the first quarter of 2016, which is reported in other operating income (Other Business Activities segment). The net assets as of the date of disposal amount to TCHF 18,996 (TCHF 14,318 of which relating to shareholders) and, in addition to investment property (TCHF 3,300), essentially include trade accounts receivable and other receivables due from third parties as well as related parties (TCHF 4,445), cash and cash equivalents (TCHF 12,429) and pension liabilities (TCHF 1,091) in addition to trade accounts payable and other liabilities due to third parties (TCHF 238).

Highlight Communications AG sold the fully consolidated 50.004 % subsidiary Pokermania GmbH (Other Business Activities segment) to its fellow shareholder for EUR 1 on March 31, 2016. The cash inflow of CHF 1 is offset by a cash outflow due to sold cash and cash equivalents of TCHF 7. The deconsolidation resulted in income of TCHF 1,867 in the first quarter of 2016, which is reported in other operating income. An expense of TCHF 3,153 was incurred in the first quarter of 2016 due to impairment losses on remaining loans, which is reported under other operating expenses. The sale of Pokermania GmbH resulted in a total expense of TCHF 1,286 (Other Business Activities segment). The net assets as of the date of disposal amount to TCHF –3,280 (TCHF –1,640 of which relating to shareholders), and essentially include cash and cash equivalents (TCHF 7), other assets (TCHF 9), liabilities to Rainbow Home Entertainment AG (TCHF 3,153) and other liabilities (TCHF 141). Positive currency translation differences of TCHF 227 were reclassified from equity to profit or loss as of the date of disposal.

Highlight Communications AG sold its associated company Paperflakes AG, plus loans granted to this company, to Highlight Event & Entertainment AG for TCHF 1,475 in the first quarter of 2016. The purchase price was settled in cash. The deconsolidation of the associated company resulted in income of TCHF 28 in the first quarter of 2016, which is reported in earnings from investments in associated companies and joint ventures.

Highlight Communications AG sold the associated company Holotrack AG, plus loans granted to this company, and the other equity investment Pulse Evolution Corporation, plus loans granted to this company, to Highlight Event and Entertainment AG for TCHF 1,910 and TCHF 2,227 respectively in the first quarter of 2016. The purchase price for these two sales was settled by way of offsetting a receivable of Highlight Event & Entertainment AG in the amount of TCHF 3,997 and a cash payment of TCHF 140. The deconsolidation of the associated company resulted in income of TCHF 9 in the first quarter of 2016, which is reported in earnings from investments in associated companies and joint ventures. The sale of Pulse Evolution Corporation was at carrying amount.

Highlight Communications AG sold the associated company Kuuluu Interactive Entertainment AG to Highlight Event and Entertainment AG for CHF 1 on March 31, 2016. Owing to the cost of impairment losses on loans, the disposal of the company resulted in a loss of TCHF 2,038 in the first quarter of 2016, which is reported in financial expenses.

Highlight Communications AG sold the 56.665 % fully consolidated subsidiary Comosa AG (Sports- and Event-Marketing segment) to Highlight Event & Entertainment AG for CHF 1 on December 31, 2016. The cash inflow of CHF 1 is offset by a cash outflow due to sold cash and cash equivalents of TCHF 7. The deconsolidation resulted in income of TCHF 1,314 in the fourth quarter of 2016, which is reported in other operating income. As a result of impairment losses on remaining loans, there was also an expense of TCHF 1,331 in the fourth quarter of 2016, which is reported under other operating expenses. The sale of Comosa AG resulted in a total expense of TCHF 17 (Sports- and Event-Marketing segment). The net assets as of the date of disposal amount to TCHF –2,318 (TCHF –1,314 of which relating to shareholders) and essentially include intangible assets (TCHF 600), trade accounts receivable and other receivables due from third parties (TCHF 27) and cash and cash equivalents (TCHF 7) in addition to liabilities to Rainbow Home Entertainment AG (TCHF 1,331) and trade accounts payable and other liabilities due to third parties (TCHF 1,641). A debtor warrant of TCHF 561 was agreed with Highlight Event & Entertainment AG in connection with the disposal of Comosa AG. The Group assumes that the conditions specified in it will be satisfied and recognized the debtor warrant accordingly.

3.2 Acquisitions

As of November 30, 2016, Constantin Film AG acquired the remaining 24.5 % of shares in Moovie GmbH, Berlin, which was already fully consolidated, and thereby increased its interest to 100 %. This was a transaction between equity providers. As a result of the transaction the capital reserve was reduced by TCHF 17 and non-controlling interests by TCHF 528 compared to December 31, 2015.

Rainbow Home Entertainment AG increased its interest in Mood Factory AG, Pratteln, which was already fully consolidated, from 52 % to 100 % on November 30, 2016. This was a transaction between equity providers that led to a reduction of the capital reserve by TCHF 205 and increased non-controlling interests by TCHF 157.

3.3 Other changes

The fully consolidated companies Kontraproduktion AG, Constantin Entertainment AG and Mood Factory AG were merged into Constantin Film und Entertainment AG in the reporting year. Constantin International B.V. was also merged with Constantin Film Verleih GmbH in the reporting year.

Constantin Family GmbH was renamed Constantin Film Production Services GmbH and Constantin Film Schweiz AG was renamed Constantin Film und Entertainment AG.

These transactions did not affect these consolidated financial statements.

3.4 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, 2016

	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 Television GmbH	TV entertainment production	DE	EUR	100,000	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	IS	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 %
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.*

3.5 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, 2016

	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.*

3.6 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, 2016 – Dec. 31, 2016	EUR	25,565

The annual financial statements of BECO Musikverlag GmbH as of December 31, 2015 were used for reporting as the annual financial statements as of December 31, 2016 have not yet been prepared.

Financial information on the associated companies can be found in note 6.6.

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 measured 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).

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.

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.

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 associates 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, 2016	Dec. 31, 2015	Jan. 01 to Dec. 31, 2016	Jan. 01 to Dec. 31, 2015
Euro	(EUR)	1.07197	1.08260	1.09001	1.06810
US dollar	(USD)	1.01901	0.99270	0.98519	0.96240
British pound	(GBP)	1.25767	1.46940	1.33489	1.47080
Canadian dollar	(CAD)	0.75810	0.71570	0.74376	0.75340

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. The fair value of financial instruments measured at amortized cost is also 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.

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 Investment property

Investment property is defined as properties that are held to earn rentals or for capital appreciation or both. Investment property is initially recognized at cost, including transaction costs. Subsequently, investment property is measured at fair value. Gains and losses resulting from changes in fair value are recognized in profit or loss in the period in which they arise.

An investment property is derecognized on disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal is defined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the income statement in the period of disposal.

4.10 Inventories

Inventories, consisting of DVDs and Blu-rays in particular, is 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 4.17). In addition, inventories include trade receivables not yet invoiced.

4.11 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 and 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.

4.12 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 and loss under personnel expenses. A reduction in contributions within the meaning of IAS 19 occurs when the employer must pay lower 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.

4.13 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.

4.14 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.

4.15 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.

4.16 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 4.17).

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 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 sales 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.

4.17 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.

4.18 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.

4.19 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 it is sufficiently certain will not 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 it is sufficiently certain will not 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 assets and liabilities recognized as well as 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

The fair value of financial assets which are traded on organized markets is determined on the basis of the quoted market price at the end of the reporting period. The fair value of financial assets for which there is no active market is determined by using measurement methods. Measurement methods include using the most recent transactions between knowledgeable, willing parties in an arm's length transaction, comparing the fair values of other, mostly identical financial instruments, analyzing discounted cash flows and using other measurement models based on management assumptions. At the end of each reporting period or more frequently if there are indications of impairment, the Group determines if a financial asset or a group of financial assets has become impaired.

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 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**
Acquisition and production costs 2015			
Balance on January 1, 2015	497,649	972,923	1,470,572
Currency translation differences	–28,550	–95,401	–123,951
Additions	13,665	111,654	125,319
Disposals	14,192	–	14,192
Balance on December 31, 2015	**468,572**	**989,176**	**1,457,748**
Accumulated amortization/value adjustments 2015			
Balance on January 1, 2015	456,562	853,625	1,310,187
Currency translation differences	–24,518	–84,358	–108,876
Amortization for the year	12,122	47,014	59,136
Impairment	1,015	9,205	10,220
Disposals	13,991	–	13,991
Balance on December 31, 2015	**431,190**	**825,486**	**1,256,676**
Net carrying amounts on December 31, 2016	**41,745**	**85,529**	**127,274**
Net carrying amounts on December 31, 2015	**37,382**	**163,690**	**201,072**

Impairment losses of TCHF 8,966 (previous year's period: TCHF 10,220) 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 0.18 % and 4.74 % (previous year: between 0.95 % and 2.80 %). The disposals relate to co-productions and third-party productions to which the distribution rights expired in the year under review.

In the year under review, the Highlight Group received project subsidies and project promotion loans of TCHF 16,544 (previous year's period: TCHF 12,563), which were deducted from the capitalized production costs.

Deferred project promotion loans amounted to TCHF 4,313 as of December 31, 2016 (previous year: TCHF 588). Project promotions of TCHF 1,356 were repaid in the year under review (previous year's period: TCHF 899).

In addition, sales subsidies and distribution loans of TCHF 2,050 (previous year's period: TCHF 4,323) 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, 2016. Distribution loans of TCHF 331 (previous year's period: TCHF 2,494) were repaid over the year under review. As of December 31, 2016, there were receivables for subsidies and grants of TCHF 14,633 (previous year: TCHF 9,837).

Directly attributable financing costs of TCHF 1,140 (previous year's period: TCHF 601) 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 2.3 % to 4.5 % (previous year: 1.31 % to 5.00 %).

6.2 Other intangible assets and goodwill

(TCHF)	Purchased intangible assets	Internally developed intangible assets	Total intangible assets	Goodwill
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**
Acquisition and production costs 2015				
Balance on January 1, 2015	6,551	3,239	9,790	23,161
Changes in scope of consolidation	911	–	911	1,693
Currency translation differences	–303	–257	–560	–851
Additions	57	–	57	–
Disposals	7	–	7	–
Balance on December 31, 2015	**7,209**	**2,982**	**10,191**	**24,003**
Accumulated amortization/value adjustments 2015				
Balance on January 1, 2015	5,799	2,846	8,645	5,669
Currency translation differences	–297	–213	–510	–313
Amortization for the year	917	334	1,251	–
Impairment	–	–	–	1,094
Disposals	7	–	7	–
Balance on December 31, 2015	**6,412**	**2,967**	**9,379**	**6,450**
Net carrying amounts on December 31, 2016	**333**	**–**	**333**	**17,499**
Net carrying amounts on December 31, 2015	**797**	**15**	**812**	**17,553**

Goodwill

Total goodwill of TCHF 17,499 (previous year: TCHF 17,553) was recognized in the balance sheet as of December 31, 2016. The table below shows the allocation of goodwill:

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Constantin Film Verleih GmbH	12,025	12,025
Constantin Entertainment GmbH	3,727	3,763
PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH	1,699	1,716
Other	48	49
Total	**17,499**	**17,553**

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 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, 2016, the CAPM-based discount factor before taxes for the impairment test of Constantin Film Verleih GmbH was set at 9.74 % (previous year: 8.96 %), for other items this was set at 7.57 % (previous year: 6.93 % to 7.04 %).

Goodwill underwent the annual impairment test as of December 31, 2016. This did not result in any impairment losses. The goodwill impairment recognized in the previous year related to the goodwill of Olga Film GmbH, whose activities are reported in the Film segment.

The impairment losses are reported in the income statement under “Goodwill impairment”.

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 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**
Acquisition and production costs 2015					
Balance on January 1, 2015	5,264	2,501	12,814	63	20,642
Changes in scope of consolidation	–	–	6	–	6
Currency translation differences	–72	–250	–657	–7	–986
Additions	–	120	1,772	–	1,892
Disposals	–	144	968	–	1,112
Reclassifications	–	56	–	–56	–
Balance on December 31, 2015	**5,192**	**2,283**	**12,967**	**–**	**20,442**
Accumulated depreciation 2015					
Balance on January 1, 2015	3,648	2,111	9,771	–	15,530
Currency translation differences	–46	–210	–499	–	–755
Depreciation for the year	488	231	1,391	–	2,110
Disposals	–	142	805	–	947
Balance on December 31, 2015	**4,090**	**1,990**	**9,858**	**–**	**15,938**
Net carrying amounts on Dec. 31, 2016	**696**	**127**	**2,548**	**–**	**3,371**
Net carrying amounts on Dec. 31, 2015	**1,102**	**293**	**3,109**	**–**	**4,504**

6.4 Investment property

The property reported in the previous year is owned by Highlight Event & Entertainment AG in Düdingen, and was mainly held to generate rental income. The property was measured using the fair value model (see note 8.5). The equity investment in Highlight Event & Entertainment AG was sold in the first quarter of 2016 (see note 3.1).

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Balance on January 1	3,300	3,900
Changes in scope of consolidation	–3,300	–
Net gains/losses from fair value adjustment	–	–600
Balance on December 31	**–**	**3,300**

6.5 Financial information for subsidiaries with significant non-controlling interests

The financial information for subsidiaries with significant non-controlling interests is as follows:

Significant non-controlling interests (in %)

	Dec. 31, 2016	Dec. 31, 2015
Highlight Event & Entertainment AG, Lucerne, Switzerland	0.00%	24.63%

Disclosures on financial information (after elimination of internal relations)

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Equity attributable to non-controlling interests	–	4,671

(TCHF)	Jan. 01 to Dec. 31, 2016	Jan. 01 to Dec. 31, 2015
Earnings attributable to non-controlling interests	–	–190

Disclosures on financial information (before elimination of internal relations)

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Current assets	–	16,876
Non-current assets	–	3,356
Total assets	**–**	**20,232**
Current liabilities	–	172
Non-current liabilities	–	1,091
Total liabilities	**–**	**1,263**
Net assets	**–**	**18,969**

(TCHF)	Jan. 01 to Feb. 02, 2016	Jan. 01 to Dec. 31, 2015
Sales	195	3,253
Earnings from continuing operations after taxes	28	–709
Other earnings after taxes	–	144
Total earnings	**28**	**–565**
Cash flow for/from operating activities	–195	55
Cash flow from investing activities	–	–
Cash flow from financing activities	–	–
Cash flow for/from the period	**–195**	**55**

This is the consolidated financial information of the Highlight Event & Entertainment Group, which was sold in the first quarter of 2016 (see note 3.1).

The other non-controlling interests are not material.

6.6 Investments in associated companies

The Group has investments in one (previous year: four) associated companies that is included in the consolidated financial statements using the equity method.

The following tables show the changes in carrying amounts and the financial information for the associated companies in aggregate form:

Carrying amounts

(TCHF)	
Balance on December 31, 2014	**196**
Additions	67
Disposals	–1
Dividends/repayments of capital	–11
Share of earnings	–34
Currency translation	–8
Balance on December 31, 2015	**209**
Disposals	–189
Dividends/repayments of capital	–8
Share of earnings	42
Balance on December 31, 2016	**54**

Financial information

(TCHF)	Jan. 01 to Dec. 31, 2016	Jan. 01 to Dec. 31, 2015
Earnings after taxes	–260	–944
Other earnings (OCI)	–	–
Total earnings	**–260**	**–944**

	Dec. 31, 2016	Dec. 31, 2015
Contingent liabilities (proportional)	–	–

For updating reasons, the annual financial statements of BECO Musikverlag GmbH as of December 31, 2015 were used for reporting on associated companies as the annual financial statements as of December 31, 2016 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.

6.7 Inventories

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Net balance		
Unfinished goods and services	843	2,188
Blu-rays/DVDs	1,625	1,756
Other merchandise	16	25
Total	**2,484**	**3,969**

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

Impairment losses of TCHF 448 (previous year's period: TCHF 266) were recognized in the year under review and impairment losses of TCHF 21 (previous year's period: TCHF 57) were reversed.

6.8 Other financial assets

	Current assets		Non-current assets	
(TCHF)	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Financial assets at fair value through profit or loss				
Preference shares	206	350	–	–
Shares	–	–	–	1,717
Real estate funds	–	–	95	99
Financial assets at fair value through other comprehensive income/loss				
Shares	–	14,303	–	1,365
Total	**206**	**14,653**	**95**	**3,181**

Other current financial assets include preference shares in the amount of TCHF 206 (previous year: TCHF 350), which were acquired in connection with the production of the movie “Resident Evil: Retribution”. In the year under review preference shares in the amount of TCHF 162 (previous year’s period: TCHF 109) were sold at carrying amount. The gradual repurchase of the preference shares by the issuer is planned in the coming fiscal years as well. There was no impairment in the reporting year (previous year’s period: TCHF 903). There is no active market for these preference shares. The cost of the remaining preference shares is still the best estimate for the fair value of this financial instrument. In accordance with IFRS 9, non-listed equity instruments are also recognized at fair value.

The shares in Constantin Medien AG were sold at a price of EUR 2.00 per share in the second quarter of 2016, which led to an increase in retained earnings of TCHF 1,918 (see note 6.15).

Other non-current financial assets include interests in Geenee Inc., Delaware, of TCHF 0 (previous year: TCHF 1,365) and investment securities of TCHF 95 (previous year: TCHF 99) as of December 31, 2016. The shares in Pulse Evolution Corporation were sold at their carrying amount of TCHF 1,728 in the first quarter of 2016.

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 reporting year that was recognized in other comprehensive income (OCI) (see note 6.15).

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).

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.

6.9 Non-current receivables

Non-current receivables of TCHF 355 in total (previous year: TCHF 564) essentially relate to the value added tax for sales not yet recognized under IFRS. The receivables are discounted in line with their maturity.

6.10 Trade accounts receivable

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Trade accounts receivable		
Current receivables	39,473	33,742
PoC receivables	6,509	15,619
Gross amount	**45,982**	**49,361**
Individual write-downs	–4,249	–4,723
Portfolio write-downs	–55	–206
Net amount	**41,678**	**44,432**

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, 2016	Dec. 31, 2015
Balance impairment losses on January 1	**4,929**	**5,017**
Currency translation differences	–37	–470
Additions	101	783
Consumption	–124	–58
Reversals	–565	–343
Balance impairment losses on December 31	**4,304**	**4,929**

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, 2016							
Trade accounts receivable	41,678	39,074	2,286	77	91	6	144
December 31, 2015							
Trade accounts receivable	44,432	42,689	1,248	133	70	4	288

Currency profile

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
CHF	735	1,632
EUR	25,440	37,271
USD	15,502	5,529
Other	1	–
Total	**41,678**	**44,432**

6.11 Other receivables

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Prepaid expenses	11,458	10,907
Input tax	2,982	1,341
Other taxes	204	47
Advance payments	875	657
Suppliers with debit balances	455	499
Receivables due from personnel	327	1,170
Receivables from loans	45,137	9,804
Subsidies receivables	14,633	9,837
Positive fair value of underlying transactions in hedging relationships	482	989
Positive fair value of derivative financial instruments in hedging relationships	819	4,186
Positive fair value of derivative financial instruments without hedging relationships	1,283	205
Other assets	3,950	5,321
Total	**82,605**	**44,963**

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

The receivables from loans include current loans from the productions “Shadowhunters” and “Resident Evil 6” to the co-producers Davis Film/Impact Pictures and Unique Features. This item also includes a current loan of TCHF 28,365 in connection with a disposal of treasury shares in the fourth quarter (see note 6.15). The loan is repayable as of June 30, 2017. Joint power of attorney with the bank of the buyer has been agreed as collateral until the repayment of the loan. The buyer cannot sell the shares without the approval of Highlight Communications AG until the loan has been repaid.

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, 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**	**–**	**–**	**–**
December 31, 2015									
Prepaid expenses	10,907	10,907	–	–	–	–	–	–	–
Input tax	1,341	1,341	–	–	–	–	–	–	–
Other taxes	47	47	–	–	–	–	–	–	–
Advance payments	657	657	–	–	–	–	–	–	–
Suppliers with debit balances	499	–	499	499	–	–	–	–	–
Receivables due from personnel	1,170	–	1,170	1,170	–	–	–	–	–
Receivables from loans	9,804	–	9,804	9,804	–	–	–	–	–
Subsidies receivables	9,837	–	9,837	9,837	–	–	–	–	–
Positive fair value of underlying transactions in hedging relationships	989	989	–	–	–	–	–	–	–
Positive fair value of derivative financial instruments in hedging relationships	4,186	–	4,186	4,186	–	–	–	–	–
Positive fair value of derivative financial instruments without hedging relationships	205	–	205	205	–	–	–	–	–
Other assets	5,321	–	5,321	5,321	–	–	–	–	–
Total	**44,963**	**13,941**	**31,022**	**31,022**	**–**	**–**	**–**	**–**	**–**

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

Currency profile

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
CHF	4,890	4,496
EUR	60,248	33,696
USD	1,358	947
CAD	12,594	5,822
Other	3,515	2
Total	**82,605**	**44,963**

6.12 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%).

6.13 Income tax receivables

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Income taxes Switzerland	–	97
Income taxes Germany	312	3,019
Income taxes rest of the world	234	142
Total	**546**	**3,258**

6.14 Deferred tax assets

Breakdown of deferred tax assets

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Tax loss carryforwards	5,364	6,294
Intangible assets/film assets	4,261	–
Property, plant and equipment	4	3
Trade accounts receivable	16	117
Inventories	6,942	8,525
Trade accounts payable	1,931	2,328
Other liabilities	474	275
Advance payments received	4,283	17,219
Provisions	353	–
Pension liabilities	793	1,632
Total	**24,421**	**36,393**
Netting with deferred tax liabilities	–21,597	–32,658
Deferred tax assets (netted)	**2,824**	**3,735**

Maturities

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Current deferred tax assets	162	275
Non-current deferred tax assets	2,662	3,460

The Group has total loss carryforwards of TCHF 25,502 (previous year: TCHF 27,671) for which no deferred tax assets were recognized. These are scheduled to expire as follows:

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

2015 (TCHF)	Expiry date			
	<1 year	1–5 years	>5 years	thereof without expiry
	–	8,137	19,534	11,414

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, 2016	Jan. 01 to Dec. 31, 2015
Changes in deferred tax assets (assets and liabilities)	–1,926	–4,467
thereof:		
Changes in income statement	–1,137	–4,738
Changes in other comprehensive income/loss	–790	320
Changes in scope of consolidation	–96	–272
Changes in currency translation	97	223

6.15 Equity

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

Share capital

As of December 31, 2016, the fully paid-up share capital of the parent company, Highlight Communications AG, totaled CHF 47,250,000, divided into 47,250,000 bearer shares with a par value of CHF 1.00 per share.

Treasury stock

As of December 31, 2016, the separately reported item "Treasury stock" amounted to TCHF –45 (previous year: TCHF –2,132). The amount reflects the nominal capital of treasury shares. As of December 31, 2016, the number of directly held non-voting treasury shares was 44,983 shares in Highlight Communications AG (previous year: 2,131,751). 2,784,683 treasury shares were acquired at a purchase price of TCHF 17,197 and 4,871,451 treasury shares were sold at a selling price of TCHF 29,313 in the year under review.

Capital reserve

As of December 31, 2016, the Group's capital reserve amounted to a total of TCHF –108,135 (previous year: TCHF –107,913).

The reduction in the capital reserve results from 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 %, in fiscal year 2016. The capital reserve decreased by TCHF 222 in total as a result of these transactions.

The change in the capital reserve in the previous year (TCHF –3,353) resulted from the gradual increase in the equity investment in Highlight Event & Entertainment AG, Lucerne, from 68.986 % to 75.374 % and the increase in shares in Constantin Entertainment Polska Sp z.o.o., Warsaw, from 75 % to 100 %.

Non-controlling interests

The deconsolidation of Highlight Event & Entertainment AG, Pokermania GmbH and Comosa AG reduced non-controlling interests by a total of TCHF 1,761. The increase in the equity investments in Mood Factory AG and Moovie GmbH led to a reduction in non-controlling interests of TCHF 371. Dividend payments in the reporting year amounted to TCHF 876 (previous year's period: TCHF 1,414) and the net profit for the period attributable to non-controlling interests was TCHF 544 (previous year's period: TCHF 57). Furthermore, the remeasurement of the pension obligation resulted in a reduction in non-controlling interests of TCHF 7. Differences from currency translation amounted to TCHF –316 (previous year's period: TCHF –310).

In the previous year, the gradual increase in the equity investments in Highlight Event & Entertainment AG and Constantin Entertainment Polska Sp z.o.o. and the founding of Comosa AG reduced non-controlling interests by TCHF 1,250.

Other reserves

As of the end of the reporting period, other reserves totaled TCHF –40,515 (previous year: TCHF –40,651). As of December 31, 2016, these relate to the translation of the equity of companies that do not use Swiss francs as their functional currency (TCHF –39,280; previous year: TCHF –38,132) and from other cash flow hedge reserves of TCHF –1,235 (previous year: TCHF –2,519).

The changes in other components of equity in fiscal years 2016 and 2015 were as follows:

Other comprehensive income/loss (OCI)

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 obligation 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**

2015 (TCHF)	before taxes	Tax effect	after taxes
Currency translation differences	–10,606	–	–10,606
Gains/losses from cash flow hedges	–2,849	330	–2,519
Items that may be reclassified to the income statement in future	**–13,455**	**330**	**–13,125**
Actuarial gains/losses of defined benefit obligation plans	755	–10	745
Gains/losses from financial assets at fair value through other comprehensive income/loss	2,766	–	2,766
Items that will not be reclassified to the income statement in future	**3,521**	**–10**	**3,511**
Other comprehensive income/loss	**–9,934**	**320**	**–9,614**

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**

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 relate to EBIT, 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, 2016.

6.16 Overview of provisions and liabilities

Maturity profile

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
Liabilities due to associated companies and joint ventures	–			–
Other liabilities	63,473			63,473
Provisions	4,830			4,830
Income tax liabilities	4,357			4,357
Total	**199,024**			**199,024**

Dec. 31, 2015 (TCHF)	less than 1 year	1 to 5 years	over 5 years	Total
Non-current liabilities				
Advance payments received	–	47,089	–	47,089
Other liabilities	–	243	–	243
Pension liabilities	–	–	10,979	10,979
Deferred tax liabilities	–	9,333	–	9,333
Total	**–**	**56,665**	**10,979**	**67,644**
Current liabilities				
Financial liabilities	104,290			104,290
Advance payments received	73,757			73,757
Trade accounts payable	25,731			25,731
Liabilities due to related parties	333			333
Liabilities due to associated companies and joint ventures	–			–
Other liabilities	71,965			71,965
Provisions	5,100			5,100
Income tax liabilities	5,341			5,341
Total	**286,517**			**286,517**

6.17 Trade accounts payable and other liabilities

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Trade accounts payable	23,024	25,731
Other liabilities	63,473	71,965
Total	**86,497**	**97,696**

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 2,866 (previous year: TCHF 3,308).

Currency profile

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
CHF	681	522
EUR	17,740	20,223
USD	4,543	4,959
Other	60	27
Total	**23,024**	**25,731**

Other current liabilities

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Liabilities from conditional loan repayment (subsidies)	11,064	13,948
Personnel-related liabilities	11,177	10,985
Value-added tax liabilities	1,472	1,706
Other taxes	5,217	3,204
Social security	469	1,085
Deferred income	5,427	2,198
Customers with credit balances	86	391
Commissions and licenses	21,124	20,663
Other current loans	–	856
Negative fair value of underlying transactions in hedging relationships	240	3,085
Negative fair value of derivative financial instruments in hedging relationships	1,906	3,267
Negative fair value of derivative financial instruments without hedging relationships	1,525	1,080
Other current liabilities	3,766	9,497
Total	**63,473**	**71,965**

As of December 31, 2016, there is a contingent purchase price liability from the acquisition of PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH of TCHF 268 (previous year: TCHF 773). The payment of the contingent purchase price component in subsequent fiscal years is considered likely and the discounted payment amount was recognized in full under liabilities. An amount of TCHF 0 (previous year: TCHF 243) has been classified as non-current in this context.

Currency profile

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
CHF	11,875	13,033
EUR	37,612	42,583
USD	13,986	16,349
Total	**63,473**	**71,965**

6.18 Financial liabilities

As of the end of the reporting period, there were current liabilities to banks of TCHF 52,259 (previous year: TCHF 104,290), TCHF 22,259 (previous year: TCHF 69,290) of which relate to the financing of film projects.

The Highlight Group had free short-term credit facilities totaling around TCHF 161,295 (previous year: TCHF 161,644) 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 124,723 (previous year: TCHF 198,996) and the resulting proceeds from exploitation in addition to receivables of TCHF 37,297 (previous year: TCHF 29,833). 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 30,000 (previous year: TCHF 45,000) is secured by the shares in Constantin Film AG. The amounts utilized are all due on demand in 2017. Interest pooling arrangements are available for certain short-term bank overdraft liabilities.

Currency profile

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
CHF	30,000	35,000
EUR	8,703	6,199
USD	408	56,246
CAD	13,148	6,845
Total	**52,259**	**104,290**

6.19 Advance payments received

Advance payments received totaling TCHF 66,412 (previous year: TCHF 120,846) essentially include amounts received from license sales and advance payments from customers in the amount of TCHF 47,089 (previous year: TCHF 78,482). TCHF 15,696 (previous year: TCHF 47,089) of these advance payments have to be classified as non-current.

6.20 Long-term service production

Receivables from customers for service productions amount to TCHF 6,509 (previous year: TCHF 15,619). Liabilities to customers for service productions amount to TCHF 2,866 (previous year: TCHF 3,308). These are reported under trade accounts receivable and trade accounts payable respectively.

Proceeds from service production for the period amount to TCHF 119,119 (previous year's period: TCHF 127,830). Total costs incurred for contracts in progress and reported profits (less any reported losses) amount to TCHF 13,334 (previous year's period: TCHF 13,472).

6.21 Pension liabilities

6.21.1 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 2017 amount to TCHF 1,314.

Maturity profile of defined benefit obligation

(TCHF)	2016	2015
Less than 1 year	1,298	1,515
Weighted average maturity of defined benefit obligation (in years)	16.9	15.7

Change in defined benefit liabilities

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

Pension liabilities

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Present value of defined benefit obligation	37,291	43,411
Fair value of plan assets	30,640	32,432
Balance sheet amount	**6,651**	**10,979**

Development of pension obligation

(TCHF)	2016	2015
Present value of defined benefit obligation as of January 1	**43,411**	**43,699**
Changes in scope of consolidation	–6,063	–
Current service cost (without employee contributions and administrative expenses)	2,190	2,493
Employee contributions	909	931
Interest cost	285	440
Curtailment, settlement	–	–139
Benefits paid	–1,315	–3,348
Actuarial losses/(gains) from experience adjustments	–1,848	–608
Actuarial losses/(gains) from changes in financial assumptions	362	–57
Actuarial losses/(gains) from changes in demographic assumptions	–640	–
Present value of defined benefit obligation as of December 31	**37,291**	**43,411**
thereof actively insured persons	34,703	36,281
thereof pensioners	2,588	7,130

Development of plan assets

(TCHF)	2016	2015
Fair value of assets as of January 1	**32,432**	**33,025**
Changes in scope of consolidations	–4,927	–
Interest income	210	333
Employee contributions	909	931
Employer contributions	3,043	1,491
Administrative expenses of the foundation	–86	–90
Benefits paid	–1,315	–3,348
Actuarial (losses)/gains from experience adjustments	374	90
Fair value of assets as of December 31	**30,640**	**32,432**

Retirement benefit expenses broke down as follows:

(TCHF)	Jan. 01 to Dec. 31, 2016	Jan. 01 to Dec. 31, 2015
Current service cost (without employee contributions and administrative expenses)	2,190	2,493
Administrative expenses of the foundation	86	90
Effects from curtailments and settlements	–	–139
Net interest cost (income)	75	107
Total income statement	**2,351**	**2,551**

Plan assets

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

(TCHF)	2016	2015
Cash and cash equivalents	140	407
Bonds with quoted market prices on active markets	14,323	12,594
Bonds without quoted market prices	174	141
Shares with quoted market prices on active markets	2,851	2,732
Real estate	11,304	9,862
Insurance surrender values	–	4,876
Other	1,848	1,820
Total	**30,640**	**32,432**

The actual return on plan assets in the year under review amounted to TCHF 584 (previous year's period: TCHF 423).

Actuarial assumptions

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

	2016	2015
Discount rate	0.60	0.75
Pension trend	0.00	0.10
Salary trend	1.50	1.50
Average life expectancy after pension men (in years)	22.38	21.53
Average life expectancy after pension women (in years)	25.42	24.98

The new BVG 2015 generation table was used for the actuarial assumptions for mortality, disability and employee turnover (previous year: BVG 2010 generation table).

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
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

	Discount rate (incl. change in interest rate applied)		Pension trend		Salary trend		Average life expectancy
2015 (TCHF)	+25 BP	–25 BP	+25 BP	–25 BP	+25 BP	–25 BP	+ 1 year
Effect on defined benefit obligation	–1,186	1,197	843	–307	296	–289	1,063

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.

6.21.2 Defined contribution plans

The expenses recognized in profit or loss for defined contribution plans (including state plans) amounted to TCHF 3,848 in the year under review (previous year's period: TCHF 5,389).

6.22 Provisions

(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

(TCHF)	Jan. 01, 2015	Currency translation differences	Consumption	Reversal	Addition	Dec. 31, 2015
Licenses and returns	4,228	–343	2,167	664	3,728	4,782
Provisions for litigation risks	136	–15	35	47	11	50
Other provisions	260	–1	–	9	18	268
Total	**4,624**	**–359**	**2,202**	**720**	**3,757**	**5,100**
thereof non-current provisions	–	–	–	–	–	–
thereof current provisions	4,624	–359	2,202	720	3,757	5,100

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.

6.23 Income tax liabilities

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Income taxes Switzerland	1,926	1,512
Income taxes Germany	2,390	3,638
Income taxes rest of the world	41	191
Total	**4,357**	**5,341**

6.24 Deferred tax liabilities

Breakdown of deferred tax liabilities

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Intangible assets/film assets	20,775	33,179
Inventories	12	23
Trade accounts receivable	2,166	4,977
Other receivables	635	701
Trade accounts payable	5,060	104
Other liabilities	–	161
Advance payments received	3,297	2,846
Total	**31,945**	**41,991**
Netting with deferred tax assets	–21,597	–32,658
Deferred tax liabilities (net)	**10,348**	**9,333**

Maturities

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Current deferred tax liabilities	–	–
Non-current deferred tax liabilities	10,348	9,333

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 80 in the reporting period (previous year's period: TCHF 1,292) 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 120,028 (previous year's period: TCHF 72,590). Other own work capitalized reported in the amount of TCHF 600 (previous year's period: TCHF 0) relate to internally developed intangible assets.

7.3 Other operating income

(TCHF)	Jan. 01 to Dec. 31, 2016	Jan. 01 to Dec. 31, 2015
Income from the reversal of provisions and deferred liabilities	1,442	1,883
Income relating to other periods	196	422
Reversal of impairment	691	425
Recharges	1,590	3,620
Currency exchange gains	2,443	7,582
Income from rents and leases	12	153
Income from the disposal of non-current assets	33	128
Income from deconsolidation	7,706	–
Income from settlements of claims for damages and settlement agreements	3,554	3,076
Miscellaneous operating income	2,494	3,031
Total	**20,161**	**20,320**

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, 2016	Jan. 01 to Dec. 31, 2015
Licenses and commission	4,960	5,731
Other costs of material	18,517	17,826
Total licenses, commission and material	**23,477**	**23,557**
Production costs	159,013	122,044
Services	1,970	2,365
Overages in the Film segment	12,125	14,181
Total purchased services	**173,108**	**138,590**

7.5 Other operating expenses

(TCHF)	Jan. 01 to Dec. 31, 2016	Jan. 01 to Dec. 31, 2015
Rental costs	6,507	6,549
Repair and maintenance costs	967	936
Advertising and travelling expenses	4,638	5,048
Legal, consulting and auditing costs	10,352	8,564
Expense for additions to impairment losses and the write-off of receivables	5,234	887
IT costs	2,028	1,939
Administrative costs	1,014	1,191
Other personnel-related expenses	1,455	1,318
Insurance, dues and fees	766	800
Expenses relating to other periods	117	144
Currency exchange losses	1,698	5,884
Vehicle costs	860	908
Bank fees	144	204
Distribution costs	122	136
Losses from the disposal of non-current assets	60	109
Other taxes	146	186
Release and promotion expenses	16,084	20,198
Miscellaneous operating expenses	3,962	4,603
Total	**56,154**	**59,604**

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.

The item “Expenses for additions to impairment losses and the write-off of receivables” includes mostly write-downs on remaining loans to Pokermania GmbH and Comosa AG of TCHF 4,484 (previous year: TCHF 0).

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, 2016	Jan. 01 to Dec. 31, 2015
Interest and similar income	93	131
Income from other financial assets	–	1,080
Compounding of receivables	6	54
Gains from changes in the fair value of financial instruments	1,148	128
Currency exchange gains	2,048	2,862
Total	**3,295**	**4,255**

In the previous year, the remeasurement of the interest previously held in PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH of 50% at a carrying amount of TCHF 227 as of the acquisition date gave rise to a gain reported in other net finance costs of TCHF 1,080.

7.7 Financial expenses

(TCHF)	Jan. 01 to Dec. 31, 2016	Jan. 01 to Dec. 31, 2015
Interest and similar expenses	2,116	1,980
Write-down of financial assets and non-current securities	2,038	1,583
Losses from changes in the fair value of financial instruments	2,333	980
Currency exchange losses	5,602	6,246
Total	**12,089**	**10,789**

The write-down of financial assets and non-current securities include an impairment loss on non-current receivables TCHF 2,038 in the reporting year (previous year's period: TCHF 1,583) from the associated company Kuuluu Interactive Entertainment AG, which was sold in the first quarter of 2016.

As there were fewer derivative financial instruments in a formal hedge in the reporting year than in the previous year, but there were still economic hedges, the income and expenses from the measurement of derivative financial instruments in net finance costs rose sharply.

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, 2016	Jan. 01 to Dec. 31, 2015
Profit before taxes	27,004	25,454
Expected taxes based on a tax rate of 21%	–5,671	–5,345
Differing tax rates	1,473	–699
Reversal of deferred tax assets	66	442
Write-down on deferred tax assets	–204	–184
Tax-exempt income	310	535
Permanent differences	–36	–154
Tax rate changes	37	1
Non-deductable expenses	–842	–1,056
Aperiodic income taxes	8	104
Other effects	–49	218
Unrecognized deferred taxes	–1,810	–1,418
Goodwill impairment	–	–326
Actual tax expense	**–6,718**	**–7,882**
Effective tax rate in %	**24.9**	**31.0**

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, 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)
Financial liabilities with hedging relationships in accordance with IAS 39
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

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.

Non-current receivables are discounted according to their remaining term (see note 6.9).

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)			Fair value Dec. 31, 2016
			Amortized cost	Fair value through OCI	Fair value through profit or loss	
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
without category	–	–	–	–	–	–
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 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, 2015

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)
Financial liabilities with hedging relationships in accordance with IAS 39
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, 2015	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, 2015
AC	106,407	–	106,407	–	–	106,407
AC	44,432	–	44,432	–	–	44,432
AC	5,185	–	5,185	–	–	5,185
FVPL	205	–	–	–	205	205
AC	39,774	–12,952	26,822	–	–	26,822
without category	4,186	–	–	–	4,186	4,186
without category	989	–989	–	–	–	–
FVPL	350	–	–	–	350	350
FVOCI	14,303	–	–	14,303	–	14,303
AC	564	–	564	–	–	564
FVPL	1,816	–	–	–	1,816	1,816
FVOCI	1,365	–	–	1,365	–	1,365
OL	103,714	–	103,714	–	–	103,714
without category	576	–	–	–	576	576
OL	25,731	–	25,731	–	–	25,731
OL	65,109	–8,737	56,372	–	–	56,372
FLPL	1,080	–	–	–	1,080	1,080
without category	3,267	–	–	2,849	418	3,267
without category	3,085	–3,085	–	–	–	–
AC	196,362	–12,952	183,410	–	–	183,410
FVOCI	15,668	–	–	15,668	–	15,668
FVPL	2,371	–	–	–	2,371	2,371
OL	194,554	–8,737	185,817	–	–	185,817
FLPL	1,080	–	–	–	1,080	1,080

**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

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, 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
Total	**7,999**	**–**	**7,999**	**–300**	**7,699**

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
Total	**24,259**	**–**	**24,259**	**–300**	**23,959**

Offsetting as of December 31, 2015

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	205	–	205	–	205
Derivative financial instruments with hedging relationships	4,186	–	4,186	–170	4,016
Receivables due from associated companies and joint ventures (current and non-current)	5,185	–	5,185	–	5,185
Cash and cash equivalents	106,407	–	106,407	–	106,407
Total	**115,983**	**–**	**115,983**	**–170**	**115,813**

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	1,080	–	1,080	–	1,080
Derivative financial instruments with hedging relationships	3,267	–	3,267	–170	3,097
Liabilities due to associated companies and joint ventures (current and non-current)	–	–	–	–	–
Financial liabilities (current and non-current)	104,290	–	104,290	–	104,290
Total	**108,637**	**–**	**108,637**	**–170**	**108,467**

8.3 Net income

Net income by category in accordance with IFRS 7

2016 (TCHF)	from interest	from subsequent measurement: Changes in fair value	Currency translation	Impairment	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

2015 (TCHF)	from interest	from subsequent measurement: Changes in fair value	Currency translation	Impairment	Others	2015	2014
Loans and receivables (AC)	185	–	–1,552	–2,039	–6	–3,412	938
Financial assets at fair value through OCI (FVOCI)	–	2,766	–	–	–	2,766	–3,797
Financial assets at fair value through profit or loss (FVPL)	–	111	5	–886	–	–770	315
Financial liabilities and other liabilities (OL)	–1,980	–	–139	–	1,827	–292	–378
Financial liabilities at fair value through profit or loss (FLPL)	–	–77	–	–	–	–77	–299

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

		Cash flows 2017			Cash flows 2018		Cash flows 2019–2021	
2016 (TCHF)	Carrying amount Dec. 31, 2016	Fixed interest	Variable interest	Repayment	Fixed interest	Repayment	Fixed 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

		Cash flows 2016			Cash flows 2017		Cash flows 2018–2020	
2015 (TCHF)	Carrying amount Dec. 31, 2015	Fixed interest	Variable interest	Repayment	Fixed interest	Repayment	Fixed interest	Repayment
Liabilities due to banks, bonded loans and similar liabilities	104,290	–	214	104,290	–	–	–	–
Other non-interest-bearing financial liabilities	82,103	–	–	82,103	–	–	–	–
Derivative financial liabilities								
Currency derivatives without hedging relationships	1,080	–	–	16,334	–	–	–	–
Currency derivatives in connection with fair value/cash flow hedges	3,267	–	–	34,098	–	20,460	–	26,318
Derivative financial assets								
Derivatives without hedging relationships	205	–	–	4,105	–	–	–	–
Currency derivatives in connection with fair value/cash flow hedges	4,186	–	–	29,096	–	6,146	–	3,015

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 –2,809 (previous year's period: TCHF –1,686) were recognized in profit or loss in the year under review.

In addition, currency differences from the translation of foreign subsidiaries of TCHF –1,464 (previous year's period: TCHF –10,606) and from cash flow hedges of TCHF 1,284 (previous year's period: TCHF –2,519) 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 6.18. 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

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
2015 (TCHF)		**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Derivative financial instruments	FVPL/without category	–	4,391	–	4,391
Financial assets at fair value through profit or loss	FVPL	99	–	2,067	2,166
Financial assets (equity instruments)	FVOCI	14,303	–	1,365	15,668
Financial liabilities measured at fair value					
Financial liabilities with hedging relationships in accordance with IAS 39	without category	–	576	–	576
Derivative financial instruments	FLPL/without category	–	4,347	–	4,347

Disclosures on level 3 financial instruments:

Designation of the financial instrument	Long-term shares	Short-term shares
Fair value on January 1, 2015	**1,712**	**1,624**
Gains/(losses) through profit or loss	5	–903
Gains/(losses) through equity	24	–262
Acquisition	1,341	–
Sale	–	–109
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**

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 purchases of TCHF 0 (previous year: TCHF 1,341), sales of TCHF 1,890 (previous year's period: TCHF 109), impairment losses of TCHF 1,366 (previous year's period: TCHF 903) and currency translation effects of TCHF 30 in total (previous year's period: TCHF –233). The impairment losses in the period under review 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, 2016 is therefore TCHF 0 (previous year: TCHF 1,365). Please see note 6.8 for further information on level 3 financial assets.

The currency effects recognized in profit or loss are reported under "financial income".

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, 2016 or December 31, 2015, there were no non-financial assets or liabilities measured at fair value (with the exception of the investment property, which was measured at fair value in the previous year, see note 6.4).

The fair value of the property of TCHF 3,300 was calculated by the management as of December 31, 2015 with the assistance of an independent valuation specialist and using a discounted cash flow method. A discount rate of 6.0 % was used and planned rents, expenses and the corresponding vacancies were estimated. The property was therefore assigned to level 3 of the fair value hierarchy.

8.6 Use of hedging instruments

In significant transactions, particularly in US dollars, Canadian dollars and euro, 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 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, 2016		Dec. 31, 2015	
(TCHF)	Assets	Liabilities	Assets	Liabilities
Currencies – Fair value hedges (derivates as hedging instruments)				
Hedge-Foreign currency forward	744	475	4,186	418
Currencies – Cash flow hedges (derivates as hedging instruments)				
Hedge-Foreign currency forward	75	1,431	–	2,849
Currencies – Fair value hedges (original financial instruments as hedging instruments)				
Hedge-Liabilities in foreign currencies	–	–	–	576
Total	**819**	**1,906**	**4,186**	**3,843**

Fair Value Hedges

As of December 31, 2016, derivatives with a nominal amount of TCHF 15,717 (previous year: TCHF 56,701) 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. In the previous year, financial liabilities in foreign currency were also used as hedging instruments to hedge currency risks. They were used to hedge firm commitments in US dollars not yet recognized and were fair value hedges.

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, 2016		Jan. 01 to Dec. 31, 2015	
(TCHF)	Gain	Loss	Gain	Loss
Currencies – Fair value hedges (derivates as hedging instruments)				
Hedge	1,099	821	4,130	409
Underlying transaction	821	1,099	409	4,130
Currencies – Fair value hedges (original financial instruments as hedging instruments)				
Hedge	–	–	–	568
Underlying transaction	–	–	568	–
Total	**1,920**	**1,920**	**5,107**	**5,107**

In effective hedges, the effects of changes in the fair value of hedged items and hedges were reported net in the income statement.

Cashflow Hedges

As of December 31, 2016, derivatives with a nominal amount of TCHF 33,719 (previous year: TCHF 61,607) 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 gains before taxes of TCHF 322 (previous year's period: losses of TCHF 2,849) in other comprehensive income (OCI) and the reclassification of expenses of TCHF 1,171 (previous year's period: TCHF 0) 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, 2016 will be reclassified to the income statement between 2017 and 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, 2016 and 2015 are as follows:

Derivative financial instruments without a hedge

	Dec. 31, 2016		Dec. 31, 2015	
(TCHF)	Nominal value	Fair value	Nominal value	Fair value
Foreign currency forwards (sale)				
PLN	480	–3	1,498	–8
USD	30,943	–1,396	4,148	–70
CAD	–	–	1,351	–10
ZAR	711	37	–	–
USD/CAD-Swap	–	–	9,337	–992
USD/ZAR-Swap	3,543	–110	–	–
thereof credit balance	642	42	–	–
thereof debit balance	35,035	–1,514	16,334	–1,080
Foreign currency forwards (acquisition)				
USD	32,701	1,230	4,930	205
thereof credit balance	29,944	1,241	4,930	205
thereof debit balance	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, 2016 (TCHF)	Interest rate risk –1 %	Interest rate risk +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 financial assets (current and non-current)	–	–
Other receivables (current and non-current)	–	–
Derivative financial instruments	–	–
Financial liabilities		
Trade accounts payable (current and non-current)	–	–
Other liabilities (current and non-current)	–	–
Financial liabilities (current and non-current)	523	–523
Derivative financial instruments	–	–
Total increase/decrease	**–362**	**362**
thereof through equity	–	–
thereof through profit or loss	–	–

Dec. 31, 2015 (TCHF)	Interest rate risk –1 %	Interest rate risk +1 %
Financial assets		
Cash and cash equivalents	–1,064	1,064
Trade accounts receivable	–	–
Receivables due from associated companies and joint ventures (current and non-current)	–	–
Other financial assets (current and non-current)	–	–
Other receivables (current and non-current)	–	–
Derivative financial instruments	–	–
Financial liabilities		
Trade accounts payable (current and non-current)	–	–
Other liabilities (current and non-current)	–	–
Financial liabilities (current and non-current)	1,043	–1,043
Derivative financial instruments	–	–
Total increase/decrease	**–21**	**21**
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 %
–691	691	–17	20	–3	4	–711	715	–	–
–68	68	–1,418	1,733	–	–	–1,486	1,801	–	–
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–18	23	–18	23	–10	10
–2,844	2,844	–123	151	–1,145	1,399	–4,112	4,394	–	–
–	–	–3,453	4,220	–	–	–3,453	4,220	–	–
64	–64	414	–505	–	–	478	–569	–	–
25	–25	1,271	–1,554	–	–	1,296	–1,579	–	–
–	–	38	–45	1,195	–1,461	1,233	–1,506	–	–
3,062	–3,062	2,635	–3,221	–	–	5,697	–6,283	–	–
–452	**452**	**–653**	**799**	**29**	**–35**	**–1,076**	**1,216**	**–10**	**10**
–	–	–	–	–	–	2,804	–2,747	–	–
–	–	–	–	–	–	–3,880	3,963	–	–

Exchange rate risk									
EUR/CHF		EUR/USD		EUR/CAD		Total		Other price risks	
–10 %	+10 %	–10 %	+10 %	–10 %	+10 %	–10 %	+10 %	–10 %	+10 %
–962	962	–85	102	–3	4	–1,050	1,068	–	–
–504	504	–486	594	–	–	–990	1,098	–	–
–281	281	–237	237	–	–	–518	518	–	–
–	–	–296	296	–31	39	–327	335	–1,440	1,440
–1	1	–106	130	–5	6	–112	137	–	–
–	–	–3,695	4,516	–	–	–3,695	4,516	–	–
1	–1	450	–551	–	–	451	–552	–	–
174	–174	1,486	–1,817	–	–	1,660	–1,991	–	–
–	–	5,113	–6,249	622	–761	5,735	–7,010	–	–
5,130	–5,130	775	–947	–608	744	5,297	–5,333	–	–
3,557	**–3,557**	**2,919**	**–3,689**	**–25**	**32**	**6,451**	**–7,214**	**–1,440**	**1,440**
–	–	–	–	–	–	6,151	–5,966	–	–
–	–	–	–	–	–	300	–1,248	–	–

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 result. 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. Segments 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 Rainbow Home Entertainment and its subsidiaries (not including Comosa AG) 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, 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.

As a result of the sale of the subsidiaries Highlight Event & Entertainment AG and Pokermania GmbH in the first quarter of 2016, the information on Other Business Activities covers only the period from January 1 to March 31, 2016.

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

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 result	**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**

Segment information 2015

(TCHF)	Film	Sports- and Event-Marketing	Other Business Activities	Other	Recon-ciliation	Group
External sales	290,892	51,730	3,438	–	–	346,060
Intra-Group sales	–	–	210	–	–210	–
Total sales	290,892	51,730	3,648	–	–210	346,060
Other segment income	91,303	2,388	166	–	–947	92,910
Segment expenses	–364,997	–33,089	–5,221	–5,689	1,157	–407,839
thereof amortization, depreciation	*–61,307*	*–843*	*–347*	–	–	*–62,497*
thereof impairment	*–11,314*	–	–	–	–	*–11,314*
Segment result	**17,198**	**21,029**	**–1,407**	**–5,689**	**–**	**31,131**
Non-allocable items						
Earnings from investments in associated companies and joint ventures						857
Financial income						4,255
Financial expenses						–10,789
Profit before taxes						**25,454**

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

Segment information by region

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

Jan. 01 to Dec. 31, 2015 (TCHF)	Switzerland	Germany	Rest of Europe	Rest of world	Total
External sales	93,070	195,114	34,417	23,459	346,060
Non-current assets	20,494	206,904	52	–	227,450

External sales by products

(TCHF)	2016	2015
Service production	119,119	127,829
Film	263,664	163,063
Sports- and Event-Marketing	58,644	51,730
Other Business Activities	229	3,438
Total external sales	**441,656**	**346,060**

Sales by customers

	2016		2015	
(TCHF)	nominal	in %	nominal	in %
Customer A (Film segment)	59,412	13	44,158	13
Customer B (Sports- and Event-Marketing segment)	58,644	13	51,730	15
Customer C (Film segment)	55,545	13	25,460	7
Sales with other customers	268,055	61	224,712	65
Total external sales	**441,656**	**100**	**346,060**	**100**

In total, the Highlight Group generated more than 10 % of its total sales with three customers (previous year's period: two 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, 2016					
Due within one year	9,648	8,607	7,352	4,415	30,022
Due between one 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**
As of December 31, 2015					
Due within one year	15,855	9,776	4,815	5,376	35,822
Due between one and five years	–	3,785	9,839	5,038	18,662
Due after five years	–	–	41	–	41
Total	**15,855**	**13,561**	**14,695**	**10,414**	**54,525**

10.2 Contingent liabilities

As of December 31, 2016, there were guarantees to various TV stations for the completion of service productions totaling TCHF 9,648 (previous year: TCHF 15,855). 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 8,913 (previous year: TCHF 13,561).

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 21,255 (previous year: TCHF 14,695).

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 6,340 (previous year's period: TCHF 6,153).

The minimum lease obligations as of December 31, 2016 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, 2016				
Due within one year	4,131	209	75	4,415
Due between one and five years	9,652	101	43	9,796
Due after five years	13,543	–	–	13,543
Total	**27,326**	**310**	**118**	**27,754**
As of December 31, 2015				
Due within one year	5,095	187	94	5,376
Due between one and five years	4,852	87	99	5,038
Total	**9,947**	**274**	**193**	**10,414**

11. RELATED PARTY DISCLOSURES

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

Related party disclosures

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Receivables	611	–
Liabilities	80	55

(TCHF)	Jan. 01 to Dec. 31, 2016	Jan. 01 to Dec. 31, 2015
Sales and other income	710	–
Cost of materials and licenses and other expenses	73	87

Parent company and its direct subsidiaries

(TCHF)	Dec. 31, 2016	Dec. 31, 2015
Receivables	94	191
Liabilities	285	278

(TCHF)	Jan. 01 to Dec. 31, 2016	Jan. 01 to Dec. 31, 2015
Sales and other income	294	247
Cost of materials and licenses and other expenses	613	622

There were no transactions with associated companies or joint ventures in the reporting year (previous year: receivables of TCHF 5,185, sales and other income of TCHF 6,895 in total plus cost of materials and licenses and other expenses of TCHF 6,360).

Other expenses for management services by the direct parent company Constantin Medien AG in the amount of TCHF 96 (previous year's period: TCHF 117) were incurred in the reporting year.

As of December 31, 2016, there were further liabilities to various members of the Board of Directors and managing directors of TCHF 80 (previous year: TCHF 55).

The equity investments in Highlight Event & 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 year under review (see note 3.1 for further information).

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

The Board of Directors of Highlight Communications AG has resolved temporary measures against hostile takeover attempts in the interests of the company and its minority shareholders. The measures are described in the ad-hoc disclosure of March 30, 2017.

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 2016 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of shareholders' equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 72 to 143) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 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.

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Our audit approach

Overview

Overall Group materiality: CHF 1,350,000

We concluded full scope audit work at 17 Group companies. Our audit scope addressed 88% of the sales, 95% of the assets and 112% of the profit before taxes of the Group. In addition, reviews were performed at a further 18 Group companies, which cover a further 11% of the sales, 5% of the assets and –4% of the profit before taxes of the Group.

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.

Overall Group materiality	CHF 1,350,000
How we determined it	5% of profit before taxes
Rationale for the materiality benchmark applied	We chose profit before tax 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 60,000 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 segment's entire 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 of 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, ensuring that sales from this agency agreement are recognised in the appropriate period assumes a particular significance. *Please refer to note 4.16 (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 method used, taking into account the accounting principles set out in note 4.16 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 Sports and Event Marketing segment, we examined in addition whether the income from this agency agreement for the 2015/2016 season ending in the previous financial year 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 2916/2017 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 actual and the expected financial results of the current season and our experience regarding the accuracy of the prior year's accruals.

	The evidence we obtained from our audits of sales in the Film segment and the Sports and Event Marketing segment corroborates the sales recognition methods applied by Highlight Group and the revenues that were recorded.

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 of CHF 127 million, comprising in-house and third-party productions, represent a significant portion (35%) 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, unit of production amortisation and any potential impairment. *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 the 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 unit 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 unit of production amortisation and of any potential impairments. The evidence we obtained from our audits of film assets corroborate the decisions and the calculations made by the Highlight Group with regard to the valuation of the film assets.

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 intends either 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 communicate to 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.

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 convened an ordinary General Meeting for 30 December 2016 and thus, contrary to the provisions of art. 699 para. 2 CO, not within six months of the end of the financial year.

PricewaterhouseCoopers AG

Matthias von Moos	Josef Stadelmann
Audit expert Auditor in charge	Audit expert

Lucerne, 7 April 2017

Financial statements

as of December 31, 2016 of Highlight Communications AG, Pratteln

BALANCE SHEET AS OF DECEMBER 31, 2016

Highlight Communications AG, Pratteln

ASSETS (TCHF)	Dec. 31, 2016	Dec. 31, 2015
Current assets		
Cash and cash equivalents	1,625	4,656
Securities with a market price	–	14,303
Other current receivables		
due from third parties	28,398	11
due from Group entities	116	3,172
Prepaid expenses/accrued income	22	5
	30,161	22,147
Non-current assets		
Non-current receivables		
due from Group entities	10,000	10,000
Equity investments	209,927	228,210
Licenses	–	–
	219,927	238,210
Total assets	250,088	260,357

EQUITY AND LIABILITIES (TCHF)	Dec. 31, 2016	Dec. 31, 2015
Liabilities		
Current liabilities		
Trade accounts payable		
due to third parties	684	14
due to shareholders	211	126
Current interest-bearing liabilities		
due to banks	30,000	35,000
due to Group entities	–	33,519
Other current liabilities		
due to third parties	21	22
Deferred income/accrued expenses	501	549
Current provisions	250	250
	31,667	69,480
Equity		
Subscribed capital	47,250	47,250
Legal capital reserves		
Reserves from capital contributions	24,537	24,537
Other legal capital reserves	2,063	2,063
Voluntary retained earnings	67,798	67,798
Profit carried forward	59,550	41,110
Net profit/loss for the year	17,459	18,440
Treasury shares		
Against reserves from capital contributions	–236	–10,321
	218,421	190,877
Total equity and liabilities	250,088	260,357

INCOME STATEMENT 2016

Highlight Communications AG, Pratteln

(TCHF)	2016	2015
License income	135	266
Other income	40	431
Income from equity investments	28,320	25,748
Total income	**28,494**	**26,445**
License expense	–73	–96
Personnel expense	–3,384	–5,519
Office and administrative expense	–3,923	–3,323
Write-downs on receivables due from Group entities	–7,200	–3,300
Total expense	**–14,580**	**–12,238**
Earnings before interest and taxes (EBIT)	**13,914**	**14,207**
Financial expense		
Interest expense	–512	–573
Price losses	–	–943
Financial income		
Interest income	83	82
Income from securities	3,949	5,666
Price gains	26	1
Profit/loss before taxes	**17,459**	**18,440**
Income taxes	–	–
Net profit/loss for the year	**17,459**	**18,440**

NOTES TO THE FINANCIAL STATEMENTS 2016

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

Treasury shares were measured at market value until December 31, 2014 and reclassified to equity without value adjustment. From fiscal year 2015, treasury shares are recognized at cost without subsequent remeasurement.

2. DETAILS ON INDIVIDUAL ITEMS

Securities with a market price

This item contains shares in Constantin Medien AG. These were sold in the year under review.

Current interest-bearing liabilities due to banks

Financial liabilities of CHF 5 million were repaid in the reporting year.

Income from equity investments

This item contains dividends from Group entities.

Income from securities

This relates to capital gains from the disposal of Constantin Medien shares and treasury shares. (In the previous year, there were gains on the remeasurement of Constantin Medien shares and realized price gains on treasurey shares.).

Office and administrative expense

This item contains management expenses, consulting expenses and investor relations costs.

Amortization, depreciation and write-downs

In the previous year, write-downs on receivables due from Group entities amounted to CHF 3.3 million (subordination). Write-downs on receivables due from Group entities as a result of subordination amounted to CHF 7.2 million in the reporting year.

Interest expense

Interest expense decreased as a result of the repayment of financial liabilities.

3. PLEDGED ASSETS AS COLLATERAL FOR OWN OBLIGATIONS

	Dec. 31, 2016	Dec. 31, 2015
Shares in Constantin Medien AG		
Number	0	6,012,749
Carrying amount in TCHF	0	11,638
Shares in Constantin Film AG		
Number	12,742,600	12,742,600
Carrying amount in TCHF	132,151	132,151
Shares in Highlight Communications AG		
Number	0	1,546,894
Carrying amount in TCHF	0	7,487
Credit facility used		
TCHF	30,000	35,000

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. BREAKDOWN OF LEGAL CAPITAL RESERVES

In the reporting year, there were no transactions in the legal capital reserves and no dividend was paid.

7. SHAREHOLDER STRUCTURE

Shareholders with holdings of over 5%	Dec. 31, 2016	Dec. 31, 2015
Constantin Medien AG	60.53%	60.53%
Stella Finanz AG	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 STOCK (HELD DIRECTLY OR INDIRECTLY VIA SUBSIDIARIES)

	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	–

	Number of shares	Carrying amount TCHF	Transaction value TCHF
Balance on January 1, 2015	2,815,650	11,288	–
Sales	2,627,418	11,403	14,329
Acquisitions	1,943,519	10,436	10,436
Balance on December 31, 2015	2,131,751	10,321	–

9. INFORMATION ON THE SHAREHOLDINGS OF THE BOARD OF DIRECTORS AND THE GROUP MANAGEMENT

As of December 31, 2016, the individual members of the Board of Directors and the Group management (including related parties) held the following number of shares in the company:

	2016	2015
Bernhard Burgener, Chariman and Delegate, executive member	–	2,200,000
René Camenzind, none-executive member	628,715	628,715
Martin Hellstern, none-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

The Board of Directors of Highlight Communications AG has resolved temporary measures against hostile takeover attempts in the interests of the company and its minority shareholders. The measures are described in the ad-hoc disclosure of March 30, 2017.

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)	
Payment of a dividend of CHF 0.20 per share	9,450
Withdrawal from the legal reserves from capital contributions	**9,450**

APPROPRIATION OF AVAILABLE RETAINED EARNINGS

(TCHF)	**2016**
Profit carried forward	59,550
Net profit for the year	17,459
Available retained earnings	**77,009**

The Board of Directors recommends to the Annual General Meeting the following resolution for the appropriation of retained earnings:

Balance to be carried forward	77,009

The dividend amount of TCHF 9,450 is entirely distributed from “Legal reserves from capital contributions” and corresponds to a dividend (not subject to withholding tax) of CHF 0.20 per share entitled to a dividend.

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.

The proposal by the Board of Directors to distribute a dividend not subject to withholding tax of CHF 0.20 was rejected by the Annual General Meeting of Highlight Communications AG in the previous year. Thus, no dividend was distributed to the shareholders of Highlight Communications AG for fiscal year 2015.

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 2016, income statement for the year then ended and notes, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 152 to 157) as at 31 December 2016 comply with Swiss law and the company's 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 1,000,000

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 a key audit matter, the following area of focus was identified:

- Impairment testing of equity investments

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

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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 1,000,000
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 50,000 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 testing of equity investments

Key audit matter	*How our audit addressed the key audit matter*
Equity investments (CHF 210 million) are a significant item on the company's balance sheet, representing 80% of total assets. The equity participations are valued individually. The recoverability of these assets depends on the future revenues and cash flows of the direct and indirect equity investments. There is a degree of uncertainty and a need to exercise judgement in determining the assumptions underlying forecasts of future results. Please refer to note 1 (Accounting) and note 5 (Notes on main investments) in the notes to the financial statements for 2016.	Testing equity investments for impairment is based on the expected revenues and cash flows of each of the two main equity investments, Team Holding AG, Lucerne and Constantin Film AG, Munich. In the 2015 financial year, the calculation was performed by an independent company and updated in the year under review by the Management of Highlight Communications AG. We assessed the assumptions and forecasts made by Management by challenging the most significant 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 the 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. On the basis of the audit procedures performed, we have addressed the risk of an incorrect valuation of the equity investments. We have no findings to report.

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 intends either 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 entity'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 communicate to 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 and legal reserves from capital contribution 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 convened an ordinary General Meeting for 30 December 2016 and thus, contrary to the provisions of art. 699 para. 2 CO, not within six months of the end of the financial year.

PricewaterhouseCoopers AG

Matthias von Moos	Josef Stadelmann
Audit expert Auditor in charge	Audit expert

Lucerne, 7 April 2017

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Highlight

Highlight Communications AG

Events
2017

Cinema	Cannes Film Festival	May 17 – 28
	Locarno Film Festival	August 2 – 12
	Venice Film Festival	August 30 – September 9
	Toronto Film Festival	September 7 – 17
Football	UEFA Europa League final	May 24
	UEFA Champions League final	June 3
Investor Relations	Interim reports	May/August/November
	Annual General Meeting	June 30
	German Equity Forum	November 27 – 29



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