Annual Report 2003 Highlight Communications AG

The Highlight Group stands for top-event marketing and first-class entertainment, specifically, premium football in the UEFA Champions League, a top position in DVD/VHS home entertainment as well as market leadership in the German-speaking movie industry with selected film productions and licenses.

Home Entertainment	**Film**	**Sports and Event Marketing**
VHS/DVD sales and marketing VHS/DVD wholesale VHS/DVD distribution and retail	Film production Film license trading Theatrical distribution VHS/DVD production TV and Internet	UEFA Champions League UEFA Super Cup UEFA Cup final UEFA European U-21 Championship Eurovision Song Contest

The Highlight Group comprises what in the media sector is a unique array of special companies offering major synergistic potential. Highlight is one of the 160 largest listed companies in the German stock exchange, a rare feat for a Swiss company.

Highlight Communications AG, Pfäffikon, Switzerland

- 100% **Home Entertainment**
  - Highlight Film und Home Entertainment GmbH
    Munich, Germany
  - Rainbow Video AG
    Pratteln, Switzerland
  - Rainbow Home Entertainment GmbH
    Vienna, Austria
  - Joe's Multimedia AG
    Wil, Switzerland
- 58% **Film**
  - Constantin Film AG
    Munich, Germany
  - Subsidiaries of Constantin Film AG
- 80% **Sports and Event Marketing**
  - Team Holding AG
    Lucerne, Switzerland
  - T.E.A.M. Television Event And Media Marketing AG
    Lucerne, Switzerland
  - Team Football Marketing AG
    Lucerne, Switzerland

Headline figures at a glance

(CHF 000s)		2003	2002*
Income statement			
	Revenues	282,904	164,581
	Earnings from operating activities	16,667	32,247
	Earnings before taxes	12,403	29,101
	Net consolidated earnings	10,282	17,165
	Earnings per share (CHF)	0.22	0.37
Balance sheet			
	Total assets	608,748	183,898
	Film assets	265,588	29,028
	Cash, cash equivalents and securities	167,581	72,327
	Shareholders' equity	108,632	93,931
	Liabilities subject to interest	151,331	30,089
Cash flow statement			
	Cash flow before changes in net current assets	96,387	52,704
	Cash flow from operating activities	132,781	57,844
	Cash flow from investing activities	–73,579	-72,182
	Cash flow from financing activities	15,854	-9,867
	Net inflow/outflow of funds	75,441	-24,261
Headcount			
	Headcount on December 31	540	310

** The previous year's figures have been adjusted to allow for the changes in accounting and recognition rules (see details of accounting principles for film assets).*

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Preface

Dear shareholders and business partners,

2003 was a special year for the Highlight Group. This is because Highlight Communications AG has now been successful for 20 years. Two decades in which the profile of the original Highlight Communications AG had undergone radical change. A company originally engaged solely in trading in film rights has since evolved into an operative group, whose subsidiaries and affiliated companies are amongst the market leaders in the German-speaking region. Over the years, the Highlight Group's area of activity has been successfully widened to encompass home entertainment (video/DVD), sports and event marketing, film production and distribution as well as TV marketing.

Yet, one thing has remained the same over the past twenty years: our standard of quality. With our philosophy of placing quality ahead of quantity, we have always attached key importance to achieving profitable growth for our Company and to spending our investors' money wisely. This continued to apply last fiscal year, forming the basis for our operative activities.

Market position in the Film division substantially strengthened

In the Film division, we initially increased our share in Constantin Film AG to reinforce our position in the German-speaking film market. On July 14, 2003, Highlight Communications AG raised its stake in Constantin Film AG to 57.98%, thus gaining a majority share in the most successful independent film producer and distributor in Germany.

This "takeover battle for Constantin Film AG", as the media described it in their broad-based coverage, was far less dramatic than the headlines suggested as it was not our target to initiate a hostile takeover. On the contrary, Constantin Film AG, whose strengths are undisputed in the key areas of film production and cinema marketing, has always been an extremely attractive partner for the Highlight Group. As our expertise, by contrast, lies more in the area of home entertainment, this tie-up promises to unleash considerable synergistic benefits. We are very proud of the fact that the Highlight Group now includes this prestigious company which has been responsible for such major movie events as "Der Schuh des Manitu", "Das Boot" or "Der Name der Rose".

We are convinced that both companies will benefit from the pooling of these skills under a single roof. This strategy has found its expression in the fact that all license purchasing and movie distribution activities for the entire Highlight Group were transferred to Constantin Film AG at the beginning of the new fiscal year. In return, the employees of the Highlight Group are responsible for the video and DVD exploitation of all Constantin releases, which will be distributed and marketed on the "Constantin Film" label.

Home entertainment still growing sharply

In the home entertainment segment, the DVD added a further chapter to the success story of the previous years. Market analysis conducted by Gesellschaft für Konsumforschung (GfK) shows that in Germany alone retail sales of DVDs surged by 47.7% to almost EUR 1.1 billion. Including sales of VHS cassettes as well as contracting VHS/DVD rental business, net sales expanded by 11.1%. Even greater growth would have been achieved had it not been for the extremely long and hot summer, not to mention the growing problems in connection with video piracy.

With the strong market position enjoyed by the Rainbow companies, the Highlight Group was able to benefit from this booming market. In the German market, the long-standing marketing partnership with Paramount Home Entertainment was further extended, while in Switzerland we were able to defend our market leadership in both video/DVD rentals and sales. The same thing applies to the video/DVD sales of our Austrian subsidiary Rainbow Home Entertainment, which added two additional large labels – Universal Pictures and Columbia TriStar – to its lineup last fiscal year. A key driving factor underlying this favorable trend is doubtless the growing household penetration of DVD players, which has since reached a level of around 45%.

UEFA Champions League marketed successfully in spite of difficult conditions

The Sports and Event Marketing division also made a key contribution to the Highlight Group's operative successes. In spite of difficult underlying conditions, the roughly 100 specialists at the TEAM Group, which has been marketing the UEFA Champions League on an exclusive basis since 1992, achieved favorable agreements in the key markets of Germany, the UK, Spain, France and Italy. Despite the reduced number of matches as a result of the new competition system, very encouraging results were thus achieved for UEFA.

In addition, it was possible to renew the contracts with the sponsors Heineken/Amstel, Sony PlayStation, Ford and MasterCard until the 2005/06 season. The official supplier adidas, too, extended its commitment to top European football on the club level until then. As well as this, two further internationally renowned companies – Sharp and Canon – were signed as official suppliers. This marketing success, which was also honored by UEFA, testifies once more to TEAM's skills in marketing the very popular UEFA Champions League.

In order to continue the long-standing and successful partnership with UEFA, TEAM submitted a high-quality marketing concept for the 2006–2009 period with UEFA in response to an invitation for tenders issued at the beginning of February 2004. A decision on the new contract is to be made by mid 2004. We are confident that the expertise demonstrated by our subsidiary will ensure that it is awarded the contract once more, although the possibility of a competitor prevailing cannot be ruled out.

Marketing expertise to be channeled into the venerable Eurovision Song Contest

I would like to make special mention of the marketing contract for the Eurovision Song Contest (formerly known as "Grand Prix Eurovision de la Chanson"), which TEAM was awarded in spring 2003. Under the terms of this contract, our subsidiary will be exploiting the marketing rights to this venerable competition, which was first held back in 1956, from 2004 through to 2007. This event regularly achieves very high TV ratings. In fact, last year alone, it was watched by over 70 million viewers all over Europe.

As the exclusive marketing partner to the European Broadcasting Union (EBU), TEAM will also be handling brand management for the European Song Contest. This marks the first time that TEAM has been able to transplant the unique expertise which it has amassed from the pan-European marketing of the UEFA Champions League to a major entertainment event. This will highlight the skills and expertise which TEAM has gained in marketing top TV events.

Convincing full-year figures in spite of difficult environment

Business conditions remained difficult over much of 2003. Declining spending on advertising and marketing, a weak economy as well as appreciable consumer restraint provided anything but a favorable basis for business.

Given these negative factors, we have every right to be more than satisfied with our business performance. Thus, the Highlight Group's full-year revenues increased by 71.9% over the previous year to CHF 282.9 million, entering an entirely new dimension. This performance was underpinned by the Film and Home Entertainment division, where revenues rose to CHF 219.8 million (previous year: CHF 87.0 million) on account of the first-time consolidation of Constantin as of July 1. The Sports and Event Marketing division delivered revenues of CHF 63.2 million.

At CHF 16.7 million, operating earnings lived up to our expectations. After CHF 32.2 million in the previous year, the loss of EUR 9.9 million contributed by Constantin resulted in a decline. However, the adverse effects on consolidated earnings, which dropped from CHF 17.2 million to CHF 10.3 million, were far less thanks to the tax savings resulting from this as well as the smaller minority interests.

The Highlight Group's equity rose by CHF 14.7 million to CHF 108.6 million as of December 31, 2003, resulting in an economic equity ratio of 38.9%, i.e. still far above the industry average. Our liquidity reserves (cash and cash equivalents as well as securities) have increased substantially with the consolidation of Constantin. At the end of the year, they came to CHF 167.6 million (previous year: CHF 72.3 million), equivalent to 27.5% of total assets. These financial resources provide a very solid basis for financing our future business activities.

Substantial recovery in the stock

The inclusion of Highlight stock in the SDAX following the restructuring of the stock-market indices was also an important event for our Company. As a result, Highlight became one of the leading stocks in the German capital market, ensuring that it continues to receive attention. In addition to the Highlight Group's strong business performance, this fact together with the substantially brighter sentiment in the stock market compared with one year earlier doubtless helped our stock to recover.

Last year, Highlight stock achieved gains of 56.4%, peaking during the year at 83.1%. On the strength of this favorable performance, our Company's market capitalization has risen to EUR 160.2 million by the beginning of February 2004. Thus, roughly five years after first going public as a small niche player in German-language film license trading – Highlight Communications AG has advanced to become the top media company listed in the German stock market.

We are particularly pleased for our shareholders that – in contrast to the previous year – the Highlight Group's operating successes are reflected in gains in the stock market. We will continue to devote all our efforts to convincing the capital market of the virtues of our Company by ensuring favorable business performance with the aim of achieving a fair valuation for Highlight stock in the foreseeable future.

Foundations for the future set

At the beginning of the new fiscal year, we took a number of key steps to ensure the Highlight Group's continued success. Thus, a contract taking effect on June 30, 2005 was entered into with the founders and current Presidents of TEAM, Klaus J. Hempel and Jürgen Lenz, concerning the sale of the remaining 20% of Team Holding AG to Highlight Communications AG. As a result, the TEAM Group's holding company will be fully owned by Highlight Communications AG as of July 1, 2005. In the interests of business continuity – particularly with respect to the successful activities with UEFA – Klaus J. Hempel and Jürgen Lenz undertook in a separate agreement to make their sports and event marketing expertise available as members and Presidents of TEAM's Board of Directors until June 30, 2009.

In view of the even greater focus on core film, home entertainment as well as sports and event marketing business planned for the future, we streamlined and rejuvenated our Company's management. With the approval granted at an extraordinary shareholder meeting on January 28, 2004, Highlight's Board of Directors now comprises only six members. In addition to the undersigned, the members include my long-standing colleagues Martin Wagner and Dr. Ingo Mantzke. René Camenzind (President of the Board of Directors of Mythen Center Holding AG) was elected to the Board to replace his father. The other new members are Martin Hellstern (member of the Board of Directors of KITAG) and Thomas Klooz (member of the Board of Directors of the TEAM companies).

I would like to take this opportunity to thank all the members of the Board of Directors for their commitment and dedication to the Highlight Group. Their exemplary activities have contributed to ensuring that the Company has achieved the position it currently enjoys. I would particularly like to remember Reinhold Camenzind, who had been a member of the Board of Directors since 1995 and who died last December following a serious illness.

May I also thank all the staff of the Highlight Group for their services in 2003. With their motivation and commitment, they have helped to make Highlight one of the most successful companies in the German-language film market as well as in the sports and event marketing segment in just under five years since our stock-market flotation.

Finally, I also wish to thank you, our shareholders, for your confidence in the value and potential of the Highlight Group. Our declared aim is to continue justifying this confidence in the future. We will do everything we can to make sure that 2004 enters the annals as a further milestone in Highlight's success story.

B. Burgener

Bernhard Burgener

President of the Board of Directors

Highlight stock

Broad-based recovery

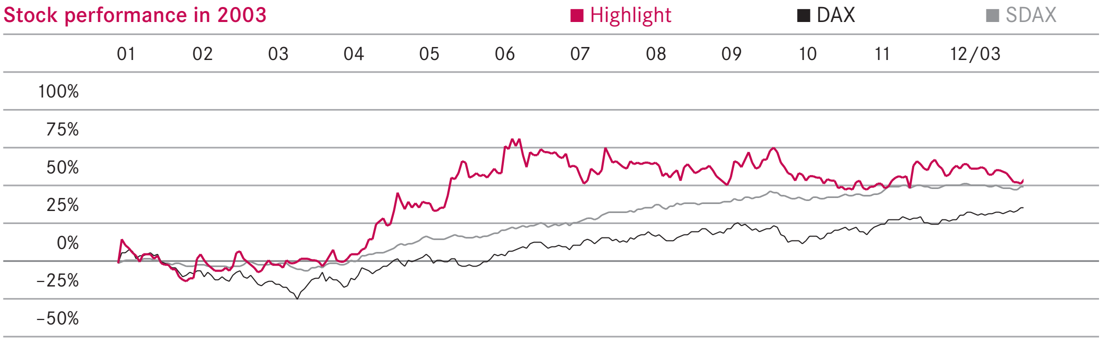
2003 finally saw the turnaround which stock-market investors had been awaiting so eagerly. After three loss-making years running, the markets closed the year higher for the first time since 1999. In Europe, the German stock market was the clear winner. While the blue-chip indices in Zurich and London rose by only 18.3% and 13.5%, respectively, the DAX surged by 37.1%. Closing the year at 3,965 points, it fell only slightly short of the psychologically important 4,000 mark.

By global standards as well, the German stock market was one of the top performers. In fact, of the leading indices, only the Nasdaq Composite achieved greater gains of 50.0%, while the Dow Jones (up 25.3%) and the Nikkei index (up 24.5%), for example, did not fare as well.

Even so, the stock-market year did not get off to a favorable start by any means. After initially mixed performance, the DAX dropped to 2,188 points in mid March, hitting the lowest level since 1995. There were various reasons for this slide: For one thing, general uncertainty emerged in the face of the imminent Iraq war as well as fears of a serious blow to the global crisis. On the other hand, mounting corporate spending restraint and sustained muted consumer sentiment exacerbated the problems of many listed companies. Forced selling across the entire insurance sector as well as massive short positions in hedge-fund business triggered a veritable sellout in the German stock market.

However, as early as in the second quarter, an initially slow upward cycle materialized, gaining strength substantially as the year progressed. The basis for what was ultimately a strong recovery was a fundamental change of sentiment on the part of capital-market participants, with initially widespread skepticism yielding to a broad optimistic consensus.

This trend was triggered, on the one hand, by economic data, which – in the United States in particular – regularly exceeded market expectations. On the other, company earnings started looking up again. Both factors caused investors to gradually regain lost confidence in the stock markets. This is clearly shown, for example, by the fact that the number of German private shareholders and fund investors rose from 4.9 million to 5.2 million in the second half of 2003. By comparison, at the peak of the stock-market boom at the beginning of 2000, this figure stood at 6.2 million.



The reviving confidence of private investors in the stock market is also borne out in a recent survey conducted by market research institute Forsa. In the fourth quarter of 2003, almost half (47%) of private shareholders expected stock prices to rise in the following six months, up from only 19% in the first quarter. However, it remains to be seen how resistant this newly gained confidence proves to be to unforeseen strain. Accordingly, it will be all the more important for all market participants (companies, banks and investors) to take further steps to steadily improve the integrity of the capital market.

Highlight stock up 56.4%

Underpinned by the Company's remarkable business performance in the year under review, Highlight stock also benefited from the improved sentiment in the financial markets. After entering 2003 with a XETRA closing price of EUR 1.72 (December 30, 2002), the stock initially drifted downwards in the first quarter, hitting a low for the year of EUR 1.51 on January 28. By the end of the quarter, it had returned to the level seen at the beginning of the year, actually achieving a small gain of 1.2%. In the same period of time, the SDAX, in which Highlight Communications AG has been included since the new stock market rules took effect on March 24, lost marginally by 0.9%, while the DAX shed 16.2%.

Following the publication of the consistently favorable fiscal 2002 figures, Highlight stock started posting substantial gains in a trend which gained further momentum in the second quarter. This was doubtless primarily due to the announcement that the Company had increased its stake in Constantin Film AG and that a settlement offer had been made to the outstanding Constantin shareholders. In the wake of this procedure, Highlight stock surged by 70.7% at the end of the quarter, hitting a high for the year of EUR 3.15 on June 9 and 11. By comparison, the DAX gained only 32.9% and the SDAX a mere 28.1% in the second quarter.

The second half of the year was initially characterized by high volatility with no clear direction emerging, causing the stock to exceed the EUR 3 mark again in mid September. The resultant downward trend was interrupted again in the fourth quarter. However, the recovery was only short-lived, as a result of which Highlight stock saw the year out at EUR 2.69.

Thus, over the year as a whole, Highlight stock achieved substantial gains of 56.4%, outperforming the benchmark indices, which rose by 51.3% (SDAX) and 37.1% (DAX). As a result, the Company's market capitalization rose from EUR 82.7 million on December 31, 2002 to EUR 127.1 million at the end of 2003.

Highlight seeks contact with investors – like here at INVEST in Stuttgart

As at the beginning of February 2004, Highlight Communications AG had a market capitalization of EUR 160.2 million, making it the largest media stock in comparison to its peer group listed in Germany – a feat achieved in the space of only five years, a period during which there has been a fundamental change in underlying conditions. The initial stock-market euphoria was followed by sharp declines, spectacular insolvencies (e.g. Kinowelt and Helkon) and, finally, the complete collapse of the Neuer Markt.

The Highlight Group has emerged from this turbulence strengthened. This is because, in contrast to many competitors, it opted from the outset for a highly selective sourcing and acquisition policy. The benefits of this strategy speak for themselves: Whereas other companies engaged in film license trading sustained severe difficulties, Highlight Group's revenues have risen more than sevenfold since its stock-market flotation, with post-tax earnings up by as much as a factor of 12 in spite of the difficult underlying business conditions.

Change in nominal value – Highlight fractional rights now shares

At the Annual General Meeting held in Basel on June 3, the shareholders passed a resolution to change the nominal value of their shares from CHF 10 to CHF 1. As a result, the shares rather than fractional rights have been traded since August 7, 2003. This also involved a new securities identity number. The new national WKN identification number for Highlight is 920 299, the international code (ISIN) is CH 000 653 9198 and the ticker is HLG.

Market capitalization of comparable German media stocks

Company	Stock price on Feb. 5, 2004 (EUR)	Market capitalization (EUR mn)
Highlight Communications	3.39	160.2
EM.TV & Merchandising	1.04	153.4
Constantin Film	4.38	54.0
Intertainment	4.45	51.4
IM Internationalmedia	1.35	41.7
Senator Entertainment	0.94	32.2
Kinowelt Medien	0.31	7.6
VCL Film & Medien	0.45	6.7
Splendid Medien	0.64	5.6
Advanced Medien	0.87	1.6
Helkon Media	0.06	0.6

Highlight with a stand of its own at the GEWINN investor fair in Vienna, too

Stock buy-back program systematically continued

The stock buy-back program approved by the shareholders on June 3, 2003 was systematically continued, with the Company buying back a total of 4,993,806 of its own shares. In view of Highlight's excellent business performance and the active attention given to current and potential investors, they were all sold to long-term investors. As a result, the Company's treasury stock comprised a balance of 531,516 shares on December 31, 2003.

IR activities targeted at institutional and private investors

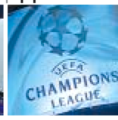
The provision of up-to-the-minute and comprehensive information for investors and analysts as well as the business press forms the core of all of the Highlight Group's investor relations activities. Our declared aim is to achieve a fair value for Highlight stock by means of comprehensive and reliable public relations. The basis for this is constituted by the regular quarterly and annual reports, which provide a detailed insight into recent trends at the Company.

In the interests of ensuring equal access to information for all market participants, particularly private investors, our website *(www.highlight-communications.ch)* plays a key role in our communications work. The "Investor Relations" section holds all relevant data and facts (stock performance and indicators, analyses, ad-hoc bulletins etc.) for viewing on line or downloading. An even more convenient source of information is the Highlight newsletter service, which is already being sent out to roughly 1,200 recipients. Interested parties can register at the website to automatically receive all publications as soon as they appear.

Analyst coverage of Highlight

Helaba Trust	June 2003	Overweight
Stadtsparkasse Köln	September 2003	Marketperformer
Commerzbank	October 2003	Hold
DZ-Bank	October 2003	Buy
Independent Research	October 2003	Buy
ING BHF-Bank	October 2003	Buy
IPONTIX Equity	October 2003	Buy
Landesbank Baden-Württemberg	November 2003	Hold
Equinet	January 2004	Buy
DZ-Bank	February 2004	Buy



Highlight provides with up-to-date information targeted at specific requirements – like here at INVEST

In addition to these static instruments, we also seek active dialog with financial analysts, institutional investors and fund managers as well as private investors. To this end, we again stepped up these activities in 2003 in the form of systematic road shows, one-on-one talks and telephone conferences. In addition, the Board of Directors described the Company's business performance, its outlook and its potential at the DVFA German Mid Cap Conference (November 25) and Deutsches Eigenkapitalforum (November 26). The Highlight Group also presented itself to interested parties at two investor fairs – INVEST in Stuttgart (April 4–6) and GEWINN in Vienna (October 16–19), at which it had its own stands. These activities are also planned for 2004.

The most important event attracting the greatest attention, however, was the Annual General Meeting again, at which the Company welcomed holders of around 48.3% of its share capital.

With the position achieved, its business performance as well as the inclusion in the SDAX, interest in the Highlight Group by financial analysts has risen. The number of banks which regularly cover and rate Highlight rose to a total of eight in the year under review.

Stock data 2003

Number of shares		47,250,000	
Stock class		Ordinary bearer shares	
Nominal value per share		CHF 1	
Market segment		SDAX	
WKN	920 299	ISIN	CH 000 653 9198
Ticker	HLG	Reuters ticker	HLGZ.DE
Traded at	Berlin, Düsseldorf, Frankfurt, Hamburg, Hannover, Munich, Stuttgart, XETRA		
High for the year (XETRA) June 9 and 11			EUR 3.15
Low for the year (XETRA) January 28			EUR 1.51
Year-end price			EUR 2.69
Year-end market capitalization			EUR 127.1 mn
Earnings per share			EUR 0.14
Cash flow per share			EUR 1.31
Equity per share			EUR 1.48

Report of the Board of Directors

Operative successes in spite of muted business environment

The economic situation in 2003 was characterized by two entirely contrary moods. Fears of a serious global economic crisis triggered general uncertainty in the first half of the year, exerting pressure on stock prices on the one hand and placing a damper on capital spending in nearly all sectors of the economy on the other. However, muted consumer confidence left even deeper traces. This scenario changed completely in the course of the second half of the year. Since the end of October, the general consensus has been that the global economy has now returned to an upswing.

The market segments of relevance to the Highlight Group also performed disparately. In the film sector, cinema operators in particular faced declining visitors and sales, while TV broadcasters' cost-cutting plans in the wake of lower advertising revenues and a consolidated TV market took their toll on sports and event marketing. On the other hand, home entertainment achieved another record year underpinned by booming DVD business.

In spite of the overall difficult conditions, the Highlight Group is able to look back on another fiscal year of successful operative performance. As early as in spring 2003, we released the Oscar® winning film version of the novel "The Hours" in Germany in conjunction with Constantin Film AG, achieving audience numbers of over 800,000. In August, we increased our share in Constantin to 57.98%, thus gaining a majority stake in this prestigious film production and distribution company. This resulted in a substantial widening of the two companies' joint activities.

In the sports and event marketing area, our subsidiary TEAM, in which the Highlight Group holds 80%, with the remaining 20% to be acquired in the course of 2005 as announced in January 2004, again achieved very favorable marketing deals for the UEFA Champions League. Total earnings from the sale of the TV and marketing rights for the three seasons 2003/04, 2004/05 and 2005/06 exceeded expectations in spite of the reduced competition format. Moreover, in spring 2003, TEAM was awarded a contract by the European Broadcasting Union (EBU) to exploit the marketing rights to the European Song Contest for 2004–2007.

New dimensions in revenues and total assets

Spurred by these operative successes, consolidated revenues rose to CHF 282.9 million, up 71.9% on the previous year (CHF 164.6 million). This substantial increase was due partially to the first-time full consolidation of Constantin Film AG as of July 1, 2003. At the same time, our home entertainment business benefited from the DVD boom, allowing us to further extend our leading position in the German-speaking market.

Accordingly, revenues in the Film and Home Entertainment division climbed by 152.6% to CHF 219.8 million, up from CHF 87.0 million in the previous year. On the other hand, there was a slight decline in the Sports and Event Marketing division from CHF 77.6 million to CHF 63.2 million as the UEFA Champions League format was trimmed from 157 to 125 matches.

Compared with the previous year, the breakdown by division reveals relative growth in the Film and Home Entertainment division, with its share of revenues widening from 52.9% in 2002 to 77.7% in the year under review, while the share accounted for by Sports and Event Marketing contracted from 47.1% to 22.3%.

In consequence of the consolidation of Constantin Film AG, consolidated total assets widened sharply from CHF 183.9 million (December 31, 2002) to CHF 608.7 million (December 31, 2003). The greatest growth in assets was derived from the film library, which was valued at CHF 265.6 million (previous year: CHF 29.0 million) at the end of 2003. The Highlight Group's equity rose by CHF 14.7 million over the previous year to CHF 108.6 million. The economic equity ratio (after netting of corresponding assets and liabilities) thus came to 38.9% at the end of the year.

Loss posted by Constantin adversely affecting net profits for the year

The shift in the revenues structure had a direct impact on the cost of licenses and goods, which rose from CHF 54.7 million in 2002 to CHF 193.4 million in the year under review. Among other things, there were substantial changes in personnel costs, which climbed from CHF 33.4 million to CHF 41.8 million, while depreciation expense contracted from CHF 21.3 million to CHF 12.1 million.

Naturally enough, the loss posted by Constantin Film AG for the year exerted the greatest effect on the Highlight Group's earnings. As a result, operating profit fell from CHF 32.2 million in the previous year to CHF 16.7 million in fiscal 2003. The resultant tax savings and lower minority interests compared with 2002 cushioned the effects of Constantin's loss on consolidated earnings considerably, however. Accordingly, net income dropped by only CHF 6.9 million to CHF 10.3 million (previous year: CHF 17.2 million). At the same time, earnings per share declined to CHF 0.22.

Substantial increase in cash and cash equivalents

The Highlight Group's financial condition improved again in fiscal 2003, with gross cash flow (before changes in net current assets) rising by 82.9% from CHF 52.7 million in the previous year to CHF 96.4 million. Including investing and financing activities, a net inflow of funds of CHF 75.4 million was recorded, reversing the previous year's net outflow of CHF 24.3 million. Group liquidity (cash, cash equivalents and securities) thus rose to CHF 167.6 million (December 31, 2002: CHF 72.3 million). On the other hand, there were bank liabilities of CHF 151.3 million (previous year: CHF 30.1 million).

Thanks to employees of the Highlight Group

Following the consolidation of Constantin Film AG, the number of employees at the Highlight Group increased from 310 (on December 31, 2002) to 540 at the end of 2003. The Board of Directors wishes to thank all of our Group's staff for their contribution to Highlight's success last year. With their great commitment and proven skills they again made a key contribution to the Group's performance.

Changes to the Board of Directors

In the course of the fiscal year, Marc Conrad stepped down from our Company's Board of Directors to take up a position on Constantin Film AG's Supervisory Board. In December 2003, our esteemed colleague Reinhold Camenzind passed away. We shall remember him with great gratitude for his many years of support. As part of plans to streamline and rejuvenate the Board of Directors, Marco Syfrig, Klaus J. Hempel, Jürgen Lenz and Dr. Urs Mühlebach resigned at the end of January 2004. However, Klaus J. Hempel and Jürgen Lenz will continue their involvement in the Highlight Group until June 30, 2009 as members and Presidents of TEAM's Board of Directors. The new members of Highlight's Board of Directors, which now comprises only six people, are René Camenzind, Martin Hellstern and Thomas Klooz.

Bright outlook for 2004

At the beginning of 2004, we split the Film and Home Entertainment division into two separate units in order to ensure even more focused activities. In the Film division, Constantin Film AG is responsible for license purchasing and cinema distribution for the entire Highlight Group, whereas the Highlight Group's Rainbow companies will be using their many years of sales and marketing experience in the Home Entertainment division.

With this structure, the Highlight Group is ideally positioned to further extend its leading position in the German-speaking film and home entertainment market as well as in the area of international sports and event marketing. Additional activities in connection with the marketing of the Eurovision Song Contest up until 2007 will also widen the basis of our business, prompting us to assume stable business performance this year.

It is thus with justified optimism that we await the decision concerning the new marketing contract for the UEFA Champions League expected for the mid of 2004. In response to the invitation for bids for the 2006/07–2008/09 seasons, our subsidiary TEAM has lodged with UEFA a high-quality offer complete with a marketing concept, with which it is seeking to continue the very successful joint activities of the past few years.

Pfäffikon, March 2004

Bernhard Burgener	René Camenzind	Martin Hellstern
Thomas Klooz	Dr. Ingo Mantzke	Martin Wagner

Board of Directors

Bernhard Burgener (born 1957)

President and Delegate of the Board of Directors
Engaged in film business since 1982. He established Rainbow Video AG, Pratteln, in 1983. He has been a shareholder since 1994 and was 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. Since January 2004 he has also been Delegate of the Board of Directors again.

René Camenzind (born 1951)

Member of the Board of Directors
Business man. 1974 – commenced career at Mythen Center Schwyz. 1990 – assumed management responsibility for Mythen Center. 2003 – elected president of the board of directors of Mythen Center Holding AG. Since January 2004 a member of Highlight Communications AG's Board of Directors.

Martin Hellstern (born 1934)

Member of the Board of Directors
Business man. 1963 – joined Rialto Film AG, Zurich, turning the group into the largest non-captive film company in Switzerland. Since 1990 member of the board of directors and shareholder of the largest Swiss cinema operator KITAG as well as Teleclub AG and CineStar SA, Lugano. Since 2003 key shareholder of Highlight Communications AG and since January 2004 member of Highlight Communications AG's Board of Directors.

Thomas Klooz (born 1954)

Member of the Board of Directors
Attorney with a Master of Laws (LL.M) degree. 1985–1992 – legal counsel and Vice President of ISL Marketing AG. Afterwards attorney in Zurich. Then active as the responsible of business & legal affairs and later as Managing Director of TEAM. Since February 1, 2004, Deputy CEO, member and secretary of TEAM's Board of Directors and since January 2004 member of Highlight Communications AG's Board of Directors.

Dr. Ingo Mantzke (born 1960)

Member of the Board of Directors and Chief Investor Relations Officer
MBA. 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.

Martin Wagner (born 1960)

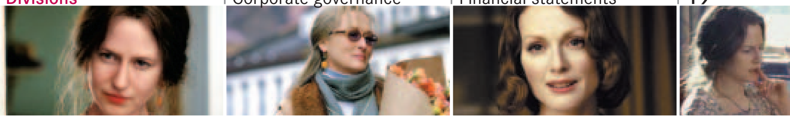
Vice-President of the Board of Directors and Head of legal affairs & compliance
Attorney. Mr. Wagner is a specialist in commercial law and a partner at a leading international law firm in Basel specializing in stock, stock-market and media law. As a senior legal counsel, he advises a number of listed companies in Switzerland and other countries.

Mr. Wagner has been a member of Highlight Communications AG's Board of Directors since May 2000.

On January 28, 2004, the following persons left the Board of Directors: Marco Syfrig, Klaus J. Hempel, Jürgen Lenz and Dr. Urs Mühlebach. Reinhold Camenzind passed away in December 2003.

The highlight on February 15, 2003: "The Hours" director Stephen Daldry at the Berlinale with three Silver Bears for the lead actresses.

The majority stake in Constantin Film AG has strengthened Highlight's position in the film sector substantially. By pooling the skills which the two companies have amassed over many decades, it is possible to cover the entire film exploitation chain.



Performance of the individual divisions: Film and Home Entertainment

Declining box-office takings

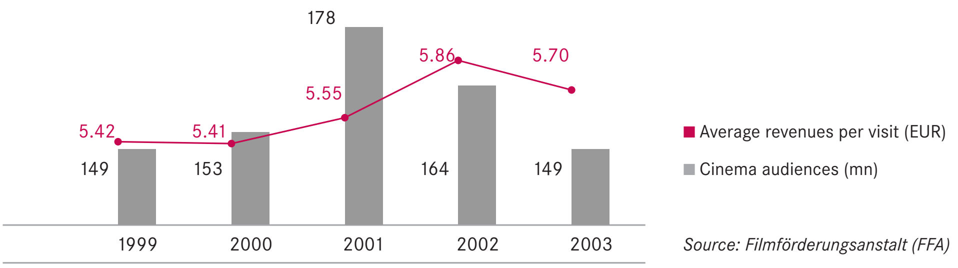
Cinema operators had little reason for joy in 2003. Declining visitor numbers and box-office takings assumed painful proportions in some cases. Thus, while in Italy, for example, visitor numbers were down just under 2%, France recorded a roughly 5% and Spain as much as an almost 8% decline in cinema audiences. The main reason for this trend is related to the record summer, the flat-to-contracting economies in Europe as well as the absence of any real blockbusters from the United States in the first half of the year. The only exception was “Lord of the Rings 2”, which was released in December 2002.

Even the US cinema market contracted for the first time in 12 years. Whereas the industry had repeatedly been able to make up for declining visitor numbers by hiking admission ticket prices since 1991, this system failed to work last year. According to Exhibitor Relations statistics, movie-goer numbers were down by more than 4%, resulting in gross takings of roughly USD 9.3 billion, just under 1% down on the previous year.

However, German cinemas were hit the hardest, with visitor numbers coming to only 149 million, the lowest figure since 1999. This translates into a decline of almost 15 million customers or more than 9% compared with 2002. Takings contracted even more sharply by 11.5% to EUR 850 million on account of lower ticket prices. Average takings per cinema visit thus contracted from EUR 5.86 to EUR 5.70.

December produced tentative signs of a turnaround, with blockbusters such as “Finding Nemo” or “Lord of the Rings 3” drawing roughly 18.4 million visitors back into the cinemas. As a result, the industry achieved its best performance in a single month for the past two years. However, it is important not to underestimate the fact that the DVD has since evolved into a serious rival to cinemas. As well as this, a study by German film funding bureau FFA clearly reveals the extent to which rampant film piracy – from private Internet downloads to criminal mass distribution – is taking its toll on legal film exploitation in Germany.

Cinema audiences and average revenues 1999–2003



Source: Filmförderungsanstalt (FFA)

Revival of German cinematography

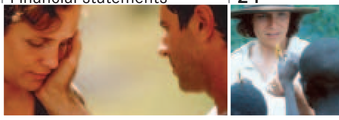
On the production side, the US majors again demonstrated beyond a shadow of a doubt the hold which they have on the international film market. Last year, no less than three studios were able to gross more than USD 1 billion in non-North American markets. The top international distributor was Buena Vista International, which broke its own internal record by grossing around USD 1.9 billion on releases such as “Finding Nemo” and “Pirates of the Caribbean”. Warner Brothers achieved the same feat with the “Matrix” sequels and “Lord of the Rings 2”, on which the company grossed a good USD 1.6 billion. Sony benefited from the distribution of the action sequels “Terminator 3” and “Bad Boys 2”, coming in third with gross takings of just over USD 1 billion.

2003 was also a very successful year for the German film industry, with national productions enjoying an international breakthrough again for the first time since the heyday of worldwide renowned directors Herzog, Wenders, Petersen and Fassbinder. The first success was in March with the Constantin co-production “Nowhere in Africa”, which received an Oscar® for best foreign film in Los Angeles.

The “ostalgia” comedy “Good Bye, Lenin!” attracted more than 6.4 million viewers in Germany alone, becoming one of the top three films of the year. As well as this, it was sold to more than 40 countries and garnered no less than six European film awards in December, including the top distinction of “Best European Film 2003”. This was the first time that this award had gone to a German production.

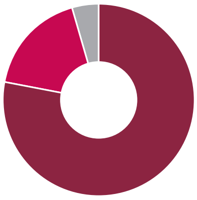
Yet, it was not the only success story: A further four German productions also passed the one-million mark of cinema visitors in Germany, namely post-war family epic “Das Wunder von Bern” (3.3 million), the reformation biography “Luther” (2.3 million), the remaking of the Erich Kästner story “The Flying Classroom” (1.9 million) and the cartoon comedy “Werner – Gekotzt wird später” (1.1 million).

Spurred by these box-office hits, German productions widened their share of the local market substantially from 11.9% to 17.5%. The fact that these home-grown successes were still not sufficient to make up for declining visitor numbers testifies to the dependence of German cinema operators on Hollywood hits.



Winner of an Oscar® in 2003: The film version of Stefanie Zweig's novel "Nowhere in Africa"

Breakdown of movie market 2003



German films 17.5%

US majors 78.0%

Other independents 4.5%

Source: Blickpunkt Film

German independents afflicted by financial problems

However, the upswing in the German film industry also had a negative side as local film companies were largely unable to benefit from the commercial success of their releases. Already risky enough as it is, film business is suffering from narrowing margins, one reason for this being the fact that TV broadcasters are trimming their budgets. However, it is vital for companies producing movies to be able to sell the TV rights.

Besides, the output deals, which tended to be the rule rather than the exception during the boom years of the "Neuer Markt", are inflicting considerable harm on the German film industry. These contracts, which are based on prices fixed in advance give the buyer guaranteed exploitation rights for a certain number of films without, however, providing any scope for influencing the quality or budget. This is much to the benefit of the US majors, which in peak times were able to push the price of licenses for Hollywood productions up to as much as 16% of the production budget.

The consequences of this overheated film license market are obvious: It was only possible to sell the exorbitantly priced films at a loss, if at all, causing license trading in Germany to come to an almost complete standstill. At the same time, some operators (e.g. Kinowelt, Helkon and Das Werk) were driven into bankruptcy, while others have made little headway in recent times. However, the economic problems of these companies have increasingly caused competitive pressure to subside. As a result, it is now possible to acquire film rights on the basis of individual contracts at sensible prices.

On the other hand, creditors have become a good deal more cautious, making project finance increasingly difficult. Banks which invested heavily in film business in the exhilarating years between 1999 and 2001 are now retreating, with sober commercial budgeting replacing the earlier irrational exuberance. Accordingly, industry observers agree that only companies covering the entire exploitation chain like their US counterparts have any chance of survival in the long term.





Top family entertainment: The adaptation of Erich Kästner's best known children's book "The Flying Classroom"

New adventures for the cult cartoon character: The Bernd Eichinger production "Werner – Gekotzt wird später"

Highlight and Constantin: Pooling expertise along the entire value chain

This is precisely one of the reasons why Highlight Communications AG acquired a majority stake in Constantin Film AG last year. Since its establishment in 1979, Constantin Film AG with its subsidiaries has evolved into the most successful distribution and production company in the German market. With the decades of expertise that it has amassed in the film production as well as the cinema and TV exploitation areas, Constantin Film AG is a perfect match for the proven skills of the Highlight Group's Home Entertainment division. By combining the two companies' core competence under a single roof, it is possible to harness a wide range of different synergistic benefits and also to cover the entire film exploitation chain comprising the movie release, followed by the video/DVD market and then TV marketing.

The prominent position which Constantin holds in the German film market is, for example, documented by the fact that it achieved by far the top position among the independent distributors in 2000–2002. The fact that with a total of 5.9 million movie visits it merely achieved second place in 2003 is primarily due to the fact that, although it continued to produce good to very good films, it did not have any releases of the caliber of "Good Bye, Lenin!" (X-Verleih) or "Das Wunder von Bern" (Senator Film) for the first time in many years.

Last year, Constantin released a total of 20 movies in Germany, with "The Flying Classroom" and "Werner – Gekotzt wird später" proving to be the undisputed favorites amongst viewers. However, the Constantin co-production "Sams in Gefahr" released in December 2003 has also attracted an audience of more than 1 million, additionally receiving the Bavarian Film Prize for best children's movie in January 2004. A further highlight was doubtless "City of God" – a drama about drugs and poverty in the slums of Rio de Janeiro – which has attracted around 450,000 movie-goers.

Constantin managed to gain ground in the TV market. With the acquisition of a 61% stake in KirchMedia Entertainment GmbH, it now has such successful court-room shows as "Das Strafgericht" (RTL), "Richter Alexander Hold" (Sat.1) and afternoon talk show "Arabella" (ProSieben) in its portfolio. In addition, Constantin completed the shooting of three new episodes of TV detective series "Rosa Roth" (ZDF) starring the popular actress Iris Berben and successfully established a further prime-time sitcom "Bewegte Männer" – alongside cult series "Hausmeister Krause".

Awarded the Bavarian Film Prize for best children's film for 2003: "Sams in Gefahr" with Ulrich Noethen

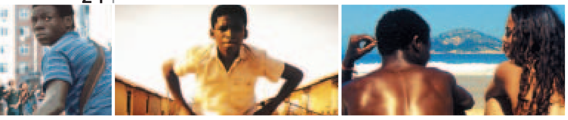
Highlights in 2004

Given this strong market position, it was only logical for us to transfer the entire Highlight Group's license sourcing and movie exploitation operations to our new partner Constantin at the beginning of the new fiscal year. This decision paid off as early as in spring 2003 when we released the Oscar®-winning (Nicole Kidman) film version of the bestseller "The Hours" in conjunction with Constantin in Germany, thus generating audience figures of over 800,000.

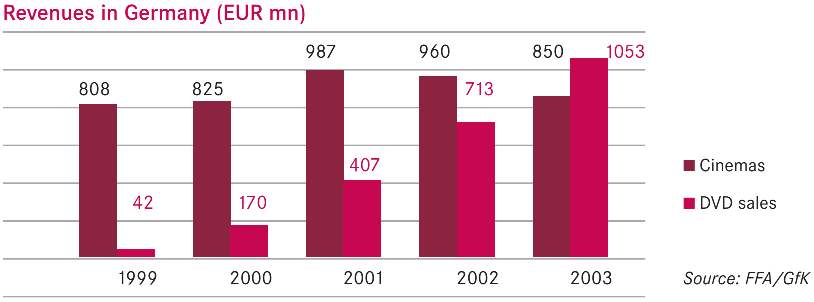
This year, Constantin has slated at least 20 movie releases – including 9 own and co-productions and 11 external films – which are certain to meet with a strong audience response. This includes "(T)Raumschiff Surprise - Periode 1" – the latest comedy by Michael "Bully" Herbig, who previously made "Der Schuh des Manitu", one of the most successful German films ever. The new Mel Gibson epos "The Passion of Christ", which has proved to be a box office smash in the United States, also promises to be a major success. A further highlight is the Bernd Eichinger production "Der Untergang", which traces the last few days of the Third Reich.

We were particularly looking forward to this year's Academy Awards in Los Angeles as three films distributed by Constantin had been nominated for a total of 10 of the coveted Oscars®, particularly "Lost in Translation", which had already received three Golden Globes. This successful movie, which has wowed audiences of over 800,000 since being released in Germany at the beginning of January 2004, was nominated in four main categories, namely best film, best male actor in a leading role (Bill Murray), best director and best original script. The fact that ultimately "only" author and director Sofia Coppola received an award was ultimately due to the overwhelming dominance of "Lord of the Rings 3", which received a total of 11 Oscars®.

Another top contender with four nominations was "City of God", which received great critical and box-office acclaim last year. The film was nominated for best director, best camera, best editing and best adapted script. Two further nominations were received by Naomi Watts as best actress in a leading role and Benicio del Toro as best actor in a supporting role in the drama "21 Gramm", which Constantin released in Germany at the end of February 2004.



Worthy of special merit: The authentic study of the slums of Rio de Janeiro in "City of God"



DVD boom unabated

In the home entertainment segment, the DVD continued to make headway as the leading film medium. The boom initiated by the DVD in only a few years is unique in the history of the entertainment industry. As recently as in 1999, film DVDs played only a marginal role. Since then they have left the conventional video cassette far behind them both in selling and rental business.

The official statistics for the German home entertainment market show that only one in four videos sold last year was a VHS cassette, down from just under 45% in the previous year. The difference is even more pronounced in sales revenues. Accounting for more than 84% of revenues, the DVD has left VHS far behind it. As a result, VHS sales as a proportion of the entire market dropped by almost half in the space of a single year (2002: 31.5%; 2003: 15.9%).

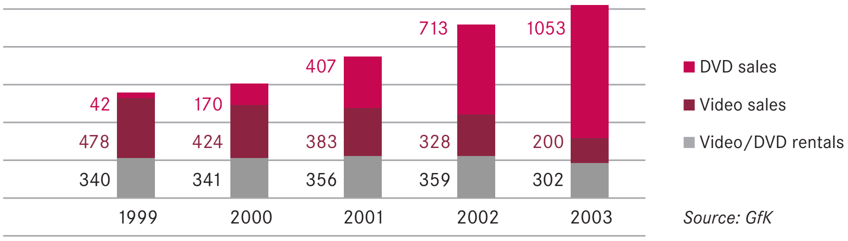
In absolute terms, DVD revenues exceeded the magic EUR 1 billion mark for the first time, rising by an impressive 47.7% over the previous year. The most popular releases were again action films followed by science fiction adventures and comedies. These three genres jointly accounted for almost 63% of the market. A glance at buyer structures reveals that acceptance of the DVD on the part of older generations is also increasing substantially. Whereas the share of DVD buyers aged 40 years or older stood at just over 26% in 2002, it has since risen to more than 32%.

With its unrivaled success story, the DVD also exceeded box office takings for the first time last year. The German market is gradually moving in the same direction as the US market, where DVD/video business generated more than twice the volume of revenues as movie exploitation in 2002. Even so, box-office takings remain the benchmark for determining the appeal of a production as only cinema hits generate real money in the ensuing lucrative exploitation stages.

Rental business contracting

Rental business, which had been characterized by largely flat revenues since 1999, contracted sharply in 2003, with total revenues from DVD/video rentals falling by almost 16% from EUR 359 million to EUR 302 million in Germany alone. The main reason for this was the sharp decline in VHS rentals, which shrank by just under 59% year on year. Although revenues from DVD rental business increased by more than 50% in the same period, this was not sufficient to fill the gap in video business. As a result, there was a complete reversal in the market structure in the space of only one year. Accounting for more than 70% (previous year 39%), the DVD has now presumably won the race once and for all.

German home entertainment revenues (EUR mn)



Source: GfK

However, the imminent extinction of the video cassette is no cause for concern in the home entertainment industry as the sharp rise in sales of DVD players is more than making up for declining VHS recorder sales. Following on from sales volumes of around 1.6 million in 2001, the 6 million mark was crossed last year. This means that 45 percent of all German households own a DVD player, with no end to the boom in sight just yet.

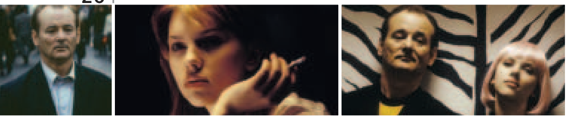
The overwhelming success of the DVD triggered another phenomenon – the period between the cinema release of a movie and its DVD exploitation is growing shorter and shorter. In fact, the delay is now being measured in weeks rather than in months. This is doubtless partially due to the wider margins, the swifter return on investment and the substantially longer exploitation periods offered by DVD compared with cinema exploitation.

Increasingly rampant piracy

However, a far more serious factor is rampant film piracy as the growing number of DVD users is also causing the market for pirated copies to widen. Trade in illegally copied movies has long since assumed the proportions of organized crime, as a result of which films are in circulation even before they are released in the cinemas. The Association for the Persecution of Copyright Breaches (GVU) estimates that this is causing revenue losses of 15% for the film industry.

In addition to the organized black market for illicit copies, copying DVDs on home PCs has become a “pastime for the masses” all around the world. Thus, for example, a study performed by market research company Gesellschaft für Konsumforschung (GfK) found out that one out of 12 Germans already owns illegally copied DVDs. In January to August 2003 alone, more than 13 million movies were downloaded from the Internet. Extrapolated for the year as a whole, this translates into a volume of some 20 million films, each of which is copied two or three times on average.

What can be done to clamp down on this unbridled piracy? In Germany, methods based on deterrence are being applied: The new Copyright Act, which took effect in 2003, outlaws attempts to undermine anti-copying mechanisms and copies of “evidently illegal sources”. Software and systems capable of overriding the copyright protection may not be offered or used. These measures are aimed at heightening awareness of the illegality of such activities.



Recipient of three Golden Globes and one Oscar® in 2004: "Lost in Translation" starring Bill Murray

Highlight Group reinforcing market leadership in the German-speaking region

The Highlight Group was able to utilize the boom in the DVD market to further extend its top position in the German-speaking market. The long-standing distribution partnership with Paramount Home Entertainment GmbH, one of the six most successful labels in Germany, was further intensified. Measured in terms of DVD sales, Paramount's market share widened substantially last year from 6% to 8%, with this growth rivaled only by Warner Home Entertainment.

With its Rainbow subsidiaries, the Highlight Group has since become a leading partner for the US studio majors in Austria and Switzerland. Among other things, this can be seen in the fact that our Austrian subsidiary Rainbow Home Entertainment added two new labels, Universal Pictures and Columbia TriStar, whose libraries are also amongst the top four sellers in Germany, to its portfolio last year. These deals have further strengthened our top position in Austria.

We expect to achieve further improvements this year as a result of the partnership agreement entered into with Constantin in November 2003. The purpose of this long-term agreement is to substantially widen the two companies' position in the home entertainment market by harnessing their shared expertise. In this connection, Constantin has been exploiting the video and DVD rights to licensed and proprietary productions under the "Constantin Film" label since the beginning of this year, with Highlight Communications AG handling the marketing and distribution.

In rental business, which is traditionally characterized by particular proximity to the final consumer, we were able to defend our market leadership in spite of the general decline in revenues. Mirroring the general market trend, our subsidiary "Joe's Multimedia", with 31 outlets the largest media chain in the German-speaking part of Switzerland, extended its range of DVDs substantially in tandem with cuts to the selection of VHS titles.

The highlight in September 2003: The International Consumer Electronics Show in Berlin testifies to consumers' unabated interest in DVDs and wide-screen TVs.

The DVD will remain the key driving force in home entertainment in the foreseeable future. With its successful labels Paramount, Universal, Columbia, Dreamworks and, starting in 2004, Constantin, the Highlight Group will be able to defend its status as market leader in the German-speaking region.

The moment of victory:
AC Milan defeating
Juventus Turin at the UEFA
Champions League Final 2003
in Manchester.

Highlight subsidiary TEAM successfully signed agreements for the sale of UEFA Champions League rights for the 2003/04, 2004/05 and 2005/06 seasons and can extend its business by marketing the rights to the Eurovision Song Contest.



Performance of the individual divisions: Sports and Event Marketing

Negotiations successfully completed in spite of difficult market conditions

The marketing of the TV rights for the UEFA Champions League, which our subsidiary TEAM has been handling ever since the introduction of central marketing in 1992, proved more difficult than in earlier years. Changes in the TV market, particularly in the Pay-TV segment, the difficult economic environment inside and outside Europe, the implementation of the agreements reached between UEFA and the EU Commission with respect to the central marketing system and the 25% reduction in the competition format were all factors affecting the sale of the broadcast rights.

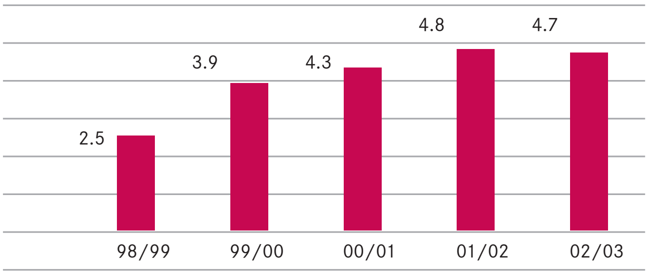
In spite of these restrictive conditions, TEAM was able to exceed expectations. The UEFA Champions League remains a very attractive format for TV broadcasters and will continue to be supported in the future by strong Free-TV and Pay-TV partners. The range of offerings available to TV viewers wishing to watch individual matches is greater than ever. Financially the UEFA forecasts were exceeded. In particular, revenues per match night were increased, a fact which underscores the success of TEAM’s sales process.

All in all, the TV broadcasts of the UEFA Champions League were seen by audiences numbering some 4.7 billion in the 2002/03 season, i.e. almost as high as in the previous season, when a record 4.8 billion viewers watched the matches. This strong response underscores once more the popularity and outstanding role played by this competition in international sports.

The contracts with the four UEFA Champions League sponsors – Heineken/Amstel, Sony PlayStation, Ford and MasterCard – were renewed up until the 2005/06 season. The supplier contract with adidas was also extended. In addition, Sharp and Canon, two internationally renowned companies were signed up as official suppliers. This means that all available packages of rights for the UEFA Champions League have been sold.



TV viewers of UEFA Champions League worldwide (bn)



Focus on Champions League marketing in 2006–2009

TEAM's activities this year will initially be concentrating on the renewal of the marketing contract for the UEFA Champions League. At the beginning of February, UEFA officially called for bids for the marketing contract for 2006–2009. Only agencies which have a proven track record in marketing major TV sports events are eligible to take part in the bidding process.

As a long-standing partner to UEFA, TEAM has already lodged a high-quality and innovative bid including a marketing concept within the requisite period and thus applied for a continuation of the successful joint activities. We are very confident that TEAM has every chance of being awarded the contract again, a decision on which is expected for mid-year. Our optimism is based on the renenues achieved for UEFA from marketing the rights, on the one hand, and TEAM's proven professionalism and competence in the operative management of the UEFA Champions League. Nonetheless, there is a certain residual risk that the contract may end up being awarded to a different company.

An initial major football event for TEAM is the UEFA Cup Final scheduled for May 19 in Göteborg. This will be followed one week later by the UEFA Champions League Final, the season highlight, which will be held in the unique atmosphere of the "Auf Schalke" arena. The 2003/04 season will then be wound up with the UEFA European Under-21 Championship final tournament taking place in Germany from May 27 until June 8.

Strategically, decisive steps have also been taken to ensure the Highlight Group's continued success. In an agreement entered into at the end of January, the founders and presidents of TEAM, Klaus J. Hempel and Jürgen Lenz, undertook to remain with our Company until June 30, 2009 in order to ensure continuity in the management of the TEAM Group's business. In addition, this agreement provides for Highlight Communications AG to acquire the remaining 20% stake in Team Holding AG on July 1, 2005, meaning that TEAM will become a wholly owned subsidiary as of that date.

The top event in European club football attracting strong media interest: The UEFA Champions League

TEAM expertise also sought for the European Song Contest

TEAM's proven competence and track record in marketing pan-European TV events did not go unnoticed by the European Broadcasting Union (EBU). In spring 2003, TEAM was awarded the contract to market the European Song Contest, also known as "Grand Prix Eurovision de la Chanson". The company will be exploiting the rights to this popular Europe-wide event between 2004 and 2007.

This competition can look back on a long history, which commenced in 1956, and will be celebrating its 50th anniversary soon. The outstanding importance of this event is also reflected in the fact that the list of winners includes such world stars as ABBA and Celine Dion, serving them as a launch pad for a major international career. Public interest in this media spectacle is also extremely high, with European-wide audiences of some 70 million watching last year's live broadcast.

This years contest will be taking place in Istanbul in mid May. For the first time in its history, the contest, which traditionally takes place on a Saturday, will be preceded by a semifinal so that all interested countries are able to take part. After almost bursting at the seams last year with 26 participants, the event will have 36 registered nations in 2004, thus providing further proof of the high appeal of this event.

Participants in the final include host country Turkey, the four major EBU members – Germany, France, the UK and Spain – as well as the previous year's nine most successful participants. A further ten nations can qualify for the main event in the semifinal taking place on May 12, in which 22 participants will be taking part. This means that a total of 24 countries will be taking part in the final on May 15.

Viewer voting to replace jury decisions

A new system will also be implemented for voting in 2004. This year, the decision will be in the hands of the viewers, who will be able to vote for their favorites over the telephone. Voting by SMS will also be possible to heighten opportunities for taking part. Decisions by juries, which were common in the past, will only be allowed in exceptional cases, e.g. if televoting is not possible. In the semifinal, all nations broadcasting the event as well as the participating countries will be entitled to vote. During the final, viewers in all 36 registered countries will be able to vote.

The pan-European TV highlight with a history spanning almost 50 years: The Eurovision Song Contest

However, this new voting method requires far more complex technical and logistic resources. By gaining the services of Deutsche Telekom as a partner for the EBU, TEAM has managed to solve this issue in a relatively short space of time. The Deutsche Telekom subsidiary diagame.de has since developed a system for European-wide telephone and SMS voting and will be implementing the system in the semifinal and the grand final.

In addition to establishing the first pan-European marketing platform in the entertainment sector, TEAM has developed a long-term brand image for the European Song Contest complete with a permanent logo suitable for the integration of each individual venue.

"Under one sky" – this is the motto under which the stage for the European Song Contest in Istanbul is currently being set up in Istanbul. It also marks a new venture for TEAM.

TEAM's high competence and proven track record in marketing large international TV events did not go unnoticed by the European Broadcasting Union (EBU). Accordingly, the company will be exploiting the marketing rights to the European Song Contest between 2004 and 2007.

The highlight in February 2004: The Berlinale remains the trendsetter and a sales driver for German film business.

Just under five years after going public, the Highlight Group has evolved into one of the leading operators in film, home entertainment as well as sports and event marketing. With its diverse risk profile and stable payment flows, the Company is ideally poised for further profitable growth.

Corporate governance

Introduction

The Highlight Group welcomes the corporate governance rules as they heighten transparency for shareholders. As a Swiss company, Highlight Communications AG fundamentally complies with the rules issued by SWX Swiss Exchange.

The following corporate governance disclosures are confined to what is of material importance for shareholders. Information given on the Company's organization and structure was correct as of the time of going to press. The Board of Directors has been reorganized pursuant to the resolutions passed at the extraordinary shareholders' meeting of January 28, 2004 (see Chapter 3 Board of Directors).

1. Group structure

1.1. Operative group structure

Highlight Communications AG and its group companies make up the Highlight Group, herein after referred to as the "Highlight Group".

1.2. Listed companies

1.2.1. Highlight Communications AG

Highlight Communications AG has its registered offices in Pfäffikon/SZ, Switzerland and has been listed on the Frankfurt stock exchange since May 11, 1999. It is included in the SDAX index (ISIN: CH 000 653 9198, German WKN number: 920 299, Ticker: HLG). Market capitalization on December 31, 2003 came to EUR 127.1 million.

1.2.2. Constantin Film AG

Highlight Communications AG holds a majority stake in Constantin Film AG, Munich, Germany. This company has been listed on the Frankfurt stock exchange since September 30, 1999. The stock is included in the CDAX index (ISIN: DE 000 580 0809, German WKN number: 580 080, Ticker: CFA). Highlight Communications AG holds 57.98% of Constantin Film AG's capital. Market capitalization on December 31, 2003 stood at EUR 49.9 million.

1.3. Non-listed subsidiaries

1.3.1. Non-listed subsidiaries of Highlight Communications AG

The following non-listed companies are consolidated in Highlight Communications AG's accounts:

Subsidiary	Issued capital		Size of share
Highlight Film und Home Entertainment GmbH Munich, Germany	EUR	255,646	100%
Highlight Filmproduktion und Werbeagentur GmbH Munich, Germany	EUR	102,258	100%
Rainbow Home Entertainment GmbH Vienna, Austria	EUR	363,364	100%
Rainbow Video AG Pratteln, Switzerland	CHF	200,000	100%
Joe's Multimedia AG Wil, Switzerland	CHF	5,000,000	100%
Team Holding AG Lucerne, Switzerland	CHF	200,000	80%
Team Football Marketing AG Lucerne, Switzerland	CHF	6,340,000	76.2%
T.E.A.M. Television Event And Media Marketing AG Lucerne, Switzerland	CHF	200,000	80%

1.3.2. Non-listed subsidiaries of Constantin Film AG

Please refer to Constantin Film AG's annual report for details of its material subsidiaries and equity interests.

1.4. Principal shareholders

1.4.1. Highlight Communications AG

A total of six natural persons and investor groups hold substantial blocks of shares. The largest shareholders are Bernhard Burgener with 7.4% and René Camenzind with 5.3%. The rest is held by institutional investors and funds as well as private investors. The Board of Directors is aware of no other material shareholders (over 5%).

As stated in the ad-hoc bulletin dated May 24, 2002, Highlight Communications AG conducts an active stock buy-back program. Depending on market conditions, stock of up to a maximum of 10% of the Company's issued capital as stipulated by Swiss law is bought back.

In the year under review, a total of 4,993,806 own shares were bought back and sold to institutional and private investors. The maximum volume of own shares came to 6.39% of the Company's issued capital. On December 31, 2003, treasury stock comprised 531,516 shares, equivalent to 1.12% of the Company's issued capital.

This figure is regularly updated on Highlight Communications AG's website at www.highlight-communciations.ch.

1.4.2. Constantin Film AG

Highlight Communications AG holds 57.98% of Constantin Film AG's issued capital. A further 25.1% of Constantin Film AG's issued capital is held by Mr. Bernd Eichinger, a renowned film producer and the company's founder. The rest is held by institutional investors and funds as well as private investors.

On June 5, 2003, Highlight Communications AG entered into a shareholder agreement with Bernd Eichinger concerning Constantin Film AG.

1.5. Cross shareholdings

There are no cross shareholdings.

2. Capital structure

2.1. Capital

Highlight Communications AG's issued capital comprises CHF 47,250,000 and is divided into 47,250,000 bearer shares with a nominal value of CHF 1 each.

2.2. Authorized capital

On May 20, 2000, the Annual General Meeting established authorized share capital of CHF 12,750,000 and empowered the Board of Directors to execute a capital increase by issuing 12,750,000 bearer shares at CHF 1 each by May 30, 2002. No capital increase was implemented by that 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. As of December 31, 2003, the authorized capital comprises 60,000,000 bearer shares at a nominal value of CHF 1 each. All shares outstanding are paid up in full.

No use has been made of the authorized capital to date.

2.3. Changes in capital

On June 3, 2003, the shareholders passed a resolution at the Annual General Meeting to change the nominal value of the share from CHF 10 to CHF 1. As a result, the shares themselves and not fractional rights are traded. This conversion took effect on August 7, 2003.

Aside from this stock split, there has been no change in the Company's share capital in the past three years.

2.4. Shares, participating and profit-sharing rights

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

2.5. Restrictions on the transferability of shares and registration of nominees

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

3. Board of Directors

The duties of the Board of Directors are primarily governed by the Swiss law of obligations, the Company's bylaws and the rules of conduct adopted by the Board of Directors.

3.1. Members of the Board of Directors

At the extraordinary shareholders' meeting held on January 28, 2004, the shareholders elected three new Directors. These are René Camenzind, Martin Hellstern and Thomas Klooz. Accordingly, the Board of Directors now comprises the following members:

Bernhard Burgener, President and Delegate (member since 1994)
Swiss national, businessman, entrepreneur;
responsible for shareholders and strategy, executive member

René Camenzind (member since 2004)
Swiss national, businessman, entrepreneur; non-executive member;
there are no material business relations with the Highlight Group

Martin Hellstern (member since 2004)
Swiss national, businessman, entrepreneur; non-executive member;
there are no material business relations with the Highlight Group

Thomas Klooz (member since 2004)
Swiss national, attorney;
Deputy CEO at TEAM, executive member

Dr. Ingo Mantzke (member since 1999)
German national, MBA;
Chief investor relations officer, executive member

Martin Wagner, Vice President (member since 2000)
Swiss national, attorney at law;
Head of legal affairs & compliance, executive member

3.2. Further (corporate) activities and interests

Bernhard Burgener	*President of the Board of Directors of Rainbow Video AG, Pratteln, Switzerland* *Managing director of Rainbow Home Entertainment GmbH, Vienna, Austria* *President of the Board of Directors of Lechner Marmor SA, Laas, Italy* *Member of the Board of Directors of Escor AG, Düdingen* *President of the Board of Directors of Team Holding AG, Lucerne, Switzerland* *Member of the Board of Directors of Team Football Marketing AG, Lucerne, Switzerland* *Member of the Board of Directors of T.E.A.M. Television Event And Media Marketing AG, Lucerne, Switzerland*
René Camenzind	*President of the Board of Directors of Mythen Center AG, Schwyz, Switzerland*
Martin Hellstern	*Member of the Board of Directors of KITAG AG, Zurich, Switzerland* *Member of the Board of Directors of Teleclub AG, Zurich, Switzerland* *Member of the Board of Directors of CineStar SA, Lugano, Switzerland* *Member of the Board of Directors of Praesens Film AG, Zurich, Switzerland*
Thomas Klooz	*Member of the Board of Directors and Secretary of Team Holding AG, Lucerne, Switzerland* *Member of the Board of Directors and Secretary of Team Football Marketing AG, Lucerne, Switzerland* *Member of the Board of Directors and Secretary of T.E.A.M. Television Event And Media Marketing AG, Lucerne, Switzerland*
Dr. Ingo Mantzke	*Chairman of the Supervisory Board of CornerstoneCapital AG, Frankfurt*
Martin Wagner	*Member of the Board of Directors of Jean Frey AG, Zurich*

3.3. Cross integrations

There are no cross integrations.

3.4. Election and tenure

The Board of Directors comprises at least three members who are generally elected at the ordinary shareholders' meeting for the period of one year. Re-election is possible at all times.

3.5. Internal organization

3.5.1. Constituent meeting and allocation of duties

The Board of Directors is responsible for supervising, monitoring and controlling the management. It is the Company's highest body and is constituted by itself. It comprises the President, Vice-President and, if necessary, the Secretary. It issues its own rules of conduct, which were last revised on April 2, 2004, and organizes the corresponding contractual relations.

The President of the Board of Directors, Bernhard Burgener, is responsible for the Company's management and is thus the Board of Directors' delegate. Martin Wagner is the Vice-President and is head of legal affairs and compliance for the entire Group.

3.5.2. Meetings of the Board of Directors

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

3.5.3. Committees

There are currently no committees. The Board of Directors committee was disbanded in a resolution passed on January 28, 2004.

3.6. Allocation of duties

The allocation of duties on the Board of Directors is governed in the rules of conduct dated April 2, 2004.

3.7. Management information and supervision instruments

The chief financial officer informs the Board of Directors of the Company's business performance and trends in the relevant business indicators. External controlling instruments are provided by the auditors.

4. Management

The following disclosures were correct as of April 2, 2004.

4.1. Members of management

4.1.1. Corporate

Bernhard Burgener, President and Delegate of the Board of Directors

Swiss national, responsible for Group strategy, established Rainbow Video AG, Pratteln in 1983. Since 1994 shareholder and until 1999 Delegate of the Board of Directors. Since 1999 President of the Board of Directors.

Martin Wagner, Vice-President of the Board of Directors, Head of legal affairs & compliance

Swiss national, responsible for all the Group's legal affairs, partner and business attorney in an international law firm in Basel, advises a number of listed companies in Switzerland and abroad.

Dr. Ingo Mantzke, member of the Board of Directors

German national, responsible for investor relations of the Highlight Group, previously director of Deutsche Börse AG and a member of the Highlight Group's Board of Directors since February 1999.

Peter von Büren, managing director, head of IT group and internal affairs

Swiss national, many years of management experience at the Highlight Group, a member of the management of Rainbow Video AG since 1994.

Dr. Paul Graf, managing director, secretary-general of the Board of Directors

Swiss national, businessman, previously managing director of electronics at Ciba Specialty Chemicals, with the Highlight Group since July 2000.

Roy Häfliger, managing director, interim CFO

Swiss national, head of finance and accounting/administration, many years of management experience at the Highlight Group, with the Company since 1990.

4.1.2. TEAM (Division Sports and Event Marketing)

On January 27, 2004, the Highlight Group signed an agreement to retain the management and corporate functions of Klaus Jörgen Hempel and Jürgen Lenz for TEAM until June 30, 2009. On February 1, 2004, Richard Worth assumed the position of CEO and replaced Klaus Jörgen Hempel and Jürgen Lenz, who, however, will be retaining their functions as members of the Board of Directors of the TEAM Group companies until June 30, 2009 and will be responsible for the strategic business development.

Klaus Jörgen Hempel, President and Delegate of the Board of Directors of TEAM

German national, MBA, many years of experience at Unilever and adidas, from 1981 until 1991 President and CEO of ISL Marketing AG in Lucerne, 1991 founded TEAM with Jürgen Lenz.

Jürgen Lenz, President and Delegate of the Board of Directors of TEAM

German national, MBA, many years of experience at McCann-Erickson and adidas, from 1981 until 1991 Executive Vice-President and COO of ISL Marketing AG in Lucerne, 1991 founded TEAM with Klaus Jörgen Hempel.

Richard Worth, CEO of TEAM

UK national, degree in economics at Brighton, England, activities with ITV, particularly as executive producer for sports, with TEAM since 1995, initially in charge of TV and subsequently acting as COO.

Thomas Klooz, member of the Board of Directors, Deputy CEO of TEAM

Swiss national, attorney, from 1985 until 1992 legal counsel and Vice-President at ISL Marketing AG, subsequently attorney in Zurich, then Managing Director at TEAM and responsible for business & legal affairs.

4.1.3. Home entertainment (Division Film)

Franz Woodtli, managing director home entertainment

Swiss national, businessman, with Rainbow Video AG since 1985, managing director in charge of video/DVD since 1999, many years of management experience with the Highlight Group.

Rolf Lanz, managing director Joe's Multimedia

Swiss national, businessman, member of management of Joe's Multimedia since 1992, many years of management experience with the Highlight Group, with the Company since 1983.

4.1.4. Constantin Film (57.98% share held by Highlight Communications AG)

The Management Board is the top executive body of Constantin Film AG and on December 31, 2003 comprised Fred Kogel, Thomas Peter Friedl, Martin Moszkowicz and Dr. Daniel Wiest. Please refer to Constantin Film AG's annual report for further information and details.

4.2. Further corporate activities and interests

None.

4.3. Management contracts

There are no management contracts with third parties.

5. Compensation, equity interests and loans

The Board of Directors oversees the compensation paid to members of the management bodies. The delegate of the Board of Directors determines the amount of compensation paid to the members of the management, who in term determine the compensation payable in the individual operative units.

Please refer to Constantin Film AG's annual report for information on its compensation and remuneration policies.

5.1. Compensation to members of management bodies

Total remuneration (including all expenses) of CHF 7.995 million (previous year CHF 5.993 million) was paid to nine members of Highlight Communications AG's Board of Directors, of whom six hold executive positions with Group companies.

5.2. Allocation of shares in the year under review

In the year under review, no shares were allocated to the Board of Directors or management.

5.3. Share holdings

As at January 28, 2004, the members of the Board of Directors held the following shares in the Company:

Bernhard Burgener, President & Delegate	3,500,000 shares	(7.41%)
René Camenzind, member	2,502,550 shares	(5.30%)
Martin Hellstern, member	2,300,000 shares	(4.87%)
Dr. Ingo Mantzke, member	81,010 shares	(0.17%)
Martin Wagner, Vice-President	37,500 shares	(0.08%)
Thomas Klooz, member	25,000 shares	(0.05%)

5.4. Options

There are currently no option programs.

5.5. Additional fees and compensation

None.

5.6. Loans to members of the management bodies

In the period under review, no loans were granted to members of the management bodies.

5.7. Maximum total compensation

The member of the Board of Directors with the highest total compensation in the year under review received a sum of CHF 1.748 million.

6. Shareholders’ rights

6.1. Restrictions on voting rights, voting by proxy

6.1.1. All restrictions on voting rights

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

6.1.2. Statutory rules on participation in the Annual General Meeting

The provisions of the Swiss law of obligations apply.

6.2. Statutory quorum

The statutory provisions apply.

6.3. Procedure for convening the Annual General Meeting

The provisions of the Swiss law of obligations apply.

6.4. Agenda

The provisions of the Swiss law of obligations apply.

6.5. Registration in the share book

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

7. Change of control and defense measures

7.1. Duty to bid

A party acquiring shares in the Company is not required to lodge a public bid pursuant to Articles 32 and 52 of the Federal Act on Stock Exchanges and Stock Trading.

7.2. Change-of-control clauses

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.

8. Auditing

8.1. Duration of auditing mandate

The auditing mandate for Highlight Communications AG is held for a period of one year subject to a resolution of the shareholders meeting. PricewaterhouseCoopers AG in Lucerne (PwC) audited our annual financial statements for the year ending December 31, 2001 for the first time. The head auditor is Mr. Urs Renggli.

8.2. Auditing fee

In fiscal 2003, a fee of CHF 260,000 was paid in connection with auditing activities for the AG and the Group. No further fees were paid in this connection to PwC during the year under review.

9. Information policy

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

These publications are distributed via defined channels and issued on demand. In addition, the website at www.highlight-communications.ch is continuously updated and includes all key information and references to media reports.

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

Consolidated financial statements

for the year ended December 31, 2003 of Highlight Communications AG, Pfäffikon

Consolidated balance sheet for the year ended December 31, 2003

Highlight Communications AG, Pfäffikon

ASSETS (CHF 000s)	Note	Dec. 31, 2003	Dec. 31, 2002*
Fixed assets			
Long-term receivables	17	433	0
Shares in associated companies	11	0	42,282
Tangible fixed assets	12	8,767	4,738
Film assets			
– Own productions	13	209,899	0
– Third-party productions	13	55,689	29,028
Securities held as non-current assets	19	455	0
Goodwill	14	28,056	8,832
Other intangible assets	15	354	0
Deferred taxes	21	40,383	72
		344,036	**84,952**
Current assets			
Inventories	16	24,935	5,624
Short-term receivables	17	72,196	20,995
Securities held as current assets	19	36,338	16,525
Cash and cash equivalents	18	131,243	55,802
		264,712	**98,946**
Total assets		**608,748**	**183,898**

** The previous year's figures have been adjusted to allow for the changes in accounting and recognition rules (see details of accounting principles for film assets).*

LIABILITIES (CHF 000s)		Note	Dec. 31, 2003	Dec. 31, 2002*
Equity capital				
	Share capital	20	47,250	47,250
	Capital reserves		61,262	59,606
	Own shares		-531	-1,033
	Accumulated deficit		-1,211	-11,493
	Currency translation differences		1,862	-399
			108,632	**93,931**
Minority interests			**53,045**	**9,542**
Long-term liabilities				
	Loans	23	8,678	0
	Deferred taxes	21	17,037	141
			25,715	**141**
Current liabilities				
	Trade payables and other liabilities	22	98,259	29,451
	Liabilities subject to interest	23	151,331	30,089
	Advance payments received		160,862	9,109
	Tax liabilities		9,170	11,635
	Provisions	25	1,734	0
			421,356	**80,284**
Total liabilities			**608,748**	**183,898**

** The previous year's figures have been adjusted to allow for the changes in accounting and recognition rules (see details of accounting principles for film assets).*

Consolidated income statement for 2003

Highlight Communications AG, Pfäffikon

(CHF 000s)	Note	2003	2002*
Revenues			
Sales		106,421	70,455
License income		65,577	16,558
Service income		99,893	77,568
Subsidies		11,013	0
		282,904	**164,581**
Other income	4	9,819	2,204
		292,723	**166,785**
License expense	13	90,097	4,761
Merchandise and production expense		103,269	49,898
Personnel expense	5	41,805	33,441
Advertising		4,736	3,960
Depreciation/amortization	6	12,059	21,303
Various operating expenses		24,090	21,175
		276,056	**134,538**
Earnings from operating activities		**16,667**	**32,247**
Financial expense	7	-1,212	-3,023
Currency losses		-2,417	-7
Earnings from shares in associated companies	11	-635	-116
Earnings before taxes		**12,403**	**29,101**
Taxes	8	1,303	-3,492
Net earnings after taxes		**13,706**	**25,609**
Minority interests		-3,424	-8,444
Net consolidated earnings		**10,282**	**17,165**
Undiluted earnings per share (previous year: fractional rights)	9	0.22	0.37
Diluted earnings per share (previous year: fractional rights)	9	0.22	0.37

** The previous year's figures have been adjusted to allow for the changes in accounting and recognition rules (see details of accounting principles for film assets).*

Statement of changes in equity for fiscal 2003

Highlight Communications AG, Pfäffikon

(CHF 000s)	Share capital	Capital reserves	Own shares	Accumulated deficit	Currency translation differences	Total
Balance as at December 31, 2001	**47,250**	**284,719**	**–1,132**	**–240,319**	**–149**	**90,369**
Changes in accounting and recognition rules pursuant to IAS 8				–14,774*		–14,774
Currency translation differences					–74	–74
Elimination of capital reserves		–226,385		226,385		0
Buy-back of own shares		–1,495	–927			–2,422
Sale of own shares		2,817	1,026			3,843
Other changes		–50		50		0
Net consolidated earnings				17,165*	–176	16,989
Balance as at December 31, 2002	**47,250**	**59,606**	**–1,033**	**–11,493***	**–399**	**93,931**
Currency translation differences					2,502	2,502
Elimination of capital reserves						0
Buy-back of own shares		–11,224	–4,993			–16,217
Sale of own shares		12,880	5,495			18,375
Other changes						0
Net consolidated earnings				10,282	–241	10,041
Balance as at December 31, 2003	**47,250**	**61,262**	**–531**	**–1,211**	**1,862**	**108,632**

** As a result of the changes to the accounting and recognition rules (see accounting principles for film assets), the accumulated loss as of January 1, 2002 was increased by CHF 14.774 million due to the adjustments made for 2001 and earlier. The profit for 2002 was reduced by CHF 2.466 million as a result of adjustments made for fiscal 2002. Accordingly, accumulated loss as of December 31, 2002 was adjusted by a total of CHF 17.240 million.*

Consolidated cash flow statement for 2003

Highlight Communications AG, Pfäffikon

(CHF 000s)	Note	2003	2002*
Inflow of funds from operating activities			
Net consolidated earnings		10,282	17,165
Minority interests in net earnings		3,424	8,444
Reversal of negative goodwill	14	-4,255	0
Depreciation of tangible fixed assets	6	2,626	1,892
Depreciation of license rights	13	90,067	4,739
Amortization of goodwill	6	8,984	11,840
Amortization of other intangible assets	6	449	0
Depreciation of equity interests		0	7,571
Market value changes in securities	19	190	2,416
Non-charged issue and buy-back of own shares		19	-7
Changes in accruals on licenses	13	-5,181	1,002
Changes in accruals/tax liabilities		-3,563	93
Changes in deferred taxes		-7,291	59
Net earnings from associated companies after tax		635	-1,916
Net earnings from the sale of equity interests		0	-578
Gains from disposal of tangible fixed assets	12	-58	-16
Net earnings from disposal of other intangible assets	15	59	0
Cash flow from operating activities before changes in net current assets		**96,387**	**52,704**
Changes in net current operating assets			
Inventories		-5,238	-20
Receivables		-7,933	3,188
Liabilities		14,508	781
Advance payments from TV customers		35,057	1,191
Cash flow from operating activities		**132,781**	**57,844**

** The previous year's figures have been adjusted to allow for the changes in accounting and recognition rules (see details of accounting principles for film assets).*

(CHF 000s)	Note	2003	2002*
Investment and disinvestment activities			
Acquisition of film assets	13	-154,788	-14,903
Acquisition of tangible assets	12	-847	-1,321
Acquisition of other intangible assets	15	-260	0
Acquisition of financial assets	19	-20,301	-10,348
Sale of financial assets	19	300	1,781
Acquisition of equity interests (not consolidated)		0	-5,896
Sale of equity interests (not consolidated)		0	928
Acquisition of shares in associated companies		0	-36,701
Acquisition of equity interests excluding cash and cash equivalents acquired (change in consolidation perimeter)	26	102,093	-5
Sale of equity interests excluding cash and cash equivalents sold (change in consolidation perimeter)		0	-5,826
Sale of tangible fixed assets		224	109
Cash flow from investing activities		**-73,579**	**-72,182**
Financing activities			
Payment of dividends (minority interests)		-8,515	-5,540
Purchase/sale of own shares		2,139	-2,416
Repayment/granting of other loans		-64	0
Acceptance/repayment of bank debts		22,294	-1,911
Cash flow from financing activities		**15,854**	**-9,867**
Currency translation differences		385	-56
Net inflow of funds		**75,441**	**-24,261**
Cash and cash equivalents at beginning of year		**55,802**	**80,063**
Cash and cash equivalents at end of year		**131,243**	**55,802**

Additional cash flow disclosures		
Interest paid	2,034	1,068
Tax paid	12,404	3,744
Interest received	747	851
Tax reimbursements received	361	164

** The previous year's figures have been adjusted to allow for the changes in accounting and recognition rules (see details of accounting principles for film assets).*

Notes to the consolidated financial statements 2003

Highlight Communications AG, Pfäffikon

1. General

Highlight Communications AG and its subsidiaries (hereinafter referred to as the "Highlight 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 share in Constantin Film AG was increased step by step and successively consolidated during the financial year. Since July 1, 2003, Constantin Film AG has been fully consolidated (previously carried at equity). Together with its subsidiaries and equity interests, Constantin Film AG is a leading German producer and distributor of cinema, video/DVD and TV films. Constantin Film AG's directly held foreign subsidiaries are involved in international proprietary productions. In addition to own- and co-productions, Constantin Film AG also acquires the exploitation rights to third-party productions. The Group is primarily active in the German-speaking region and employed 540 people as at December 31, 2003 (previous year: 310).

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 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, as well as film assets which are recognized for the first time in these annual financial statements in accordance with the strict sector rules provided for in US-GAAP (SOP 00/2). No material IFRS standards of relevance to the Highlight Group were modified or applied for the first time in fiscal 2003 or in the previous year.

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 percent of the voting rights. Revenues, expenses and income as well as receivables and liabilities between the individual consolidated companies were eliminated. Interim profits or losses from internal deliveries not realized by sales to third parties were eliminated. The individual annual financial statements have been adjusted where they deviate from Group accounting principles.

Please refer to Note 26 (Acquisition 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 percent of the voting rights, are carried at their pro-rated equity value (Equity method) provided that it is intended for these interests to be retained over a long term. On the basis of this method, the companies' pro-rated 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 translation-rate differences arising from the pro-rated equity are charged to equity as a translation-rate difference and not reported in the income statement.

The consolidated annual financial statements were approved by the Board of Directors on April 2, 2004 and released for publication.

Film assets

Film assets are recognized on the face of the Highlight Group's consolidated balance sheet for the year ending December 31, 2003 in accordance with strict US-GAAP rules. Highlight Communications AG has applied SOP 00/2 for the first time, while Constantin Film AG has been using it since 2001. Highlight Communications AG has particularly opted to apply this new system in order to establish a uniform group-wide accounting and recognition method in line with the practice at Constantin Film AG and to provide interested parties with more readily understandable data comparable with that of other media companies. As IFRS does not provide for any specific rules for the film sector, a decision was made to adopt the specific US-GAAP rules for the film industry.

Film assets include acquired rights to third-party productions (i.e. films produced outside the Group) as well as the production costs of films produced within the Group (own and co-productions) and the cost of developing new projects. Third-party productions normally encompass cinema, video/DVD and TV rights. Own productions also include pseudo-commissioned productions exploited by the Group.

Genuine commissioned productions which have not been completed or delivered to the customer as of the balance sheet date and have hence not generated any revenues are carried as "Inventories: unfinished contract productions". They are carried at their cost of production.

The acquisition costs for third-party productions encompass the minimum guarantee as well as already-existing overage guarantees. They are capitalized in full upon the delivery of the material.

Own productions are carried at cost. This does not include the release costs, which are expensed when incurred. Release costs include the costs arising from the exploitation of the film, e.g. including press and marketing costs. The production costs for film copies etc. are deferred and expensed when the related cinema revenues are received. Directly attributable financing costs are capitalized.

Film rights (both third-party and own productions) are written down using the "individual film forecast method", according to which the depreciation for a film in a given period is calculated on the basis of the quotient of the revenues achieved from the film during the period divided by the estimated remaining total income of the film multiplied by its residual book value. The revenues used as a basis for calculating the depreciation charges include all income generated by the film. In the case of video revenues, the video costs are eliminated from the external revenues used as a basis for calculating the depreciation charge. For films carried as film assets and not classed as "library products", the maximum period for which revenues are estimated is ten years as of the date of primary exploitation.

The estimate of the total revenues is reviewed at the end of each quarter and, if necessary, adjusted. The quotient for the depreciation charge for the period is determined on the basis of any (adjusted) total revenues. Estimated revenues can be significantly influenced by a number of factors including market acceptance and likely advertising revenue from the film. The Highlight Group examines and revises revenue forecasts and depreciation expenses upon any changes to previous forecasts occurring. If there is any evidence of an impairment in value, an impairment test is performed. If the acquisition costs or the book value plus any related release costs for a film are not covered by the estimated total revenues, the value of the film in question is written down on the basis of the impairment test.

Capital costs for the development of new projects (particularly rights to scripts) are regularly reviewed to determine whether they can still be used as a basis for film productions. If, three years after the costs of a project have been capitalized for the first time, there is still no commencement date scheduled for the production or the sale of the rights, the costs are written off in full.

Compared with the previous accounting and valuation rules, which were used only by Highlight Communications AG, this new system has resulted in differences arising, particularly as the period for revenue forecasts has been shortened to ten years starting from the date of primary exploitation. Further differences relate to the calculation of depreciation charges on individual films. In the past, Highlight Communications AG accounted for third-party productions on the basis of the acquisition-cost principle and wrote them down in accordance with the exploitation level involved (cinema, video/DVD and TV). The amortization rates applied corresponded to values based on experience for the individual exploitation stages in relation to the total license income generated by a film. The exploitation levels were written down at standard rates for cinema, video/DVD, pay-TV, free-TV and, in exceptional cases, secondary rights: 10% on cinema exploitation, 20% (30% if the film was not exploited in the cinema) on video/DVD exploitation, 10% on pay-TV exploitation, 60% (70% if the film was not exploited on pay-TV) for free-TV exploitation. In exceptional cases, a maximum of 20% was allocated for the exploitation of secondary rights.

The new accounting and valuation methods are being applied with retroactive effect. Accordingly, the revenue reserves as at January 1, 2002 have been adjusted and the figures in the consolidated financial statements for 2003 and 2002 shown as if the new accounting policy had always been applied.

The adoption of the new accounting policy results in an increase of CHF 14.774 million in the accumulated deficit on January 1, 2002 (this amount relates to the adjustments for the years prior to 2002) and a decrease of CHF 2.466 million in net earnings for 2002. As a result, the unappropriated surplus for the year ended December 31, 2002 is CHF 17.240 million lower than shown in the previous year, resulting in an accumulated deficit.

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

Goodwill/badwill

The 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 the 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/badwill. Goodwill is written down on a straight-line basis over its expected useful life, provided that this does not exceed 15 years. If there is any evidence to suggest an impairment in value, the need for non-scheduled charges is determined (impairment test). These charges are then recorded if necessary.

Goodwill from the acquisition of associated companies is reported together with the book value of the shares in associated companies. The amount carried on the books is subjected to an impairment test each year and a provision made for any sustained impairment.

Negative goodwill (badwill) is released to the income statement in an amount equaling the expected losses and expenses on acquisition. Any remaining negative goodwill is released over the expected useful life of the non-monetary assets acquired.

Other intangible assets

These comprise software and related licenses. Intangible assets acquired are carried at cost. Software and licenses are written down on a straight-line basis over their expected useful lives of three years. Where necessary, non-scheduled charges are also taken.

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 average annual exchange rates in the income statement. Any resultant currency translation differences are normally taken directly to equity capital under the caption “Currency translation differences” and are not recognized in the income statement. If the foreign companies are non-independent sub-units, the translation-rate differences are charged to the income statement.

Transactions denominated in foreign currencies are translated at the exchange rates of the day. Currency translation differences arising from the settlement of such business transactions are taken to the income statement.

Currency translations within the Group were based essentially on the following exchange rates:

	Year-end rates		Average rates for year	
	2003	2002	2003	2002
Euro (EUR)	1.5577	1.4540	1.5208	1.4672
US dollar (USD)	1.2351	1.3870	1.3463	1.5579

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, assets held for trading, being held-to-maturity and available-for-sale financial assets. 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 assets. On the other hand, assets held for an indefinite period are classified as available-for-sale financial assets. Reference should be made to the principles relating to the individual positions for details of allocation and measurement.

Financial liabilities are carried at actual, amortized cost except those held for trading purposes as well as derivative financial instruments.

Derivative financial instruments are recognized at their market value. Any adjustments to market value are taken to the income statement.

Cash and cash equivalents

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

Securities

Securities held as current assets and non-current assets are carried at their market value. Adjustments for changes in market value have been taken to the income statement. Securities are classified as available-for-sale financial assets. Securities held as non-current assets are intended to be held over an extended period of time.

Trade receivables/long-term receivables

Short-term receivables are shown at their nominal value.

Receivables with a term of more than one year are shown 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 market value. Purchase cost is determined by the first-in first-out method (FIFO). The net market value is the estimated revenue to be achieved from a sale minus estimated, necessary selling costs.

Genuine commissioned productions which have not been completed or delivered to the customer as of the balance sheet date and have hence not generated any revenues are carried as "Inventories: unfinished contract productions". They are carried at their cost of production.

Equity interests (not consolidated)

Non-consolidated equity 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 actual cost less any necessary value impairment adjustments.

Value adjustments and write-downs are recorded in 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 life spans (in years) are assumed:

Office equipment (including IT)	3–13
Motor vehicles	2–5
Fixtures	12
Buildings	27.5

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 taken to the income statement at an amount equaling the difference between the proceeds of the sale and the book value.

Repairs and maintenance costs which do not 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 towards a third party due to a past event, an outflow of resources is probable to meet the obligation and it is possible to reliably estimate the amount of the obligation.

Advance payments received

As a basic rule, revenues are recognized on the date on which the license commences or on which the licensee is able to exploit the film rights. If payments are received from licensees prior to this date they are initially classified as advance payments received.

Taxes and deferred taxes

All taxes relating to the consolidated financial statements for the year under review are charged to the income statement as expenses and deferred in the balance sheet.

Account is taken in the balance sheet for any deferred taxes resulting from differences between any tax base values and book values. Deferred tax assets from tax-loss carry-forwards are reported if taxable income which can be used to offset the tax-loss carry-forwards is likely to be available. The effect of changes in tax rates to deferred tax assets and liabilities is taken to the income statement in the period in which the legislation is passed or in the period for which a legislative amendment already passed is to apply. 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 completely consistent 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 broadly equal the expenses of CHF 1.5 million carried on the Company's income statement, dynamic valuation has been dispensed with. Some pension schemes are subject to a contractual obligation on the part of the employer to inject 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 senior management organized as a so-called savings fund. 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.

There are no pension plans in Germany.

Revenue recognition

Group revenues are derived from services rendered and sales invoiced to third parties excluding VAT minus sales returns.

In the case of cinema films, revenues are recognized as of the cinema launch of the film. In line with standard practice in the industry, the film rental based on the number of visitors reported by the cinema operator to the distributor is recognized as the distribution component of the total cinema grossings.

In video/DVD wholesale operations, revenues are recognized upon delivery and invoicing.

Revenues arising from licenses for video/DVD and TV (pay/free) rights are recognized as of the date on which the license takes effect.

Revenues from contract productions are recognized upon the material being delivered to the customer.

With respect to global distribution, the Group generally receives a minimum guarantee for the exploitation rights sold (cinema, video/DVD, TV rights). This is allocated to the various revenue types, with revenues recognized upon the commencement of the exploitation license in question. Revenues are allocated on the basis of historical figures in accordance with corporate planning at the following general rates for cinema, video/DVD and TV rights: 25% to cinema rights, 15% to video/DVD rights and 60% to TV rights. If the date on which the license commences is close to the balance sheet date, the general rates are periodized. In the case of territories not subject to license holdback restrictions, revenues are recognized on the cinema release date.

Revenues from global distribution sales without any minimum guarantee are recognized upon the royalty settlements being received from the licensees.

Income from subsidies and public-sector contingently repayable film funding loans is recognized as revenue upon these being granted, provided that this is no earlier than the date on which cinema exploitation commences. As soon as repayment of the loan becomes likely, the effect of the expected repayment is charged to the income statement.

3. Segment information

The Group currently comprises two sectors – “Film” and “Sport”.

The Film sector handles own film productions, the exploitation of film rights and the distribution of related products.

Operations in the Sport sector 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, among others, 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 adjusted to allow for the changes in accounting and recognition rules (see details of accounting principles for film assets). The changes concern the Film sector. As a result, amortization charges on licenses were increased by TCHF 2,466. The changes in the accounting and recognition principles resulted in a decrease of TCHF 2,466 in earnings for fiscal 2002. The reduction in segment assets stands at TCHF 15,890 due to the higher impairment charges on film assets. Liabilities rose by a total of TCHF 1,350 as a result of an increase in liabilities to licensors (TCHF 1,350). 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 000s)	Film 2003	Film 2002	Sport 2003	Sport 2002	New Business 2003	New Business 2002	Consolidation 2003	Consolidation 2002
Income								
Income with third parties	219,754	87,013	63,150	77,568	0	0		
	219,754	**87,013**	**63,150**	**77,568**	**0**	**0**	**282,904**	**164,581**
Results								
Segment results	-6,578	11,424	27,777	33,055	0	-7,707	21,199	36,772
Results from shares in associated companies	-635	-115	0	0	0	0	-635	-115
Central holding-company costs							-4,532	-4,525
Financial results/currency losses							-3,629	-3,031
Group earnings before taxes							**12,403**	**29,101**
Income taxes							1,303	-3,492
Minority interests							-3,424	-8,444
Group profit							**10,282**	**17,165**
Segment assets	433,978	98,226	6,734	13,344	0	0	440,712	111,570
Holding-company assets							168,036	72,328
							608,748	**183,898**
Segment liabilities	277,860	25,383	17,880	24,939	0	14	295,740	50,336
Holding-company liabilities							151,331	30,089
							447,071	**80,425**
– Investment in tangible fixed assets	613	739	234	582	0	0	847	1,321
Holding-company investments							0	0
							847	**1,321**
– Investment in film rights	154,788	15,061	0	0	0	0	154,788	15,061
– Investment in intangible fixed assets	6,039	0	0	0	0	54	6,039	54
Holding-company investments							0	0
							160,827	**15,115**
Depreciation/amortization								
– Tangible fixed assets	1,876	849	750	976	0	67	2,626	1,892
Holding-company depreciation/amortization							0	0
							2,626	**1,892**
– Licences								
Ordinary amortization	84,741	15,940	0	0	0	0		
Extraordinary amortization	5,326	-11,201	0	0	0	0		
	90,067	**4,739**	**0**	**0**	**0**	**0**	**90,067**	**4,739**
– Others								
Scheduled amortization	2,189	515	5,635	11,270	0	7,626		
Non-scheduled amortization	1,609	0	0	0	0	0		
	3,798	**515**	**5,635**	**11,270**	**0**	**7,626**	**9,433**	**19,411**
Holding-company depreciation/ amortization							0	0
							9,433	**19,411**

Other depreciation and amortization include goodwill amortization of TCHF 8,984 and amortization of other intangible assets of TCHF 449.

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 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 Sport sectors in Switzerland are for recipients in Germany.

(CHF 000s)	2003	2002
Switzerland	137,502	155,448
Germany	119,408	2,471
Austria	25,994	6,662
	282,904	**164,581**

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

	Book value of segment assets		Investment in tangible and intangible fixed assets	
(CHF 000s)	Dec. 31, 2003	Dec. 31, 2002	2003	2002
Switzerland	107,042	178,670	9,687	16,329
Germany	492,699	2,487	151,887	43
Austria	9,007	2,741	100	65
	608,748	**183,898**	**161,674**	**16,437**

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

4. Other income

(CHF 000s)	2003	2002
Reversal of liabilities/impairment charges	3,463	220
Rental income	0	140
Profit from sale of equity interests in consolidated companies	0	14
Profit from sale of equity interests in non-consolidated companies	0	788
Loss from sale of equity interests in consolidated companies	0	-223
Reversal of negative goodwill *(see Note 14)*	4,255	0
Others	2,101	1,265
	9,819	**2,204**

The reversal of liabilities/impairment charges primarily relates to the reversal of a liability which was still carried on the books from an earlier acquisition of an equity interest. It was eliminated in connection with the sale of this equity interest.

"Others" includes income from advertising, advertising tie-ins, collection proceeds, bonuses under insurance policies, dispatch costs charged onwards etc.

5. Personnel expense

(CHF 000s)	2003	2002
Wages and salaries	35,105	28,206
Social contributions	4,004	2,647
Pension plan expenses	1,519	1,210
Various staff costs	1,177	1,378
Total	**41,805**	**33,441**

Number of employees at end of year:		
Switzerland	243	288
Germany	275	11
Austria	15	11
Others	7	0
	540	**310**

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 000s)	2003	2002
of tangible fixed assets *(see Note 12)*	2,626	1,892
of goodwill *(see Note 14)*		
– ordinary	7,375	11,840
– extraordinary	1,609	0
	8,984	11,840
of equity interests (non-consolidated)	0	7,571
of other intangible fixed assets *(see Note 15)*	449	0
	12,059	**21,303**

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

7. Financial results

(CHF 000s)	2003	2002
Interest expense		
– on short-term bank liabilities	–1,977	–1,178
less capitalized borrowing costs	608	0
	–1,369	**–1,178**
– on long-term bank liabilities	0	–214
Various forms of interest and expenses	–579	–265
Securities costs	–1,010	–2,884
	–2,958	**–4,541**
Interest income		
– from fixed-term deposits and bank accounts	419	657
– from bonds	237	189
Miscellaneous interest	27	36
Dividends	243	167
Income from securities	820	469
	1,746	**1,518**
Total net financial expense	**–1,212**	**–3,023**

Interest is shown net in some cases on account of interest pooling arrangements. See also the explanations in Note 23.

Securities expense relates almost solely to unrealized capital losses as a result of the change in the market value of the shares in media(netCom) AG. Securities income primarily comprises non-realized gains. The securities are available for sale.

Fixed-term deposits were made in CHF, EUR, USD, GBP and CAD. Investments generated the following average interest rates:

0.35%	in CHF	2.00%	in EUR
1.00%	in USD	3.40%	in GBP
2.70%	in CAD		

8. Taxes

(CHF 000s)	2003	2002
Income tax	–5,972	–5,466
Pro-rated tax from associated companies	–16	2,032
Deferred tax releases/charges	7,291	–58
Tax releases/charges as per income statement	**1,303**	**–3,492**

Deferred tax releases of TCHF 7,291 arise from adjustments to deferred tax assets and liabilities as a result of temporary differences as well as the deferred tax asset arising from the tax-loss carry-forwards relating to the Constantin Group.

Expected tax expense is calculated by multiplying the applied notional Group tax rate (expected average tax charge for the Group) with the pre-tax earnings of each individual Group company. This expected tax expense differs from effective tax expense as follows:

(CHF 000s)	2003	2002
Earnings before tax	12,403	29,101
Consolidated tax at notional rate of 20%	–2,481	–5,820
Unrecorded tax losses	–963	–896
Applied tax losses	319	0
Non-deductible expenses added back	–1,963	–1,471
Income not subject to tax	1,855	0
Restructuring contributions added back	–558	–461
Tax reimbursements and reversals of tax provisions from earlier years	83	220
Difference between notional consolidated tax rate and local tax rates	5,027	2,904
	1,319	**–5,524**
Prorated tax from associated companies	–16	2,032
Tax refunds/expense as per income statement	**1,303**	**–3,492**

The previous year's figures were adjusted to allow for the changes in accounting and recognition rules (see details of accounting principles for film assets).

Non-deductible expenses relate primarily to goodwill amortization which is not tax-deductible.

Income not subject to tax relates among other things to the reversal of negative goodwill, which does not have any impact on tax liability.

9. Earnings per share

Undiluted 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.

	2003	2002
Group earnings attributable to shareholders (in CHF 000s)	10,282	17,165
Weighted average number of shares (PY: fractional rights)	47,091,199	46,736,930
Undiluted earnings per share (PY: fractional rights) in CHF	0.22	0.37
Diluted earnings per share (PY: fractional rights) in CHF	0.22	0.37

The previous year's figures were adjusted to allow for the changes in accounting and recognition rules (see details of accounting principles for film assets). Allowance was made for the TCHF 2,466 reduction in earnings.

In the previous year, fractional rights in Highlight Communications AG were traded. In the financial year under review, the stock was split (see also Note 20). The previous year's figures have been adjusted accordingly.

10. Dividends per share

Proposed dividends are not recorded in the books until the annual financial statements have been approved by the Annual General Meeting. No dividend was paid for fiscal year 2002. The Annual General Meeting is responsible for approving a dividend for fiscal 2003.

11. Shares in associated companies

A further 16.35% stake was acquired in the equity capital of Constantin Film AG, Munich, in the first half of the reporting year. This share was consolidated at equity up until June 30, 2003. With the acquisition of a further 16.63% of Constantin Film AG's equity on July 14, 2003, Highlight Communications AG increased its total share in this company to 57.98%. Constantin Film AG has been consolidated in full since July 1, 2003.

(CHF 000s)	Pro-rated equity	Goodwill	Negative goodwill	Total
Book value at January 1, 2003	27,154	15,128	0	42,282
Investment (extension in share to 41.35%)	18,122		–3,989	14,133
Pro-rated earnings before tax (until June 30, 2003)	–2,136			–2,136
Goodwill amortization (until June 30, 2003)		–776		–776
Reversal of negative goodwill (until June 30, 2003)			1,889	1,889
Taxes (until June 30, 2003)	385			385
Currency translation differences (until June 30, 2003)	2,542			2,542
Equity changes in share in equity investment (until June 30, 2003)	–254			–254
Book value at June 30, 2003	**45,813**	**14,352**	**–2,100**	**58,065**
Transfer due to full consolidation on July 1, 2003 *(see Note 26)*	–45,813	–14,352	2,100	–58,065
Book value at December 31, 2003	**0**	**0**	**0**	**0**

The negative goodwill was written back in an amount equaling the forecast losses for the 2nd quarter of 2003.

The at-equity investment in Hahn Film AG still held as at December 31, 2003 is carried at a book value of CHF 0. This investment was written down on account of a sustained impairment of value.

12. Tangible fixed assets

(CHF 000s)	Operating and EDP equipment	Vehicles	Proper-ties/ buildings	Total
Acquisition costs:				
January 1, 2003	14,775	1,994	0	16,769
Currency translation differences	50	26	–2	74
Changes to consolidation perimeter	2,070	0	3,780	5,850
Additions	399	448	0	847
Disposals	–1,329	–451	0	–1,780
December 31, 2003	**15,965**	**2,017**	**3,778**	**21,760**
Depreciation:				
January 1, 2003	–11,161	–870	0	–12,031
Currency translation differences	22	–9	37	50
Depreciation for the year	–2,210	–414	–2	–2,626
Disposals	1,224	390	0	1,614
December 31, 2003	**–12,125**	**–903**	**35**	**–12,993**
Net book values at January 1, 2003	**3,614**	**1,124**	**0**	**4,738**
Net book values at December 31, 2003	**3,840**	**1,114**	**3,813**	**8,767**

Fire insurance values (CHF 000s)	Dec. 31, 2003	Dec. 31, 2002
Operating and EDP equipment	7,516	8,591

In contrast to the previous year, operating and EDP (hardware) equipment are now shown in a single item.

A profit of TCHF 58 was generated from the sale of tangible assets in the course of the financial year.

13. Film assets

(CHF 000s)	Third-party productions	Own productions	Total
Acquisition costs:			
January 1, 2003	281,226	0	281,226
Currency translation differences	855	3,955	4,810
Changes to consolidation perimeter	38,580	130,145	168,725
Additions	32,402	122,386	154,788
Disposals	–13,226	0	–13,226
December 31, 2003	**339,837**	**256,486**	**596,323**
Ordinary depreciation:			
January 1, 2003	–134,237	0	–134,237
Changes in the accounting and recognition rules	–15,648	0	–15,648
	–149,885	**0**	**–149,885**
Currency translation differences	-466	–1,020	–1,486
Additions	-42,703	-42,038	-84,741
Disposals	13,108	0	13,108
December 31, 2003	**–179,946**	**–43,058**	**–223,004**
Extraordinary depreciation (remeasurement/impairment charges):			
January 1, 2003	–102,071	0	–102,071
Changes in the accounting and recognition rules	-242	0	–242
	–102,313	**0**	**–102,313**
Currency translation differences	–127	-83	–210
Reversal of impairment charges	3,359	0	3,359
Additions	–5,239	–3,446	–8,685
Disposals	118	0	118
December 31, 2003	**–104,202**	**–3,529**	**–107,731**
Net book values at January 1, 2003	**44,918**	**0**	**44,918**
Net book values at January 1, 2003 after changes in the accounting and recognition rules	**29,028**	**0**	**29,028**
Net book values at December 31, 2003	**55,689**	**209,899**	**265,588**

The license expense shown in the income statement also reflects the changes in license accruals. These accruals take into account the expense components for 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 000s)	2003	2002
Amortization of licenses (normal)	84,741	15,940
Reversal of impairment charges	–3,359	–21,844
Depreciation (as a result of remeasurement/impairment charges)	8,685	10,643
	5,326	–11,201
Changes in accruals for licenses	–5,181	1,002
Various license expenses/overages	5,211	–980
License expense as per income statement	**90,097**	**4,761**

The previous year's figures were adjusted to allow for the changes in the accounting and recognition rules. These changes resulted in an increase of TCHF 2,466 in license depreciation.

The extraordinary charge of TCHF 8,685 is for films which had not yet been exploited as of the balance sheet date and for which an impairment test revealed the need for an appropriate write-down in their carrying value in the light of expected future net earnings.

In fiscal 2003, direct borrowing costs of TCHF 608 were capitalized.

As at December 31, 2003 film purchasing had led to financial obligations of around CHF 34 million (previous year: CHF 8 million).

14. Goodwill/badwill

(CHF 000s)	2003	2002
Acquisition values:		
January 1, 2003	175,124	175,077
Currency translation differences	229	-7
Changes to consolidation perimeter	7,919	0
Reclassification of goodwill *(see Note 11)*	15,515	0
Reclassification of negative goodwill *(see Note 11)*	-3,989	0
Additions to goodwill *(see Note 26)*	5,779	54
Additions to negative goodwill *(see Note 26)*	-2,155	0
December 31, 2003	**198,422**	**175,124**
Ordinary amortization:		
January 1, 2003	-42,348	-30,510
Currency translation differences	-71	2
Reclassification of goodwill *(see Note 11)*	-1,163	0
Reclassification of negative goodwill *(see Note 11)*	1,889	0
Ordinary amortization for year	-7,375	-11,840
Reversal of negative goodwill	4,255	0
December 31, 2003	**-44,813**	**-42,348**
Extraordinary amortization:		
January 1, 2003	-123,944	-123,944
Extraordinary amortization for year	-1,609	0
December 31, 2003	**-125,553**	**-123,944**
Net book values at January 1, 2003	**8,832**	**20,623**
Net book values at December 31, 2003	**28,056**	**8,832**

The addition of negative goodwill of TCHF 2,155 is due to the acquisition of shares in Constantin Film AG on July 14, 2003. The addition of goodwill of TCHF 5,779 is due to the acquisition of shares in Constantin Entertainment GmbH on September 16, 2003 (see Note 26).

Negative goodwill (TCHF 4,255) was completely written back up to an amount equaling the expected losses for the 2nd half of 2003.

Following an impairment test, an extraordinary amortization of TCHF 1,609 was taken on the goodwill on INNOVUM Smart Products GmbH in the year under review.

The reclassification of the goodwill in the acquisition values of TCHF 15,515 as well as in the cumulative depreciation of TCHF 1,163 is due to the transfer of the equity investment on July 1, 2003 as a result of the full consolidation of Constantin Film AG (TCHF 14,352 net). The reclassification of the negative goodwill in the acquisition values of TCHF 3,989 and in the cumulative depreciation of TCHF 1,889 (TCHF 2,100 net) is also due to the full consolidation of Constantin Film AG as of July 1, 2003 (see Note 11).

15. Other intangible assets

(CHF 000s)	EDP software	Concessions, industrial rights	Total
Acquisition costs:			
January 1, 2003	0	0	0
Currency translation differences	6	4	10
Changes to consolidation perimeter	543	60	603
Additions	123	137	260
Disposals	-44	-15	-59
December 31, 2003	**628**	**186**	**814**
Amortization:			
January 1, 2003	0	0	0
Currency translation differences	-11	0	-11
Amortization for the year	-435	-14	-449
Disposals	0	0	0
December 31, 2003	**-446**	**-14**	**-460**
Net book values at January 1, 2003	**0**	**0**	**0**
Net book values at December 31, 2003	**182**	**172**	**354**

A loss of TCHF 59 was sustained from the sale of other intangible assets in the year under review.

16. Inventories

(CHF 000s)	Dec. 31, 2003	Dec. 31, 2002
Video cassettes/DVD – Retail	2,634	2,965
Video cassettes/DVD – Wholesale	2,568	2,078
CDs	18	235
Games/CD-Rom	218	351
Unfinished contract productions	19,647	70
Others	8	21
	25,093	**5,720**
Diminution in value charges	**-158**	**-96**
Total	**24,935**	**5,624**

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

17. Receivables (short- and long-term)

(CHF 000s)	Dec. 31, 2003	Dec. 31, 2002
Short-term		
Trade receivables		
– due from third parties	59,548	17,818
less impairment charges	–8,200	–1,980
	51,348	**15,838**
Short-term loans to third parties	352	317
Subsidization receivables	10,707	0
Prepaid expenses	2,202	3,003
Other receivables		
– due from third parties	7,587	1,837
Total short-term receivables	**72,196**	**20,995**
Long-term		
Long-term loans to third parties	433	0
Total long-term receivables	**433**	**0**
Total	**72,629**	**20,995**

Subsidization receivables relate to subsidization loans and reference funds, which had been agreed as of the balance sheet date but not yet paid but to which the Group is entitled.

Other receivables due from third parties primarily comprise receivables due from the tax authorities (excluding income tax), the deferral of the positive market value of derivative financial instruments, current account credit balances and deposits paid.

18. Cash and cash equivalents

(CHF 000s)	Dec. 31, 2003	Dec. 31, 2002
Cash holdings	259	159
Postal giro balances	53	89
Bank balances	121,217	21,167
Call money	9,506	7,316
Term deposits up to 90 days	208	27,071
Total	**131,243**	**55,802**

See Note 7 for details of interest rates.

19. Securities

(CHF 000s)	Current assets 2003	Current assets 2002	Fixed assets 2003	Fixed assets 2002
Securities at beginning of period				
Book value January 1, 2003	16,525	10,374	0	0
Changes to consolidation perimeter	0	0	450	0
Additions	20,000	10,348	301	0
Disposals	0	–1,780	–300	0
Losses/gains				
– unrealized	–190	–2,286	0	0
– realized	0	–130	0	0
Currency translation differences	3	–1	4	0
Securities at end of period				
Book value at December 31, 2003	**36,338**	**16,525**	**455**	**0**

The year-end portfolio of securities held as current assets include shares of listed companies valued at TCHF 6,291 as well as bonds/deposits for a fixed term of 90 days of CHF 30 million. The book values are equivalent to the market values on the balance sheet date. The year-end portfolio of securities held as non-current assets comprise the shares of listed companies valued at TCHF 455.

20. Share capital

	Bearer shares: Number of shares	Bearer shares: CHF
December 31, 2001	4,725,000	47,250,000
Capital increases	0	0
December 31, 2002	4,725,000	47,250,000
Capital increases	0	0
December 31, 2003*	**47,250,000**	**47,250,000**

** Share split, see details below*

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

At the 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.

On June 3, 2003, the shareholders passed a resolution at the Annual General Meeting to change the nominal value of the share from CHF 10 to CHF 1. As a result, the shares themselves and not fractional rights are traded. Consequently, the number of shares increased from 4,725,000 to 47,250,000.

In 2003, the Company bought a total of 4,974,439 shares at an average price of CHF 3.26 for a total of TCHF 16,199. 5,495,000 shares were sold at an average price of CHF 3.34 for a total of TCHF 18,375. In addition, 19,367 of the Company's own shares were taken back from employees free of remuneration as a result of resignation. At the balance sheet date, the Company's own shares comprised 531,516 (December 31, 2002: 1,032,710) shares. As of December 31, 2003, the authorized capital comprised 60,000,000 bearer shares at a nominal value of CHF 1 each (December 31, 2002: 6,000,000 bearer shares with a nominal value of CHF 10 each). All shares outstanding are paid-up in full.

21. Deferred taxes

Temporary differences:

(CHF 000s)	Dec. 31, 2003	Dec. 31, 2002
Lower depreciation for tax purposes on tangible fixed assets	84	72
Capitalization of tax-loss carry-forwards	18,851	0
Valuation adjustments		
– Advance payments received	63,914	0
– Film assets	–41,464	0
– Others	–1,002	0
Deferred tax assets	**40,383**	**72**

(CHF 000s)	Dec. 31, 2003	Dec. 31, 2002
Valuation adjustments		
– Film assets	16,915	0
– Others	122	141
Deferred tax liabilities	**17,037**	**141**

The valuation adjustments are primarily due to differences between the tax accounts and the consolidated financial statements with respect to the recognition of income and depreciation charges taken on film assets.

The deferred tax assets and liabilities arising in the individual consolidated companies are netted.

The Group holds some deferred tax assets from tax-loss carry-forwards (in addition to those held by the Constantin Group) of CHF 164.9 million (2002: CHF 157.8 million) not previously recognized. These 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, 2003 expire between 2004 and 2010. As of December 31, 2003, these loss carry-forwards include tax losses from Germany of CHF 1.8 million which may be carried forward.

22. Trade payables and other liabilities

(CHF 000s)	Dec. 31, 2003	Dec. 31, 2002
Trade payables	44,785	12,926
Liabilities to social security funds	0	17
Liabilities to shareholders and related parties	96	66
Other liabilities	8,201	3,000
License liabilities	5,878	5,743
Deferred income and accruals	39,299	7,699
Total	**98,259**	**29,451**

The previous year's figures were adjusted to allow for the changes in accounting and recognition rules (see details of accounting principles for film assets). The corrections to the license depreciation charges have resulted in an increase of TCHF 1,350 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 000s)	Maturity	Dec. 31, 2003	Dec. 31, 2002
Short-term			
Current account bank liabilities		74,394	14,089
Bank loan (short-term portion)	2004	76,937	16,000
		151,331	**30,089**
Long-term			
Loan	2007	8,678	0
		8,678	**0**

The CHF-denominated short-term current account bank liabilities of Highlight Communications AG were subject to an interest rate of 5.55% as of the balance sheet date. Interest pooling arrangements have been established for Constantin Film AG's current account bank liabilities.

As of the balance sheet date, the long-term loan is subject to an interest rate of 6%. Interest pooling arrangements also apply with respect to a bank credit balance.

A bank loan of TCHF 15,000 is secured by pledges on the shares held by a number of consolidated companies and is currently subject to a fixed interest rate of 2.16%.

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 reflecting the short-term maturities involved.

Risk of change in interest rates

The risk of change in interest rates primarily relates to the liabilities subject to interest. The Group currently does not utilize 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. Hedge accounting is not used. As at December 31, 2003, the Group had entered into current forward exchange-rate transactions to hedge the exchange-rate risk. The positive market value at December 31, 2003 amounted to TCHF 2,431. The deferral is included in Note 17 under "Other receivables".

Payment default risks

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

25. Provisions

(CHF 000s)	Dec. 31, 2002	Changes to consolidation perimeter	Currency translation differences	Consumption	Reversal	Additions	Dec. 31, 2003
Provisions for litigation risks	0	287	33	0	0	1,414	1,734
Total provisions	**0**	**287**	**33**	**0**	**0**	**1,414**	**1,734**

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

Constantin Film AG

(CHF 000s)	2003
Cash and cash equivalents	121,406
Receivables	42,302
Prepaid expenses and deferred charges	116
Inventories	6,451
Film assets	
– own productions	130,145
– third-party productions	38,580
Tangible assets	5,071
Other intangible assets	603
Securities	450
Goodwill	7,919
Deferred tax assets	19,582
Bank liabilities	–97,318
Liabilities	–31,576
Deferred income and accruals	–10,476
Advance payments received	–109,401
Loans	–8,619
Tax liabilities	–255
Deferred tax liabilities	–3,683
Minority interests	–504
Total net assets assumed (100%)	**110,793**
Increase in share to 57.98%	64,233
Net assets already held by Highlight Communications on June 30, 2003 based on share of 41.35% *(see Note 11)*	45,813
Net assets assigned to new stake of 16.63% acquired on July 14, 2003	18,420
Purchase price (including transaction costs)	16,265
Negative goodwill from purchase of shares on July 14, 2003	2,155

Cash flow from acquisition of Constantin in 2003	
Purchase price of increase from 25% to 41.35% *(see Note 11)*	14,133
Purchase price of increase from 41.35% to 57.98%	16,265
Total purchase prices paid in 2003	**30,398**
Cash and cash equivalents assumed	121,406
Cash flow from acquisition in 2003	**91,008**

With the acquisition of a further 16.63% stake in Constantin Film AG’s equity on July 14, 2003, Highlight Communications AG increased its total share in this company to 57.98%. Constantin Film AG has been consolidated in full since July 1, 2003 (previously carried at equity).

Together with its subsidiaries and equity interests, Constantin Film AG is a leading German producer and distributor of cinema, video/DVD and TV films. The Constantin Group is engaged in the production of films and the exploitation of film rights. Film-right exploitation covers all stages in the exploitation chain.

As a result of this first-time consolidation of the Constantin Group, revenues of TCHF 118,647 were recognized for the period from July 1 until December 31, 2003. The loss for the period from July 1 until December 31, 2003 amounted to TCHF 6,410 (after minority interests) less the write-back of negative goodwill of TCHF 4,255, making a total of TCHF 2,155.

Constantin Entertainment GmbH

(CHF 000s)	2003
Cash and cash equivalents	18,044
Receivables	1,141
Prepaid expenses and deferred charges	20
Inventories	7,622
Tangible assets	779
Liabilities	–17,429
Provisions	–287
Advance payments received	–5,665
Tax liabilities	–2,290
Total net assets assumed (100%)	**1,935**
Net assets for new share of 61% acquired on September 16, 2003	1,180
Purchase price (including transaction costs)	6,959
Goodwill paid	5,779
Cash flow from acquisition	
Purchase price of 61%	6,959
Cash and cash equivalents assumed	18,044
Cash flow from acquisition	**11,085**

On September 16, 2003, Constantin Film AG acquired 61% of Constantin Entertainment GmbH (formerly KirchMedia Entertainment GmbH). This company was also consolidated in full as of that date.

Constantin Entertainment GmbH develops TV formats and produces and processes film works of all kinds.

As a result of the addition to the Constantin Group's consolidation perimeter, revenues of TCHF 29,388 were recognized for the first time.

27. List of consolidated companies

	Activity	Country		Issued capital	Share in capital***	Voting rights of the respective parent company
Joe's Multimedia AG	Video rental/sales	CH	CHF	5,000,000	100%	100%
Team Holding AG	Sports marketing	CH	CHF	200,000	80%	80%
Team Football Marketing AG	Exploitation of licenses in sports	CH	CHF	6,340,000	76.214%	95.268%
T.E.A.M. Television Event And Marketing AG	Marketing of sports and cultural events	CH	CHF	200,000	80%	100%
Rainbow Video AG	Marketing	CH	CHF	200,000	100%	100%
Highlight Film und Home Entertainment GmbH	Marketing	GER	EUR	255,646	100%	100%
Highlight Filmproduktion und Werbeagentur GmbH	Film production	GER	EUR	102,258	100%	100%
Constantin Film AG	Film production and distribution	GER	EUR	12,742,600	57.98%	57.98%
Constantin Script & Development GmbH	Acquisition and development of content	GER	EUR	26,000	57.98%	100%
Constantin Media GmbH audiovisuelle Produktionen	Acquisition and development of content	GER	EUR	26,000	57.98%	100%
Constantin Film Produktion GmbH	Film and TV production	GER	EUR	105,000	57.98%	100%
Constantin Film Development Inc.	Acquisition and development of content	US	USD	5,000	57.98%	100%
Constantin Holdings Inc.	International film production	US	USD	500,000	57.98%	100%
Constantin Productions Services Inc.	International film production	US	USD	50,000	57,98%	100%
Constantin Film (UK) Ltd.**	International film production	UK	GBP	1,000	57.98%	100%
Constantin Film International GmbH	International film production	GER	EUR	105,000	57.98%	100%
Constantin Pictures GmbH	International film and TV production	GER	EUR	25,000	57.98%	100%
Constantin Entertainment GmbH	TV entertainment and production	GER	EUR	200,000	35.37%	61%
Olga Film GmbH	Film and TV production	GER	EUR	603,000	29.57%	51%
MOOVIE – the art of entertainment GmbH	Film and TV production	GER	EUR	104,000	29.57%	51%
Engram Pictures GmbH	Film and TV production	GER	EUR	208,800	43.78%	75.5%
Rat Pack Filmproduktion GmbH	Film and TV production	GER	EUR	103,000	29.57%	51%
Westside Filmproduktion GmbH	Film and TV production	GER	EUR	103,000	29.57%	51%
Hahn Film AG *	Film and TV production (animation)	GER	EUR	500,000	14.55%	25.1%
Constantin Film Verleih GmbH	License trading and cinema distribution	GER	EUR	250,000	57.98%	100%
Classic Media Werbeagentur GmbH	Advertising and event marketing	GER	EUR	105,000	57.98%	100%
Constantin International B.V.	License trading	NL	EUR	18,151	57.98%	100%
Constantin Music Verlags-GmbH	Exploitation of music rights	GER	EUR	70,000	57.98%	100%
Constantin Propaganda GmbH	License trading	GER	EUR	100,000	57.98%	100%
Constantin Inter@ctive GmbH	Development and production of Internet content	GER	EUR	100,000	57.98%	100%
INNOVUM Smart Products GmbH	Internet marketing and web design	GER	EUR	50,000	29.57%	51%
Rainbow Home Entertainment GmbH	Marketing	A	EUR	363,364	100%	100%

* *consolidated at equity*
** *Constantin Film (UK) Ltd. London was established in April 2003 and is a 100% subsidiary of Constantin Film Produktion GmbH.*
*** *share held directly and/or indirectly by the Group*

A Austria
CH Switzerland
GER Germany
NL Netherlands

Highlight Intertechnology AG, a 100% subsidiary of Highlight Communications AG as of December 31, 2002, was merged with Rainbow Video AG, Pratteln, on January 1, 2003.

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.

The following eight subsidiaries (previous year: 0) are individually and collectively of minor importance for providing a fair view of the Group's assets, financial state and earnings. Accordingly, they are not consolidated by Highlight Communications AG:

	Country	Issued capital		Share in capital
Société Nouvelle Torii S.A.R.L.*	France	EUR	257,577	57.98%
Laurentic Cement Garden Ltd.*	UK	GBP	1,000	57.98%
Greenland Film Production A.B.*	Sweden	SKR	100,000	57.98%
Smilla Film A.S.*	Denmark	DKR	500,000	57.98%
She's French LLC**	US	USD	1,000	57.98%
ProCon Pictures LLC**	US	USD	1,000	57.98%
Impact Pictures LLC**	US	USD	1,000	29.57%
Impact Pictures Ltd.***	UK	GBP	1,000	29.57%

* held by Constantin Film Produktion GmbH, Munich
** held by Constantin Pictures GmbH, Munich
*** held by Impact Pictures LCC., US

These non-consolidated shares are carried at a book value of CHF 0. The companies are currently inactive and are not engaged in any operative business. The approximate market value equals the book value.

28. Constantin Film AG staff participation program

Constantin Film AG currently has the following staff participation programs providing for the issue of Constantin shares to staff. The grant of stock options was not recorded in the balance sheet or income statement.

1999 stock-option program:

The first stock-option program was established in connection with the stock-market flotation in 1999. The first stock-option program was discontinued in 2001 and no further options have been issued. In 2003, all options previously issued under the first stock-option program were waived.

2001 stock-option program:

In fiscal 2001, a second stock-option program was established, on the basis of which stock options have been granted to the staff of Constantin Film AG since fiscal 2001. The second stock-option program was discontinued in 2003 and no further options have been issued. The options granted pursuant to the second stock-option program in 2001 have a term of five years and grant staff the right to exercise one third of the option at a time of two, three and four years after the grant. Accordingly, the options granted in 2001 will expire at the end of 2006 at the latest. The strike price for the 350,000 options issued in 2001 equals the average price of Constantin Film AG stock over the last ten trading days prior to the date of the grant, i.e. EUR 9.72 for August 27, 2001. No more options were granted in 2002.

The options granted authorize their holders to subscribe for a total of 350,000 shares, including 120,000 for the Management Board of Constantin Film AG. Exercise of the option is contingent upon the stock price of Constantin Film AG exceeding the vesting price by at least 15 percent on at least one day prior to the exercise of the options, i.e. at least EUR 11.18 for the options granted in 2001. Moreover, an option may only be exercised as long as the holder remains employed by the company and has not given or received notice of termination. Accordingly, the options held by staff leaving the company are forfeited in the year in question and are deducted from the total. Pursuant to the terms of the stock-option program, 58,400 option rights have been forfeited, meaning that 291,600 options are still outstanding. Contingent capital of EUR 329,500 is available for the options granted under the 2001 stock-option program.

Option program 2001	Number in 2001	Number in 2002	Number in 2003
Options granted	350,000	350,000	350,000
Options outstanding on January 1	0	342,500	329,500
Additions in fiscal year	350,000	0	0
Options exercised	0	0	0
Options forfeited	–7,500	–13,000	–37,900
Outstanding options at December 31	**342,500**	**329,500**	**291,600**

	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2003
Strike price in EUR	9,72	9,72	9,72
Stock price in EUR	4,15	2,56	3,92
Residual term of options (years)	5	4	3
Exercisable options	0	0	0

2003 stock-option program:

In fiscal 2003, a third stock-option program was established. No options were granted in fiscal 2003 under the 2003 stock-option program. The options granted pursuant to the third stock-option program in 2003 have a term of five years and grant staff of Constantin Film AG the right to exercise one third of the option at a time of two, three and four years after the grant.

The options grant their holders the right to subscribe for a total of 600,000 shares, including 200,000 for the Management Board. Exercise of the option is contingent upon the stock price of Constantin Film AG exceeding the vesting price by at least 15 percent on at least one day prior to the exercise of the options. The vesting price is the average price of Constantin Film AG stock over the last ten trading days prior to the date of the grant. Moreover, an option may only be exercised as long as the holder remains employed by the company and has not given or received notice of termination. Contingent capital of EUR 600,000 is available for the options granted under the 2003 stock-option program.

29. Related party transactions

The following transactions were handled with related parties:

(CHF 000s)	Dec. 31, 2003	Dec. 31, 2002
Liabilities		
B. Burgener	0	12
KJP Holding AG	2	12
Jürgen Lenz	56	17
Klaus J. Hempel	12	25
Bernd Eichinger	26	0
	96	**66**

(CHF 000s)	2003	2002
Income		
Fee from KJP Holding AG	72	0
	72	**0**

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 and Jürgen Lenz on the other with a fixed term expiring on June 30, 2004. In January 2004, this agreement with Messrs. Hempel and Lenz was extended until June 30, 2009. 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 applicable fee expenditure is included in the total remuneration paid to the members of the Board of Directors.

Total remuneration (including all expenses) of TCHF 7,995 (previous year: TCHF 5,993) was paid to nine (previous year: nine) members of Highlight Communications AG's Board of Directors, of whom six hold executive positions with Group companies.

Highlight Communications AG entered into an agreement with KJP Holding AG under the terms of which it undertakes to acquire the remaining 20% stake in Team Holding AG on July 1, 2005. Thereafter, Highlight Communications AG will hold 100% of Team Holding AG's capital.

The transactions with related parties complied with “arm's length” principles.

30. Shareholdings of the Board of Directors

	Shares
Bernhard Burgener, President	3,500,000
Klaus Hempel, member (until January 28, 2004)	84,250
Jürgen Lenz, member (until January 28, 2004)	104,250
Dr. Ingo Mantzke, member	81,010
Marco Syfrig, member (until January 28, 2004)	45,000
Martin Wagner, member	37,500
Dr. Urs Mühlebach, member (until January 28, 2004)	13,000

Further major shareholders	
Estate of Reinhold Camenzind	2,502,550

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

31. Operating leases and rental agreements

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

(CHF 000s)	Dec. 31, 2003	Dec. 31, 2002
Up to 1 year	2,691	2,980
From 1 to 5 years	6,592	5,364
Over 5 years	0	139
Total	**9,283**	**8,483**

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

Leasing expenditure (including rentals) for the financial year amounted to TCHF 5,145 (previous year: TCHF 4,259).

32. Events after the balance sheet date

No events materially impacting the reliability of these consolidated annual financial statements occurred between December 31, 2003 and the date on which they were approved for publication with the exception of the announcement concerning the acquisition of the remaining 20% of the capital in Team Holding AG (see Note 29).

Report of the Group auditors

to the Annual General Meeting of Highlight Communications AG, Pfäffikon

As auditors of the Group, we have audited the consolidated financial statements (balance sheet, income statement, statement of changes in equity, cash flow statement and notes) included on pages 45 to 83 of Highlight Communications AG for the year ended December 31, 2003.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Urs Renggli Josef Stadelmann

Lucerne, April 16, 2004

Calendar of events 2004

Film	
Berlinale	February 5 – 15
Academy Awards	February 29
Cannes Film Festival	May 12 – 23
Venice Film Festival	August 26 – September 4

Sports and Event Marketing	
Eurovision Song Contest, semifinal	May 12
Eurovision Song Contest, final	May 15
UEFA Cup Final	May 19
UEFA Champions League Final	May 26
UEFA European U-21 Championship	May 27 – June 8
UEFA Super Cup	August 27

Investor relations	
Transatlantic Media Day, Paris	February 12
INVEST investor fair, Stuttgart	March 5 – 7
Annual General Meeting	June 8
GEWINN investor fair, Vienna	October 21 – 23
Deutsches Eigenkapitalforum	November 23 – 24
DVFA German Mid Cap Conference	November 29 – 30
Quarterly reports	May / August / November

Publisher and responsible for content:
Highlight Communications AG, Pfäffikon

Design, copy, layout and production:
GFD Finanzkommunikation, Frankfurt/Main

Pictures:
Achim Voigt Film Produktion, Mainz (pages 9, 10, 11)
Picture-Alliance/dpa, Frankfurt/Main (pages 18, 27, 28, 34)
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