Highlight

ANNUAL REPORT 2006

The Swiss Highlight Group is today one of the biggest media companies listed on the German capital market.

(TCHF)		2006	2005
Income statement	Revenues	546,386	462,321
	Earnings from operating activities	49,498	43,004
	Earnings before taxes	43,417	43,621
	Net consolidated earnings (Highlight shareholders)	26,624	22,640
	Earnings per share (CHF)	0.57	0.49
Balance sheet	Total assets	745,632	734,009
	Film assets	280,819	303,434
	Cash and cash equivalents	176,444	207,949
	Equity (Highlight shareholders)	77,946	95,456
	Liabilities subject to interest and loans	296,393	248,884
Cash flow statement	Cash flow before changes in net current assets	201,479	158,298
	Cash flow from operating activities	176,581	190,412
	Cash flow from investing activities	–186,351	–200,362
	Cash flow from financing activities	–25,845	45,334
	Net outflow/inflow of funds	–31,505	36,349
Personnel	Headcount on December 31	432	388

Highlight Communications AG, Pratteln, Switzerland

FILM		SPORTS & EVENT MARKETING
92.07 %	100 %	80 %
Constantin Film AG Munich, Germany Subsidiaries of Constantin Film AG	**Highlight Communications (Deutschland) GmbH** Munich, Germany **Rainbow Home Entertainment AG** Pratteln, Switzerland **Rainbow Home Entertainment GmbH** Vienna, Austria	**Team Holding AG** Lucerne, Switzerland **T.E.A.M. Television Event And Media Marketing AG** Lucerne, Switzerland **Team Football Marketing AG** Lucerne, Switzerland

- Film production
- Theatrical distribution
- Film license trading
- VHS/DVD exploitation (wholesale, retail and rental)
- TV service production

- UEFA Champions League
- UEFA Cup (from quarterfinals)
- UEFA Super Cup
- U-21 European Championship
- Eurovision Song Contest

The Highlight Group conceives, produces and markets both top events and first class entertainment.

The Highlight portfolio consists of top movies, attractive DVD exploitation, successful TV formats, premium football in the UEFA Champions League and the unique Eurovision Song Contest.

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PREFACE

Dear shareholders and other interested parties,

2006 was the most successful year in the history of Highlight Communications AG. We clearly outperformed our operating targets for 2006. Our revenues reached a record level of CHF 546.4 million, up more than 18% year-on-year. Earnings per share increased by around 16% to CHF 0.57, earnings from operating activities rose by more than 15% from CHF 43.0 million in 2005 to CHF 49.5 million.

The balance sheet of the Highlight Group reflects the acquisition of a further 25.07% in our subsidiary Constantin Film AG, the financing of several international and national film productions and the acquisition of an interest of almost 5% in EM.TV AG. Accordingly, cash and cash equivalents declined from CHF 207.9 million to CHF 176.4 million and liabilities subject to interest rose by CHF 70.0 million to CHF 267.8 million.

Constantin head-to-head with US majors

Our subsidiary Constantin Film also had a record year in 2006. With the film adaptation of Patrick Süskind's bestseller "Perfume – The Story of a Murderer", Constantin Film once more took first place among German producers and distributors, again making film history as it had done in 1986 with the film version of Umberto Eco's "The Name of the Rose". In Germany alone, the Bernd Eichinger production drew around 5.5 million people into cinemas, making it Germany's fourth-biggest film of the year. In addition to these nationally impressive figures, "Perfume" has so far taken more than USD 122 million at worldwide box offices and is one of the most successful German productions of recent years.

More than two million tickets were sold for "Hui Buh – Das Schlossgespenst", a production by Constantin's subsidiary Rat Pack. The clumsy spirit from the cult sixties children's book was brought to life in the big-screen adaptation by all-rounder Michael "Bully" Herbig. "Die wilden Hühner" also broke the one-million marker, being seen by more than 1.1 million cinema-goers. With these hits and 14 other films from its well-balanced distribution slate, Constantin achieved a market share of almost 10% on the German theatrical market, again establishing itself as the only independent studio among the majors.

The year under review also saw a ground-breaking development in the area of TV service productions. Some of the formats developed and produced by Constantin Entertainment (CENT), which have been getting great viewing rates in Germany for years are meeting with growing interest abroad. For example, since March 2006, Poland's biggest private station TVN has been broadcasting a locally-produced adaptation of the German court show "Richter Alexander Hold". In Russia, there are even four licensed or newly-developed CENT formats.

Dropping revenues in home entertainment

In the home entertainment area, we were confronted with difficult market conditions and a lack of major products in the past year. The massive success of the Football World Cup in Germany also resulted in revenue declines overall. The long-standing problems of movie piracy, ongoing price declines and the uncertainty regarding the future format – HD DVD versus Blu-ray – are all continuing to stunt market development. Despite record sales volumes, revenues in the German DVD sell-through market were in decline.

The Highlight Group largely defended its market share in the German-speaking region. This was primarily thanks to the DVD releases of further Constantin theatrical hits on the now well-established label "Constantin Film". "The White Massai" was our top title in 2006 with more than 330,000 units sold. Around 180,000 retail copies of "Hui Buh – Das Schlossgespenst" were sold in initial marketing in just two weeks.

The Nibelungen parody "Siegfried" and the adaptation of the children's story "Der Räuber Hotzenplotz" both performed very well, selling 160,000 and 120,000 units respectively. "Der Räuber Hotzenplotz" also won the coveted "DVD Champion 2006" prize in the family entertainment category. We also see this award as an acknowledgment of the skills of Armin Rohde, who was in every way equal in his performance of the eponymous hero to the legendary Gert Fröbe in the first live action adaptation in 1974.

Marketing of UEFA Champions League exceeds expectations

TEAM successfully concluded the sale of the commercial rights to the UEFA Champions League for the 2006/07 to 2008/09 seasons. The television rights were acquired by a total of 90 television broadcasters. As a result, the UEFA Champions League will continue to be seen as the biggest contest in club football in more than 200 countries. In the sponsoring area, which will be carried by six instead of four companies from the current season, contracts were extended with Ford, Heineken, MasterCard and PlayStation. TEAM also found two more renowned partners in Vodafone and Sony Electronics.

In terms of income, TEAM again outperformed even the high benchmarks set in previous years. Total revenue accruing from the marketing of the UEFA Champions League rose by more than 40%. The same goes for the UEFA Cup, which is being marketed centrally by TEAM for the first time from the quarterfinal matches onwards.

The results again demonstrate the expertise and professionalism of our subsidiary in designing, marketing and implementing major events. TEAM also proved these skills as part of the Football World Cup in Germany. TEAM was responsible for the consistent appearance of all 12 competition venues and coordinated both the implementation of the design and the production and installation of all design elements.

The Eurovision Song Contest, which TEAM has been marketing since 2004, was a huge hit with audiences again last year. The venue in Athens was completely sold out to 14,000 spectators and the live TV transmission was watched by more than 100 million people. Viewing rates for the final were around 28% higher than in the previous year and televoting participation (phone calls or SMS messages) was up 23% as against 2005.

Focus on business expansion

The strategic goals formulated in the previous year – the acquisition of key minority interests and the expansion of business areas – were largely realized or initiated respectively. In mid-January, we exercised our call option to acquire a 25.07% package in Constantin Film AG, which was held by Bernd Eichinger Holding GmbH & Co. KG. Thanks to further acquisitions over the course of the year, our share in Germany's most successful film production and distribution company in decades had risen to a total of 92.07% as of the end of 2006.

The integration of Constantin into the Highlight Group also progressed successfully in the year under review. The organizational structures were further streamlined. At the start of the second half of the year, the "Film" and "Home Entertainment" divisions were merged.

In order to strengthen the rapidly growing area of TV service productions, Constantin Film acquired Constantin Television GmbH in January. The activities of the wholly owned subsidiary include both continuing existing fictional formats (such as the cult series "Hausmeister Krause") and developing new series, sitcoms or TV movies. Its first own projects should be realized in the course of the current year.

In mid-February, Constantin entered a completely new area by establishing Constantin Music GmbH. The goal of this new company is to selectively exploit soundtracks and scores from Constantin's theatrical and TV movie productions. The company has also not ruled out its own soundtrack label in the medium term.

The Highlight Group also took another step into the future with its strategic investment in EM.TV AG. In the second half of the year under review, we acquired around 5% of EM.TV AG's shares. In the middle of November, we acquired an option to buy around 5.7 million more shares in EM.TV from the Dutch Constant Ventures II Luxembourg S.A. Since last December, the Highlight Group has controlled a total of around 15% of voting rights in EM.TV AG.

Disappointing stock price performance

The performance of Highlight stock did not meet our expectations in 2006. It reflected neither our operating successes nor the positive and optimistic climate on the capital markets. Closing at EUR 5.54 at the end of the year, the price of our stock was down 4.5% as against the previous year.

The dialog with the capital market has been intensified significantly in the current year to date. The development of our stock price since the start of 2007 has shown that the capital market is again more aware of the positive development and potential of the Highlight Group. Having already passed the EUR 8 mark, the performance in the opening months of the current year has risen to over an encouraging 40%.

Successful start to fiscal 2007

The second Edgar Wallace parody "Neues vom Wixxer" has been enthusiastically received by audiences, already tempting more than 850,000 cinema-goers so far. The DVD of Constantin's hit film "Perfume – The Story of a Murderer" immediately conquered the sales and rental charts on its release in mid-March.

The 2006/2007 season of the UEFA Champions League got off to an excellent start and the TEAM group has easily outperformed the ambitious targets for the 2007/2008 and 2008/2009 seasons. TEAM also stabilized its activities with the extension of the contract for the Eurovision Song Contest.

Fiscal year 2006 was a record year for our Company. In the current year, we want to keep pushing the development of the Highlight Group and continue its success story. Our goals for 2007 are controlled, profitable growth in operating business and the expansion into new areas. Our prospects are highly promising. Overall, for 2007, we are forecasting higher profits for our shareholders, revenues of CHF 500 – 520 million and basic earnings per share of between EUR 0.36 and EUR 0.38.

Finally, on behalf of myself and my colleagues on the Board of Directors, I would like to thank all the employees of the Highlight Group. Motivation and dedication are the key factors in the success of our Company. We would especially also like to thank our shareholders and business partners for the trust they have shown. In future, we will continue doing everything possible to consolidate our market position and further expand the Company. We intend to create long-term value for our shareholders, employees and business partners.

B. Burgener

Bernhard Burgener
Chairman of the Board of Directors

HIGHLIGHT STOCK

Many equities markets at record levels

2006 was a significantly better year for the stock markets than had been expected. Neither wars nor interest hikes nor natural disasters slowed the capital markets. In most regions, quotations rose strongly again, rewarding the investors with considerable price gains for the fourth time in succession. American stocks that posted only meager growth just one year ago performed surprisingly well. Factors driving this recovery included the large number of foreign investors, who invested around USD 100 billion in US equities in the third quarter alone.

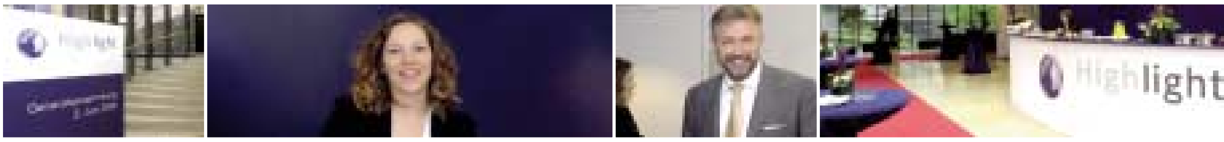
In mid-October, this momentum pushed the Dow Jones, which comprises 30 selected American companies, to over 12,000 points for the first time, reaching a record level of 12,511 points shortly before the end of the year. Thus, the benchmark index posted growth of just north of 16% over the course of the year. The more representative Standard & Poor's Index (S&P 500), which represents the stock performance of the 500 most important US companies, improved by almost 14% and the technology Nasdaq Composite also rose by around 10%. In contrast, following a furious performance in 2005, Japanese equities performed considerably weaker. The Nikkei Index disappointed forecasts by rising just 7% in 2006.

The performance of the European benchmark indices was by no means overshadowed by the American example. The EuroStoxx 50 put in growth of more than 15% and in Paris the CAC 40 rose by just under 18%. However, the British FTSE 100, which includes many non-cyclical equities gained only around 11%. Austria and Switzerland had a much better year on the stock markets: The Swiss Market Index (SMI) rose by almost 16% and the Austrian ATX posted a surge of around 22% as at year-end.

However, the clear winner among Europe's leading stock markets was Frankfurt. While rising oil prices and interest and inflation fears triggered a four-week slump in spring, the German stock market barometer DAX got underway again in the second half of the year to post growth of 22% over the year. As at year-end, the DAX was at 6,597 points – its highest level since February 2001. Germany's small and mid-caps were in even better condition: On the last day of trading, the MDAX climbed to 9,405 points, crossing the 9,400-point mark for the first time in its history. This equated to growth of almost 29% over the year as a whole. The SDAX posted an even stronger performance. It also closed at an all-time high of 5,567 at the end of 2006 – an outstanding increase of 31%.

However, the strong price rises of the last four years have not been reflected in corresponding private investments. On the contrary, the latest analyses by the Deutsches Aktieninstitut (DAI) show that the number of German stockholders is still in decline, last year reaching its lowest level since 1999. In total, the number of direct and indirect (= fund unit owners) shareholders dropped from 10.8 to 10.3 million in 2006. The biggest reduction was among private persons investing exclusively in equities. Their numbers dropped by almost 370,000, a decline of more than 13%. Pure-play fund holders posted slight increases, while the number of investors participating in both asset classes declined by around 140,000 or 7%.

The most important event for our share-holders: the Annual General Meeting

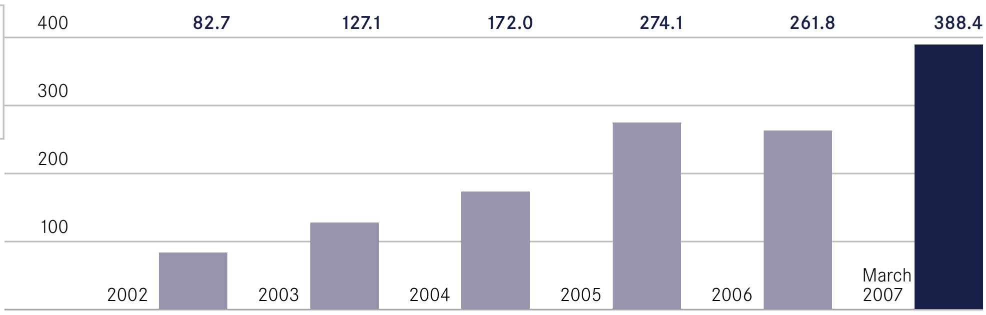


For the current year, many experts are assuming that the global equities markets will continue to offer highly lucrative investment opportunities. Almost every major German bank and a large number of international investment companies are confident that Germany in particular and Europe in general can expect to see further growth. On the one hand, this broad optimism is due to the robust health of the world's economy, to which many countries are contributing. However, other plus points include the continuing high dividend payouts and the ongoing attractive valuation of the equities markets. This is because, unlike the last boom at the start of the millennium, the price/earnings ratio has remained relatively stable over the last two years, with both equity prices and corporate profits rising strongly and virtually in tandem.

Highlight's stock price performance marked by significantly lower trading volumes

For the first time in the last four years, Highlight stock did not profit from the positive climate on the capital markets. Following a good start in January, our stock went on to decline by almost 4.5% over the rest of 2006, closing at a price of EUR 5.54 in XETRA trading. As a result, the Company's market capitalization was down to EUR 261.8 million. As against 2002, however, this corresponds to growth of almost 220%.

Development of market capitalization (in EUR mn)



Based on a closing price for the year of EUR 5.80 (December 30, 2005), Highlight stock quotation initially grew steadily before it began tracking sideways from the end of January. The start of the second quarter was then again dominated by sharp price increases, which pushed our stock to its annual high of EUR 6.70 on April 10. As part of the general market adjustment that then set in, Highlight stock lost not only the ground it had gained until then, but also continued to fall by a further 18% as against the start of the year. On July 18, it reached its low for the year at EUR 4.74.

Following the low in July, a steady growth trend began again, driven partly by our figures for the first half-year and partly by the highly anticipated theatrical release of the Bernd Eichinger production "Perfume – The Story of a Murderer". Boosted by this, the price rose back to EUR 6.39 in mid-October, before gradually losing ground again until the end of the year. As a result of targeted investor relations activities (road shows, presentations, one-on-one talks, etc.) in the opening months of the current fiscal year, the price of Highlight stock has since recovered significantly and leveled out at EUR 8.

Overall, 2006 showed very clearly that the shareholder structure of the Highlight Group is dominated by long-term investors, most of whom do not actively trade in our stock. In line with this, the day-to-day trading volume of Highlight stock is relatively low. In light of the admission of Symrise AG to the MDAX and Schwarz Pharma's resulting move to the SDAX, since mid-March 2007, our stock has no longer been included in the SDAX.

Further dividend increase planned

As in the last two years, given the highly positive operating performance of our Company, we would like to allow our shareholders to share accordingly in our success. After increasing the earnings per share to CHF 0.57 in 2006, the Board of Directors will be proposing to the Annual General Meeting on June 8, 2007 the distribution of a dividend of CHF 0.15 per share – CHF 0.03 more than in the previous year.

Stock buy-back program still a fixed feature

In the year under review, we continued to implement selectively our stock buy-back program, which the Highlight Group has been actively using since mid-2002 to stabilize the price of its stock in less dynamic market phases. In 2006, a total of 989,408 Highlight shares were acquired and 141,334 shares were sold as part of this program. As at the balance sheet date December 31, 2006, we still held 1,150,110 treasury shares, or 2.43% of our Company's share capital. The transactions of the current buy-back program can be seen on an ongoing basis on our website (www.highlight-communications.ch).

Intensive dialog with the capital market

The Highlight Group's strategy has always been geared towards sustainably increasing its enterprise value. A key element in supporting this strategy is open and ongoing communication with capital market participants. In the past year, we spoke to our target group of financial analysts, fund managers and institutional investors in numerous one-on-one talks at home and abroad to help them assess our current business situation and the Company's future development.

With regular road shows and presentations at such varied locations as the UK, Paris, New York and Vienna, we attracted new investors and strengthened our local presence. At events such as the Seydler Media Day and the German Equity Forum, we also provided capital market participants with detailed insights into the positioning of our divisions in their



respective competitive environments and the strategic orientation of the Highlight Group as a whole.

In line with the principle of fair disclosure, we publish all relevant information promptly on the Investor Relations page of our Web site. This relates primarily to our quarterly and annual reports as well as ad hoc bulletins and reports on Highlight's directors' dealings that can be read online for a certain period or requested free of charge from Highlight Communications in printed form at any later date. Users of the IR page can also access reports and ratings by financial analysts and investment companies. A financial calendar provides the dates of our key events and publications. One very special service is provided by our stock tool: In addition to general information on Highlight stock and the latest current and previous price data, it also includes a performance analyzer that can be used to precisely calculate the performance of capital invested.

Stock data 2006

Number of shares	47,250,000	Stock class	Ordinary bearer shares
Nominal value per share	CHF 1	Market segment	Prime Standard
Securities code number (WKN)	920 299	ISIN	CH 000 653 9198
Ticker	HLG	Reuters ticker	HLGZ.DE
Traded at	Berlin, Düsseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart, XETRA		
High for the year (XETRA) April 10	EUR 6.70	Low for the year (XETRA) July 18	EUR 4.74
Year-end price	EUR 5.54	Market capitalization Dec. 31, 2007	EUR 261.8 mn
Earnings per share	EUR 0.36	Market capitalization March 31, 2007	EUR 388.4 mn

Analyst coverage of Highlight in 2006

AC Research	January	Buy
DZ BANK	March	Buy
Equinet	March	Buy
Pacific Continental Securities	March	Add
M.M. Warburg & CO	May	Buy
Der Aktionär	May	Buy
DZ BANK	June	Buy
Prior Börse	June	Buy
Der Aktionär	July	Hold
Equinet	August	Buy
TradeCentre.de	September	Recommended buy
BHF-BANK	September	Buy
DZ BANK	October	Buy
TradeCentre.de	November	Recommended buy
M.M. Warburg & CO	November	Buy

Dramatic final: In the final of the UEFA Champions League, Arsenal FC are beaten by FC Barcelona in the closing minutes.

2006 was the Highlight Group’s most successful year in the Company’s history. Consolidated revenues rose to a new record and Highlight shareholders’ earnings again increased significantly.

REPORT OF THE BOARD OF DIRECTORS

Broad economic recovery

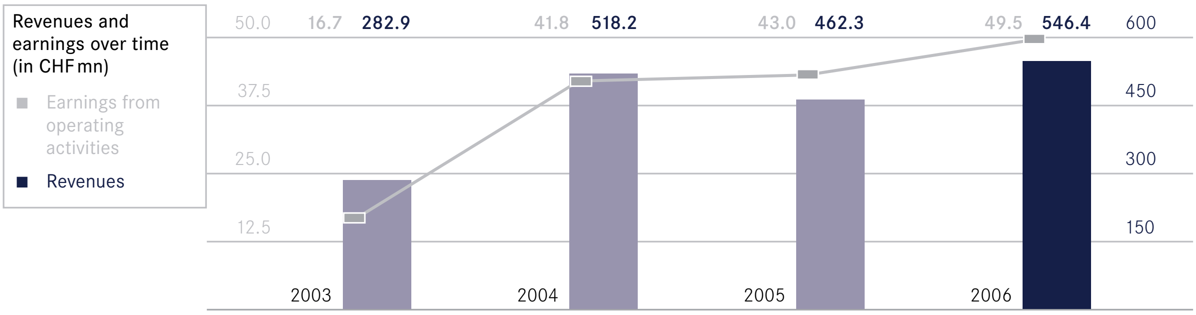
The world economy continued its high-level growth in 2006. At 3.9%, the rise in global gross domestic product was even 0.4% higher than in the previous year. One particularly positive aspect was the fact that the recovery was driven by more industrial nations than in 2005. China again posted an especially dynamic performance with a double-digit growth rate. The economies in North America and Japan initially continued with the momentum of the previous year before slowing slightly as the year progressed. Thanks to continuing high export surpluses and a strong rise in domestic demand, Switzerland and the European economic area displayed a clear resurgence.

In 2006, the Swiss economy saw the high growth levels last seen in the boom year of 2000. According to initial estimates by the State Secretariat for Economic Affairs (Staatssekretariat für Wirtschaft), at 2.7%, the growth in Swiss gross domestic product exactly matched the rise in Germany in real terms. Above all, this growth was driven by the financial industry as well as a continuing high level of investment activity.

Economic development in Austria was dominated by strong export and investment growth, rising real wages and a significant improvement in the employment situation. As a result of these positive indicators, an increase of 3.3% is forecast for the gross domestic product in the Austrian economic area.

Germany, one of the Highlight Group's main markets, also benefited from the positive economic development. Its gross domestic product rose by 2.7% in real terms, after a meager improvement of 0.9% in the previous year. Germany thus posted its strongest growth since 2000. In addition to the traditionally strong foreign trade, private consumer spending also contributed positively to the recovery after years of stagnation. While the rise in consumer spending of 0.6% as against the previous year is still a long way from the strong growth rates of the nineties, it is a clear sign of rising optimism among consumers. This is also indicated by the fact that the increase in private spending is not due to higher income. On the contrary, German consumers broke into their savings, triggering a slight decline in the savings ratio for the first time in five years.

The theatrical industry also profited from the generally positive economic climate. After the crisis year of 2005, admission figures and box-office takings were recorded in nearly all key territories. In Germany, the upswing was also aided by a series of local productions, chief among these being the Bernd Eichinger production "Perfume – The Story of a Murderer". However, the home entertainment market faced some significant declines. While a new sales record was established on the German DVD sell-through market, the continuing decline in prices resulted in sales revenue reductions for the first time. Video rental stores were hit even harder, suffering double-digit percentage losses as a result of the Football World Cup and a long fair weather period.



Group revenues at record level

The Highlight Group systematically leveraged the positive economic conditions, making 2006 the most successful year in the history of the Company. Consolidated revenues were up 18.2% on the previous year (CHF 462.3 million) to a new record of CHF 546.4 million. The main revenue driver was our Film division, which was again merged with the Home Entertainment division as part of the ongoing integration of Constantin Film AG. All the figures for segment reporting to date were also adjusted retroactively as of September 30, 2006.

In total, the Film division generated revenues of CHF 470.3 million, up 15.3% on the previous year (CHF 407.8 million) in the year under review. On the one hand, this growth was driven by the good box-office takings for Constantin cinema films (including the major production "The Perfume" in particular), and by the continuing excellent performance in TV service productions on the other, which were realized by various Constantin subsidiaries.

Our Sports and Event Marketing division generated annual revenues of CHF 76.1 million, a significant increase of 39.6% year-on-year (CHF 54.5 million). The division's proceeds were dominated by the successful conclusion of marketing activities for the UEFA Champions League 2006/07 to 2008/09 seasons and the Football World Cup project. The Sports and Event Marketing division's share of consolidated revenue thus rose from 11.8% in the previous year to currently 13.9%.

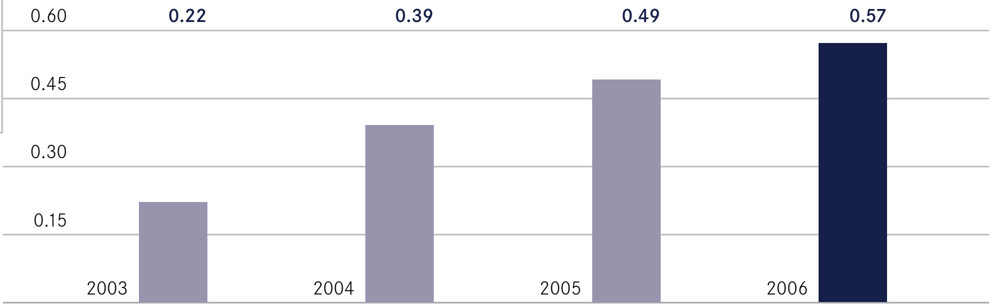
Considerable rise in earnings for Highlight shareholders

At CHF 499.9 million, consolidated expenditure was up by CHF 75.2 million or 17.7% year-on-year. By far the most significant increase was in license, merchandise and production expenses, which rose from CHF 331.9 million in the previous year to CHF 402.9 million in the year under review. On the one hand, this development reflects the high production level in TV service productions and, on the other, the rise in costs owing to Constantin's considerably more extensive distribution slate in 2006. Personnel expense rose as a result of the significant boost in personnel capacity by CHF 12.5 million to CHF 64.1 million. In contrast, depreciation/amortization was reduced by CHF 3.1 million to CHF 2.2 million and various operating expenses were down by CHF 3.8 million to CHF 25.0 million.

As a result, earnings from operating activities rose by 15.1% to CHF 49.5 million (previous year: CHF 43.0 million). The fact that this significant improvement did not carry through to net consolidated earnings is primarily due to the net financial and foreign exchange result as well as the net earnings from investments in associates. In turn, this was due to increased financial expenses of CHF 6.6 million (previous year: CHF 2.2 million), negative currency effects of CHF 0.5 million (previous year: CHF +1.0 million) and a net investment result of CHF –0.6 million (previous year: CHF 0.0 million).

Together with a CHF 1.5 million increase in tax expense, this reduced net consolidated earnings to CHF 29.5 million, just below the previous year's level (CHF 31.2 million). CHF 26.6 million of this is attributable to the shareholders of Highlight Communications AG, an improvement of 17.7% as against fiscal 2005 (CHF 22.6 million). Accordingly, earnings per share also rose from CHF 0.49 in the previous year to currently CHF 0.57.

Development of earnings per share (in CHF)



Acquisition of minority interests increases net debt

As against the previous year (CHF 734.0 million), the total assets of the Highlight Group again rose slightly by CHF 11.6 million to CHF 745.6 million. The clearest increase on the assets side was in current and non-current receivables, which rose from CHF 96.7 million to CHF 140.2 million. This increase was primarily due to a change in the terms of payment for TV broadcasters. Inventories and unfinished service productions rose by CHF 15.6 million to CHF 61.3 million in the year under review (previous year: CHF 45.7 million). This related mainly to the lavish three-parter filmed for ZDF, "Afrika, mon amour", which was broadcast in January 2007.

Film assets (own and third-party productions) were down from CHF 303.4 million in the previous year to currently CHF 280.8 million. This effect resulted from the cinema exploitation of own productions in 2006, which were produced in the two previous years and carried as inventories until their release. In the financial area, the dominant effect was the significant boosting of our minority interests – particularly the acquisition of the 25.07% package in Constantin Film AG – which caused our net debt to rise by CHF 80.1 million. The level of cash, cash equivalents and other financial assets dropped by CHF 32.6 million to CHF 201.0 million at the end of 2006 (previous year: CHF 233.6 million). At the same time, liabilities subject to interest and loans increased by CHF 47.5 million to CHF 296.4 million.

Consolidated equity (excluding minority interests) declined by CHF 17.6 million as against the previous year (CHF 95.5 million) to CHF 77.9 million as of December 31, 2006. This development reflects four major factors: the reversal of capital reserves in association with the acquisition of minority interests (CHF –37.8 million), the dividend payment for 2005 (CHF –5.6 million), the acquisition of treasury shares (CHF –7.4 million) and the increase in retained earnings by the net consolidated earnings for 2006 (CHF +26.6 million).

Significant increase in headcount as result of business area expansion

As of the balance sheet date December 31, 2006, the total headcount at the Highlight Group amounted to 432 employees. Thus, the number of employees increased by 44 as against the end of the previous year (388). The rise in staff numbers primarily reflects the expansion of activities at our subsidiary Constantin for TV service productions (internationalization of Constantin Entertainment formats, acquisition of Constantin Television GmbH, etc.).

Further improvement in profitability planned

The latest forecasts by leading economic experts are all characterized by a certain confidence. In light of the positive overall economic conditions, we are anticipating stable and profitable business performance built on several success factors. In the theatrical distribution area, the film slate of our subsidiary Constantin currently consists of 15 titles for 2007. In the spirit of increased own exploitation, ten of these are own or co-productions and only five are licensed films. The highlight for the German-speaking market will undoubtedly be the latest production from Michael “Bully” Herbig, “Lissi und der wilde Kaiser”, scheduled for release at the end of October. Of Constantin’s licensed titles, “Michael Clayton” will be the one to watch in particular, not least because of the casting of Hollywood star and ladies’ man George Clooney in the leading role.

We are also expecting a hit on the international theatrical markets with “Resident Evil: Extinction”. In this, the third film adaptation of the bestseller video game series, the winning team of Milla Jovovich, Mike Epps and Iain Glen are being joined on-screen for the first time by hip hop star Ashanti. “Fantastic Four – Rise of the Silver Surfer”, the sequel to 2005’s international hit “Fantastic Four” produced by Constantin in cooperation with the major studio 20th Century Fox, will be hitting the big screen this summer. As in the first movie, Jessica Alba, Ioan Gruffudd, Chris Evans and Michael Chiklis will be playing the four superheroes from Marvel’s well-known comic books.

In the home entertainment area, we already released a genuine blockbuster on DVD in the first quarter with “Perfume”. We are expecting similar things from the internationally highly successful drama from Mel Gibson “Apocalypto”, the cinema impact of which in Germany was impaired by an “18” certificate. The third season of “ProSieben Märchenstunde”, in which stars such as Sonja Kirchberger, Mathieu Carrière, Jasmin Tabatabai and Gudrun Landgrebe show off their comedic talents, will appear on DVD straight after TV broadcast. And for crime fans we will be releasing all four episodes of the successful ZDF series “Nachtschicht”, starring Katharina Böhm and Armin Rohde.

In Sports and Event Marketing – following the successful conclusion of marketing activities for the UEFA Champions League – the focus will be on operating activity this year. In May, in particular, our subsidiary TEAM will be organizing and managing three major events at once: this year's Eurovision Song Contest in Helsinki, the UEFA Cup Final in Glasgow and the UEFA Champions League Final, which is this year being broadcast from the impressive Olympic Stadium in Athens.

Given these positive prospects, our revenue forecasts for the current year are CHF 500 – 520 million after the record year of 2006. This conservative forecast takes into consideration the fact that such outstanding cinema hits as "Perfume" cannot be reproduced at will. But we are still anticipating further growth for the broad positioned Highlight Group. Our strategy is to focus on ongoing controlled and profitable growth. Overall, we now feel that we will outperform the record year of 2006 in 2007, with basic earnings per share of between EUR 0.36 and EUR 0.38.

The Board of Directors wishes to thank all the employees of the Highlight Group for their outstanding performance in 2006. They have thus established a more than solid basis from which to continue the success story of our Company.

Pratteln, April 2007

Bernhard Burgener René Camenzind Martin Hellstern

Dr. Ingo Mantzke Martin Wagner

BOARD OF DIRECTORS

Bernhard Burgener (born 1957)

Chairman of the Board of Directors

Engaged in film business since 1982. He established Rainbow Home Entertainment AG (formerly 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 Chairman of the Board of Directors of Highlight Communications AG.

René Camenzind (born 1951)

Member of the Board of Directors

Businessman. 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

Businessman. 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 CineStar SA, Lugano. Since 2003 key shareholder of Highlight Communications AG 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 manager 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 2003. Since November 2003, amongst others, responsible for investor activities.

Martin Wagner (born 1960)

Vice Chairman 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.

Deserved recognition: “Perfume” leading actor Ben Whishaw is awarded the DIVA (Actor of the Year 2006) for his outstanding achievement.

The Bernd Eichinger production “Perfume - The Story of a Murderer” was commercially by far the most successful German film in 2006. With audiences of 5.5 million, it came fourth in Germany’s annual film hit list.

Germany's leading media prize for "Perfume": director Tom Tykwer and actress Karoline Herfurth at the BAMBI awards in Stuttgart

With 17 theatrical releases, the Highlight subsidiary Constantin Film AG achieved a market share of around 10 % in Germany. Thus, Constantin was again the only independent to keep up with the major studios in 2006.

Fascinating big screen adaptation with opulent sets: “Perfume”

Division: **FILM**

THEATRICAL DISTRIBUTION

Theatrical industry worldwide is back on track

Following last year’s sobering figures, the theatrical industry was able to draw breath again during 2006. Despite the losses feared as a result of the Football World Cup, worldwide box-office takings grew by 11% year on year, bringing in a total of USD 25.8 billion and setting a new all-time record in the process. Of this total, roughly USD 9.5 billion was generated in the USA, which equates to an increase of almost 5% compared with 2005. However, by far the largest share of total sales, USD 16.3 billion, was accounted for by the international territories. This fact serves yet again to underline the importance of the foreign markets to the major studios.

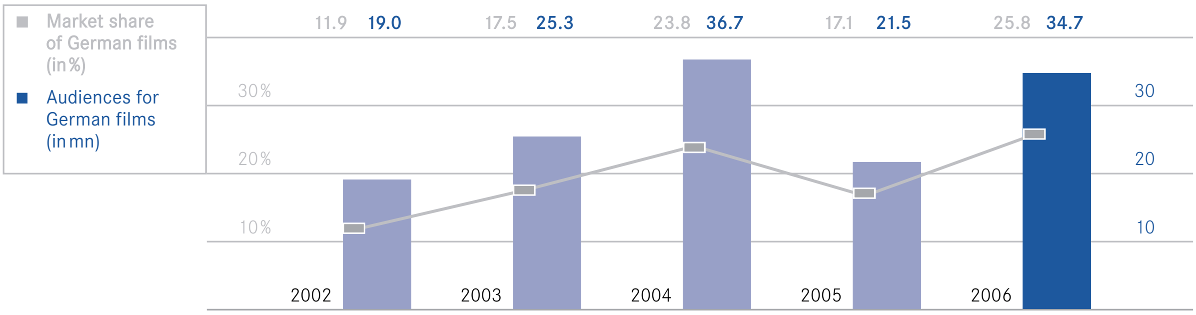
In Europe, the upward trend was most noticeable in Switzerland, where theatrical sales increased by 10% over the previous year to reach CHF 240 million. Admission figures climbed from 15.2 million to 16.6 million – an improvement of around 9%. In France, the number of tickets sold rose by 7% to 187 million to give theatre operators the second highest box-office result of the last two decades. In contrast, Great Britain turned in a much weaker performance. Although the British box office was the only one in Europe to succeed in maintaining its 2005 figures at least at the level of the previous year, 2006 also failed to bring any significant growth.

One reason for the recovery was undoubtedly the fact that this year saw a significantly higher number of large-scale US productions also delivering genuine blockbuster quality than in the previous year. Nevertheless, films shot on much smaller production budgets – such as “Borat”, “The Devil Wears Prada” or “Walk the Line” – enjoyed a surprising level of success internationally. Not least, however, is the fact that domestic productions contributed significantly to the upturn in the theatrical market in many countries. This trend, which has been observed in France for some time, shows signs of spreading in other territories as well.

Market share of German productions at record level

For the German theatrical industry, the year 2006 also ended on an extremely positive note. After admissions the previous year plummeted by almost 20%, audience figures rose again by more than 7% to reach 136.7 million. Higher admission prices meant that theatrical sales improved by over 9% and climbed to EUR 814.4 million. And this despite a first quarter in which sales and admission figures were still below the disappointing 2005 levels and which appeared to indicate a continuation of the downturn.

After that, however, the cinema release of the animation spectacular “Ice Age 2 – The Meltdown” broke the ice in every sense of the word, and provided theatre operators with an increase in admissions of over 96% compared with the same month last year – the best April result in 15 years. May was also an extremely successful month, which saw the release in German cinemas of the much anticipated film version of the bestselling novel “The Da Vinci Code”. The autumn was dominated by domestic productions, which topped the cinema charts for ten weeks in a row (based on admission figures), for the first time in 20 years.



Source: Filmförderungs-anstalt (FFA)

The series opened in mid-September with the cinema release of the Bernd Eichinger production “Perfume – The Story of a Murderer”, which was replaced at the start of October by Sönke Wortmanns’ World Cup documentary film “Deutschland. Ein Sommermärchen” before the “7 Zwerge” sequel “Der Wald ist nicht genug” took over the top position at the end of October. Overall, German productions achieved a market share of no less than 46% between September and November, during which time five films were included among the Top 10. Thanks largely to these successes, the overall market share for German productions in 2006 jumped to the new record level of around 26% from last year’s level of only slightly above 17%.

Structural problems remain in place

Despite the positive growth of sales and admission figures, the German theatrical market continues to be affected by problems that require a solution in the foreseeable future. One of these is the high number of film releases, which continues to increase from year to year. While 447 films were premiered during 2005, a total of 487 releases competed for the public’s attention during 2006. This results in many films disappearing from the screens before they have even been noticed by the public.

Another problem concerns the age structure of the cinema-goers. Despite the fact that family entertainment productions, such as animation films, will always attract a broad public, many statistics show that the average age of cinema-goers is rising steadily. However, older viewers tend to feel less comfortable in the Multiplex cinemas that were originally built for young people – the previous key target group. For this reason, some operators in France and the USA have already achieved great success by building elegantly appointed cinemas that also incorporate restaurants or bars.

The window of exploitation, that is the period between a film’s cinema release and its appearance on DVD, remains an ongoing issue. The major US studios, in particular, are constantly attempting to reduce the period of six months (or four months in the case of some international productions) that has been so vehemently defended by theatre operators. The latest incident in this trend came at the end of January with the announcement by Fox Home Entertainment that the box-office hit “Eragon” would be released on DVD a mere three months after the cinema release. The reaction was drastic, with cinema chains Cinemaxx and Cinestar removing all Fox films from their schedules for a week before reaching agreement with the studio shortly afterwards to delay the DVD release date.

Captivating teenage adventures of a group of girls: “Die wilden Hühner”

German films also successful internationally

While German productions in the annual statistics – with a few notable exceptions – have stood out up to now largely by the high number of film releases, their admission figures and box-office takings also soared in 2006 to unimagined heights. In total, domestic films attracted an audience of almost 35 million viewers – only slightly below the record year of 2004. This success was largely attributable to “Perfume – The Story of a Murderer”, “Deutschland. Ein Sommermärchen” and “7 Zwerge – Der Wald ist nicht genug”, which together drew in audiences of roughly 13 million. In addition, directorial debuts such as “Wer früher stirbt, ist länger tot”, which attracted almost 1.3 million viewers, developed into surprise hits.

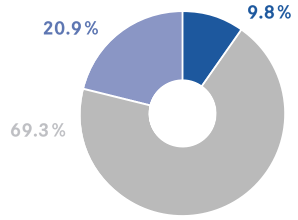
One success story of a very special kind was created by the Stasi thriller “Das Leben der Anderen”, which has since been sold worldwide. After failing to garner any consideration during the Berlinale at the start of the year, the debut feature film by director Florian Henckel von Donnersmarck pulled in almost 1.7 million viewers to German cinemas following its premiere at the end of March and has since been inundated with awards. The four Bavarian Film Prize awards received (including best screenplay and best leading actor) were followed by no less than seven German Film Awards, including the coveted “Filmpreis in Gold” for best feature film.

The preliminary highlight then followed at the beginning of December at the European Film Awards, where as well as winning the prizes for best screenplay and best leading actor, “Das Leben der Anderen” was nominated as best European film of 2006. Often referred to as the “European Oscar”, this category has been dominated by German productions for many years. After the nostalgic comedy “Good Bye, Lenin!” became the surprise winner of the award in 2003, the social drama “Gegen die Wand” by German/Turkish director Fatih Akin mounted a successful defence of the title the following year. In 2005, “Sophie Scholl – Die letzten Tage” just missed out in the final competition, but was rewarded with the audience prize.

The international recognition gained by “Das Leben der Anderen” culminated at the end of February in Hollywood. During the Academy Awards, the film was awarded the Oscar® in the category best non-English language film. These successes achieved at international level and in the face of strong competition clearly underline that neither luck nor coincidence played any role whatsoever. Quite the contrary, German cinema has rediscovered its old strengths and, after an absence of nearly 30 years, has re-established itself on the international stage as a force to be reckoned with. In the meantime, leading international journals have also referred to the “German cinema revival” or the “re-awakening giant”.

Theatrical market shares
(audiences in Germany 2006)

- Constantin Film
- US majors
- Other independents



Source: Blickpunkt Film

Constantin once again the leader of the independents

For our subsidiary Constantin, 2006 was also extremely successful on the theatrical front. Of the 17 films (9 own and co-productions as well as 8 licensed films) on the Constantin distribution slate, three broke through the magic million barrier in audiences with another two just missing out on this figure. Overall, 12.9 million cinema tickets were sold for films distributed by Constantin, which equates to a market share of 9.8% – based on the overall market in Germany. As a result, our subsidiary continued to compete at the same level as the major studios and secured fifth place in the annual ranking – ahead of Warner Bros. The national comparison gave Constantin a leading market share of 41%, which means that virtually every second cinema ticket bought for a German film was for a film distributed by Constantin.

Ultimately, it was the Bernd Eichinger production, "Perfume – The Story of a Murderer", that proved to be the absolute public favourite. Released in German cinemas in mid-September, the film version of the Patrick Süskind bestseller had already created an impressive reaction during its first weekend on release, when it attracted an audience of 1.04 million. As a result, "Perfume" was the first German film, and only the fourth film until then, to break the one million barrier on its first weekend. It also went on to pass the five million viewer mark in less than 50 days, for which it received the coveted Box Office Germany Award (Bogey) in platinum. Up to the end of the year, the release attracted a cinema audience of 5.5 million, putting it in fourth position in the annual film hit list – directly behind "Ice Age 2", "Pirates of the Caribbean 2" and "The Da Vinci Code".

However, "Perfume" also achieved outstanding box-office takings outside Germany. With a worldwide box office currently running at more than USD 122 million, the vividly depicted drama is one of the most internationally successful German films of recent years. In addition, it has already won several awards. At the BAMBI award ceremony at the end of November, it took the prize in the national film category, while Tom Tykwer and Uli Hanisch won the Bavarian Film Prize for best director and best set respectively in mid-January 2007. And at the end of January, leading actor Ben Whishaw (Actor of the Year) and Karoline Herfurth (New Talent of the Year) were honoured with the German Entertainment Prize (DIVA) in recognition of their outstanding performances.

Another highlight of the German theatrical year 2006 was undoubtedly the Constantin co-production "Hui Buh – Das Schlossgespenst". More than two million viewers were captivated by the adventures of the loveable character from children's novels, brought to life on screen by the ever popular Michael "Bully" Herbig. Also representing the best in family entertainment was the Constantin co-production "Die wilden Hühner". The screen adaptation of the book series of the same name by bestseller author Cornelia Funke, featuring Veronica Ferres and Benno Führmann in the leading roles, attracted cinema audiences of more than 1.1 million. In contrast, the Bernd Eichinger/Oliver Berben production "Atomised" provided an outstanding German cinematic experience based on the novel by Michel Houellebecq. Receiving rave reviews within the framework of the Berlinale, the film attracted enthusiastic audiences of over 840,000 in Germany alone.

A long-standing, pedigree television prize:
The Constantin Entertainment production "Extreme Activity" hosted by Jürgen von der Lippe receives the renowned Adolf Grimme Prize.

TV service productions have become an extremely stable and rapidly growing business area. TV formats by Constantin Entertainment GmbH are also attracting increasing interest abroad.

Outrageous gags caught on hidden camera: “Die Comedy-Falle”

Celebrities in Germany’s most turbulent game show: “Extreme Activity”

PRODUCTION

Internationalization in the TV entertainment area

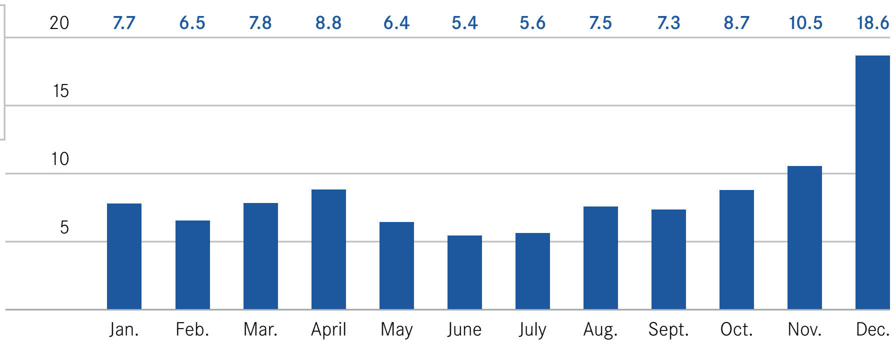
Constantin production activities were operating to capacity during 2006. Along with the production of additional TV series, principal photography began on a total of ten theatrical feature films and nine TV films. For example, the end of April saw Constantin subsidiary Rat Pack complete the first take of the comedy thriller “Neues vom Wixxer” – a sequel to the sensational success “Der Wixxer” in 2004. As in the first series, this affectionate hommage to the Edgar Wallace film adaptations with Oliver Kalkofe, Bastian Pastewka, Christoph Maria Herbst and Oliver Welke once again featured a star-studded cast of comedians. The decision of Joachim Fuchsberger, who is familiar from many Edgar Wallace films, to act in one of the leading roles came as a particular surprise and delight. The film was released in German cinemas in mid-March and has already entertained more than 850,000 viewers.

May saw the start of principal photography for the international Constantin production “Resident Evil: Extinction”, the third film adaptation of the video game series that has gained worldwide popularity. The leading role in the action thriller will once again be played by Milla Jovovich, who will be supported this time by Iain Glen and hip hop star Ashanti, in her debut film role. The film is to be released to theatres in autumn 2007. The first take of the international Constantin co-production “Asterix at the Olympic Games” was completed in mid-June. The title role in the third live action film of the legendary comic series is played by French shooting star Clovis Cornillac, while Gérard Depardieu and Alain Delon turn in stellar performances as Obelix and Caesar respectively. The cinema release is planned for spring 2008.

In the area of TV film production, the Constantin subsidiary MOOVIE – the art of entertainment shot a “Tatort” sequel for Bayerischer Rundfunk from mid-August to mid-September. This is the first time that a company from the Constantin Film Group has produced an episode of the long-running ARD thriller series. At the beginning of August, MOOVIE had started principal photography of the three-part event “Afrika, mon amour”, which was broadcast by ZDF in January 2007. Featuring the stellar cast of Iris Berben, Robert Atzorn, Matthias Habich and Bettina Zimmermann, the epic adventure film achieved outstanding ratings. With a total of more than 26 million viewers and a market share of over 24 % when the last part was aired, even the record rating figures for the TV highlight “Die Patriarchin” in 2005 were exceeded.

In the area of TV entertainment, the daily formats developed by Constantin Entertainment for the German market are attracting interest from abroad in the meantime. For example, the daily court show “Sedzia Anna Maria Wesolowska” – an adaptation of the successful German format “Richter Alexander Hold” – has been broadcast on Poland’s biggest private station TVN since March 2006. The series is produced locally by a Constantin Entertainment subsidiary and is achieving considerably better ratings than expected. Four daily programs that have been newly developed or produced on the basis of format licenses issued by Constantin Entertainment are being shown in Russia with great success. Moreover, the fiction reality soap “Hanrahan Investigates”, produced in Great Britain by Constantin Entertainment for the station Channel Five, offers excellent prospects for success. Production of the pilot programme was completed in September and preparations for the principal photography of the first series began in October.

DVD sales in Germany 2006 (in units mn)



Source: Gesellschaft für Konsumforschung (GfK)

HOME ENTERTAINMENT

Price decline and Football World Cup act as a brake on growth

For the German-language home entertainment operators, 2006 was a far less successful year than for the theatrical industry. Total sales in Germany fell to EUR 1,591 million and were thus 5.6% below the previous year's figure (EUR 1,686 million). The mildest declines were registered by the video sell-through market, where sales only fell by 4.3% to EUR 1,307 million compared to 2005. One of the reasons for this development was undoubtedly the final phasing out of VHS cassettes from the market. Their 3% market share of last year has since fallen to the current level of less than 1%.

Nevertheless, analysis of the pure DVD figures gives cause for concern: Despite record sales of almost 101 million recorded DVDs – corresponding to 2% growth year-on-year – this year saw falling sales revenues recorded for the first time. According to the industry association, the BVV, the primary cause of this development is the aggressive pricing policy pursued in relation to the marketing of newly released top titles, which in some cases were sold over the counter at knockdown prices. As a result, the average sales price for a DVD fell by 4% to EUR 12.86, down from EUR 13.39 the previous year.

Indeed, the retail situation would have deteriorated further but for an exceptional fourth quarter that saw sales of DVDs reach 37.7 million, thus 9% up on last year (34.6 million). At EUR 505 million, sales for the quarter improved by almost 3.5% over the previous year to set a new record. However, the three strong months were unable to compensate for the sales shortfall experienced earlier in the year due to the weak range of titles in the first quarter, the transmission of the Football World Cup as well as a prolonged period of high temperatures.

DVD rentals at historical low

The video store business, which is traditionally strongly dependent on the weather and the range of available titles, had to endure a genuine slump in 2006. Following a gratifying upswing of 4% in 2005, the sales slump of over 11% over the past year is likely to have been particularly painful for many video store owners. While revenues reached EUR 320 million in the previous year, the 2006 figure of EUR 284 million saw them falling below the previously stable lower limit of EUR 300 million for the first time. Even in the most difficult year so far for the rental market (2003), total sales were still slightly above this limit.

The video stores had to contend with particularly severe declines during the World Cup months of June and July. During this period, some market participants were faced with sales losses of up to 50%. In addition, the problem of film piracy and the constantly growing number of video-on-demand portals offering attractive content continue to put pressure on the rental sector. A cause for genuine alarm in this context is the fact that the past year saw the sector reach a historical low of around 112 million transactions (2005: 124 million).

What comes after the DVD?

In view of the fact – nine years after the introduction of the DVD – that the period of market growth is now obviously at an end, many in the industry are pinning their hopes on the next-generation formats. Significantly more storage space, outstanding picture quality,

Bewitching remake of the famous children's story trilogy: "Der Räuber Hotzenplotz"

interactive menus – these are only some of the arguments designed to persuade consumers to buy into the new home cinema technology. However, the path to this technology is still blocked by the providers themselves because the manufactures of the relatively expensive playback units have so far failed to agree on a uniform standard.

As a result, the Toshiba Group along with several other companies is supporting the High-Definition-DVD format (HD DVD), while its competitor Sony argues vehemently in favour of the (technically higher-quality) Blu-ray standard. Sony also has the support of large sections of the US film studio community, so we can assume that a greater selection of films will be released in this format in the medium term. However, the big drawback of Blu-ray players is that they cannot play "normal" DVDs – a restriction that does not apply to HD DVD players.

The ongoing "format war" is a cause of general uncertainty – both for providers and for consumers. The major studio Paramount will therefore continue to release its new titles in both formats until a winner emerges from this rivalry. Consumers also appear unwilling to commit one way or the other because they will also have to purchase a HD-compatible television in addition to the actual playback machine in order to savour the full high-definition experience. In a recent survey, more than 90% of DVD consumers indicated that they had no plans to invest either in HD DVD or Blu-ray over the next six months. In this respect, it is worth noting that although the next-generation formats will undoubtedly open up new market potential, the switch to high definition will be nowhere near as rapid as the previous transition from the VHS cassette to the DVD.

Highlight Group maintains its market position

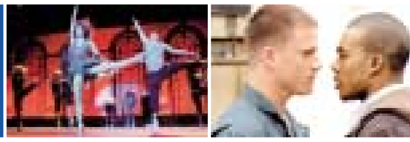
Despite challenging underlying conditions, the Highlight Group largely succeeded in maintaining its market position in the German-speaking region. In Germany, where we operate together with our sales partner Paramount Home Entertainment, we increased our share of sales volume by one percentage point to 8%. In contrast, our share of revenue fell slightly to 8% – due to the problem of price erosion outlined above. In Austria and Switzerland, our Rainbow distribution companies maintained their market shares at a stable 20% respectively.

Our 2006 product portfolio also included a range of new releases under the "Constantin Film" label, which has now carved out a strong niche for itself in the market. January saw the rental release of the star-studded psycho thriller "The Jacket" (Keira Knightley, Adrien Brody, Kris Kristofferson and Daniel Craig). Produced by George Clooney and Steven Soderbergh, the film deals with an army veteran's search for his identity and immediately entered the Top 10 in the rental charts. It was also rated as the best video premiere of the previous year by readers of CINEMA magazine at the beginning of 2007.

This was followed at the beginning of February by the DVD release of the Constantin theatrical hit "Siegfried", featuring cult comedian Tom Gerhardt in the title role. After the clever satire of the Nibelungen legend had already attracted theatrical audiences of around 1.3 million in 2005, the home cinema version netted a sales volume of more than 160,000 copies. This was followed in March by the first major highlight of the year with the rental and sales launch of the Constantin own production "The White Massai". The film shot in East Africa tells the story of an obsessive love affair based on the personal experience of Swiss author Corinne Hofmann and immediately captured the top of the sales charts. More than 250,000 copies were delivered in March alone, and sales had exceeded 330,000 units by the end of the year.

The fine tradition of British black comedy: “Keeping Mum” with “Mr. Bean” Rowan Atkinson

Perfectly choreographed and extremely entertaining: the surprise US hit “Step Up”



In April, we launched the two first seasons of the comedy series “ProSieben Märchenstunde” – a TV production by the Constantin subsidiary Rat Pack. This extremely humorous parody of classic fairy tales features top comedians including Christian Tramitz, Annette Frier or Herbert Feuerstein. The beginning of June saw us release “Metal – A Headbanger’s Journey” as a special treat for heavy metal fans. The fascinating documentary was shot in original locations in England, Germany, Norway, Canada and the USA and offers exclusive portraits of the genre’s legendary bands such as Black Sabbath or Iron Maiden.

Having deliberately released relatively few titles during the summer months due to the staging of the Football World Cup, the beginning of October marked the DVD release of yet another star-studded cinema film, “Der Räuber Hotzenplotz”. With a sales volume of around 120,000 copies, the affectionately staged production based on the million-selling trilogy of children’s stories by Otfried Preussler also developed into a bestseller. At the end of October, it was also voted DVD Champion 2006 – the best DVD production in the family entertainment category. And finally, “Hui Buh – Das Schlossgespenst” was released in good time for the Christmas season. Following the film’s tremendous theatrical success, we delivered more than 300,000 DVDs to the retail video stores, who sold over 60% of them by the end of the year.

LICENSE TRADING

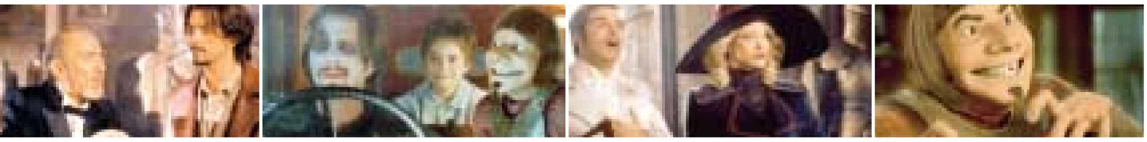
Continuation of cooperation with ProSiebenSat.1, Premiere and Disney Channel

The Constantin subsidiary Constantin Film Verleih GmbH extended the output deal with the ProSiebenSat.1 Group, which has been in force since 2005, for a further two years at the beginning of November. The new deal covers the free TV rights to all own and co-productions by Constantin Film AG and its subsidiaries with principal photography commencing between January 1, 2007, and December 31, 2008. In addition, the free TV rights to the international co-production “Asterix at the Olympic Games” as well as for numerous Constantin licensed films were sold. This film package includes primarily the action thriller “Michael Clayton”, the fantasy adventure “Bridge to Terabithia” and the horror shocker “The Grudge 2”. In the area of pay-TV exploitation, Constantin Film Verleih GmbH also extended the existing general licensing agreements with Premiere and the Disney Channel for a further two years at the start of 2007.

OUTLOOK

More own and co-productions for theatrical distribution

Our subsidiary Constantin is currently planning the cinema release of a total of 15 films in 2007. As a result of intensive production activities during the previous year, 10 of these will be own and co-productions, with a further 5 licensed films rounding out the distribution slate. “La Vie en Rose”, a moving hommage to France’s legendary chanteuse Edith Piaf, is already on release since mid-February. The sensitive and emotional biopic celebrated its world premier as the opening film at this year’s Berlinale and has already attracted enthusiastic audiences of more than 400,000 in Germany.



Best family entertainment: the classic children's book "Hui Buh – Das Schlossgespenst"

Following the tremendous public success achieved by "Die wilden Hühner" during the past year, the beginning of April saw the release of the sequel "Die wilden Hühner und die Liebe" on the big screen. Based on the bestselling series by Cornelia Funke and directed by Vivian Naefe, Germany's most famous group of girls this time is dealing with affairs of the heart. On the other hand, fans of cult comedian Michael "Bully" Herbig should mark October 25 in their calendars. This is the release date of "Lissi und der wilde Kaiser", the already eagerly awaited third theatrical film of this all-round talent. This release, which is fully animated using 3D technology, also features long-serving "Bully" comrades Rick Kavanian and Christian Tramitz in various narrative roles.

Continued high level of production

The highlight in the field of theatrical films will in all likelihood be the film adaptation of the bestselling novel "The Legend of Pope Joan" by Donna Cross, which has sold millions of copies worldwide. Franka Potente will play the leading role, under the direction of Oscar® winner Volker Schlöndorff. The first take of this fascinating historical epic is due to be completed in May. Principle photography for "Anonyma – Eine Frau in Berlin" is also due to start almost at the same time. The film, in which Nina Hoss plays the leading role, is based on an anonymously published diary in which a woman describes her experiences during the siege and conquest of Berlin by the Red Army at the close of the Second World War.

In the area of TV productions, MOOVIE – the art of entertainment is producing the novel series "Süden und das Geheimnis der Königin" for ZDF, with Ulrich Noethen in the leading role. Another sequel to the successful ZDF crime series "Luginsland" starring Katja Flint in the leading role is also due for production. In contrast, Constantin subsidiary Rat Pack is currently planning a new format for the private station ProSieben. Entitled "Die ProSieben Filmklassiker-Spoofs", the production will parody classic film genres (western, love films, etc.). Moving to the entertainment segment, the start of the year saw the airing of "Falco – Die Show" with great success on Kabel 1. Other projects such as the variety show "Worüber lacht die Welt" hosted by Wigald Boning, the quiz show "Rich List" (hosted by Kai Pflaume) or a Polish version of the comedy sketch show "Die Dreisten Drei" will be produced during the course of the year.

Home entertainment area is expanding

During the current year, our home entertainment area will profit primarily from the DVD release of the Bernd Eichinger production "Perfume – The Story of a Murderer". Since its launch in mid-March, we have racked up sales of around 320,000 DVDs of the most successful German film of 2006 in the German-speaking region. We are also extremely gratified at the excellent sales performance of "Step Up", a spectacular dance film featuring thrilling music, which we released on DVD at the beginning of February. We expect to achieve similar success from the horror thriller "The Grudge 2" starring Amber Tamblyn, Sarah Michelle Gellar and Jennifer Beals, which was released in mid-April.

Always joking: “Hui Buh” actor Michael “Bully” Herbig with film partner Heike Makatsch

Thanks to the intensive production work in 2006, Constantin film slate for this year will feature considerably more own and co-productions, including the new Michael “Bully” Herbig film “Lissi und der wilde Kaiser”.

Triumph in Eindhoven: Victory in the UEFA Cup brings Sevilla FC its first European trophy in the club's history.

The Highlight subsidiary TEAM successfully concluded the sale of the commercial rights to the UEFA Champions League for the 2006/07 to 2008/09 seasons. The total income this generated far exceeded the proceeds in previous years.

World-class football in three UEFA formats: Champions League, Super Cup and UEFA Cup

Division: SPORTS & EVENT MARKETING

Global variety of media is on the up

The global spread of constantly evolving technologies for data transmission is accompanied by the emergence of increasing numbers of sub-markets in the media industry. The latest and most important examples of this trend are Digital Video Broadcasting for Handhelds (DVB-H) – a wireless standard that enables the transmission of digital TV content on mobile terminal devices (cell phones, laptops, etc.) – and Internet Protocol Television (IPTV), which is used to broadcast broadband applications, such as films, across digital networks. Just how rapidly these technologies are spreading is shown by a study conducted by the consulting company Goldmedia, which concludes that IPTV will be installed in more than 1.3 million German households by 2010.

The main beneficiaries of this ongoing market fragmentation are the cable companies, telecommunication groups and Internet service providers that are pushing the development of their own digital TV services. Although they pose increasing competition to conventional television on the one hand, they also open up new distribution channels and marketing opportunities for the same traditional TV companies on the other.

In order to exploit these opportunities, broadcasters around the globe are investing on an ongoing basis in new content that can be broadcast via the Internet (broadband TV, IPTV, etc.) and across mobile phone networks (such as UMTS or DVB-H). This is the only way that they can ensure that their content is available at all times to a wide public spread over a large geographical area. This applies in particular to the broadcasting of live events such as the UEFA Champions League, for which television is and will remain the most important medium.

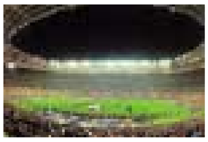
In addition, the new media platforms are establishing themselves as complementary distribution channels that are opening up new target groups, tapping into niche markets and enabling predominantly personalized consumption of the various media on offer. The variety of distribution channels along with the constantly changing pattern of media consumption makes it difficult to forecast how the media market overall will develop over the medium to long term. However, the few globally important premium sports licenses, particularly the UEFA Champions League, are already profiting from the additional competition generated by alternative media platforms. And it is therefore safe to assume that this trend will also continue into the foreseeable future.

New technologies lengthen the exploitation chain of the UEFA Champions League

The UEFA Champions League profits in many respects from developments in the media industry. This is because its television partners are pursuing a multi-platform strategy that sees them exploiting their conventional TV content across all distribution channels (TV, online and mobile broadcasting). In the future, it will therefore be increasingly important for television stations to be able to acquire cross-platform exploitation rights for specific content.

For example, from the start of the 2006/07 season, all UEFA Champions League matches are additionally being broadcast live on the Internet for the first time. This also allows soccer fans in the USA to follow each encounter on their home PCs via broadband TV – despite the time difference. Moreover, IPTV and video-on-demand content, especially in China and Japan, allow the development of new consumer groups that could not be reached at all, or only with great difficulty, using conventional TV broadcasts.





Highlight of the European football season: the UEFA Champions League Final

Third generation mobile networks also play an important role in the exploitation chain, as they permit access to TV content without time and geographical constraints. The last few years have seen a significant increase in the broadcasting of UEFA Champions League content via mobile telephones, and this growth is set to continue in future.

Our subsidiary TEAM identified these opportunities at an early stage and has used them to consistently expand its marketing model for the UEFA Champions League. Thanks to the innovative and ground-breaking use of all available distribution channels and technologies, audiences around the world in 2006 were able to enjoy the most comprehensive coverage in the history of club football's premier tournament.

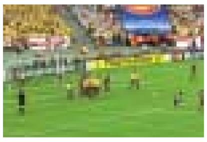
TEAM generates higher income for UEFA

Marketing activities at TEAM were initially focused on the sale of commercial rights to the UEFA Champions League for the 2006/07 to 2008/09 seasons. Television rights were sold to a total of 90 television partners across the globe, thus ensuring that the games of the European elite class will also be broadcast in around 230 countries for the next three years.

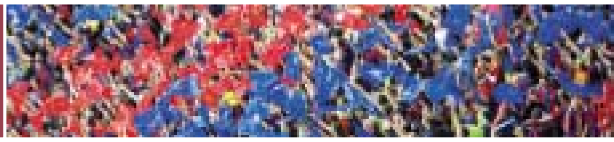
Negotiations for the rights were extremely successful, with the contracts concluded exceeding even the most ambitious forecasts. At the start of September, UEFA announced significant increases in overall revenue accruing from the marketing of the competition. In the wake of the EUR 610 million achieved during the 2005/06 season, revenue forecasts for the current season are running at EUR 750 million. This success provides further impressive evidence of the huge appeal of this competition, and of the highly professional work carried out by TEAM for the European Football Association.

The sponsoring concept was also further developed and the next three seasons will see six renowned companies becoming involved in the competition, in place of the previous four. The contract with automobile manufacturer Ford was renewed. Ford has been an active sponsor of the competition since the inception of the UEFA Champions League in 1992. The same applies for the other long-term partners Heineken, MasterCard and PlayStation. TEAM also succeeded in signing up two further blue-chip sponsors, namely Sony Electronics, the world's largest producer of consumer electronics, and Vodafone, one of the leading mobile communications companies. The sponsorship agreement entitles all of the partners mentioned above to exclusive association with the UEFA Champions League and to the use of the competition in their marketing and communication activities.

Adidas will remain as official supplier of equipment to the European elite class for a further three years. And in a new development, the world's second largest manufacturer of sports goods will supply the soccer balls for all 124 matches. Up to now, the company only supplied match equipment for the final. The start of the 15th UEFA Champions League season in September 2006 saw the introduction of yet another innovation: Under the slogan "The Ultimate Stage", the new standardized look for the competition, which has gained huge recognition worldwide, will now be implemented both in TV broadcasts and across all the stadiums themselves.


Fervent matches and packed stadiums are the trademarks of the UEFA Champions League



Successful sale of TV rights for the final phase of the UEFA Cup

Another focal point from a commercial perspective revolved around the marketing of TV broadcasting rights for the UEFA Cup. This long-established competition, which has been held under its current name since 1971, is the second most important event for European club football. In view of this fact, UEFA decided for the first time to market the attractive quarterfinal and semifinal games along with the final during the 2006/07 and 2008/09 seasons. The games are centrally marketed via TEAM.

The relevant rights have already been sold in many countries both inside and outside Europe. TEAM also succeeded in signing up Danish brewing group Carlsberg as the Presenting Sponsor for the UEFA Cup. Carlsberg previously performed this role in the UEFA Super Cup, which was held at the end of August in Monaco and was managed and marketed by TEAM. In addition, TEAM was responsible for selling the TV rights to the U-21 European Championship, which took place from May 23 to June 4 in Portugal, on behalf of UEFA. Marketing of the upcoming event – to be held in Holland in June 2007 – is already well underway.

Operational involvement in the Football World Cup 2006

Operational activities at TEAM were peppered with numerous highlights – especially in the summer. The start was marked by the UEFA Cup Final, which saw Middlesbrough FC face Sevilla FC in Eindhoven on 10 May. This was followed just a week later by a memorable UEFA Champions League Final between FC Barcelona and Arsenal FC in Paris, and by the U-21 European Championship in Portugal. All of the events attracted enormous public interest, both among spectators and in the media.

During the Football World Cup in Germany, TEAM also made a valuable contribution to the extraordinary success of this event. On behalf of the World Cup Organization Committee, TEAM was responsible for designing and implementing a uniform look at the 12 competition venues. As the main contractor, TEAM coordinated both the implementation of the design as well as the production and installation of the relevant design elements.

Popularity of the Eurovision Song Contest continues to grow

The Eurovision Song Contest, which was staged in May 2006 in Athens, proved yet again to be the highlight of the Event Marketing calendar. The available sponsoring rights packages were sold in advance to Greek telecommunication company Cosmote, brewing group Amstel and dental implant manufacturer Nobel Biocare. The live transmission of the event in more than 40 European countries generated outstanding viewing rates that exceeded the figures for the previous year by 35% (semifinal) and 28% (final). In addition, participation in the Europe-wide televoting, via which viewers can vote directly for their favourite acts, reached a new record level that saw the number of calls and SMS messages registered increase by 23% compared with 2005.

A music event with a proud history: the Eurovision Song Contest

Sales activities for this year's contest, which will be held on May 10 and 12 in Helsinki, are due to be completed shortly. The most important pan-European song competition will also set new records in 2007 and attract enormous media interest. The list of contestants covers a record number of 42 countries, including the Czech Republic and Georgia for the first time. Following a lengthy absence, Austria and Hungary will also be taking to the stage while Serbia and Montenegro will be entering separately for the first time.

Marketing sports licenses in the future

The areas of TV content and sale of sponsoring rights will offer very promising prospects for the marketing of sports licenses in the future, too. In particular, we expect to see extremely positive developments regarding licenses relating to football. Studies by market research institutes clearly show that football is by far the most popular sport in most countries. And there are no indications that this situation is likely to change in the future, especially given that football occupies that leading position by some margin when it comes to television consumption (source: Sport + Markt Sponsoring 21+, Global Sponsorship Study 2006).

A further upturn in the market for TV rights will be driven to an increasing degree both by the new technologies (such as IPTV and DVB-H) as well as the launching and stepping up of various digital platforms. While the growing number of competing media will fuel increased demand for broadcast content on the one hand, the attractive live atmosphere of sporting events themselves will sustain the high level of demand for broadcasting rights to premium sports events on the other.

The favourable trend supporting the marketing of broadcasting rights is matched by an equally positive atmosphere permeating the market for sponsorship rights. In general, the level of sponsorship investment worldwide in 2007 is expected to grow to USD 37.7 billion, up 11.9 % on the 2006 figure (source: IEG Sponsorship Report 2007). And a significant portion of this total will be invested in sports sponsorship. This was the conclusion reached by a recently published study (source: European Sponsorship Market 2006), in which 377 of the 500 top-selling companies from France, Germany, Italy, Spain and Great Britain took part. While 39 % of those surveyed expect the importance of sports sponsorship to remain at its current high level, 42 % predict that its importance will increase further. Not surprisingly, 48 % of the companies surveyed are involved in football on a permanent basis, followed by golf (31%) and basketball (29 %). When asked to name the most important sports events in terms of sponsoring, the responses provided demonstrate yet again the dominant position of football: 66 % mentioned the FIFA World Cup, 55 % the UEFA Champions League and 52 % the European Football Championship.

The increasing level of globalization and the associated trend towards the worldwide marketing of product brands will lead to greater demand for global communication platforms that will allow as many potential customers as possible to be regularly targeted using emotionally charged advertising messages seamlessly integrated across the full media spectrum. Premium sports events such as the UEFA Champions League fulfil these requirements like virtually no other platform. They also provide their sponsors with a communications tool of unparalleled effectiveness, now and, more particularly, in the future.

Impressive backdrops and a euphoric atmosphere: 14,000 spectators watched the Eurovision Song Contest 2006 live in Athens.

The viewing rates for the pan-European TV broadcast of the Eurovision Song Contest rose significantly yet again. The same is true of televoting participation, which reached a new record.

Football fans look to Athens: the impressive Olympic Stadium is the venue of this year's UEFA Champions League Final.

Based on the outstanding success of the last three years, the European Broadcasting Union extended its agency agreement with TEAM. Thus, the Highlight subsidiary will continue to exclusively market the Eurovision Song Contest.

CORPORATE GOVERNANCE

Introduction

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

1. Group structure

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

1.1. Operative Group structure

Highlight Communications AG and its group companies make up the Highlight Group, hereinafter referred to as the “Highlight Group”. The operative structure of the Highlight Group consists of two corporate divisions – “Film” and “Sports and Event Marketing”.

1.2. Listed companies

1.2.1. Highlight Communications AG

Highlight Communications AG has its registered offices in Pratteln/BL, Switzerland, and has been listed on the Frankfurt stock exchange since May 11, 1999. It is a member of the Prime Standard (ISIN: CH 000 653 9198, German WKN number: 920 299, ticker: HLG). As of December 31, 2006, the market capitalization of the Company was around EUR 262 million at a closing stock price for the year of EUR 5.54.

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). As of December 31, 2006, the market capitalization of the company was around EUR 155 million at a closing stock price for the year of EUR 12.20.

As of December 31, 2006, Highlight Communications AG held an interest of 92.07% in Constantin Film AG. The other shares are held by various institutional investors, funds and private individuals.

1.2.3. Escor Casinos & Entertainment SA

Escor Casinos & Entertainment SA, headquartered in Düdingen/FR, is an associate of Highlight Communications AG. Escor Casinos & Entertainment SA has been listed on the Swiss Stock Exchange since 1987. Its shares (ISIN: CH 000 358 3256, securities number: 358 325, ticker: ESRI) are traded on SWX. As of December 31, 2006, the market capitalization of the company was around CHF 31.5 million at a closing stock price for the year of CHF 25.50.

1.3. Non-listed subsidiaries

1.3.1. Non-listed subsidiaries of Highlight Communications AG

Further information on the key subsidiaries and the scope of consolidation of Highlight Communications AG can be found under Note 30 in the notes to the consolidated financial statements.

1.3.2. Non-listed subsidiaries of Constantin Film AG

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

1.4. Principal shareholders

The most important shareholders are Drueker & Co. with 28.44% and Bernhard Burgener with 7.41%. The rest is held by various institutional investors and funds as well as private investors.

Highlight Communications AG maintains an active stock buy-back program. Depending on market conditions, 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 989,408 shares were bought back and 141,334 shares were placed with institutional and private investors. The maximum volume of treasury shares came to 2.47% of the Company's issued capital. On December 31, 2006, treasury shares comprised 1,150,110 shares, equivalent to 2.43% of the Company's issued capital.

The transactions of the current buy-back program can be seen on an ongoing basis on our website.

1.5. Cross shareholdings

There are no cross shareholdings.

2. Capital structure

2.1. Capital

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

2.2. Authorized capital

On June 8, 2004, 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 within a period of two years. This capital increase has not been effected.

On June 2, 2006, 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 within a period of two years. A partial increase is permitted. No such capital increase has been implemented to date.

2.3. Changes in capital – changes in nominal value

On June 3, 2003, the shareholders passed a resolution at the Annual General Meeting to change the nominal value of shares from CHF 10 to CHF 1.

2.4. Shares, participating and profit-sharing rights

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

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

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

3. Board of Directors

The Board of Director's is the Company's highest management body, responsible for the strategic orientation of the Company as well as the monitoring of Group management. Each member of the Board of Directors is elected by the shareholders. The Board of Directors appoints its own Chairman, Vice Chairman and the various committees.

3.1. Members of the Board of Directors

The Board of Directors currently comprises five members. The list below provides an overview of the composition of the Board of Directors on December 31, 2006, the functions of the individual members within the Highlight Group, their nationality and their significant activities and interests outside the Highlight Group:

Bernhard Burgener

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

Further (corporate) activities and interests:
Chairman of the Supervisory Board of Constantin Film AG, Munich, Germany
President of the Board of Directors of Team Holding AG, Lucerne, Switzerland
Board of Directors of Team Football Marketing AG, Lucerne, Switzerland
Board of Directors of T.E.A.M. Television Event And Media Marketing AG, Lucerne, Switzerland
President of KJP Holding AG, Lucerne, Switzerland
President of the Board of Directors of Rainbow Home Entertainment AG, Pratteln, Switzerland
Managing Director of Rainbow Home Entertainment GmbH, Vienna, Austria
Board of Directors of Escor Casinos & Entertainment SA, Düdingen, Switzerland
President of the Board of Directors of Lechner Marmor SA, Laas, Italy

Martin Wagner	Vice Chairman, member of the Board of Directors since 2000 *Swiss national, attorney;* *Head of Legal Affairs & Compliance, executive member.* Further (corporate) activities and interests *Supervisory Board of Constantin Film AG, Munich, Germany* *Board of Directors of Rainbow Home Entertainment AG, Pratteln, Switzerland* *Board of Directors of Team Holding AG, Lucerne, Switzerland* *Board of Directors of Team Football Marketing AG, Lucerne, Switzerland* *Board of Directors of T.E.A.M. Television Event And Media Marketing AG, Lucerne, Switzerland* *Board of Directors of Escor Casinos & Entertainment SA, Düdingen, Switzerland* *Board of Directors of Jean Frey AG, Zurich, Switzerland* *Board of Directors of the Birkhauser Group* *President of the Board of Directors of Weltwoche Verlags AG, Zurich, Switzerland*
René Camenzind	member of the Board of Directors since 2004 *Swiss national, businessman, entrepreneur, non-executive member;* *no material business relations are maintained with the Highlight Group.* Further (corporate) activities and interests *President of the Board of Directors of Mythen Center AG, Schwyz, Switzerland* *President of the Board of Directors of Mythencenter Immobilienverwaltung AG, Schwyz, Switzerland* *President of the Board of Directors of my-regiomarkt, Schwyz, Switzerland*
Martin Hellstern	member of the Board of Directors since 2004 *Swiss national, businessman, entrepreneur, non-executive member;* *no material business relations are maintained with the Highlight Group.* Further (corporate) activities and interests *Board of Directors of CineStar SA, Lugano, Switzerland* *Board of Directors of Atlantic Cinema AG, Lugano, Switzerland* *Board of Directors of Praesens Film AG, Zurich, Switzerland* *Board of Directors of AVO Auto- und Metallverwertung Ostschweiz AG, Schwarzenbach, Switzerland* *Board of Directors of Wiederkehr Recycling AG, Waltenschwil, Switzerland* *Board of Directors of Atlantis Investment AG, Wil, Switzerland* *Board of Directors of M.H. Movie Holding AG, Glarus, Switzerland* *President of the Swiss Cinema Association, Berne, Switzerland* *Board of Directors of Atlantic Immobilien & Investment AG, Zurich, Switzerland*

Dr. Ingo Mantzke	member of the Board of Directors since 1999 *German national, MBA;* *Chief Investor Relations Officer, executive member.* Further (corporate) activities and interests *Chairman of the Supervisory Board of CornerstoneCapital AG, Frankfurt, Germany* *Board of Directors of Betty TV (Switzerland) AG, Zurich, Switzerland* *Managing partner of PeopleNet Verwaltungs GmbH, Königstein, Germany*

3.2. Cross shareholdings

There are no cross shareholdings.

3.3. 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.

3.4. Internal organization

3.4.1. Constituent meeting and allocation of duties

The Board of Directors is responsible for supervising, monitoring and overseeing management activities. It is the Company's highest body and is self-constituting. It comprises the Chairman, the Vice Chairman and the Secretary. It issues the code of conduct, which was last amended on April 26, 2007.

3.4.2. Meetings of the Board of Directors

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

3.4.3. Committees

Pursuant to a resolution which it passed on June 2, 2005, the Board of Directors established an audit committee comprising Bernhard Burgener (chairman), René Camenzind and Martin Hellstern.

At its meeting on June 2, 2005, the Board of Directors passed a resolution to establish a compensation committee comprising Rene Camenzind, Martin Hellstern and Bernhard Burgener (chairman) to decide on matters concerning compensation for the Board of Directors and management.

3.5. Allocation of duties

The allocation of duties on the Board of Directors is governed in the code of conduct dated April 26, 2007.

3.6. Management information and supervision instruments

The Highlight Group's management information system is structured as follows: The financial statements (income statement, balance sheet and cash flow statement) for the individual subsidiaries are prepared on a quarterly basis. These figures are consolidated and condensed per segment and for the Group. At the same time, the figures are compared with the previous year and the budget. The Chief Financial Officer informs the Board of Directors regularly of the Company's business performance and trends in the relevant business indicators. External controlling instruments are provided by the auditors.

4. Management

The following disclosures were correct as of December 31, 2006.

4.1. Members of management

4.1.1. Corporate

Bernhard Burgener, Chairman of the Board of Directors

Swiss national, responsible for Group strategy, established Rainbow Home Entertainment AG (formerly Rainbow Video AG), Pratteln, in 1983. Shareholder since 1994, Delegate of the Board of Directors until 1999, Chairman of the Board of Directors since 1999. Chairman of the Supervisory Board of Constantin Film AG since June 2006.

Martin Wagner, Vice Chairman 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 various listed companies in Switzerland and abroad. Member of the Supervisory Board of Constantin Film AG since July 2003.

Dr. Ingo Mantzke, member of the Board of Directors, Chief Investor Relations Officer

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

Antonio Arrigoni, Managing Director, Chief Financial Officer

Swiss national, Swiss certified accountant, previously auditor at KPMG in Zurich and Miami/FL, with the Highlight Group since June 2004.

Peter von Büren, Managing Director, Head of IT and Human Resources

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

Dr. Paul Graf, Managing Director, Head of Mergers & Acquisitions and 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 and a member of the Supervisory Board of Constantin Film AG since August 2004.

4.1.2. TEAM (Sports and Event Marketing division)

Thomas Klooz was appointed CEO effective January 1, 2006, and replaced Richard Worth.

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 establishment of 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 establishment of TEAM with Klaus Jörgen Hempel.

Thomas Klooz, CEO of TEAM

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

Frank Leenders, Managing Director Event Operations

Dutch national, lic. oec. MBA, 1992 until 2001 Marketing Manager and Director Television with TEAM, after which Director Sports Rights Acquisitions with STREAM Television in Italy; since October 2002, he has been with TEAM, initially as Managing Director Business Development, and today as Managing Director Event Operations.

Tom Liston, Managing Director Marketing

British national, he attended business school in England, was engaged in sports marketing activities in Saudi Arabia and with ISL Marketing AG in Lucerne; since 1992, he has been with TEAM, today in his function as Managing Director responsible for the Marketing division.

Simon Thomas, Managing Director Television

New Zealand national, lawyer and MBA, he worked as a lawyer in the UK, from 1995 until 1997 he was Manager Legal with TEAM and after that Marketing Manager with NIKE Australia as well as Manager Football Operations and Senior TV Manager with the Organisation Committee of the Summer Olympics in Sydney; since 2001 he has been back at TEAM, today as Managing Director Television.

David Tyler, Managing Director Business Affairs

British national, lawyer, from 1995 until 1997 he worked as a lawyer with Bird & Bird in London and since 1997 he has been with TEAM as Manager Legal and Director Legal, today as Managing Director Business Affairs.

4.1.3. Rainbow Home Entertainment (Film division)

Franz Woodtli, Managing Director of Rainbow Home Entertainment

Swiss national, businessman, at Rainbow Home Entertainment AG since 1985, Managing Director in charge of video/DVD since 1999, many years of management experience within the Highlight Group and a member of the Management Board of Constantin Film AG since 2004.

4.1.4. Constantin Film (Film division)

The Management Board is the top executive body of Constantin Film AG. It comprises Fred Kogel (CEO), Hanns Beese (CFO), Thomas Peter Friedl (Distribution, Marketing), Martin Moszkowicz (Production) and Franz Woodtli (Home Entertainment). 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, shares and loans

The Board of Directors oversees the compensation paid to members of the management bodies. The compensation committee established by the Board of Directors determines the amount of compensation paid to members of management, who in turn 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 for the Board of Directors

Of the five Directors, three are executive Directors. In the year under review, total compensation including fees, expenses and dissolution settlements came to CHF 3.886 million (previous year: CHF 3.751 million) and was paid to five (previous year: six) people.

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. Shareholdings

As at December 31, 2006, the Directors held the following shares in the Company:

	Number of shares	Share in capital
Bernhard Burgener	3,500,000	7.41 %
René Camenzind	1,251,275	2.65 %
Martin Hellstern (M.H. Movie Holding AG)	1,800,000	3.81 %
Dr. Ingo Mantzke	81,010	0.17 %
Martin Wagner	37,500	0.08 %

5.4. Options

There are currently no option programs.

5.5. Additional fees and compensation

None.

5.6. Loans to directors

In the period under review, no loans were granted to any Directors.

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 1.76 million (previous year: CHF 1.08 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 Sections 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 in favor of 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 the expiry of the agency agreement with UEFA relating to the UEFA Champions League.

8. Auditing

8.1. Duration of auditor mandate

The office of auditor for Highlight Communications AG is held for a period of one year subject to a resolution passed by the shareholders. PricewaterhouseCoopers AG in Lucerne (PwC) audited our annual financial statements for the year ending December 31, 2001, for the first time. Mr. Urs Renggli is the auditor in charge for fiscal year 2006.

8.2. Auditing fees

A sum of TCHF 246 was provided for auditing services of PricewaterhouseCoopers in fiscal 2006. Additional fees of TCHF 139.8 were charged by PricewaterhouseCoopers AG for assistance with and the preparation of projects (incl. taxes) relating to the AG and the Group.

9. Information policy

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

These documents are distributed via defined channels and issued on demand. In addition, the website at www.highlight-communications.ch is kept continuously updated and includes all key information 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, 2006 of Highlight Communications AG, Pratteln

CONSOLIDATED INCOME STATEMENT FOR 2006

Highlight Communications AG, Pratteln

(TCHF)	Notes	2006	2005
Revenues			
Sales		128,448	164,467
License income		138,552	85,250
Service income		252,862	191,355
Subsidies		26,524	21,249
		546,386	**462,321**
Other income	5	3,014	5,384
		549,400	**467,705**
License expense	14	154,312	116,473
Merchandise and production expense	6	248,576	215,388
Personnel expense	7	64,136	51,611
Advertising		5,672	7,185
Depreciation/amortization	8	2,181	5,259
Various operating expenses		25,025	28,785
		499,902	**424,701**
Earnings from operating activities		**49,498**	**43,004**
Financial income	9	1,635	1,859
Financial expense	9	–6,601	–2,222
Net foreign exchange result		–497	980
Net earnings from investments in associates	17	–618	–
Earnings before taxes		**43,417**	**43,621**
Taxes	10	–13,927	–12,409
Net consolidated earnings		**29,490**	**31,212**
of which:			
Highlight Communications AG shareholders	11	26,624	22,640
Minority interests		2,866	8,572
		29,490	**31,212**

(CHF)	Notes	2006	2005
Earnings per share relating to net consolidated earnings attributable to shareholders of Highlight Communications AG			
basic	11	0.57	0.49
diluted	11	0.57	0.49

The Notes on page 56–99 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET FOR THE YEAR ENDED DECEMBER 31, 2006

Highlight Communications AG, Pratteln

ASSETS (TCHF)	Notes	Dec. 31, 2006	Dec. 31, 2005
Non-current assets			
Property, plant and equipment	13	4,933	3,976
Film assets			
– Own productions	14	185,302	224,768
– Third-party productions	14	95,517	78,666
Goodwill	15	21,726	21,481
Other intangible assets	16	1,690	171
Investments in associates	17	7,880	–
Non-current receivables	19	48,881	15,613
Other financial assets	20	481	457
Deferred taxes	22	23,095	25,827
		389,505	**370,959**
Current assets			
Inventories and unfinished service productions	18	61,295	45,717
Current receivables	19	91,293	81,127
Current tax assets		2,575	2,598
Other financial assets	20	24,520	25,659
Cash and cash equivalents	21	176,444	207,949
		356,127	**363,050**
Total assets		**745,632**	**734,009**

The Notes on page 56–99 are an integral part of the consolidated financial statements.

EQUITY AND LIABILITIES (TCHF)	Notes	Dec. 31, 2006	Dec. 31, 2005
Equity attributable to the shareholders of the parent company			
Share capital	23	47.250	47.250
Capital reserves		-27.648	10.188
Treasury shares	23	-1.150	-319
Retained earnings		50.553	36.411
Other reserves		8.941	1.926
		77.946	**95.456**
Minority interests		11.883	34.659
Total equity		**89.829**	**130.115**
Non-current liabilities			
Loans	24	28.558	51.062
Other liabilities		50	50
Retirement benefit obligations	25	574	506
Deferred taxes	22	20.507	15.877
		49.689	**67.495**
Current liabilities			
Trade payables and other liabilities	26	112.308	112.308
Liabilities subject to interest	24	267.835	197.822
Advance payments received		202.165	210.406
Current tax liabilities		4.855	2.285
Provisions	27	18.951	13.578
		606.114	**536.399**
Total liabilities		**655.803**	**603.894**
Total equity and liabilities		**745.632**	**734.009**

The Notes on page 56–99 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 2006

Highlight Communications AG, Pratteln

	Equity attributable to the			
(TCHF)	Share capital	Capital reserves	Treasury shares	Retained earnings
Balance as at January 1, 2005	**47,250**	**60,161**	**–787**	**16,909**
Net gains from available-for-sale financial assets	–	–	–	–
Net gains from cash flow hedges	–	–	–	–
Currency translation	–	–	–	–
Total earnings recognized directly in equity	–	–	–	–
Net consolidated earnings	–	–	–	22,640
Total net earnings for the period	–	–	–	**22,640**
Issue of capital	–	–	–	–
Acquisition of treasury shares	–	–	-3,656	-25,735
Sale of treasury shares	–	–	4,124	27,134
Changes in equity of associates	–	–	–	–
Dividends	–	–	–	-4,537
Acquisition of minority interests	–	–49,973	–	–
Balance as at December 31, 2005	**47,250**	**10,188**	**–319**	**36,411**
Balance as at January 1, 2006	**47,250**	**10,188**	**–319**	**36,411**
Net gains from available-for-sale financial assets	–	–	–	–
Net gains from cash flow hedges	–	–	–	–
Currency translation	–	–	–	–
Total earnings recognized directly in equity	–	–	–	–
Net consolidated earnings	–	–	–	26,624
Total net earnings for the period	–	–	–	**26,624**
Issue of capital	–	–	–	–
Acquisition of treasury shares	–	–	-989	-7,874
Sale of treasury shares	–	–	158	1,331
Changes in equity of associates	–	–	–	–309
Dividends	–	–	–	-5,630
Acquisition of minority interests	–	–37,836	–	–
Balance as at December 31, 2006	**47,250**	**–27,648**	**–1,150**	**50,553**

The Notes on page 56–99 are an integral part of the consolidated financial statements.

shareholders of the parent company				Minority interests	Total equity
Other reserves			Total		
Cash flow* hedges	Available-for-sale financial assets	Currency translation differences			
−300	**–**	**1,730**	**124,963**	**55,786**	**180,749**
–	–	–	–	–	–
35	–	–	35	25	60
–	–	497	497	293	790
35	**–**	**497**	**532**	**318**	**850**
–	–	–	22,640	8,572	31,212
35	**–**	**497**	**23,172**	**8,890**	**32,062**
–	–	–	–	–	–
–	–	–	-29,391	–	-29,391
–	–	–	31,258	–	31,258
–	–	–	–	–	–
–	–	–	−4,537	−8,724	−13,261
−36	–	–	−50,009	−21,293	−71,302
−301	**–**	**2,227**	**95,456**	**34,659**	**130,115**
−301	**–**	**2,227**	**95,456**	**34,659**	**130,115**
–	2,208	–	2,208	–	2,208
1,391	–	–	1,391	158	1,549
–	–	3,503	3,503	273	3,776
1,391	**2,208**	**3,503**	**7,102**	**431**	**7,533**
–	–	–	26,624	2,866	29,490
1,391	**2,208**	**3,503**	**33,726**	**3,297**	**37,023**
–	–	–	–	2	2
–	–	–	-8,863	–	-8,863
–	–	–	1,489	–	1,489
–	–	–	-309	–	−309
–	–	–	−5,630	−947	−6,577
−87	–	–	−37,923	−25,128	−63,051
1,003	**2,208**	**5,730**	**77,946**	**11,883**	**89,829**

* The amount is after taxes.

CONSOLIDATED CASH FLOW STATEMENT FOR 2006

Highlight Communications AG, Pratteln

(TCHF)	Notes	2006	2005
Cash flow from operating activities			
Net consolidated earnings		29,490	31,212
Depreciation of property, plant and equipment	8	1,948	2,280
Amortization of license rights	14	151,929	111,425
Impairment of goodwill	8	–	2,815
Amortization of other intangible assets	8	233	164
Fair value adjustments of other financial assets		2,143	763
Non-charged transfers of treasury shares		158	53
Changes in provisions and other transactions		5,963	8,380
Changes in current and deferred taxes		8,986	1,239
Net earnings from associates after taxes	17	618	–
Gains from disposal of property, plant and equipment and other intangible assets	13/16	11	–33
Cash flow from operating activities before changes in net current assets		**201,479**	**158,298**
Changes in net current operating assets			
Inventories and unfinished service productions		–13,793	–24,957
Receivables		6,936	–15,650
Liabilities		–2,969	12,562
Advance payments received		–15,072	60,159
Cash flow from operating activities		**176,581**	**190,412**

The Notes on page 56–99 are an integral part of the consolidated financial statements.

(TCHF)	Notes	2006	2005
Investment and disinvestment activities			
Acquisition of film assets	14	–120,061	–184,984
Acquisition of property, plant and equipment	13	–3,033	–2,527
Acquisition of other intangible assets	16	–1,733	–54
Acquisition of other financial assets		–21,907	–258
Sale of other financial assets		9,547	14,500
Acquisition of associates		–2,433	–
Changes in receivables and loans		–46,904	–15,341
Acquisition of equity interests net of cash and cash equivalents acquired (changes to scope of consolidation)	29	–24	–11,934
Sale of property, plant and equipment		189	236
Sale of other intangible assets		8	–
Cash flow from investing activities		**–186,351**	**–200,362**
Financing activities			
Dividend paid to Highlight shareholders		–5,630	–4,537
Dividends paid to minority interests		–947	–8,724
Capital contribution by minority interests		2	50
Acquisition of minority interests		–63,966	–59,381
Changes in treasury shares		–8,865	1,814
Acceptance/repayment of liabilities subject to interest and loans		53,561	116,112
Cash flow from financing activities		**–25,845**	**45,334**
Currency translation differences		4,110	965
Net outflow/inflow of funds		**–31,505**	**36,349**
Cash and cash equivalents at beginning of period		**207,949**	**171,600**
Cash and cash equivalents at end of period		**176,444**	**207,949**
Additional cash flow disclosures			
Interests paid		8,473	4,198
Taxes paid		6,704	10,283
Interests received		1,618	1,469
Tax reimbursements received		1,787	1,023

The Notes on page 56–99 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2006

Highlight Communications AG, Pratteln

1. General

Highlight Communications AG and its subsidiaries (hereinafter referred to as the "Highlight Group" or "Group") own and exploit film rights. Moreover, the Group is active in sports and event marketing, a field in which it markets the UEFA Champions League as its main project. Highlight Communications AG holds a share in Constantin Film AG, among others. 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. As well as this, Constantin and its subsidiaries produce fictional and non-fictional products for TV stations. The Highlight Group is primarily active in the German-speaking region and employed 432 people as at December 31, 2006 (previous year: 388).

The Group parent company is Highlight Communications AG, a joint stock corporation domiciled in Pratteln, Switzerland. The Company has its registered office at:

Netzibodenstrasse 23 b
4133 Pratteln
Switzerland

These consolidated financial statements of the Highlight Group were passed by the Board of Directors of Highlight Communications AG on April 26, 2007 and require the approval of the Annual General Meeting on June 8, 2007.

2. Accounting principles

Basis of preparation of consolidated financial statements

The consolidated financial statements of the Highlight Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations issued by the International Accounting Standards Board (IASB) and comply with Swiss law. They are based on historical costs with the exception of certain items such as financial assets as well as other financial instruments. As described in the accounting principles below, these are reported at fair value.

Film assets are recognized in accordance with US-GAAP (SOP 00/2) in line with standard industry practice.

Changes in accounting principles arising from the adoption of new or revised standards and interpretations are applied retroactively provided that the transitional regulations do not contain any other requirements for the standard or interpretation in question. In retroactive adoption, the figures for the prior-year period and its opening balance sheet are adjusted as if the new accounting policies had always been applied. In specific cases, the transitional regulations of individual standards or interpretations require that changes to the accounting policy are only applied to the figures for the current reporting period. In such cases, the figures for the comparative period are not adjusted. In addition, the comparable figures from the consolidated financial statements for the previous year may be restated or supplemented.

Consolidation principles

The consolidated financial statements of the Highlight Group comprise the annual financial statements of Highlight Communications AG and its subsidiaries.

Subsidiaries are defined as entities which Highlight Communications AG controls directly or indirectly. Control means the power to govern the financial and operating activities and to derive benefits from these. This is normally the case if Highlight Communications AG posseses more than 50% of the voting rights or potential voting rights of an entity either directly or indirectly. Special purpose entities are included in the consolidated financial statements if the Group controls it on the basis of the nature of its relationship with it. Entities which are acquired in the course of the year under review are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Please refer to Note 29 (Acquisition/sale of equity interests/changes to scope of consolidation) and Note 30 (List of consolidated companies) for details of changes to the scope of consolidation.

Intragroup balances, liabilities and transactions as well as unrecognized gains and losses are eliminated in full from the consolidated accounts.

Investments in associates are consolidated at equity. Associates are entities over which the Group has or could have significant influence but not control, generally accompanied by a shareholding of between 20% and 50% of the voting rights or potential voting rights. Intragroup balances, liabilities and transactions with associates resulting in unrealized gains and losses are eliminated in line with the Group's interest in the associate. Investments in joint ventures are consolidated proportionately.

Information by segment

The segmentation criteria applied by the Group for segment reporting are primarily based on the divisions and secondarily on geographic segments. The Group's income and risks are largely dependent on the products it manufactures and services it provides and less so on the geographical location of its entities. This is reflected in the management and organizational structure as well as the Group's internal reporting.

The Group's divisions and geographical segments are determined on the basis of the organizational units that report to the Group. The Group consists of the "Film" and "Sports and Event Marketing" divisions. Certain Group management functions are shown under the central holding functions. These include actual Group management, Investor Relations, Controlling, Legal and Human Resources.

The Group's geographical segments were determined on the basis of the geographical location of its entities and shared features of the economic environment.

Foreign currency translation

In accounting for Group reporting, the Group entities use their local currency as the functional currency. However, some Group entities have a functional currency which is not identical to their local currency if this is not the currency of the primary economic environment in which such Group entities primarily operate. Local transactions in other currencies are recognized by the Group entities using the exchange rate applicable on the date of transaction. Gains/losses from the settlement of these transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement except for gains/losses from qualified cash flow hedges and monetary items classified as a net investment in a foreign entity. These gains/losses are recognized in equity.

For consolidation purposes, the assets and liabilities of all Group entities that report in a functional currency other than the Swiss franc (foreign Group entities) are translated at year-end exchange rates. Sales, expenses, net earnings for the year and cash flow are translated at annual average exchange rates as these approximate the transaction rates. Translation differences arising from changes in exchange rates between the beginning and the end of the year and deviations between net earnings for the year translated at average exchange rates and year-end exchange rates are included in equity. When a foreign Group entity is sold, the cumulative translation differences of that entity are recognized in the income statement via its own funds as part of the gain or loss on sale.

Foreign currency translation within the Group was based essentially on the following exchange rates:

	Year-end exchange rates		Annual average exchange rates	
	2006	2005	2006	2005
Euro (EUR)	1.6073	1.5544	1.5731	1.5483
US dollar (USD)	1.2200	1.3183	1.2533	1.2459
Canadian dollar (CAD)	1.0506	1.1322	1.1050	1.0295
Pound sterling (GBP)	2.3921	2.2671	2.3077	2.2642

Film assets

Film assets are recognized in accordance with the US-GAAP rules in the consolidated financial statements of the Highlight Group. 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. Film productions normally encompass cinema, video/DVD and TV rights. Own productions also include pseudo-service productions exploited by the Group.

Genuine service 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 recognized as “Inventories and unfinished service productions”. They are carried at cost.

As a matter of principle, the acquisition costs for third-party productions include minimum guarantees, which 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 carrying amount. 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. Film assets are written down over a maximum period of ten years from 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. An impairment test is performed for each film. If the acquisition costs or carrying amount 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. Estimated revenues can be significantly influenced by a number of factors including market acceptance and likely revenue from the film. The Highlight Group examines and revises revenue forecasts and depreciation expenses upon any changes to previous forecasts occurring.

Capitalized 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.

Business combinations / goodwill

Business combinations are recognized in accordance with the purchase method of accounting. The cost of a business combination comprises the consideration provided in exchange for control over the identifiable assets, liabilities and contingent liabilities of the acquiree. Consideration comprises cash payments as well as the fair value of the assets given, liabilities accepted or assumed and equity instruments issued by the Group on the transaction date. The cost of a business combination also includes any costs directly attributable to the business combination. The net assets acquired comprising the identifiable assets, liabilities and contingent liabilities are recognized at their fair value. If the Group does not acquire a 100 % share in the acquiree, the minority interests are recognized as a share in the fair value of the net assets acquired. Goodwill is the surplus of the cost of acquisition and the Group’s interest in the fair value of the net assets acquired. Goodwill and the fair value adjustments to the net assets are recognized in the assets and liabilities of the acquiree in the acquiree’s functional currency. Goodwill can also arise from interests in associates and is equal to the surplus of the cost of acquiring the investment in the associate and the acquirer’s interest in the identifiable net assets. This goodwill is recognized as investments in associates.

Goodwill is not amortized but is tested for impairment on each balance sheet date or if there is anything to indicate that it may be impaired. Goodwill is allocated to the corresponding cash generating units. If the recoverable amount of the cash generating unit, which is the higher of its fair value less costs to sell and its value in use, is less than its carrying amount, the carrying amount is written down. The method used to test cash generating units for impairment is described in Note 15.

Negative goodwill is recognized as income after a further test of the net assets.

When shares in entities which are already controlled are acquired, they are recognized using the entity concept at the shareholder level, meaning that the acquisition is charged to equity.

Other intangible assets

These comprise software and related licenses. Intangible assets acquired are carried at cost. The costs of intangible assets acquired in business combinations are equal to the fair values attributed to them in the acquisition statement. Intangible assets are amortized on a straight-line basis over their estimated useful lives of three years as of the date on which the Group can benefit from them. The estimated useful life is the legal or economic useful life, whichever is the shorter. The estimated useful lives of intangible assets are regularly reviewed. Write-downs and impairments of other intangible assets are reported separately in the income statement or the notes in the case of significant amounts and a more faithful presentation of net consolidated earnings.

Property, plant and equipment

On initial measurement, property, plant and equipment are recognized at cost, which includes all costs that can be directly attributed to installation and transportation to the site of operation to operate them in the manner intended by the management.

Depreciation is calculated on a straight-line basis over the estimated useful lives of these assets. The estimated useful lives are:

Office equipment (including IT)	3 – 13 years
Motor vehicles	4 – 6 years
Fixtures	12 years
Buildings	27.5 years

If parts of an item of property, plant and equipment have different useful lives, these are held and written down as separate items. These estimated useful lives are reviewed regularly and, if appropriate, the future depreciation rates of property, plant and equipment are adjusted. Repairs and maintenance costs which do not enhance the value of the asset in question are charged directly to the income statement. Finance costs are not capitalized.

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 carrying amount.

Impairment of intangible assets and property, plant and equipment

If there is any indication of a possible impairment in an asset, the recoverable amount of such an asset is calculated in order to determine the impairment. If the recoverable amount of the asset, which is the higher of its fair value less costs to sell and its value in use, is less than its carrying amount, the carrying amount is reduced to the recoverable amount. This impairment loss is recognized in the income statement. The value in use is based on the estimated future cash flows, generally for a period of five years, and the extrapolated projections for subsequent years. These are discounted using an appropriate interest rate. In the event of impairment, the useful life of the asset is reviewed and, if appropriate, the reduced carrying amount is written down over the remaining shorter useful life. For the purpose of impairment testing, assets are combined to form the smallest identifiable group of assets that generate cash inflows (cash generating units).

If the reasons for the impairment no longer apply, the impairment loss is reversed. A reversal of impairment losses on goodwill is not possible.

Leases

If the Group is the lessee, leased property, plant and equipment in connection with which all material risks and rewards pass to the Group are recognized as finance leases. Finance leases are recognized at the start of the lease at their fair value or, if lower, the present value of the minimum lease payments. The lease liability less financing costs is recognized as a loan. The assets acquired by means of a finance lease are written down in accordance with the principles for calculating the depreciation of property, plant and equipment. If, at the start of the lease, it is not sufficiently certain that the property will be transferred to the Group, the item of property, plant and equipment is written down over the shorter of the term of the lease and the useful life. The interest component of the lease payment is charged to the consolidated income statement for the period of the lease using the effective interest rate method.

Leased property, plant and equipment in connection with which all the material risks and rewards do not pass to the Group are recognized as operating leases. The payments made under operating leases are charged to the consolidated income statement in equal installments over the period of the lease.

Inventories and unfinished service productions

Inventories and unfinished service productions are recognized at the lower of purchase or production cost and net realizable value. Purchase or production cost is determined by the first-in first-out method (FIFO). The net realizable value is the estimated revenue to be generated from a sale minus the estimated costs necessary to make the sale. Genuine service 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 recognized as “Unfinished service productions” within “Inventories and unfinished service productions”.

Trade receivables/non-current receivables

Trade receivables are recognized at amortized cost. Impairment provisions are recognized if there are objective indications that not all the Group's receivables will be settled. They are equal to the difference between the carrying amount of the receivable and its recoverable amount. Irretrievable receivables are written off as a loss. Non-current receivables are discounted to their present value if the effects are significant. Provisions are set aside for expected returns of merchandise and the reimbursement of sales deferred in liabilities.

So-called promotion loans are used to finance film productions. With these loans, a distinction is made between project and distribution loans as contingently repayable loans and reference funds as non-returnable subsidies.

Project promotion: So-called project promotion loans are used to finance film productions. These are loans that have to be repaid under specific conditions. With some funding organizations, the repayment of a loan may lead to an automatic right to a loan for new production of the size of the repayment. This new loan has to be granted by the funding organizations.

New promotion loans that have been applied for and granted are recognized as revenues on theatrical release of the respective film production, if it is sufficiently certain that there will be no repayment. Revenue recognition is dependent on the nature of the rights to subsequent loans. If a legal right to a subsequent loan is created by the repayment of the original loan, this is included as a receivable with no effect on the income statement. If the right to a subsequent loan depends on the satisfaction of one or more conditions, an expense is posted if repayment of the original loan is foreseeable. The subsequent loan that is approved on request after the relevant conditions have been satisfied is included in revenues.

Distribution loans: Distribution loans are used to finance the costs of releasing a film. These are contingently repayable loans that are not recognized as revenue until the film financed with these funds is released if it is sufficiently certain that there will be no repayment. For successful films, these loans are repaid in full or in part. This is taken into account via deferral and allocation.

Subsidies: Subsidies are grants that do not have to be repaid, attributable to either the producer (project subsidies) or the distributor (sales subsidies) depending on the number of people who go to see the film in the cinema assessment for financing the project or the cost of release. Project subsidies are recognized as revenue at the start of principal photography of the relevant film. Revenue recognition for sales subsidies is linked to the cinema release of the film.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at bank, deposits held at call with banks and term deposits with banks and other financial institutes. These are only recognized as cash and cash equivalents if they can be converted at any time into cash and cash equivalents of an amount capable of being determined in advance, are exposed to only minor fluctuations in value and have an original maturity of three months or less as of the date of acquisition. This definition is also applied to the cash flow statement.

Other financial assets

Financial assets, mainly securities and investments in non-consolidated associates, are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “held-to-maturity financial assets” and “loans and receivables”.

Financial assets at fair value through profit or loss are classified either as financial assets held for trading or those designated at fair value through profit or loss at initial recognition. Financial assets held for trading are acquired principally for the purpose of deriving a profit from short-term price fluctuations. Financial assets are designated at fair value through profit or loss at initial recognition if they are used to remove recognition and measurement inconsistencies and thus provide more relevant information.

Held-to-maturity financial assets are securities with a fixed period which the Group wants to and is able to hold until maturity.

Loans and receivables are loans granted by the Group or acquired from an issuer in a primary market and other non-current receivables held by the Group. They are non-derivative financial assets with fixed or determinable payments. All other financial assets are categorized as available-for-sale.

All financial assets are initially recognized at their fair values including transaction costs with the exception of those designated at fair value through profit or loss, for which transaction costs are not included. All purchases and sales of investments are recognized on the trade date, i.e. the date of transfer of the asset. Following initial recognition, the financial assets at fair value through profit or loss are recognized at their fair value and all changes in fair value taken to the income statement for the reporting period in question.

Following initial recognition, held-to-maturity financial assets are recognized at amortized cost using the effective interest method.

After initial recognition, available-for-sale financial assets are carried at their fair value and all unrealized gains and losses resulting from changes in fair value recognized in equity. Gains and losses of non-monetary items recognized in equity include changes due to currency translation. In the event of the sale, impairment or any other disposal of available-for-sale financial assets, the gains and losses accumulating in equity since the purchase are taken to the income statement for the period in question. After initial recognition, loans and receivables are measured at amortized cost.

Financial assets are tested for impairment on each balance sheet date. In the event of any objective evidence of impairment, such as insolvency, payment defaults or other significant financial difficulties on the part of the issuer, impairment loss is charged to the consolidated income statement. For financial assets recognized at cost, impairment is the difference between the carrying amount and the recoverable amount, which is calculated on the basis of future cash flows discounted using the original effective interest rate of the asset. For available-for-sale financial assets, impairment is equal to the value recognized in the equity fair value reserve, which is calculated as the difference between the original cost after deduction of all impairment charged against net consolidated earnings to date and the fair value of these assets.

Financial assets are not recognized anymore if the contractual claim to consideration from the assets has expired or the Group sells its contractual rights to consideration. This also applies if the Group retains the contractual rights but accepts a contractual obligation to assign the consideration to a third party.

Derivative financial instruments

As a matter of principle, the Group uses derivative financial instruments solely to hedge currency and interest risks.

Derivatives are initially recognized at fair value and are subsequently remeasured at their fair value. With the exception of derivative financial instruments designated as qualified cash flow hedging instruments (see below), all changes in fair value are recognized in the income statement for the period in question. Embedded derivative financial assets are recognized separately if they are not closely related to the economic characteristics and risks of the host contract and the host contract is recognized at amortized cost.

The Group distinguishes between two types of hedging relationships. Fair value hedges are used to hedge exposure to changes in the fair value of a recognized asset or liability. Cash flow hedges are used to hedge exposure to risks associated with a recognized asset or liability or variability in future cash flows.

A hedging relationship only qualifies for hedge accounting if certain conditions concerning documentation, likelihood of occurrence, effectiveness and reliable measurement are satisfied. If these requirements are not satisfied, the hedging relationship does not qualify for hedge accounting. In this case, the hedge and the hedged asset are recognized separately as if there were no hedging relationship. Derivative financial instruments used for this purpose are recognized at their fair values and any changes in the fair value taken to the income statement. In the case of qualified fair value hedges, the hedge is recognized at its fair value and the hedged asset at its original carrying amount adjusted for any changes in the fair value of the hedged risk. Unrealized gains or losses from changes in the fair value are taken to the income statement. This also applies to pending hedged items (firm commitment). Fair value hedges are primarily used in connection with the purchase of licenses for international productions.

In the case of qualified cash flow hedges, the hedge is recognized at its fair value. Of the unrealized gains or losses from changes in the fair value of the hedge, the part effective for the hedge is taken to equity and the remaining non-effective part is taken to the income statement. If the hedge is for a firm commitment or a planned transaction with a high probability of occurrence resulting in the recognition of a non-monetary asset or liability, the unrealized gains and losses from changes in the fair value of the hedge accumulating under equity are released on the date of initial recognition of the hedged item and included in the initial carrying amount of such item. In the case of all other qualified cash flow hedges, the unrealized gains and losses from changes in the fair value of the hedge accumulating under equity are recognized on the date on which the planned transaction is taken to the income statement. Cash flow hedges are normally used for expected income from own international productions.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

The provisions recognized represent the best possible estimate of the cash outflow required to fulfill the current obligation as at the balance sheet date. The time value of money is taken into consideration if its effect is material. Possible obligations whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events or obligations whose amount cannot be reliably estimated are disclosed as contingent liabilities. Contingent assets are not capitalized but – like contingent liabilities – disclosed if an economic benefit is likely for the Group.

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 the realization dates or if licenses are invoiced prior to this date, they are initially classified as advance payments received. They are discounted if the effects are material.

Retirement benefit obligations

The Highlight Group has various post-retirement benefit plans in Switzerland and other countries. The most important post-retirement benefit plans are in Switzerland. Virtually all employees in Switzerland are members of a benefit plan based on the Swiss defined-contribution system which exceeds the minimum requirements specified by Swiss law. Contributions are paid by the individual companies and employees. The employees’ contributions are defined as a percentage of their assessable annual salary and deducted on a monthly basis. The amounts deducted from salaries to cover the post-retirement benefits vary according to age. The post-retirement benefits are calculated on the basis of the last assessable salary. The benefits cover old-age pensions, invalidity benefits, benefits in the event of death and benefits for surviving dependants. Pursuant to IFRS, these pension plans are fundamentally subject to the rules for defined benefit plans. The recognition and reporting of defined benefit post-retirement plans are based on the latest actuarial assessments. Obligations and annual costs for defined benefit plans are calculated using the projected unit credit method, which takes into account employees’ years of service up to the measurement date. The measurement method includes actuarial assumptions as to the discount factor for calculating the present value of obligations, the projected future development of employee benefits and the long-term expected return of plan assets. The discount factors are based on market yields of blue-chip industrial bonds in Switzerland.

Actuarial gains and losses, which include differences between assumptions and actual experience and remeasurement effects within the actuarial assumptions, are distributed in the income statement over the expected remaining working lives of active employees if such gains or losses exceed the corridor (10 % of the greater of assets or retirement benefit obligations).

The value of the contracts subject to the rules for defined benefit plans under IFRS was measured on a dynamic basis as at December 31, 2006. Details of this valuation are set out in Note 25 (Retirement benefit obligations).

In addition, the TEAM Group maintains a support foundation for its management staff organized as a so-called savings institute. The foundation holds a share in the capital of Team Football Marketing AG. The dividend income of Team Football Marketing AG is added to the savings deposits of the members of management. There were no contributions charged to the income statement.

The other entities do not have any material post-retirement benefit plans as defined in IAS 19.

Financial liabilities

Financial liabilities are initially recognized at their fair value net of transaction costs and subsequently remeasured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Treasury shares

The treasury shares held by the Group are deducted from equity. The acquisition costs, proceeds from resale and other movements in treasury shares are recognized as changes in equity.

Fair values

The fair value is defined as the amount for which an asset, a liability or a financial instrument could be exchanged between knowledgeable, willing parties in an arm’s length transaction. The fair value is calculated on the basis of market prices or through the application of acknowledged methods such as option price models and discounting expected cash flow.

Revenue recognition

Group revenues are derived from services rendered and sales invoiced to third parties excluding value-added tax and minus sales returns.

In the case of cinema films, revenues are recognized as of the cinema launch of the film. The amount of the revenues is directly related to the number of movie visitors. In line with standard practice in the industry, the film rental reported by the cinema operator to the distributor is recognized as the distribution component of the total cinema proceeds. Film rentals are calculated on the basis of a percentage of the box office takings.

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 generally 6 – 32 months after the commencement of movie exploitation. With this form of exploitation of film rights, revenues are realized upon the expiry of the contractual holdback period. Accordingly, they are realized as of the date on which the applicable license becomes available.

Revenues from service productions are recognized upon the material being received by the customer. Revenues for serial service productions are recognized on receipt of each episode.

With respect to global distribution, the Group generally receives a minimum guarantee for the exploitation rights sold (cinema, video/DVD, TV rights). These are allocated to the various revenue types. 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. The corresponding revenues are generally recognized as follows: Movie revenues upon cinema release in Germany, video/DVD revenues 6 months after cinema release, TV revenues 24 months after cinema release. Revenues from global distribution sales without any minimum guarantee are recognized upon the royalty settlements being received from the licensees.

Income from subsidies and contingently repayable public-sector 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. Revenues are recognized when it is sufficiently certain that the loans do not have to be repaid.

Service revenue is generally recognized in the income statement when the service is performed or accepted. For service productions, this is when film material is received by the broadcaster (customer).

However, the requirement for the recognition in accounts of revenue from services not yet completed at the balance sheet date (not including service productions) is that the result (profit or loss) and the degree of completion can be reliably estimated. For this purpose, the following conditions must be met:

a) The amount of revenue and the stage of completion of the service can be reliably measured at the balance sheet date;

b) it is sufficiently likely that the customer (recipient) will pay for the service;

c) the costs actually incurred in performing the service can be calculated from financial or operational accounting and the cost to complete can be reliably estimated.

If the result (profit or loss) of a service cannot be reliably estimated, revenues are only recognized to the extent that the buyer is under obligation to reimburse the expenses incurred.

Employee benefits

Wages, salaries, social security contributions and post-retirement benefit plans, paid vacation and absences owing to medical condition, bonuses and non-monetary benefits are reported pro rata in the year in which the relevant services were performed by the employees of the Group.

Interest

With the exception of borrowing costs directly attributable to film assets, interest is recognized as income or expense, as the case may be, on the date on which it is incurred.

Taxes and deferred taxes

Income taxes include all taxes levied on the Group's taxable earnings, including withholding taxes on profit distributions within the Group. Taxes that are not based on the income of Group companies, e.g. capital taxes, are reported under "various operating expenses". All taxes relating to the consolidated financial statements for the year under review are charged to the income statement as expense and deferred in the balance sheet.

Allowance is made in the balance sheet for deferred taxes resulting from temporary differences between any tax base values and carrying amounts. Deferred tax assets from tax loss carryforwards are reported if the taxable income which can be used to offset the tax loss carryforwards is likely to be available. Deferred tax assets and liabilities are calculated using the tax rates expected to apply in the years in which these timing differences are reversed or settled on the basis of the currently prevailing tax laws. The effect of changes in tax rates on 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 recognized if the intention is indeed to make a distribution.

Critical accounting estimates and assumptions

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

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

Revenue recognition: The Group has recognized provisions of TCHF 12,371 (previous year: TCHF 7,540) (see Note 27) for expected returns of merchandise as of December 31, 2006. Such estimates are based on an analysis of contractual or legal obligations as well as historical trends and the Group's experience. On the basis of information currently available, management considers these provisions to be adequate. As they are based on management estimates, they may have to be revised upon better information becoming available. Such adjustments could have an effect on the provisions recognized and the sales reported in future periods.

Film assets and goodwill: The Group has film assets with a carrying amount of TCHF 280,819 (previous year: 303,434) (see Note 14) and goodwill with a carrying amount of TCHF 21,726 (previous year: 21,481) (see Note 15). As described above, these assets are tested annually for impairment. To determine the existence of any impairment, estimates concerning the expected future cash flows per cash generating unit from the use and possible sale of these assets are calculated. The actual cash flows may differ significantly from the discounted future cash flows based on these estimates. Changes in revenue and cash flow forecasts could lead to impairment.

Provisions for litigation: The Group entities are involved in various disputes. The provisions for litigation referred to in Note 27 were TCHF 6,080 (previous year: TCHF 5,538) as of December 31, 2006. On the basis of current knowledge, the Group assumes that these provisions are adequate. However, further litigation resulting in costs which exceed the existing provisions or insurance cover may arise. In addition, there is no certainty that the volume of disputes will not grow and that future disputes, claims, litigation and examinations will not be insignificant. Such changes may impact the provisions set aside for litigation in future reporting periods.

Deferred taxes: As of December 31, 2006, deferred tax assets were valued at TCHF 23,095 (previous year: TCHF 25,827) and deferred tax liabilities at TCHF 20,507 (previous year: TCHF 15,877) (see Note 22). Extensive estimates are required to determine deferred tax assets and liabilities. Some of these estimates are based on an interpretation of existing tax law and rules. Management is of the view that the estimates are appropriate and sufficiently take account of any uncertainty in the tax assets and liabilities. In particular, the deferred tax assets arising from nettable loss carryforwards are dependent upon future profits being generated. Deferred tax assets arising from remeasurement are also dependent on future profits. Moreover, tax loss carryforwards are forfeited after a certain number of years in some jurisdictions. Actual profit may differ from estimates. Such changes may affect the deferred tax assets and liabilities recognized in future reporting periods.

Changes to basis of preparation

The following standards, amendments and interpretations were passed by the International Accounting Standards Board (IASB) in the reporting year 2006:

IAS 1 (revised)	Presentation of Financial Statements – Capital Disclosures (from January 1, 2007)
IAS 19 (revised)	Employee Benefits – Additional Disclosures (from January 1, 2006)
IAS 21 (revised)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation (from January 1, 2006)
IAS 39 (revised)	Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions (from January 1, 2006)
IAS 39 (revised)	Financial Instruments: Recognition and Measurement – Fair Value Option (from January 1, 2006)
IAS 39 and IFRS 4 (revised)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts (from January 1, 2006)
IFRS 1 (revised)	First-time Adoption of International Financial Reporting Standards – rules supplementing IFRS 6, IAS 19 and IFRIC 4
IFRS 6 (revised)	Exploration for and Evaluation of Mineral Resources (from January 1, 2006)
IFRS 7	Financial Instruments: Disclosures (from January 1, 2007)
IFRS 8	Operating Segments (from January 1, 2009)
IFRIC 4	Determining whether an Arrangement contains a Lease (from January 1, 2006)
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (from January 1, 2006)
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (from December 1, 2005)
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (from March 1, 2006)
IFRIC 8	Share-based Payment (from May 1, 2006)
IFRIC 9	Reassessment of Embedded Derivatives (from June 1, 2006)
IFRIC 10	Interim Financial Reporting and Impairment (from November 1, 2006)
IFRIC 11	Group and Treasury Share Transactions (from March 1, 2007)
IFRIC 12	Service Concession Arrangements (from January 1, 2008)

The Group reviewed these amendments as of January 1, 2006. A description of the amendments that are material to the Group and effects on the Highlight Group's consolidated financial statements is shown below:

IAS 19 (revised): The Highlight Group introduced the amendments of IAS 19 (revised) relating to the extended disclosure requirements. It did not utilize the option right. Any gains or losses arising from a change in actuarial assumptions are recognized as income or expense over the expected average remaining working lives of active employees if they exceed the corridor (10% of the greater of assets or retirement benefit obligations).

Future amendments to IFRS: The Group is currently reviewing the possible effects of the revised and new standards which took effect on January 1, 2007. It does not expect the new and revised standards to have any material effects on its earnings and financial condition although additional reporting in the consolidated financial statements will be necessary in certain areas. This applies in particular to IFRS 7, Financial Instruments, which the Group will introduce in 2007. The Group is also currently examining IFRS 8, Operating Segments, which comes into force on January 1, 2009.

Reorganization of segment reporting: Until June 30, 2006, the Group comprised three divisions – "Film", "Home Entertainment" and "Sports and Event Marketing". The Film division handled the production, license trading, exploitation and distribution of films and film rights as well as for related products in the cinema, video/DVD and TV areas. The operating business of the Home Entertainment division comprised the wholesale and retail distribution of video and DVD. Based on empirical data, allocation between the "Film" and "Home Entertainment" divisions was 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. In particular, this applied to amortization and overages.

The Sports and Event Marketing division referred to the activities of Team Holding AG and its subsidiaries.

In the past, the Highlight Group attempted to present the above divisions to internal and external parties as transparently as possible. As all film business – with the exception of DVD wholesale business in Switzerland and Austria, which is also highly dependent on Constantin titles – is now handled by Constantin Film AG and the key success factors are determined at Constantin Film, the "Film" and "Home Entertainment" divisions have largely grown together. The distribution and exploitation of Constantin titles on video/DVD is now the main sales driver for the "Home Entertainment" division.

The decision makers in the Film division must look at the entire value chain of a film in order to have the right basis for decisions regarding the allocation of resources. This also applies to assessing the risk and budget of a film.

As a result of the adapted management structure in the Highlight Group and the above reasons, when managing a film, a film is seen and monitored as a unit along its entire value chain (cinema, video/DVD, TV) in the Film division.

Accordingly, the "Film" and "Home Entertainment" divisions will be reported as one unit in future and the previous years will be adjusted accordingly. The new reporting system thereby reflects the actual business responsibility of the "Film" division, which handles the production, license trading, exploitation and distribution (including wholesale and retail) of films and film rights as well as for related products in the cinema, video/DVD and TV areas. The operating business of the Sport and Event Marketing division comprises the marketing activities of Team Holding AG and its subsidiaries for the UEFA Champions League, the UEFA Cup, the Eurovision Song Contest and other projects.

3. Financial risk management

The Group's business and financing activities expose it to a variety of financial risks. The most significant financial risks to which the Group is exposed arise from changes in foreign currency exchange rates, market risks of financial assets, interest rates, liquidity risks as well as the credit standing and solvency of the Group's counterparties.

Exchange rate risk

The Group engages in currency hedging particularly for the US dollar in order to reduce its exposure to the exchange-rate risks arising from its business activities. Derivative financial instruments are transacted with banks. The financial instruments are related to future flows of payments in foreign currencies for film projects. The Group does not engage in or hold any derivative financial instruments for trading purposes. As a matter of principle, the Group ensures that the amount of the hedge does not exceed the value of the hedged item.

Market risks of financial assets

Changes in the market value of certain financial assets and derivative financial instruments can affect the Group's net assets and results of operations. Long-term financial assets are held for strategic reasons. Moreover, securities are held in connection with cash management or strategically to develop new financial positions. These financial assets are not hedged.

Risk of change in interest rates

The risk of change in interest rates to which the Group is exposed primarily relates to the liabilities subject to interest. The Group currently does not utilize financial instruments to hedge the risk of changes in interest rates, although interest pooling arrangements are available for bank overdraft liabilities.

Liquidity risk

The Group entities require sufficient liquidity to settle their financial obligations. Generally speaking, the Group entities are independently responsible for raising their own liquidity including the short-term investment of excess liquidity and the procurement of loans for bridging liquidity shortfalls. In addition, the Group's international credit rating allows the efficient utilization of the international capital markets for raising finance.

Credit risk

Credit risks arise from the possibility of the counterparty to a transaction being unable or unwilling to settle its obligations, as a result of which the Group sustains a financial loss. Trade receivables are subject to active risk management with a focus on the assessment of country risks, determination of available credits, ongoing assessment of credit risks and monitoring of receivables. There is a concentration of default risks from business relationships to individual debtors or debtor groups with respect to TV stations. Actual default is, however, not considered to be probable.

4. Segment information

The Group now comprises two divisions – “Film” and “Sports and Event Marketing”.

The “Film” division handles the production, exploitation, distribution and retail of films and film rights as well as for related products in the cinema, video/DVD and TV areas.

The operating business of the “Sport and Event Marketing” division comprises the marketing activities of Team Holding AG and its subsidiaries for the UEFA Champions League, the UEFA Cup, the Eurovision Song Contest and other projects.

Certain Group management functions are shown under the central holding functions. These include actual Group management, Investor Relations, Controlling, Legal and Human Resources.

Controlling for these segments is undertaken centrally.

Primary segment reporting format – divisions

(TCHF)	Film 2006	Film 2005	Sports & Event Marketing 2006	Sports & Event Marketing 2005	Other and holding company costs 2006	Other and holding company costs 2005	Consolidated 2006	Consolidated 2005
Income								
Income with third parties	470,301	407,772	76,085	54,549	–	–		
	470,301	**407,772**	**76,085**	**54,549**	–	–	**546,386**	**462,321**
Result								
Segment result	23,866	21,713	30,598	25,622	–4,966	–4,331	49,498	43,004
Net financial/currency translation result							–5,463	617
Earnings from investments in associates	–787	–	–	–	169	–	–618	–
Earnings before taxes							**43,417**	**43,621**
Taxes							–13,927	–12,409
Net consolidated earnings							**29,490**	**31,212**
Segment assets	659,771	640,621	4,236	4,886	81,625	88,502	**745,632**	**734,009**
Segment liabilities	537,470	531,570	17,303	11,568	101,030	60,756	**655,803**	**603,894**
– Investments in property, plant and equipment	1,875	2,189	1,158	338	–	–	**3,033**	**2,527**
– Investments in film assets	119,701	184,984	–	–	–	–	119,701	184,984
– Investments in other intangible assets	1,733	54	–	–	–	–	1,733	54
							121,434	**185,038**
Depreciation/amortization								
– Property, plant and equipment	1,344	1,599	604	681	–	–	**1,948**	**2,280**
– Licenses								
ordinary amortization	146,994	107,674	–	–	–	–		
impairment charge	4,935	3,751	–	–	–	–		
	151,929	**111,425**	–	–	–	–	**151,929**	**111,425**
– Others								
ordinary amortization	233	164	–	–	–	–		
impairment charge	–	2,815	–	–	–	–		
	233	**2,979**	–	–	–	–	**233**	**2,979**

Other depreciation and amortization for the previous year included impairment charge on goodwill of TCHF 2,815 and ordinary amortization of other intangible assets of TCHF 164. In the current year, this item includes only ordinary amortization of other intangible assets of TCHF 233.

The segment assets and liabilities include film assets, property, plant and equipment, goodwill, trade receivables and payables as well as inventories. The assets and liabilities not allocated to segments primarily consist of cash and cash equivalents, securities, other financial assets and loans. Investments primarily include additions to film assets, property, plant and equipment and other intangible assets.

Secondary segment reporting format – geographic segments

The following table shows the breakdown of consolidated revenues across geographical markets irrespective of the country of manufacture. A large portion of the revenues generated in the Film division in Switzerland is for recipients in Germany.

(TCHF)	2006	2005
Switzerland	93,417	82,237
Other countries	452,969	380,084
	546,386	**462,321**

The following table sets out the carrying amounts of segment assets and investments in property, plant and equipment and intangible assets according to the geographic location of the assets:

	Carrying amount of segment assets		Investments in PPE and intangible assets	
(TCHF)	Dec. 31, 2006	Dec. 31, 2005	2006	2005
Switzerland	80,483	108,757	2,758	615
Other countries	665,149	625,252	121,709	186,950
	745,632	**734,009**	**124,467**	**187,565**

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

5. Other income

(TCHF)	2006	2005
Insurance compensations	447	316
On-charging of costs	1,869	1,051
Compensation for legal disputes and other contracts	–	1,644
Reversal of liabilities/accruals	208	817
Proceeds from the disposal of property, plant and equipment and other intangible assets	34	33
Other income	456	1,523
	3,014	**5,384**

6. Merchandise and production expense

(TCHF)	2006	2005
Merchandise and sales expense	44,739	62,941
Production expense Film and Sports and Event Marketing	203,837	152,447
	248,576	**215,388**

Production expense primarily relates to release costs for the exploitation of a film, production costs for film copies and costs related to service productions.

7. Personnel expense

(TCHF)	2006	2005
Wages and salaries	55,569	44,002
Social security	5,798	5,378
Expenditure on retirement benefit plans *(see Note 25)*	1,452	1,180
Miscellaneous personnel costs	1,317	1,051
Total	**64,136**	**51,611**

Year-end headcount		
Switzerland	155	148
Germany	251	212
Austria	17	20
Others	9	8
Total	**432**	**388**

Actual expense on defined benefit plans differs from that carried. The value of the contracts subject to the rules for defined benefit plans under IFRS was measured on a dynamic basis as at January 1, 2006 and was rolled over to December 31, 2006. Details of this valuation are set out in Note 25 (Retirement benefit obligations).

8. Depreciation/amortization

(TCHF)	2006	2005
on property, plant and equipment *(see Note 13)*	1,948	2,280
on goodwill *(see Note 15)*		
– impairment charge	–	2,815
on other intangible assets *(see Note 16)*	233	164
	2,181	**5,259**

Details of the individual depreciation/amortization items are set out in the notes relating to the corresponding asset. Amortization of film assets is reported under license expense, see Note 14 (Film assets).

9. Financial result

(TCHF)	2006	2005
Interest expense		
– on loans and credits	–9,209	–4,185
– less capitalized borrowing costs	4,776	2,875
	–4,433	**–1,310**
Other interest	–9	–105
Fair value adjustments on other financial assets	–545	–807
Fair value adjustment on derivative instruments	–1,614	–
Total financial expense	**–6,601**	**–2,222**
Interest income		
– on bank and fixed-term deposits	1,337	1,016
– on bonds	174	257
Miscellaneous interest	108	221
Dividends	–	306
Fair value adjustments on other financial assets	16	59
Total financial income	**1,635**	**1,859**
Total financial result	**–4,966**	**–363**

Interest is shown net in some cases on account of interest pooling arrangements. See details in Note 24 (Liabilities and other loans).

The fair value adjustment on other financial assets under financial expense primarily relates to the change in the fair value of the option for EM.TV shares. See details in Note 20 (Other financial assets).

Fixed-term deposits were made in CHF and EUR. Investments generated the following average interest rates: in CHF 0.40%–1.75% (previous year: 0.25%–0.85%), in EUR 2.00%–3.45% (previous year: 1.50%–2.00%).

10. Taxes

Income taxes relate to Highlight Communications AG as the parent company as well as the consolidated subsidiaries. Tax expense for 2006 and 2005 is set out in the following table:

(TCHF)	2006	2005
Income tax expense	–7,489	–4,404
Deferred tax charges	–6,438	–8,005
Taxes as per income statement	**–13,927**	**–12,409**

Deferred tax charges of TCHF 6,438 (previous year: TCHF 8,005) arise from adjustments to deferred tax assets and liabilities as a result of temporary differences as well as the deferred tax asset arising from tax loss carryforwards.

Expected tax expense is calculated by multiplying the applied notional Group tax rate (tax charge at the headquarters of Highlight Communications AG) with the pre-tax earnings of each individual Group entity. The Group tax rate is 25% (previous year: 25%).

This expected tax expense differs from effective tax expense as follows:

(TCHF)	2006	2005
Earnings before taxes	43,417	43,621
Tax at notional Group tax rate of 25% (previous year: 25%)	–10,854	–10,905
Unrecognized tax losses	–57	–
Applied/applicable tax losses	63	1,158
Revaluation of loss carryforwards	42	–1,718
Non-deductible expenses added back	–1,491	–707
Income not subject to tax	78	52
Tax refunds, reversals and expense attributable to earlier years	50	221
Difference between notional Group tax rate and local tax rates	–1,758	–510
Taxes as per income statement	**–13,927**	**–12,409**

11. Earnings per share

Basic

Basic earnings per share are calculated by dividing the earnings attributable to shareholders by the average number of shares outstanding throughout the fiscal year – not including treasury shares held by the Company itself.

	2006	2005
Net consolidated earnings attributable to shareholders in TCHF	26,624	22,640
Weighted average number of shares	46,702,312	45,893,350
Basic earnings per share in CHF	0.57	0.49
Basic earnings per share in EUR	0.36	0.32

Diluted

Diluted earnings per share are calculated by increasing the average number of shares outstanding by all option rights. The number of shares that could be acquired at fair value (determined by the average price of the Company’s shares for the year) is assumed for stock options. This calculation is based on the monetary value of rights transferred to stock options still outstanding. The number of shares calculated thus is compared with the number that would have resulted if the 500,000 stock options (see Note 20) had been issued. As a result of the fact that the individual thresholds were not exceeded in the period between November 16 and December 31, 2006, diluted earnings are equal to basic earnings.

	2006	2005
Net consolidated earnings attributable to shareholders in TCHF	26,624	22,640
Weighted average number of shares	46,702,312	45,893,350
Diluted earnings per share in CHF	0.57	0.49
Diluted earnings per share in EUR	0.36	0.32

12. Dividend per share

Proposed dividends are not recorded in the books until the annual financial statements have been approved by the Annual General Meeting. The Board of Directors will be advising the shareholders to approve a dividend of CHF 0.15 (previous year: CHF 0.12) per share for 2006. Subject to approval by the shareholders, this will be the third dividend distributed by Highlight Communications AG since its initial public offer.

13. Property, plant and equipment

	Operating equipment (including IT)		Motor vehicles		Land/ buildings		Total	
(TCHF)	2006	2005	2006	2005	2006	2005	2006	2005
Acquisition costs:								
January 1	11,239	10,230	1,996	2,087	468	–	13,703	12,317
Currency translation differences	108	15	12	1	11	21	131	37
Additions	2,353	1,680	680	400	–	447	3,033	2,527
Disposals	–1,967	–686	–669	–492	–	–	–2,636	–1,178
December 31	**11,733**	**11,239**	**2,019**	**1,996**	**479**	**468**	**14,231**	**13,703**
Depreciation:								
January 1	–8,621	–7,365	–1,098	–1,053	–8	–	–9,727	–8,418
Currency translation differences	–54	–5	–7	–	1	–	–60	–5
Depreciation in year	–1,488	–1,897	–398	–375	–62	–8	–1,948	–2,280
Disposals	1,916	646	521	330	–	–	2,437	976
December 31	**–8,247**	**–8,621**	**–982**	**–1,098**	**–69**	**–8**	**–9,298**	**–9,727**
Net carrying amounts January 1	**2,618**	**2,865**	**898**	**1,034**	**460**	**–**	**3,976**	**3,899**
Net carrying amounts December 31	**3,486**	**2,618**	**1,037**	**898**	**410**	**460**	**4,933**	**3,976**

Gains of TCHF 31 (previous year: TCHF 69) and losses of TCHF 45 (previous year: TCHF 36) were generated from the sale of property, plant and equipment.

Fire insurance values (TCHF)	Dec. 31, 2006	Dec. 31, 2005
Operating equipment (including IT)	12,745	9,480

14. Film assets

(TCHF)	Third-party productions 2006	Third-party productions 2005	Own productions 2006	Own productions 2005	Total 2006	Total 2005
Acquisition costs:						
January 1	409,592	358,301	455,200	324,803	864,792	683,104
Currency translation differences	5,731	879	17,376	2,839	23,107	3,718
Additions	32,366	54,956	87,335	130,028	119,701	184,984
Disposals	–14,015	–4,544	–639	–2,470	–14,654	–7,014
December 31	**433,674**	**409,592**	**559,272**	**455,200**	**992,946**	**864,792**
Ordinary amortization:						
January 1	–226,715	–203,453	–222,878	–141,571	–449,593	–345,024
Currency translation differences	–2,438	–377	–10,414	–1,333	–12,852	–1,710
Additions	–16,269	–25,230	–130,725	–82,444	–146,994	–107,674
Disposals	8,432	2,345	639	2,470	9,071	4,815
December 31	**–236,990**	**–226,715**	**–363,378**	**–222,878**	**–600,368**	**–449,593**
Impairment charges (revaluation/valuation allowances):						
January 1	–104,211	–104,229	–7,554	–5,884	–111,765	–110,113
Currency translation differences	–326	–51	–316	–49	–642	–100
Additions	–2,213	–2,130	–2,722	–1,621	–4,935	–3,751
Disposals	5,583	2,199	–	–	5,583	2,199
December 31	**–101,167**	**–104,211**	**–10,592**	**–7,554**	**–111,759**	**–111,765**
Net carrying amounts January 1	**78,666**	**50,619**	**224,768**	**177,348**	**303,434**	**227,967**
Net carrying amounts December 31	**95,517**	**78,666**	**185,302**	**224,768**	**280,819**	**303,434**

The license expense shown in the income statement also includes changes in license accruals and overages. The license expense in the income statement breaks down as follows:

(TCHF)	2006	2005
Amortization of licenses (ordinary)	146,994	107,674
Impairment charges (as a result of revaluations/valuation allowances)	4,935	3,751
Miscellaneous license expenses/overages	2,383	5,048
License expense recognized in income statement	**154,312**	**116,473**

Film rights (both third-party and own productions) are written down using the "individual film forecast method".

The estimate of the total revenues is reviewed at the end of each quarter and, if necessary, adjusted. The quotient for the amortization charge for the period is determined on the basis of any (adjusted) total revenues. An impairment test is performed for each film. If the acquisition costs or carrying amount 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. Estimated revenues can be significantly influenced by a number of factors including market acceptance and likely revenue from the film. The Highlight Group examines and revises revenue forecasts and amortization expenses upon any changes to previous forecasts occurring. A general sensitivity analysis of the entire film library was not performed as management's estimates refer to each individual film and exploitation level.

The impairment charge of TCHF 4,935 (previous year: TCHF 3,751) is for films which have 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 amount in the light of expected future net earnings.

Direct borrowing costs of TCHF 4,776 (previous year: TCHF 2,875) were capitalized in fiscal year 2006.

The Group obtains access to future film rights by concluding license contracts. Film purchasing and production preparations lead to future financial commitments valued at around CHF 45 million (previous year: CHF 20 million).

15. Goodwill

(TCHF)	2006	2005
Acquisition values:		
January 1	24,307	195,460
Netting as of January 1	–	–171,227
Currency translation differences	336	71
Additions	5	3
Disposals	–	–
December 31	**24,648**	**24,307**
Ordinary amortization:		
January 1	–	–47,071
Netting as of January 1	–	47,071
Currency translation differences	–	–
Additions	–	–
Disposals	–	–
December 31	–	–
Impairment charges:		
January 1	–2,826	–124,156
Netting as of January 1	–	124,156
Currency translation differences	–96	–11
Additions	–	–2,815
Disposals	–	–
December 31	**–2,922**	**–2,826**
Net carrying amounts January 1	**21,481**	**24,233**
Net carrying amounts December 31	**21,726**	**21,481**
of which in Film division	21,726	21,481
of which in Sports and Event Marketing division	–	–
	21,726	**21,481**

Impairment testing of goodwill

The amount of TCHF 21,726 shown as goodwill is allocated to several cash generating units. The recoverable amount used to test goodwill for impairment is based on the value in use. This is calculated on the basis of cash flow projections derived from business plans. The business plans are based on conservative assumptions of the individual managements and do not provide for any material organizational changes in the entities. They take account of management's latest estimates concerning quantities and prices of sales as well as production costs and other operating expenses. The business plans incorporate historical data and include projections for the next five years. After five years, growth of a maximum of 1% is assumed. Cash flows were discounted using various cost-of-capital rates from 7.5% to 10% before tax depending on the cash generating units. Following the above review, no impairment was recognized (previous year: TCHF 2,815).

A test of the cash generating units using a cost-of-capital rate of 10% before tax would not have led to any additional impairment losses on goodwill.

16. Other intangible assets

	IT software		Concessions, industrial rights		Total	
(TCHF)	2006	2005	2006	2005	2006	2005
Acquisition costs:						
January 1	705	670	270	245	975	915
Currency translation differences	48	4	9	2	57	6
Additions	1,709	31	24	23	1.733	54
Disposals	–	–	–14	–	–14	–
December 31	**2,462**	**705**	**289**	**270**	**2,751**	**975**
Amortization:						
January 1	–584	–480	–220	–156	–804	–636
Currency translation differences	–25	–3	–8	–1	–33	–4
Additions	–200	–101	–33	–63	–233	–164
Disposals	–	–	9	–	9	–
December 31	**–809**	**–584**	**–252**	**–220**	**–1,061**	**–804**
Net carrying amounts January 1	**121**	**190**	**50**	**89**	**171**	**279**
Net carrying amounts December 31	**1,653**	**121**	**37**	**50**	**1,690**	**171**

IT software also includes internally generated software. As part of the acquisition of intangible assets, there is a contractual obligation of TCHF 281.

The disposal of other intangible assets generated a gain of TCHF 3 in the fiscal year.

17. Investments in associates

Investments in associates developed as follows:

(TCHF)	2006	2005
January 1	–	–
Carryover from securities	5,043	–
Acquisition of associates	3,766	–
Share in profit/(loss)	120	–
Impairment	–738	–
Other changes in equity	–309	–
Currency differences	–2	–
December 31	**7,880**	–

The following amounts show the shares held by the Highlight Group in the assets (including goodwill) and liabilities as well as the revenues and results of its associates:

(TCHF)	Assets	Liabilities	Revenues	Profit/loss
Escor Casinos & Entertainment SA, Switzerland	8,710	830	475	169
Königskinder Schallplatten GmbH, Germany	60	60	7	–787
	8,770	**890**	**482**	**–618**

Escor Casinos & Entertainment SA

The Highlight Group increased its share in Escor Casinos & Entertainment SA, a listed company based in Düdingen, Switzerland, to 24.97% in the second and third quarter of 2006. The shares acquired in 2006 in the amount of TCHF 2,977 were paid with shares in Highlight Communications AG in the amount of TCHF 1,333 and cash in the amount of TCHF 1,644. Escor Casinos & Entertainment SA has been an associate since the second quarter. The initial application of the equity method resulted in value added of TCHF 2,199, which was recognized with the carrying amount of the investment.

Also, as part of the acquisition a seller was granted the right to participate in the positive value added of the market price of Highlight Communications AG, which could increase the purchase price by a maximum of TCHF 318. The pro rata market value based on the market price as at December 31, 2006 was TCHF 7,880. As this market value was below the carrying amount of the investment, a write-down of TCHF 96 was required.

Königskinder Schallplatten GmbH

The company is a record label that produces and markets music. The company is consolidated at equity. Initial consolidation was in the second quarter of 2006. The purchase price was TCHF 789, resulting in goodwill of TCHF 636, which was written down.

There were no material transactions between the Group and its associates.

18. Inventories and unfinished service productions

(TCHF)	Dec. 31, 2006	Dec. 31, 2005
Video cassettes/DVD – retail	203	220
Video cassettes/DVD – wholesale	2,637	2,872
Unfinished service productions	58,679	42,911
	61,519	**46,003**
Impairment provisions	–224	–286
Total	**61,295**	**45,717**

Unfinished service productions contain productions which are not yet completed or delivered to the customer. They are carried at cost.

19. Receivables (current and non-current)

(TCHF)	Dec. 31, 2006	Dec. 31, 2005
Current		
Trade receivables		
– due from third parties	81,712	75,663
– less impairment provisions	–11,574	–10,876
	70,138	**64,787**
Current loans to third parties	580	935
Receivables for subsidization loans and subsidies	7,329	5,078
Prepaid expenses	1,017	2,651
Other receivables		
– due from third parties	12,100	7,676
– due from related parties	129	–
Total current receivables	**91,293**	**81,127**
Non-current		
Trade receivables		
– due from third parties	48,491	15,197
Non-current loans to third parties	390	416
Total non-current receivables	**48,881**	**15,613**
Total	**140,174**	**96,740**

Receivables for subsidization loans and subsidies relate to subsidization loans and subsidies 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 tax reimbursement claims (excluding income tax), current account credit balances, advance payments and deposits.

Non-current trade receivables primarily relate to receivables due from TV broadcasters and cinema operators. TCHF 39,955 of these are due in 2008, TCHF 7,361 in 2009 and TCHF 1,175 in 2010.

20. Other financial assets

(TCHF)	Other current financial assets Dec. 31, 2006	Other current financial assets Dec. 31, 2005	Other non-current financial assets Dec. 31, 2006	Other non-current financial assets Dec. 31, 2005
Financial assets at fair value through the income statement				
– Shares	–	5,512	–	–
– Bonds	2,000	11,624	481	457
– Fixed-term deposits with a term of more than 3 months	–	8,523	–	–
– Derivative financial instruments	2,045	–	–	–
Total financial assets at fair value through the income statement	**4,045**	**25,659**	**481**	**457**
Available-for-sale financial assets measured at fair value in equity				
– Shares	20,475	–	–	–
Total available-for-sale financial assets measured at fair value in equity	**20,475**	–	–	–
Total	**24,520**	**25,659**	**481**	**457**

The shares acquired in 2006 primarily comprise shares in EM.TV AG, a listed company based in Unterföhring, Germany. These have been classified as available-for-sale financial assets. The changes in fair value of TCHF 2,208 are carried in equity.

In November 2006, the Highlight Group also acquired an option to purchase 5,693,089 shares in EM.TV AG, held be Constant Ventures II Luxembourg S.A. (“Constant”). The option premium is EUR 0.40 per option share. The option has a term until October 1, 2007 and allows Highlight to acquire the shares described above for a price of EUR 4.00 per share. From December 1, 2006, Highlight has exercised the voting rights of the option shares through a proxy. If Highlight does not exercise the option, Constant will receive the right to acquire 500,000 shares in Highlight at a price of EUR 6.20 per share from Highlight’s treasury shares.

In return, in the event of Highlight exercising the option, Highlight has granted Constant the right to acquire up to 3,672,961 shares in Highlight at a price of EUR 6.20 per share and to offset the payable purchase price against Highlight’s purchase price receivable from the exercised option on EM.TV shares. If Constant decides to do this, both transactions would be largely settled by way of a share swap.

The options were revalued as of December 31, 2006, and recognized in the income statement.

As of December 31, 2006, the obligations bear interest at 1.875 % (previous year: 1.875 % – 3.00 %).

21. Cash and cash equivalents

(TCHF)	Dec. 31, 2006	Dec. 31, 2005
Bank balances and cash holdings	130,064	142,454
Cash equivalents	46,380	65,495
Total	**176,444**	**207,949**

See Note 9 for details of interest rates.

22. Deferred taxes

Movements in deferred tax assets and liabilities are as follows:

	Deferred tax assets		Deferred tax liabilities	
(TCHF)	2006	2005	2006	2005
January 1	25,827	29,233	15,877	11,319
Currency translation differences	754	186	622	98
Changes through income statement	–2,430	–3,592	4,008	4,413
Changes through equity	–1,056	–	–	47
December 31	**23,095**	**25,827**	**20,507**	**15,877**

Deferred tax assets and liabilities from temporary differences and unutilized tax loss carryforwards:

(TCHF)	Dec. 31, 2006	Dec. 31, 2005
Lower depreciation for tax purposes on property, plant and equipment	2	11
Capitalization of tax loss carryforwards	17,886	20,849
Valuation adjustments		
– Advance payments received	84,867	105,051
– Film assets	–79,377	–99,534
– Others	–283	–550
Deferred tax assets	**23,095**	**25,827**

(TCHF)	Dec. 31, 2006	Dec. 31, 2005
Valuation adjustments		
– Film assets	20,382	15,707
– Others	125	170
Deferred tax liabilities	**20,507**	**15,877**

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 amortization charges taken on film assets.

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

In addition to capitalized tax credits, the Group also has deferred tax assets from tax loss carryforwards not carried on the balance sheet. These are not recognized due to the uncertainty as to whether sufficient taxable income will be generated as well as the absence of Group taxation. The non-capitalized tax loss carryforwards of CHF 103 million (previous year: CHF 110 million) expire between 2007 and 2011. In addition, there are deferred tax assets from valuation differences of TCHF 1,216 (previous year: TCHF 1,258), which were not capitalized.

23. Share capital

	Bearer shares	
	Number of shares	TCHF
December 31, 2004	47,250,000	47,250
Capital increase	–	–
December 31, 2005	47,250,000	47,250
Capital increase	–	–
December 31, 2006	**47,250,000**	**47,250**

On June 8, 2004, 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 within a period of two years. This capital increase has not been effected.

On June 2, 2006, 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 within a period of two years. A partial increase is permitted. No such capital increase has been implemented to date.

As at December 31, 2006, the authorized share capital comprises 60,000,000 bearer shares with a nominal value of CHF 1 each (December 31, 2005: 60,000,000 bearer shares with a nominal value of CHF 1 each). All shares outstanding are paid up in full.

In 2006, a total of 989,408 shares were bought at an average price of CHF 8.96 per share, resulting in a total of TCHF 8,863. 141,334 shares were sold at an average price of CHF 9.43 for a total sum of TCHF 1,333. In accordance with IFRS, the treasury shares and also gains and losses from treasury share transactions are assigned to equity. In addition, 17,500 treasury shares were transferred to staff at the transaction rate. On the balance sheet date, the Company's treasury shares comprised 1,150,110 shares.

In 2005, a total of 3,655,995 shares were bought at an average price of CHF 8.04 per share, resulting in a total of TCHF 29,391. 4,118,000 shares were sold at an average price of CHF 7.58 for a total sum of TCHF 31,205. In addition, 6,105 treasury shares were transferred to staff at the transaction rate. On the balance sheet date, the Company's treasury shares comprised 319,536 shares.

24. Liabilities and other loans

(TCHF)	Dec. 31, 2006	Dec. 31, 2005
Liabilities and loans to banks, financial and credit institutes	290,835	232,822
Other liabilities	5,558	16,062
Total	**296,393**	**248,884**
Recognized as		
– loans (non-current)	28,558	51,062
– liabilities subject to interest (current)	267,835	197,822
Total	**296,393**	**248,884**
Amounts repayable on maturity		
Within one year	267,835	197,822
Between 1 and 2 years	14,375	24,953
Between 2 and 3 years	13,829	13,554
Between 3 and 4 years	354	12,555
Total	**296,393**	**248,884**

Interest pooling arrangements have been established for Constantin Film AG’s overdraft liabilities.

Depending on their term and currency, non-current loans are subject to interest of between 1.85% and 7.24% (previous year: 1.85% – 6%) as of the balance sheet date. The carrying amounts of the liabilities subject to interest differ only marginally from their fair values.

The following table sets out the credit facilities available to the Group as of the balance sheet date. These have partially been utilized with the banks in question:

(TCHF)	Dec. 31, 2006	Dec. 31, 2005
Syndicate loans, production finance	122,000	131,830
Credit facilities	139,010	90,544
Guarantee credit facilities	–	55,958
License trading and operating funds	64,292	62,176

Credit facilities (production revolvers and license trading facilities) are secured by film rights of TCHF 280,414 carried as film assets and the resultant proceeds from exploitation as well as receivables of TCHF 79,661. The non-current financial assets of TCHF 481 also serve as collateral for liabilities to banks.

The credit facilities are secured by the following shares:

	Number	Fair value (TCHF)
EM.TV AG	3,499,577	20,475
Constantin Film AG	11,464,441	221,306
Highlight Communications AG	184,334	1,641

25. Retirement benefit obligations

The Highlight Group maintains various retirement benefit plans for its employees in Switzerland based on the Swiss defined-contribution system. Pursuant to IFRS, these pension plans are fundamentally subject to the rules for defined benefit plans. The entities and their employees pay contributions, the amount of which is defined as a percentage of the employees' salaries, to several foundations. The foundations are independent of the Group.

The liabilities under defined benefit plans are calculated by using the projected unit credit method. Any gains or losses arising from a change in actuarial assumptions are recognized as income or expense over the expected average remaining working lives of the employees participating in the plan if such gains or losses exceed the corridor (10% of the greater of assets or retirement benefit obligations).

The defined benefit plans are measured on the basis of the following main assumptions:

Assumptions	Dec. 31, 2006	Dec. 31, 2005
Technical interest rate	3.25%	3.25%
Long-term return on assets	3.50%	3.50%
Future wage developments	1.50%	1.00%
Future pension adjustments	0.50%	0.50%
Average life expectancy after pension age (65) for men	17.6 years	17.6 years
Average life expectancy after pension age (64) for women	21.2 years	21.2 years

Retirement benefit expenses as defined in IAS 19 are determined as follows:

(TCHF)	2006	2005
Actuarial pension benefit expense	2,211	1,836
Past service cost	–3	–
Interest rate	655	601
Expected return on assets	–537	–509
Non-recurring inclusion of shortfall from conversion of prior or new benefit plans	–	153
Actuarial gains/losses for period	158	–
Restriction on account of Art. 58b	–	–
Employee contributions	–1,038	–1,014
Pension benefit expense	**1,446**	**1,067**
Other benefit plans	6	113
Expenditure on retirement benefit plans	**1,452**	**1,180**

The expected premiums for the subsequent year are around CHF 1.4 million.

The amounts recognized as retirement benefit obligations developed as follows:

(TCHF)	2006	2005
Retirement benefit obligations as of January 1	506	700
Employer costs of retirement benefits	1,446	1,067
Employer contributions	–1,378	–1,261
Retirement benefit obligations as of December 31	**574**	**506**

Retirement benefit obligations and assets developed as follows:

(TCHF)	2006	2005
Retirement benefit obligations as of January 1	18,960	15,806
Actuarial pension benefit expense	2,211	1,836
Past service cost	–3	–
Interest rate	655	601
Plan curtailment, settlement	–	153
Benefits paid	–2,826	–128
Actuarial (gain)/loss on obligations	731	692
Retirement benefit obligations as of December 31	**19,728**	**18,960**

(TCHF)	2006	2005
Assets as of January 1	17,197	15,227
Expected return on assets	537	509
Employer contributions	1,379	1,260
Employee contributions	1,038	1,014
Benefits paid	–2,826	–128
Actuarial gain/(loss) on assets	–122	–685
Assets as of December 31	**17,203**	**17,197**

The expected return on assets is based on empirical data from previous years. A detailed analysis is not possible due to the lack of influences over the foundations.

A comparison of the retirement benefit obligations calculated and the assets is set out in the following table:

(TCHF)	Dec. 31, 2006	Dec. 31, 2005
Retirement benefit obligations	–19,728	–18,960
Assets	17,203	17,197
Shortfall	–2,525	–1,763
Unrecognized losses (+)/gains (–)	1,951	1,257
Unrecognized assets	–	–
Retirement benefit obligations	**574**	**506**

Retirement benefit obligations, assets, cover and the effects of experience adjustments developed as follows:

(TCHF)	2006	2005
Retirement benefit assets at fair value as of December 31	17.203	17.197
Retirement benefit obligations as of December 31	–19.728	–18.960
(Shortfall)/excess cover	**–2.525**	**–1.763**
Experience adjustment of retirement benefit obligations	152	–
Adjustment of retirement benefit obligations owing to changes in assumptions	–883	–692
Experience adjustment of retirement benefit assets	–122	–685

As of the end of the year, the assets are allocated to the individual investment categories as follows:

(%)	2006	2005
Cash and cash equivalents	1.3	11.6
Bonds	23.4	11.7
Shares	19.5	9.8
Real estate	3.8	6.5
Other	52.0	60.4
	100.0	**100.0**

The “Other” item primarily includes the redemption values from foundations, for which assets cannot be broken down. In 2006, the actual return on assets was TCHF 415.

26. Trade payables and other liabilities

(TCHF)	Dec. 31, 2006	Dec. 31, 2005
Trade payables	39,661	35,865
Liabilities to shareholders and related parties	224	248
Other liabilities	23,907	24,762
Deferred income and accruals	48,516	51,433
Total	**112,308**	**112,308**

As a matter of principle, liabilities are recognized at their settlement or redemption amount. Other liabilities also include deferrals of derivative financial instruments of TCHF 589, see Note 28 (Financial instruments).

27. Provisions

(TCHF)	Litigation provisions	Returns provisions	Other	Total
January 1, 2005	5,098	–	–	5,098
Currency translation differences	38	–	–	38
Additions	421	7,540	500	8,461
Consumption	–19	–	–	–19
Reversal	–	–	–	–
December 31, 2005	**5,538**	**7,540**	**500**	**13,578**
January 1, 2006	5,538	7,540	500	13,578
Currency translation differences	194	11	–	205
Additions	2,893	17,077	–	19,970
Consumption	–	–12,257	–	–12,257
Reversal	–2,545	–	–	–2,545
December 31, 2006	**6,080**	**12,371**	**500**	**18,951**
of which				
– current component of provisions	6,080	12,371	500	18,951
– non-current component of provisions	–	–	–	–
Total provisions	**6,080**	**12,371**	**500**	**18,951**

Litigation provisions include the provisions at Constantin Entertainment GmbH for pending legal disputes. The legal disputes mainly relate to possible format right violations by the company in show and entertainment productions. In the context of these license disputes, the provision estimate for 2005 was adjusted for 2006. Whereas potential damage was still anticipated in 2005 on the basis of demands for discontinuation in addition to possible license claims, the company is only working on the assumption of the latter at the present time.

The provisions for the return of goods cover the risk of any returns of videos and DVDs sold and are based on an analysis of the contractual or statutory obligations as well as historical trends and the Group's own experience.

28. Financial instruments

The Group engages in currency hedging transactions, which generally have a term less than one year, in order to reduce its exposure to exchange-rate risks particularly with respect to the US dollar. Derivative financial instruments are arranged with banks. The financial instruments are related to future flows of payments in foreign currencies for film projects. The Group does not engage in or hold any derivative financial instruments for trading purposes. As a matter of principle, the Group ensures that the amount of the hedge does not exceed the value of the hedged item.

As of December 31, 2006, foreign-currency forwards and loans were still outstanding as hedging instruments. As a matter of principle, the strict conditions for hedge accounting pursuant to IAS 39 in a cash flow hedge relationship as well as in a fair value hedge relationship are complied with. The hedges relate to the purchase of rights as well as contractually stipulated income from own international productions in USD and are expected to expire by August 2007.

The nominal amount of all outstanding foreign-currency forwards and loans equals TCHF 10,909. The total market price valuation of these transactions is TCHF –2,409. The value of the currency forwards is calculated as the difference between the forward rate on conclusion of the transaction and the market value of the forward as of the balance sheet date. Loans are measured as the difference between the price on the day the first tranche was borrowed and the market value at the balance sheet date (taking proceeds already paid into consideration).

In accordance with IAS 39, changes in market value of cash flow hedges (TCHF 1,003; previous year: TCHF –301) after deducting taxes are reported in equity not including minority interests as a component of total other reserves and in the income statement under fair value hedges at TCHF –554 (previous year: TCHF –138). As an opposing effect, the change in the valuation of the outstanding hedged item is recognized in the income statement for fair value hedges.

29. Acquisition/sale of equity interests/changes to scope of consolidation

Acquisitions and establishment of companies in 2006

Constantin Film AG (acquisition of minority interests)

On January 19, 2006, Highlight Communications AG exercised the option granted on June 14, 2005, to acquire the 25.07% interest in Constantin Film AG from Bernd Eichinger Holding GmbH & Co. KG. In accordance with the terms of the contract, the existing shareholder agreement was terminated upon the acquisition of the shares. The acquisition was predominantly debt-financed.

Constantin Film AG and the Constantin Group respectively have been fully consolidated in the IFRS consolidated financial statements since July 1, 2003. The corresponding minority interests in the equity at the date of initial consolidation as well as the earnings of Constantin Film AG since then are carried as minority interests in the consolidated financial statements in line with the interest to date as at January 19, 2006 in accordance with IAS 1 (new). The shareholders of the parent company are entitled to the earnings generated by Constantin Film AG in line with their new interest from January 19, 2006 onwards.

The acquisition is carried using the entity concept and is therefore shown in equity. In addition to the above transaction, the Highlight Group also increased its investment in Constantin Film AG by a further 1.52% as a result of various acquisitions. These transactions are also shown in accounts in correspondence with the entity concept as described above.

Constantin Television GmbH (acquisition of Group entity)

Constantin Television GmbH is a wholly owned subsidiary of Constantin Film Produktion GmbH. The company was acquired and initially consolidated in the first quarter of 2006. The acquisition costs were TCHF 42. Net cash outflow from the acquisition was TCHF 24. The effect of consolidation on earnings was TCHF –138.

Königskinder Schallplatten GmbH (acquisition of associate)

A 25% interest in Königskinder Schallplatten GmbH was acquired in the first quarter of 2006. See also Note 17 (Investments in associates).

Constantin Entertainment Polska Sp. z o.o. (newly established company)

The company was established in March 2006 by Constantin Entertainment GmbH with capital of PLN 50,000. Constantin Entertainment GmbH holds 90% of shares in the company. Its activities focus on service production of non-fictional TV entertainment formats. In the year under review, the company produced courtroom shows for Poland's largest private broadcaster. Initial consolidation was in the first quarter of 2006. The effect of consolidation on earnings was TCHF 527.

Constantin Entertainment U.K. Ltd. (newly established company)

The company was established in September 2006 as a wholly owned subsidiary of Constantin Entertainment GmbH with capital of GBP 95,000. Its activities focus on service production of non-fictional TV entertainment formats. In the year under review, the company was commissioned to produce a "docu-crime" pilot for a major private UK broadcaster. Initial consolidation of the company was in the fourth quarter of 2006. The effect of consolidation on earnings was TCHF –288.

Resident Evil Productions LLC

The company is being used as a special purpose entity for the production of the film Resident Evil: Extinction. Constantin Film AG does not hold any shares in it. During production of the film, the Highlight Group can exercise control over the company. Initial consolidation occurred on December 31, 2006. The effect of consolidation on earnings is immaterial.

Resident Evil Mexico S. DE R.L. DE C.V. (acquisition of Group entity)

The company was acquired in February 2006 as part of the production of the film Resident Evil: Extinction at a price of MXN 3,000. 50% of shares in the company are held by both Constantin Film International GmbH and Constantin Film Produktion GmbH respectively. The company was initially consolidated as at March 31, 2006. The effect of consolidation on earnings is immaterial.

Escor Casinos & Entertainment SA (acquisition of associate)

In the second and third quarter of 2006, the Highlight Group increased its interest in Escor Casinos & Entertainment SA to 24.97%. See also Note 17 (Investments in associates).

Pluto Home Entertainment AG (newly established company)

The company was established by Rainbow Home Entertainment AG in the first quarter of 2006 with capital of CHF 200,000. It is a wholly owned subsidiary. Its activities focus on the ongoing development and distribution of Pluto Home software and other software products, all associated transactions and hardware applications. Initial consolidation was in the first quarter of 2006. The effect of consolidation on earnings is immaterial.

30. List of consolidated companies

	Activity	Country	Issued capital	Share in capital*	Voting rights of the respective parent company
Team Holding AG	Sports marketing	CH	CHF 250,000	80 %	80 %
Team Football Marketing AG	Exploitation of sports licenses	CH	CHF 6,340,000	76.21 %	100 %
T.E.A.M. Television Event And Media Marketing AG	Marketing of sports and cultural events	CH	CHF 200,000	80 %	100 %
KJP Holding AG	Holding company	CH	CHF 100,000	100 %	100 %
Rainbow Home Entertainment AG	Distribution	CH	CHF 200,000	100 %	100 %
Pluto Home Entertainment PHE AG**	Distribution	CH	CHF 200,000	100 %	100 %
Highlight Communications (Deutschland) GmbH	Marketing	D	EUR 256,000	100 %	100 %
Constantin Film AG	Film production and distribution	D	EUR 12,742,600	92.07 %	92.07 %
Constantin Script & Development GmbH	Acquisition and development of content	D	EUR 26,000	92.07 %	100 %
Constantin Media GmbH audiovisuelle Produktionen	Acquisition and development of content	D	EUR 26,000	92.07 %	100 %
Constantin Film Produktion GmbH	Film and TV production	D	EUR 105,100	92.07 %	100 %
Constantin Television GmbH***	TV production	D	EUR 100,000	92.07 %	100 %
Constantin Film Services GmbH	Service provider	D	EUR 25,000	92.07 %	100 %
Constantin Film Development Inc.	Acquisition and development of content	USA	USD 530,000	92.07 %	100 %
Constantin Productions Services Inc.	International film production	USA	USD 50,000	92.07 %	100 %
DoA Production Ltd.	International film production	UK	GBP 1,000	92.07 %	100 %
Resident Evil Mexico S. DE R.L. DE C.V. (Mexico LLC)***	International film production	MX	MXN 3,000	92.07 %	100 %
Constantin Film International GmbH	International film production	D	EUR 105,000	92.07 %	100 %
Constantin Pictures GmbH	International film and TV production	D	EUR 25,000	92.07 %	100 %
Constantin Entertainment GmbH	TV entertainment production	D	EUR 200,000	92.07 %	100 %
Constantin Entertainment Polska Sp. z o.o.**	TV entertainment production	PL	PLN 50,000	82.86 %	90 %
Constantin Entertainment U.K. Ltd.******	TV entertainment production	UK	GBP 95,000	92.07 %	100 %
Olga Film GmbH	Film and TV production	D	EUR 603,000	46.96 %	51 %
bob Film GmbH	Film and TV production	D	EUR 25,000	46.96 %	100 %
MOOVIE – the art of entertainment GmbH	Film and TV production	D	EUR 104,000	46.96 %	51 %
Rat Pack Filmproduktion GmbH	Film and TV production	D	EUR 103,000	46.96 %	51 %
Westside Filmproduktion GmbH	Film and TV production	D	EUR 103,000	46.96 %	51 %
Constantin Film Verleih GmbH	License trading and cinema distribution	D	EUR 250,000	92.07 %	100 %
Classic Media Werbeagentur GmbH	Advertising and event marketing	D	EUR 105,000	92.07 %	100 %
Constantin International B.V.	License trading	NL	EUR 18,151	92.07 %	100 %
Constantin Music Verlags-GmbH	Exploitation of music rights	D	EUR 70,000	92.07 %	100 %
Königskinder Schallplatten GmbH****	Exploitation of music and visual media	D	EUR 50,000	23.02 %	25 %
Constantin Propaganda GmbH	License trading	D	EUR 100,000	92.07 %	100 %
Resident Evil Productions LLC*******	International film production	USA	USD 100	n/a	n/a
Rainbow Home Entertainment GmbH	Distribution	A	EUR 363,364	100 %	100 %
Escor Casinos & Entertainment SA*****	Gaming machine manufacturer	CH	CHF 12,375,000	24.97 %	24.96 %

**direct and/or indirect share held by the Group **the companies were established in the 1st quarter of 2006 ***the companies were acquired in the 1st quarter of 2006*
*****Königskinder Schallplatten GmbH was acquired in the 1st quarter of 2006 and is accounted for using the equity method*
******Escor Casinos & Entertainment SA was acquired in the 2nd quarter of 2006 and is accounted for using the equity method ******the company was established in the 3rd quarter of 2006*
********the company is included in consolidation under SIC 12*

The following 9 subsidiaries (previous year: 9) are individually and collectively of subordinate 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	247,577	92.07%
Greenland Film Production A.B.*	Sweden	SKR	100,000	92.07%
Smilla Film A.S.*	Denmark	DKR	500,000	92.07%
Constantin Music Publishing US Inc.*	USA	USD	1,000	92.07%
She's French LLC**	USA	USD	1,000	92.07%
Impact Pictures LLC**	USA	USD	1,000	46.96%
Impact Pictures Ltd.***	UK	GBP	1,000	46.96%
The Dark Film Ltd.****	UK	GBP	100	46.96%
Sheep Ltd.****	Isle of Man	GBP	2,000	46.96%

* *share held by Constantin Film Produktion GmbH, Germany*
** *share held by Constantin Pictures GmbH, Germany*
*** *share held by Impact Pictures LLC, United States*
**** *share held by Impact Pictures Ltd., UK*

ProCon Pictures LLC was sold in the first quarter. This did not have any material effect on net consolidated earnings. Constantin Music Publishing US Inc. was established in the fourth quarter of 2006.

These non-consolidated investments are reported at a carrying amount of TCHF 0. The companies are currently inactive and not engaged in any operative business. The approximate market value is the carrying amount.

Team Holding AG

On July 15, 2005, Team Holding AG completed an ordinary equity issue, as a result of which its share capital rose by 25%. In accordance with the agreements entered into on May 25, 2005, and in September 2005 with UEFA, this 25% share (20% of increased capital) was acquired by UEFA. At the same time, UEFA has undertaken to sell the shares to Highlight Communications AG at the same price upon the termination of the agreement or the UEFA Champions League agency contract. Initially, UEFA will only take a share in the profit arising from new business. As of the 2009/2010 season UEFA will participate in full in Team Holding AG's profit commensurate with the size of its share.

This agreement has been placed on the balance sheet in accordance with the economic view stipulated by IFRS. As UEFA will not have full profit allocation rights until the 2009/2010 season and does not have unrestricted rights to its 20% share in Team Holding AG, the agreement is not treated as profit participation for accounting purposes. Instead, the annual share in earnings attributable to UEFA is carried as an expense in the consolidated financial statements. The stock buyback obligation is recognized as an "other liability".

The shares in Team Holding AG are encumbered by a call option in favor of 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 the expiry of the agency agreement with UEFA relating to the UEFA Champions League.

KJP Holding AG

As of July 1, 2005, Highlight Communications AG acquired KJP Holding AG, the holdings of which include 16% of shares in Team Holding AG. This was shown in the balance sheet using the entity concept. The definitive purchase price will be determined on the basis of the results of the TEAM Group as of June 30, 2009. This possible premium will also be shown in equity using the entity concept.

31. Stock option plan (SOP) of Constantin Film AG

Constantin Film AG currently has the following staff participation programs providing for the issue of shares to staff. The granting of stock options has had no effect on the balance sheet or the income statement to date.

2001 stock option plan

A stock option plan was agreed in the fiscal year 2001, on the basis of which stock options were issued to employees from the 2001 fiscal year onwards. In total, 350,000 options were granted at an exercise price of EUR 9.72, of which 227,900 were still outstanding as at December 31, 2005. This stock option plan was terminated in fiscal 2003, as a result of which no further options are being issued on this basis. In fiscal 2006, all outstanding options issued as part of the 2001 stock option program expired.

2003 stock option plan

A further stock option plan was agreed in the fiscal year 2003. Up to the end of the 2006 fiscal year, no options were issued in connection with the 2003 stock option plan. The options that can be issued on the basis of the 2003 stock option plan (max. 600,000 shares) have a term of five years and allow the employees to exercise one third of their options two, three and four years respectively after the options are granted.

The options issued in the 2003 stock option plan entitle employees to subscribe to a total of 600,000 shares – 200,000 of them being reserved for the Management Board. The options can be exercised if the company’s stock market price exceeded the original price by at least 15% on at least one day before the options are exercised. The average stock market price of the company during the last ten trading days before the option is granted is taken to be the original price. Another rule is that the option can only be exercised if the owner of the option still has a current employment contract. Conditional capital totaling EUR 600,000 is available to exercise the option rights granted on the basis of the 2003 stock option plan.

32. Related party transactions

The following transactions were conducted with related parties:

(TCHF)	Dec. 31, 2006	Dec. 31, 2005
Liabilities		
Members of the Board of Directors	224	248
	224	**248**

Total compensation paid to the five (previous year: six) members of the Board of Directors of Highlight Communications AG, three (previous year: four) of whom hold executive positions with Group companies, is as follows:

(TCHF)	2006	2005
Remuneration		
Short-term benefits including flat-rate expenses	3,623	3,552
Social security and pension provisions	263	199
	3,886	**3,751**

33. Shareholdings of the Board of Directors

(Number of shares)	2006	2005
Bernhard Burgener, Chairman	3,500,000	3,500,000
Martin Wagner, Vice Chairman	37,500	37,500
René Camenzind, member (previous year: Reinhold Camenzind estate)	1,251,275	2,502,550
Martin Hellstern, member (M.H. Movie Holding AG)	1,800,000	2,300,000
Dr. Ingo Mantzke, member	81,010	81,010
Thomas Klooz, member (left the Board of Directors)	n/a	25,000

Other shareholders with material holdings of over 5%		
Drueker & Co. GmbH	28.44%	28.44%
Robur AB.	less than 5%	n/a

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

34. Contingent liabilities and obligations

As part of the restructuring and sale of individual video rental outlets, rental guarantees of TCHF 322 were granted in the previous year. These no longer exist as of December 31, 2006.

There is a rental guarantee for office space leased by Constantin Film of TCHF 368 (previous year: TCHF 356).

Moreover, guarantees totaling TCHF 13,694 (previous year: TCHF 13,627) have been issued to various TV broadcasters for service productions and a letter of credit of TCHF 4,880 has been taken out with a bank.

Constantin Film AG guarantees various banks the repayment of license fees in an amount of CHF 118.3 million in connection with finance for international film productions. The guarantees may be exercised if banks of an investment-grade rating with which sufficient funds for repayment have been deposited fail to disburse these funds.

The Group has contingent receivables from the reimbursement of additional costs for TV productions. The amount of reimbursement is currently being negotiated and cannot yet be reliably estimated.

The impact on the Group's assets, financial state and earnings as of 2007 cannot be estimated with any reliability as of this date.

35. Operating leases and rental agreements

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

(TCHF)	Dec. 31, 2006	Dec. 31, 2005
Up to 1 year	5,414	2,283
Between 1 and 5 years	9,616	4,680
More than 5 years	4,582	11,143
	19,612	**18,106**

Lease obligations primarily relate to non-current rental obligations.

Lease expenditure (including rentals) came to TCHF 6,439 (previous year: TCHF 5,961) in the year under review.

36. Events after the balance sheet date

The master license agreements concluded in February 2004 on the exploitation of pay TV rights for Constantin own and co-productions between Constantin Film Verleih GmbH and Premiere Fernsehen GmbH & Co. KG (Disney Channel) were extended by a further two years in early 2007.

REPORT OF THE GROUP AUDITORS

to the General Meeting of Highlight Communications AG, Pratteln

As auditors of the Group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows, statement of changes in equity and notes) included on pages 49 to 99 of Highlight Communications AG for the year ended December 31, 2006.

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 Swiss Auditing Standards 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
Auditor in Charge

Lucerne, April 26, 2007

FINANCIAL STATEMENTS

for the year ended December 31, 2006 of Highlight Communications AG, Pratteln

BALANCE SHEET FOR THE YEAR ENDED DECEMBER 31, 2006

Highlight Communications AG, Pratteln

ASSETS (TCHF)	Dec. 31, 2006	Dec. 31, 2005
Current assets		
Cash and cash equivalents	2,943	10,437
Securities	26,541	5,438
Trade receivables		
from third parties	14	–
Other receivables		
from third parties	134	272
from group entities	201	106
Prepaid expenses/accrued income	24	476
	29,857	**16,729**
Non-current assets		
Financial assets		
Investments	258,426	192,161
Property, plant and equipment		
Other property, plant and equipment	–	–
Intangible assets		
Film assets	–	232
	258,426	**192,393**
Total assets	**288,283**	**209,122**

SHAREHOLDERS' EQUITY AND LIABILITIES (TCHF)	Dec. 31, 2006	Dec. 31, 2005
Liabilities		
Trade payables		
to third parties	623	1,030
to group entities	5,182	196
Current bank liabilities	75,944	23,944
Advance payments	–	117
Other current liabilities		
to third parties	1,387	409
to related parties	157	80
to group entities	37,141	1,012
Current provisions	500	500
Deferred income/accrued expenses	1,575	854
Non-current loans	23,000	35,000
Other non-current liabilities	2,343	–
	147,852	**63,142**
Shareholders' equity		
Share capital	47,250	47,250
Legal reserves		
General reserve	56,363	63,773
Reserve for treasury shares	10,255	2,846
Retained earnings		
Profit carried forward	26,459	14,860
Profit for year	104	17,251
	140,431	**145,980**
Total shareholders' equity and liabilities	**288,283**	**209,122**

INCOME STATEMENT FOR 2006

Highlight Communications AG, Pratteln

(TCHF)	2006	2005
License income	818	12,558
Miscellaneous revenues	291	9,299
Sales deductions	–	–9
Financial income		
Interest income	57	356
Income on securities	1,983	13
Income on investments	17,866	15,920
Total income	**21,015**	**38,137**
Cost of production	–	–80
License expense	–857	–6,846
Personnel expense	–3,611	–2,090
Office and administrative expense	–3,635	–5,640
Depreciation on property, plant and equipment	–	–97
Depreciation on investments	–5,880	–3,168
Financial expense		
Interest expense	–4,625	–2,161
Expense on securities	–2,303	–804
Total expense	**-20,911**	**–20,886**
Earnings before taxes	**104**	**17,251**
Net profit before taxes	**104**	**17,251**
Income taxes	–	–
Profit for year	**104**	**17,251**

NOTES TO THE FINANCIAL STATEMENTS 2006

Highlight Communications AG, Pratteln

1. Main changes compared with previous year

As a result of additional acquisitions, the goodwill (purchase price less proportionate equity) is now written down on a uniform basis over 15 years (previously 10 – 15 years).

2. Pledged assets as collateral for own obligations

	2006	2005
Shares in EM.TV AG		
Number	3,499,577	–
TCHF	20,475	–
Shares in Constantin Film AG		
Number	11,464,441	8,015,533
TCHF	137,914	76,788
Shares in Highlight Communications AG		
Number	184,334	–
TCHF	1,641	–
Credit facility utilized		
TCHF	63,944	10,944

3. Fire insurance values of property, plant and equipment

(TCHF)	2006	2005
Furniture and equipment	–	20
Computer equipment	850	850
	850	**870**

4. Notes on main investments

Company, domicile, purpose	Percentage	Issued capital
Team Holding AG, Lucerne *Investments in sports and event marketing companies*	80.00 %	TCHF 250
KJP Holding AG, Lucerne *Holding company*	100.00 %	TCHF 100
Rainbow Home Entertainment AG, Pratteln *Distribution*	100.00 %	TCHF 200
Highlight Communications (Deutschland) GmbH, Munich *Marketing*	100.00 %	TEUR 256
Constantin Film AG, Munich *Production and distribution of films and holding company*	91.80 % (previous year: 64.73 %)	TEUR 12,743
Rainbow Home Entertainment GmbH, Vienna *Distribution*	100.00 %	TEUR 363
Escor Casinos & Entertainment SA, Düdingen *Gaming machine manufacturer*	24.97 % (previous year: 15.29 %)	TCHF 12,375

5. Share capital / authorized capital

On June 8, 2004, 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 within a period of two years. This capital increase has not been effected.

On June 2, 2006, 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 within a period of two years. A partial increase is permitted. No such capital increase has been implemented to date.

6. Shareholder structure

Board of Directors (number of shares)	2006	2005
Bernhard Burgener, Chairman	3,500,000	3,500,000
Martin Wagner, Vice Chairman	37,500	37,500
René Camenzind, member (previous year: Reinhold Camenzind estate)	1,251,275	2,502,550
Martin Hellstern, member (M.H. Movie Holding AG)	1,800,000	2,300,000
Dr. Ingo Mantzke, member	81,010	81,010
Thomas Klooz, member (left the Board of Directors)	n/a	25,000

Other shareholders with holdings of over 5%		
Drueker & Co. GmbH	28.44%	28.44%
Robur AB.	less than 5%	n/a

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

7. Treasury shares

	Number of shares	Average transaction price CHF	Transaction value TCHF	Reserve for treasury shares TCHF
Balance on January 1, 2006	319,536	–	–	2,846
Sales	–141,334	9.43	–1,333	–1,298
Acquisitions	989,408	8.96	8,863	8,863
Return from staff	–	–	–	–
Transfer to staff	–17,500	–	–157	–156
Balance on December 31, 2006	**1,150,110**			**10,255**

There are no other matters subject to compulsory disclosure pursuant to Art. 663 b of the Swiss Law of Obligations.

PROPOSAL FOR THE APPROPRIATION OF AVAILABLE RETAINED EARNINGS

Highlight Communications AG, Pratteln

(TCHF)	2006
Profit carried forward	26,459
Profit for year	104
Retained earnings	**26,563**

The Board of Directors recommends the following resolution for the appropriation of retained earnings:

Payment of a dividend of CHF 0.15 per share	7,088
Amount to be carried forward	19,475
	26,563

The dividend proposal applies to all shares issued. The treasury shares as of the date of payment of the dividend are not dividend-entitled. Accordingly, the amount of the dividend depends on the number of shares held as treasury shares as of the date on which the dividend is paid.

REPORT OF THE STATUTORY AUDITORS

to the General Meeting of Highlight Communications AG, Pratteln

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) included on pages 102 to 106 of Highlight Communications AG for the year ended December 31, 2006.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these 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 Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers AG

Urs Renggli *Auditor in Charge*	Josef Stadelmann

Lucerne, April 26, 2007

Calendar of events 2007

Film	
Berlinale	February 8 – 18
Academy Awards	February 25
Cannes Film Festival	May 16 – 27
Locarno Film Festival	August 1 – 11
Venice Film Festival	August 29 – September 8

Sports and Event Marketing	
Eurovision Song Contest, semifinal	May 10
Eurovision Song Contest, final	May 12
UEFA Cup Final	May 16
UEFA Champions League Final	May 23
UEFA Super Cup	August 24

Investor relations	
Annual General Meeting	June 8
German Equity Forum	November 12 – 14
Quarterly reports	May / August / November

Imprint

Publisher and responsible for content:
Highlight Communications AG, Pratteln

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

Pictures:
Martin Joppen, Frankfurt am Main (pages 7, 9)
Picture-Alliance/dpa, Frankfurt am Main (pages 17, 18, 23, 29, 36)
Constantin Film, Munich (pages 19, 21, 24, 26, 27, 28)
T.E.A.M., Lucerne (pages 10, 30, 31, 32, 33, 34, 35)

Highlight Communications AG

Netzibodenstrasse 23b
4133 Pratteln BL/Switzerland
Tel.: +41 (0)61-816 96 96
Fax: +41 (0)61-816 67 67

info@hlcom.ch
www.highlight-communications.ch

Members of the Highlight Group: Constantin Film RAINBOW HOME ENTERTAINMENT T.E.A.M.