Annual Report 2002

The English version is for your convenience. Only the German version is legally binding.

Annual Report 2002

Highlight at a glance

(CHF)	2002	2001
Sales	70,454,751	85,249,438
License income	16,558,015	21,354,631
Service income	77,568,236	71,474,545
	164,581,002	**178,078,614**
Other income	2,203,718	832,172
	166,784,720	**178,910,786**
License expense	2,294,809	134,127,283
Cost of goods sold	49,897,820	61,907,188
Personnel expense	33,441,381	36,571,013
Advertising	3,959,736	4,362,909
Depreciation/amortization	21,302,829	166,493,568
Various operating expenses	21,174,938	30,743,076
	132,071,513	**434,205,037**
Earnings from operating activities	**34,713,207**	**–255,294,251**
Financial expense	–3,023,379	–15,969,339
Currency gain/loss	–7,015	1,226,665
Net earnings from shares in associated companies	–115,435	0
Earnings before taxes	**31,567,378**	**–270,036,925**
Taxes	–3,492,130	–7,155,595
Net profit	**28,075,248**	**–277,192,520**
Minority interests	–8,444,285	3,129,155
Net profit attibutable to Group	**19,630,963**	**–274,063,365**
Basic earnings per share	4.200	–59.102
Diluted earnings per share	4.200	–59.102

Contents

Dear shareholders,

we can all look back on a very turbulent year in 2002.

The year was characterized by fears of further terror attacks and ongoing discussion concerning the economic downturn in the leading industrialized nations. At the same time, it was a year of sliding stock prices in many segments, declining advertising revenues for TV broadcasters as well as insolvencies and consolidation in the media industry.

It is precisely against such a difficult backdrop that it is particularly important not to lose sight of strategic goals, to evaluate the facts and let them speak for themselves and to resolutely make use of opportunities as they arise.

2002: One of the Highlight Group's best-ever years

In spite of the difficult underlying conditions, the Highlight Group concluded fiscal 2002 with one of the highest profits in its history. The Highlight Group's consolidated revenues came to CHF 164.6 million in 2002. These revenues broke down by segment (Film, Sports) as follows: Film divison CHF 87 million; Sports division CHF 77.6 million.

Operating earnings came to CHF 34.7 million and earnings before tax CHF 31.6 million. Consolidated post-tax earnings stood at CHF 28.1 million or CHF 19.6 million after minority interests. The equivalent figures for 2001 (consolidated revenues CHF 178.1 million and loss after tax and minority interests of CHF 274.1 million) can only be compared to a limited extent with the figures for 2002 as substantial allowance was made in 2001 for risks arising from increasingly difficult business conditons – particularly in the form of the impairment charges taken on film and goodwill from acquisitions.

On December 31, 2002, the Highlight Group had equity capital of CHF 111.2 million translating into an equity ratio of roughly 55.6 % of total assets. Total bank liabilities were valued at CHF 30.1 million. Liquidity (cash, cash equivalents and securities) came to CHF 72.3 million.

With its figures for fiscal 2002 and the inherent value which they embody, the Highlight Group has established a very solid basis for the future performance of its key business units after the prudent precautions taken in 2001 and 2002 and thanks to its operative strength.

Sports marketing and film the core business segments

The Highlight Group's strengths lie in sports marketing and film business, two areas in which it has been successful for many years, amassing substantial market expertise. The focus on core business commenced back in 2001 was continued in 2002 in order to channel these strengths into continued success. In this connection, the New Media division as well as the share in Vidair were jettisoned in the course of 2002.

Renewed contract for exploitation of UEFA Champions League rights testifying to Highlight's expertise

In January 2002, TEAM Marketing AG, a subsidiary of Highlight Communications AG, was awarded the commercial rights to exploit the UEFA Champions League rights for the 2003/04, 2004/05 and 2005/06 seasons on the strength of a new marketing concept. As a result, TEAM prevailed over renowned competitors in the selection process. This fills us with pride, confirming as it does the expertise possessed by the staff at our subsidiary TEAM, which has been working for the UEFA Champions League for over 10 years now, thus playing a pivotal role in the success of one of the world's best known sporting events.

In spite of the more difficult business conditions, the Sports division holds a very strong position in the global sports license marketing segment, from which it will continue to successfully derive further benefits. At the same time, it gives the Highlight Group as a whole a unique position compared with other listed media companies.

Harnessing the booming DVD market to spur business in the Film division

All in all, the home entertainment market exceeded all expectations in 2002. Not only were more digital than analog data carriers sold. In addition, total revenues from the sale and rental of DVD and video home entertainment products substantially outstripped movie theater revenues. The Highlight Group was able to gain a strong share of this growth thanks to its strong position in the home entertainment market via its Rainbow companies in Austria and Switzerland and also its proven marketing partnership with Paramount Entertainment GmbH in Germany. As a result, it is well poised to continue capitalizing on this booming market.

Film license business remaining muted

Film license business remained characterized by selective purchases of promising franchises rather than spectacular packages and output deals, a strategy particularly warranted by TV broadcasters' difficult sales situation. Even so, selected movie releases offered high quality among other things. Examples include "Kick It Like Beckham", a surprise hit in 2002. Meanwhile, March 2003 will see the cinema release of the award winning movie event "The Hours" starring Nicole Kidman, Julianne Moore and Meryl Streep. We are honored to be able to present this movie to audiences.

Film business strengthened by acquisition of stake in Constantin

Against the backdrop of the ongoing consolidation of the German-language film sector, it made more sense for us to search the market for suitable companies to reinforce our core film business rather than acquire further film packages. Numerous potential acquisition candidates were reviewed – and rejected on the grounds of their inadequate quality. Nonetheless, a 23 % stake in Constantin Film AG was acquired on May 13, 2002 following the insolvency of parts of the Kirch Group. Constantin Film AG is one of the oldest and most successful distribution and production companies in the German market, making it an ideal partner for the Highlight Group. With the decades of expertise that it has amassed in the film production and cinema exploitation areas, Constantin Film AG is a perfect match for the Highlight Group's Film division. By the end of 2002, the share had been increased to 25 %, a seat on Constantin Film AG's supervisory board accepted and a partnership venture for cinema distribution in Germany forged. It is planned for further synergistic benefits to be harnessed in 2003.

Highlight Group's position not reflected in the stock price

In spite of the heartening business performance and substantial improvement in competitiveness thanks to our activities, Highlight stock was unable to shield itself from the generally negative trends afflicting the sector and the stock markets in 2002.

Although the stock briefly leapt to a high for the year of EUR 4.38 on news that UEFA had decided to award TEAM with the Champions League marketing rights, neither the consistently favorable performance indicators and good news on the Company's business nor intensive investor relations activities were able to free the stock from the grip of the sector and market trends. Thus, news of the stake taken in Constantin Film AG was shrugged off, as was the announcement of the final award of the UEFA Champions League rights. It is of only small consolidation for investors that Highlight stock outperformed the NEMAX-All-Share and NEMAX 50 benchmark indices.

However, once the macroeconomic outlook picks up, the business foundations laid in 2002 and the Group's market position should be increasingly reflected in the stock's valuation once more.

Resegmentation of the stock market seen as an opportunity

The long overdue resegmentation of the German stock market now on the verge of fruition also marks a new dawning. The new additions to the MDAX, SDAX and TecDAX indices have a chance of being assessed solely in terms of the performance of the companies and stocks. Highlight was admitted to the newly created Prime Standard segment on December 19, 2002, thus meeting a prerequisite for eligibility for inclusion in the DAX, MDAX, SDAX and TecDAX indices. On the basis of announcements made by Deutsche Börse AG, Highlight is one of the heaviest SDAX stocks and also one of the few media companies in this index. At the same time, it is among the small number of Swiss companies included in the 160 largest listed companies in the German capital market.

With the position it has achieved in its core business areas as well as its performance and potential for the future, the Highlight Group welcomes the challenge that this entails.

Vote of thanks to employees

The hectic and turbulent year behind us required a great deal of commitment and energy from all employees at the Highlight Group. On behalf of the other members of the Board of Directors, I wish to take this opportunity to thank them for their excellent work in these difficult conditions.

B. Burgener

Bernhard Burgener
President

Bernhard Burgener

(born 1957)

President of the Board of Directors/CEO Film

Engaged in film business since 1982, he established Rainbow Video AG, Pratteln, in 1983. He has been a shareholder since 1994 and was a delegate of the Board of Directors until 1999. Since 1999, he has been managing the Highlight Group as President of the Board of Directors of Highlight Communications AG.

Reinhold Camenzind

(born 1923)

Member of the Board of Directors

Bank clerk. Mr. Camenzind was agent-general for insurance company Winterthur Versicherung, Lucerne, between 1968 and 1972. Since 1972, he has been the owner of Swiss shopping mall Mythencenter.
He acquired a share in Highlight Communications AG in 1994 and has been a member of the Board of Directors since 1995.

Marc Conrad

(born 1960)

Member of the Board of Directors

Mr. Conrad was program director between 1992 and 1998 and sole deputy managing director as of 1994 at Cologne-based TV broadcast RTL. In 1999, he incorporated typhoon networks AG (Chairman of the Supervisory Board Prof. Dr. Helmut Thoma) for cinema and TV movies as well as series.
Mr. Conrad has been a member of Highlight Communications AG's Board of Directors since February 1999.

Andreas Fallscheer

(born 1963)

Vice-President of the Board of Directors

Mr. Fallscheer established Highlight Communications AG's predecessor in 1983 with a focus on license-trading and license-exploitation business. He was CEO of the Film division until November 2000.

Klaus J. Hempel

(born 1947)

President of TEAM and member of the Board of Directors

Business administration graduate. Mr. Hempel worked for Unilever and adidas for many years. Between 1981 and 1991, he was president and CEO of ISL Marketing AG in Lucerne. In 1991, he incorporated TEAM in conjunction with Jürgen Lenz. Mr. Hempel has been on Highlight Communications AG's Board of Directors since May 2000.

Jürgen Lenz

(born 1943)

President of TEAM and member of the Board of Directors

Mr. Lenz worked for McCann-Erickson and adidas for many years. Between 1982 and 1991, he was executive vice-present and COO of ISL Marketing AG in Lucerne. In 1991, he incorporated TEAM in conjunction with Klaus J. Hempel.
Mr. Lenz has been on Highlight Communications AG's Board of Directors since May 2000.

Dr. Ingo Mantzke

(born 1960)

Member of the Board of Directors and Chief Investor Relations Officer

Business administration graduate. Dr. Mantzke was employed by BHF-BANK from 1987 until 1989, after which he worked on his doctorate degree between 1989 and 1991. From 1991 until 1996, he worked for KPMG Unternehmensberatung GmbH, most recently holding the position of senior management in the financial services segment. In 1996, he became a director at Deutsche Börse AG, where he was responsible for controlling and investor relations, before being named head of finance for the Deutsche Börse Group in January 1999.
Dr. Mantzke has been a member of Highlight Communications AG's Board of Directors since February 1999 and acted as Chief Financial Officer of the Highlight Group until mid 2002. He has been the Highlight Group's Chief Investor Relations Officer since mid 2002.

Marco Syfrig

(born 1960)

Member of the Board of Directors and Chief Financial Officer

Attorney. Mr. Syfrig was a tax consultant between 1987 and 1997, becoming a partner at ATAG Ernst & Young in Zurich in 1993. In 1997, he co-founded TAXPARTNER AG, Zurich and has advised Highlight Communications AG on tax and financial matters since 1991.
He joined Highlight Communications AG's Board of Directors in November 1998 and was named Chief Financial Officer in 2002.

Martin Wagner

(born 1960)

Head of the legal department

Attorney. Mr. Wagner is a specialist in commercial law and a partner at a leading international law firm in Basle specializing in stock, stock-market and media law. As a senior legal counsel, he advises a number of listed companies in Switzerland and other countries.
Mr. Wagner has been a member of Highlight Communications AG's Board of Directors since May 2000.

The following diagram sets out the main members of the Highlight Group:

Highlight Communications AG
Pfäffikon, Switzerland

- 100 % — **Highlight Film und Home Entertainment GmbH**, Munich, Germany
- 100 % — **Rainbow Home Entertainment GmbH**, Vienna, Austria
- 100 % — **Rainbow Video AG**, Pratteln, Switzerland
- 100 % — **Joe's Multimedia AG**, Wil, Switzerland
- 80 % — **Team Holding AG**, Lucerne, Switzerland

Division Film

Film Acquisition
Highlight Communications AG, Pfäffikon

Theatrical Distribution
Highlight Film und Home Entertainment GmbH, Munich

Video/DVD
Rainbow Video AG, Pratteln

Rainbow Home Entertainment GmbH, Vienna

Cooperation with Paramount Home Entertainment GmbH, Frankfurt

TV & Internet
Highlight Communications AG, Pfäffikon

Retail
Joe's Multimedia AG

Division Sports

Sports Marketing

UEFA Champions League

UEFA Cup Final

UEFA Super Cup

Division Film

Market in a state of flux

2002 was a very turbulent year for the entire media industry and, in Germany in particular, one of the most difficult years since the end of the Second World War for the large media groups.

Whereas the business press reported at length on repeated downward revisions in earnings forecasts, sliding advertising revenues and insolvencies as well as changes to management lineups at the large media groups (e.g. Leo Kirch, Thomas Middelhoff of Bertelsmann, Jean-Marie Messier of Vivendi and Steve Case of AOL Time Warner), the film and home entertainment market continued to thrive.

All told, demand for entertainment is unabated. 2002 was also the year of the cinema blockbusters ("Harry Potter and the Chamber of Secrets", "Star Wars: Episode II", "Lord of the Rings – The Two Towers") as well as the impressive and continuing DVD boom.

Film license trading – common sense returning

Film license trading was even more difficult for the independents in 2002 than it had been in the previous year. The insolvency of KirchMedia, the inability to finance output deals and the fallout from the boom years led to drastic downward revisions in forecasts, projections and financial statements. Plummeting revenues, profit warnings, liquidity crunches and a number of major insolvencies such as Kinowelt and Helkon took their toll on investor confidence.

Film license business remained a buyer's market, with prices returning to the pre-boom-year levels before the emergence of the Neuer Markt euphoria.

However, the range of high-quality films has not grown any larger as the major studios are now increasingly exploiting their own output. Following the changes in purchasing practices by TV broadcasters in combination with the drastic slump in advertising revenues compared with previous years, the key to long-term success remains a selective and cautious procurement policy.

Highlight playing an active role in the consolidation of the German media sector

Although restrained and cautious in the film-buying activities, Highlight Communications AG assumed an active role in the consolidation and restructuring of the German media market. Guided by its assessment of the market, market operators and likely future trends, the Company actively sought suitable partners in Germany in order to further extend its own position in the German-language film market. Numerous possible openings were scrutinized in this connection.

Finally, a 23 % stake in the share capital of Constantin Film AG was acquired on May 13, 2002 following the insolvency of parts of the Kirch Group. Constantin Film AG has led the German distribution and production market for years and is thus an ideal partner for Highlight Communications. As a strategic supplement to the Highlight Group's existing Film division, the acquisition provides a valuable source of movie exploitation and production expertise, thus reinforcing our position in the German film market. The share in Constantin Film AG was further extended to 25 % at the end of the year. The President of

the Highlight Group's Board of Directors, Mr. Bernhard Burgener, was appointed to Constantin Film AG's management board.

In this way, the Highlight Group is able to tap the resources of the most successful independent producer and distributor in Germany. As of January 1, 2003, Constantin Film AG is responsible for the cinema exploitation of Highlight films pursuant to a service agreement, something which we are confident will additionally enhance the synergistic benefits derived from the exploitation of these films. It is planned for further synergistic benefits to be harnessed in 2003.

The movie market in 2002 – battle of the titans

With gross annual takings of € 960.1 million in Germany and an audience of over 163.9 million (source: FFA), 2002 fell slightly short of the boom year in 2001 (€ 987.2 million/ 177.9 million) but still remained well ahead of 2000 (€ 824.5 million). In fact, gross takings in the first half of the year were up on the previous year. However, the Christmas blockbusters were unable to reverse the overall weakness emerging in the third quarter.

There are no clearly uniform international trends as the world's largest movie market, the United States, is continuing to experience an unabated boom, with visitor figures up 9% and gross takings rising by no less than 13% compared with 2001. In Germany, the movie market defied general consumer restraint in 2002, even though the record 2001 figures were not quite met.

The Hours: The multi-award winning film directed by Stephen Daldry combines a fascinating star-studded cast with superb acting performances.

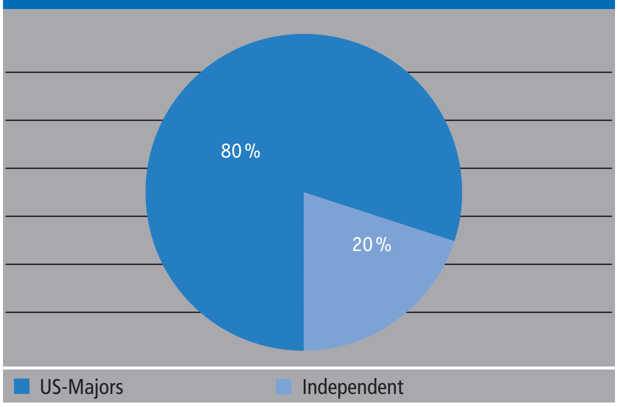
Bend it like Beckham: A comedy as breezy as the English football star's dribbling skills.

Jay & Silent Bob: The familiar duo on a tour through film history – set to leave no eyes dry.

Nachts im Park: Although hitherto primarily known for his action roles, Heino Ferch is also a master of subtlety.

Halloween: The story continues, with Michael Myers still in a spin.

Dominance of US studios over independents



The sequels – "Harry Potter and the Chamber of Secrets", "The Lord of the Rings – The Two Towers", "Star Wars: Episode II" and "Men In Black" – were the top performers in 2002, testifying once more to the dominance of the US studios. Warner Brothers ("Harry Potter and the Chamber of Secrets", "The Lord of the Rings – The Two Towers") captured 25 % of the market, while Sony Columbia ("Spider Man", "Men in Black 2") with 13 % and 20th Century Fox with 18 % ("Star Wars: Episode II", "James Bond – Die Another Day", "Ice Age" and "Minority Report") managed to more than double their share of the market compared with the previous year.

The share of German films in terms of gross takings shrank to 11.9 % (2001: 18.4 %). With three releases attracting audiences of over one million ("Bibi Blocksberg", "Nirgendwo in Afrika" and "Knallharte Jungs"), Constantin Film AG was again the top German distributor.

The US majors dominated the box offices, with only 135 films (36 % of all releases) grossing more than 80 % of total takings. Only a small number of independent distributors were able to garner respectable successes with low-budget films such as "8 Women", "The Pianist", "Bend it like Beckham" and "Hable con ella".

Right page:
The Hours: Nicole Kidman in her award-winning role as Virginia Woolf.

Highlight Group purchasing activities still selective

In spite of another substantial increase in the number of cinema operating companies and the smallest number of cinema closures, cinema operators suffered from plummeting revenues, margin erosion and the sagging advertising market. In fact, the UFA chain was forced to file for insolvency. The cinema sector will remain under pressure this year. In addition to overly expensive rental contracts signed in the boom years, surplus capacity and what is shaping up to be a flat advertising market, cinema operators are likely to come under additional pressure in the near future as a result of the investments in digital film projection equipment.

Our Munich-based subsidiary Highlight Film und Home Entertainment GmbH is responsible for marketing the films we purchase in cinemas. This entails arranging dubbing and copying by renowned studios, press relations, marketing concepts, the graphic design of the cinema posters as well as further advertising and trailer design, TV and radio commercials, website presentation and many other things, all making up the basis of successful movie marketing. Against the backdrop of difficult overall conditions, Highlight's Film division continued to exercise restraint, making only selective purchases and avoiding large packages and output deals. Instead, attention was paid to video products as well as pursuing a "cherry-picking" policy. Major products were only purchased in consultation with the corresponding TV stations. In addition, a surprise hit from the UK was landed with "Bend it like Beckham".

The Highlight Film division was present in all cinemas with interesting movie exploitations in fiscal 2002.

"Piñero"

Produced by Miramax, this biopic stars Benjamin Bratt and Taliso Soto. We exploited this film, a biographical portrait of the celebrated poet Miguel Piñero, for our long-standing partner Miramax pursuant to a commission agreement.

"Nachts im Park"

An ambitious blend of genres: With this German thriller-cum-comedy starring Heino Ferch and Heike Makatsch, director Uwe Janson attempted an experiment deserving of respect.

"Jay And Silent Bob Strike Back"

Jay and Silent Bob, a stoner duo from the country, head off for Hollywood to prevent a film being made about them. A disrespectful parody full of innuendos directed by Kevin Smith ("Dogma") with cameos by Matt Damon, Ben Affleck, Jason Biggs, Chris Rock, Shannon Doherty, Alanis Morissette and many others. Stars Jason Mewes, Kevin Smith and particularly Shannon Elizabeth.

"Bend it like Beckham" (german title: "Kick it like Beckham")

A giant hit in the United Kingdom grossing over GBP 11 million. This feel-good comedy about a 17-year-old British-Indian girl who dreams of treading in David Beckham's footsteps stayed at the top of the UK charts for weeks. After above-average results at German test screenings and buoyed by a specially tailored broad-based PR and marketing campaign, the film premiered at the Hamburg Film Festival and also evolved into a smash hit in Germany. The film was released in the autumn after the summer doldrums and the serious flooding in Germany, attracting an audience of roughly half a million.

"Halloween Resurrection"

Michael Myers meets "Big Brother" and "Blair Witch Project", making an impact on the Internet in the eighth part of the sequel. Starring former "Scream Queen" Jamie Lee Curtis, Tyra Banks and Rapper Busta Rhymes, the film features a strong cast, a tension-filled plot and plenty of horror.

In spite of consolidation on the part of cinema operators, audience demand appears to be intact in 2003. Thus, a further shakeout in the market is likely, although this is not expected to exert any major impact on revenues. Accordingly, the Highlight Film division has slated further new highlights for cinema, DVD and video release in fiscal 2003.

What is set to be the absolute highlight of 2003, "The Hours", is scheduled for cinema release in March.

"The Hours"

The film describes a day in the life of three women living in different times but whose lives are fatefully linked by certain common events. Stephen Daldry ("Billy Elliot") assembled in Golden Globe winner Nicole Kidman, Oscar winner Meryl Streep and Julianne Moore a top class ensemble of actresses. Claire Danes, Toni Collette and Ed Harris are superb in their supporting roles. The film is an adaptation of the Pulitzer-prize-winning novel by Michael Cunningham and has been inundated with awards. The National Board of Reviews nominated "The Hours" as best film. Nominated in seven categories, it won Golden Globes for best film and best actress (Nicole Kidman). At the 53rd Berlinale, the three stars Meryl Streep, Nicole Kidman und Julianne Moore were awarded Silver Bears for best actress.

With numerous awards and distinctions to its name (including BAFTA for Nicole Kidman and composer Philip Glass), it is a hot contender for the Oscars with nine nominations. Intelligent, poignant and as vivid as life itself, it is a work of art which is essential viewing for all cineastes. Director Stephen Daldry manages to entrance the audience and leave a lasting impression.

DVD – the driving force behind the industry

All in all, the home entertainment market exceeded all expectations in 2002, with more digital than analog recordings sold for the first time.

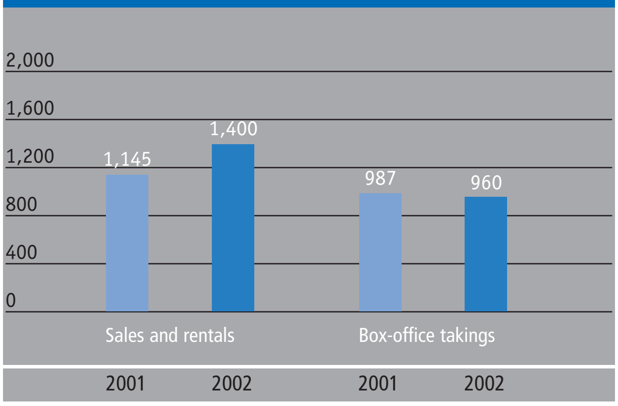
The DVD has now established itself as a new product and growth driver for the entire video sector. Every third household in Germany will have a DVD player in 2003. The DVD market is booming, growing by distinctly double-digit rates. As a result, DVD exploitation is currently the main source of revenues in the exploitation of major films.

Total revenues from the sale and rental of DVD home entertainment products substantially exceeded gross cinema takings. Thus, first-time video/DVD releases regularly exceed box-office takings in the United States. To give one example: although "Spider Man" opened in the United States to sensational box-office takings of USD 114.8 million on the first weekend, this figure pales in comparison with the revenues of around USD 190 million generated on the first weekend after the release of the video/DVD version. "Star Wars: Episode II" grossed USD 80.0 million at the box office on the first weekend but the video release generated revenues of USD 75 million within 24 hours.

However, the success of the DVD is also heightening pressure on the TV market. Thanks to new technologies and declining production costs, home movie systems are increasingly finding their way into households. In the United States, viewer ratings for blockbusters are on the decline – after all, why should audiences put up with commercial breaks when they can enjoy the same film on DVD in almost cinema-like quality at any time they like together with friends?

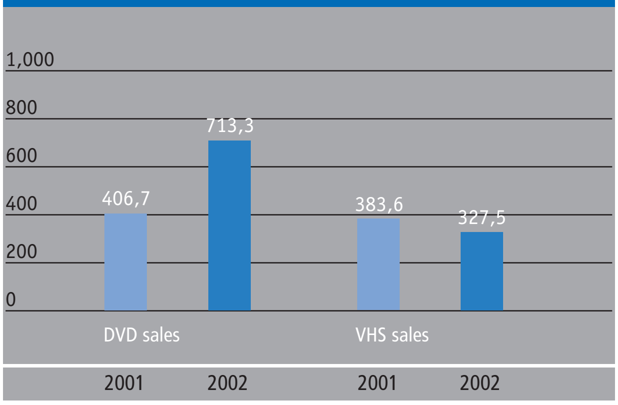
On the whole, the prices fetched by film licenses in 2002 were substantially down on previous years with the result that many strong independent products were not offered in the marketplace but marketed directly by the major studios. Thus, for example, Warner Brothers marketed the New Line products, Buena Vista the Miramax Slate and Vivendi Universal the Good Machine (now known as Focus) franchise.

Total video market sales (Euro million)



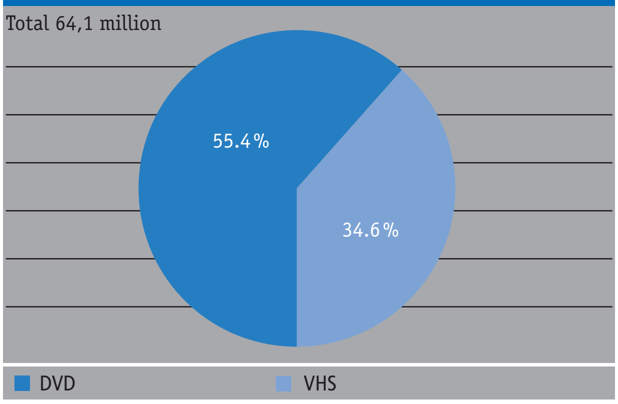
Source: GfK Panel Services Consumer Research GmbH

Revenues 2002 (Euro million)



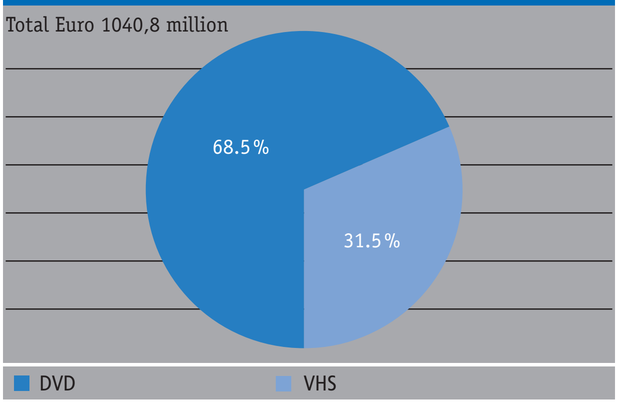
Source: GfK Panel Services Consumer Research GmbH

Share of DVD in total sales volume in 2002



Source: GfK Panel Services Consumer Research GmbH

Share of DVD in total video sales revenues in 2002



Source: GfK Panel Services Consumer Research GmbH

Highlight Group achieving strong position in the growth DVD market

In the German market, the long-term partnership agreement forged with Paramount Pictures International in October 1999, which took effect at the beginning of 2000 and is being implemented via Paramount Home Entertainment GmbH, again proved its far-reaching merits. In Switzerland and Austria, the Highlight Group also markets video and DVD releases of US studios in addition to its own franchise. In Austria, this is done via Rainbow Home Entertainment Gesellschaft GmbH, which distributes Paramount, Highlight Communications VCL, Universal and, as of April 1, 2003, Columbia Tristar in the local market. In Switzerland, distribution is operated by Rainbow Video AG in Pratteln, which markets several major video labels as in Austria. Our main customers are the large mail order and retail chains.

Thanks to its activities in Germany, Switzerland and Austria, the Highlight Group holds a strong position in the high-growth DVD market and benefited accordingly from its expansion. Looking forward, this superb market position ensures that the Highlight Group will continue to ride on the crest of the DVD boom.

TV – Well positioned in spite of dwindling advertising revenues and the insolvency application lodged by parts of the Kirch Group

TV-license exploitation, i.e. purchasing film licenses and then selling them to TV stations, is handled by Highlight Communications AG in Pfäffikon, Switzerland. Highlight Communications AG has been engaged in this market since 1983 and has long-standing relations with the top German TV stations.

TV exploitation normally is the most appealing segment of the license-trading business, with roughly 70 % of licensing costs recouped from this channel. The private TV broadcasters are primarily financed via advertising revenues, which already started to contract in 2001. In the year under review, the eagerly awaited recovery in TV advertising revenues failed to materialize. Instead, they shrank by a further 4.2 %, causing many TV broadcasters to slip into the red. As a result of the damper which this placed on this exploitation level, which in some cases vanished altogether, many film traders were unable to sell their films or achieve the prices they had been expecting. This was a further reason for the numerous profit warnings and insolvencies on the part of film vendors. There

is still no sign of any sustained rebound in the advertising market for 2003, with favorable forecasts pointing to growth of 1 % (ZAW, Zentralverband der deutschen Werbewirtschaft).

The public-sector broadcasts (ARD, ZDF, Dritte), the RTL Group (RTL, RTL II, Vox) and the Kirch Group (ProSiebenSat.1, Kabel 1, Premiere) dominate the German TV scene. After the boom years and the ensuing consolidation, these blocks appeared to be stable. However, this changed suddenly in April 2002 when KirchMedia, the principal owner of ProSiebenSat.1, filed for creditor protection.

In the course of 2002, the Kirch Group did everything it could to avoid disruptions to broadcasting activities and signed transfer agreements with all main programming suppliers. Such agreements were also entered into with Highlight Communications, as a result of which the contractual revenues were for the most part safeguarded.

Turning to 2003, business conditions in the TV segment are expected to remain difficult in spite of the easing of the situation following the acquisition of the ProSiebenSat.1 Media broadcaster family and pay-TV broadcaster Premiere by the Permira investment group. That said, we are confident of being able to successfully sell our carefully selected products to broadcasters in 2003, just as in the previous year, thanks to their favorable cost/benefit ratio.

Retail business – Joe's market leader in Switzerland

The Highlight Group operates its video rental and retail business in Switzerland via Joe's Multimedia AG with head offices in Wil. Under the established "Joe's" brand name, the company operates the largest chain of video retail outlets in the German-speaking part of Switzerland currently comprising 31 branches. Joe's concentrates on video/DVD rental business with a video range catering to all tastes from children's films to special-interest titles true to the company's motto: "Joe's – the video store for the entire family." Our strengths not only include a regular customer magazine reporting on new video releases but also our proximity to customers. The Joe's Multimedia AG branches are consumer-friendly and conveniently located in large towns and cities.

Joe's particularly benefited from the expanding DVD market in 2002, becoming a key platform for bought DVDs in this growth market, particularly new releases and movie hits. Rental business was dragged down by general consumer restraint. The DVD has since become Joe's revenue mainstay. Although many releases are currently being offered concurrently in VHS and DVD formats, the substitution effects increasingly afflicting VHS will lead to a reduction in inventory numbers over the next few years.


MERYL
STREEP
JULIANNE
MOORE
NICOLE
KIDMAN
THE
HOURS

Division Sports

Roughly 80 TV broadcasts in more than 200 countries around the world telecast the UEFA Champions League.

Highlight Communications AG's Sports division comprises the 80 % share held in Team Holding AG. Domiciled in Lucerne, Team Holding AG is the parent company of the TEAM Group, a company operating successfully all over the world in the sports marketing segment. Operative business is handled by subsidiaries Team Football Marketing AG and T.E.A.M. Television Event And Media Marketing AG. At year-end, the TEAM Group employed a total of 106 people from 18 different nations.

In January 2002, TEAM was again awarded the contract for the commercial marketing of rights to the UEFA Champions League for the 2003–2006 seasons following an invitation for bids in which it prevailed over other renowned competitors in the selection procedure. The agency agreement between UEFA and TEAM was signed in December 2002. As a result, TEAM has been the exclusive marketing partner to UEFA for the UEFA Champions League rights since 1992.

UEFA Champions League matches seen by over four billion TV viewers

Telecasted in more than 200 countries by around 80 TV stations, the UEFA Champions League is the top competition in club football. During the 2001/02 season, UEFA Champions League matches attracted TV audiences of over four billion viewers. Leading European TV broadcasters such as RTL and Premiere in Germany, ITV in the UK, Mediaset and Stream in Italy, TF1 and Canal Plus in France, TVE, Via Digital and Canal Satelite in Spain and NOS in the Netherlands acquired the broadcasting rights for the UEFA Champions League matches in the 2001/02 season. TV ratings for the UEFA Champions League were consistently high.

Limited to four partners, the sponsoring concept for the UEFA Champions League is viewed in the market place as groundbreaking. Amstel/Heineken, EUROCARD/MasterCard, Sony PlayStation and Ford hold global exclusive marketing rights (particularly event and TV program sponsoring rights). Motorola and adidas support the UEFA Champion League as supplier partners.

Right page:
Exciting top-quality matches are part and parcel of the UEFA Champions League.


RWE

Marketing proceeds of roughly CHF 1 billion in 2002

The 2001/02 UEFA Champions League season ended with the final between Bayer 04 Leverkusen and Real Madrid CF (score 1:2) on May 15, 2002 in Glasgow. TEAM grossed roughly CHF 1 billion from the UEFA TV and marketing rights last season.

Also marketed by TEAM, the UEFA Cup Finale was held on May 8, 2002 in Rotterdam, pitting Feyenoord Rotterdam against Borussia Dortmund (score 3:2).

TEAM was also responsible for successfully marketing the TV and sponsoring rights for the U-21 European cup, which took place in May 2002 in Switzerland, for UEFA.

As well as this, it played a material role in supporting UEFA in connection with the organization and management of various events (galas, competitions etc.) held at the end of August 2002 in Monaco to mark the commencement of the European 2002/03 football season. One of the highlights marketed by TEAM was the UEFA Super Cup match between Real Madrid CF and Feyenoord Rotterdam, which took place on August 30, 2002 (score 3:1). The UEFA Champions League 2002/03 season commenced on September 17, 2002.

Top sports products still generating strong marketing results

Finally, TEAM launched sales activities in connection with the marketing rights for the 2003/04, 2004/05 and 2005/06 UEFA Champions League seasons on behalf of UEFA in August 2002. In accordance with an agreement between UEFA and the EU Commission, TV rights are to be offered in various packages in a comprehensive tender system.

Focus on marketing of UEFA Champions League rights

In the first half of 2003, TEAM's activities will focus on the ongoing marketing of the UEFA Champions League rights. At the same time, the 2002/03 season is continuing, with preparations for the UEFA Cup final in Seville on May 21 and the UEFA Champions League in Manchester of May 28, 2003 underway.

At the same time, TEAM is evaluating and examining new avenues outside its previous core business.

The Stock

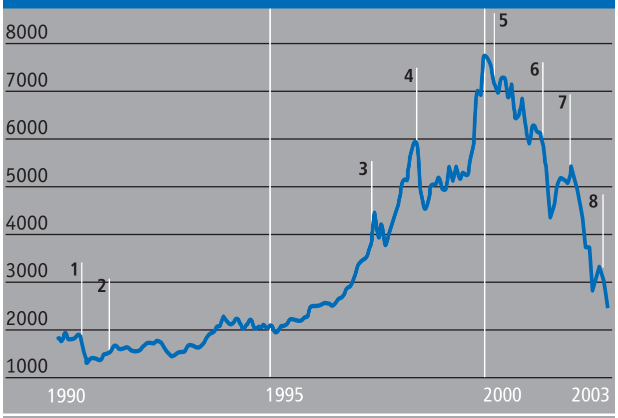
2002 – Protracted losses in the global stock markets

After several years of what in some cases were dramatic declines and stagnation in the stock market, 2002 failed to produce the eagerly awaited turnaround. As in earlier years, equities predominantly moved in only one direction – downwards. Whereas some analysts saw signs of a rebound at the beginning of the year, sentiment became increasingly more pessimistic and resigned as the year progressed. The full-year performance of the stock markets thus came as no surprise, with the DAX shedding 45 % of its value, the DOW JONES 18 % and the NASDAQ 32 % in 2002.

Not surprisingly, private investors responded to these broad-based losses in the form of a mass flight out of equities.

The loss of confidence prompting many investors to sell their stocks weighed heavily. This was exacerbated by the massive damage done by spectacular accounting scandals, criminal prosecution of board members on charges of stock price manipulation and insider-trading, on the one hand, as well as incorrect accounting reports and dubious analyst recommendations on the other.

Historical performance of the DAX



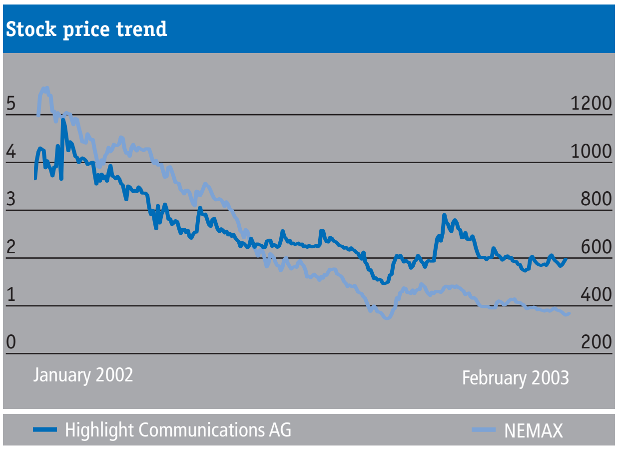
1	**August 1990**	Commencement of Gulf war
2	**February 1991**	End of Gulf war
3	**May 1997**	Commencement of Asian crisis
4	**August 1998**	Commencement of Russian crisis
5	**March 2000**	Peak in New Economy euphoria
6	**2001**	„September 11"
7	**March 2002**	Accounting scandals in the United States
8	**March 2003**	Iraq war

Stock unimpressed by upbeat news flow

Although the stock leapt briefly to a high for the year of EUR 4.38 at the beginning of 2002 accompanied by strong volatility on news that UEFA had decided to award TEAM with the UEFA Champions League marketing rights, it failed to hold on to this level in spite of the continued upbeat news flow and strong figures and steadily slid to a low for the year of EUR 1.16 at the beginning of October, following the benchmark NEMAX-All-Share and NEMAX 50 benchmark indices on their downward path. Towards the end of the year, the stock was propelled upwards by the figures for the year to the end of November, although this also proved to be only a flash in the pan.

Over the year as a whole, Highlight stock shed just under 60 % of its value, closing the year at EUR 1.75. By way of comparison, the NEMAX-All-Share lost just over 63 % and the NEMAX 50 roughly 70 %. This performance is anything but satisfactory.

Neither the Highlight Group's consistently favorable performance indicators and the upbeat news flow nor intensive investor relations activities were able to free the stock from the grip of the sector and market trends on any long-term basis in 2002. Thus, news of the share taken in Constantin Film AG was shrugged off, as was the announcement of the final award of the UEFA Champions League rights.



However, once the macroeconomic outlook improves, the business foundations laid in 2002 and the Group's market position should be increasingly reflected in the stock's valuation once more.

Stock-buy back program implemented

The stock's low valuation prompted the Board of Directors to invest part of the available cash in treasury stock in June 2002 in order to use it for re-issuing in better times or as an acquisition currency in the medium term. By December 31, 2002, Highlight Communications AG had bought 920,343 of its own shares.

Standards for listed companies confidence-inspiring and a step in the right direction

The general endeavors to implement high ethic standards in the corporate sector and, in this connection, the adoption of the German Corporate Governance Code in February 2002 in a bid to strengthen the confidence of investors, employees and customers is a wise move, even though confidence-inspiring measures of this type have so far not had any impact on stocks in the light of current market conditions.

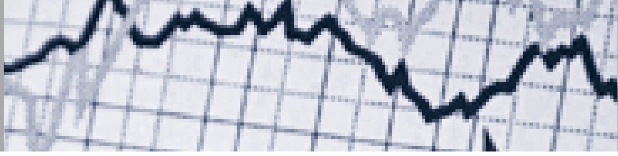
As the German Corporate Governance Codex is based on German law, it was not possible for Highlight Communications AG to adopt it on account of foreseeable conflicts between German and Swiss requirements. Nonetheless, although the Company is under no obligation to conform to the German Corporate Governance Code and the requirements imposed on it by Swiss law differ from those applicable to German companies, material parts of the standards embodied in the Code – particularly those pertaining to the protection and equality of all shareholders, disclosure and the transparency of external communications – have been complied with on a voluntary basis since the Company's stock-market flotation in May 1999.

Looking forward, the Highlight Group will remain committed to responsible and earnings-oriented activity as well as transparent and confidence-inspiring communications as key elements of its investor relations activities.

Resegmentation of the stock market seen as an opportunity

As individual steps, such as the "penny-stock" rules, failed to unleash any lasting effect, Deutsche Börse embarked upon radical changes in November 2002, namely the resegmentation of the German stock market as of January 1, 2003, entailing the abolition of the Neuer Markt segment at the end of 2003.

Resegmentation is generally being welcomed as an opportunity to overcome the negative image from which the Neuer Markt has been suffering to allow company and stock-based



performance to come to the fore. Ultimately, these steps have only one goal: To regain investors' confidence by ensuring consistently documented transparency and reporting reliability.

The long overdue resegmentation of the German stock market now on the verge of fruition is also a new dawning. The new additions to the MDAX, SDAX and TecDAX indices have a chance of being assessed solely in terms of the performance of the companies and stocks.

Highlight was admitted to the newly created Prime Standard segment on December 19, 2002, thus meeting a prerequisite for eligibility for inclusion in the DAX, MDAX, SDAX and TecDAX indices.

The Company has been conforming to the more stringent Prime Standard documentation duties ever since it was first listed and is therefore ideally equipped for inclusion in this quality segment.

Following the implementation of resegmentation, the stock will presumably be listed in the SDAX index. On the basis of Deutsche Börse AG's preliminary announcements, Highlight is one of the heaviest stocks in the SDAX following the resegmentation of the stock market indices on March 24, 2003. At the same time, it is one of the few media companies listed in an index and, of course, amongst the small number of Swiss companies included in the 160 largest listed stocks in the German capital market. Assuming that the stock performs well, it may also be eligible for inclusion in the MDAX index in the medium term.

Resegmentation offers a clear advantage for Highlight as the stock with its successful fundamentals in the media sector will no longer be dragged down by the double Neuer Markt and media sector penalty of the past.

Given the position it has achieved in its core business areas as well as its past performance and potential for the future, the Highlight Group welcomes the challenge that this entails.

In addition to maintaining intensive contacts with analysts and the business press, the Highlight Group reported to the financial community in depth on the Group's business performance at the 3rd DVFA Media Forum on October 15, 2002 as well as at the annual analyst conference held on November 27, 2002.

In a bid to intensify relations with institutional and retail investors, it performed selected road shows and had a stand of its own at the INVEST investor fair in Stuttgart (March 1–3, 2002) and at IAM in Düsseldorf (November 7–9, 2002). Encouraged by the very favorable response to these activities, the Highlight Group will be continuing these activities this year.

Active and broad-based communications

It has become evident that to attract investor interest in these difficult times it is not sufficient to merely abide by the statutory disclosure obligations when announcing good news. For this reason, the Highlight Group has been communicating directly with investors for years, also offering them immediate and comprehensive information via the Internet (www.highlight-communications.ch).

It remains to be hoped that Highlight stock will be able to benefit to an above-average degree from a turnaround in the stock markets spurred by an upbeat news flow and an intensive and targeted package of information and communications activities. Having traded at 7.56 times earnings in 2002, the stock remains very inexpensive in the light of the fair value calculated by most analysis.

Research reports on Highlight

AC Research dated March 28, 2003	Accumulate
Helaba Trust dated March 28, 2003	Overweight
Stadtsparkasse Köln dated March 28, 2003	Outperformer
LBBW dated March 28, 2003	Buy
NORD/LB dated January 3, 2003	Hold

Stock indicators

Number of shares (mn)/shares held	4.725/47.250
Market capitalization in EUR millions (year-end)	82.69
Earnings per share	CHF 4.2
Nominal value per share	CHF 10
Securities code number	920 305
ISIN	DE 000 920 305
Ticker	HLGD
Reuters ticker	HLGDq.DE
Listed at	Berlin, Bremen, Dusseldorf, Hamburg, Hanover, Munich, Stuttgart, XETRA

Report of the Board of Directors

Report of the Board of Directors

All told, 2002 was a very turbulent year. In spite of preliminary signs of recovery, the year was ultimately characterized by sustained economic weakness and broad-based stock-market losses as in the previous two years.

At the beginning of 2002, the TEAM Group, in which Highlight Communications AG holds an 80 % stake, was again awarded the contract for the exploitation of the UEFA Champions League rights for the 2003/04, 2004/05 and 2005/06 seasons following a tender procedure. TEAM was thus able to prevail over renowned competitors. This testifies to the expertise of the staff at our subsidiary, which has been working for the UEFA Champions League for over ten years now. The final agency agreement between UEFA and TEAM was signed in December 2002.

In the course of the year, the measures adopted in fiscal 2001 to focus the Highlight Group on its core sports marketing and film business continued to be implemented. In this connection, Highlight sold its stake in the Netproducer joint venture. In addition, Mr. Heinz B. Wermelinger acquired the shares in Cross Media AG from Highlight Communications AG and thus left the Board of Directors in May 2002. This was followed by the sale of the share in Vidair AG in November 2002.

In April 2002, parts of the Kirch Group filed for insolvency. Allowance for a possible worst-case scenario in this connection had already been made in 2001. In May 2002, Highlight Communications AG acquired a 23.0 % stake in Constantin Film AG's share capital. Constantin Film AG is one of the oldest and most successful distribution and production companies in the German market, making it an ideal partner for the Highlight Group. With the decades of expertise that it has amassed in the film production and cinema exploitation areas, Constantin Film AG is a perfect match for the Highlight Group's Film division. By taking this step, the Highlight Group has assumed an active role in the consolidation of the German media sector, increasing its share in the company to over 25.0 % in the course of the year. At the same time, joint movie distribution activities were agreed upon in a service contract. Mr. Bernhard Burgener, President of Highlight Communications AG's Board of Directors, additionally took a seat on Constantin Film AG's supervisory board.

Earnings: Second best year ever in spite of difficult business conditions

Following on from the systematic and preemptive adjustments made to the balance sheet in 2001 and 2002 in tandem with the decision to focus on core film and sports marketing business, the Highlight Group closed fiscal 2002 with the second best earnings in its history in spite of the difficult conditions prevailing in the media sector.

The Highlight Group's consolidated revenues came to CHF 164.6 million in 2002. These revenues broke down by segment (Film, Sports) as follows: Film division CHF 87 million (previous year: CHF 106.2 million); Sports division CHF 77.6 million (previous year: CHF 71.6 million). In fiscal 2002, the system for recognizing TV sales was adjusted in the light of the more stringent IFRS rules. Operating earnings came to CHF 34.7 million and earnings before tax CHF 31.6 million. Consolidated post-tax earnings stood at CHF 28.1 million or CHF 19.6 million after minority interests. The equivalent figures for 2001 (consolidated revenues CHF 178.1 million and loss after tax and minority interests of CHF 274.1 million) can only be compared to a limited extent with the figures for 2002 as substantial allowance was made in 2001 for risks arising from increasingly difficult business conditions – particularly in the form of the impairment charges taken on film licenses and goodwill from acquisitions.

The Highlight Group's cash flow rose by roughly 35 % to CHF 52.7 million on December 31, 2002 (previous year: CHF 39.1 million).

Constantin Film AG, in which Highlight Communications AG holds a 25 % stake, was consolidated at equity for the first time as of October 1, 2002.

With earnings of CHF 0.42 (0.28 EUR) per share for fiscal 2002, Highlight's consolidated earnings after tax and minority interests substantially exceeded the guidance issued at the end of November 2002 (EUR 0.25 per share).

Assets: Solid equity resources and continued copious liquidity

The Highlight Group had total assets of CHF 199.8 million on December 31, 2002 (previous year: CHF 180.8 million). The Group's fixed assets increased to CHF 100.8 million (previous year: CHF 60 million) primarily as a result of the acquisition of the 25% stake in Constantin Film AG's share capital. The value of the film library climbed to CHF 44.9 million (previous year: CHF 31.6 million) following the remeasurement of these assets in connection with the adoption of the realized revenues principle as well as newly acquired film rights, whereas goodwill shrank from CHF 20.6 million to CHF 8.8 million.

On December 31, 2002, the Highlight Group had equity capital of CHF 111.2 million (previous year: CHF 90.4 million), translating into an equity ratio of roughly 55.6 % of total assets (previous year: 50 %). Total bank liabilities were valued at CHF 30.1 million. Liquidity (cash, cash equivalents and securities) came to CHF 72.3 million (previous year: CHF 90.4 million).

Strong staff dedication in spite of difficult conditions

Once again, the Highlight Group's success would have been unthinkable without the enthusiasm and commitment of its staff in what was a difficult year in 2002. Highlight Group employed 310 people as of the end of 2002 (previous year: 317). The Board of Directors wishes to thank all staff for their dedication beyond the call of duty in these difficult conditions.

Highlight stock listed in the SDAX as of March 24, 2003

The announcement of UEFA's decision to award the Champions League marketing rights to TEAM propelled Highlight stock to a high for the year. Still, neither the favorable performance indicators and upbeat news flow nor intensive investor relations activities were able to shield the stock from the persistently negative market and sector trends in fiscal 2002.

At the end of 2002, Highlight Stock was admitted to the newly created Prime Standard segment. With the resegmentation of Deutsche Börse AG's indices taking effect on March 24, 2003, Highlight Communications AG is listed in the SDAX. At the same time, it is one of the few media stocks to be listed as well as one of only a small number of Swiss companies to be included in the 160 largest listed stocks in the German stock exchange.

Highlight Group entering fiscal 2003 strengthened

Thanks to the extensions to its strategic market position in fiscal 2002, the Highlight Group entered the new year strengthened. The Film division holds a strong position in the home entertainment market via the Rainbow companies in Austria and Switzerland and thanks to the proven marketing partnership with Paramount Entertainment GmbH in Germany. As a result, it is well poised to benefit from continued growth in this segment. Film business has been reinforced with the acquisition of a stake in Constantin Film AG and the introduction of joint movie distribution activities, whereas film license purchasing remains selective particularly in the light of the protracted difficult conditions for selling films to German TV stations. This situation should improve once the flow of advertising revenues picks up again. In spite of the more difficult business conditions, the Sports division holds a very strong position in the global sports license marketing segment, from which it will continue to derive benefits.

On the basis of its success in 2002, its inherent value as well as its reinforced market position, the Highlight Group enjoys a solid basis for continued growth.

Pfäffikon, March 2003

Bernhard Burgener	Jürgen Lenz
Reinhold Camenzind	Dr. Ingo Mantzke
Marc Conrad	Marco Syfrig
Andreas Fallscheer	Martin Wagner
Klaus J. Hempel	

Consolidated Financial Statements

Consolidated Financial Statements for the year ended December 31, 2002 of Highlight Communications AG, Pfäffikon

Consolidated Income Statement (CHF)		2002	2001*
Sales			
– Sales		70,454,751	85,249,438
– License income		16,558,015	21,354,631
– Service income		77,568,236	71,474,545
		164,581,002	**178,078,614**
Other income	4	2,203,718	832,172
		166,784,720	**178,910,786**
License expense	14	2,294,809	134,127,283
Cost of goods sold		49,897,820	61,907,188
Personnel expense	5	33,441,381	36,571,013
Advertising		3,959,736	4,362,909
Depreciation/amortization	6	21,302,829	166,493,568
Various operating expenses		21,174,938	30,743,076
		132,071,513	**434,205,037**
Earnings from operating activities		**34,713,207**	**–255,294,251**
Financial expense	7	–3,023,379	–15,969,339
Currency gain/loss		–7,015	1,226,665
Net earnings from shares in associated companies	12	–115,435	0
Earnings before taxes		**31,567,378**	**–270,036,925**
Taxes	8	–3,492,130	–7,155,595
Net profit		**28,075,248**	**–277,192,520**
Minority interests		–8,444,285	3,129,155
Net profit attributable to Group		**19,630,963**	**–274,063,365**
Basic earnings per share	9	4.200	–59.102
Diluted earnings per share	9	4.200	–59.102

* The previous year's figures have been adjusted to allow for the modifications to the accounting and recognition principles (see accounting procples for recognized revenues).

Highlight Communications AG, Pfäffikon –
Consolidated Balance Sheet for the year ended December 31, 2002

Assets (CHF)		12/31/2002	12/31/ 2001*
Fixed assets			
Non-consolidated equity interests	11	0	1,815,665
Shares in associated companies	12	42,282,641	0
Tangible fixed interests	13	4,737,911	5,896,313
Film rights	14	44,917,702	31,579,940
Goodwill	15	8,831,799	20,622,506
Deferred taxes	21	71,501	64,671
		100,841,554	**59,979,095**
Current assets			
Inventories	16	5,624,125	5,604,218
Short-term receivables	17	20,995,017	24,807,466
Securities	19	16,525,406	10,373,644
Cash and cash equivalents	18	55,802,142	80,063,284
		98,946,690	**120,848,612**
Total assets		**199,788,244**	**180,827,707**

Shareholders' equity and liabilities (CHF)		12/31/2002	12/31/2001
Shareholders' equity			
Share capital	20	47,250,000	47,250,000
Statutory reserves		59,606,412	284,719,567
Treasury stock		–1,032,710	–1,132,350
Non-appropriated profit/accrued loss		5,746,696	–240,319,287
Currency translation differences		–399,468	–149,543
		111,170,930	**90,368,387**
Minority interests		**9,542,016**	**6,725,641**
Long-term liabilities			
Liabilities subject to interest	23	0	16,000,000
Deferred taxes	21	141,283	69,121
		141,283	**16,069,121**
Short-term debt			
Trade payables and other liabilities	22	28,101,254	32,204,161
Liabilities subject to interest	23	30,088,872	16,000,000
Advance payments received from TV customers		9,108,734	7,917,813
Tax accruals		11,635,155	8,868,784
Accruals	25	0	2,673,800
		78,934,015	**67,664,558**
Total shareholders' equity and liabilities		**199,788,244**	**180,827,707**

* The previous year's figures have been adjusted to allow for the modifications to the accounting and recognition principles (see accounting procples for recognized revenues).

Consolidated Cash Flow Statement (CHF)		2002	2001*
Cash flow from operating activities			
Group net profit/loss		19,630,963	–274,063,365
Minority interests in profit/loss		8,444,285	–3,129,155
Depreciation on tangible fixed assets	13	1,892,098	2,299,096
Amortization on license rights	14	1,565,326	129,714,788
Amortization on intangible assets	15	11,839,729	136,494,130
Amortization on equity interests	11	7,571,002	27,452,328
Capital losses/gains on securities	19	2,415,563	16,457,832
Non-charged issue and buyback of own shares		–6,555	47,130
Changes to delineation of licenses	14	1,710,340	2,001,851
Changes in provisions/tax liabilities		92,571	1,908,717
Change in accruals		59,414	–62,034
Net earnings from associated companies	12	–1,916,270	0
Net earnings from the sale of equity interests		–578,237	0
Gains from disposal of fixed assets		–16,013	21,341
Cash flow from operating activities before changes to net current assets		**52,704,216**	**39,142,659**
Change in net current operating assets			
Inventories		–19,907	1,714,606
Receivables			
– trade payables		2,069,271	694,890
– due to related parties		27,000	4,811,060
– others		1,092,062	3,555,396
Liabilities			
– trade payables		834,096	1,481,715
– due to related parties		–345,517	411,324
– advance payments received from TV customers		1,190,921	4,303,433
– others		292,741	5,466,425
Cash flow from operating activities		**57,844,883**	**61,581,508**
Investment and disinvestment activities			
Acquisition of tangible fixed assets	13	–1,321,546	–3,127,985
Acquisition of financial assets	19	–10,348,280	–2,264,853
Sale of financial assets	19	1,780,473	8,401,220
Acquisition of equity interests (not consolidated)	11	–5,895,917	–1,830,867
Sale of equity interests (not consolidated)	11	928,340	0
Acquisition of shares in associated companies	12	–36,700,815	0
Acquisition of equity interests	26	–5,000	–24,980
Sale of equity interests less cash and cash equivalents (Change in consolidated perimeter)	26	–5,825,873	0
Acquisition of intangible fixed assets			
– license rights	14	–14,903,088	–74,704,877
Sales of tangible fixed assets		108,509	190,293
Cash flow from investing activities		**–72,183,197**	**–73,362,049**

* The previous year's figures have been adjusted to allow for the modifications to the accounting and recognition principles (see accounting procedures for recognized revenues).

Consolidated Cash Flow Statement (CHF)	2002	2001*
Financing activities		
Increase in share capital	0	226,886
Dividend payments to minority interests	–5,540,200	–6,198,139
Purchase/sale of own shares	–2,415,593	–6,482,458
Repayment/granting of loans to related parties	0	–50,000
Repayment/granting of other loans	0	94,305
Acceptance/repayment of bank debts	–1,911,128	–16,230,705
Cash flow from financing activities	**–9,866,921**	**–28,640,111**
Currency translation differences	**–55,907**	**–73,239**
Net outflow of funds	**–24,261,142**	**–40,493,891**
Cash and cash equivalents at beginning of period	**80,063,284**	**120,557,175**
Cash and cash equivalents at end of period	**55,802,142**	**80,063,284**
Additional cash flow disclosures		
– Interest paid	1,067,554	2,565,258
– Tax paid	3,744,176	10,111,201
– Interest received	850,541	4,094,060
– Tax reimbursement received	164,011	2,435,487

* The previous year's figures have been adjusted to allow for the modifications to the accounting and recognition principles (see accounting prociples for recognized revenues).

Statement of Changes in Equity for Fiscal 2002

in CHF	Share capital	Capital reserves	Treasure stock	Balance profit /-loss	Translation differences	Total
Balance as at December 31, 2000	**47,250,000**	**290,851,575**	**–829,030**	**41,829,123**	**–46,535**	**379,055,133**
Modifications to accounting and recognition principles pursuant to IFRS 8				–8,085,045*		–8,085,045
Differences from currency translation					–92,801	–92,801
Buyback of own shares		–6,710,303	–427,080			–7,137,383
Issue of own shares		578,295	123,760			702,055
Consolidated loss				**–274,063,365***	**–10,207**	**–274,073,572**
Balance as at December 31, 2001	**47,250,000**	**284,719,567**	**–1,132,350**	**–240,319,287***	**–149,543**	**90,368,387**
Differences from currency translation					–74,248	–74,248
Capital increases		–226,385,021		226,385,021		0
Buyback of own shares		–1,495,251	–926,898			–2,422,149
Issue of own shares		2,817,116	1,026,538			3,843,654
Other changes		–49.999		49.999		0
Net profit attributable to Group				**19,630,963**	**–175,677**	**19,455,286**
Balance as at December 31, 2002	**47,250,000**	**59,606,412**	**–1,032,710**	**5,746,696**	**–399,468**	**111,170,930**

* As a result of the modifications to accounting and recognition principles (see accounting principles on recognized revenues), the accrued loss as at January 1, 2001 was increased by CHF 8,085,045 as a result of adjustments for 2000. The net loss for the year in 2001 was reduced by CHF 167,214 as a result of adjustments for fiscal 2001. The accrued loss as at December 31, 2001 was thus adjusted by a total of CHF 7,917,831.

1. General

Highlight Communications AG and its subsidiaries (hereinafter referred to as the "Group") own and exploit film rights in various European countries and operate a video rental store in German-speaking Switzerland. Moreover, the Group is active in sports marketing, a field in which it markets the UEFA Champions League as its main project. The Group is active in the German-speaking region and employed 310 people as at December 31, 2002 (previous year: 317).

The Group parent company is Highlight Communications AG, a joint stock corporation domiciled in Pfäffikon, Switzerland. The Company has registered offices in:

Churerstrasse 168
CH-8808 Pfäffikon
Switzerland

2. Accounting principles

Basis for the preparation of the financial statements

The financial statements have been prepared in keeping with the International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB) as well as the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). The accounts are based on historical costs with the exception of listed securities and other financial instruments (see separate comments of financial instruments), which are carried at their market value. No material IFRS principles of relevance to the Highlight Group were modified or applied for the first time in fiscal 2002.

In the previous year, the following IFRS principles were applied for the first time:

IFRS 12	Income taxes (revised 2000)
IFRS 19	Employee benefits (revised 2000)
IFRS 39	Financial instruments: recognition and measurement
IFRS 40	Investment property

Consolidation

The Group financial statements include the financial statements of Highlight Communications AG as well as those of all Group companies in which Highlight Communications AG directly or indirectly holds more than 50 % of the voting rights. Intragroup transactions, balances and non-realized earnings and losses are eliminated. The individual annual financial statements have been adjusted where they deviate from Group accounting principles.

Please refer to Note 26 (Acquisition/sale of equity interests) and Note 27 (Consolidated companies) for details of changes to the consolidation perimeter. Note 27 includes the list of consolidated companies.

Associated companies, in which Highlight Communications AG holds between 20 and 50 % of the voting rights, are carried at their prorated equity value provided that it is intended for these interests to be retained over a long term. On the basis of this method, the companies' prorated earnings are recorded as a change in the book value of the holding after they are acquired. Any other changes to the equity of the company in question are reported under the Group's equity. Any exchange-rate differences arising from the prorated equity are charged to equity as an exchange-rate difference and not reported in the income statement.

The consolidated financial statements were approved by the Board of Directors' committee on March 26, 2003 and released for publication.

Film rights

Film rights are carried at amortized cost in line with the respective exploitation stage. The amortization rates applied correspond to the values based on experience for the individual exploitation stages in relation to the total license income generated by a film.

Amortization is charged for the various exploitation stages as follows:

Cinema exploitation	10 %
Video/DVD	20/30* %
Pay TV	10 %
Free TV	60/70** %
Secondary rights	maximum of 20 % in exceptional cases

* if a film is not utilized for cinema exploitation of the rights, then the rate rises to 30 %.
** if a film is not utilized for pay TV exploitation of the rights, then the rate rises to 70 %.

If there is any evidence to suggest that the value of a film right may be impaired on a permanent basis, due allowance is made for this in the carrying value of such film right.

Goodwill

Assets and liabilities of newly-acquired Group member companies are valued at the estimated market value on the date of acquisition. The difference arising between the purchase price and the newly-valued net assets of a newly-acquired company (all sums in foreign currencies are translated into Swiss francs at the rate applicable on the date of acquisition) comprises the goodwill. Goodwill is written down on a straight-line basis over its expected useful life, provided that this does not exceed 15 years.

Goodwill from the acquisition of associated companies is reported together with the book value of the shares in associated companies. The value of the amount carried is reviewed annually and due allowance made for any permanent impairment in the value.

Currency translation

The balance-sheet figures of the consolidated foreign companies are converted to Swiss francs and reported at end-of-year exchange rates in the balance sheet and at mean annual exchange rates in the income statement. Any resultant exchange-rate differences are charged directly to equity capital under the item entitled "Exchange-rate differences" and are not recognized in the income statement.

Transactions denominated in foreign currencies are translated at the exchange rate pertaining on the day. Exchange-rate differences arising from the settlement of such business transactions are taken to the income statement.

Foreign currencies were converted at the following rates:

	Year-end exchange rate		Mean exchange rate for year	
	2002	**2001**	**2002**	**2001**
Deutsche Mark (DEM)	–	75.74	–	77.23
Österreich. Schilling (ATS)	–	10.77	–	10.98
Euro (EUR)	1.4540	1.4813	1.4672	1.5104
US-Dollar (USD)	1.3870	1.6840	1.5579	1.6875

Financial instruments

The financial instruments in the balance sheet include cash and bank balances, short-term securities, non-consolidated equity interests, long-term receivables, trade receivables and trade payables, as well as third-party debt. Financial instruments are categorized as follows depending on their purpose: loans and receivables, instruments held for trading, held-to-maturity investments and available-for-sale instruments. Investments held for the purpose of deriving short-term gains from changes in value are categorized as assets held for trading. If the Group intends to hold assets until maturity and is able to do so, such assets are classified as held-to-maturity investments. On the other hand, assets held for an indefinite period are classified as available-for-sale financial assets. Reference is made to the principles relating to the individual items for details of allocation and measurement.

Financial liabilities are carried at amortized costs expect those held for trading purposes as well as derivative financial instruments.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, post office and bank balances, as well as time deposits with a remaining term of up to three months.

Securities

Short-term securities are shown at market value. Adjustments for changes in market value have been taken to the income statement. Securities are classified as available-for-sale financial assets.

Trade receivables/long-term receivables

Short-term receivables are shown at their nominal value.

Receivables with a term of more than one year are carried as long-term receivables. If the receivables do not attract any interest, a cash-value deduction is taken and the relevant sales reduced by the same amount.

The necessary value adjustments have been made for doubtful receivables.

Inventories

Inventories are shown at the lower of purchase or production cost and net sales value. Cost is determined by the first-in first-out method (FIFO). The net sales value is the estimated revenue to be achieved from a sale minus the estimated necessary selling costs.

Equity interests (not consolidated)

Non-consolidated minority interests are carried as available-for-sale financial assets. If there is an active market for such interests or market values can be determined in some other way, they are shown at their market value. If the market value cannot be reliably calculated, they are shown at cost less necessary value adjustments.

Value adjustments and writedowns are charged to the income statement.

Tangible fixed assets

Tangible fixed assets are valued at cost less depreciation necessary for business purposes.

These assets are written down on a straight-line basis over their estimated useful lives. The following rates apply:

Operating equipment	12–33 %
Computer equipment	20–33 %
Motor vehicles	20– 33%

If the book value of a tangible fixed asset is higher than its estimated remaining useful value, then the book value is adjusted by means of extraordinary depreciation to the estimated realizable value.

Gains and losses from the disposal of assets are charged to the income statement at an amount equaling the difference between the proceeds of the sale and the book value.

Repairs and maintenance expenses not designed to enhance the value of the asset in question are charged directly to the income statement.

Accruals

Accruals are set aside if the Group has an existing legal or factual obligation, an outflow of resources is probable to meet the obligation and it is possible to reliably estimate the amount of the obligation.

Tax liabilities

Accruals are set aside for all tax obligations regardless of when they are due.

The deferred taxes on the differences in valuation between the tax basis and the carrying value are taken into account in the balance sheet. Deferred tax liabilities from tax loss carryforwards are reported if the taxable income which can be used to net the tax loss carryforwards is likely to be available. Tax liabilities in relation to non-recoverable withholding taxes on future dividend distributions by subsidiaries are only carried if the intention is indeed to make a distribution.

Provisions for employee benefits

The Highlight Group maintains various pension plans for its employees in Switzerland based on the Swiss defined-contribution system. Pursuant to IFRS, these pension plans are subject to the rules for defined-benefit plans. The risks of age, death and invalidity are reinsured in full on a congruent basis. In view of this and given the small number of insured parties in the individual pension plans and because the dynamically calculated pension costs roughly equal the expenses of CHF 1.2 million carried on the Company's income statement, dynamic valuation has been dispensed with. As various underlying conditions changed in 2003, the situation will be reviewed in 2003. Some pension schemes are subject to a contractual obligation on the part of the employer to injections of additional funding. These contracts are immaterial on account of the small volume of funds concerned.

The TEAM Group has a support foundation for members of management organized as a so-called savings institute. The foundation holds a share in the capital of Team Football

Marketing AG. The dividend income is added to the savings deposits of the members of management. There were no contributions charged to the income statement.

Recognized revenues

Group revenues are derived from services rendered and sales invoiced to third parties excluding VAT and minus sales returns. License income from TV sales is placed on the books at the commencement of the license for the film in question.

In fiscal 2002, the system for recognizing TV sales (license income) was modified to improve the depiction of TV license business in the annual financial statements. Under the old accounting method, revenues and related license expenses for all films sold were recognized upon the contract being signed. Under the new method, revenues and related depreciation charges on licenses per title are now recognized upon the commencement of the license for free-TV exploitation (or the commencement of the license for pay-TV exploitation if pay-TV rights only have been sold). Payments received prior to the commencement of the license are reported as advance payments.

The change in accounting policy was applied retrospectively. Accordingly, the revenue reserves as at January 1, 2002 were adjusted and the figures in the consolidated financial statements for 2002 and 2001 shown as if the new accounting policy had always been applied.

The adoption of the new accounting policy results in an increase of CHF 8,085,045 in the accrued loss on January 1, 2001 (this amount being equivalent to the adjustments for the years prior to 2001) and an increase of CHF 167,214 in net earnings for 2001. The accrued loss for the year ending December 31, 2001 is thus CHF 7,917,831 higher than reported in the previous year.

The corresponding comparison figures have been adjusted and explained accordingly in these financial statements.

3. Segment information

The Group currently comprises two divisions – Film and Sports.

The New Business division was discontinued on January 1, 2002. Any costs arising in the year under review in connection with the New Business divisions were allocated to this division. Aside from the impairment charge taken on the share in Vidair only minimal costs incurred.

The Film division handles the exploitation of film rights and marketing of related products.

Operations in the Sports division consist of the activities of Team Holding AG, in which Highlight Communications AG has held an 80 % stake since July 1, 1999. The TEAM Group is exclusively responsible on a world-wide basis for marketing the UEFA Champions League.

The central holding-company management activities are shown separately in the segmentation. These primarily comprise management, IT and investor-relations costs which cannot be broken down by segment. Assets are primarily made up of cash and securities holdings. Liabilities refer to bank loans.

Controlling for these segments is undertaken centrally.

The previous year's figures were modified to allow for the changes to accounting and recognition principles (see accounting principles for recognized revenues). The changes concern the Film division with the exception of net financial income and currency-translation differences. As a result, revenues increased by CHF 17,227,126. Depreciation charges on licenses rose by CHF 18,517,130. The changes in the accounting and recognition principles resulted in an increase totaling CHF 167,214 in earnings for fiscal 2001. Segment assets are down by CHF 7,863,952 primarily due to the absence of receivables and the impairment charges taken on licenses. Liabilities rose by a total of CHF 53,879. On the one hand, this includes payments made by TV broadcasters carried as advance payments (CHF 7,917,813) and, on the other, lower liabilities to licensors (CHF 7,863,934). The reasons for these changes are described in the details pertaining to the items in question in the Notes.

Primary segment information is set out on the following page.

Primary segment reporting – business segments

CHF	Film 2002	Film 2001	Sports 2002	Sports 2001	New Business 2002	New Business 2001	Consolidated 2002	Consolidated 2001
Income								
Income with third parties	87,012,766	106,169,759	77,568,236	71,627,457	0	281,398		
	87,012,766	**106,169,759**	**77,568,236**	**71,627,457**	**0**	**281,398**	**164,581,002**	**178,078,614**
Earnings								
Segment profit/loss	13,889,925	–112,182,620	33,055,235	–95,572,700	–7,706,711	–35,454,794	39,238,449	–243,210,114
Profit /loss from shares in associated companies	–115,435	0	0	0	0	0	–115,435	0
Central hold-company costs							–4,525,242	–12,084,137
Financial expense/currency losses							–3,030,394	–14,742,674
Group profit/loss before taxes							**31,567,378**	**–270,036,925**
Taxes							–3,492,130	–7,155,595
Minority interests							–8,444,285	3,129,155
Group profit/loss							**19,630,963**	**–274,063,365**
Segment assets	114,116,081	64,099,078	13,344,441	25,310,564	174	1,981,286	127,460,696	91,390,928
Holding-company assets							72,327,548	89,436,779
							199,788,244	**180,827,707**
Segment liabilities	24,033,446	43,309,353	24,938,820	2,931,863	14,160	4,694,343	48,986,426	50,935,559
Holding-company liabilities							30,088,872	32,798,120
							79,075,298	**83,733,679**
– Spending on tangible fixed assets	739,438	733,365	582,108	1,542,334	0	59,660	1,321,546	2,335,359
Holding-company spending							0	792,626
							1,321,546	**3,127,985**
– Spending on film rights	15,060,757	74,704,877	0	0	0	0	15,060,757	74,704,877
– Spending on intangible fixed assets	0	0	0	0	54,610	254,449	54,610	254,449
Holding-company spending							0	0
							15,115,367	**74,959,326**
Depreciation/amortization								
– Tangible fixed assets	849,326	933,660	975,572	866,082	67,200	72,592	1,892,098	1,872,334
Holding-company depreciation/amortization							0	426,762
							1,892,098	**2,299,096**
– Licences								
– Scheduled amortization	12,524,175	16,684,991	0	0	0	0		
– Non-scheduled amortization	–10,958,849	113,029,797	0	0	0	0		
	1,565,326	**129,714,788**	**0**	**0**	**0**	**0**	**1,565,326**	**129,714,788**
– Others								
– Scheduled amortization	515,259	516,477	11,269,860	11,269,856	7,625,612	502,463		
– Non-scheduled amortization	0	0	0	123,943,998	0	27,906,478		
	515,259	**516,477**	**11,269,860**	**135,213,854**	**7,625,612**	**28,408,941**	**19,410,731**	**164,139,272**
Holding-company depreciation/amortization							0	55,200
							19,410,731	**164,194,472**

Other depreciation and amortization includes goodwill amortization of CHF 11,839,729 and amortization of equity interests of CHF 7,571,002.

Segment assets cover all operational assets used by the segment in question and essentially cover receivables, inventories of goods and tangible fixed assets minus discounts and value adjustments as well as intangible fixed assets. Segment liabilities comprise all liabilities from operations and mainly cover short-term trade payables, personnel-related liabilities, and taxes..

Secondary segment reporting – geographic segments

The following table shows the breakdown of consolidated sales across geographical markets irrespective of the country of manufacture: A large portion of the revenues generated in the Film and Sports divisions in Switzerland are for recipients in Germany.

The previous year's figures were modified to allow for the changes to accounting and recognition principles (see accounting principles for recognized revenues).

CHF	2002	2001
Switzerland	155,448,411	152,290,593
Germany	2,471,094	16,539,615
Austria	6,661,497	9,248,406
Total	**164,581,002**	**178,078,614**

The following table sets out the book values of segment assets and capital spending on tangible and intangible fixed assets according to the geographic location of the tangible fixed assets:

CHF	Book value of segment assets 12/31/2002	Book value of segment assets 12/31/2001	Spending on tangible and intangible fixed assets 2002	Spending on tangible and intangible fixed assets 2001
Switzerland	194,559,834	167,702,756	16,328,508	77,819,625
Germany	2,487,106	10,252,840	43,102	157,225
Austria	2,741,304	2,872,111	65,303	110,461
Total	**199,788,244**	**180,827,707**	**16,436,913**	**78,087,311**

The Group is active in the German-speaking countries Germany, Switzerland and Austria. The activities of the individual segments are described above.

4. Other income

CHF	2002	2001
Reversal of provisions/ impairment charges	220,159	0
Rental income	140,492	0
Profit from sale of equity interests in consolidated companies	14,128	0
Profit from sale of equity interests non-consolidated companies	787,760	0
Loss from sale of equity interests	–223,651	0
Others	1,264,830	832,172
Total	**2,203,718**	**832,172**

5. Personnel expense

CHF	2002	2001
Wages and salaries	28,206,452	29,771,991
Social contributions	2,646,725	2,970,539
Outlays for pension plans	1,210,011	1,226,053
Miscellaneous personnel expenses	1,378,193	2,602,430
Total	**33,441,381**	**36,571,013**
Number of employees at end of year:		
Switzerland	288	294
Germany	11	15
Austria	11	8
Total	**310**	**317**

Actual expense on fixed-benefit pension plans does not differ materially from that carried. See also notes on valuation principles (provisions for employee benefits).

6. Depreciation/amortization

CHF	2002	2001
Tangible fixed assets (see Section 13)	1,892,098	2,299,096
Goodwill (see Section 15)		
– scheduled	11,839,729	12,550,132
– non-scheduled	0	123,943,998
	11,839,729	**136,494,130**
Equity interests (see Section 11)	7,571,002	27,452,328
Miscellaneous	0	248,014
Total	**21,302,829**	**166,493,568**

Details of the individual depreciation items are set out in the notes relating to the corresponding asset.

7. Financial expense

CHF	2002	2001
Interest expense		
– on short-term bank liabilities	–1,177,987	–331,342
– on long-term bank liabilities	–214,000	–2,146,511
Various forms of interest and expenses	–265,046	–795,608
Securities costs	–2,884,388	–16,507,147
Total	**–4,541,421**	**–19,780,608**
Interest income		
– from fixed-term deposits and bank accounts	657,283	3,367,471
– from bonds	188,510	108,833
Miscellaneous interest	36,268	140,916
Dividends	167,156	144,734
Income from securities	468,825	49,315
Total	**1,518,042**	**3,811,269**
Total net financial expense	**–3,023,379**	**–15,969,339**

Following the modifications to accounting and recognition principles (see accounting principles for recognized revenues), the previous year's figure for various interest and expenses was adjusted by CHF 415,800 to allow for the reversal of a cash-value reduction eliminated following the modifications to accounting and recognition principles.

Total securities expense includes realized losses of CHF 129,597 and non-realized losses of CHF 2,754,791. The non-realized losses contain losses of CHF 2,674,956 as a result of the impairment in the market value of the shares held in media[net].com AG. Securities income primarily comprises non-realized gains. The securities are available for sale.

Fixed-term deposits were made in CHF and euro. The CHF deposits are subject to an average interest rate of 0.71 % and the euro deposits 3.14 %.

8. Taxes

CHF	2002	2001
Income tax	5,465,700	7,219,205
Prorated tax from associated companies	–2,031,705	0
Deferred income tax owing to the creation and reversal of temporary differences	58,135	–63,610
Tax expenses	**3,492,130**	**7,155,595**

Expected tax expense is calculated by multiplying the local tax rate with the pre-tax earnings of each individual group company. This expected tax expense differs from effective tax expense as follows:

CHF	2002	2001
Earnings before tax	31,567,378	–270,036,925
Earnings from associated companies	115,435	0
Basis for consolidation	31,682,813	–270,036,925
Tax at applicable rate of 13.30 % (19.69 %)	4,212,600	–53,167,129
Tax losses not included in the balance sheet	141,062	32,686,872
Netted tax losses	0	–217,160
Netting of non-deductible expenses	995,912	27,838,295
Netting of restructuring contributions	317,581	0
Tax rebates and reversal of tax accruals for earlier years	–220,523	–90,757
Other	77,203	105,474
Total	**5,523,835**	**7,155,595**
Prorated tax from associated companies	–2,031,705	0
Tax expenses	**3,492,130**	**7,155,595**

The previous year's figures were modified to allow for the changes to accounting and recognition principles (see accounting principles for recognized revenues).

The effective tax rate of 13.30 % (previous year: 19.69 %) results from summarizing the figures of the individual consolidated companies. The reduction in the tax rate is primarily due to the stronger weighting of the contribution to profits made by companies subject to a lower tax rate as well as due to lower tax rates.

Non-deductible expenses primarily entail goodwill amortization.

9. Earnings per share

Basic earnings per share are calculated by dividing the consolidated earnings for the year available for distribution to the shareholders by the weighted number of bearer shares outstanding during the period under review.

CHF	2002	2001
Group earnings attributable to shareholders	19,630,963	–274,063,365
Weighted average number of shares	4,673,693	4,637,115
Basic earnings per share	4,200	–59,102
Diluted earnings per share	4,200	–59,102
Basic earnings per fractional right	0,420	–5,910
Diluted earnings per fractional right	0,420	–5,910

The previous year's figures were modified to allow for the changes to accounting and recognition principles (see accounting principles for recognized revenues). Allowance was made for the additional earnings of CHF 167,214.

10. Dividends per share

The proposed dividends are not placed on the books until the annual financial statements have been approved by the shareholders. No dividend was paid for fiscal 2001. The shareholders are responsible for approving a dividend for fiscal 2002.

11. Non-consolidated equity interests

CHF	Vidair AG	Radio Edelweiss Nostalgie Betriebs AG	Total
Acquisition costs			
January 1, 2002	29,108,793	200,500	29,309,293
Purchase	5,895,917	0	5,895,917
Sale	–35,004,710	–200,500	–35,205,210
December 31, 2002	**0**	**0**	**0**
Value adjustments:			
January 1, 2002	–27,397,128	–96,500	–27,493,628
Value adjustments for the year	–7,571,002	0	–7,571,002
Disposal	34,968,130	96,500	35,064,630
December 31, 2002	**0**	**0**	**0**
Net book values January 1, 2002	**1,711,665**	**104,000**	**1,815,665**
Net book values December 31, 2002	**0**	**0**	**0**

In the year under review, the share in Vidair AG in Mönchengladbach was sold at a book value of CHF 36,580 after it had been written down by CHF 7,571,002 (see segment earnings), with this charge recognized in the income statement.

The share in Radio Edelweiss Nostalgie Betriebs AG was sold in the year under review at a profit of CHF 787,760.

12. Shares in associated companies

In the year under review, a 25 % stake was acquired in the equity capital of Constantin Film AG, Munich. This share has been consolidated at equity since October 1, 2002.

The prorated equity acquired as well as the goodwill paid are set out in the following table:

Constantin Film AG CHF	2002
Equity capital on October 1, 2002	
Subscribed capital	18,645,558
Share premium	102,691,766
Retained earnings	–10,447,248
Net profit/loss on September 30, 2002	–10,775,005
Total equity	100,115,071
of which 25 %	25,028,768
Purchase price (incl. transaction costs)	–40,544,469
Goodwill paid	–15,515,701
Purchase price (including transaction costs)	40,544,469
Less payment with treasury stock at market value	–3,843,654
Cash outflow from acquisition	36,700,815

CHF	Equity interest	Goodwill	Total
Capital spending	25,028,768	15,515,701	40,544,469
Prorated EBT	272,166	0	272,166
Goodwill charge		–387,601	–387,601
Taxes	2,031,705	0	2,031,705
Prorated post-tax earnings	2,303,871	–387,601	1,916,270
Currency translation differences	–178,098	0	–178,098
Other changes to equity	0	0	0
Book value on December 31, 2002	**27,154,541**	**15,128,100**	**42,282,641**

13. Tangible fixed assets

CHF	Office equipment	Computer equipment	Vehicles	Total
Acquisition costs				
January 1, 2002	11,651,279	3,236,984	1,822,881	16,711,144
Currency translation differences	–12,913	–434	–5,350	–18,697
Changes to consolidation perimeter	–261,764	–254,958	–157,167	–673,889
Additions	99,889	621,333	600,324	1,321,546
Disposals	–111,533	–192,361	–266,838	–570,732
December 31, 2002	**11,364,958**	**3,410,564**	**1,993,850**	**16,769,372**
Depreciation				
January 1, 2002	–7,908,322	–2,200,067	–706,442	–10,814,831
Currency translation differences	12,351	3,269	1,526	17,146
Changes to consolidation perimeter	65,453	105,896	8,737	180,086
Depreciation for the year	–951,853	–576,752	–363,493	–1,892,098
Disposals	95,895	192,361	189,980	478,236
December 31, 2002	**–8,686,476**	**–2,475,293**	**–869,692**	**–12,031,461**
Net book values January 1, 2002	**3,742,957**	**1,036,917**	**1,116,439**	**5,896,313**
Net book values December 31, 2002	**2,678,482**	**935,271**	**1,124,158**	**4,737,911**
Fire insurance values	**31/12/2002**	**31/12/2001**		
Furniture	6,171,003	5,192,130		
Computer equipment	2,420,117	2,891,336		

14. Film rights

CHF	2002	2001
Acquisition costs		
January 1	281,293,579	229,388,636
Additions	15,060,757	74,704,877
Disposals	–15,128,520	–22,799,934
December 31	**281,225,816**	**281,293,579**
Scheduled amortization		
January 1	–136,683,842	–161,559,525
Changes to accounting and recognition principles	0	18,760,740
	–136,683,842	**–142,798,785**
Additions	–12,524,175	–16,684,991
Disposals	14,970,851	22,799,934
December 31	**–134,237,166**	**–136,683,842**
Non-scheduled amortization (remeasurement/ impairment charges)		
January 1	–113,029,797	0
Reversal of impairment charges	21,843,949	0
Additions	–10,885,100	–113,029,797
Disposals	0	0
December 31	**–102,070,948**	**–113,029,797**
Net book values January 1	**31,579,940**	**86,589,851**
Net book values December 31	**44,917,702**	**31,579,940**

The license expense shown in the income statement also reflects the changes in accrued license expense. These accruals take into account the expense components for TV license rights which have been exploited or written down but not yet paid for. The license expense in the income statement breaks down as follows:

CHF	2002	2001
Amortization of licenses (scheduled)	12.524.175	16.684.991
Reversal of impairment charges	–21.843.949	0
Amortization (as a result of remeasurement/ impairment charges)	10.885.100	113.029.797
	–10.958.849	**113.029.797**
Changes in accruals for license expense (see Section 22)	1.710.340	2.001.851
Various license expenses/overages	–980.857	2.410.644
License expense pursuant to income statement	**2.294.809**	**134.127.283**

The previous year's figures were adjusted to allow for the modifications to the accounting and recognition principles. These modifications resulted in a reduction of CHF 25.8 million in the depreciation charges taken on licenses. On the other hand, impairment charges of CHF 44.3 million were taken on licenses for films already sold to TV broadcasters pursuant to contractual agreements as the counterparty, parts of the Kirch Group, filed for insolvency on April 8, 2002.

On September 19, 2002, a new contract was entered into with Kirch Media GmbH & Co. KGaA providing either for a continuation of the existing contracts or the reversion of the film rights to Highlight Communications AG. As a result of this new contractual situation with Kirch Media GmbH & Co. KGaA, a net charge of the impairment charges CHF 21.8 million was reversed in fiscal 2002.

The market situation for German-language film rights trading continued to change last year. This was due to a further concentration of TV stations' purchasing power, lower film prices as a result of reduced advertising revenues on the part of TV

stations as well as heightened competition amongst license dealers. Consequently, the value of the entire film library was remeasured in autumn 2002.
In this connection, a non-recurring charge of CHF 10.9 million was taken in fiscal 2002 to bring the existing film licenses into line with the prevailing market situation.

As at December 31, 2002, there were off-balance-sheet liabilities of CHF 8.0 million (previous year: CHF 24.0 million) for the acquisition of film rights.

15. Goodwill

CHF	2002	2001
Acquisition values		
January 1	175,076,995	174,834,096
Currency translation differences	–7,690	–11,550
Additions	54,610	254,449
December 31	**175,123,915**	**175,076,995**
Scheduled amortizations		
January 1	–30,510,491	–17,969,958
Currency translation differences	2,102	9,599
Scheduled amortization for the year	–11,839,729	–12,550,132
December 31	**–42,348,118**	**–30,510,491**
Non-scheduled amortization		
January 1	–123,943,998	0
Non-scheduled amortization for the year	0	–123,943,998
December 31	**–123,943,998**	**–123,943,998**
Net book values January 1	**20,622,506**	**156,864,138**
Net book values December 31	**8,831,799**	**20,622,506**

16. Inventories

CHF	12/31/2002	12/31/2001
Video cassettes/DVD		
– Retail	2,965,249	3,195,304
– Wholesale	2,078,321	1,833,209
CDs	234,823	237,262
Games/CD-ROM	350,711	392,479
Capitalized film costs	69,647	191,168
Other	21,153	80,258
	5,719,904	5,929,680
Impairment charges	–95,779	–325,462
Total	**5,624,125**	**5,604,218**

Used cassettes for hire and sale are already carried at the lower market prices.

17. Receivables

CHF	12/31/2002	12/31/2001
Trade receivables		
– due from third parties	17,817,706	19,128,982
less impairment charges	–1,979,909	–722,366
	15,837,797	18,406,616
– due from related parties	0	27,000
Loans to third parties	317,256	287,634
Prepaid expenses	3,002,779	3,108,851
Other receivables		
– due from third parties	1,837,185	2,977,365
Total	**20,995,017**	**24,807,466**

The previous year's figures were modified to allow for the changes to accounting and recognition principles (see accounting principles for recognized revenues). Short and long-term receivables of CHF 47,610,682 due from the Kirch Group and the related impairment charges of CHF 45,296,807 were corrected.

18. Cash and cash equivalents

CHF	12/31/2002	12/31/2001
Cash holdings	159,009	129,036
Postal giro balances	89,342	113,647
Bank balances	21,167,140	27,105,342
Call money	7,316,136	4,317,990
Term deposits up to 90 days	27,070,515	48,397,269
Total	**55,802,142**	**80,063,284**

See Section 7 for details of interest rates.

19. Securities

CHF	12/31/2002	12/31/2001
Securities at beginning of period		
Book value January 1	10,373,644	32,970,405
Additions	10,348,280	2,264,853
Disposals	–1,780,473	–8,401,220
Losses/gains		
– non-realized	–2,285,966	–16,461,052
– realized	–129,597	3,220
Currency-conversion differences	–482	–2,562
Securities at end of period		
Book value on December 31	**16,525,406**	**10,373,644**

The closing amount comprises listed securities worth CHF 6,481,766 and bonds of CHF 10,000,000. The book values are equivalent to the market values on the balance-sheet date.

20. Share capital

	Bearer shares	
	Number of shares	CHF
December 31, 2000	4,725,000	47,250,000
Capital increases	0	0
December 31, 2001	**4,725,000**	**47,250,000**
Capital increase	0	0
December 31, 2002	**4,725,000**	**47,250,000**

On May 30, 2000, the Annual General Meeting established authorized share capital of CHF 12,750,000 and empowered the Board of Directors to effect a further capital increase by issuing 1,275,000 bearer shares at CHF 10 each until May 30, 2002. No such capital increase has been implemented to date.

At their annual general meeting on May 24, 2002, the shareholders agreed to extend the period for a capital increase by a further two years until May 30, 2004. No such capital increase has been implemented to date.

In 2002, the Company bought back a total of 92,034 of its own shares. In addition, 656 of the Company's own shares were taken back from employees free of remuneration as a result of resignations. In connection with the acquisition of a stake in Constantin Film AG, the Company transferred 102,654 of its own shares to the seller as part payment of the transaction. At the balance sheet date, the Company's treasury stock comprised 103,271 (December 31, 2001: 113,235) shares. As at December 31, 2002, the authorized share capital comprises 6,000,000 bearer shares with a nominal value of CHF 10

(December 31, 2001: 6,000,000 bearer shares with a nominal value of CHF 10). All shares outstanding are paid up in full.

21. Deferred taxes

Temporary differences:

CHF	12/31/2002	12/31/2001
Lower depreciation for tax purposes on tangible fixed assets	71,501	64,671
Deferred tax assets	**71,501**	**64,671**
Valuation adjustments	141,283	69,121
Deferred tax liabilities	**141,283**	**69,121**

The Group has tax losses brought forward totaling CHF 157.8 million (2001: CHF 162.2 million). The deferred tax assets are not recognized owing to the uncertainty as to whether sufficient taxable income will be generated as well as the absence of group taxation. The tax losses brought forward as at December 31, 2002 expire between 2003 and 2009. The tax losses brought forward as at December 31, 2002 contain tax losses of some CHF 1.1 million in Germany and Austria, which may be carried forward.

22. Trade payables and other liabilities

CHF	12/31/2002	12/31/2001
Trade payables	12,925,703	12,502,181
Liabilities to social-security funds	16,880	0
Liabilities to shareholders and related parties	65,807	411,323
Other liabilities	2,999,918	4,885,632
License liabilities	4,393,076	2,682,735
Prepaid expense	7,699,870	11,722,290
Total	**28,101,254**	**32,204,161**

The previous year's figures were modified to allow for the changes to accounting and recognition principles (see accounting principles for recognized revenues), The correction to impairment charges on licenses has resulted in a reduction of CHF 7,863,934 in liabilities to licensors.

23. Liabilities subject to interest

The short and long-term liabilities subject to interest as at December 31 break down as follows:

CHF	due	12/31/2002	12/31/2001
Short-term			
Bank liabilities		14,088,872	0
Bank loan (short-term part)	2003	16,000,000	16,000,000
Total		**30,088,872**	**16,000,000**
Long-term			
Bank loan		0	16,000,000
Total		**0**	**16,000,000**

The short-term current-account bank liabilities are subject to an interest rate of 5.55% as of the balance-sheet date.

The bank loan is secured by liens on the shares held by a number of consolidated companies and is currently subject to a fixed interest rate of 3.25%.

24. Financial instruments

The carrying value of cash and cash equivalents, trade receivables, short-term bank liabilities and trade payables roughly corresponds to the market value owing to the short maturities involved. The carrying value of the long-term loan was calculated on the basis of discounted future payment flows based on the changed interest rates for the Group's loan agreements.

	Book value		Market value	
CHF	2002	2001	2002	2001
Financial liabilities				
Bank loan (long-term)	0	16,000,000	0	16,223,290

Interest-rate risk

The interest-rate risks primarily relates to the long-term liabilities subject to interest. The Group currently does not employ financial instruments to hedge the risk of change in interest rates.

Exchange-rate risk

The Group buys and sells products in foreign currencies and is therefore exposed to the risk of exchange-rate fluctuations. Forward exchange-rate transactions are used in part to hedge the exchange-rate risk. No hedge accounting is applied. As at December 31, 2002, the Group had entered into two forward exchange-rate transactions to hedge the exchange-rate risk. The negative market value as at December 31, 2002 stood at CHF 219,989. It is carried in Section 22 under "Other liabilities".

Payment default risks

The financial instruments which may possibly expose the Group to a concentration of payment default risks primarily comprise cash and trade receivables. Bank relations are maintained only with top-rated banks and the Group regularly reviews the rating of its customers.

25. Accruals

CHF	12/31/2002	12/31/2001
Overages	0	2,648,800
Other	0	25,000
Total	**0**	**2,673,800**

Overages for fiscal 2002 are reported as prepaid income under Section 22 in fiscal 2002 (CHF 286,000).

26. Acquisition/sale of equity interests (changes to consolidation perimeter)

In the year under review, the stake in Highlight Intertechnology AG was increased from 95 % to 100 % following the acquisition of further shares.

Highlight Intertechnology AG CHF	2002
Equity interest at acquisition	
Share capital	100,000
Accumulated loss	–1,092,208
Total equity	–992,208
of which 5 %	–49,610
Purchase price	–5,000
Goodwill paid (see Section 15)	–54,610

Effective January 1, 2002, the shares in Highlight Crossmedia AG in Pfäffikon (100 %), Rewag Radio Edelweiss Werbe AG in Pratteln (60 %) and Netproducer in Munich (60 %) were sold.

Highlight Crossmedia AG and Netproducer GmbH formed part of the New Business division which was abandoned on January 1, 2002.

The sales transactions are detailed below.

CHF	Highlight Crossmedia AG	Netproducer Gmbh	Rewag Radio Edelw. Werbe AG
Assets	6,183,226	1,227,631	569,391
Liabilities/borrowed capital	–5,316,728	–965,707	–342,937
Net assets	866,498	261,924	226,454
of which 100%/60%/60%	866,498	157,154	135,872
Sales price	800,000	1	150,000
Net profit/ loss from sale	–66,498	–157,153	14,128

	Total
Sales price	950,001
Outflow of cash and and cash equivalents	–6,775,874
Net cash outflow	–5,825,873

27. List of consolidated companies

	Activity	Country	Issued capital	Share in capital
Joe's Multimedia AG Wil	Video rental/sales	Switzerland	CHF 5,000,000	100 %
Team Holding AG	Sports marketing	Switzerland	CHF 200,000	80 %
– Team Football Marketing AG	Marketing of sports rights, particularly football	Switzerland	CHF 6,340,000	76,214 %
– T.E.A.M. Television Event And Media Marketing AG	Marketing of sports and cultural events	Switzerland	CHF 200,000	80 %
Rainbow Video AG	Marketing	Switzerland	CHF 200,000	100 %
Highlight Intertechnology AG	Technology development	Switzerland	CHF 100,000	100 %
Highlight Film und Home Entertainment GmbH	Marketing	Germany	EUR 255,646	100 %
Highlight Filmproduktion und Werbeagentur GmbH	Film production	Germany	EUR 102,258	100 %
Constantin Film AG*	Film production and distribution	Germany	EUR 12,742,600	25 %
Rainbow Home Entertainment GmbH	Marketing	Austria	EUR 363,364	100 %

* „at equity"

The shares in Team Holding AG are encumbered by a call option held by UEFA. This call option may be exercised if a person or group acquires Highlight shares accounting for more than 50 % of the voting rights. The option price comprises the inherent value of the shares on the date on which the option is exercised plus projected earnings until June 30, 2006.

28. Related party transactions

The following transactions were handled with related persons:

CHF	12/31/2002	12/31/2001
Trade receivables		
A. Ehrat	0	27,000
Total	**0**	**27,000**
Trade payables		
Radio Edelweiss Nostalgie Betriebs AG	0	266,797
Bernhard Burgener	12,000	0
KJP Holding AG	12,327	0
Jürgen Lenz	16,491	72,438
Klaus J. Hempel	24,989	72,088
Total	**65,807**	**411,323**

CHF	2002	2001
Expense		
Commission to Radio Edelweiss Nostalgie Betriebs AG	0	2,332,188
Total	**0**	**2,332,188**

On June 25, 1999, a management agreement was entered into between Team Football Marketing AG and T.E.A.M. Television Event and Media Marketing AG on the one hand and KJP Holding AG including Messrs. Klaus J. Hempel und Jürgen Lenz on the other with a firm term expiring on June 30, 2004. Under this agreement, Messrs. Hempel and Lenz agree to contribute their special knowledge and experience in the area of marketing particularly in conjunction with business with UEFA. The fee expenditure is included in the total remuneration paid to the Board of Directors.

Total remuneration (including all expenses) of CHF 5,992,811 was paid to the nine members of Highlight Communications AG's Board of Directors, of whom six hold operative positions with Group companies.

The transactions with related persons complied with "arm's length" principles.

29. Shareholdings of the Board of Directors

Bernhard Burgener, president	2,500,000 fractional rights
Reinhold Camenzind, member	2,505,930 fractional rights
Marc Conrad, member	180 fractional rights
Andreas Fallscheer, vice president	3,111,080 fractional rights
Klaus Hempel, member	84,250 fractional rights
Jürgen Lenz, member	104,250 fractional rights
Dr. Ingo Mantzke, member	80,010 fractional rights
Marco Syfrig, member	45,000 fractional rights
Martin Wagner, member	0 fractional rights

The Board of Directors is aware of no other material shareholders (over 5 %).

30. Operating leases

The following minimum lease obligations were in force as of December 31:

CHF	12/31/2002	12/31/2001
Up to 1 year	2,979,761	3,658,539
2–5 years	5,363,940	4,800,672
More than 5 years	139,567	786,784
Total	**8,483,268**	**9,245,995**

These obligations primarily comprise long-term leases for the operation of the Joe's Multimedia AG video stores and offices on the part of the TEAM Group in Lucerne, Rainbow Video AG in Pratteln and Highlight Film und Home Entertainment GmbH in Munich.

Leasing expenditure (including rentals) came to CHF 4,258,702 in the year under view.

31. Post-reporting-date events

There have been no events in the period between the balance-sheet date and the publication of these consolidated financial statements for fiscal 2002 materially affecting the information set out herein.

Key Company Dates 2003

Berlin Film Festival	**February 6–16, 2003**
Academy Awards	**March 23, 2003**
INVEST Stuttgart	**April 4–6, 2003**
Cannes Film Festival	**May 16–27, 2003**
UEFA Cup Final	**May 21, 2003**
UEFA Champions League Final	**May 28, 2003**
Annual General Meeting Highlight	**June 3, 2003**
Venice Film Festival	**August 27–September 6,2003**
UEFA Super Cup	**August 29, 2003**
DVFA GMCC	**December 2–4, 2003**
Quarterly reports	**May/August/November 2003**

Highlight Communications AG · Churerstrasse 168 · CH-8808 Pfäffikon SZ · Tel. +41 (0)55 415 68 18 · Fax +41 (0)55 415 68 10
e-mail: info@hlcom.ch · Internet: www.highlight-communications.ch