Highlight Communications AG



ANNUAL REPORT 2018

KEY FIGURES

	in TCHF	2018	2017
Consolidated balance sheet	Balance sheet total	638,646	512,792
	Film assets	185,451	161,814
	Cash and cash equivalents	52,530	186,553
	Financial liabilities	149,004	77,172
	Equity	225,582	236,414
	Equity ratio	35.3 %	46.1 %
Consolidated income statement	Sales	531,610	374,313
	■ Film	364,362	315,625
	■ Sports- and Event-Marketing	63,728	58,688
	■ Sports	104,242	–
	Profit from operations (EBIT)	31,954	25,384
	■ Film	12,137	9,678
	■ Sports- and Event-Marketing	31,549	27,262
	■ Sports	–4,421	–
	Net profit (Highlight shareholders)	18,391	22,731
	Earnings per share (CHF)	0.32	0.41
	Earnings per share (EUR)	0.28	0.37
Consolidated statement of cash flows	Cash flow from operating activities	173,477	139,503
	Cash flow for investing activities	–300,074	–140,130
	thereof payments for film assets	–177,184	–134,765
	Cash flow for/from financing activities	–4,236	90,569
	thereof dividend payments	–12,447	–19,951
	Cash flow for/from the reporting period	–130,833	89,942
Personnel	Average number of employees	1,550	977

CONTENTS

EVENTS IN 2018

Q1

JANUARY

Two Constantin Film Group productions at once receive the Bavarian Film Award on January 19: The audience award goes to the team behind “Fack Ju Göhte 3” and the producer’s award to Kerstin Schmidbauer for her adaptation of Rita Falk’s bestselling crime novel “Grießnockerlaffäre”.

Bavarian Film Award for “Fack Ju Göhte 3”

Producer’s award of the Bavarian Film Award for “Grießnockerlaffäre”

FEBRUARY

In mid-February, the Constantin Film Group announces that it is further expanding its cooperation with the streaming service Netflix. The high-end crime series “Parfum” – a joint production of Moovie GmbH, ZDF, and ZDFneo – was available worldwide on Netflix at the same time as its launch on ZDFneo. Netflix also secured the second window rights for German-speaking countries and will stream the series there approximately one year after its debut on German TV.

The Constantin Film production “Dieses bescheuerte Herz” starring Elyas M’Barek in the leading role reaches another milestone at the end of February: It is seen by more than two million people and therefore ranks among the three most successful German theatrical movies of the past 16 months.

“Dieses bescheuerte Herz” was seen by more than two million moviegoers

MARCH

The early evening series “Dahoam is Dahoam” achieves a consistently high double-digit market share in Bavaria. As a result of this success, Bayerischer Rundfunk orders 555 new episodes from Constantin Television GmbH in the middle of March. This daily format that was first successfully broadcast in 2007 is therefore guaranteed to stay on screens until early 2021.

At the end of March, Highlight Communications AG acquires a further 29.99 % stake in Constantin Medien AG, thus increasing its shareholding to 78.38 %. Since March 31, 2018, the company has been fully consolidated and allocated to the new Sports segment.

The successful series “Dahoam is Dahoam” will continue to run until 2021

Q2

APRIL

At the allocation of reference funding for 2017 by the German Federal Film Board at the start of April, the Constantin Film Group is named the most successful German producer for the eleventh time and the best national distributor for the twelfth time. This comes with reference funding of around EUR 3.0 million for production and around EUR 0.69 million for distribution.

Just a short time later, movie star Elyas M’Barek wins the “Romy” – the Austrian film and TV award – for “Best-Loved Actor”. This award honors his performance in the Constantin Film blockbuster “Fack Ju Göhte 3”.

At the end of April, the entire “Fack Ju Göhte 3” team wins the German Film Prize in the category “Highest Attendance Film of the Year 2017”.

German Film Prize for “Fack Ju Göhte 3”

MAY

At the Annual General Meeting for fiscal year 2017 in the middle of May, Highlight’s shareholders approve all motions put forward by the Board of Directors by a large majority. These include the distribution of a dividend of CHF 0.20 per entitled share and the re-election of Bernhard Burgener as President and René Camenzind, Martin Hellstern, and Peter von Büren as members of the Board of Directors.

JUNE

After several weeks of shooting, the last scenes are taken for the comedy “Eine ganz heiße Nummer 2.0” with Gisela Schneeberger, Rosalie Thomass, and Bettina Mittendorfer. The sequel to the cult movie “Eine ganz heiße Nummer”, which was seen by around 1.3 million moviegoers in 2011, will be released in German movie theaters in 2019.

At the end of June, Constantin Film AG announces that the production firm Hager Moss Film GmbH will be acting as an independent unit under the banner of the Constantin Film Group moving ahead. The company produces theatrical and TV movies as well as series, such as the Franconia editions of “Tatort”.

Q3

JULY

The Constantin Film TV production “Bier Royal” celebrates its world premiere at the Munich Film Festival at the start of July. The two-part event miniseries was produced by Moovie GmbH for ZDF and stars Gisela Schneeberger, Lisa Maria Potthoff, Ulrike Kriener, and Marianne Sägebrecht.

At the same time, filming begins on “Ostwind – Aris Ankunft”. The fourth installment of the popular “Ostwind” series was released in German movie theaters at the end of February 2019.

AUGUST

“Sauerkrautkoma”, the fifth big-screen adaptation taken from Rita Falk’s hit series, is seen by more than 180,000 moviegoers at (almost exclusively) Bavarian theaters on its opening weekend (including previews). The crime comedy therefore clearly outshines the already great performance of its 2017 predecessor “Grießnockerlaffäre” (135,000 viewers) and scores the best box office per copy of all movies released between June and August 2018.

SEPTEMBER

The new TV series “Die Heiland – Wir sind Anwalt”, an Olga Film GmbH service production for Rundfunk Berlin-Brandenburg (rbb), debuts on September 4 to excellent prime time ratings on ARD. The first four episodes are seen by an average of between 4.05 and 4.72 million viewers, giving it total audience shares of between 13.7% and 16.7%.

At the end of September, Constantin Film AG announces that its subsidiary Constantin Television GmbH has secured the German remake rights to the hit Israeli show “The Baker and the Beauty”. The fictional series broke all ratings records in Israel and was streamed by the video-on-demand provider Amazon Prime in more than 200 countries worldwide.

“Die Heiland – Wir sind Anwalt” achieves excellent ratings right from the start

Q4

OCTOBER

The ZDF crime series “Die Protokollantin” – produced by Moovie GmbH – garners a strong response on international TV markets: It is sold to Australia, France, and the Netherlands even before its first broadcast in Germany (October 20). A remake for the US market is also already in development.

To mark the 30th anniversary since the fall of the Berlin Wall in 2019, filming on the ARD spy thriller “Wendezeit”, also produced by Moovie GmbH, began in Berlin in the middle of October. The movie about a double agent, played by Petra Schmidt-Schaller, is inspired by real events.

Successful TV production: “Die Protokollantin”

NOVEMBER

“Sauerkrautkoma” continues its success and, in the middle of November, becomes the first movie in the Rita Falk series to hit the magic target of a million viewers. The total number of tickets sold for all five installments therefore increases to more than 3.4 million.

The new Rita Falk adaptation “Sauerkrautkoma” outperforms its predecessor

Winner at the People's Choice Awards in Los Angeles: “Shadowhunters”

DECEMBER

At the People’s Choice Awards in Los Angeles, the international Constantin Film TV production “Shadowhunters” is named the best TV show of 2018 on November 11. It also wins three other prizes, including “Best Actress” and “Best Actor”. The People’s Choice Awards are voted for by the audience and presented to the best in movies, TV, music, and pop culture.

The comedy “Der Vorname” performs very well in German movie theaters and is seen by more than a million people by the middle of December. The Sönke Wortmann picture is therefore the Constantin Film Group’s third to be seen by more than a million people in 2018.

Third film with an audience of more than one million in 2018: “Der Vorname”

Foreword by the Chairman

Dear shareholders and other interested parties,

The Highlight Group is looking back on a successful fiscal year 2018 overall, in which we achieved and in some cases even exceeded our targets. We also made some important strategic preparations for the future development of the Group.

We acquired a parcel of shares in Constantin Medien AG at the end of March 2018 and held a stake of around 79 % at the end of the year. The company was included in consolidation for the first time effective March 31, 2018, and was allocated to the new Sports segment. The Highlight Group's business areas have thus been augmented by the free-TV station SPORT1, the pay-TV channels SPORT1+ and SPORT1 US (eSPORTS1 since January 24, 2019) and the online sports platform SPORT1. The new scope of consolidation also includes the TV production company PLAZAMEDIA, which specializes in providing state-of-the-art broadcasting center services and staging sophisticated live sports events.

In our consolidated financial statements, the inclusion of the Constantin Medien Group was reflected among other things in a considerably higher balance sheet total (up CHF 125.8 million to CHF 638.6 million) and a sharp rise in consolidated sales (up CHF 157.3 million to CHF 531.6 million). Consolidated sales was therefore in the middle of our forecast range of CHF 520 to 540 million.

EBIT improved by 26.0 % year-on-year to CHF 32.0 million, while consolidated net profit fell from the previous year's figure of CHF 23.7 million to CHF 18.0 million. This was a result of a decline in the financial result by a total of CHF 12.7 million due largely to currency effects. The same applies to the consolidated net profit attributable to shareholders, which was likewise in line with our earnings forecast of CHF 18 to 20 million at CHF 18.4 million. Based on the number of shares outstanding in 2018, this resulted in earnings per share of CHF 0.32.

In the past year, the TEAM Group successfully concluded the marketing of the TV and sponsorship rights to the UEFA Champions League and the UEFA Europa League (for the 2018/19 to 2020/21 seasons in each case). The performance targets agreed with UEFA were achieved, with the result that the TEAM agency agreement was automatically renewed for the 2021/22 to 2023/24 seasons. The continuation of the cooperation with UEFA is highly significant for the development of our company in the years to come, as it gives us planning security in the Sports- and Event-Marketing segment.

The Film segment also generated very pleasing results. Although the Constantin Film Group's distribution slate comprised only nine titles in 2018, one-third of those films attracted more than a million viewers each into German cinemas. "Sauerkrautkoma", which was screened almost exclusively in Bavaria, was the first adaptation from Rita Falk's series of novels to achieve this. Moreover, the theatrical success of "Fack Ju Göhte 3" continued in home entertainment exploitation. The title generated outstanding physical (DVD and Blu-ray) and digital (electronic sell-through) sales figures.

In the current fiscal year, the Constantin Film Group is expected to release nine own/co-productions and four licensed titles in German movie theaters. The highlights of the distribution slate include "Ostwind – Aris Ankunft", the new installment in the very successful youth adventure series, and "Leberkäsjunkie", the sixth adaptation of a Rita Falk crime novel. We also expect a good performance from the courtroom drama "Der Fall Collini" with Elyas M'Barek in the leading role and the new Bora Dagtekin film "Das perfekte Geheimnis", which will be released at the end of October.

Activities in Sports- and Event-Marketing will concentrate on supporting UEFA to market the UEFA club competitions in the 2021/22 to 2023/24 seasons. This support comprises commercial consulting on tournament formats as well as brand positioning, commercial concepts, rights packages, and sales processes.

The Constantin Medien Group will focus in particular on the further augmentation of the portfolio by acquiring attractive new rights, extending existing partnerships and developing new content cooperations and business areas. On the production side, the chief priorities are the realization of sophisticated and complex live sports productions and non-live formats as well as the development of innovative production technologies.

On behalf of myself and my colleagues on the Board of Directors, I would finally like to thank all employees of the Highlight Group for their work. Their motivation and commitment are key factors in our company's success. My particular thanks also go to everyone who has followed our company in a spirit of trust and fairness over the past year – be they shareholders, customers, or business partners. We will keep going to every effort to continue the Highlight Group's success story and would be delighted for you to continue to accompany us on this path.

Yours,

B. Burgener

Bernhard Burgener
Chairman and Delegate of the Board of Directors

Members of the Board of Directors

Bernhard Burgener (born 1957) Chairman and Delegate of the Board of Directors

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

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

René Camenzind (born 1951) Non-executive member of the Board of Directors

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

Martin Hellstern (born 1934) Non-executive member of the Board of Directors

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

Peter von Büren (born 1955) Executive member of the Board of Directors

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

Corporate governance

INTRODUCTION

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

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

1. GROUP STRUCTURE

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

1.1 Operative Group structure

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

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, 2018, the market capitalization of the company was around EUR 287.12 million at a closing stock price for the year of EUR 5.06.

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, 2018, Highlight Communications AG was aware of the following shareholders with a share of more than 5 % of its subscribed capital:

Highlight Event and Entertainment AG	44.72 %
Stella Finanz AG	13.81 %
Axxion S.A.	9.89 %

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, 30,000 treasury shares were bought back. As of December 31, 2018, treasury stock comprised 6,257,501 shares, equivalent to 9.93 % of the company's subscribed capital.

1.5 Cross-holdings

Constantin Medien AG holds 9.81 % of the share capital of Highlight Communications AG as of December 31, 2018. Constantin Medien AG is fully consolidated by the Highlight Group as of March 31, 2018.

2. CAPITAL STRUCTURE

2.1 Capital

Highlight Communications AG's subscribed capital amounts to CHF 63,000,000 and is divided into 63,000,000 bearer shares with a nominal value of CHF 1 each; all shares subscribed are paid up.

2.2 Authorized capital

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

2.3 Changes in capital – changes in nominal value

There were no changes in capital in the reporting period.

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, 2018, 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
President of the Board of Directors of Team Holding AG, Lucerne, Switzerland
President of the Board of Directors of Team Football Marketing AG, Lucerne, Switzerland
President 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
President of the Board of Directors of Club de Bâle SA, Basel, Switzerland
President of the Board of Directors of Comosa AG, Zurich, Switzerland
Member of the Board of Trustees of EurAsia Heart – A Swiss Medical Foundation, Zurich, Switzerland
President of FC Basel 1893 AG, Basel, Switzerland
President of the Board of Directors of FC Basel Holding AG, Basel, Switzerland
President of the Board of Directors of FC Basel 1893 AG, Basel, Switzerland
President of the Board of Directors of Stadiondienst AG, Basel, Switzerland
Member of the Board of Trustees of Skywall Dr Stiftung, Lucerne, Switzerland
Chairman of the Board of Trustees of Cineprotect Stiftung, Pratteln, Switzerland

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

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

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

Other (corporate) activities and interests:
Member of the Board of Directors of CineStar SA, Lugano, Switzerland
President and Delegate of the Board of Directors of Praesens-Film AG, Zurich, Switzerland
President of the Board of Directors of Atlantis Investment AG, Wil, Switzerland
Delegate of the Board of Directors of Atlantic-Immobilien und Investment AG, Zurich, Switzerland
Member of the Board of Directors of Stella Movie SA, Comano, Switzerland
Chairman of the Management Board of MPLC Switzerland GmbH, Zurich, Switzerland
President of the Board of Directors of Kart-Bahn-Wohlen AG, Switzerland

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

Other (corporate) activities and interests:
Member of the Supervisory Board of Constantin Film AG, Munich, Germany
Member of the Board of Directors of Constantin Film und Entertainment AG, Zurich, Switzerland
Vice President of the Board of Directors of Rainbow Home Entertainment AG, Pratteln, Switzerland

Member of the Board of Trustees of T.E.A.M. Vorsorgestiftung, Lucerne, Switzerland
Member of the Board of Directors of Highlight Event and Entertainment AG, Pratteln, Switzerland
Member of the Board of Directors of Highlight Event AG, Emmen, Switzerland
Member of the Board of Directors of Escor Automaten AG, Düdingen, Switzerland
President of the Board of Directors of CBE Marmor & Handels AG, Ibach, Switzerland
Member of the Board of Directors of Comosa AG, Zurich, Switzerland
Member of the Board of Trustees of Cineprotect Stiftung, Pratteln, Switzerland
Member of the Board of Directors of FC Basel Holding AG, Basel, Switzerland
Member of the Management Board of FC Basel 1893 AG, Basel, Switzerland
Member of the Board of Directors of Stadiondienst AG, Basel, 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
Member of the Board of Directors of Plazamedia Swiss AG, Pratteln, 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. Re-election 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 four 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 May 18, 2018, 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, 2018.

4.1 Members of management

4.1.1 Group management

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

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

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

His functions were resumed as of September 1, 2018. These functions had temporarily been suspended after Dr. Graf was elected as the Chairman of the Supervisory Board of Constantin Medien AG. Dr. Paul Graf will continue to serve as the Chairman of the Supervisory Board of Constantin Medien AG.

4.1.2 TEAM (Sports- and Event-Marketing segment)

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

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

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

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

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

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

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

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

4.1.3 Rainbow Home Entertainment (Film segment)

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

4.1.4 Constantin Film (Film segment)

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

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

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

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

4.1.5 Constantin Medien (Sports segment)

Olaf G. Schröder, CEO

Olaf G. Schröder has been Constantin Medien AG's CEO since August 25, 2017. In this function, he coordinates Management Board policy and is responsible for the strategic development of Constantin Medien AG, M&A activities, communications, HR and the activities of Constantin Medien's Sports segment subsidiaries with Sport1 GmbH, Sport1 Media GmbH, and PLAZAMEDIA GmbH. He is also the Chairman of the Management Board of Sport1 GmbH.

Dr. Matthias Kirschenhofer, CFO

Dr. Matthias Kirschenhofer was appointed to the Management Board of Constantin Medien AG as the Director of Finance and Legal as of September 11, 2017. In this function, he is responsible for Legal, Compliance, Finance, Corporate Finance, Accounting, Controlling, Internal Audit, Investor Relations, Administration, and IT. He is also the Managing Director for Entertainment at Sport1 GmbH.

4.2 Further corporate activities and interests

None.

5. COMPENSATION, SHARES AND LOANS

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

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

6. SHAREHOLDERS' RIGHTS

6.1 Restrictions on voting rights, voting by proxy

6.1.1 All restrictions on voting rights

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

6.1.2 Statutory rules on participation in the Annual General Meeting

The provisions of the Swiss law of obligations apply.

6.2 Statutory quorum

The statutory provisions apply.

6.3 Procedure for convening the Annual General Meeting

The provisions of the Swiss law of obligations apply.

6.4 Agenda

The provisions of the Swiss law of obligations apply.

6.5 Registration in the share book

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

7. CHANGE OF CONTROL AND DEFENSE MEASURES

7.1 Duty to bid

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

7.2 Change-of-control clause

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

8. AUDITORS

8.1 Duration of auditor mandate

The statutory auditor for Highlight Communications AG is elected for a period of one year subject to a resolution passed by the Annual General Meeting. PricewaterhouseCoopers AG in Lucerne audited our annual financial statements for the year ending December 31, 2001 for the first time. Mr. Bruno Häfliger has been the auditor in charge again since fiscal year 2018.

8.2 Auditing fees

A sum of TCHF 180 was paid for auditing services of PricewaterhouseCoopers AG in fiscal year 2018. Additional fees of TCHF 5 were invoiced by PricewaterhouseCoopers AG for tax consulting relating to Highlight Communications AG and the Group. In addition, TCHF 325 was invoiced as audit fee for audit-related services and for auditing the 2018 interim report.

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 2018 sets out the remuneration system and remuneration to members of the Board of Directors and the management team of Highlight Communications AG. The content and scope of the details comply with the regulations of the Ordinance Against Excessive Compensation in Stock-Exchange Companies (VegüV), passed by the Swiss Federal Council, which came into force on January 1, 2014, and the Corporate Governance Directive (RCGL) of the SIX Swiss Exchange. Remuneration is posted in accordance with the "accrual principle".

The remuneration report of March 27, 2019 of Highlight Communications AG for the fiscal year ending December 31, 2018 has been audited by the statutory auditor. The audit was limited to the disclosures in accordance with Art. 14 – 16 VegüV.

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

1. RESPONSIBILITIES AND AUTHORIZATIONS FOR REMUNERATION

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

The main tasks of the full Board of Directors are:

a. Determining the principles of the remuneration strategy

b. Determining the level and composition of overall remuneration for the Chairman of the Board of Directors

c. Determining the level and composition of individual overall remuneration for the Vice Chairman and the other members of the Board of Directors

d. Remuneration of committee members

e. Determining the level and composition of overall remuneration and individual remuneration for the Delegate as well as the individual members of the management team (see sections 2.1 and 2.1.1)

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

2. REMUNERATION TO MEMBERS OF THE BOARD OF DIRECTORS

2.1 Principles

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

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

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

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

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

2.1.1 Directors' fee

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

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

2.1.2 Pension benefits

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

2.2 Remuneration to the individual members of the Board of Directors

Fiscal year 2018

In 2018, the executive and non-executive members of the Board of Directors received overall remuneration of TCHF 124.6 (2017: TCHF 124.6). Compensation for the various activities at the subsidiaries is set out in section 3 "Remuneration to members of the management team".

audited

Overall compensation of the members of the Board of Directors for their work on the Board of Directors remained unchanged compared to the previous year. The individual members of the Board of Directors received the following remuneration (in TCHF):

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

audited

Fiscal year 2017

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

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 2017, 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 2018

In 2018, the three members of the management team (including executive members of the Board of Directors, BoD) received overall remuneration of TCHF 3,185 (2017: TCHF 3,192). The overall compensation of the members of the management team thus decreased slightly compared to the previous year.

audited

(TCHF) Name/role	Basic remuneration, gross[1]	Variable remuneration, gross	Indirect remuneration for activities at subsidiaries	Pension benefits	Total remuneration as member of the management team	Total remuneration as member of the Board of Directors[2]	Total remuneration
Bernhard Burgener, Chairman and Delegate of the BoD, executive member of the BoD (highest remuneration)	833	485	129	231	1,678	11	1,689
Peter von Büren, executive member of the BoD	375	301	17	112	805	11	816
Other member of the management team	318	250	12	100	680	-	680
Total	**1,526**	**1,036**	**158**	**443**	**3,163**	**22**	**3,185**

[1] *Basic remuneration also includes flat-rate expenses.*

[2] *Details on remuneration as a member of the Board of Directors are set out in section 2.*

audited

Fiscal year 2017

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

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

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

4. ADVISORY BOARD

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

5. BENEFITS, CONTRACTUAL AGREEMENTS ON LEAVING HIGHLIGHT COMMUNICATIONS AG

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

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

6. LOANS AND CREDITS TO EXECUTIVE BODIES

As of December 31, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, the company had not paid any non-market-compliant remuneration to related parties.

8. REMUNERATION TO FORMER MEMBERS OF EXECUTIVE BODIES

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

9. MANAGEMENT CONTRACTS

There are no management contracts with third parties.

10. SHAREHOLDINGS IN HIGHLIGHT COMMUNICATIONS AG

As of December 31, 2018, the members of the Board of Directors and the management team (including related parties) held a total of 1.40% of the outstanding bearer shares in Highlight Communications AG (previous year: 1.40%).

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

		2018		2017
	Number of shares	Share of capital	Number of shares	Share of capital
Bernhard Burgener	-	-	-	-
René Camenzind	628,715	1.00%	628,715	1.00%
Martin Hellstern	200,000	0.32%	200,000	0.32%
Peter von Büren	-	-	-	-
Dr. Paul Graf	50,000	0.08%	50,000	0.08%

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 2018. 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 labelled '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 2018 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Bruno Häfliger

Audit expert
Auditor in charge

Bastian Stolzenberg

Audit expert

Lucerne, 27 March 2019

PricewaterhouseCoopers AG, Robert-Zünd-Strasse 2, Postfach, CH-6002 Luzern
Telefon: +41 58 792 62 00, Telefax: +41 58 792 62 10, www.pwc.ch

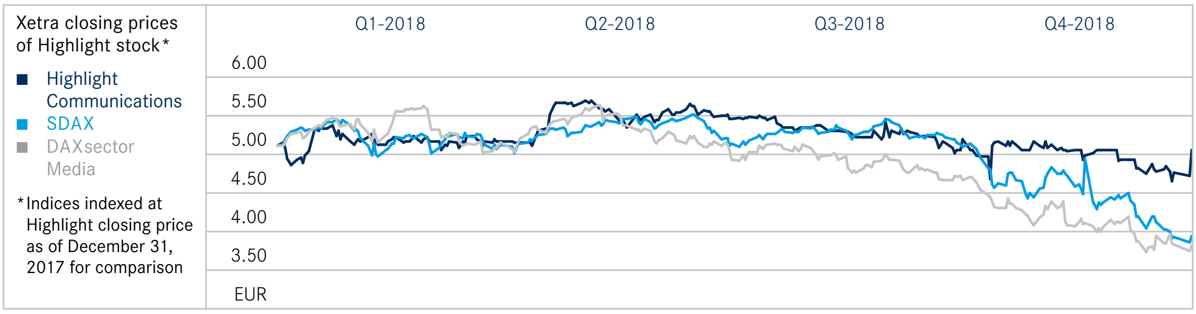
Coveted award: The team behind the Constantin Film blockbuster "Fack Ju Göhte 3" won the German Film Prize in the "Highest Attendance Film" category.

HIGHLIGHT STOCK

Highlight's stock price performed considerably better than the SDAX and DAXsector Media benchmarks in 2018.

- The closing price for the year of EUR 5.06 was only 0.8% less than the previous year's (EUR 5.10).
- On the basis of shares outstanding, this resulted in a market capitalization of EUR 287.1 million.
- The average number of shares traded per day fell from around 6,200 to approximately 4,900.

2018



Global stock market slump

Contrary to all original forecasts, the stock markets experienced some of their worst losses of the past decade in 2018. Even in January, there had been no indication of this development. On the basis of robust global economic growth and the end of the US Federal Reserve's zero interest policy, prices rose on international stock markets with many benchmark indices hitting new highs.

But just a short time later, the positive sentiment flipped to general uncertainty, leading to strong volatility and price slumps as the year progressed. This was caused in particular by the trade conflict with China initiated by US President Trump, which culminated in punitive bilateral tariffs on imported goods. On top of this, there were months of tough Brexit negotiations and the EU Commission's rejection of the Italian government's draft budget, which evoked memories of the public debt crisis. By fall at the latest, when the International Monetary Fund adjusted its growth forecasts for the world economy downwards, there was no longer any stopping the stock market nosedive.

Nevertheless, these factors affected the US stock markets the least. For instance, the Dow Jones Industrial Average Index, which ended trading on December 31, 2018 at 23,327 points, lost "only" 5.6 % over the course of the year. Meanwhile, the Japanese Nikkei 225 index closed at 20,015 points, down 12.4 %, and the EURO STOXX 50 tumbled by as much as 14.4 % year-on-year to 3,001 points.

The Swiss Market Index (SMI) already reached its high for the year at around 9,600 points in January and then gradually lost value – with the exception of a recovery phase in the summer months. It ended the year at 8,429 points – a drop of 10.2 %. Despite posting its heaviest losses since the 2008 financial crisis, the SMI therefore performed relatively well compared to its international peers.

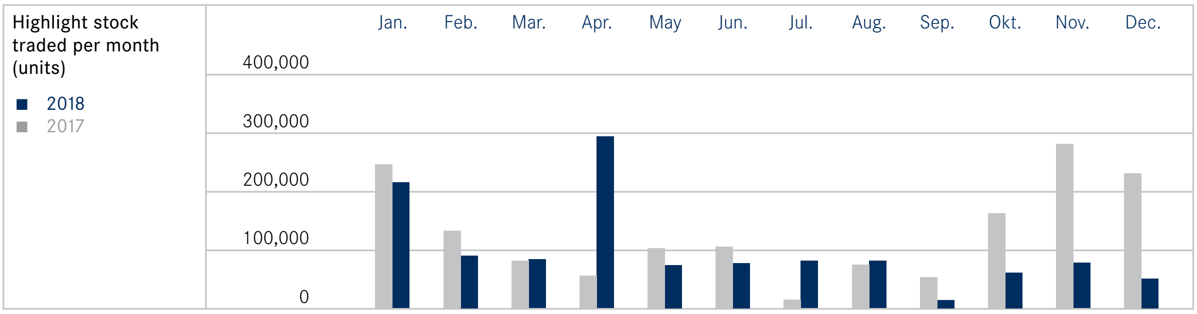
The DAX, which has ended every year since 2012 with a profit, put up a significant decline of 18.2 % and ended trading at 10,559 points. The SDAX small cap index fared even worse, closing at 9,509 points and falling by 20.0 % over the year. The index for German media stocks (DAXsector Media) fell to 308 points in the period from January to December 2018, thereby losing 22.3 %.

Minor price losses for Highlight stock

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 5.06, a slight decrease of 0.8 % compared to the previous year. Highlight's stock thus did slightly better than its SDAX and DAXsector Media benchmarks.

Having started the year at a closing price of EUR 5.10, the stock dropped to EUR 4.89 in the first week of trading, before then recovering and climbing to EUR 5.34 in the space of just a few days. During the subsequent sideways trend, the price then oscillated within a range of EUR 5.06 to EUR 5.24. Highlight's stock was up 1.2 % when it closed at EUR 5.16 at the end of the first quarter.

The first five weeks of the second quarter were dominated by a strong upward wave, which the share price rode to its high for the year of EUR 5.62 at the beginning of May. A brief interlude at EUR 5.32 lasting until the middle of June was quickly overcome, and the shares found themselves back at EUR 5.58 once again. However, they were unable to maintain this level in the second half of June. Highlight's stock ended the first half of 2018 with a gain of 6.1 % at EUR 5.41.



As a result of the general market malaise, the entire second half of the year was a story of a slow downward trend and strong volatility, peppered with sharp fluctuations in very short spaces of time. During this period, the stock also reached its lowest ebb for the year at EUR 4.46 on October 9, though the price managed to improve on this significantly by the end of the year.

Trading volume still in decline

In the period from January to December 2018, around 1.23 million Highlight shares were traded on Deutsche Börse AG's Xetra trading system, a decline of 21.2 % as against the previous year (around 1.56 million). The average number of shares traded per day therefore fell from around 6,200 to approximately 4,900.

Distribution policy continuing

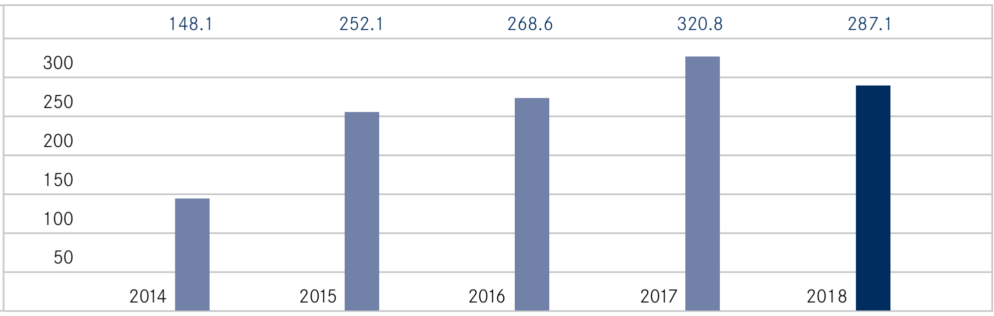
Having allowed our shareholders to regularly participate in the earnings power of our company in previous years, we naturally intend to maintain this policy for the year under review. The Board of Directors will therefore propose to the Annual General Meeting in June 2019 to approve the distribution of a dividend of CHF 0.20 per authorized share for fiscal year 2018.

Increase in treasury shares

As of December 31, 2018, the issued capital of Highlight Communications AG was unchanged at CHF 63.0 million, divided into 63.0 million bearer shares with a nominal value of CHF 1.00 per share. The number of treasury shares, which had been around 44,983 as of the end of 2017, increased significantly to 6.26 million over the course of the year under review. The reasons for this were the first-time consolidation of Constantin Medien AG, which led to an increase of 8.26 million shares, and then the disposal of 2.0 million shares in the second quarter of 2018. The treasury shares account for around 9.9 % of issued capital. Not including these shares, there were 56.74 million shares outstanding as of December 31, 2018.

Our company's principal shareholders are Highlight Event and Entertainment AG (44.72 %), Stella Finanz AG (13.81 %), and Constantin Medien AG (9.81 %). Further significant share packages are held by members of the Board of Directors and by private investors. As of December 31, 2018, the free float amounted to 31.64 % as per Deutsche Börse AG's index weighting.

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



Investor relations activities focusing on direct communications

From the start, the Highlight Group's strategy has been focused on sustainably increasing enterprise value. Ongoing and open communications with capital market participants are a key element aiding this strategy. In the reporting year 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 to help them to assess our current business situation and the future prospects of the Highlight Group.

We also stepped up direct contact with investors. Among other things, this was aided by roadshows and presentations in Frankfurt. We also gave market players at the German Equity Forum – the most important investors' fair for small and medium-sized listed stock corporations in Europe – 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. In keeping with the principle of fair disclosure, we publish all relevant company information there in due time. This refers primarily to our press releases and ad hoc disclosures, and 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, 2018

Issued capital	CHF 63.0 million
Number of shares	63,000,000
Stock class	Ordinary bearer shares
Shares outstanding	56.74 million
Market capitalization (based on shares outstanding)	EUR 287.1 million
Year-end price	EUR 5.06
52-week high (May 2, 3, and 4)	EUR 5.62
52-week low (October 9)	EUR 4.46
Earnings per share	EUR 0.28

Key data for Highlight stock

WKN	920 299
ISIN	CH 000 653 9198
Ticker	HLG
Reuters identification code	HLGZ.DE
Index	DAXsector Media
Trading venues	Berlin, Düsseldorf, Frankfurt, Hamburg, Hanover, Muinch, Stuttgart, Xetra

Award-winning crime comedy: The Bavarian Film Awards' audience award 2019 went to the team behind the Constantin Film co-production "Sauerkrautkoma".

REPORT ON THE HIGHLIGHT GROUP'S SITUATION

The business performance of the Highlight Group was in line with forecasts overall in 2018.

- At CHF 531.6 million, consolidated sales were exactly within the projected range of between CHF 520 and CHF 540 million.
- EBIT improved by 26.0% to CHF 32.0 million.
- At CHF 18.4 million, the consolidated net profit attributable to shareholders was also within the forecast corridor of between CHF 18 and CHF 20 million.
- Earnings per share were down on the previous year, as expected, at CHF 0.32.
- The equity ratio declined – particularly as a result of the first-time consolidation of Constantin Medien AG – by nearly 11 percentage points to 35.3%.

2018

Successful next installment in the Rita Falk series: “Sauerkrautkoma”

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 as well as, since March 31, 2018 the Sports segment.

Film segment

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

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

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

The main sources of income in the Film segment result from exploitation of the rights to the films it produces and acquires across all stages of the exploitation chain, as well as from production orders for TV broadcasters and other exploiters in the audiovisual sector. Other earnings are generated from national and international grants from film funding. The main expense items consist of acquisition and exploitation rights for screenplays and source material, production costs as well as release and promotion expenses for the individual films (marketing and copies).

Sports- and Event-Marketing segment

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

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

Sports segment

The Sports segment covers the activities of Constantin Medien AG, Ismaning, listed on the Frankfurt stock exchange and 79.18 % owned by Highlight Communications AG. The company operates as a multi-platform marketer in television (free-TV and pay-TV), online platforms, and mobile applications. In addition, it offers a wide range of services in the moving-image production sector.

The main sources of income in the Sports segment are advertising and/or sponsorship revenues (free-TV and digital areas), contractually agreed guarantee payments (pay-TV), and long-term framework production agreements. The main expense items consist of costs for license rights, production and distribution costs, amortization on investments in technical innovations/expansions, and personnel expenses.

CONTROL SYSTEM AND PERFORMANCE INDICATORS

Group management

Highlight Communications AG's Board of Directors is responsible for the strategic orientation and management of the Highlight Group. By contrast, responsibility for operating activities lies with the management body of the relevant subsidiary. At Constantin Film AG, this body is the Management Board, which consists of four members, at Team Holding AG it is the Board of Directors, which is also made up of four people, and at Constantin Medien AG it is the two-member Management Board. Management of all activities within the Highlight Group is based on short-term and medium-term planning as well as regular reporting.

Financial performance indicators

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

Seen by more than two million moviegoers: "Dieses bescheuerte Herz"

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.
- Access to and availability of attractive sports rights is extremely important to the various platforms of the Sports segment. In free-TV, these rights are essential to the ability to maintain and increase market share. Indicators for this are the daily coverages. By contrast, in pay-TV, the number of subscribers is a key performance indicator.
- Success in the online and mobile sector is measured on the basis of visits and page impressions (PIs), while the development of video views is the yardstick for the success of the video platform.

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.

German theatrical movie producers – such as the Constantin Film Group – are dependent on funding. The increase in the various subsidy funds of the German Federal Film Fund (DFFF) to EUR 125 million from 2018 announced by Minister of Culture Prof. Monika Grütters has been carried out. The DFFF is therefore the most important funding institution. Like similar bodies in other countries, it funds production activities in the respective location.

Sports segment

Defining legal influencing factors for free-TV and pay-TV broadcasters as well as the Internet TV offering of the Sports segment are the German Interstate Broadcasting Treaty and the state media laws, compliance with which is monitored by the respective media institutions of the German federal states. The activities of the Constantin Medien Group fall under the responsibility of the Bavarian Regulatory Authority for New Media (BLM).

The German Interstate Broadcasting Treaty contains various regulatory requirements regarding the placement of advertisements. These also include the sweepstake shows legislation, which features strict regulations for call-in formats to protect participating minors and increase the transparency of competitions in general.

As a private broadcaster, the Constantin Medien Group is also subject to the provisions of the German Interstate Treaty on the Protection of Children and Young People. Under this agreement, care must be taken to ensure that children and young people cannot be made aware of offerings that may impair their development as a responsible and socially competent person.

Extremely successful remake of the French original: "Der Vorname"

MARKET RESEARCH AND DEVELOPMENT

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

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

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

ECONOMIC REPORT

GENERAL ECONOMIC ENVIRONMENT

According to the calculations published by the International Monetary Fund (IMF) in January 2019, the growth of the world economy was on par with the previous year at 3.7 % in 2018, which was lower than initially expected. The main reasons for this cited by the organization are the high debt burden in a large number of countries and simmering trade conflicts, chief among them the one between the two leading economies US and China. These conflicts are disrupting global trade chains, slowing the expansion of new technologies, and thus squeezing productivity. Furthermore, the IMF believes that the economic development of several key countries has already peaked.

For emerging and developing countries, these factors resulted in growth of 4.6 %, slightly slower than in the previous year (4.7 %). Meanwhile, the economy in the industrialized countries was stable year-on-year with a rise of 2.3 %. The strongest increase was reported by the US economy, which expanded by 2.9 % in 2018 (2017: 2.3 %), thanks in particular to the tax reform stimulus. The IMF calculated an upturn of 1.8 % for the euro area – significantly less than in the previous year (2.4 %).

By contrast, the Swiss economy reported strong growth. According to projections published by the State Secretariat for Economic Affairs (SECO) published in mid-December 2018, gross domestic product (GDP) rose by 2.6 % in the past year after a moderate increase of 1.0 % in 2017. This was driven by rising investment in equipment (up 3.2 %) and the traditionally strong export sector, which grew by 2.9 %. However, private consumer spending fell short of expectations with an increase of 0.9 %.

According to initial calculations published by the German Federal Statistical Office (Destatis), the German economy grew by only 1.5 % in 2018 (2017: 2.2 %). The economy was held back primarily by sharp declines in the export sector and problems in the automotive industry that is so vital to Germany. Growth stimulus was generated mainly by private consumer spending (up 1.0 %), the construction industry (up 3.0 %) and corporate investment, which rose by 4.5 %.

The Austrian economy told a very different story, with exports again expanding by 4.7 %. In addition, there was higher private consumer spending (up 1.7 %) and gross capital investment, which remained at a high level with growth of 3.5 %. In light of this, the Institute for Economic Research (WIFO) issued a forecast in mid-December 2018 indicating a strong increase in real GDP of 2.7 % (2017: 2.6 %).

MEDIA AND ENTERTAINMENT MARKET ENVIRONMENT IN GERMANY

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

The audit company PricewaterhouseCoopers (PwC) forecast sales growth of 2.0 % to around EUR 62 billion for the media and entertainment industry as a whole in Germany for 2018. In the previous year, the increase amounting to 2.1 % was on a similar level.

The growth of the market as a whole was driven primarily by digital media content and industry newcomers. For example, the e-sport segment put up strong increases of 25.2 %, and online advertising and video games likewise enjoyed strong expansion of 7.3 % and 8.9 % respectively, while the traditional media of television (up 0.1 %) and radio (up 1.1 %) were virtually unchanged.

By contrast, there is compelling growth potential on the German production market. This primarily results from substantial production budgets that, for example, streaming services wish to invest and that – on account of a new EU provision that at least 30 % of streaming platform content must be European – they have to invest as well. The new EU provision has yet to be ratified by the Member States and endorsed in national law.

Well-deserved reward: Elyas M'Barek won the "Romy" – the Austrian film and TV award – for his acting performance in "Fack Ju Göhte 3".

Management report: Film segment

Report on business performance and the situation

2018

Best family entertainment: “Fünf Freunde und das Tal der Dinosaurier”

SECTOR-SPECIFIC SITUATION

Theatrical distribution

At around EUR 899.3 million, revenues on the German movie market were down approx. 15 % year-on-year in 2018 (2017: around EUR 1.056 billion). Audience figures fell by approx. 14 % to around 105.4 million (2017: around 122 million). The market share of German own and co-productions was roughly on a par with the previous year at 23.5 % (2017: 23.9 %).

Of all the movies released in Germany in 2018, 27 drew an audience of more than a million people (including previews). The most successful releases in 2018 were: “Fantastic Beasts: The Crimes of Grindelwald” with an audience of approx. 3.6 million, followed by “Avengers: Infinity War” (approx. 3.4 million), “Fifty Shades Freed” (approx. 3.0 million), “Incredibles 2” (approx. 2.9 million) and “Hotel Transylvania 3: Summer Vacation” (approx. 2.5 million).

Home entertainment

The downward trend in some sub-sectors of the overall German home entertainment market continued last year. At EUR 1.169 billion, revenues were down 12.6 % year-on-year in 2018 (previous year: EUR 1.337 billion), whereby these figures do not include the fast-growing SVoD business (subscription video-on-demand). This decrease resulted mostly from falling revenue volumes for sales and rentals of physical media (DVD and Blu-ray). While income of EUR 1.058 billion was generated in this area in 2017, the figure fell to EUR 0.833 billion in the past year – a drop of 21.1 %.

By contrast, digital exploitation (electronic sell-through and transactional video-on-demand) remained on a growth path, with revenues rising significantly by 20.0 % from EUR 0.280 billion to EUR 0.336 billion, though this was not enough to offset the decline in physical media.

OPERATIONAL DEVELOPMENT

Fifteen theatrical movies in production

In the period from January to December 2018, a total of fifteen own and co-productions were undertaken. The focus here was on bestseller adaptations, including “Das geheime Leben der Bäume” based on the book by Peter Wohlleben, “Der Fall Collini” based on the novel by Ferdinand von Schirach, and “Leberkäsjunkie” – the sixth screen adaptation from the hugely successful series of novels by Rita Falk. The popular “Ostwind” franchise was also continued with “Ostwind – Aris Ankunft”. “Polar” – a big-budget action movie for over-the-top platforms based on a graphic novel – was filmed for the international markets. The fantasy spectacular “Monster Hunter”, starring Milla Jovovich in the leading role and based on an international hit video game, was also in production in the reporting period.

Hard-hitting action in the Frankfurt criminal underground: "Nur Gott kann mich richten"

Three films with a strong performance in theatrical distribution

As planned, the Constantin Film Group released nine movies in German theaters in 2018. The film slate consisted of six own/co-productions and three licensed titles. In particular, good audience figures were achieved by the own productions "Der Vorname" and "Dieses bescheuerte Herz" as well as the co-production "Sauerkrautkoma".

"Fack Ju Göhte 3": the biggest-selling DVD of 2018

As expected, market share in the home entertainment sector increased year-on-year, despite a decline in revenues on the overall market. This improvement is attributable mainly to the new release of the hit movie "Fack Ju Göhte 3", which topped the annual German DVD sales charts. Catalog business remained strong, and so was also a factor in this successful performance.

Major license launches in TV exploitation/license trading

Various license sales of in-house and third-party productions were again concluded in 2018. As in the previous year, the conventional exploitation stages free-TV and pay-TV/pay-per-view (PPV) accounted for almost all significant transactions in terms of sales in this business area.

In free-TV, the start of the initial licenses for "Ostwind 2" (RTL2), "Fack Ju Göhte 2" (ProSieben), "Look Who's Back" (ProSieben), and "Grießnockerlaffäre" (Degeto/ARD) had a particular impact on sales. There were also initial licenses in the pay-TV sector for films including "Fack Ju Göhte 3" (Sky), "Dieses bescheuerte Herz" (Sky) and "Fünf Freunde und das Tal der Dinosaurier" (Sky).

In addition, the streaming platform Amazon purchased the SVoD rights to 39 Constantin Film library titles for the German-speaking region.

Further expansion of TV service production

Both national and international fictional TV production were further stepped up in 2018. Nationally, the main highlights included the new series "Bauhaus", "Schuld III", "Der Club der singenden Metzger", and "Die Heiland – Wir sind Anwalt". In addition, feature films such as "Kühn hat zu tun", "Das Wochenende", and "Wendezeit" were produced, while the TV series "Der Kroatien-Krimi" and the popular series "Kommissarin Lucas" – to name but a few – were continued.

In the entertainment area, further episodes were produced of the successful comedy quiz show "Genial daneben" (SAT.1) and the formats "Schicksale" (SAT.1) and "Shopping Queen" (VOX).

Large numbers tune in for TV premiere: "Die Heiland – Wir sind Anwalt"

ANALYSIS OF NON-FINANCIAL PERFORMANCE INDICATORS

Focus on long-term collaboration

The size of the theatrical movie market is defined primarily by the commercial qualities of the movies released each year. The movies that the Constantin Film Group offered up to audiences in the past fiscal year were worked on by numerous producers with creative control, a large number of executive producers and many filmmakers, writers, directors, and actors, some of whom have agreed to work with Constantin for some time to come. For instance, in mid-March 2018, an exclusive deal with renowned screenwriter and director Anika Decker was concluded for the next three years. Along with her work as a screenwriter, the cooperation also includes directing future theatrical movies of the Constantin Film Group.

Three movies seen by more than a million in theatrical distribution

In 2018, three of the Constantin Film Group's own and co-productions attracted more than a million visitors in German cinemas: the bestseller adaptation "Dieses bescheuerte Herz" released back in mid-December 2017 (audience of approx. 2.1 million), "Der Vorname" – the Sönke Wortmann remake of the French film "Le Prénom" – (audience of approx. 1.1 million) and the fifth in the series of Eberhofer crime comedies "Sauerkrautkoma" (audience of approx. 1 million). "Sauerkrautkoma" was therefore the first film in the Rita Falk series to be seen by more than a million people.

Based on these successes, the Constantin Film Group placed seventh among distributors in Germany in terms of both revenues and audience figures. It thus came out ahead of the major US studio Paramount and all other independent exploiters.

Two new releases with good sales figures in home entertainment

Of all the new releases in the past year, the two Constantin Film own productions "Fack Ju Göhte 3" and "Dieses bescheuerte Herz" in particular met sales expectations. "Fack Ju Göhte 3" topped the DVD sales charts with 650,000 units sold. With a further 800,000 video-on-demand and electronic sell-through transactions, the film also met expectations for digital sales. The sales figures for "Dieses bescheuerte Herz" amounted to 175,000 units in physical sales and 210,000 downloads in digital sales.

Consistently high ratings: “Der Kroatien-Krimi”

TV exploitation still at a good level

In TV exploitation/license trading, initial broadcasts of Constantin Film theatrical productions in particular again achieved good ratings on free-TV in 2018. The biggest hit with audiences was the Rita Falk crime comedy “Grießnockerlaffäre” (ARD, 19.5 % share of the overall market), followed by “Fack Ju Göhte 2” (ProSieben, 11.5 % share of the overall market) and “Look Who“s Back” (ARD, 8.3 % share of the overall market).

TV service productions with high ratings

In particular, transmission of the series “Die Heiland – Wir sind Anwalt” produced for ARD was extremely successful with over 4 million viewers (overall market) on average. The mini-series “Die Protokollantin” (ZDF) and two broadcast episodes of the ARD series “Der Kroatien-Krimi” also attracted more than 4 million viewers on the overall market.

In addition, the early evening series “Dahoam is Dahoam” achieved a consistently high double-digit market share. As a result of this success, Bayerischer Rundfunk commissioned a total of 555 new episodes in mid-March 2018. This daily format that was first broadcast in 2007 is therefore guaranteed to stay on screens until early 2021.

Surprise winners: In the match for the UEFA Super Cup, Club Atlético de Madrid won out against their local rivals Real Madrid CF in a surprise result.

Management report: Sports- and Event-Marketing segment

Report on business performance and the situation

2018

Annual highlights in European club football: the UEFA Champions League final and the UEFA Super Cup

SECTOR-SPECIFIC SITUATION

In sports media, we saw the increasing presence of OTT players. In particular, Facebook and the streaming service company DAZN significantly expanded their premium sports rights portfolios and their footprint in territories where traditional pay-TV is reportedly facing difficulties. Facebook's new coverage of the UEFA Champions League in Latin America was followed by the acquisition of the rights to the South American counterpart "Copa Libertadores" for the next four years. Since March 2019, DAZN has also launched in Brazil with a total investment of EUR 40 million per season to show football matches of the Italian Serie A, the French Ligue 1 and the Copa Sudamericana, which is comparable to the UEFA Europa League.

In sports sponsorship, the successful deregulation of the US betting market and accompanying new endorsement deals have dominated the news during 2018. In May 2018, the United States Supreme Court declared that the Professional and Amateur Sports Protection Act, which prohibited sports betting in most states across the country after its introduction in 1992, was not in line with the US constitution. The court left all individual states with the opportunity to legalize sports betting, which has already been done in eight states. This number is predicted to grow to 34 in the next few years, meaning that the sum of all gambling related sponsorship deals in the US alone could amount to as much as USD 475 million by 2024.

OPERATIONAL DEVELOPMENT

Focus on marketing of UEFA competitions

During the reporting year, the TEAM Group successfully closed the marketing for the commercial rights to the UEFA Champions League and the UEFA Europa League competitions for the 2018/19 to 2020/21 seasons. As the performance targets agreed with UEFA were achieved, the agency agreement between UEFA and TEAM was automatically extended. The new agreement covers global marketing of the media, sponsorship and licensing rights for the 2021/22 to 2023/24 seasons.

The focus in the second half of the year was on integrating all of the new commercial partners (across media, sponsorship and licensing) and on supporting UEFA in the kick-off of the new commercial rights cycle (2018/19 to 2020/21). This is typically an intense phase, as new partners are introduced to the commercial programme and existing partners are educated about the changes to the competition formats and commercial rights, compared to the previous cycle.

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, Club Atlético de Madrid met Olympique Marseille in Lyon on May 16. This was followed by the UEFA Champions League final between Real Madrid CF and Liverpool FC in Kiev on May 26. The winners of these two matches (Club Atlético de Madrid and Real Madrid CF) then faced off for the UEFA Super Cup in Tallinn/Estonia on August 15.

ANALYSIS OF NON-FINANCIAL PERFORMANCE INDICATORS

UEFA Champions League final achieves high viewer level once more

The UEFA Champions League final was again broadcast in over 200 countries and achieved an average global audience of over 160 million as in the previous year. This means that the final of Europe's most prestigious football competition again stands as the world's most watched annual sports event.

The average global audience of the UEFA Europa League final, which was aired in over 100 countries, was over 50 million, a slight fall compared to the previous final (average of around 62 million). The UEFA Super Cup was broadcast in over 50 markets and attracted an average audience of around 20 million.

Action and excitement guaranteed: The easyCredit Basketball Bundesliga thrilled millions of viewers again last year.

Management report: Sports segment

Report on business performance and the situation

2018

Fast-paced games with thrilling one-on-ones: the easyCredit Basketball Bundesliga

SECTOR-SPECIFIC SITUATION

According to the measurement and data analysis company Nielsen Holdings, the total German gross advertising market grew only marginally by 0.03 % year-on-year to EUR 31.9 billion in 2018. At 58.6 %, the strongest growth was again in advertising on mobile devices, which thus reported gross advertising expenditure of EUR 1.0 billion for the first time. This was followed in second place by the media group radio with a growth rate of 2.0 % to EUR 1.95 billion. Other than TV, the largest medium, which also achieved a slight increase of 0.01 % as against the previous year with advertising expenditure of EUR 15.3 billion, only newspapers reported a positive result (up 0.5 % at EUR 4.3 billion). By contrast, all other media groups included in the adjusted Nielsen advertising trend, such as desktop and magazines, were in decline.

In production, major live sports events still offer an ideal opportunity to use innovative technologies. Interest again focused on the ongoing development and distribution of high-resolution technologies such as 4K and 8K in 2018. While TV manufacturers are pushing the expansion of the new standards on the market, the most part of consumers in Germany are unable to enjoy the advantages of the new standards owing to the limited availability of UHD content – though TV and streaming providers are slowly increasing their UHD content.

OPERATIONAL DEVELOPMENT

In the reporting year, SPORT1 continued to focus on optimizing its portfolio of rights, improving and creating new digital content and marketing environments in addition to cross-platform content exploitation, networking and capitalization.

Acquisition of further top rights

In football, SPORT1 won the DFB invitation to tender to be the first private free-TV broadcaster in Germany with live and highlight rights to the DFB Cup for the 2019/20 to 2021/22 seasons. Its programming portfolio was also expanded to include the following football rights: International Champions Cup until 2020, UEFA Youth League until 2020/21, finals of the UEFA Women's Champions League until 2018/19, highlight summaries of 2. Bundesliga on Friday and Sunday evenings from the start of the second half of the 2017/18 season, highlight clips from all matches of the 2018 FIFA World Cup™ and the 2018 UEFA European Under-17 Championship. Moreover, the TV format "Fantalk" is now being broadcast on both Tuesdays and Wednesdays from the start of the 2018/19 UEFA Champions League season.

For motorsport, SPORT1 acquired rights to the FIA WEC, the FIA Formula 2, the FIA World Rallycross Championship (WRX) and the Porsche Carrera Cup. Thanks to further new cooperations, it will also broadcast the easyCredit Basketball Bundesliga (BBL) for the next five seasons up to and including 2022/23, the semi-finals and the final of the BBL Pokal 2018/19, and the women's and men's volleyball Bundesliga until 2020/2021. In ice hockey, SPORT1 extended its partnership with the German Ice Hockey Federation (DEB) until 2024 and acquired the rights to the NHL Global Series Challenge 2018. It also acquired the rights to BILD Superleague Darts, the international matches of Germany's national handball teams, the 2018 Hockey World Cup and the 2018 German Hockey Championship in addition to American football from the German Football League (GFL).

Full venues and enthusiastic spectators: the Deutsche Eishockey Liga (DEL)

Expansion of marketing partnerships

In marketing, SPORT1 MEDIA acquired advertising customers including the following in 2018: Zurich Insurance and Toyota for the Winter Olympics, ŠKODA, Betway and Campingaz for the Ice Hockey World Championship and partners such as CHECK24, O2, LG Electronics, bwin, and Tipico for the 2018 FIFA World Cup™. For the football Bundesliga 2018/19 season, the corresponding environments were marketed to renowned partners such as CHECK24, Clausthaler Alkoholfrei, Honda, and Hankook, to Mitsubishi Motors for the easyCredit Basketball Bundesliga 2018/19, and to partners including Krombacher, bwin, Maschinensucher.de, McDart, DAZN, Jimdo.de, and Sony Music Entertainment for the 2018/19 Darts World Championship.

New broadcasting center goes live

In August, PLAZAMEDIA successfully launched a completely IP-based broadcasting center with a freely scalable, future-proof infrastructure. The new broadcasting center enables customer-oriented production and workflow management from remote production to the archive. To this end, the concept was built on a combination of the on-premise systems still necessary and cloud-based services.

Establishment of new and expansion of existing customer relationships in production

PLAZAMEDIA secured new top-name customers for studio production in the reporting period. SUPERFILM Filmproduktion GmbH, the production company behind the Bayerischer Rundfunk talk show “Ringlstetter”, commissioned 32 episodes in total for 2018. Furthermore, PLAZAMEDIA took over studio production for the primetime Winter Olympics format “zwanzig18 – Die Olympia Show” for Discovery and Eurosport.

PLAZAMEDIA was again commissioned by FIBA Media to produce the Basketball Champions League (BCL) in October. Now in its third season, PLAZAMEDIA is in charge of producing the world feed for all home matches of German clubs with integrated on-air graphics and isolated feeds from the main camera including the shot clock.

ANALYSIS OF NON-FINANCIAL PERFORMANCE INDICATORS

Free-TV market share slightly below previous year’s high level

In 2018, the free-TV broadcaster SPORT1 was available in 32.72 million (2017: 32.59 million) of all reachable households in Germany (84.4 %; 2017: 85.0 %) – and therefore almost nationwide. It achieved a market share of 0.7 % among viewers aged three and over and of 1.2 % in the core target group of 14- to 59-year-old men. As expected, these figures were slightly lower than the previous year’s high levels for both audiences, in particular on account to the discontinuation of the UEFA Europa League from the 2018/19 season.

Ratings highlights included football with a number of attractive live matches and well known formats such as “Der CHECK24 Doppelpass”, “Fantalk”, “Bundesliga Aktuell”, “Bundesliga Pur”, and other highlight round-ups of national and international football. “Der CHECK24 Doppelpass” had its best overall ratings in five years in the 2017/18 season, with an average of a million viewers aged three and over and a market share of 7.5 %. The market share for the core audience of 14- to 59-year-old men was 11.9 %. SPORT1 also achieved top ratings in 2018 with knockout matches in the 2017/18 UEFA Europa League season, the International Champions Cup, the Ice Hockey World Championship, the Darts World Championship, the Darts World Matchplay, and the Grand Slam of Darts.

High ratings guaranteed: the World Darts Championship

Pay-TV distribution still at high level

The pay-TV channel SPORT1+ had around 2.17 million subscribers in total as of December 31, 2018 (December 31, 2017: 2.19 million) – an increase of 75 % compared to its 1.25 million subscribers one year after its launch at the end of 2011. SPORT1 US (eSPORTS1 since January 24, 2019) had around 1.54 million subscribers as of December 31, 2018 (December 31, 2017: 1.51 million).

Ongoing shift in content use from online to mobile

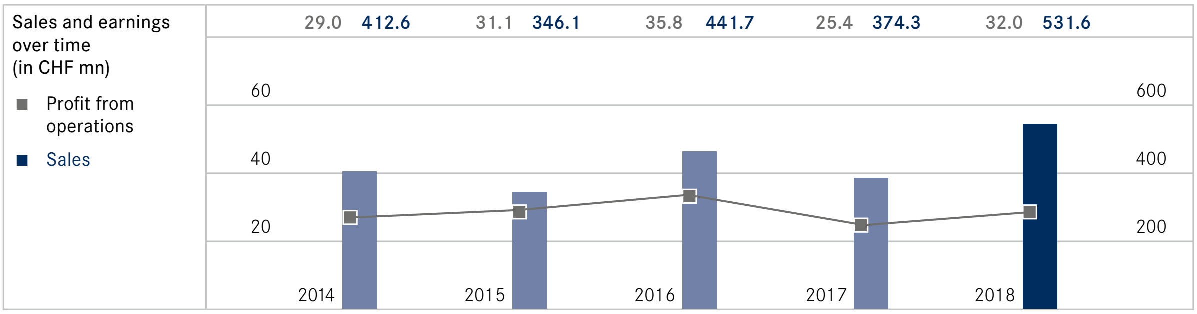
As expected, online page impressions (PIs) were down year-on-year in 2018. This development is still being influenced by the shift in content use from online to mobile. In addition, the measurement method was adjusted in July 2018, which means that figures for 2018 and 2017 can no longer be compared. The change in the measurement method and incomplete data collection on account of measurement changes in the fourth quarter of 2018 are the reason why a decline in mobile PIs was recorded as against the previous year.

Online visits were likewise in decline in 2018, which was caused by the shift in content use from online to mobile to the same extent due. Here, too, figures for 2018 and 2017 can no longer be compared on account of the change in the measurement method in July 2018. Mobile visits were up slightly in 2018 compared to 2017.

The shift from online to mobile can also be seen in the numbers for unique users (UU). While fewer online unique users were recorded in 2018, the number of mobile unique users was higher than in 2017. However, the comparability of the two fiscal years is limited as the basis for unique users was changed from 14+ (unique users aged 14 and over) to 16+ in 2018, and there is no match in the content available for readings. The positive development in mobile numbers is also thanks to the advancing optimization of apps and the mobile SPORT1.de website.

Outstanding development in video views

The clear growth in video views on SPORT1 platforms (not including YouTube) continued in 2018 as a result of product optimization and ongoing development. Video views on SPORT1's YouTube channels climbed by 81 % year-on-year in 2018. In particular, these strong increases were achieved thanks to systematic process and structure optimization on all social media platforms and the ongoing growth of video and, in particular, livestream content on YouTube.



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 in line with forecasts overall in 2018. At CHF 531.6 million, consolidated sales were exactly within the projected range of between CHF 520 million and CHF 540 million. The significant increase of 42.0 % compared to fiscal year 2017 (CHF 374.3 million) is largely attributable to the first-time consolidation of Constantin Medien AG.

EBIT improved by 26.0 % to CHF 32.0 million, while consolidated net profit was down year-on-year at CHF 18.0 million (CHF 23.7 million) as a result of significantly lower financial result owing to currency effects. At CHF 18.4 million, the consolidated net profit attributable to shareholders was also within the forecast corridor of between CHF 18 and CHF 20 million. Earnings per share declined by CHF 0.09 as against the previous year to CHF 0.32.

RESULTS OF GROUP OPERATIONS

It should be noted regarding the following statements on the development of sales and earnings that Constantin Medien AG was included in consolidation for the first time effective March 31, 2018, and was allocated to the new Sports segment. As it was not possible to restate the prior-year figures for the Highlight Group, comparisons with fiscal year 2017 are only of limited significance.

Significant increase in consolidated sales

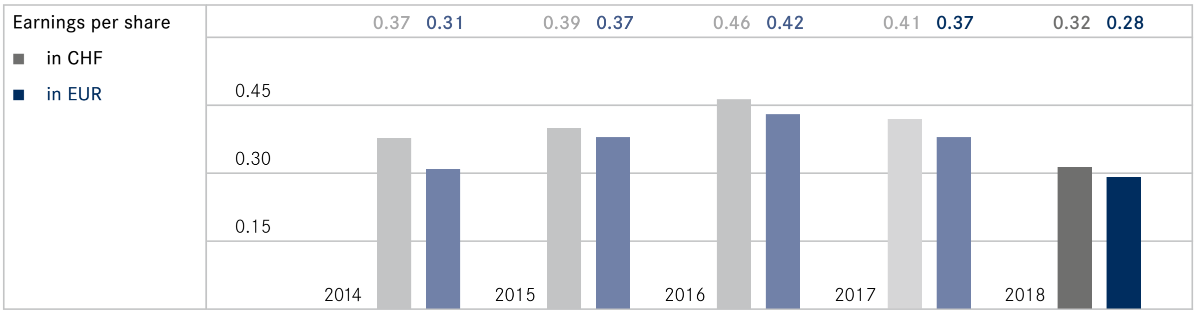
The Highlight Group generated consolidated sales of CHF 531.6 million in the past fiscal year, an increase of CHF 157.3 million as against the previous year (CHF 374.3 million). The increase in sales results from the first-time consolidation referred to above on the one hand (CHF 104.2 million) and higher external sales in the Film and Sports- and Event-Marketing segments on the other.

At CHF 154.9 million, capitalized film production costs and other own work capitalized were up CHF 13.3 million on the figure for 2017 (CHF 141.6 million). This was as a result of the higher production volume in the Film segment compared to the previous year. Other operating income rose by CHF 8.9 million to CHF 20.7 million (previous year's period: CHF 11.8 million).

EBIT improves by 26.0 %

At CHF 675.3 million in total, consolidated operating expenses were up CHF 173.0 million or 34.4 % on the figure for 2017 (CHF 502.3 million). With the exception of other operating expenses, there were increases in all expense groups. The cost of materials and licenses climbed by CHF 90.0 million to CHF 288.0 million (previous year's period: CHF 198.0 million), while personnel expenses rose by CHF 39.7 million to CHF 153.5 million (previous year's period: CHF 113.8 million).

At CHF 160.6 million, amortization, depreciation and impairment were up CHF 43.9 million on the previous year's figure (CHF 116.7 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 in the Film segment in the reporting year.



Overall, however, the increase in consolidated operating expenses was weaker than the rise in the total of sales, capitalized film production costs and other operating income, with the result that EBIT improved by CHF 6.6 million or 26.0 % to CHF 32.0 million (previous year's period: CHF 25.4 million).

Currency effects squeeze consolidated net profit

The financial result – owing to currency effects in particular – was down by CHF 12.7 million at CHF -7.0 million (previous year's period: CHF +5.7 million). Financial income declined by CHF 8.6 million to CHF 4.4 million (previous year's period: CHF 13.0 million), while financial expenses increased by CHF 4.1 million to CHF 11.4 million (previous year's period: CHF 7.3 million).

Taking into account tax expenses (current and deferred taxes), which declined slightly by CHF 0.4 million to CHF 7.0 million year-on-year, the Highlight Group reported a consolidated net profit for fiscal year 2018 of CHF 18.0 million (previous year's period: CHF 23.7 million). CHF -0.4 million (previous year's period: CHF +1.0 million) of this profit is attributable to non-controlling interests.

The share of earnings attributable to Highlight's shareholders is therefore CHF 18.4 million after CHF 22.7 million in the previous year. Based on an average of 58.2 million shares in circulation in the reporting year (previous year's period: 56.1 million), this resulted in earnings per share of CHF 0.32 (previous year's period: CHF 0.41).

RESULTS OF SEGMENT OPERATIONS

Film: Strong earnings improvement

The Constantin Film Group largely achieved its targets in fiscal year 2018. There were 15 own and co-productions in total in theatrical production, including the fourth instalment of the popular "Ostwind" series and "Leberkäsjunkie", the sixth adaptation of the similarly very successful series of novels by Rita Falk. As planned, nine films were release in German movie theaters in theatrical distribution, three of which drew an audience of more than a million people. As anticipated, sales in this business area – which benefited from popular titles such as "Fack Ju Göhte 3" in 2017 – nonetheless fell short of the previous year's level.

However, the theatrical success of "Fack Ju Göhte 3" continued in home entertainment exploitation, where the movie achieved excellent physical and digital sales figures on the German market, resulting in significantly higher sales compared to the previous year. In TV exploitation/license trading there were also high financing proceeds from the international theatrical and TV productions "Polar" and "Shadowhunters" (season 3). Income from TV service productions remained at a consistently high level, thanks above all to the continuing strong performance of dailies, weeklies, fictional miniseries, and TV movies.

As a result of these developments, the Film segment generated sales of CHF 364.4 million in the year under review, thereby outperforming the figure for the previous year (CHF 315.6 million) by 15.5 %. Other segment income, which is largely influenced by capitalized film production costs, rose by 8.8 % as a result of the higher production volume to CHF 166.5 million (previous year's period: CHF 153.0 million). Segment expenses climbed – in particular on account of a significant increase in amortization – by 13.1 % in total to CHF 518.8 million (previous year's period: CHF 458.9 million), resulting in segment earnings improving by 24.7 % to CHF 12.1 million (previous year's period: CHF 9.7 million).

Also in demand abroad: “Die Protokollantin”

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

The TEAM Group successfully closed the marketing process for the commercial rights to the UEFA Champions League and the UEFA Europa League (both for the 2018/19 to 2020/21 seasons) in the past year. The performance targets agreed with UEFA were achieved, with the result that the agency agreement between UEFA and TEAM was automatically renewed. The new agreement comprises the global marketing of the two competitions for the 2021/22 to 2023/24 seasons.

At CHF 63.7 million, external sales in the Sports- and Event-Marketing segment were up by 8.5 % on the previous year’s level (CHF 58.7 million). The increase was due to the higher agency commission that the TEAM Group generated as a result of the successful marketing of UEFA club competitions. Segment expenses climbed from CHF 31.9 million to CHF 33.1 million, while other income rose from CHF 0.5 million to CHF 0.9 million. As a result, segment earnings improved by 15.4 % to CHF 31.5 million (previous year’s period: CHF 27.3 million).

Sports: Fully consolidated for the first time

In the reporting year, the Sports segment continued to focus on optimizing its portfolio of rights, improving and creating new digital content and marketing environments in addition to cross-platform content exploitation, networking and capitalization.

The segment generated sales of CHF 104.2 million and other income of CHF 8.6 million in the period from March 31 to December 31, 2018. Expenses amounted to CHF 117.2 million, bringing segment earnings to CHF -4.4 million. As a result of the first-time consolidation of Constantin Medien AG – without adjusting the prior-year figures for the Highlight Group – it is not yet possible to make any statement on the business performance of the Sports segment.

Significant reduction in holding costs

The costs of holding activities decreased by CHF 4.3 million in fiscal year 2018 to CHF 7.3 million (previous year’s period: CHF 11.6 million).

NET ASSETS SITUATION

Significant increase in the balance sheet total

As of December 31, 2018, the balance sheet total of the Highlight Group amounted to CHF 638.6 million, an increase of CHF 125.8 million as against the end of 2017 (CHF 512.8 million).

On the assets side of the balance sheet, the increase was almost exclusively due to non-current assets, which rose by CHF 220.9 million to CHF 413.4 million (December 31, 2017: CHF 192.4 million). This development is largely due to a marked increase in goodwill (CHF 115.5 million) and other intangible assets (CHF 62.0 million) as a result of the majority interest in Constantin Medien AG. The share of non-current assets in total assets was therefore up almost 30 percentage points on the previous year at 64.7 % (37.5 %).

Current assets decreased by CHF 95.1 million to CHF 225.3 million (December 31, 2017: CHF 320.3 million). In particular, this was a result of a significant decline in cash and cash equivalents of CHF 134.1 million to CHF 52.5 million on account of the acquisition of Constantin Medien shares. By contrast, trade accounts receivable and other receivables were up by CHF 15.0 million at CHF 142.7 million, while contract assets rose by CHF 23.5 million to CHF 23.5 million.

Long-running success in the Bavarian early evening line-up: "Dahoam is Dahoam"

Film assets increase to CHF 185.5 million

The value of film assets as of the end of the reporting year was CHF 185.5 million, an increase of CHF 23.7 million as against the end of 2017 (CHF 161.8 million). CHF 151.4 million of this total related to in-house productions (December 31, 2017: CHF 126.0 million) and CHF 34.1 million to third-party productions (December 31, 2017: CHF 35.9 million). The increase in in-house productions is primarily due to the higher production volume compared to the previous year.

Additions to film assets amounted to CHF 178.6 million in fiscal year 2018 – an increase of CHF 41.8 million as against the previous year (CHF 136.8 million). This was offset by amortization of CHF 142.6 million (previous year's period: CHF 113.1 million) and impairment losses of CHF 9.4 million (previous year's period: CHF 3.3 million).

Increase in current and non-current liabilities

On the equity and liabilities side of the balance sheet, non-current liabilities rose by CHF 15.4 million in total to CHF 36.7 million (December 31, 2017: CHF 21.3 million), which was largely a result of the increase of CHF 15.0 million in deferred tax liabilities to CHF 30.2 million.

Current liabilities climbed by CHF 121.3 million to CHF 376.4 million (December 31, 2017: CHF 255.1 million). This development results in particular from an increase in financial liabilities of CHF 71.8 million to CHF 149.0 million. There were other notable increases in advance payments received (up CHF 24.4 million at CHF 72.1 million), trade accounts payable and other liabilities (up CHF 12.7 million at CHF 135.0 million) and contract liabilities (up CHF 8.1 million at CHF 8.1 million).

Equity ratio down year-on-year

Consolidated equity (including non-controlling interests) declined by CHF 10.8 million from CHF 236.4 million as of the end of the previous year to CHF 225.6 million. The reduction is essentially due to changes in the scope of consolidation – in particular the first-time consolidation of Constantin Medien AG – and changes in non-controlling interests. These two factors led to a combined drop of CHF 27.5 million. By contrast, equity was increased by the consolidated net profit for the period of CHF 18.0 million.

Relative to the balance sheet total, this equity corresponds to a notional equity ratio of 35.3 % – a reduction of almost 11 percentage points as against December 31, 2017 (46.1 %). The adjusted equity ratio (after netting cash and cash equivalents against financial liabilities and film assets against advance payments received) was 43.9 % as of the end of 2018 (December 31, 2017: 61.0 %). For detailed information on the development of consolidated equity please see the consolidated financial statements (pages 86 and 87).

Successful TV adaptation of a bestseller: “Schattengrund”

FINANCIAL SITUATION

Net debt of CHF 96.5 million

Cash and cash equivalents amounted to CHF 52.5 million as of December 31, 2018, down CHF 134.1 million as against the end of fiscal year 2017 (CHF 186.6 million). At the same time, financial liabilities climbed by CHF 71.8 million to CHF 149.0 million (December 31, 2017: CHF 77.2 million), resulting in net debt of CHF 96.5 million as of the end of the reporting year (December 31, 2017: net liquidity of CHF 109.4 million), equivalent to gearing of 42.8 %.

Operating activities generated a net cash inflow of CHF 173.5 million in the year under review – an increase of CHF 34.0 million as against fiscal year 2017 (CHF 139.5 million), which was essentially due to changes in net working capital.

Net cash used in investing activities significantly rose by CHF 160.0 million as against the previous year (CHF 140.1 million) to CHF 300.1 million. The increase resulted firstly from the acquisition of the Constantin Medien shares, which led to a cash outflow of CHF 107.8 million. Secondly, payments for film assets rose by CHF 42.4 million to CHF 177.2 million (previous year’s period: CHF 134.8 million), while payments for property, plant and equipment were up by CHF 10.0 million at CHF 12.2 million (previous year’s period: CHF 2.2 million).

The cash used by the Highlight Group’s financing activities amounted to CHF 4.2 million in fiscal year 2018 (previous year’s period: cash generated of CHF 90.6 million). This development is primarily the result of a one-time cash inflow from the capital increase of CHF 87.8 million in the previous year. In addition, there was a net debt repayment of CHF 2.1 million in the reporting year, as compared to net new borrowing of CHF 23.2 million in the previous year. This was offset in particular by the sale of treasury shares (CHF +12.0 million) and the reduction of the dividend distribution from CHF 20.0 million to CHF 12.4 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 that 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 2.5 % in the euro area in the year under review. For other foreign currencies, especially USD and CAD, interest rates were between 1.9 % and 4.5 %.

In general, the only internal sources of financing are the returns on operating activities. Given the level of cash funds and credit facilities available, the Highlight Group was able to meet its payment obligations at all times in the period under review.

PERSONNEL REPORT

In fiscal year 2018, the Highlight Group employed an average number of 1,550 people in total (previous year: 977), including freelance staff. 126 of these (previous year: 130) worked in Switzerland, 1,421 (previous year: 838) in Germany, and 3 (previous year: 9) worked in Austria.

REPORT ON RISKS AND OPPORTUNITIES

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

RISK MANAGEMENT SYSTEM

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

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

The Highlight Group's risk management system comprises risks and opportunities in equal measure. In line with the decentralized Group structure, operational responsibility for dealing with risks lies with the respective risk officers. These are mainly the directors and committee members, or the management members and department managers of the individual subsidiaries. The factors underlying the risks and opportunities are identified and assessed on a quarterly basis and approved by the risk officers. At Group level, the reported factors are standardized and consolidated where appropriate. Potential risks to the company as a going concern are required to be reported immediately. Please also refer to the reports on risks and opportunities of Constantin Medien AG and 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.
- The sale of advertising time to providers of products such as sports betting, online casinos, lotteries or poker schools is heavily regulated. Regulatory measures such as concessions, prohibitions, or other restrictions could change the economic conditions for providers of these products, which could have an indirect effect on the planned sales.

- Other regulatory risks could arise from the current discussion of a possible future "New Media Ordinance" or "Convergent TV Regulation", e.g. as a result of an amended German Interstate Broadcasting Treaty, and thereby a new model of regulation for linear and non-linear media services. This might not sufficiently take into account the interests of Sport1 GmbH, particularly in the context of the distribution of SPORT1 TV programming and its findability in the digital media world.
- The e-Privacy Regulation, which is intended to regulate the use of cookies and similar technologies, the admissibility of creating user profiles (tracking, profiling, retargeting) or measures on the use of personal data, is currently working its way through the EU legislative procedure. It is expected to become effective at the end of 2019 before becoming binding after a transition period for 2020/2021. Under this regulation, there will have to be an active declaration of consent from every Internet user for every website and every device before that user's data can be collected and thereby advertising based on these data can be deployed. If users refuse their consent, it will not be permitted to display any data-driven advertising. Even a frequency cap on the number of times an ad is shown will no longer be possible as the use of cookies will no longer be permitted. This has an enormous impact on the way that advertising campaigns will be devised in the future, and could have a negative impact on sales and earnings. In addition, a violation of the regulation could lead to substantial fines.

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.

- In order to operate its platforms, the Constantin Medien Group is dependent on attractive broadcast rights to sports events and programming formats. The relicensing of exploitation rights for sports events or programming formats can entail an increase in the planned license costs. The unavailability of broadcast rights to sports events, including on account of greater competition such as OTT platforms, or an increase in license costs in the future could lead to the Constantin Medien Group lacking attractive content for its TV stations or other platforms. This would mean lower market share, lower advertising, and/or sponsorship revenue and lower pay-TV revenue.

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.
- There is not inconsiderable competition for advertisers' limited budgets, coupled with a rising number of TV broadcasters and other potential advertising platforms. Declining advertising investment and falling prices in the marketing of airtime and ad space could have a material impact on the Group's sales and earnings performance.
- The changes or adjustments to AGF Videoforschung GmbH's television panel weighting model can lead to an unplanned loss of market share for the free-TV broadcaster SPORT1, and as a consequence of this possibly to declining prices in the marketing of airtime and ad space.

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

Accordingly, this risk continues to be classified as significant.

The Highlight Group is dependent on customers and business partners

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

- In the Sports- and Event-Marketing segment, the TEAM Group is dependent on the major client UEFA.
- With regard to the exploitation of theatrical productions, the Group is dependent on Sky Deutschland Fernsehen GmbH & Co. KG at the pay-TV exploitation stage, as a considerable portion of its pay-TV license sales is generated with this partner. If framework agreements are not extended, or are extended only at considerably worse terms, this could result in declining sales for the Highlight Group.
- There is a dependence on the major German TV stations and on the number/size of the stations overall. In the Film segment, a considerable part of production costs is covered by sublicensing TV transmission rights to theatrical movies. The attainable margins could be lower than planned due to a strong position held by the TV stations.
- The market for TV ad time is defined by concentrated structures on both the supply and the demand sides. On the demand side, there are essentially seven large associations of media agencies that, in turn, typically consist of a number of smaller agencies. Their counterparts on the supply side are mainly the two private broadcast groups RTL and ProSiebenSat.1 and the public broadcasters, along with independent marketing companies, which include Sport1 Media GmbH and Magic Sports Media GmbH, which market SPORT1's platforms and content. If advertising budgets diminish, the price level for airspace marketing falls or customers cease to operate, this could have significant consequences for the company's sales and earnings performance. A further increase in competitive intensity on the German advertising market can currently be observed.

- Sport1 GmbH has significant cross-media cooperations with various automotive manufacturers. As a result of the introduction of new emissions standards and the associated sales difficulties, advertising investments by the automotive industry and related sectors could decline in the future or lead to falling prices in the marketing of airtime and ad space. This could have a material impact on the sales and earnings performance.

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.
- There are contracts in place with the key cable network, satellite, and platform operators in Germany to secure the digital distribution of the channels operated by Sport1 GmbH in the medium term. However, contractual termination rights or changing legal requirements and competitor conduct on other channels could have a negative impact on the cable distribution of SPORT1 and the distribution of pay-TV programming in general.
- Analog cable distribution is gradually being discontinued in Germany. By the middle of 2019, the relevant cable network operators will halt analog TV broadcasts, relying instead on digital channels. Media institutions do not currently assign capacity on digital cable for private broadcasters.
- As only digital broadcasts will be available in the future, the free-TV channel SPORT1 will no longer be just one of 30 analog programs, but rather one of several hundred digital programs. The ability to find channels will therefore be essential to them.

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 significant risk.

Legal risks

The Highlight Group is subject to risks from legal disputes

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

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

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

Operational risks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Highlight Group could have insufficient insurance against damages and claims

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

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

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

Legal disputes with Constantin Medien AG

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

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

Compliance risks

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

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

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

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

Financial risks

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

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

The Highlight Group is subject to the credit risk

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

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

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

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

The Highlight Group is subject to liquidity risks

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

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

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

The Highlight Group is exposed to currency risks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OPPORTUNITY MANAGEMENT SYSTEM

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

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

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

INFORMATION ON INDIVIDUAL OPPORTUNITIES

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

Business and market opportunities

The Highlight Group sees opportunities in implementing the digital transformation strategy

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

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

The opportunity continues to be classified as medium.

Operational opportunities

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

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

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

This opportunity continues to be classified as medium.

The Highlight Group sees opportunities in the cooperation with UEFA

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

This opportunity continues to be classified as medium.

SUMMARY OF THE OPPORTUNITY AND RISK SITUATION

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

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

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

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

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

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

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

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

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

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

RISKS AND OPPORTUNITIES OF HIGHLIGHT COMMUNICATIONS AG

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

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

FORECAST

GENERAL ECONOMIC ENVIRONMENT

In its latest "World Economic Outlook", the International Monetary Fund (IMF) is forecasting a slowdown in global growth for 2019. In view of the unresolved trade conflicts, weak growth rates in many countries, and an impending no-deal Brexit, it lowered its growth forecast for global economic output in the current year from 3.7 % to 3.5 %. At the same time, it called for greater international cooperation to end the trade disputes as quickly as possible and to not allow the ailing world economy to be destabilized any further.

According to IMF estimates, the economy in the euro area will expand by 1.6 % in 2019, a decline of 0.2 percentage points as against the previous year. The main reason for this is a significant drop in the growth forecast for the German economy, which the IMF currently has at just 1.3 % on account of muted private consumer spending, production difficulties in the automotive industry and weaker demand from abroad.

The Swiss State Secretariat for Economic Affairs (SECO) is also forecasting a distinct downturn on the Swiss economy, which will likely be reflected in GDP growth of 1.5 % in the current year (2018: 2.6 %). The causes cited for this decline are waning private consumer propensity, slackening investment in construction and equipment by Swiss companies and lower export momentum.

MEDIA AND ENTERTAINMENT MARKET ENVIRONMENT IN GERMANY

PricewaterhouseCoopers (PwC) expects that the German media and entertainment sector will continue to experience a stable performance in the coming years. It is anticipating average annual growth rates of 1.8 %, which would see market volumes rise to EUR 66.2 billion by the end of 2022. The advertising market is expected to expand by an average of 2.6 % per year, while the development in sales will be much more moderate with average annual growth rates of 1.4 %. The growth driver in both these fields will continue to be digital media, for which PwC is forecasting average annual growth of 7.8 %. This means that the digital sector would contribute almost a third of the industry's total revenue by the end of 2022.

FOCAL POINTS IN FISCAL YEAR 2019

Film segment

Sector-specific situation

Up to 2022, an average annual increase of 1.2 % is predicted for the German theatrical film market, while the TV market is likely to stagnate. The digital market, eSports and virtual reality sectors will see strong growth in the next few years, with forecast increases of up to 30 % by 2022 in some cases.

The negative trend on the physical home entertainment market is set to continue. However, stable development is expected for the overall home entertainment market until 2022 as a result of contrary trends in the digital sector.

Focal points

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

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

In the theatrical distribution business area, the Constantin Film Group is continuing to implement its proven strategy of combining national and international own and co-productions with high-quality third-party productions and releasing these titles in theaters with a suitable press and marketing strategy at the most favorable time. As theatrical exploitation and the associated brand launch remain the foundation for the subsequent exploitation stages, the Constantin Film Group will design its strategy on a product-by-product basis. This means that quantities depend on the extent to which promising titles can be produced or acquired.

As things currently stand, thirteen (secured) new theatrical releases are intended for 2019. They consist of four licensed titles and nine own and co-productions. These include "Ostwind – Aris Ankunft", "Der Fall Collini", "Kirschblüten & Dämonen", "Leberkäsjunkie", and the new Bora Dagtekin film "Das perfekte Geheimnis".

The Constantin Film Group is again extremely well-placed for home entertainment exploitation in 2019 with the hit movies "Der Vorname", "Ostwind – Aris Ankunft" and the bestseller adaptation "Der Fall Collini". Consequently, the market position in the home entertainment sector in the current fiscal year is expected to be unchanged from the previous year. Along with the attractive portfolio of new releases, the consistently good sales figures for catalog products and the digital sales generated by the Constantin Film Group itself are other factors behind the positive prospects for 2019.

In free-TV exploitation, sales in 2019 will be generated by licensed films including “The BFG” and “The Light Between Oceans”. Titles expected to play a major role in sales for pay-TV in the first quarter of 2019 include “Fack Ju Göhte 3” and “Dieses bescheuerte Herz”.

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

Constantin Film AG still expects to see an improvement in the order situation in this 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 2019, such as the high-end series “Parfum (season 2)”, “Wir Kinder vom Bahnhof Zoo”, and “Die Welle” as well as the continuations of “Die Heiland – Wir sind Anwalt (season 2)”, “Der Kroatien-Krimi (parts 7 and 8)”, and “Daheim in den Bergen (parts 5 and 6)”. English-language productions currently being prepared include the series “Resident Evil”, “Unwind”, and “Highways of Tears”.

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

Sports- and Event-Marketing segment

Sector-specific situation

In December 2018, ZenithOptimedia, the media planning and buying firm, predicted that global advertising expenditure would grow by 4.5 % in 2018 to reach USD 581 billion, a position unchanged from the previous forecast in June. Predictions for 2019, however, were reduced from 4.2 % to 4.0 % and therefore are less optimistic. In addition, ZenithOptimedia is expecting a market growth of 4.2 % in 2020 and of 4.1 % in 2021. Advertising expenditure, during this forecast period, is not expected to match growth in the global economy.

Focal points

Following the successful conclusion of marketing activities for the 2018/19 to 2020/21 rights cycle in the past year, the TEAM Group’s work is now focused on supporting UEFA and the clubs in developing the rights for the 2021/22 to 2023/24 seasons. This support encompasses commercial input on competition formats and competition brand positioning, commercial concepts, rights packaging and sales processes. TEAM Group also continues to maintain strong relationships with broadcasters, sponsors and licensees globally throughout this development phase.

Sports segment

Sector-specific situation

In the latest Ad Spend Forecast for 2019/2020, the Dentsu Aegis Network is predicting marginal growth of 0.5 % per year in advertising spending in Germany. The reasons cited by the agency for the investment restraint being shown by German companies include the tense political climate, the strain on international relations due to trade conflicts and anti-EU sentiment, and changing budgets in the media industry.

At 6.5 %, digital media will continue to grow in 2019, albeit at a slightly slower rate than in the previous year, and will become firmly established as the leading advertising channel in Germany with 39.3 % of investment. In particular, the growth drivers are mobile (up 41.0 %), programmatic (up 20.6 %), and social media (up 9.3 %). Globally as well, the digital sector is expected to take a top position in 26 out of 59 markets in 2019 – based on investment targets.

According to the Dentsu Aegis Network, the growth in digital media will be offset by a decline in print and TV spending. The ad spend for TV is expected to drop by 1.2 % as against the previous year in 2019 and 2020.

Focal points

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

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

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

Financial targets of the Highlight Group

There is uncertainty regarding the performance of new theatrical releases in the Film segment in 2019. Nonetheless, it is assumed that Constantin Film AG will release successful films in Germany again in the current fiscal year. Candidates with high commercial potential at the box office include “Ostwind – Aris Ankunft”, “Der Fall Collini”, “Leberkäsjunkie”, and “Das perfekte Geheimnis” – the new movie from director Bora Dagtekin. Overall, revenue from German theatrical exploitation is expected to be significantly higher than in the previous year as the theatrical slate for 2019 features several outstanding titles.

Home entertainment sales in Germany will presumably by lower than in the previous year. Top titles on the 2019 slate include “Der Vorname”, “Der Fall Collini”, and “Ostwind – Aris Ankunft”. The remaining episodes of the third season of “Shadowhunters” were delivered to Netflix in 2018. This means that the financing proceeds from global distribution, which is allocated pro rata to home entertainment, will be substantially lower than in the previous year.

License trading/TV exploitation sales in Germany are expected to be higher than in the previous year. By contrast, sales from the international distribution of own and co-productions will be down significantly – in particular as a result of the cancellation of the TV series “Shadowhunters”. It is too early to assess the commissioning situation in TV service production. Overall, we are assuming that the Film segment’s sales for fiscal year 2019 will be below the previous year’s high level. A year-on-year decline is also expected in earnings.

In the Sports- and Event-Marketing segment, the agency commission within the current contract agreement for the marketing of the UEFA Champions League and the UEFA Europa League is determined in euro. Assuming that the Swiss franc/euro exchange rate remains virtually the same, sales and earnings are therefore expected to be higher than in the previous year.

A slight decrease in TV sales is expected in the Sports segment as the new rights to the DFB Pokal (from the second half of 2019) will not be able to completely make up for the loss of UEFA Europa League broadcasts on account of the lower number of matches. By contrast, in digital operations we are anticipating an increase in cumulative online and mobile coverage – in particular as a result of the optimization of editorial and functional content in addition to a number of traffic initiatives – which will also lead to rising sales. The same is also true of production, hence sales in the Sports segment are expected to match the previous year’s level overall. Segment EBIT will presumably be considerably higher than the prior-year figure thanks to savings in the cost of materials and personnel expenses.

On the basis of these assumptions, we are forecasting consolidated sales of between CHF 520 and CHF 540 million with a consolidated net profit attributable to shareholders of between CHF 20 and CHF 22 million for fiscal year 2019.

Pratteln, March 2019

The Board of Directors

Notes and forward-looking statements

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

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

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

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

Red carpet in Cologne: The leading actors Florian David Fitz and Janina Uhse celebrated the world premiere of the Constantin Film own production "Der Vorname" with numerous fans.

CONSOLIDATED FINANCIAL STATEMENTS

as of December 31, 2018 of Highlight Communications AG, Pratteln

2018

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2018

Highlight Communications AG, Pratteln

ASSETS (TCHF)	Note	Dec. 31, 2018	Dec. 31, 2017
Non-current assets			
In-house productions		151,364	125,951
Third-party productions		34,087	35,863
Film assets	6.1	185,451	161,814
Other intangible assets	6.2	62,220	200
Goodwill	6.2	133,531	17,997
Property, plant and equipment	6.3	17,555	3,761
Advance payments for shares in affiliated companies		–	3,296
Investments in associated companies	6.5	54	57
Non-current receivables	6.6	13,343	2,735
Other financial assets	6.8	9	35
Deferred tax assets	6.7	1,141	2,519
		413,304	192,414
Current assets			
Inventories	6.9	5,860	4,027
Trade accounts receivable and other receivables	6.10	142,709	127,735
Contract assets	6.11	23,507	–
Income tax receivables	6.12	736	2,063
Cash and cash equivalents	6.13	52,530	186,553
		225,342	320,378
Total assets		638,646	512,792

The notes on pages 90 – 158 are an integral part of the consolidated financial statements.

EQUITY AND LIABILITIES (TCHF)	Note	Dec. 31, 2018	Dec. 31, 2017
Equity	6.14		
Subscribed capital		63,000	63,000
Treasury stock		–6,258	–45
Capital reserve		–67,203	–54,956
Other reserves		–34,356	–32,841
Retained earnings		244,287	256,414
Equity attributable to shareholders		199,470	231,572
Non-controlling interests		26,112	4,842
		225,582	236,414
Non-current liabilities			
Financial liabilities	6.17	934	–
Other liabilities	6.20	1,958	1,924
Pension liabilities	6.15	3,563	4,200
Deferred tax liabilities	6.16	30,204	15,163
		36,659	21,287
Current liabilities			
Financial liabilities	6.17	149,004	77,172
Advance payments received	6.18	72,111	47,741
Trade accounts payable and other liabilities	6.21	135,015	122,304
Contract liabilities	6.22	8,131	–
Provisions	6.23	7,856	5,024
Income tax liabilities	6.24	4,288	2,850
		376,405	255,091
Total equity and liabilities		638,646	512,792

The notes on pages 90 – 158 are an integral part of the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT 2018

Highlight Communications AG, Pratteln

(TCHF)	Note	Jan. 01 to Dec. 31, 2018	Jan. 01 to Dec. 31, 2017
Sales	7.1	**531,610**	**374,313**
Capitalized film production costs and other own work capitalized	7.2	**154,877**	**141,557**
Other operating income	7.3	**20,744**	**11,814**
Costs for licenses, commissions and materials		–48,501	–23,810
Costs for purchased services		–239,501	–174,206
Cost of materials and licenses	7.4	**–288,002**	**–198,016**
Salaries		–134,741	–101,163
Social security, pension costs		–18,729	–12,647
Personnel expenses		**–153,470**	**–113,810**
Amortization and impairment on film assets	6.1	–151,744	–114,762
Amortization, depreciation and impairment on intangible assets and property, plant and equipment	6.2/6.3	–8,858	–1,933
Goodwill impairment	6.2	–	–
Amortization, depreciation and impairment		**–160,602**	**–116,695**
Other operating expenses	7.5	**–71,858**	**–73,779**
Impairment/reversals of impairment on financial assets	7.6	**–1,298**	**–**
Gains/losses from the derecognition of financial assets measured at amortized cost		**–47**	**–**
Profit from operations		**31,954**	**25,384**
Earnings from investments in associated companies	6.5	**12**	**6**
Financial income	7.7	4,365	12,975
Financial expenses	7.8	–11,358	–7,297
Financial result		**–6,993**	**5,678**
Profit before taxes		**24,973**	**31,068**
Current taxes		–5,998	–3,354
Deferred taxes		–1,011	–4,023
Taxes	7.9	**–7,009**	**–7,377**
Net profit		**17,964**	**23,691**
thereof shareholders' interests		18,391	22,731
thereof non-controlling interests		–427	960

Earnings per share (CHF)			
Earnings per share attributable to shareholders (basic)		0.32	0.41
Earnings per share attributable to shareholders (diluted)		0.32	0.41
Average number of shares in circulation (basic)		58,175,579	56,094,058
Average number of shares in circulation (diluted)		58,175,579	56,094,058

The notes on pages 90 – 158 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS 2018

Highlight Communications AG, Pratteln

(TCHF)	Note	Jan. 01 to Dec. 31, 2018	Jan. 01 to Dec. 31, 2017
Net profit		**17,964**	**23,691**
Currency translation differences	6.14	–3,300	8,443
Gains/losses from cash flow hedges	6.14	1,598	–502
Items that may be reclassified to the income statement in future		**–1,702**	**7,941**
Actuarial gains/losses of defined benefit pension plans	6.15	1,182	1,628
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		**1,182**	**1,628**
Other comprehensive income/loss, net of tax		**–520**	**9,569**
Total comprehensive income/loss		**17,444**	**33,260**
thereof shareholders' interests		18,058	32,033
thereof non-controlling interests		–614	1,227

The notes on pages 90 – 158 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2018

Highlight Communications AG, Pratteln

(TCHF)	Note	Equity: Subscribed capital	Equity: Treasury stock
Balance as of December 31, 2017		**63,000**	**–45**
Retrospective change of the accounting method due to IFRS 9	2.1	–	–
Balance as of January 1, 2018		63,000	–45
Currency translation differences		–	–
Gains/losses from cash flow hedges		–	–
Items that may be reclassified to the income statement in future		–	–
Actuarial gains/losses of defined benefit pension plans		–	–
Gains/losses from financial assets at fair value through other comprehensive income/loss		–	–
Items that will not be reclassified to the income statement in future		–	–
Other comprehensive income/loss, net of tax		–	–
Net profit		–	–
Total comprehensive income/loss		–	–
Purchase of treasury stock		–	–30
Sale of treasury stock		–	2,000
Dividend payments		–	–
Change in the scope of consolidation		–	–8,183
Change in non-controlling interests		–	–
Balance as of December 31, 2018	6.14	**63,000**	**–6,258**
Balance as of January 1, 2017		**47,250**	**–45**
Currency translation differences		–	–
Gains/losses from cash flow hedges		–	–
Items that may be reclassified to the income statement in future		–	–
Actuarial gains/losses of defined benefit pension plans		–	–
Gains/losses from financial assets at fair value through other comprehensive income/loss		–	–
Items that will not be reclassified to the income statement in future		–	–
Other comprehensive income/loss, net of tax		–	–
Net profit		–	–
Total comprehensive income/loss		–	–
Purchase of treasury stock		–	–20
Sale of treasury stock		–	20
Dividend payments		–	–
Capital increase		15,750	–
Balance as of December 31, 2017	6.14	**63,000**	**–45**

The notes on pages 90 – 158 are an integral part of the consolidated financial statements.

attributable to shareholders					
Capital reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
–54,956	**–32,841**	**256,414**	**231,572**	**4,842**	**236,414**
–	**–**	**–347**	**–347**	**–**	**–347**
–54,956	**–32,841**	**256,067**	**231,225**	**4,842**	**236,067**
–	–3,113	–	–3,113	–187	–3,300
–	1,598	–	1,598	–	1,598
–	**–1,515**	**–**	**–1,515**	**–187**	**–1,702**
–	–	1,182	1,182	–	1,182
–	–	–	–	–	–
–	**–**	**1,182**	**1,182**	**–**	**1,182**
–	**–1,515**	**1,182**	**–333**	**–187**	**–520**
–	–	18,391	18,391	–427	17,964
–	**–1,515**	**19,573**	**18,058**	**–614**	**17,444**
–	–	–140	–170	–	–170
–	–	10,221	12,221	–	12,221
–11,355	–	–	–11,355	–1,092	–12,447
–	–	–41,434	–49,617	23,828	–25,789
–892	–	–	–892	–852	–1,744
–67,203	**–34,356**	**244,287**	**199,470**	**26,112**	**225,582**
–108,135	**–40,515**	**232,055**	**130,610**	**4,680**	**135,290**
–	8,176	–	8,176	267	8,443
–	–502	–	–502	–	–502
–	**7,674**	**–**	**7,674**	**267**	**7,941**
–	–	1,628	1,628	–	1,628
–	–	–	–	–	–
–	**–**	**1,628**	**1,628**	**–**	**1,628**
–	**7,674**	**1,628**	**9,302**	**267**	**9,569**
–	–	22,731	22,731	960	23,691
–	**7,674**	**24,359**	**32,033**	**1,227**	**33,260**
–	–	–93	–113	–	–113
–	–	93	113	–	113
–18,886	–	–	–18,886	–1,065	–19,951
72,065	–	–	87,815	–	87,815
–54,956	**–32,841**	**256,414**	**231,572**	**4,842**	**236,414**

CONSOLIDATED STATEMENT OF CASH FLOWS 2018

Highlight Communications AG, Pratteln

(TCHF)	Note	Jan. 01 to Dec. 31, 2018	Jan. 01 to Dec. 31, 2017
Net profit		17,964	23,691
Deferred taxes		1,011	4,023
Current taxes		5,998	3,354
Financial result (without currency result)		4,590	2,992
Earnings from investments in associated companies	6.5	–12	–6
Amortization, depreciation and impairment on non-current assets	6.1/6.2/6.3	160,602	116,695
Gain (-)/loss (+) from disposal of non-current assets	7.3/7.5	56	121
Other non-cash items		3,180	–7,304
Increase (-)/decrease (+) in inventories, trade accounts receivable and other assets not classified to investing or financing activities		–13,148	1,404
Decrease (-)/increase (+) in trade accounts payable and other liabilities not classified to investing or financing activities		5,354	2,498
Dividends received from associated companies	6.5	6	9
Interest paid		–8,533	–1,784
Interest received		17	197
Income taxes paid		–5,339	–6,695
Income taxes received		1,731	308
Cash flow from operating activities		173,477	139,503

The notes on pages 90 – 158 are an integral part of the consolidated financial statements.

(TCHF)	Note	Jan. 01 to Dec. 31, 2018	Jan. 01 to Dec. 31, 2017
Change in cash and cash equivalents due to acquisition/disposal of companies/shares in companies (net)	3.1/3.2	–107,829	–
Payments for intangible assets	6.2	–3,274	–48
Payments for film assets		–177,184	–134,765
Payments for property, plant and equipment	6.3	–12,230	–2,175
Payments for purchase of non-controlling interests		–	–3,296
Proceeds from disposal of intangible assets and film assets		125	–
Proceeds from disposal of property, plant and equipment		277	88
Proceeds from disposal of financial assets		35	66
Proceeds from disposal of investments in associated companies	6.5	6	–
Cash flow for investing activities		**–300,074**	**–140,130**
Proceeds from capital increase	6.14	–	87,815
Payments for purchase of treasury stock	6.14	–170	–113
Proceeds from sale of treasury stock	6.14	12,221	113
Payments for purchase of non-controlling interests	6.14	–1,744	–537
Repayment of current financial liabilities	6.17	–117,026	–41,840
Proceeds from receipt of current financial liabilities	6.17	114,930	65,082
Dividend payments	6.14	–12,447	–19,951
Cash flow for/from financing activities		**–4,236**	**90,569**
Cash flow for/from the reporting period		**–130,833**	**89,942**
Cash and cash equivalents at the beginning of the reporting period	6.13	186,553	88,502
Effects of currency differences		–3,190	8,109
Cash and cash equivalents at the end of the reporting period	6.13	52,530	186,553
Change in cash and cash equivalents		**–130,833**	**89,942**
thereof cash and cash equivalents earmarked for the takeover offer		–	135,901

The notes on pages 90 – 158 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

Highlight Communications AG, Pratteln

1. GENERAL INFORMATION

The consolidated financial statements of the Highlight Group were adopted by the Board of Directors of Highlight Communications AG on March 25, 2019, and require the approval of the Annual General Meeting to be held in June 2019.

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 Highlight Event and Entertainment AG, Pratteln, Switzerland.

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

The operating activities of Highlight Communications AG comprise the segments Film, Sports as well as Sports- and Event-Marketing. The figures of Constantin Medien AG, which has been included in consolidation since March 31, 2018, are reported under the Sports segment. 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, 2018, were complied with.

A list of the subsidiaries 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 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 application of the following relevant accounting Standards and Interpretations resulted in the material changes in the consolidated financial statements described below.

2.1.1 First-time adoption of IFRS 9, Financial Instruments

The IASB published the final version of IFRS 9 Financial Instruments on July 24, 2014. The Standard supersedes IAS 39, Financial Instruments: Recognition and Measurement, and is effective for reporting periods from January 1, 2018.

The first-time adoption of these requirements has no material effects on the results of operations, net assets and financial position.

The Highlight Group is exercising the option for simplified first-time adoption. The cumulative effects of the adoption of IFRS 9 are recognized in retained earnings through other comprehensive income as of January 1, 2018. Comparative information for earlier periods has not been restated.

The Highlight Group adopted IFRS 9 (2009), Classification and Measurement of Financial Assets, for the Group's consolidated financial statements early from July 1, 2010. The Group measures individual equity instruments at fair value through other comprehensive income (FVTOCI). The items are explained in notes 8.1 and 8.4, but are currently immaterial for the Group and were acquired in the reporting year as part of a company acquisition. As of January 1, 2018, there were no changes in classification. No changes arose from the allocation of financial liabilities to the measurement categories according to IFRS 9. The provisions governing the derecognition of financial assets and liabilities are largely unchanged.

Furthermore, IFRS 9 introduces the expected loss model for the recognition of impairment on financial assets. This means that a loss allowance is recognized before losses are incurred on the basis of historical loss rates adjusted for current information and forecasts at the end of the reporting period. The Highlight Group uses the simplified lifetime credit loss approach to calculate expected losses on trade accounts receivable and contract assets after impairment.

The impairment factors specific to maturity and risk are based on historical and forward-looking information. The expected losses over the remaining term are determined as percentages on the basis of the number of days past due and the external credit ratings available.

The first-time adoption of IFRS 9 essentially resulted in the following cumulative adjustment effects recognized in retained earnings as of January 1, 2018:

(TCHF)	
Increase in impairment on trade accounts receivable (non-current)	24
Increase in impairment on trade accounts receivable (current)	317
Impairment on contract assets restated under IFRS 15	6
Total	**347**

The first-time adoption of the new impairment model had no material effects on cash and cash equivalents or receivables from associated companies.

The impairment on financial assets according to IAS 39 as of December 31, 2017 is reconciled to the opening balance sheet as of January 1, 2018 according to IFRS 9 as follows:

Impairment on financial assets incl. contract assets

(TCHF)	Non-current trade accounts receivable (AC)	Current trade accounts receivable (AC)	Current other receivables (AC)	Contract assets	Total
Total under IAS 39 (Dec. 31, 2017)	–	4,559	1,730	–	6,289
Change due to first-time adoption of IFRS 9	24	297	20	6	347
Total under IFRS 9 (Jan. 01, 2018)	**24**	**4,856**	**1,750**	**6**	**6,636**

The introduction of IFRS 9 extends the scope of the hedged items to which hedge accounting can potentially be applied. In addition, there will be no retrospective effectiveness test in the future. There must be evidence of an economic relationship between the hedged item and the hedging instrument without 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 Highlight Group is applying the regulations of IFRS 9 on hedge accounting prospectively starting from January 1, 2018. All hedges that went beyond December 31, 2017 were continued. There was no material impact on the consolidated financial statements of the Highlight Group.

The adoption of IFRS 9, Financial Instruments, also requires additional disclosures in the notes in accordance with IFRS 7, Financial Instruments: Disclosures. These relate in particular to disclosures on impairment and hedge accounting. These additional disclosures can be found in notes 6 to 8.

2.1.2 First-time adoption of IFRS 15, Revenue from Contracts with Customers (including clarifications)

The IASB issued the new standard IFRS 15, Revenue from Contracts with Customers, in May 2014. The Standard supersedes IAS 18, Revenue, and IAS 11, Construction Contracts, in particular and is effective for reporting periods from January 1, 2018.

The Standard stipulates a principle-based five-step model for determining and recognizing revenue and is applicable to all contracts with customers.

The Highlight Group is exercising the option of simplified first-time adoption and does not reassess contracts that were fulfilled before the date of first-time adoption. In accordance with the Standard's transitional provisions, the figures for the previous year are not restated.

A significant financing component is not accounted for if the period between when a promised good or service is transferred to a customer and when the customer pays for that good or service will be one year or less.

The Highlight Group has not capitalized any costs of contract acquisition or costs of contract fulfillment as these are immaterial.

There were no adjustments in connection with accounting for non-monetary exchange transactions.

Overall, no material quantitative changes in revenue recognition arose from the implementation of IFRS 15.

The restatements in connection with the first-time adoption of IFRS 15 are as follows:

(TCHF)	Carrying amount under IAS 18/IAS 11 Dec. 31, 2017	Reclassification	Carrying amount under IAS 15 Jan. 01, 2018
ASSETS			
Trade accounts receivable and other receivables*	127,735	–13,628	114,107
Contract assets*	–	13,628	13,628
LIABILITIES			
Trade accounts payable and other liabilities	122,304	–5,018	117,286
Provisions (current)	5,024	–3,716	1,308
Contract liabilities	–	8,734	8,734

** The carrying amounts as of January 1, 2018 are reported prior to the impairment on contract assets recognized under IFRS 9. Please see the explanations on the first-time adoption of IFRS 9.*

The table only shows the items affected by the change resulting from the first-time adoption of IFRS 15.

The reclassifications essentially relate to receivables and liabilities from contract manufacturing, which are recognized under contract assets and liabilities according to IFRS 15. These are netted per customer contract. A contract asset is when the Highlight Group has fulfilled a performance obligation but has not yet acquired an unconditional right to consideration (for example, because other performance obligations have to be fulfilled before an invoice can be issued). In complex arrangements, it may happen that the customer pays consideration at different times during the term of the contract. The Highlight Group sometimes receives consideration from its customers prior to the performance arising from a contract. In such cases, the rights and obligations from the contract are closely related; accordingly, the contract assets and contract liabilities are dependent on each other and shown net in the statement of financial position, provided that the conditions for netting are satisfied. Refund liabilities for expected returns of merchandise are reported under trade payables in accordance with IFRS 15.

The adoption of IFRS 15, Revenue from Contracts with Customers, likewise requires additional disclosures in the notes. These additional disclosures can be found in notes 6 to 8.

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:

IFRS 16, Leases

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

The Highlight Group will adopt the Standard for the first time for the annual period beginning on January 1, 2019.

Its adoption by the Highlight Group essentially affects the leases previously classified as operating leases. The Highlight Group expects to apply the options under IFRS 16 as follows:

- Under the option provided by IFRS 16.5(1), leases with a term of less than twelve months (and without a purchase option) are not recognized in accordance with IFRS 16, but rather as an expense under other operating expenses.
- Under the option provided by IFRS 16.5(2), leases for low-value assets are not recognized in accordance with IFRS 16, but rather as an expense under other operating expenses.
- The Highlight Group does not exercise the option provided by IFRS 16.4 for intangible assets, i.e. all intangible assets are recognized in accordance with IAS 38.
- Furthermore, in accordance with IFRS 16.15, no lease classes are separated into lease and non-lease components; instead, all contract components are recognized as a lease.
- The Highlight Group reports rights of use in a separate item of the balance sheet, "Rights of use from leases".

When IFRS 16 is applied for the first time, an option is granted whereby an entity does not have to reassess whether a contract contains a lease within the meaning of IFRS 16 (IFRS 16.C3). Contracts classified as leases in accordance with IAS 17 continue to be treated as such. The Highlight Group will exercise this option.

The lessee must apply IFRS 16 either using the full retrospective method including prior periods, or the cumulative amount of adjustments when it is first applied must be recognized in equity at the beginning of the annual period of initial application (IFRS 16.C5, C7). The variant chosen applies to all contracts (IFRS 16.C6). The Highlight Group has chosen modified retrospective application. The right of use is measured on the basis of the value of the lease liability less prepayments or accruals. Accordingly, the comparative information for fiscal year 2018 has not been restated in the 2019 consolidated financial statements in accordance with IFRS 16.C7.

The Highlight Group has analyzed the impact of the initial application of IFRS 16 in a Group-wide project. The following categories of leases were identified for which leases previously accounted for as operating leases must be treated as leases within the meaning of the new Standard as a result of the adoption of IFRS 16 as of January 1, 2019: real estate, vehicles, other technical equipment and machinery. Rights of use of around CHF 40 million and lease liabilities of around CHF 42 million are recognized in the consolidated balance sheet as of January 1, 2019 as a result of initial application; the difference between the two items relates to the adjustment for deferred lease liabilities in accordance with IFRS 16.C8(b)(ii). As of January 1, 2019, this reduces the equity ratio and alters operating profit.

Costs that were reported as rental expenses in other operating expenses in the past are now recognized as interest expenses in net finance costs. Secondly, amortization on rights of use under leases is shown in operating profit. This resulted an improved EBITDA and a slightly better EBIT in fiscal year 2019.

3. SCOPE OF CONSOLIDATION

3.1 First-time consolidation of Constantin Medien AG

On December 18, 2017, Highlight Communications AG, together with a third party, made the shareholders of Constantin Medien AG, Ismaning, Germany, a voluntary public takeover bid and thus acquired 48.39 %. At the end of March 2018, a further 29.99 % of shares were acquired by the parent company Highlight Event and Entertainment AG, hence control was achieved as of the end of March 2018. The two transactions are classified as one transaction as they constitute a single transaction from an economic perspective. The company is allocated to the Sports segment.

The cost of the acquisition of Constantin Medien AG in accordance with IFRS is CHF 198.3 million. This corresponds to the fair value of the equity investment previously held.

The assets and liabilities identified as of March 31, 2018 are as follows:

(TCHF)	
Non-current assets	
Intangible assets	60,474
Other intangible assets	3,196
Property, plant and equipment	6,467
Other non-current financial assets	49,626
Deferred tax assets	297
Current assets	
Inventories	152
Trade accounts receivable	21,645
Other receivables	15,941
Cash and cash equivalents	92,039
Non-current liabilities	
Other non-current liabilities	-98
Deferred tax liabilities	-2,032
Deferred tax liabilities (revaluation)	-13,765
Current liabilities	
Current financial liabilities	-75,178
Trade accounts payable	-19,229
Other liabilities	-22,035
Provisions	-10,634
Income tax liabilities	-276
Identified assets and liabilities (net)	**106,590**
Goodwill	114,743
Non-controlling interests	-23,045
Acquisition costs	**198,289**
Cash and cash equivalents acquired (cash inflow)	92,039
Total cash outflow	**106,250**

The other non-current financial assets of CHF 49.6 million relate to shares in Highlight Communications AG. These are classified as treasury shares by the Highlight Group on first-time consolidation. The deferred tax liabilities (remeasurement) consist of the tax liabilities in connection with the acquisition of intangible assets.

Purchase price allocation gives rise to goodwill of TCHF 114,743 and intangible assets (patents and licenses) of TCHF 60,474. Within the prescribed measurement period following the acquisition date, the fair values of the assets acquired and liabilities assumed including deferred taxes were finally determined as of December 31, 2018. As a result, the goodwill increased by TCHF 11,003 to TCHF 114,743. The effect arose from more detailed available information on patents and licenses, which resulted in reassessment in patent and license measurement. The finally determined intangible asset (patents and licenses) amounts to TCHF 60,474.

The goodwill resulting from the purchase price allocation (PPA) and the determined intangible assets (patents and licenses) constitute the positive difference between the purchase price paid and the fair values of the assets acquired and liabilities assumed including deferred taxes and primarily represent strategic synergy and development potential expected in the Sports segment in the future. Goodwill was accounted for using the partial goodwill method.

The intangible assets primarily relate to the “Sport 1” brand and the various rights in sports business. The main sources of income are advertising revenue, distribution revenue and revenue from the performance of production services. Revenue relates to products for platforms and services. Constantin Medien AG is an international media company based in Germany. Its programming portfolio includes the SPORT1 platforms with the following rights: Football with live and highlight rights to the DFB-Pokal from the 2019/2020 season up to and including the 2021/2022 season, the UEFA Youth League until 2020/2021 and the finals of the UEFA Women’s Champions League until 2018/2019, highlight summaries of the 2. Bundesliga on Friday and Sunday evenings from the start of the second half of the 2017/2018 season, highlight clips from all matches of the 2018 FIFA World Cup™ and the 2018 UEFA European Under-17 Championship, motorsport with the FIA WEC, FIA Formula 2, the Porsche Carrera Cup and the new "Porsche GT Magazin" show, volleyball with the women's and men's Bundesliga from 2018/2019 to 2020/2021 and the Nations League 2018, American football with the German Football League (GFL), ice hockey with the NHL Global Series Challenge 2018, handball with international matches of German national teams, hockey with the Hockey World Cup 2018 and the German Championship 2018, and eSports with the EA SPORTS™ FIFA 18 Global Series, the TAG Heuer Virtual Bundesliga, the ESL Spring Championship 2018 and ESL One Dota 2. Since March 2018, SPORT1 has bundled its activities on external platforms in the newly created New Platforms unit. In the area of social media, SPORT1 reaches more than 5 million fans on channels including Facebook, Instagram, Twitter, and YouTube. SPORT1 has a very important brand in Germany.

Constantin Medien AG's portfolio also includes PLAZAMEDIA. In June 2018, PLAZAMEDIA commissioned Europe's most state-of-the-art, IP-based broadcasting center. In addition to the regular recording of the talk show "Ringlstetter," the studio production "Gesundheitsshow" was created for Bayerischer Rundfunk including additional production services in the first half of 2018. Extensive series production services were rendered for ZDF and SPORT1 in connection with the UEFA Champions League, the UEFA Europa League, the Bundesliga and the 2. Bundesliga, and the 2018 FIFA World Cup™. In addition, PLAZAMEDIA took over the provision and operation of technical infrastructure and the technical production services for DAZN and Amazon Music's sports radio, produced the international soccer match between Japan and Paraguay for Nippon TV, and digitalized content and established an archive for the DKB Handball-Bundesliga. PLAZAMEDIA was also responsible for the implementation of several events for well-known customers at the "ziegelei101" venue in the first half of 2018.

The Highlight Group will report Constantin Medien AG in the Sports segment and will benefit from its digital platforms, SPORT1 brand name, network and synergies in future. For this reason, the goodwill is justified.

Assuming that Constantin Medien AG had been included in the consolidated financial statements starting from January 1, 2018, this would have resulted in consolidated pro forma net sales of CHF 137.1 million and a consolidated pro forma net loss of CHF 5.05 million. From April 1, 2018, the Highlight Group assumed consolidated sales of CHF 104.24 million and a net loss of CHF 3.33 million for the 2018 reporting period as a result of first-time consolidation.

3.2 Other changes

By way of agreement dated and effective January 1, 2018, Constantin Film Produktion GmbH, Munich, acquired 100% of Mythos Film GmbH, Berlin, and also indirectly acquired its wholly owned subsidiaries Mythos Film Verwaltungs GmbH, Berlin, and Mythos Film Produktions GmbH und Co. KG, Berlin. As a result of gaining control, this equity investment will be included in consolidation from the acquisition date onwards. The company primarily produces own and co-productions for the German market. The Group acquired it in order to further expand its production activities. The purchase price in accordance with IFRS 3 comprises a cash purchase price of TCHF 3,296 that was subsequently reduced by TCHF 253 to TCHF 3,043. The payment for the acquisition was made in December 2017. The repayment for the acquisition will be made in 2019.

The assets assumed at fair value comprise property, plant and equipment and intangible assets of TCHF 9, film assets of TCHF 2,116, deferred tax assets of TCHF 141 and current assets consisting of receivables and other assets (TCHF 513) and cash (TCHF 701). These are offset by liabilities assumed at fair value totaling TCHF 769. The receivables assumed include an amount of TCHF 164 that becomes intragroup receivables as a result of initial consolidation.

The provisional purchase price allocation results in goodwill non-deductible for tax purposes of TCHF 496. This constitutes the positive difference between the purchase price paid and the fair values of the assets acquired and liabilities assumed including deferred taxes and primarily represents strategic synergy and development potential among the productions.

As a result of the first-time consolidation of the companies as of January 1, 2018, sales of TCHF 3 and profit after tax of TCHF -1,444 were included in the Highlight Group's consolidated financial statements.

By way of agreement dated and effective June 21, 2018, Constantin Television GmbH, Munich, acquired 100% of Hager Moss Film GmbH, Munich. As a result of gaining control, this equity investment will be included in consolidation from the acquisition date onwards. The company primarily produces service productions for the German market. The Group acquired it in order to further expand its production activities. The purchase price in accordance with IFRS 3 comprises a cash purchase price of TCHF 1,697 and a contingent purchase price component (earn-out clause) with a fair value of TCHF 86. The full payment was recognized under non-current liabilities.

The assets assumed at fair value include property, plant and equipment and intangible assets of TCHF 62, film assets of TCHF 2,961 and current assets comprising inventories (TCHF 345), receivables (TCHF 1,407) and cash (TCHF 294). These are offset by liabilities assumed at fair value (TCHF 3,831).

The provisional purchase price allocation results in goodwill non-deductible for tax purposes of TCHF 545. This constitutes the positive difference between the purchase price paid and the fair values of the assets acquired and liabilities assumed including deferred taxes and primarily represents strategic synergy and development potential among the productions.

The inclusion of the company in the consolidated financial statements from the beginning of the fiscal year until its first-time consolidation as of June 21, 2018 would have had the following effects on the Highlight Group's results of operations, financial position and net assets: sales of TCHF 2,139 and profit after tax of TCHF 3. Since first-time consolidation as of December 31, 2018, the companies have contributed TCHF 4,939 to sales and profit after tax of TCHF 7 to consolidated net profit. The effective date of first-time consolidation is June 21, 2018. As there are no significant reconciling items to be taken into account, the balance sheet and the income statement of Hager Moss Film GmbH as of June 30, 2018 are used for the first-time consolidation of the company for reasons of materiality.

Effective August 27, 2018, Constantin Sport Holding GmbH acquired an interest of 50.1 % in Match IQ GmbH, Hamburg, and its wholly owned subsidiary Event IQ GmbH, Hamburg, and thereby achieved control. The companies are allocated to the Sports segment. In particular, Match IQ GmbH focuses on organizing training camps and test matches for renowned German and international football clubs and on the media exploitation of test matches. Incidental costs of acquisition of TCHF 34 were recognized in the income statement as a result of the acquisition of the companies. The purchase price amounts to TCHF 282. Furthermore, there is an earn-out clause with the remaining minority shareholder and managing director of Match IQ GmbH. The earn-out payments are conditional on the minority shareholder and managing director of Match IQ GmbH remaining the company's managing director. The dates of the earn-out payments are July 1, 2019 (TCHF 73), July 1, 2020 (TCHF 73), and July 1, 2021 (TCHF 28). The earn-out payments are recognized in personnel expenses pro rata temporis over the vesting period.

A negative difference of TCHF 23 was recognized through profit or loss in other operating income on initial consolidation. The assessment of the completeness and accuracy of the recognition of all acquired assets and liabilities was repeated before this was recognized. The negative difference was due to the sellers' strategic motivations. Non-controlling interests were recognized in the amount of their proportionate share of the identifiable net assets acquired.

The assets assumed at fair value include property, plant and equipment and intangible assets of TCHF 155 and current assets comprising inventories (TCHF 5), receivables (TCHF 458) and cash (TCHF 414). This is offset by deferred tax liabilities (TCHF 36), financial liabilities (TCHF 17), liabilities (TCHF 274) and contract liabilities (TCHF 92) assumed at fair value.

In purchase price allocation, long-term contracts with customers with useful lives between three and 44 months were recognized at a fair value of TCHF 119. They were measured using the discounted cash flow method.

The inclusion of the companies in the consolidated financial statements from the beginning of the fiscal year until their first-time consolidation at the end of August 2018 would have had the following effects on the Highlight Group's results of operations, financial position and net assets: additional sales of TCHF 3,274 and profit after tax of TCHF 91. Since first-time consolidation as of December 31, 2018, the companies have contributed TCHF 329 to sales and profit after tax of TCHF -84 to consolidated net profit.

The consolidated company Constantin Entertainment Hellas EPE, Athens, was liquidated on September 19, 2018. The consolidated company Constantin Entertainment Croatia d.o.o., Zagreb, was likewise liquidated on October 15, 2018. The effects of these transactions on these consolidated financial statements are immaterial.

On December 13, 2018, the Constantin Medien Group sold its associated company written down in full Nachspielzeit Marketing GmbH for TCHF 6.

On December 31, 2018, Constantin Film AG closed the sale of all shares in Nadcon Film GmbH (Film segment) to ZDF Enterprises GmbH and Dr. Peter Nadermann. The proceeds from the sale amounted to CHF 2. The disposal gave rise to a gain on deconsolidation of TCHF 530 which is reported in other operating income (Film segment). The net assets as of the date of disposal amount to TCHF -999 (TCHF 518 of which relating to shareholders) and essentially include film assets and property, plant and equipment (TCHF 1,650), deferred tax assets (TCHF 394), inventories and receivables (TCHF 46), cash and cash equivalents (TCHF 1,010), advance payments received (TCHF 2,574) and liabilities (TCHF 1,525).

3.3 Overview of fully consolidated companies

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

Fully consolidated companies as of December 31, 2018

	Activity	Country	Currency	Subscribed capital	Share in capital*	Voting rights of the respective parent company
Team Holding AG	Holding company	CH	CHF	250,000	100%	100%
Team Football Marketing AG	Exploitation of sports rights	CH	CHF	6,340,000	95.27%	100%
T.E.A.M. Television Event And Media Marketing AG	Marketing of sports events	CH	CHF	200,000	100%	100%
Rainbow Home Entertainment AG	Distribution	CH	CHF	200,000	100%	100%
Constantin Film und Entertainment AG	Acquisition and development of content	CH	CHF	500,000	100%	100%
Highlight Communications (Deutschland) GmbH	Marketing	DE	EUR	256,000	100%	100%
Constantin Film AG	Film production and distribution	DE	EUR	12,742,600	100%	100%
Constantin Media GmbH audiovisuelle Produktionen	Acquisition and development of content	DE	EUR	26,000	100%	100%
Constantin Film Produktion GmbH	Film and TV production	DE	EUR	105,100	100%	100%
Constantin Film Services GmbH	Service provider	DE	EUR	25,000	100%	100%
Constantin Film Development Inc.	Acquisition and development of content	US	USD	530,000	100%	100%
Mythos Film GmbH	Administration	DE	EUR	37,500	100%	100%
Mythos Film Verwaltungs-GmbH	Administration	DE	EUR	25,000	100%	100%
Mythos Film Produktions-GmbH & Co. KG**	Film and TV production	DE	EUR	12,000	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 SRB d.o.o.	TV entertainment production	RS	RSD	526,944	100%	100%
Constantin Entertainment Israel Ltd.	TV entertainment production	IL	ILS	50,000	56.25%	56.25%
Constantin Entertainment Hungary Kft.	TV entertainment production	HU	HUF	3,000,000	100%	100%
Constantin Entertainment RO SRL***	TV entertainment production	RO	RON	10,000	100%	100%
Constantin Entertainment Bulgarien EOOD	TV entertainment production	BG	BGN	5,000	100%	100%
Constantin Entertainment CZ s.r.o.	TV entertainment production	CZ	CZK	200,000	100%	100%
Constantin Entertainment Slovakia s.r.o.****	TV entertainment production	SK	EUR	25,000	100%	100%
Olga Film GmbH	Film and TV production	DE	EUR	603,000	95.52%	95.52%
Moovie GmbH	Film and TV production	DE	EUR	104,000	100%	100%
Rat Pack Filmproduktion GmbH	Film and TV production	DE	EUR	103,000	51%	51%
Westside Filmproduktion GmbH	Film and TV production	DE	EUR	103,000	51%	51%
Constantin Film Verleih GmbH	License trading and theatrical distribution	DE	EUR	250,000	100%	100%
Constantin Film Licensing, Unipessoal Lda*****	License trading	PT	EUR	5,000	100%	100%
Constantin Music Verlags-GmbH	Exploitation of music rights	DE	EUR	70,000	100%	100%
Constantin Music GmbH	Exploitation of music rights	DE	EUR	25,000	90%	90%
Königskinder Music GmbH	Record label and music consulting	DE	EUR	50,000	50%	50%
Constantin Film Production Services GmbH	Film and TV production	DE	EUR	100,000	100%	100%
Constantin Television GmbH	TV entertainment production	DE	EUR	100,000	100%	100%
Hager Moss Film GmbH	TV entertainment production	DE	EUR	102,000	100%	100%

Rainbow Home Entertainment Ges.m.b.H.******	Distribution	AT	EUR	363,364	100%	100%
Constantin Medien AG	Holding company	DE	EUR	93,600,000	79.18%	79.18%
Constantin Sport Holding GmbH	Holding company	DE	EUR	55,000	100%	100%
Sport1 GmbH	Platform operator	DE	EUR	500,000	100%	100%
Sport1 Gaming GmbH	inactive	DE	EUR	25,000	100%	100%
Plazamedia GmbH	Production service provider	DE	EUR	150,000	100%	100%
Plazamedia Austria Ges.m.b.H.	Production service provider	AT	EUR	35,000	100%	100%
Plazamedia Swiss AG	Production service provider	CH	CHF	100,000	100%	100%
Leitmotif Creators GmbH	Consulting	DE	EUR	25,000	100%	100%
Sport1 Media GmbH	Marketing	DE	EUR	25,100	100%	100%
Magic Sports Media GmbH	Marketing	DE	EUR	25,000	100%	100%
Match IQ GmbH	Consulting	DE	EUR	30,000	50.1%	50.1%
Event IQ GmbH	Consulting	DE	EUR	25,000	100%	100%

* *Direct and/or indirect share held by the Group.*
** *33.33% are held by Mythos Film Verwaltungs-GmbH.*
*** *0.1% are held by Constantin Film Produktion GmbH.*
**** *3% are held by Constantin Film Produktion GmbH.*
***** *50% are held by Constantin Film AG.*
****** *In liquidation.*

3.4 Overview of companies not included in consolidation

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

Companies not included in consolidation as of December 31, 2018

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

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

3.5 Overview of associated companies

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

	Share in capital	Period recognized in the consolidated financial statements	Currency	Subscribed capital
BECO Musikverlag GmbH	50%	Jan. 01 to Dec. 31, 2018	EUR	25,565

The annual financial statements of BECO Musikverlag GmbH as of December 31, 2017 were used for reporting as the annual financial statements as of December 31, 2018 have not yet been prepared.

Financial information on the associated companies can be found in note 6.5.

4. SUMMARY OF THE KEY ACCOUNTING POLICIES

4.1 Methods of consolidation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.2 Currency translation

4.2.1 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.

4.2.2 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 equity instruments measured at fair value through other comprehensive income are also recognized in other comprehensive income.

4.2.3 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.

4.2.4 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	
				Jan. 01 to	Jan. 01 to
		Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Euro	(EUR)	1.12633	1.16945	1.15135	1.11151
US dollar	(USD)	0.98405	0.97619	0.97685	0.98462
British pound	(GBP)	1.25329	1.31716	1.29918	1.26829
Canadian dollar	(CAD)	0.72191	0.77772	0.75202	0.75907

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.

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

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

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

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

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

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

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

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

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

For assets and liabilities that are measured at fair value on a recurring basis, the Group determines as of the end of the reporting period whether there were transfers between the levels of the fair value hierarchy based on the lowest input factor significant overall to measurement. Information on the measurement methods used and the input factors for determining the fair value of assets and liabilities can be found in notes 6, 7 and 8.

4.4 Film assets

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

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

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

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

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

Capitalized costs for the development of new projects (particularly script rights) are regularly reviewed to determine whether they can still be used as a basis for film productions. If, three years after first-time capitalization of costs for a project, the start of filming or the sale of the rights cannot be specifically determined or are no longer considered likely, the costs are written off in full. Any indications of early impairment are recognized accordingly.

4.5 Other intangible assets

This category essentially includes purchased software and licenses, internally generated intangible assets and intangible assets identified in 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 in purchase price allocations are reported under other intangible assets. Their carrying amount is their fair value as of the time of acquisition less necessary amortization.

As a result of initial consolidation of Constantin Medien AG, purchase price allocation identified customer relationships, the brand name for Sport 1 and licenses that are reported under other intangible assets. The amortization period is between six and 20 years. 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 25 years. Repairs and maintenance expenses are expensed as and when incurred. More extensive renovation work or improvements are capitalized. Renovation work is also depreciated over the above mentioned expected useful life. Costs and the associated cumulative depreciation are derecognized on disposal. Any resulting gains or losses are recognized in profit or loss in the fiscal year. If the cost of specific components of an item of property, plant and equipment is material, these components are recognized and depreciated individually.

4.8 Impairment of non-financial assets

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

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

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

4.9 Inventories

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

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

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

4.10 Financial instruments

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

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

Financial assets and financial liabilities are usually not offset. They are only netted if there is a currently enforceable legal right to offset the recognized amounts and there is an intention 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, if they are not part of a designated hedge. Gains/losses from fluctuations in value are recognized immediately in profit or loss.

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

4.10.1 Financial assets at amortized cost

The Group recognizes financial assets 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.

The reported carrying amounts of the current receivables are the approximate fair values.

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.

4.10.2 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 (OCI) 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 (OCI) with the change in fair value.

4.10.3 Financial liabilities

Financial liabilities held for trading (e.g. non-hedge derivative financial instruments) are measured at fair value through profit or loss.

All other financial liabilities are measured at amortized cost – unless Highlight Communications AG voluntarily designates them at fair value through profit or loss on initial recognition (fair value option). 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.

4.10.4 Impairment of financial assets (debt instruments at amortized cost)

The impairment model is based on expected credit losses and is applicable to financial debt instruments that are measured either at amortized cost or at fair value through other comprehensive income. In addition, the impairment provisions of IFRS 9 also apply to contract assets, lease receivables, irrevocable loan commitments and financial guarantees. Loss allowances are recognized in profit or loss in separate allowance accounts, thereby reducing the carrying amount of the financial assets accordingly.

The general impairment model uses a three-stage procedure to determine and allocate loss allowances in the amount of the expected credit losses.

Level 1: All instruments are initially assigned to stage 1. The present value of expected credit losses from possible defaults in the twelve months after the end of the reporting period is expensed for such instruments. Interest is recognized on the basis of the gross carrying amount, i.e. the effective interest method is applied based on the carrying amount before loss allowances.

Level 2: This contains all instruments with significant increases in credit risk at the end of the reporting period compared to the initial amount. Loss allowances are recognized at the present value of all expected losses over the remaining term of the instrument. Interest is recognized on the basis of the gross carrying amount, i.e. the effective interest method is applied based on the carrying amount before loss allowances.

Evidence of significant increases in credit risk includes:

- significant deterioration in the expected performance and behavior of the debtor
- significant deterioration in the credit quality of other instruments of the same debtor
- actual or expected deterioration in the economic, financial, regulatory, or technological circumstances relevant to the debtor’s credit rating

The application of an assumed number of days past due of 30 is not appropriate.

Level 3: If there is objective evidence of impairment in addition to a significant increase in credit risk at the end of the reporting period, the loss allowance is also measured on the basis of the present value of the expected losses over the remaining term. However, the recognition of interest in subsequent periods must be adjusted so that future interest income is calculated on the basis of the net carrying amount, i.e. the carrying amount after deducting loss allowances.

Objective evidence of impairment includes:

- significant financial difficulty of the issuer or obligor
- a breach of contract, such as a default or delinquency in interest or principal payments
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization

The simplified approach in accordance with IFRS 9 is always applied to trade accounts receivable or contract assets that do not contain a significant financing component. Changes in credit risk do not have to be tracked. Instead, a loss allowance is initially and subsequently recognized for the lifetime expected credit losses.

The Highlight Group recognizes specific loss allowances on trade accounts receivable and contract assets where there is clear objective evidence such as default or an increased probability of bankruptcy. For assets that are not credit-impaired, impairment is calculated using a provision matrix that determines the expected losses over the remaining term as percentages on the basis of the number of days past due and external ratings available for the borrower. These percentages are based on historical loss rates, which are adjusted for forward-looking estimates.

Besides additions to impairment losses, the item "Impairment and reversals of impairment on financial assets" also includes net income from the reversal of impairment losses.

Trade accounts receivable and contract assets are derecognized when there is no reasonable expectation of recovery. These are reported at amortized cost under "Gains and losses on the derecognition of financial assets". Amounts previously written off received subsequently are recognized in the same item.

Cash and cash equivalents are also subject to the impairment provisions of IFRS 9. As long as the counterparties – banks and financial institutions – have a good rating and do not have any going concern problems, no impairment losses are recognized on account of immateriality.

For long-term financial debt instruments, expected losses are discounted to the reporting date using the effective interest rate of the instrument determined at initial recognition to reflect the time value of money. The remaining term is the maximum term of the contract taking possible extension options into account.

4.10.5 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.

If all relevant criteria are met, hedge accounting is used to eliminate the accounting mismatch between the hedging instrument and the hedged item. This results in the reporting of the following items in the income statement and in other comprehensive income (OCI):

For forward contracts used to hedge expected transactions, the Group designates the change in the fair value of the forward contract as a hedge, regardless of whether it is a fair value hedge or cash flow hedge. Any material ineffectiveness arising from the cross currency basis spread (CCBS) is recognized directly in profit or loss.

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 (OCI) and in equity under other reserves. Possible ineffectiveness is immediately recognized in profit or loss.

Cumulative amounts recognized in other comprehensive income (OCI) as part of a cash flow hedge or assets or liabilities recognized as part of a fair value hedge are reclassified as follows in the periods in which the hedged item is recognized in profit or loss:

- If the hedged item results in the recognition of a non-financial asset (e.g. film assets), the deferred hedging gains and losses are included in the original cost of the asset. The deferred amounts are ultimately recognized in the income statement when the hedged item is recognized in profit or loss.
- If the hedging instrument expires or is sold or terminated, or when the hedge no longer meets the criteria for hedge accounting, any cumulative deferred hedging gains and losses previously recognized in other comprehensive income remains in equity, or in the recognized asset or liability, until the forecast transaction occurs and results in the recognition of a non-financial asset, such as film assets. If the transaction is no longer expected to occur, the cumulative deferred hedging gains and losses are reclassified to profit or loss.

The 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. The effectiveness of the hedge is reviewed on the basis of prospective effectiveness tests to ensure that there is an economic relationship between the hedged item and the hedging instrument. The prospective effectiveness test uses the critical terms match method. When hedging foreign currency transactions, the Group uses hedging relationships for which the contractual characteristics of the hedging instrument match those of the hedged item exactly. The hedged item and the hedging instrument are therefore subject to the same risk and the resulting changes in value offset each other. If changes in the characteristics of the hedged item result in its material characteristics no longer exactly matching those of the hedging instrument, the effects of ineffectiveness are recognized in the income statement. When hedging foreign currency transactions, ineffectiveness may arise when the timing of the planned transaction differs from the original estimate, there is CCBS ineffectiveness or when changes occur in the probability of default of the Group or the derivative's counterparty.

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.

Derivatives are solely used for hedging purposes and not as speculative investments. However, if derivatives do not meet the criteria for hedge accounting, they are recognized at fair value through profit or loss for accounting purposes. They therefore constitute current assets or liabilities expected to be settled within twelve months of the end of the reporting period.

4.11 Pension liabilities

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

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

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

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

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

4.12 Other provisions, contingent liabilities and contingent assets

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

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

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

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

4.13 Current taxes

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

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

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

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

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

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

4.14 Equity

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

4.15 Revenue from contracts with customers

Revenue for goods and services is recognized when a performance obligation is satisfied by the transfer of a promised good or service. Appropriate refund liabilities are recognized under trade accounts payable for additional expenses in connection with goods and services, 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, revenue from theatrical films is recognized at a point in time 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.

Revenue from service productions is recognized over time in the amount of the share of total revenue for the reporting period (see note 4.16).

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

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

For home entertainment exploitation, sales from DVDs und Blu-rays sold are recognized at a point in time as of release, taking into account the expected returns of merchandise. For digital purchase and rental transactions, sales are also recognized at a point in time 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 from theatrical distribution, home entertainment, license trading/TV exploitation and other revenue are reported under the product type "Film". Sales from TV service productions is shown under the product type "Production services".

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.

There are sales in the Sports segment as a result of the acquisition of Constantin Medien AG. TV advertising revenue is recognized when the corresponding advertisement is broadcast for consumers. Discounts and commission for advertising agencies are deducted directly from revenue. There are no financing components as the contracts with the advertising agencies are concluded for one year. The normal payment period is 30 days.

The marketing and settlement of advertising revenue for digital platforms are largely outsourced to a third-party company. This contract has a term of two years. However, as revenue is settled monthly and possible prepayments cover a maximum time horizon of three months, there is no financing component in this business. Revenue is recognized over time using the output method on the basis of the advertisements placed. Discounts and commission are deducted directly from revenue.

Distribution revenue is recognized over time using the output method (performance rendered to date).

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

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

4.16 Long-term service production

Revenues from service productions are recognized at a point in time. 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 contract assets or contract liabilites in the amount of the difference between realized sales and invoices. Service productions in development that have not yet been ordered by the broadcaster are recognized under inventories.

4.17 Operating leases

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

4.18 Government grants

Project promotion

Project promotion as a contingently repayable loan

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

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

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

Project subsidies

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

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

Project film promotion in accordance with BKM (DFFF) regulations

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

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

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

Distribution loans

Distribution loan as a contingently repayable loan

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

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

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

Sales subsidies

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

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

5. JUDGMENT/ESTIMATION UNCERTAINTY

In preparing the consolidated financial statements in accordance with IFRS, the management is required to make estimates and assumptions influencing the income, expenses, assets, liabilities as well as contingent liabilities and assets reported as of the end of the reporting period. These estimates and assumptions are based on the management's best possible assessment based on past experience and other factors including estimates of future events. Estimates and judgments are reviewed on an ongoing basis. Changes to estimates are required if the circumstances on which they are based have changed or new or additional information has become available. Such changes are recognized in the reporting period in which the estimate is modified.

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

5.1 Significant risks

5.1.1 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 Other risks

5.2.1 Estimates used to determine the transaction price for revenue from contracts with customers

Certain contracts with customers at the Highlight Group have variable consideration. Typically, however, the effective transaction prices are known when the financial statements are prepared and no estimates are required. Nonetheless, it may occur that variable consideration has to be estimated; this is done using the probability-weighted expected value or the most likely amount – depending on which of the two values is closest to the consideration owed to the Highlight Group. Even if the price is fixed but is dependent on future events, the Highlight Group classifies such consideration as variable. Variable future revenue from licenses based on future transactions (sales-based royalties) are recognized at the later of license utilization or fulfillment of the performance obligation.

5.2.2 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.

5.2.3 Impairment of financial assets (debt instruments)

The requirements for the recognition of impairment on financial assets, which is based on the expected loss model, include substantial judgments regarding the extent to which expected credit losses can be influenced by changes in economic factors. Financial assets must be divided into different risk classes/ratings in accordance with historical and expected probabilities of default (for example, due to the general economic situation and related forecasts). Loss allowances must be recognized before loss events occur.

At the Highlight Group, expected losses are defined as the weighted average of credit losses or using available external ratings, which are weighted by the respective probabilities of default. The estimates always account for the possibility of default and the possibility of non-default, even if the most probable scenario is non-default.

Please see note 4.10.4 for further disclosures.

5.2.4 Service productions

The percentage of completion of customer-specific service productions for which revenue is recognized over time is determined using the cost-to-cost method (recognition in the amount of costs incurred as of the end of the reporting period in proportion to the expected total costs) or the physical completion method. 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.

5.2.5 Refund liabilities for expected returns of merchandise

The Group's refund liabilities 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 the refund liabilities recognized for expected returns of merchandise to be adequate. As they are based on management estimates, they may have to be revised upon better information becoming available. Such adjustments could affect the refund liabilities recognized for expected returns of merchandise and the sales in future periods.

5.2.6 Provisions for litigation

The Group companies are involved in various legal disputes. On the basis of current knowledge, the Group assumes that its provisions recognized 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.

5.2.7 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.

5.2.8 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 2018			
Balance on January 1, 2018	524,663	1,280,917	1,805,580
Change in the scope of consolidation	–3,225	–3,393	–6,618
Currency translation differences	–12,509	–50,882	–63,391
Additions	8,367	170,236	178,603
Disposals	2,908	–	2,908
Balance on December 31, 2018	**514,388**	**1,396,878**	**1,911,266**
Accumulated amortization/value adjustments 2018			
Balance on January 1, 2018	488,800	1,154,966	1,643,766
Change in the scope of consolidation	–2,794	–7,252	–10,046
Currency translation differences	–11,209	–45,532	–56,741
Amortization for the year	6,981	135,604	142,585
Impairment	1,556	7,885	9,441
Write-ups	125	157	282
Disposals	2,908	–	2,908
Balance on December 31, 2018	**480,301**	**1,245,514**	**1,725,815**
Acquisition and production costs 2017			
Balance on January 1, 2017	498,158	1,050,660	1,548,818
Currency translation differences	27,863	101,750	129,613
Additions	3,463	133,348	136,811
Disposals	4,821	4,841	9,662
Balance on December 31, 2017	**524,663**	**1,280,917**	**1,805,580**
Accumulated amortization/value adjustments 2017			
Balance on January 1, 2017	456,413	965,131	1,421,544
Currency translation differences	24,608	92,514	117,122
Amortization for the year	13,538	99,608	113,146
Impairment	523	2,807	3,330
Write-ups	1,461	253	1,714
Disposals	4,821	4,841	9,662
Balance on December 31, 2017	**488,800**	**1,154,966**	**1,643,766**
Net carrying amounts on Dezember 31, 2018	**34,087**	**151,364**	**185,451**
Net carrying amounts on Dezember 31, 2017	**35,863**	**125,951**	**161,814**

Impairment losses of TCHF 9,441 (previous year's period: TCHF 3,330) were recognized in the year under review as the value in use no longer covers the acquisition costs or the carrying amount of certain films due to a lack of market acceptance. The pre-tax discount rates used for determination of impairment are between 1.89 % and 4.45 % (previous year: between 1.23 % and 4.21 %). The disposals relate to co-productions and third-party productions to which the distribution rights expired in the year under review. Write-ups are recognized for projects for which a write-down has been recognized in the past and whose forecast revenues for the remaining exploitation period are considerably higher than the previous year's estimates.

In the year under review, the Highlight Group received project subsidies and project promotion loans of TCHF 15,687 (previous year's period: TCHF 20,850), which were deducted from the capitalized production costs.

Deferred project promotion loans amounted to TCHF 4,054 as of December 31, 2018 (previous year: TCHF 3,264). Project promotions of TCHF 1,151 were repaid in the year under review (previous year's period: TCHF 849).

In addition, sales subsidies and distribution loans of TCHF 2,378 (previous year's period: TCHF 5,840) were recognized in the consolidated income statement in the year under review 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, 2018. Distribution loans of TCHF 709 (previous year's period: TCHF 2,187) were repaid over the year under review. As of December 31, 2018, there were receivables for subsidies and grants of TCHF 18,163 (previous year: TCHF 15,203).

Directly attributable financing costs of TCHF 1,094 (previous year's period: TCHF 1,010) 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 1.2 % to 7.8 % (previous year: 2.8 % to 4.5 %).

6.2 Other intangible assets and goodwill

(TCHF)	Patents and licenses	Purchased software	Internally developed intangible assets	Advance payments	Total intangible assets	Goodwill
Acquisition and production costs 2018						
Balance on January 1, 2018	–	6,752	3,167	–	9,919	24,244
Change in the scope of consolidation	60,758	1,123	1,320	603	63,804	115,788
Currency translation differences	–12	–192	–53	–65	–322	–393
Additions	13	1,429	–	1,832	3,274	–
Disposals	–	–	125	–	125	–
Balance on December 31, 2018	**60,759**	**9,112**	**4,309**	**2,370**	**76,550**	**139,639**
Accumulated amortization/value adjustments 2018						
Balance on January 1, 2018	–	6,552	3,167	–	9,719	6,247
Currency translation differences	–2	–121	–12	–	–135	–139
Amortization for the year	3,712	540	494	–	4,746	–
Disposals	–	–	–	–	–	–
Balance on December 31, 2018	**3,710**	**6,971**	**3,649**	**–**	**14,330**	**6,108**
Acquisition and production costs 2017						
Balance on January 1, 2017	–	6,465	2,959	–	9,424	23,420
Currency translation differences	–	277	208	–	485	824
Additions	–	48	–	–	48	–
Disposals	–	38	–	–	38	–
Balance on December 31, 2017	**–**	**6,752**	**3,167**	**–**	**9,919**	**24,244**
Accumulated amortization/value adjustments 2017						
Balance on January 1, 2017	–	6,132	2,959	–	9,091	5,921
Currency translation differences	–	259	208	–	467	326
Amortization for the year	–	199	–	–	199	–
Disposals	–	38	–	–	38	–
Balance on December 31, 2017	**–**	**6,552**	**3,167**	**–**	**9,719**	**6,247**
Net carrying amounts on December 31, 2018	**57,049**	**2,141**	**660**	**2,370**	**62,220**	**133,531**
Net carrying amounts on December 31, 2017	**–**	**200**	**–**	**–**	**200**	**17,997**

Goodwill

The table below shows the allocation of goodwill:

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Constantin Medien AG	114,743	–
Constantin Film Verleih GmbH	12,025	12,025
Constantin Entertainment GmbH	3,916	4,065
Constantin Television GmbH	1,788	1,857
Mythos Film GmbH	477	–
Hager Moss Film GmbH	530	–
Other	44	50
Total	**133,523**	**17,997**

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, 2018, the CAPM-based discount factor before taxes for the impairment test of Constantin Film Verleih GmbH was set at 7.84 % (previous year: 11.70 %), for other items this was set at 7.91 % – 8.03 % (previous year: 7.66 %).

Total goodwill of TCHF 114,743 (previous year: TCHF 0) was recognized in the balance sheet as of December 31, 2018 on account of the first-time consolidation of Constantin Medien AG. Purchase price allocation for the first-time consolidation of Constantin Medien AG as of March 31, 2018 resulted in goodwill of TCHF 114,743. Note 3.1 contains explanatory notes on the purchase price allocation of Constantin Medien AG.

As of December 31, 2018, the CAPM-based discount factor before taxes for the impairment test of Constantin Medien AG was set at 7.55 %. For the impairment test of Constantin Medien AG, the growth rate beyond the detailed planning period was set at 1 %. Conservative scenarios were used for sales growth and EBIT margin. The results indicate that no impairment is required.

Goodwill underwent the annual impairment test as of December 31, 2018. As in the previous year, this did not result in any impairment losses.

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

6.3 Property, plant and equipment

(TCHF)	Leasehold improvements	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and assets under construction	Total property, plant and equipment
Acquisition and production costs 2018					
Balance on January 1, 2018	5,132	2,554	12,543	613	20,842
Change in the scope of consolidation	350	3,492	1,062	1,725	6,629
Currency translation differences	–51	–388	–318	–85	–842
Additions	482	7,500	4,555	1,381	13,918
Disposals	5	736	1,169	1,688	3,598
Transfers	–	75	–	–75	–
Balance on December 31, 2018	**5,908**	**12,497**	**16,673**	**1,871**	**36,949**
Accumulated depreciation 2018					
Balance on January 1, 2018	4,832	2,456	9,793	–	17,081
Currency translation differences	–24	–71	–127	–	–222
Depreciation for the year	267	1,849	1,996	–	4,112
Disposals	2	730	845	–	1,577
Balance on December 31, 2018	**5,073**	**3,504**	**10,817**	**–**	**19,394**
Acquisition and production costs 2017					
Balance on January 1, 2017	5,291	2,278	13,111	–	20,680
Currency translation differences	58	211	526	31	826
Additions	20	73	1,500	582	2,175
Disposals	237	8	2,594	–	2,839
Balance on December 31, 2017	**5,132**	**2,554**	**12,543**	**613**	**20,842**
Accumulated depreciation 2017					
Balance on January 1, 2017	4,595	2,151	10,563	–	17,309
Currency translation differences	42	201	425	–	668
Depreciation for the year	342	112	1,280	–	1,734
Disposals	147	8	2,475	–	2,630
Balance on December 31, 2017	**4,832**	**2,456**	**9,793**	**–**	**17,081**
Net carrying amounts on December 31, 2018	**835**	**8,993**	**5,856**	**1,871**	**17,555**
Net carrying amounts on December 31, 2017	**300**	**98**	**2,750**	**613**	**3,761**

Technical equipment and machinery essentially comprise the following amounts for which the Highlight Group is the lessee under a finance lease. The term of the lease is 60 months with an uncancellable term of 30 months. It is then possible to cancel the lease in return for the payment of compensation.

Finance lease properties technical equipment and machinery

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Acquisition costs	1,399	–
Accumulated value adjustments	59	–
Net carrying amounts	**1,458**	**–**

The acquisition of this technical equipment and machinery therefore constitutes non-cash investment activity.

6.4 Financial information of subsidiaries with material non-controlling interests

The financial information of subsidiaries with material non-controlling interests is as follows:

Subsidiaries with significant non-controlling interests

Subsidiary	Dec. 31, 2018
Constantin Medien AG, Ismaning, Deutschland	20.82%

Disclosures on financial information (after elimination of internal relations)

(TCHF)	Dec. 31, 2018
Share in equity of non-controlling interests	21,695

(TCHF)	Apr. 01 to Dec. 31, 2018
Share of earnings of non-controlling interests	–747

Disclosures on financial information (before elimination of internal relations)

(TCHF)	Dec. 31, 2018
Current assets	41,110
Non-current assets	73,233
Total assets	**114,343**
Current liabilities	32,036
Non-current liabilities	15,528
Total liabilities	**47,564**
Net assets	**66,779**

(TCHF)	Apr. 01 to Dec. 31, 2018
Sales	104,242
Earnings from continuing operations after taxes	–3,335
Other earnings after taxes	–353
Total earnings for the year	**–3,688**
Cash flow for operating activities	–3,616
Cash flow from investing activities	2,793
Cash flow for financing activities	–73,936
Cash flow for the period	**–74,759**

This is the consolidated financial information of the Constantin Medien Group, which was included in the consolidated financial statements for the first time as of March 31, 2018 (see note 3.1).

The other non-controlling interests are immaterial.

6.5 Investments in associated companies

As of December 31, 2018 – as in the previous year – the Group has investments in one associated company that is included in the consolidated financial statements using the equity method.

Carrying amounts

(TCHF)	
Balance on December 31, 2016	**54**
Dividends/repayments of capital	–9
Share of earnings	6
Currency translation	6
Balance on December 31, 2017	**57**
Disposals	–6
Dividends/repayments of capital	–6
Share of earnings	6
Gain on disposal	6
Currency translation	–3
Balance on December 31, 2018	**54**

Financial information

(TCHF)	Jan. 01 to Dec. 31, 2018	Jan. 01 to Dec. 31, 2017
Earnings after taxes	12	13
Other earnings (OCI)	–	–
Total earnings	**12**	**13**

	Dec. 31, 2018	Dec. 31, 2017
Contingent liabilities (proportional)	–	–

For updating reasons, the annual financial statements of BECO Musikverlag GmbH as of December 31, 2017 were used for reporting on associated companies as the annual financial statements as of December 31, 2018 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.

6.6 Non-current receivables

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Non-current trade accounts receivable (financial assets)		
Non-current trade accounts receivable	13,343	2,538
Credit losses expected over the entire term (level 2)	–127	–
Total	**13,216**	**2,538**
Non-current other receivables (financial assets)		
Non-current other receivables	127	197
Total non-current trade accounts receivable	**13,343**	**2,735**

Non-current receivables essentially relate to the VAT portion for revenues not yet recognized in accordance with IFRS. They are discounted in line with their maturity and measured in accordance with the impairment provisions under IFRS 9.

Value adjustments

(TCHF)	Credit losses expected over the entire term (level 2)	Individual value adjustments (level 3)
Balance on December 31, 2017	–	–
Retrospective change of the accounting method due to IFRS 9	24	–
Balance on January 01, 2018	**24**	**–**
Currency translation differences	–3	–
Addition due to an increase in the volume of receivables	106	–
Balance on December 31, 2018	**127**	–

6.7 Deferred tax assets

Breakdown of deferred tax assets

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Tax loss carryforwards	8,919	10,883
Intangible assets/film assets	316	2,182
Property, plant and equipment	921	1
Trade accounts receivable and other receivables	18,831	9,904
Contract assets	33	–
Inventories	13,896	12,672
Trade accounts payable and other liabilities	2,156	4,248
Contract liabilities	1,441	–
Advance payments received	1,426	185
Provisions	1,074	771
Pension liabilities	468	493
Total	**49,481**	**41,339**
Netting with deferred tax liabilities	–48,340	–38,820
Deferred tax assets (net)	**1,141**	**2,519**

Maturities

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Current deferred tax assets	11	168
Non-current deferred tax assets	1,130	2,351

The Group has total loss carryforwards of TCHF 48,638 (previous year: TCHF 33,592) for which no deferred tax assets were recognized. These are scheduled to expire as follows:

2018 (TCHF)	Expiry date			
	<1 year	1–5 years	>5 years	thereof without expiry
	–	17,083	31,555	16,143

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

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

Changes in deferred tax assets

(TCHF)	Jan. 01 to Dec. 31, 2018	Jan. 01 to Dec. 31, 2017
Changes in deferred tax assets (assets and liabilities)	–16,419	–5,120
thereof:		
Change in income statement	–1,011	–4,023
Change in other comprehensive income/loss	–439	–104
Change in the scope of consolidation	–15,562	–
Change in currency translation	593	–993

6.8 Other financial assets

Other non-current financial assets

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Equity instruments at fair value through other comprehensive income/loss (FVTOCI)		
Investment in Geenee Inc.	–	–
Other investments	9	–
Equity instruments at fair value through profit or loss (FVTPL)		
Securities	–	35
Total	**9**	**35**

Other current financial assets

	Dec. 31, 2018	Dec. 31, 2017
Equity instruments at fair value through profit or loss (FVTPL)		
Preference shares	–	–
Total	**–**	**–**

The shares in Geenee Inc. are held by Rainbow Home Entertainment AG with 4.54 % while Constantin Entertainment GmbH holds 0.46 % and Sport 1 GmbH 5.0 % (previous year: Rainbow Home Entertainment 4.54 % and Constantin Entertainment AG 0.46 %). The equity investment is measured at fair value through OCI (FVTOCI) and assigned to level 3 of the fair value hierarchy (see note 8.4). Owing to financial difficulties at Geenee Inc., there was a total impairment loss in the previous years that was recognized in other comprehensive income (OCI). There were no indications of a reversal of impairment in the year under review.

The remaining 5 % interest in Mister Smith Entertainment Ltd., London, is measured at fair value through OCI (FVTOCI). The carrying amount is 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 8.4).

Other non-current assets also include two equity investments with a share of 1.0 % and 5.556 % respectively, both of which are allocated to level 3 of the fair value hierarchy (see note 8.4).

The investment securities (previous year: TCHF 35) were sold in the reporting year.

Other current financial assets include preference shares in a Canadian company that were acquired in connection with the production of the movie "Resident Evil: Retribution". These were written off in full in the previous year. There were no indications of a reversal of this write-down in the reporting year. The preference shares are assigned to level 3 of the fair value hierarchy (see note 8.4).

6.9 Inventories

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Net balance		
Unfinished goods and services	4,508	2,210
Blu-rays/DVDs	1,194	1,803
Other merchandise	13	14
Constants	145	–
Total	**5,860**	**4,027**

Unfinished goods and services essentially relate to service productions in development that have not yet been ordered by the broadcaster. Impairment losses of TCHF 158 (previous year's period: TCHF 107) were recognized in the year under review and impairment losses of TCHF 24 (previous year's period: TCHF 13) were reversed.

6.10 Trade accounts receivable and other receivables

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Trade accounts receivable	57,639	55,992
Other receivables	85,070	71,743
Total	**142,709**	**127,735**

6.10.1 Trade accounts receivable

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Trade accounts receivable (financial assets)		
Current receivables	61,304	46,814
Receivables due from related parties	–	109
Credit losses expected over the entire term (level 2)	–475	–75
Individual value adjustments (level 3)	–5,376	–4,484
PoC receivables	–	13,628
Total	**55,453**	**55,992**
Trade accounts receivable (non-financial assets)		
Receivables from countertrades	2,186	–
Total	**2,186**	**–**
Total trade accounts receivable	**57,639**	**55,992**

Trade accounts receivable included PoC receivables of TCHF 13,628 in the previous year. These were reported separately under contract assets in the fiscal year in accordance with the provisions of IFRS 15.

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)	Credit losses expected over the entire term (level 2)	Individual value adjustments (level 3)	Impairment losses
Balance on December 31, 2017	**75**	**4,484**	
Retrospective change of the accounting method due to IFRS 9	297	–	
Balance on January 01, 2018	**372**	**4,484**	
Change in the scope of consolidation	46	1,078	
Currency translation differences	–12	–199	
Addition due to an increase in the volume of receivables	108	–	
Reduction due to a decrease in the volume of receivables	–39	–	
Additions	–	760	
Consumption	–	–418	
Reversals	–	–329	
Balance on December 31, 2018	**475**	**5,376**	
Balance on January 01, 2018			**4,304**
Currency translation differences			363
Additions			116
Consumption			–130
Reversals			–94
Balance on December 31, 2018			**4,559**

Trade accounts receivable are measured using the simplified approach. Stage 3 impairment is recognized following an individual assessment. There is no relevant collateral or other credit enhancements.

Maturities

(TCHF)	Carrying amount	neither impaired nor overdue	Overdue period in days less than 90	between 91 and 180	between 181 and 270	between 271 and 365	more than 365
December 31, 2017							
Trade accounts receivable (financial assets)	55,992	50,870	4,633	269	70	54	96

Currency profile

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
CHF	1,655	1,490
EUR	17,236	30,271
USD	38,701	24,225
Other	47	6
Total	**57,639**	**55,992**

6.10.2 Other receivables

Other receivables (financial assets)

(TCHF) Dec. 31, 2018	Gross	Expected credit losses Level 1	Level 2	Level 2	Net
Suppliers with debit balances	455	–	–	–	455
Receivables from loans	4,981	–37	–	–964	3,980
Subsidies receivables	18,163	–	–	–	18,163
Positive fair value of derivative financial instruments in hedging relationships	25	–	–	–	25
Positive fair value of derivative financial instruments without hedging relationships	1,265	–	–	–	1,265
Receivables due from personnel (financial)	663	–	–	–	663
Other assets (financial)	31,172	–22	–	–1,001	30,149
Other receivables due from related parties	3,619	–	–	–	3,619
Total	**60,343**	**–59**	**–**	**–1,965**	**58,319**

Dec. 31, 2017	Net
Suppliers with debit balances	306
Receivables from loans	34,929
Subsidies receivables	15,203
Positive fair value of derivative financial instruments in hedging relationships	17
Positive fair value of derivative financial instruments without hedging relationships	2,015
Receivables due from personnel (financial)	579
Other assets (financial)	5,647
Other receivables due from related parties	719
Total	**59,415**

The receivables from loans essentially include a loan in connection with the production “The Silence” to the co-producer. In the previous year, this item included a current loan of TCHF 31,051 in connection with the disposal of treasury shares.

The carrying amount for all current financial assets is approximately their fair value. They are measured using the general approach.

Impairment losses

(TCHF)	Credit losses expected over 12 months (level 1)	Credit losses expected over the entire term (level 2)	Individual value adjustments (level 3)
Balance on December 31, 2017	**–**	**–**	**1,730**
Retrospective change of the accounting method due to IFRS 9	20	–	–
Balance on January 01, 2018	**20**	**–**	**1,730**
Change in the scope of consolidation	–	–	355
Currency translation differences	–2	–	–46
Addition due to an increase in the volume of receivables	41	–	–
Additions	–	–	654
Consumption	–	–	–728
Balance on December 31, 2018	**59**	**–**	**1,965**

Maturities

(TCHF)	Carrying amount	neither impaired nor overdue	Overdue period in days: less than 90	between 91 and 180	between 181 and 270	between 271 and 365	more than 365
December 31, 2017							
Other receivables (financial assets)	59,415	59,415	–	–	–	–	–

Other receivables (non-financial assets)

(TCHF) Dec. 31, 2018	Net
Prepaid expenses	22,867
Input tax	2,396
Other taxes	40
Advance payments	1,091
Positive fair value of underlying transactions in hedging relationships	342
Receivables due from personnel (non-financial)	15
Other assets (non-financial)	-
Total	**26,751**

Dec. 31, 2017	Net
Prepaid expenses	10,322
Input tax	675
Other taxes	134
Advance payments	476
Positive fair value of underlying transactions in hedging relationships	706
Receivables due from personnel (non-financial)	15
Other assets (non-financial)	–
Total	**12,328**

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

Currency profile

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
CHF	4,702	5,400
EUR	53,584	62,145
USD	25,092	810
CAD	1,692	3,386
Other	–	2
Total	**85,070**	**71,743**

6.11 Contract assets

The contract assets are mainly services rendered that have not yet been invoiced or that it has not yet been possible to invoice. They are measured using the simplified approach in accordance with IFRS 9.

Development of contract assets

(TCHF)	
Balance on December 31, 2017	**–**
First-time application of IFRS 15	13,628
Change in the scope of consolidation	3,245
Currency translation differences	–733
Additions	24,002
Impairment	–2
Reclassification to trade accounts receivable	–16,633
Balance on December 31, 2018	**23,507**

Impairment losses

(TCHF)	Credit losses expected over the entire term (level 2)	Individual value adjustments (level 3)
Balance on December 31, 2017	**–**	**–**
Retrospective change of the accounting method due to IFRS 9	6	–
Balance on January 01, 2018	**6**	**–**
Currency translation differences	–1	–
Reduction due to a decrease in the volume of receivables	–3	–
Balance on December 31, 2018	**2**	**–**

6.12 Income tax receivables

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Income taxes Germany	677	1,907
Income taxes rest of the world	59	156
Total	**736**	**2,063**

6.13 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 %).

6.14 Equity

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

Share capital

As of December 31, 2018, the fully paid-up share capital of the parent company, Highlight Communications AG, totaled CHF 63,000,000 (previous year: CHF 63,000,000), divided into 63,000,000 bearer shares with a par value of CHF 1.00 per share (previous year: 63,000,000 bearer shares of CHF 1.00 per share).

A dividend of CHF 0.20 per share was paid for fiscal year 2017 in the year under review.

Treasury stock

As of December 31, 2018, the separately reported item "Treasury stock" amounted to TCHF -6,258 (previous year: TCHF -45). The amount reflects the nominal capital of treasury shares. As of December 31, 2018, the number of directly held non-voting treasury shares was 6,257,501 shares in Highlight Communications AG (previous year: 44,983).

As a result of the first-time consolidation of Constantin Medien AG as of March 31, 2018, the number of treasury shares increased to 8,182,518 while retained earnings declined by TCHF 41,434. In the second quarter, 2,000,000 treasury shares were sold at TCHF 12,221 and 30,000 treasury shares were acquired at a transaction value of TCHF 170.

Capital reserve

As of December 31, 2018, the Group's capital reserve amounted to a total of TCHF -67,203 (previous year: TCHF -54,956).

The dividend payments in the reporting year amounted to TCHF 11,355 (previous year: TCHF 18,886).

The increase in the equity investment in Constantin Medien AG from 78.38 % to 79.18 % led to a reduction in capital reserves of TCHF 892.

The change in the capital reserve in the previous year (53,179 TCHF) was chiefly due to the realized capital increase performed in the second quarter of 2017 (increase of the capital reserve by TCHF 72,065).

Non-controlling interests

Dividend payments in the reporting year amounted to TCHF 1,092 (previous year's period: TCHF 1,065) and the net profit for the period attributable to non-controlling interests was TCHF -427 (previous year's period: TCHF 960). The initial consolidation of Constantin Medien AG and Match IQ GmbH resulted in increases in non-controlling interests of TCHF 23,045 and TCHF 303 respectively. The acquisition of a further 0.8 % of shares in Constantin Medien AG resulted in a decrease of TCHF 852. The deconsolidation of Nadcon Film GmbH increased non-controlling interests by TCHF 480. Differences from currency translation amounted to TCHF -187 (previous year: TCHF 267).

Other reserves

As of the end of the reporting period, other reserves totaled TCHF -34,356 (previous year: TCHF -32,841). As of December 31, 2018, these relate to the translation of the equity of companies that do not use Swiss francs as their functional currency (TCHF -34,217; previous year: TCHF -31,104) and to other cash flow hedge reserves of TCHF -139 (previous year: TCHF -1,737).

The cash flow hedge reserve before taxes developed as follows as of December 31, 2018:

Reconciliation of the market valuation of financial instruments

(TCHF)	
Balance on January 1, 2018	**2,043**
Gains or losses from effective hedging relationships	198
Reclassification due to the realization of the underlying transaction	–1,601
Reclassification, as the underlying transaction is no longer expected	–442
Other changes	–
Balance on December 31, 2018	**198**

The changes in other components of equity in fiscal years 2018 and 2017 were as follows:

Other comprehensive income/loss (OCI)

2018 (TCHF)	Before taxes	Tax effect	After taxes
Currency translation differences	–3,300	–	–3,300
Gains/losses from cash flow hedges	1,845	–247	1,598
Items that may be reclassified to the income statement in future	**–1,455**	**–247**	**–1,702**
Actuarial gains/losses of defined benefit pension plans	1,374	–192	1,182
Items that will not be reclassified to the income statement in future	**1,374**	**–192**	**1,182**
Other comprehensive income/loss	**–81**	**–439**	**–520**

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

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 and Constantin Medien AG, which manage their 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, Sports and Sports- and Event-Marketing segments in the context of Group management. Debt capital is monitored non-centrally by Highlight Communications AG, Constantin Medien AG and Constantin Film AG.

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

The credit agreements of Highlight Communications AG and Constantin Film AG include compliance with certain financial covenants. The financial covenants of the Highlight Group relate to EBIT (Constantin Film Group: EBITDA), gearing, the economic equity ratio and reported equity including non-controlling interests as well as the ratio of net financial liabilities to profit from operations. If the conditions on borrowed funds are violated, the interest rate may increase and a termination option may arise. The financial covenants had not been violated as of December 31, 2018.

The equity management of Constantin Medien AG comprises all equity items reported in the balance sheet with the exception of treasury shares. Constantin Medien AG also monitors the borrowed capital of the Sports segment and the Others segment in the context of Group management. Constantin Medien AG has not agreed any financial covenants.

6.15 Pension liabilities

6.15.1 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 2019 amount to TCHF 1,333.

Maturity profile of defined benefit obligation

(TCHF)	2018	2017
Less than 1 year	2,498	1,724
Weighted average maturity of defined benefit obligation (in years)	15.7	16.1

Change in defined benefit liabilities

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

Pension liabilities

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Present value of defined benefit obligation	36,832	37,004
Fair value of plan assets	33,269	32,804
Balance sheet amount	**3,563**	**4,200**

Development of defined benefit obligation

(TCHF)	2018	2017
Present value of defined benefit obligation as of January 1	**37,004**	**37,291**
Current service cost (without employee contributions and administrative expenses)	1,895	1,934
Employee contributions	914	893
Interest cost	242	227
Curtailment, settlement	–	–1,052
Benefits paid	–2,231	–1,468
Actuarial losses/(gains) from experience adjustments	–382	–612
Actuarial losses/(gains) from changes in financial assumptions	–610	–209
Present value of defined benefit obligation as of December 31	**36,832**	**37,004**
thereof actively insured persons	33,493	34,524
thereof pensioners	3,339	2,480

Development of plan assets

(TCHF)	2018	2017
Fair value of assets as of January 1	**32,804**	**30,640**
Interest income	215	187
Employee contributions	914	893
Employer contributions	1,267	1,536
Administrative expenses of the foundation	–82	–80
Benefits paid	–2,231	–1,468
Actuarial (losses)/gains from experience adjustments	382	1,096
Fair value of assets as of December 31	**33,269**	**32,804**

Retirement benefit expenses broke down as follows:

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Current service cost (without employee contributions and administrative expenses)	1,895	1,934
Administrative expenses of the foundation	82	80
Effects from curtailments and settlements	–	–1,052
Net interest cost (income)	27	40
Total income statement	**2,004**	**1,002**

Plan assets

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

(TCHF)	2018	2017
Cash and cash equivalents	352	158
Bonds with quoted market prices on active markets	9,542	10,365
Bonds without quoted market prices	154	174
Shares with quoted market prices on active markets	8,544	8,142
Real estate	12,779	12,101
Other	1,898	1,864
Total	**33,269**	**32,804**

The actual return on plan assets in the year under review amounted to TCHF 597 (previous year's period: TCHF 1,283).

Actuarial assumptions

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

	2018	2017
Discount rate	0.80	0.65
Pension trend	0.00	0.00
Salary trend	1.50	1.50
Average life expectancy after pension men (in years)	22.61	22.50
Average life expectancy after pension women (in years)	25.64	25.53

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

Sensitivity analysis

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

	Discount rate (incl. change in interest rate applied)		Pension trend		Salary trend		Average life expectancy
2018 (TCHF)	+25 BP	–25 BP	+25 BP	–25 BP	+25 BP	–25 BP	+ 1 year
Effect on defined benefit obligation	–960	1,018	826	–	243	–236	994

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

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.

6.15.2 Defined contribution plans

The expenses recognized in profit or loss for defined contribution plans (including state plans) amounted to TCHF 6,298 in the year under review (previous year's period: TCHF 3,336).

6.16 Deferred tax liabilities

Breakdown of deferred tax liabilities

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Film assets	32,201	30,193
Intangible assets	16,295	–
Inventories	2	17
Trade accounts receivable and other receivables	42	2,529
Contract assets	5,440	–
Provisions	234	–
Trade accounts payable and other liabilities	8,031	7,196
Contract liabilities	275	–
Advance payments received	16,024	13,893
Pension liabilities	–	155
Total	**78,544**	**53,983**
Netting with deferred tax assets	–48,340	–38,820
Deferred tax liabilities (net)	**30,204**	**15,163**

Maturities

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Current deferred tax liabilities	99	15
Non-current deferred tax liabilities	30,105	15,148

6.17 Financial liabilities

6.17.1 Non-current financial liabilities

The non-current financial liabilities as of the end of the reporting period are exclusively finance lease liabilities that are still approximately their fair values.

6.17.2 Current financial liabilities

As of the end of the reporting period, there were current liabilities to banks of TCHF 148,774 (previous year: TCHF 77,172), TCHF 50,758 (previous year: TCHF 17,172) of which relates to the financing of film projects. The Highlight Group had free short-term credit facilities totaling around TCHF 142,135 (previous year: TCHF 164,197) 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 184,418 (previous year: TCHF 159,300) and the resulting proceeds from exploitation in addition to receivables of TCHF 62,303 (previous year: TCHF 46,102). 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 back to Constantin Film AG by the banks after all secured claims have been satisfied. Highlight Communications AG's credit facility of TCHF 100,000 (previous year: TCHF 60,000) is secured by the shares in Constantin Medien AG and Constantin Film AG. The amounts utilized are all due on demand in 2019. Interest pooling arrangements are available for certain short-term bank overdraft liabilities. As of the end of the reporting period, the Constantin Medien Group has a working capital facility of TCHF 7,884 (previous year: TCHF 0) and guarantee lines of TCHF 7,884 (previous year: TCHF 23,856). 4,000,000 Highlight Communications AG shares with a carrying amount of TCHF 22,797 (previous year: 3,847,220 Highlight Communications AG shares with a carrying amount of TCHF 22,100) were pledged in total for the two credit facilities as of December 31, 2018. Financial covenants do not have to maintained for the borrowed capital.

Furthermore, there were short-term finance lease liabilities of TCHF 230 as of December 31, 2018 (previous year: TCHF 0).

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Maturity of liabilities from finance leases

(TCHF)	Dec. 31, 2018
Due within one year	261
Due within one to five years	987
Due after five years	–
Total minimum lease payments	**1,248**
Future financial expenses	–84
Recognized as a liability	**1,164**

Present value of liabilities from finance leases

(TCHF)	Dec. 31, 2018
Due within one year	230
Due within one to five years	934
Due after five years	–
Total minimum lease payments	**1,164**

Reconciliation of liabilities arising from financing activities

			Non-cash items					
(TCHF)	Dec. 31, 2017	Cash changes	Change in the scope of consolidation	Currency translation	New liabilities from finance leases	Reclassification	Other	Dec. 31, 2018
Current financial liabilities	**77,172**	–2,096	76,280	–2,587	168	67	–	**149,004**
Non-current financial liabilities	–	–	–	–12	1,013	–67	–	**934**
Total financial liabilities	**77,172**	**–2,096**	**76,280**	**–2,599**	**1,181**	–	–	**149,938**

			Non-cash items			
(TCHF)	Jan. 01, 2017	Cash changes	Change in the scope of consolidation	Currency translation	Other	Dec. 31, 2017
Current liabilities	**52,259**	23,242	–	1,671	–	**77,172**
Non-current liabilities	–	–	–	–	–	–
Total financial liabilities	**52,259**	**23,242**	–	**1,671**	–	**77,172**

Currency profile

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
CHF	98,000	60,000
EUR	27,083	11,533
USD	22,607	1,953
CAD	1,314	3,686
Total	**149,004**	**77,172**

6.18 Advance payments received

Advance payments received totaling TCHF 72,111 (previous year: TCHF 47,741) essentially include amounts received for productions for which revenue has not yet been recognized and advance payments from customers of TCHF 16,050 (previous year: TCHF 15,696).

6.19 Overview of provisions and liabilities

Maturities

Dec. 31, 2018 (TCHF)	less than 1 year	1 to 5 years	over 5 years	Total
Non-current liabilities				
Financial liabilities	–	934	–	934
Other liabilities	–	647	1,311	1,958
Pension liabilities	–	–	3,563	3,563
Deferred tax liabilities	99	29,871	234	30,204
Total	**99**	**31,452**	**5,108**	**36,659**
Current liabilities				
Financial liabilities	149,004	–	–	149,004
Advance payments received	72,111	–	–	72,111
Trade accounts payable	51,315	–	–	51,315
Other liabilities	81,887	–	–	81,887
Liabilities due to related parties	1,813	–	–	1,813
Contract liabilities	8,131	–	–	8,131
Provisions	7,856	–	–	7,856
Income tax liabilities	4,288	–	–	4,288
Total	**376,405**	**–**	**–**	**376,405**

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

6.20 Non-current liabilities

Other non-current liabilities essentially include deferred long-term subsidies received for rent and construction costs of TCHF 1,788.

6.21 Trade accounts payable and other liabilities

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Trade accounts payable	51,315	46,069
Other liabilities	83,700	76,235
Total	**135,015**	**122,304**

6.21.1 Trade accounts payable

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Trade accounts payable (financial)		
Current liabilities	28,999	15,002
Liabilities due to related parties	–	157
Outstanding invoices	21,999	22,176
PoC liabilities	–	8,734
Total	**50,998**	**46,069**
Trade accounts payable (non-financial)		
Liabilities from countertrades	317	–
Total	**317**	**–**
Total trade accounts payable	**51,315**	**46,069**

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 the carrying amount of the trade accounts payable relevant under IFRS 7 is approximately their fair value.

Trade accounts payable included PoC liabilities of TCHF 8,734 in the previous year. These are reported separately under contract liabilities in the fiscal year in accordance with the provisions of IFRS 15.

Currency profile

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
CHF	2,588	1,703
EUR	34,335	40,307
USD	14,356	4,024
Other	36	35
Total	**51,315**	**46,069**

6.21.2 Other short-term liabilities

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Other liabilities (financial)		
Liabilities from conditional loan repayment (subsidies)	18,166	17,907
Customers with credit balances	733	147
Commissions, licenses and royalty payments	30,913	22,642
Negative fair value of derivative financial instruments in hedging relationships	–	1,775
Negative fair value of derivative financial instruments without hedging relationships	1,485	2,329
Deferred income (financial)	–	2,046
Personnel-related liabilities (financial)	15,212	12,250
Other current liabilities (financial)	2,969	4,851
Other liabilities due to related parties	1,813	307
Total	**71,291**	**64,254**
Other liabilities (non-financial)		
Value-added tax liabilities	807	742
Other taxes	3,771	5,678
Social security	842	361
Deferred income (non-financial)	5,225	4,422
Negative fair value of underlying transactions in hedging relationships	113	117
Personnel-related liabilities (non-financial)	1,636	457
Other current liabilities (non-financial)	15	204
Total	**12,409**	**11,981**

Currency profile

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
CHF	12,556	14,307
EUR	50,225	46,612
USD	20,818	15,316
Other	101	–
Total	**83,700**	**76,235**

6.22 Contract liabilities

Development of contract liabilities

(TCHF)	
Balance on December 31, 2017	**–**
First-time application of IFRS 15	8,734
Change in the scope of consolidation	2,853
Currency translation differences	–373
Additions	6,711
Amounts consumed due to performance	–9,794
Balance on December 31, 2018	**8,131**

Contract liabilities relate to consideration already received from customers for which the Highlight Group has not yet fulfilled its performance obligations.

The line “Amounts consumed due to performance” relates to revenue recognized in the reporting period that was contained in net contract liabilities at the beginning of the period.

6.23 Provisions

(TCHF)	Jan. 01, 2018	Change in the scope of consolidation	Currency translation differences	Con-sumption	Reversal	Reclassi-fication	Addition	Dec. 31, 2018
Licenses and returns	3,716	–	–4	200	29	–3,483	–	–
Provisions for litigation risks	16	2,382	–89	1,085	206	–	869	1,887
Staff provisions	–	2,562	–112	486	181	–	929	2,712
Provisions for guarantees and contractual obligations	–	1,153	–50	–	7	–	107	1,203
Other provisions	1,292	4,537	–158	2,441	373	–864	61	2,054
Total	**5,024**	**10,634**	**–413**	**4,212**	**796**	**–4,347**	**1,966**	**7,856**
thereof non-current provisions	–	–	–	–	–	–	–	–
thereof current provisions	5,024	10,634	–413	4,212	796	–4,347	1,966	7,856

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

Refund liabilities for expected returns of merchandise are reported under trade accounts payable and other liabilities in accordance with IFRS 15.

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

Staff provisions essentially comprise the risk of potential future obligations for termination benefits.

Other provisions include provisions for onerous contracts that will be consumed within the next twelve months. Furthermore, provisions were recognized for outstanding costs for the “Thank You for Your Service” film project.

The increase in provisions relates to the first-time consolidation of Constantin Medien AG.

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

6.24 Income tax liabilities

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Income taxes Switzerland	2,385	2,020
Income taxes Germany	1,822	807
Income taxes rest of the world	81	23
Total	**4,288**	**2,850**

7. NOTES TO INDIVIDUAL ITEMS OF THE INCOME STATEMENT

7.1 Revenue from contracts with customers

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

Revenue from contracts with customers from prior periods recognized in the current period amounted to TCHF 1,937.

Future revenue from contracts with customers

Revenue expected to be recognized (TCHF)	
within one year	217,284
between one and five years	349,613
after five years	36,009
Total	**602,906**

The revenue expected to be recognized does not contain any limited variable consideration.

In accordance with the transitional provisions of IFRS 15, the previous year's figures have not been restated. Without applying IFRS 15, i.e. applying IAS 18 or IAS 11, revenue would not have changed significantly in the reporting period.

7.2 Capitalized film production costs and other own work capitalized

The capitalized film production costs and the change in TV service productions amount to TCHF 152,258 (previous year's period: capitalized film production costs of TCHF 141,557). Other own work capitalized of TCHF 2,619 (previous year's period: TCHF 0) mainly relates to digital internally generated intangible assets.

7.3 Other operating income

(TCHF)	Jan. 01 to Dec. 31, 2018	Jan. 01 to Dec. 31, 2017
Income from the reversal of provisions and deferred liabilities	4,980	1,315
Prior-period income	747	46
Reversal of impairment	–	107
Recharges	614	639
Currency exchange gains	5,590	3,066
Negative difference from the acquisition of subsidiaries	23	–
Write-off of liabilities	310	–
Income from the disposal of non-current assets	180	74
Income from deconsolidation	530	–
Income from settlements of claims for damages and settlement agreements	3,518	3,126
Miscellaneous operating income	4,252	3,441
Total	**20,744**	**11,814**

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.

In particular, prior-period income includes withholding tax refunds from previous years.

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

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, 2018	Jan. 01 to Dec. 31, 2017
Licenses and commissions	35,602	5,174
Other costs of material	12,899	18,636
Total licenses, commissions and material	**48,501**	**23,810**
Production costs	226,772	159,589
Purchased services	1,633	1,406
Royalty payments in the Film segment	11,096	13,211
Total purchased services	**239,501**	**174,206**

7.5 Other operating expenses

(TCHF)	Jan. 01 to Dec. 31, 2018	Jan. 01 to Dec. 31, 2017
Rental costs	10,672	6,292
Repair and maintenance costs	787	708
Advertising and travelling expenses	9,611	4,503
Legal, consulting and auditing costs	13,099	14,722
Expenses for additions to impairment losses and the write-off of receivables	–	348
IT costs	4,865	2,321
Administrative costs	2,411	1,131
Other personnel-related expenses	2,262	1,355
Insurance, dues and fees	1,448	899
Expenses relating to other periods	114	68
Price losses	3,610	3,770
Vehicle costs	1,499	817
Bank fees	1,338	176
Losses from the disposal of non-current assets	236	195
Other taxes	130	143
Release and promotion expenses	14,510	32,852
Miscellaneous operating expenses	5,266	3,499
Total	**71,858**	**73,799**

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.

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

7.6 Impairment and reversals of impairment on financial assets

This item includes impairment losses on financial assets of TCHF 1,667 and reversals of impairment losses on financial assets of TCHF 369.

As the previous year's figures were not restated in accordance with the transitional provisions of IFRS 9, the figures for the previous year have not been shown.

7.7 Financial income

(TCHF)	Jan. 01 to Dec. 31, 2018	Jan. 01 to Dec. 31, 2017
Interest and similar income	28	212
Gains from changes in the fair value of financial instruments	2,593	2,398
Currency exchange gains	1,744	10,365
Total	**4,365**	**12,975**

7.8 Financial expenses

(TCHF)	Jan. 01 to Dec. 31, 2018	Jan. 01 to Dec. 31, 2017
Interest and similar expenses	4,413	2,094
Write-down of financial assets and non-current securities	221	351
Losses from changes in the fair value of financial instruments	2,577	3,157
Currency exchange losses	4,147	1,695
Total	**11,358**	**7,297**

As in the previous year, several derivative financial instruments were not in a formal hedge in accordance with IFRS 9 in the year under review. However, there were still economic hedges. This resulted in higher income and expenses from the measurement of derivative financial instruments in the financial result.

7.9 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, 2018	Jan. 01 to Dec. 31, 2017
Profit before taxes	24,973	31,068
Expected taxes based on a tax rate of 21 %	–5,244	–6,524
Differing tax rates	893	1,505
Reversal of deferred tax assets	68	191
Write-down on deferred tax assets	–602	–863
Tax-exempt income	300	3
Permanent differences	734	77
Tax rate changes	–	–1
Non-deductable expenses	–2,335	–656
Aperiodic income taxes	–280	30
Other effects	354	–238
Unrecognized deferred taxes	–896	–901
Actual tax expense	**–7,008**	**–7,377**
Effective tax rate in %	**28.1**	**23.7**

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 IFRS 9 (previous year: IAS 39 and IFRS 9 (2009)).

Disclosures IFRS 7: Classes as of December 31, 2018

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

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

AGGREGATED BY CATEGORY
Assets (TCHF)
Financial assets at amortized cost
Financial assets at fair value through OCI
Financial assets at fair value through profit or loss
Liabilities (TCHF)
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. These were sold in the reporting year.

Classification category IFRS 9	Carrying amount Dec. 31, 2018	thereof not relevant under IFRS 7*	Valuation in the balance sheet under IFRS 9: Amortized cost	Fair value through OCI	Fair value through profit or loss	Fair Value Dec. 31, 2018
AC	52,530	–	52,530	–	–	52,530
AC	57,639	–2,186	55,453	–	–	55,453
without category	23,507	–23,507	–	–	–	–
FVTPL	1,265	–	–	–	1,265	1,265
AC	83,438	–26,409	57,029	–	–	57,029
without category	25	–	–	25	–	25
without category	342	–342	–	–	–	–
FVTPL	–	–	–	–	–	–
AC	13,343	–	13,343	–	–	13,343
FVTPL	–	–	–	–	–	–
FVTOCI	9	–	–	9	–	9
AC	149,715	–	149,715	–	–	149,715
AC	223	–	223	–	–	223
AC	51,315	–317	50,998	–	–	50,998
without category	8,131	–8,131	–	–	–	–
AC	82,198	–12,296	69,902	–	–	69,902
without category	1,788	–1,788	–	–	–	–
FLTPL	1,559	–	–	–	1,559	1,559
without category	–	–	–	–	–	–
without category	113	–113	–	–	–	–
AC	206,950	–28,595	178,355	–	–	178,355
FVTOCI	9	–	–	9	–	9
FVTPL	1,265	–	–	–	1,265	1,265
AC	283,451	–12,613	270,838	–	–	270,838
FLTPL	1,559	–	–	–	1,559	1,559

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

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

Disclosures IFRS 7: Classes as of December 31, 2017

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

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

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

			Valuation in the balance sheet under IFRS 9 (assets)/IAS 39 (liabilities)			
Classification category IFRS 9 (2009) and IAS 39	Carrying amount Dec. 31, 2017	thereof not relevant under IFRS 7*	Amortized cost	Fair value through OCI	Fair value through profit or loss	Fair Value Dec. 31, 2017
AC	186,553	–	186,553	–	–	186,553
AC	42,364	–	42,364	–	–	42,364
without category	13,628	–13,628	–	–	–	–
FVTPL	2,015	–	–	–	2,015	2,015
AC	69,005	–11,622	57,383	–	–	57,383
without category	17	–	–	–	17	17
without category	706	–706	–	–	–	–
FVTPL	–	–	–	–	–	–
FVTOCI	–	–	–	–	–	–
AC	2,735	–	2,735	–	–	2,735
FVTPL	35	–	–	–	35	35
FVTOCI	–	–	–	–	–	–
OL	77,172	–	77,172	–	–	77,172
OL	37,335	–	37,335	–	–	37,335
without category	8,734	–8,734	–	–	–	–
OL	72,014	–11,864	60,150	–	–	60,150
without category	1,924	– 1,924	–	–	–	–
FLTPL	2,329	–	–	–	2,329	2,329
without category	1,775	–	–	1,530	245	1,775
without category	117	–117	–	–	–	–
AC	300,657	–11,622	289,035	–	–	289,035
FVTOCI	–	–	–	–	–	–
FVTPL	2,050	–	–	–	2,050	2,050
OL	186,521	–11,864	174,657	–	–	174,657
FLTPL	2,329	–	–	–	2,329	2,329

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

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

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

Offsetting as of December 31, 2018

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	1,265	–	1,265	–60	1,205
Derivative financial instruments with hedging relationships	25	–	25	–	25

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	1,485	–	1,485	–60	1,425
Derivative financial instruments with hedging relationships	–	–	–	–	–

Offsetting as of December 31, 2017

Offsetting of financial assets

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

Offsetting of financial liabilities

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

8.3 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 the categories 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. Financial risks are identified, assessed and hedged in close cooperation with the Group's operating companies.

8.3.1 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

2018 (TCHF)	Carrying amount Dec. 31, 2018	Cash flows 2019			Cash flows 2020			Cash flows 2021–2023		
		Fixed interest	Variable interest	Repayment	Fixed interest	Variable interest	Repayment	Fixed interest	Variable interest	Repayment
Non-derivative financial liabilities										
Liabilities due to banks	148,774	–	1,960	148,774	–	–	–	–	–	–
Liabilities from finance leases	1,164	–	–	261	–	–	261	–	–	726
Other non-interest-bearing financial liabilities	120,974	–	–	120,974	–	–	–	–	–	–
Derivative financial liabilities										
Currency derivatives without hedging relationships	1,485	–	–	38,972	–	–	8,120	–	–	1,445
Currency derivatives in connection with fair value/cash flow hedges	–	–	–	–	–	–	–	–	–	–
Derivative financial assets										
Derivatives without hedging relationships	1,265	–	–	29,442	–	–	–	–	–	–
Currency derivatives in connection with fair value/cash flow hedges	25	–	–	435	–	–	–	–	–	–

2017 (TCHF)	Carrying amount Dec. 31, 2017	Cash flows 2018			Cash flows 2019			Cash flows 2020–2022		
		Fixed interest	Variable interest	Repayment	Fixed interest	Variable interest	Repayment	Fixed interest	Variable interest	Repayment
Non-derivative financial liabilities										
Financial liabilities	77,172	–	1,050	77,172	–	–	–	–	–	–
Other non-interest-bearing financial liabilities	97,485	–	–	97,485	–	–	–	–	–	–
Derivative financial liabilities										
Currency derivatives without hedging relationships	2,329	–	–	8,959	–	–	23,274	–	–	–
Currency derivatives in connection with fair value/cash flow hedges	1,775	–	–	16,948	–	–	451	–	–	–
Derivative financial assets										
Derivatives without hedging relationships	2,015	–	–	12,011	–	–	23,003	–	–	–
Currency derivatives in connection with fair value/cash flow hedges	17	–	–	2,876	–	–	–	–	–	–

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.

8.3.2 Credit risks

The default risk arises from cash and cash equivalents, contractual cash flows from debt instruments carried at amortized cost, from derivative financial instruments that are assets, balances with banks and financial institutions and lending to customers including outstanding receivables.

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.

Banks and financial institutions with which the Highlight Group performs transactions must have a good credit quality and a good rating. In addition, any risks to cash and cash equivalents are minimized by allocating cash deposits among several banks.

The default risks of the Highlight Group's key customers are also monitored and assessed on an ongoing basis. Furthermore, 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.

Please see note 4.8 for further information on impairment of non-financial assets.

8.3.3 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 -423 (previous year's period: TCHF 7,966) were recognized in profit or loss in the year under review.

Hedge accounting is used where permissible.

In addition, currency differences from the translation of foreign subsidiaries of TCHF -3,300 (previous year's period: TCHF 8,433) and from cash flow hedges of TCHF 1,598 (previous year's period: TCHF -502) 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 6.17. 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.

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, 2018 (TCHF)	Interest rate risk –1 %	+1 %
Financial assets		
Cash and cash equivalents	–526	526
Trade accounts receivable (current and non-current)	–	–
Other receivables (current and non-current)	–	–
Derivative financial instruments	–	–
Other financial assets (current and non-current)	–	–
Financial liabilities		
Trade accounts payable (current and non-current)	–	–
Other liabilities (current and non-current)	–	–
Derivative financial instruments	–	–
Financial liabilities (current and non-current)	1,488	–1,488
Total increase/decrease	**962**	**–962**
thereof through OCI	–	–
thereof through profit or loss	–	–

Dec. 31, 2017 (TCHF)	Interest rate risk –1 %	+1 %
Financial assets		
Cash and cash equivalents	–1,866	1,866
Trade accounts receivable	–	–
Other receivables (current and non-current)	–	–
Derivative financial instruments	–	–
Other financial assets (current and non-current)	–	–
Financial liabilities		
Trade accounts payable (current and non-current)	–	–
Other liabilities (current and non-current)	–	–
Derivative financial instruments	–	–
Financial liabilities (current and non-current)	772	–772
Total increase/decrease	**–1,094**	**1,094**
thereof through OCI	–	–
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%
	–1,359	1,352	–362	444	–2	2	–1,723	1,798	–	–
	–17	19	–4,686	5,726	–5	6	–4,708	5,751	–	–
	–338	338	–2,280	2,787	–	–	–2,618	3,125	–	–
	–	–	–862	1,053	–	–	–862	1,053	–	–
	–	–	–	–	–	–	–	–	–1	1
	105	–119	1,706	–2,087	–	–	1,811	–2,206	–	–
	16	–17	1,893	–2,314	9	–11	1,918	–2,342	–	–
	–	–	1,053	–1,287	–409	500	644	–787	–	–
	–	–	2,056	–2,512	119	–146	2,175	–2,658	–	–
	–1,593	**1,573**	**–1,482**	**1,810**	**–288**	**351**	**–3,363**	**3,734**	**–1**	**1**
	–	–	–	–	–	–	–1,557	1,902	–	–
	–	–	–	–	–	–	–1,806	1,832	–	–

	Exchange rate risk									
	EUR/CHF		EUR/USD		EUR/CAD		Total		Other price risks	
	–10%	+10%	–10%	+10%	–10%	+10%	–10%	+10%	–10%	+10%
	–13,855	13,855	–57	70	–2	4	–13,914	13,929	–	–
	–87	87	–2,025	2,476	–	–	–2,112	2,563	–	–
	–3,092	3,092	–71	88	–308	375	–3,471	3,555	–	–
	–	–	1,451	–1,774	–	–	1,451	–1,774	–	–
	–	–	–	–	–	–	–	–	–4	4
	82	–82	450	–551	–	–	532	–633	–	–
	406	–406	1,306	–1,596	–	–	1,712	–2,002	–	–
	1,016	–1,016	–3,556	4,346	–	–	–2,540	3,330	–	–
	–	–	178	–218	336	–409	514	–627	–	–
	–15,530	**15,530**	**–2,324**	**2,841**	**26**	**–30**	**–17,828**	**18,341**	**–4**	**4**
	–	–	–	–	–	–	388	–503	–	–
	–	–	–	–	–	–	–18,216	18,844	–	–

8.4 Fair value of financial and non-financial assets and liabilities

8.4.1 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

2018 (TCHF)		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	FVTPL/without category	–	1,290	–	1,290
Financial assets (equity instruments)	FVTOCI	–	–	9	9
Financial liabilities measured at fair value					
Financial liablities with hedging relationships	AC	–	223	–	223
Derivative financial instruments	FLTPL	–	1,485	–	1,485
Financial liabilities	FLTPL	–	–	74	74
2017 (TCHF)		**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Derivative financial instruments	FVTPL/without category	–	2,032	–	2,032
Financial assets at fair value through profit or loss	FVTPL	35	–	–	35
Financial assets (equity instruments)	FVTOCI	–	–	–	–
Financial liabilities measured at fair value					
Derivative financial instruments	FLTPL/without category	–	4,104	–	4,104

Disclosures on level 3 financial instruments:

	Investment in Geenee Inc.	Preference shares	Other investments	Financial liabilities
Fair value on December 31, 2016	**–**	**206**	**–**	**–**
Gains/(losses) through profit or loss	–	-201	–	–
Gains/(losses) through equity	–	-5	–	–
Fair value on December 31, 2017	**–**	**–**	**–**	**–**
Change in the scope of consolidation	–	–	9	74
Fair value on Dezember 31, 2018	**–**	**–**	**9**	**74**

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 preference shares assigned to level 3 of the fair value hierarchy and the shares in Geenee Inc. had already been written down in full in previous years. There were no indications of a reversal of impairment in the year under review. For reasons of materiality, other equity instruments totaling TCHF 9 are recognized at historical cost. As of the end of the reporting period, there was an earn-out liability of TCHF 74 recognized as a level 3 financial instrument. Deviations from the planning of Hager Moss Film GmbH would not give rise to any material changes to this earn-out liability.

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

8.4.2 Financial assets and liabilities at amortized cost

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

8.4.3 Fair value of non-financial assets and liabilities

As of December 31, 2018 and December 31, 2017, there were no non-financial assets or liabilities measured at fair value.

8.5 Use of hedging instruments

In significant transactions, particularly in US dollars and euro, as well as in Canadian dollars in the previous year, the Group attempts to minimize currency risks by using suitable derivative and non-derivative financial instruments. Derivative financial instruments are transacted with banks. The financial instruments predominantly relate to future cash flows in foreign currencies for film projects and loans. The Group ensures that the amount of the hedge does not exceed the value of the hedged item.

The Group entered into a series of currency forwards and currency swaps for hedging purposes in the current fiscal year. To the extent possible, these are accounted for as fair value hedges or cash flow hedges in accordance with IFRS 9.

The hedged items essentially relate to pending rights purchases and sales in US dollars. Furthermore, currency forwards were bought as an hedge for recognized foreign currency receivables and liabilities and, in the previous year, to hedge the profit distribution of an international subsidiary of Constantin Entertainment GmbH.

8.5.1 Fair values of hedging instruments in hedges

Hedging instruments and derivative financial instruments in hedges

	Dec. 31, 2018		Dec. 31, 2017	
(TCHF)	Assets	Liabilities	Assets	Liabilities
Currencies – Fair value hedges (derivates as hedging instruments)				
Hedge – Foreign currency forward	–	–	–	123
Currencies – Cash flow hedges (derivates as hedging instruments)				
Hedge – Foreign currency forward	25	223	17	1,652
Total	**25**	**223**	**17**	**1,775**

Fair Value Hedges

As of December 31, 2018, no derivatives (previous year: TCHF 4,362) were designated as hedging instruments in fair value hedges. In the previous year, the hedged items related essentially to pending rights purchases and sales (firm commitments) in US dollars. The net gains and losses from these hedging instruments and the net gains and losses from the associated hedged items are shown in the table below:

Gains and losses from fair value hedges

(TCHF)	Jan. 01 to Dec. 31, 2018 Gain	Jan. 01 to Dec. 31, 2018 Loss	Jan. 01 to Dec. 31, 2017 Gain	Jan. 01 to Dec. 31, 2017 Loss
Currencies – Fair value hedges (derivates as hedging instruments)				
Hedge	–	–	1,063	569
Underlying transaction	–	–	569	1,063
Total	**–**	**–**	**1,632**	**1,632**

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, 2018, derivatives and financial liabilities with a nominal amount of TCHF 17,559 (previous year: TCHF 15,913) were designated as hedging instruments in cash flow hedges. The hedged items are essentially forecast transactions that are highly likely to occur.

The unrealized profit before tax from the remeasurement of derivatives recognized in other comprehensive income amounts to TCHF 198 (previous year: TCHF 1,887). Derivatives included in hedge accounting are only used to hedge currency risks.

The following tables provide details on the use of cash flow hedges:

Derivative financial instruments in hedges

(TCHF)	< 1 year	1 – 5 years	> 5 years	Dec. 31, 2018 Nominal volume	Dec. 31, 2018 Closing rate
Foreign currency forward sale					
USD	–	17,124	–	17,124	1.14449
Foreign currency forward acquisition					
USD	435	–	–	435	1.14449

Information on hedging instruments

Currency risk

(TCHF)	2018
Fair value changes to determine ineffectiveness	198
Carrying amount of other receivables	25
Carrying amount of financial liabilities	223
Nominal value	17,559

Informations on underlying transactions

Currency risk

(TCHF)	2018
Fair value changes to determine ineffectiveness	198
Reserve for active cash flow hedges	198

Hedging instruments in hedge accounting

Currency risk

(TCHF)	Jan. 01 to Dec. 31, 2018
Unrealized gains and losses from hedging instruments	198
Reclassification of realized gains and losses through profit or loss due to realization of the underlying transaction	–1,601
Reclassification of realized gains and losses through profit or loss as realization of the underlying transaction is no longer expected	–442
Reclassification amount	–

Owing to changes in market conditions, the dedesignated projects were cancelled and items in other comprehensive income were reclassified to profit or loss.

Please see note 6.14 for the reconciliation of the reserve for the fair value remeasurement of financial instruments in other comprehensive income.

CCBS ineffectiveness was immaterial in fiscal year 2018 and was therefore not recognized in profit or loss.

8.5.2 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, 2018 and 2017 are as follows:

Derivative financial instruments without a hedge

	Dec. 31, 2018		Dec. 31, 2017	
(TCHF)	Nominal value	Fair value	Nominal value	Fair value
Foreign currency forwards (sale)				
USD	37,352	–398	33,093	1,948
USD/CAD swap	4,776	–226		
ZAR/USD swap	738	24	–	–
thereof credit balance	11,210	278	33,093	1,948
thereof debit balance	31,656	–878	–	–
Foreign currency forwards (acquisition)				
USD	35,114	380	34,154	–2,262
thereof credit balance	18,233	987	1,921	67
thereof debit balance	16,881	–607	32,233	–2,329

9. SEGMENT REPORTING

The segment information below is based on the management approach.

Segments and segment reporting are defined on the basis of the internal reporting of the organizational units to the chief operating decision maker with regard to the allocation of resources and the assessment of earnings power. The management of the company as the chief operating decision maker makes decisions on the allocation of resources to the segments and assesses their success on the basis of key indicators for sales and segment earnings. The Group's management does not rate the segments on the basis of their assets and liabilities.

The Group consists of the Film segment, the Sports segment and the Sports- and Event-Marketing segment. Group functions of Highlight Communications AG are shown under "Other" and do not represent an operating segment. These include actual Group Management, Corporate Finance, Investor Relations, Controlling, Legal, Group Accounts, Corporate Communications, Internal Audit and Human Resources. Segment earnings are defined as EBIT as this figure is used internally for performance measurement.

The activities of Constantin Film AG and its subsidiaries plus the Highlight Communications equity investments in Rainbow Home Entertainment and its subsidiaries are combined in the Film segment as they have similar business features and are comparable in terms of the type of their products, services, processes, customers and sales methods. Its activities comprise the production of films, the exploitation of the rights to the films it produces and acquires and the distribution of theatrical, DVD/Blu-ray and TV movies.

The Sports- and Event-Marketing segment comprises the activities of Team Holding AG, whose principal project is to market the UEFA Champions League via its subsidiaries. Its other marketing projects are the UEFA Europa League and the UEFA Super Cup.

The Sports segment mainly comprises activities in the TV and digital areas with the umbrella brand SPORT1 and in the areas of production, content solutions services, and content marketing with PLAZAMEDIA. Marketing is performed by Sport1 Media GmbH and Magic Sports Media GmbH, which also markets third-party platforms in addition to marketing the SPORT1 platforms. The Sports Segment has also included the services of Match IQ GmbH since the end of August 2018.

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

Segment information 2018

(TCHF)	Film	Sports- and Event-Marketing	Sports	Other	Reconciliation	Group
External sales	363,848	63,728	104,034	–	–	531,610
Intragroup sales	514	–	208	–	–722	–
Total sales	364,362	63,728	104,242	–	–722	531,610
Other segment income	166,530	917	8,558	–	–384	175,621
Segment expenses	–518,755	–33,096	–117,221	–7,311	1,106	–675,277
thereof amortization, depreciation	*–143,450*	*–453*	*–7,258*	*–*	*–*	*–151,161*
thereof impairment	*–9,441*	*–*	*–*	*–*	*–*	*–9,441*
Segment earnings	**12,137**	**31,549**	**–4,421**	**–7,311**	**–**	**31,954**
Time reference of sales						
Over time	137,417	–	42,250	–	–	179,667
At a point in time	226,431	63,728	61,784	–	–	351,943
	363,848	**63,728**	**104,034**	**–**	**–**	**531,610**
Sales by products						
Film	226,431	–	–	–	–	226,431
Service production	137,417	–	–	–	–	137,417
Sports- and Event-Marketing	–	63,728	–	–	–	63,728
Platform	–	–	86,827	–	–	86,827
Services	–	–	17,207	–	–	17,207
	363,848	**63,728**	**104,034**	**–**	**–**	**531,610**

Segment information 2017

(TCHF)	Film	Sports- and Event-Marketing	Other	Recon-ciliation	Group
External sales	315,625	58,688	–	–	374,313
Other segment income	152,987	456	–	–72	153,371
Segment expenses	–458,934	–31,882	–11,556	72	–502,300
thereof amortization, depreciation	*–112,591*	*–774*	–	–	*–113,365*
thereof impairment	*–3,330*	–	–	–	*–3,330*
Segment earnings	**9,678**	**27,262**	**–11,556**	**–**	**25,384**

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

Segment information by region

Jan. 01 to Dec. 31, 2018 (TCHF)	Switzer-land	Germany	Rest of Europe	Rest of the world	Total
External sales	91,260	281,693	43,682	114,975	531,610
Non-current assets	129,954	268,857	–	–	398,811

Jan. 01 to Dec. 31, 2017 (TCHF)	Switzer-land	Germany	Rest of Europe	Rest of the world	Total
External sales	88,390	177,832	23,416	84,675	374,313
Non-current assets	16,091	170,986	48	–	187,125

External sales by customers

	2018		2017	
(TCHF)	nominal	in %	nominal	in %
Customer A (Sports- and Event-Marketing segment)	63,728	12	58,688	16
Customer B (Film segment)	59,966	11	44,706	12
Customer C (Film segment)	48,155	9	31,369	8
Sales with other customers	359,761	68	239,550	64
Total external sales	**531,610**	**100**	**374,313**	**100**

In total, the Highlight Group generated more than 10 % of its total sales with two 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)	Financial commit-ments	Contingent liabilities	Purchase commitments for licenses	Other unrecognized financial obligations	Rental and lease obligations (operating lease contracts)	Total
As of December 31, 2018						
Due within one year	15,205	2,887	45,438	26,162	8,519	98,211
Due between one year and five years	–	–	43,724	20,492	23,083	87,299
Due after five years	–	–	–	1,564	11,950	13,514
Total	**15,205**	**2,887**	**89,162**	**48,218**	**43,552**	**199,024**
As of December 31, 2017						
Due within one year	10,525	–	12,752	6,614	5,090	34,981
Due between one year and five years	–	–	146	13,869	15,959	29,974
Due after five years	–	–	–	44	13,683	13,727
Total	**10,525**	**–**	**12,898**	**20,527**	**34,732**	**78,682**

10.2 Financial commitments

As of December 31, 2018, there were guarantees to various TV stations for the completion of service productions totaling TCHF 15,205 (previous year: TCHF 10,525). 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 Contingent liabilities

The contingent liabilities relate to a special VAT audit at Constantin Medien AG regarding an input tax refund of TCHF 1,971 from 2017. An issue from 2014 in the amount of TCHF 916 is also being audited in this context. Constantin Medien AG has issued written statements in this regard.

10.4 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 19,162 (previous year: TCHF 12,898).

Furthermore, the purchase commitments for licenses include TCHF 70,000 (previous year: TCHF 0) for broadcasting and transmission rights of Sport 1 GmbH.

10.5 Other unrecognized financial obligations

Other financial obligations not recognized in the balance sheet include TCHF 16,809 (previous year: TCHF 20,527) for obligations under option, work and film contracts for the development of in-house productions in addition to obligations for distribution costs and other services of TCHF 31,409.

10.6 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 10,624 (previous year's period: TCHF 6,081).

The minimum lease obligations as of December 31, 2018 are as shown in the table below.

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, 2018				
Due within one year	7,677	551	291	8,519
Due between one year and five years	22,416	473	194	23,083
Due after five years	11,950	–	–	11,950
Total	**42,043**	**1,024**	**485**	**43,552**
As of December 31, 2017				
Due within one year	4,817	208	65	5,090
Due between one year and five years	15,845	62	52	15,959
Due after five years	13,683	–	–	13,683
Total	**34,345**	**270**	**117**	**34,732**

The minimum lease obligations are calculated based on the respective uncancellable terms of the lease.

11. RELATED PARTY DISCLOSURES

As part of its normal business activities, the company maintains relations with associated companies, the main shareholder and its subsidiaries as well as with companies controlled by members of the Board of Directors.

Related party disclosures

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Receivables	–	675
Liabilities	59	464

(TCHF)	Jan. 01 to Dec. 31, 2018	Jan. 01 to Dec. 31, 2017
Sales and other income	–	491
Cost of materials and licenses and other expenses	39	775

Parent company and its direct subsidiaries

(TCHF)	Dec. 31, 2018	Dec. 31, 2017
Receivables	3,619	153
Liabilities	1,754	–

(TCHF)	Jan. 01 to Dec. 31, 2018	Jan. 01 to Dec. 31, 2017
Sales and other income	350	185
Cost of materials and licenses and other expenses	14	–

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

Other expenses of the direct parent company Highlight Event and Entertainment AG were incurred in the amount of TCHF 14 in the reporting year (previous year's period: TCHF 0).

As of December 31, 2018, there were further liabilities to various members of the Board of Directors and managing directors of TCHF 59 (previous year: TCHF 80).

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

On January 28, 2019, PLAZAMEDIA GmbH concluded a sale-and-lease-back agreement for the storage system. The sales price is TEUR 408 and the net monthly leasing installment TEUR 7. The lease period is 60 months. In this connection, Constantin Medien AG assumed an absolute guarantee for all PLAZAMEDIA GmbH liabilities resulting from the agreement. The guarantee has no time limit and is capped at TEUR 563.

On January 30, 2019, PLAZAMEDIA GmbH concluded a sale-and-lease-back agreement for part of the new broadcasting center. The sales price is TEUR 3,537 and the net monthly leasing installment TEUR 63. The lease period is 60 months. In this connection, Constantin Medien AG assumed an absolute guarantee for all PLAZAMEDIA GmbH liabilities resulting from the agreement. The guarantee has no time limit and is capped at TEUR 4,930.

In the middle of March 2019, Sport1 GmbH acquired a 5.56 % stake in AGF Videoforschung GmbH at a price of TEUR 464.

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 2018, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 82 to 158) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 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.

Our audit approach

Overview

Overall Group materiality: CHF 1,200,000

We concluded audit work at 25 Group companies ("full scope audit" or "specified procedures"). Our audit scope addressed 96% of sales.

As key audit matters, the following areas of focus were identified:

- Sales recognition in the Film and the Sport and Event Marketing segments
- Valuation of film assets
- Impairment testing of goodwill from the acquisition of Constantin Medien AG

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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.

On the basis of our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group 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 1,200,000
How we determined it	5% of the profit before taxes
Rationale for the materiality benchmark applied	We chose profit before income tax expenses 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.

Audit scope
We planned our audit by determining the 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.

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 in the Film and the Sport and Event Marketing segments

Key audit matter	*How our audit addressed the key audit matter*
a) Film segment We consider sales recognition in the Film segment to be a key audit matter because the recognition of sales from in-house and third-party productions over the different periods of exploitation may differ significantly from the invoice date and the date on which payment is received. b) Sports and Event Marketing segment We consider sales recognition in the Sports and Event Marketing segment to be a key audit matter because the entire segment's sales stem from a single contract. This agency agreement with UEFA includes 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 comprises a fixed element and a variable element, which is based on the revenues from marketing these two competitions. However, the annual accounting period for the competitions does not correspond with the Group's financial year. Hence, the proper recording in the appropriate period of the revenues from this agency agreement is of particular importance. Please refer to note 4.15 (Revenue from contracts with customers) 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 recording of sales. • We assessed the consistency of the sales recognition methods used, taking into account the accounting principles set out in note 4.15 to the consolidated financial statements. • In the Film segment, we examined in addition on a sample basis whether sales were recorded correctly and in the right period. • In the Sport and Event Marketing segment, we examined in addition whether the recorded income from this agency agreement for the 2017/2018 season ending in the 2018 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 2018/2019 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 of the accuracy of the prior year's accruals. On the basis of the audit evidence we obtained, we concluded that the sales recognition methods of the Highlight Group and the recorded revenues of the Film segment and the Sports and Event Marketing segment are based on appropriate evidence and tenable assumptions.

Valuation of film assets

Key audit matter	*How our audit addressed the key audit matter*
The impairment testing of film assets was deemed a key audit matter for the following two reasons: Film assets, comprising in-house and third-party productions, in the amount of CHF 185.5 million represent a significant share (29%) 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 (Summary of the key accounting policies – 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 the project leaders and 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 the 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. With regard to the valuation of film assets, we consider the assessments of the Board of Directors and Management to be based on appropriate and consistently applied assumptions and correct conclusions.

Impairment testing of goodwill from the acquisition of Constantin Medien AG

Key audit matter	*How our audit addressed the key audit matter*
Impairment testing of goodwill arising from the acquisition of Constantin Medien AG in the 2018 financial year was deemed a key audit matter for the following two reasons: The goodwill from the acquisition of Constantin Medien AG represents a significant amount on the balance sheet. It totals CHF 114.7 million, representing 18% of the total assets. In addition, there is significant scope for judgement in determining the assumptions relating to the future business results and the discount rate applied to the forecasted cash flows. Please refer to note 3.1 (First-time consolidation of Constantin Medien AG), note 4.6 (Goodwill), note 5 (Judgment/estimation uncertainty) and note 6.2 (Other intangible assets and goodwill) in the notes to the consolidated financial statements.	We assessed the impairment test carried out by the Group by performing the following audit procedures: • For the forecasted cash flows, we assessed the budget process, especially whether Management and the Board of Directors monitored this process and challenged the applied assumptions. • We tested whether the values used for the impairment test were in line with the budget approved by the Board of Directors. • We compared the assumptions relating to the prior year's revenues and results with those for the year under review in order to identify, in retrospect, any assumptions that were too optimistic regarding the budgeted revenues and results. • We checked for plausibility the discount rates and the assumptions that were used. • In addition, based on sensitivity analyses, we tested whether a significant change in the key assumptions (in each case for the discount rate, the EBIT margin and the long-term growth rate) resulted in an impairment of the goodwill. • We discussed the results of these tests with Management in terms of the headroom available before the goodwill would be impaired and the probability of such a change in the assumptions occurring. On the basis of the audit procedures performed, we addressed the risk of the impairment of goodwill. We have no findings to report. The assumptions used were consistent and in line with our expectations.

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 and the stand-alone financial statements of Highlight Communication AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

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.

PricewaterhouseCoopers AG

Bruno Häfliger	Bastian Stolzenberg
Audit expert Auditor in charge	Audit expert

Lucerne, 27 March 2019

Financial statements

as of December 31, 2018 of Highlight Communications AG, Pratteln

BALANCE SHEET AS OF DECEMBER 31, 2018

Highlight Communications AG, Pratteln

ASSETS (TCHF)	Dec. 31, 2018	Dec. 31, 2017
Current assets		
Cash and cash equivalents	3,188	138,962
Other current receivables		
due from third parties	31	43
due from shareholders	3,379	31,051
due from Group entities	67	93
Prepaid expenses/accrued income	3	102
	6,668	170,251
Non-current assets		
Non-current receivables		
due from Group entities	3,775	6,189
Equity investments	408,400	209,927
Licenses	–	–
	412,175	216,116
Total assets	418,843	386,367

EQUITY AND LIABILITIES (TCHF)	Dec. 31, 2018	Dec. 31, 2017
Liabilities		
Current liabilities		
Trade accounts payable		
due to third parties	52	481
due to shareholders	–	278
Current interest-bearing liabilities		
due to banks	98,000	60,000
due to Group entities	17,935	16,008
Other current liabilities		
due to third parties	21	607
due to shareholders	1,867	–
Deferred income/accrued expenses	642	3,652
	118,517	81,026
Equity		
Subscribed capital	63,000	63,000
Legal capital reserves		
Reserves from capital contributions	64,429	77,715
Other legal capital reserves	2,758	2,063
Legal reserves for treasury shares	37,395	–
Voluntary retained earnings	30,403	67,798
Profit carried forward	95,001	77,009
Net profit/loss for the year	7,746	17,992
Treasury shares		
against reserves from capital contributions	–406	–236
	300,326	305,341
Total equity and liabilities	418,843	386,367

INCOME STATEMENT 2018

Highlight Communications AG, Pratteln

(TCHF)	2018	2017
License income	96	164
Other income	299	346
Income from equity investments	23,450	29,530
Total income	23,845	30,040
License expenses	–24	–112
Personnel expense	–3,546	–3,606
Office and administrative expense	–4,938	–9,506
Write-downs on receivables due from Group entities	–4,500	–7,500
Total expense	–13,008	–20,724
Earnings before interest and taxes (EBIT)	10,837	9,316
Financial expense		
Interest expense	-3,236	–395
Price losses	-1,253	–1
Financial income		
Interest income	18	50
Price gains	1,380	9,022
Profit/loss before taxes	7,746	17,992
Income taxes	–	–
Net profit/loss for the year	7,746	17,992

NOTES TO THE FINANCIAL STATEMENTS 2018

Highlight Communications AG, Pratteln

1. ACCOUNTING

These financial statements were prepared in accordance with the provisions on commercial accounting of the Swiss Code of Obligations. The material items of the balance sheet are accounted for as shown below.

Securities with a market price

Securities with a market price are measured at their market price on the reporting date. A fluctuation reserve was not recognized.

Foreign currency positions

The functional currency is the Swiss franc (CHF). Transactions in foreign currencies are translated into the functional currency CHF at the exchange rate as of the transaction date. Balance sheet items are translated at the closing rate.

Other current receivables

Other current receivables are recognized at nominal value less any necessary impairment losses. All changes in value are recognized in income.

Equity investments

Equity investments are measured individually. They are recognized at cost less any necessary impairment losses. Additional impairment losses are recognized at the discretion of the Board of Directors.

Treasury shares

From fiscal year 2015, treasury shares are recognized at cost without subsequent remeasurement.

2. DETAILS ON INDIVIDUAL ITEMS

Cash and cash equivalents

Financial liabilities increased in fiscal year 2018 as a result of the acquisition of a majority interest in Constantin Medien AG.

Current interest-bearing liabilities due to banks

A further 29.99 % of shares in Constantin Medien AG were acquired at the end of March 2018, thereby causing an increase in financial liabilities.

Equity

The dividend of CHF 12.6 million was paid from reserves from capital contributions.

Income from equity investments

This item contains dividends from Group entities.

Price gains

There were operating foreign currency gains of CHF 0.8 million in the reporting period. The decline as against the previous year is due to the fact that foreign currency gains from the capital increase and receivables from shareholders were recognized in fiscal year 2017.

Office and administrative expense

This item contains management expenses, consulting expenses and investor relations costs. There was a non-recurring effect of elevated costs of legal services and for the capital increase in fiscal year 2017 on account of the takeover bid. These costs normalized again in fiscal year 2018.

Amortization, depreciation and write-downs

Receivables from Group companies of CHF 16 million already written down in full were waived in the reporting period. Following the waiver, there are further subordinated receivables from Group companies already written down in full in previous years of CHF 4 million. Write-downs on (subordinated) receivables from Group companies amounted to CHF 7.5 million in the previous year. In addition, there was a further write-down on receivables from Group companies of CHF 4.5 million in the reporting year.

3. PLEDGED ASSETS AS COLLATERAL FOR OWN OBLIGATIONS

	Dec. 31, 2018	Dec. 31, 2017
Shares in Constantin Medien AG		
Number	73,365,840	–
Carrying amount in TCHF	196,729	–
Shares in Constantin Film AG		
Number	12,742,600	12,742,600
Carrying amount in TCHF	132,151	132,151
Credit facility used		
TCHF	98,000	60,000

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 note 3 of the consolidated financial statements in this annual report.

6. CHANGE IN LEGAL CAPITAL RESERVES

The legal capital reserves were increased on account of the capital increase in the previous year. Reserves for capital contributions not confirmed by the Swiss Federal Tax Administration amounted to CHF 72.1 million as of December 31, 2017. The Swiss Federal Tax Administration approved reserves for capital contributions of CHF 71.4 million in the reporting year, while the remainder was reclassified to other legal capital reserves.

7. SHAREHOLDER STRUCTURE

Shareholders with holdings of over 5%	Dec. 31, 2018	Dec. 31, 2017
Highlight Event and Entertainment AG	44.71%	25.00%
Stella Finanz AG	13.81%	20.19%
Axxion S.A.	9.89%	–
Constantin Medien AG	9.81%	32.70%

For the stakes held by members of the Board of Directors and the Group management as well as their related parties, refer to note 9.

The Board of Directors is aware of no other material shareholdings (over 5 %).

8. TREASURY SHARES (HELD DIRECTLY OR INDIRECTLY VIA SUBSIDIARIES)

Directly

	Number of shares	Carrying amount TCHF	Transaction value TCHF
Balance on January 1, 2018	44,983	236	–
Sales	–	–	–
Acquisitions	30,000	170	–
Balance on December 31, 2018	74,983	406	–

	Number of shares	Carrying amount TCHF	Transaction value TCHF
Balance on January 1, 2017	44,983	236	–
Sales	20,000	113	113
Acquisitions	20,000	113	113
Balance on December 31, 2017	44,983	236	–

Indirectly

	Number of shares	Carrying amount TCHF	Transaction value TCHF
Balance on January 1, 2018	–	–	–
Sales	2,000,000	12,221	12,221
Acquisitions	8,182,518	49,617	49,617
Balance on December 31, 2018	6,182,518	37,396	–

	Number of shares	Carrying amount TCHF	Transaction value TCHF
Balance on January 1, 2017	–	–	–
Sales	–	–	–
Acquisitions	–	–	–
Balance on December 31, 2017	–	–	–

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

As of December 31, 2018, the individual members of the Board of Directors and the Group management (including related parties) held the following number of shares in the company:

	2018	2017
Bernhard Burgener, Chairman and Delegate, executive member	–	–
René Camenzind, non-executive member	628,715	628,715
Martin Hellstern, non-executive member	200,000	200,000
Peter von Büren, executive member	–	–
Dr. Paul Graf, Managing Director	50,000	50,000

10. NUMBER OF FULL-TIME EQUIVALENTS

The average number of full-time equivalents over the year was not more than 10 employees.

11. ADDITIONAL INFORMATION, STATEMENT OF CASH FLOWS AND MANAGEMENT REPORT

Additional information, the statement of cash flows and the management report have been waived in accordance with article 961d (1) of the Swiss Code of Obligations as Highlight Communications AG prepares consolidated financial statements in accordance with a recognized accounting standard.

12. EVENTS AFTER THE BALANCE SHEET DATE

On January 28, 2019, PLAZAMEDIA GmbH concluded a sale-and-lease-back agreement for the storage system. The sales price is TEUR 408 and the net monthly leasing installment TEUR 7. The lease period is 60 months. In this connection, Constantin Medien AG assumed an absolute guarantee for all PLAZAMEDIA GmbH liabilities resulting from the agreement. The guarantee has no time limit and is capped at TEUR 563.

On January 30, 2019, PLAZAMEDIA GmbH concluded a sale-and-lease-back agreement for part of the new broadcasting center. The sales price is TEUR 3,537 and the net monthly leasing installment TEUR 63. The lease period is 60 months. In this connection, Constantin Medien AG assumed an absolute guarantee for all PLAZAMEDIA GmbH liabilities resulting from the agreement. The guarantee has no time limit and is capped at TEUR 4,930.

In the middle of March 2019, Sport1 GmbH acquired a 5.56% stake in AGF Videoforschung GmbH at a price of TEUR 464.

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)	**2018**
Payment of a dividend of CHF 0.20 per share	12,600
Withdrawal from the legal reserves from capital contributions	**12,600**

APPROPRIATION OF AVAILABLE RETAINED EARNINGS

(TCHF)	**2018**
Profit carried forward	95,001
Net profit for the year	7,746
Available retained earnings	**102,747**

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

(TCHF)	
Retained earnings	102,747
Dividend payment	–
Carryforward to new account	102,747

The dividend amount of TCHF 12,600 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.

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 2018, income statement for the year then ended and notes, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (pages 168 to 173) as at 31 December 2018 comply with Swiss law and the articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall materiality: CHF 1,200,000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter, the following area of focus has been identified:

Impairment of equity investments

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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.

On the basis of 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 1,200,000
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 60,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope
We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of equity investments

Key audit matter	*How our audit addressed the key audit matter*
Equity investments in the amount of CHF 408.4 million are a significant item on the company's balance sheet, representing more than 97% of total assets. Equity investments are valued individually. The recoverability of equity investments depends on the economic substance and the future results or cash flows. The Board of Directors and Management have considerable scope to apply their judgement in determining the assumptions underlying forecasts of future results and cash flows. Owing to the significance of this balance sheet item to the financial statements as a whole and owing to the scope for judgement involved in determining the relevant input factors and the assumptions used in the valuation model, we consider the impairment testing of the equity investments as a key audit matter. The impairment testing of equity investments is performed on the basis of future results or cash flows. Please refer to note 1 (Accounting) and note 5 (Notes on main investments) in the notes to the financial statements 2018.	The impairment testing of equity investments is performed separately for each of the three main equity investments, Team Holding AG, Lucerne, Constantin Film AG, Munich and Constantin Medien AG, Munich. The calculations for the Team Holding AG and Constantin Film AG equity investments were performed by an independent company in the 2015 financial year and updated in the year under review by the Management of Highlight Communications AG. The calculation for the Constantin Medien AG equity investment, which was acquired in the 2018 financial year, was performed by an independent company in the 2018 financial year. We assessed the assumptions and forecasts made by Management by examining critically the most important assumptions used in forecasting future revenues and profits. This included a comparison of the assumptions concerning revenues and profits from the prior year with the results that were actually realised in the year under review in order to identify, in retrospect, any assumptions regarding 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. We consider the valuation process to be an appropriate and adequate basis for the impairment testing of the equity investments. The results of our audit support the reasonableness of the assumptions applied by the Board of Directors and Management.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors 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.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Bruno Häfliger	Bastian Stolzenberg
Audit expert Auditor in charge	Audit expert

Lucerne, 27 March 2019

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Highlight

Highlight Communications AG

EVENTS 2019

Cinema	Cannes Film Festival	May 14 – 25
	Locarno Film Festival	August 7 – 17
	Venice Film Festival	August 28 – September 7
	Toronto Film Festival	September 5 – 15
Football	UEFA Europa League final	May 29
	UEFA Champions League final	June 1
	UEFA Super Cup	August 14
Investor Relations	Interim reports	May/August/November
	Annual General Meeting	June 20
	German Equity Forum	November 25 – 27

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