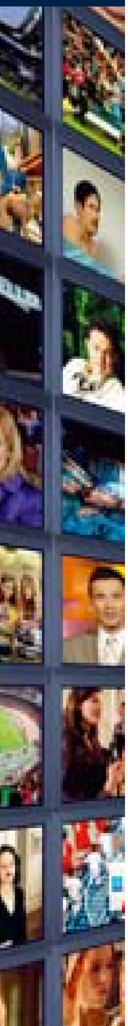


Highlight

ANNUAL REPORT 2007

The Swiss Highlight Group is one of the largest media companies listed on the German stock exchange.

(TCHF)		2007	2006 [1]
Income statement	Revenues	481,669	521,190
	Earnings from operating activities	52,907	47,782
	Earnings before taxes	45,726	41,701
	Net consolidated earnings (Highlight shareholders)	30,681	25,775
	Earnings per share (CHF)	0.68	0.55
Balance sheet	Total assets	690,519	617,756
	Film assets	301,271	274,873
	Cash and cash equivalents	200,508	176,444
	Equity (Highlight shareholders)	73,286	75,814
	Liabilities subject to interest and loans	317,028	296,393
Cash flow statement	Cash flow from operating activities	190,178	114,402
	Cash flow from investing activities	– 133,124	– 124,169
	Cash flow from financing activities	–37,453	–25,845
	Net inflow/outflow of funds	24,064	–31,505
Personnel	Headcount on December 31	487	432

[1] The figures for the previous year have been adjusted due to changes of accounting policies.

Highlight Communications AG, Pratteln, Switzerland

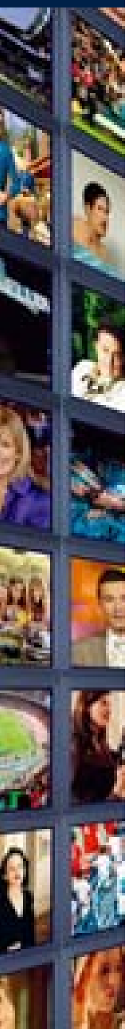
FILM		SPORTS & EVENT MARKETING
95.23 %	100 %	80 %
Constantin Film AG Munich, Germany Subsidiaries of Constantin Film AG	**Highlight Communications (Deutschland) GmbH** Munich, Germany **Rainbow Home Entertainment AG** Pratteln, Switzerland **Rainbow Home Entertainment GmbH** Vienna, Austria	**Team Holding 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
- Video/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

As a media group with many years of experience,
Highlight covers a broad range in the entertainment industry.

Successful movie releases and TV productions, an extensive library,
top football in the UEFA Champions League and the UEFA Cup
as well as the unique Eurovision Song Contest are all part of the
Highlight portfolio.



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Calendar of events 2008 *(back inside cover)*

CHAIRMAN'S PREFACE

Dear shareholders and other interested parties,

The Highlight Group once more looks back on an extremely successful fiscal year. We rigorously implemented our maxim of controlled and profitable growth and thus achieved top results again:

- We increased earnings from operating activities to CHF 52.9 million and exceeded the figure from last year by 10.7%.
- Net consolidated earnings (Highlight shareholders) increased even more strongly, by CHF 4.9 million to CHF 30.7 million, a rise of 19.0% in comparison to the previous year.
- This results in earnings per share of CHF 0.68 CHF (EUR 0.41), a record in Company history, and significantly higher than our guidance figure of EUR 0.36 to 0.38.
- Due to this very positive development, we will again propose a dividend distribution of CHF 0.15 per share at the Annual General Meeting on May 30, 2008.

The fact that Group revenues of CHF 481.7 million remained slightly under the published target of CHF 500 to 520 million is largely due to a change of accounting policies in the year under review. This change had an effect on revenues in the region of CHF 20 million. We are more than satisfied with the results achieved, particularly because our figures in the previous year were significantly bolstered by the theatrical exploitation of Bernd Eichinger's successful production "Perfume – The Story of a Murderer".

Earnings upturn in Sports and Event Marketing

Our Sports and Event Marketing division also developed positively, realizing a revenues volume of CHF 79.3, exceeding the figure from the previous year by CHF 3.2 million. Earnings for the division increased to CHF 38.0 million, an increase of 24.2% in comparison to the 2006 fiscal year.

Growth drivers here were primarily the additional revenues from centralized marketing of the final stages of the UEFA cup (from the quarter finals), which our subsidiary TEAM was contracted to do for the first time. TEAM sold the TV rights to 80 broadcasters and thus achieved live transmission of the matches in around 200 countries.

In November 2007, the marketing success for the final phase of the UEFA Cup led to UEFA deciding to mandate TEAM with the marketing of the entire UEFA Cup format for the seasons 2009/10 to 2011/12. The TEAM mandate will therefore include the sale of rights for a total of 205 UEFA Cup games from the 2009/10 season.

Furthermore, TEAM was able to lay further foundations for the future: On the occasion of the Eurovision Song Contest in Helsinki, the European Broadcasting Union announced in the middle of May that it would extend its marketing partnership with our subsidiary until 2012. After TEAM marketed this traditional competition since 2004 both exclusively and globally, nothing stands in the way of a continuation of the successful activity for a further five years.

A further highlight was the conclusion of a cooperation agreement with the renowned Vienna Philharmonic Orchestra, which will enable TEAM to expand its activities in the music area further. Central to this long-standing partnership is the global marketing of the two most important annual concerts of the orchestra: the New Year's Day concert and the open-air concert at Schönbrunn Palace. In the long-term, innovative concepts to promote classical music are to be implemented and the Vienna Philharmonic "brand" is to be developed further.

Constantin undisputed leader of German films

Our subsidiary Constantin, the stake in which we increased to over 95% in the course of the past year, defended its position well in a difficult market for movies. With a distribution slate which only comprised 13 films, Constantin achieved a total audience market share of 7.7% in Germany and thus remained the undisputed number 1 amongst the independents. In comparison to domestic competitors, five Constantin titles were ranked in the top ten of German productions.

The largest part of this result was due to the 3D animation film "Lissi und der wilde Kaiser", by the multy-talented Michael "Bully" Herbig. With nearly 2.3 million visitors and a box office of just under EUR 14 million, the humorous parody of Sissi became the top-selling German movie of the year. The family entertainment film "Die wilden Hühner und die Liebe" also achieved convincing figures. With around 1 million viewers, the sequel to the crowd pulling "Die wilden Hühner" from 2006 was nearly as popular as the first part.

Constantin made an impression on international box offices with its own production "Resident Evil: Extinction" in particular. With worldwide box office takings of just under USD 150 million, the sequel became the most commercially successful part of the "Resident Evil" trilogy.

Strong increase in home entertainment revenues

After the decline in revenues due to the World Cup in 2006, the German home entertainment market exhibited a recovery and shone in the sell-through segment with a record volume of DVD sales. Since the era of rapid declining prices for new releases also appears to be a thing of the past, this development was also reflected in higher revenues. The rental business situation remains a problem, again enduring a downturn in customer numbers and revenues.

Our home entertainment segment benefited strongly from improved conditions. In cooperation with Paramount Home Entertainment – our sales partner in Germany – we increased our overall market share in the German DVD sell-through market from 8% in the previous year to currently 10%.

This success was driven primarily by the Bernd Eichinger production “Perfume – The Story of a Murderer”. After the visually stunning film adaptation of Patrick Süskind’s novel attracted over 5 million viewers to cinemas, more than 800,000 DVDs were sold in addition. “Perfume” was therefore the top-selling German production in 2007.

Furthermore, we also achieved very pleasing sales figures with two Constantin licensed titles. With around 380,000 DVDs sold, the racy dance film “Step Up” became a genuine surprise. In contrast, the sales success of Mel Gibson’s “Apocalypto” was not unexpected after the theatrical exploitation in Germany suffered badly due to an age rating certificate.

Convincing performance of Highlight stock

In contrast to the previous year, the capital market rewarded the Highlight Group’s good business development in 2007. With a closing price of EUR 8.65 at the end of the year, Highlight stock achieved an increase in share price of over 56% p.a. and developed considerably better than all German indices. We will continue to make all efforts to convince the capital market with positive results and therefore achieve a fair valuation of Highlight stock in the future.

With the dynamic development of the share price, our Company’s market value at the end of 2007 rose to around EUR 409 million, after being just under EUR 262 million in the previous year. In addition, the daily trading volume increased by over 90% year-on-year, which led to Highlight stock again being included on the SDAX index at the end of 2007. This secures that our stock is again more strongly in the focus of public attention.

New shareholder structure and personnel changes

As could be noted in media reports, EM.Sport Media AG acquired a 25.1% stake in Highlight in September 2007 and has since increased this share to 37.6%. EM.Sport Media AG is thus the largest shareholder in the Highlight Group by far. Our CFO Antonio Arrigoni assumed responsibility for finance on the Management Board of EM.Sport Media AG on April 1, 2008. At the same time his successor in our Company, Peter von Büren took office.

2008 fiscal year: positive start

2007 was another record year. We achieved our objectives and exceeded them in some cases. We can be proud of this. However, we will not rest on our laurels. In the current fiscal year, we will also consistently pursue our strategy. Our work will focus on the profitable further development of the Highlight Group. This enables us to create the basis for future growth and to continue our success story.

The prospects for 2008 are very positive. The German theatrical industry experienced an unexpected boom in the first quarter, which our subsidiary Constantin also contributed to. The youth drama “Die Welle”, which attracted 1 million viewers in the first two weeks and the international Constantin co-production “Asterix at the Olympic Games”, with an audience of over 1.5 million were impressive at the box office. Without doubt, the highlight of the Constantin theatrical year is expected in autumn, when the new Bernd Eichinger major production “Der Baader-Meinhof Komplex” comes to the big screen.

In the home entertainment segment, a continuation of the growth course from the previous year becomes apparent. The DVD marketing of Constantin cinema hits from the previous year contributes to this. This primarily relates to the Michael “Bully” Herbig film “Lissi und der wilde Kaiser”, as well as the third part of the “Resident Evil” series “Resident Evil: Extinction”. Both titles have been in the top ten of the sales charts for weeks.

In the Sports and Event Marketing division, the focus of activities will be the sale of commercial rights to the UEFA Champions League and the UEFA Cup for the 2009/10 to 2011/12 seasons. In the operating area, organizational support and development of the current competitions up to the major final games will be an extensive task.

Finally, my colleagues on the Board of Directors and I would like to thank all the employees of the Highlight Group for their achievements. Motivation, dedication and the will to accomplish extraordinary results are significant success factors for our Company.
At this point, I would also like to thank you – valued shareholders and business partners – for your trust in our Company. In the future, we will also make every effort to expand our business further and we would be pleased if you accompany us along the way. For our shareholders, employees and business partners, we will continue to be a reliable partner and create lasting value.

Bernhard Burgener
Chairman of the Board of Directors

MEMBERS OF THE 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. Shareholder since 1994 and 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 reward:
For her outstanding performance in “La Vie en Rose”, Marion Cotillard received an Oscar® for best actress.

In operating terms, the Highlight Group concluded the 2007 fiscal year with another earnings increase. Both earnings from operating activities and earnings per share were significantly improved.

HIGHLIGHT STOCK

Stock markets characterized by volatility

The year 2007 on the stock exchange will be remembered as one of the more difficult in history because the year was distinguished by two completely different halves. In the first half of the year, all indications were that the rises of the last four years would continue smoothly. In a favourable stock exchange environment, numerous indices such as the American Dow Jones or the German DAX posted one high after another. Even doubts about the sustainability of economic growth in China which arose in spring and led to significant market corrections up to the middle of March did not stop the overall upward trend.

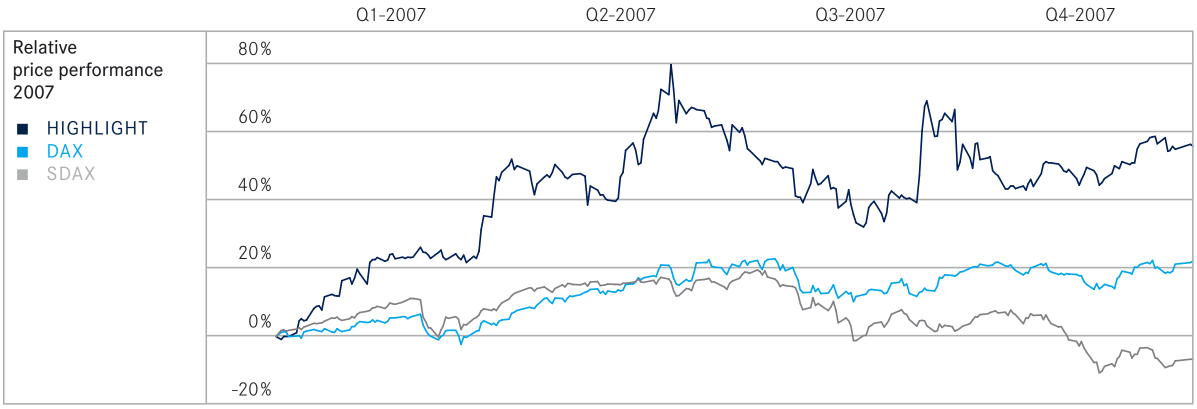
However, the positive sentiment changed in July, after the US investment bank Bear Stearns had to close two of its hedge funds which primarily invested in sub primes. But this was just the start: From August, the list of companies affected became longer and longer and by the end of the year, more than two dozen well-known large banks reported write-offs totalling over USD 80 billion.

This financial crisis left a deep mark on international stock markets and eliminated most of the gains achieved in the first half of the year. After a real slump in July and August, there was a short recovery. However, this was already over by the start of November. The key indices again moved downwards and did not really recover from this set-back to the end of the year. The Dow Jones, for example, finished the year at 13,265 points and thus posted a year-on-year increase of only around 6%. However, the biggest effects of the turbulence were felt on the Japanese stock market. The Nikkei Index lost over 11% and thus posted its worst performance for years.

The performance of the leading European stock market indices was mixed. The Euro Stoxx 50, which maps the performance of the 50 largest companies in the euro zone, performed relatively well with an upturn of almost 7%. In contrast, the British FTSE 100 rose by only a little over 4% and the French CAC had to suffice with a small increase of around 2%. With an increase of around 1%, the Austrian ATX gained more or less no ground and the Swiss stock exchange also had a difficult year. The Swiss Market Index (SMI) lost over 3% over the year, after reaching a record high at the start of June of 9,548 points.

The clear winner of the 2007 stock exchange year was the DAX, which – as it did last year – achieved a performance of 22%. The German stock market barometer finished trading at 8,067 points and ended the year just 84 points below the all time high which it reached in July. With this performance the DAX left the so-called mid-cap and small-cap indices (MDAX and SDAX) far behind for the first time in six years. The MDAX increased by only 5% while the SDAX actually declined in value by nearly 7%. The trigger for this development was primarily the US financial crisis. This led many investors to switch from small and mid caps to blue chips, which triggered major slumps both on the MDAX and on the SDAX segment.

A current study by the Deutsches Aktieninstitut (DAI) shows how strongly the turbulence on the capital market in the second half of the year resulted in disquiet, particularly among private investors. It states that the number of Germans holding equities and fund units declined to an average of 10.1 million in the second half of 2007, after having averaged 10.5 million in the first half of the year. This decline resulted primarily from a signifi-



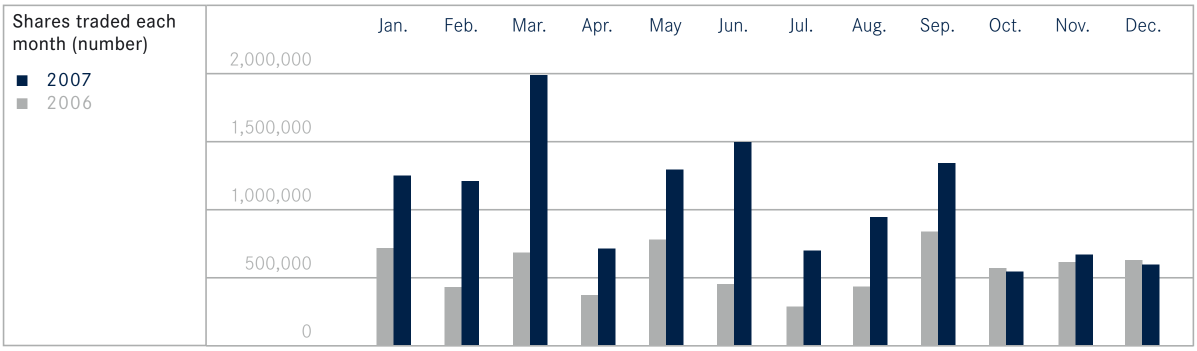
cant downturn in pure shareholders, the number of which declined by 325,000 or 12.8% from the first half-year to the second. But also the number of private investors investing in shares and funds declined strongly with a minus of 246,000. In contrast, the number of pure fund unit owners rose by 176,000 or 2.8%.

Many experts expect a positive development of global equity markets this year – if only in a single-digit percentage. However, they warn that market volatility will grow and expect increased uncertainty in the short term. The generally optimistic sentiment is based primarily on the fact that most equity markets are now again priced favourably. Should the profit expectations be confirmed, the companies listed on the DAX would post a price/earnings ratio of just under 13 in 2008, which is significantly below the long-term average of 15. The prices of blue chip equities – despite the rise of the DAX by over 22% in the past year – have actually become relatively cheaper, because corporate profits rose more strongly at 28%.

Highlight stock on an upward trend

The performance of the Highlight stock was largely uninfluenced by the market turbulence. On December 28, 2007, it closed XETRA trading at EUR 8.65 and finished the year with a marked increase of over 56%. The foundation for this good performance was laid in the first half of the year, in which our stock – due to the positive business development of the Highlight Group – benefited strongly from the favourable market conditions.

With a closing price of EUR 5.54 at the end of 2006 (December 29, 2006), Highlight stock started the new year on the stock exchange by posting its year low of EUR 5.49. After this the price rose almost continuously, except for two small occasions when it moved sideward. It reached its annual high of EUR 9.99 on June 5 – the highest price since May 2001. As part of the general market correction which took place in July, Highlight stock relinquished some of the ground it had gained, declining to EUR 7.33 by the end of August. After publishing our half-year results, a significant rise in the share price occurred again which brought the price up to over EUR 9.00 by the middle of September. After a short downturn, the fourth quarter was then characterized by a sideways trend with prices around the EUR 8.00 mark, which then moved into an upward phase from the middle of November.



Return to the SDAX

The favourable development of the Highlight stock price led to the Company's market capitalization at the end of 2007 rising to EUR 408.7 million, after EUR 261.8 million in the previous year. In addition, a significantly higher trading volume demonstrates the increasing attractiveness of our stock. In the year under review, just under 13 million Highlight shares (previous year: roughly 7 million) were traded in XETRA trading alone. Per trading day, this represents a volume of around 51,000 and thus a year-on-year rise of over 90% (previous year: 26,500).

Market capitalization and trading volume are also the basis for decisions for the composition of the German stock market indices, which are examined by Deutsche Börse AG at regular intervals. The positive development of both criteria led to Highlight stock being included again in the SDAX with effect from December 27, 2007 from which it was removed in March 2007 as part of a regular examination.

Distribution of a dividend of CHF 0.15 planned

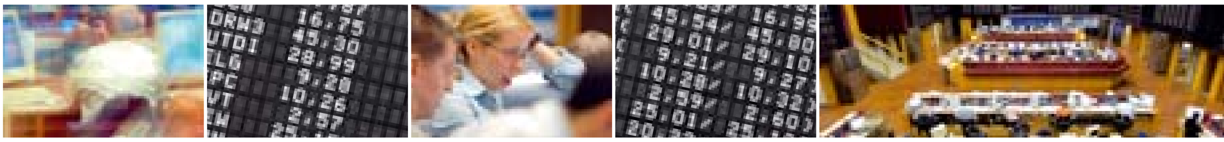
After allowing shareholders to share in the positive operating performance of our Company in the past three years, we would naturally like to continue this practice for fiscal year 2007. For this reason, at the Annual General Meeting of May 30, 2008 the Board of Directors will propose the distribution of a dividend of CHF 0.15 per entitled share. In the event of approval, this distribution would correspond to a dividend yield of 1.05% – based on the Highlight stock closing price at the end of the year.

Stock buy-back program also continued in 2007

The Highlight Group has operated an active stock buy-back program since the middle of 2002 which serves primarily to stabilize the share price in weaker market phases. This program was also implemented in the period under review and a total number of 1,760,137 shares were acquired. Of this, 711,395 were sold on to long-term orientated investors (institutional and private investors) so that at the end of the year there was a total of 2,198,852 treasury shares. In relation to our overall number of shares, this represents a share of 4.65%. The transactions of the current buy-back program are always available on our website (www.highlight-communications.ch).

Targeted investor relations work

Comprehensive and prompt information for all capital market participants (private and institutional investors, analysts and the financial press) is a central theme of our investor relations activities. It is our declared objective to achieve a fair valuation of Highlight stock on the basis of reliable public relations work. The basis of this are our regularly published annual and quarterly reports, which offer a detailed insight into the current development and our Company's perspectives.



In addition to ongoing reporting, we provide information using press releases and ad hoc disclosures about all matters which may affect the financial state, assets and earnings of the Highlight Group. We publish relevant facts immediately, following the principles of fair disclosure and provide this information to all significant target groups at the same time. Our website on the internet plays a central role here; all important facts are available to view or download.

Besides, an open and trusting dialog with capital market participants is an established and important component of our investor relations work. For this reason we have further intensified the number of direct contacts in the period under review. For institutional market participants, we implemented a total of six road shows at important European and US financial centres, including New York, London, Luxemburg and Vienna. In addition we reported the Highlight Group's business development and strategic goals at M.M. Warburg's Spring Conference in Frankfurt, the German Selection One-to-One Forum in Milan as well as the German Equity Forum.

The most important investor relations event – especially for our private investors – was once again the Annual General Meeting, where we welcomed around 54.2 % of Highlight's share capital on June 8, 2007. All motions from the Board of Directors which were presented at this occasion were approved unanimously by the shareholders present.

Stock data 2007

Number of shares	47,250,000	Stock class	Ordinary bearer shares
Nominal value per share	CHF 1	Market segment	SDAX
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) June 5	EUR 9.99	Low for the year (XETRA) January 2	EUR 5.49
Year-end price	EUR 8.65	Market capitalization at year-end	EUR 408.7 mn
Earnings per share	EUR 0.41		

Analysts coverage of Highlight

TradeCentre.de	March 2007	Promising	BHF-BANK	August 2007	Buy
Die Actien-Börse	April 2007	Buy	M.M. Warburg & CO	August 2007	Buy
M.M. Warburg & CO	May 2007	Buy	BHF-BANK	October 2007	Buy
Sal. Oppenheim	June 2007	Buy	DZ BANK	November 2007	Buy
DZ BANK	August 2007	Buy	Sal. Oppenheim	December 2007	Buy

Pure excitement:
Media representatives from the whole world followed the UEFA Champions League Final between AC Milan and Liverpool FC in the Olympic stadium in Athens.

The Highlight Group’s good business development was also reflected in the stock market. Highlight stock achieved an increase in share price of over 56% to EUR 8.65, which led to an increase in market capitalization of around EUR 147 million.

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 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, 2007, the market capitalization of the Company was around EUR 408.71 million at a closing stock price for the year of EUR 8.65.

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, 2007, the market capitalization of the company was around EUR 271.41 million at a closing stock price for the year of EUR 21.30.

As of December 31, 2007, Highlight Communications AG and its subsidiaries held an interest of 95.23% 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, 2007, the market capitalization of the company was around CHF 30.99 million at a closing stock price for the year of CHF 25.05.

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 34/35 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

As of December 31, 2007, Highlight Communications AG was aware of the following principle shareholders:

EM.Sport Media AG	26.31 %
KF 15 GmbH & Co. KG	11.28 %
Bernhard Burgener	9.39 %
MarCap Investors L.P.	9.06 %

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 1,760,137 shares were bought back and 711,395 shares were sold. On December 31, 2007, treasury shares comprised 2,198,852 shares, equivalent to 4.65 % 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

EM.Sport Media AG holds 26.31 % of the issued capital of Highlight Communications AG.

Highlight Communications AG holds respectively controls 5.52 % of the issued capital and 5.87 % of the shares with voting rights of EM.Sport Media AG.

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 affected.

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 Directors 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, 2007, 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 the Highlight Group's strategy, executive member.

Further (corporate) activities and interests:
Chairman of the Supervisory Board of Constantin Film AG, Munich, Germany
Vice Chairman of the Supervisory Board of EM.Sport Media AG, Ismaning, Germany
President of the Board of Directors of Team Holding AG, Lucerne, Switzerland
President of the Board of Directors of Team Football Marketing AG, Lucerne, Switzerland
President of the Board of Directors of T.E.A.M. Television Event And Media Marketing AG, Lucerne, Switzerland
President of KJP Holding AG, Lucerne, Switzerland
President of the Board of Directors of Rainbow Home Entertainment AG, Pratteln, Switzerland
Board of Directors of Escor Casinos & Entertainment SA, Düdingen, Switzerland
Board of Directors of Radio Basilisk Betriebs AG, Basel, 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
Supervisory Board of EM.Sport Media AG, Ismaning, 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 KJP Holding 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 Pima Canyou JDS AG, Rünenberg, Switzerland
President of the Board of Directors of VCP Venture Capital Partners, Basel, Switzerland
President of the Board of Directors of Radio Basilisk Betriebs AG, Basel, Switzerland
President of the Board of Directors of Weltwoche Verlags AG, Zurich, Switzerland
Board of Directors of Axel Springer Schweiz AG, Zurich, Switzerland
Board of Directors of TR7 AG, Zurich, Switzerland
Board of Directors of Sport Wochenzeitung AG, Zurich, Switzerland
Vice President of the Board of Directors of Neue-Ideen.ch, Zurich, Switzerland
Board of Directors of the IWF Institut für Wirtschaftsförderung AG, Liestal, Switzerland
Board of Directors of the IPWR Institut für Politik, Wirtschaft und Recht, Basel, Switzerland
President of the Association of Mercedes-Benz Representatives Switzerland, Switzerland
Co-President of the Autogewerbeverband beider Basel, 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
Board of Directors of Stella-Movie SA, Comano, Switzerland

Dr. Ingo Mantzke
member of the Board of Directors since 1999
Chief Investor Relations Officer, executive member.

Further (corporate) activities and interests:
Board of Directors of Rainbow Home Entertainment AG, Pratteln, Switzerland
Managing partner of PeopleNet Verwaltungs GmbH, Königstein, Germany
Chairman of the Supervisory Board of Cornerstone Capital AG, Frankfurt, Germany
Chairman of the Supervisory Board of Cornerstone Verwaltungs AG, Heidelberg, Germany
Board of Directors of Mountain Partners AG, Wädenswil, Switzerland
Board of Directors of Mountain Super Angel AG, St. Gallen, Switzerland

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 appoints 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 René 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, 2007.

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.

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.

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.

4.1.2. TEAM (Sports & Event Marketing division)

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 Organization 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), Martin Moszkowicz (Production) and Franz Woodtli (Home Entertainment). Thomas Peter Friedl (previous Distribution and Marketing Management Board member) left Constantin Film AG after his contract came to an end on January 31, 2008.

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 came to CHF 5.122 million (previous year: CHF 3.886 million) and was paid to five people. This includes fees, expenses and dissolution settlements (see notes to the consolidated financial statements, Note 37).

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, 2007, the Directors held the following shares in the Company:

	Number of shares	Share in capital
Bernhard Burgener	4,435,000	9.39%
René Camenzind	1,253,715	2.65%
Martin Hellstern (M.H. Movie Holding AG)	1,800,000	3.81%
Dr. Ingo Mantzke	146,010	0.31%
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 2.39 million (previous year: CHF 1.76 million) (see notes to the consolidated financial statements, Note 37).

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. Bruno Häfliger is the auditor in charge for fiscal year 2007.

8.2. Auditing fees

A sum of TCHF 222 was provided for auditing services of PricewaterhouseCoopers in fiscal 2007, and TCHF 5 were paid. Additional fees of TCHF 22 by PricewaterhouseCoopers AG were provided 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

Historic final:
At the UEFA Cup Final in Glasgow, with Sevilla FC and RCD Espanyol Barcelona two Spanish teams played each other for the first time.

The marketing of the final phase of the UEFA Cup by the Highlight subsidiary TEAM is a success. Starting with the 2009/10 season, TEAM will handle centralized marketing of the UEFA Cup group games and the KO phase.

Extraordinary directive performance:
At the DIVA awards in Munich, Michael “Bully” Herbig was awarded the German Entertainment Prize for “Lissi und der wilde Kaiser”.

With “Lissi und der wilde Kaiser”, the Highlight subsidiary Constantin Film AG in 2007 again brought the most successful German production to cinemas. In addition, four further Constantin Films were ranked in the top ten in Germany.

Most elaborate German 3D animation film of all time: “Lissi und der wilde Kaiser”

REPORT ON THE HIGHLIGHT GROUP’S SITUATION

BUSINESS AND GENERAL CONDITIONS

As a strategic and financial holding company, Highlight Communications AG combines the two divisions Film and Sports and Event Marketing.

In its Film division, Highlight Communications AG and its subsidiaries hold a stake in the listed Constantin Film AG (December 31, 2007: 95.23%). Together with its subsidiaries and equity interests, Constantin Film AG is one of the leading German producers and distributors of cinema, video/DVD and TV films. Constantin Film AG’s directly held foreign subsidiaries are involved in international in-house productions. In addition to own and co-productions, Constantin Film AG acquires the exploitation rights to third-party productions. As well as this, Constantin Film AG and its subsidiaries produce fictional and non-fictional products for TV stations.

In its Sport and Event Marketing division, Highlight Communications AG holds a stake in Team Holding AG (December 31, 2007: 80%; UEFA 20%). As one of the leading sports and event marketing agencies worldwide, the TEAM subsidiary markets both the UEFA Champions League as its main project as well as the UEFA Cup from the quarter finals (completely from the 2009/10 season). Further attractive marketing projects for the TEAM Group are the UEFA Super Cup, the Eurovision Song Contest and the Vienna Philharmonic.

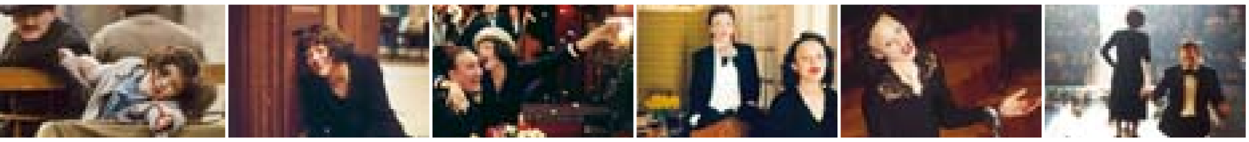
In the Film division, the Highlight Group primarily operates in Germany, Switzerland and Austria. In the Sports and Event Marketing division, the primary market is the whole European area.

ECONOMIC CONDITIONS

Newly industrializing countries boost the global economy

The global economy proved to be very robust again in 2007. According to calculations from the International Monetary Fund (IMF) made in January 2008, global economic output rose by 4.9% and was thus above the long-standing average for the fourth year in succession. A remarkable result, if negative factors are taken into account: Increasing oil prices, which in the middle of November were 60% higher than a year ago, a significant downturn in the value of the traditional key currency, the US dollar and the US sub prime crisis in the second half of the year were anything but favorable conditions for economic growth.

In this respect, it is no wonder that the economies of the traditional industrial nations tended to perform below average. For example, growth in the US economy only amounted to 2.2% and in the euro zone to 2.6%. In contrast, the economic drivers were the emerging countries of Asia and Latin America which have disconnected themselves significantly from the weakening US economy. The clear leader was once again the Chinese economy which grew by more than 11%, but the growth in India of around 9% is more than impressive, too.



Emotional cinema with an exceptional actress: “La Vie en Rose”

Foreign trade fuels upturn in the German-speaking region

The Swiss economy developed with an estimated increase in gross domestic product of 2.6 %, the same amount as the euro zone. The upturn was driven primarily by booming foreign trade which, according to forecasts, could increase by 7 % in real terms, as well as a high utilization of industrial capacity. But the retail sector also performed well and increased revenue by just under 4 % in comparison to the previous year.

In Germany, the upturn which started in 2006 continued in the year under review. According to figures from the Federal Statistical Office, gross domestic product (GDP) adjusted for prices rose by 2.5 %, after an increase of 2.9 % in the previous year. In addition to the traditionally strong export sector, which contributed more than half of the expansion, growth was supported primarily by a significant increase in corporate investment activities. A stronger increase in GDP was hindered by a downturn in private consumer spending which suffered the consequences of a higher value added tax since the start of the year and was also dampened by sharp increases in the prices of energy and food in the second half of the year. Both factors led to a price increase rate of 2.2 %, which was significantly above the increase in disposable income of 1.6 %.

The provisional figures for Austria show economic growth of 3.4 %, supported by a significant increase in exports (+8 % in comparison to the previous year) and a flourishing construction industry. Austrian industry’s investments in machinery and equipment exceeded last year’s level by over 6 % whereas private consumer spending only rose by a little over 1 % and thus nearly stagnated.

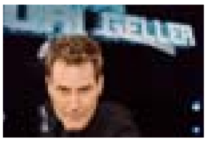
DEVELOPMENT OF THE INDUSTRY SITUATION AND BUSINESS PERFORMANCE IN THE FILM DIVISION

In 2007 too, our subsidiary Constantin’s “five-pillar-strategy” proved to be a proper step towards defending our position on a sustained basis as one of the most important media companies in a highly competitive market. This strategy aims to offset strong revenue fluctuations from the traditionally volatile cinema film business largely with revenues from other areas. To this end, in 2003 Constantin began with a targeted widening of the business base and – in addition to the traditional areas of production and distribution – expanded to make the areas of license trading, TV service productions (especially in TV entertainment) and the own exploitation of video and DVD rights through the existing Highlight distribution structure core businesses. Due to the continually changing requirements of the market, the strategy is implemented very flexibly and adapted on an ongoing basis.

Theatrical production

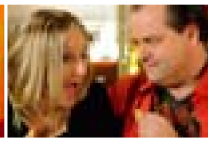
Requirements for audiovisual products will in all probability increase in future. For this reason it is of particular importance to produce high quality films with long-term prospects – both for the domestic and international markets. The profitability of individual productions and their best possible exploitation through all stages of exploitation are of primary importance. Changes and postponements within the exploitation chain over time cannot be excluded. However, these shifts are not expected to have a negative effect.

Amazing mental experiments broadcast live: the prime-time show "The next Uri Geller"



It has won awards and been successful for years: "Clever! – Die Show, die Wissen schafft"

A flagship for evening entertainment at the best broadcasting time: "Die Comedy-Falle"



Principal photography for various major projects completed

With the start of principal photography for a total of ten own and co-productions, Constantin production activities remained at a high level in 2007. The first take for the Constantin major production "Anonyma – Eine Frau in Berlin" was completed at the end of May. The film is based of the diary entries of a female author who remained anonymous up to her death. She experiences the surrender of Germany and the Red Army's conquest of Berlin in 1945. Directed by Max Färberböck, Nina Hoss plays the leading role and is supported by a prominent cast including Juliane Köhler, Sandra Hüller and Jördis Triebel. Principal photography was completed at the start of September; the German theatrical release is planned for autumn 2008.

From the start of July to the end of August, Constantin's subsidiary Rat Pack completed "Die Welle" with Jürgen Vogel in the leading role. The oppressive film adaptation of a real experiment with devastating consequences, undertaken by history teacher Ron Jones in 1967 at the Cubberley High School in California, celebrated its world premiere at the start of 2008 at the prestigious Sundance Film Festival in Park City. "Die Welle" started in German cinemas in the middle of March and was enjoyed by over 1 million viewers after only two weeks.

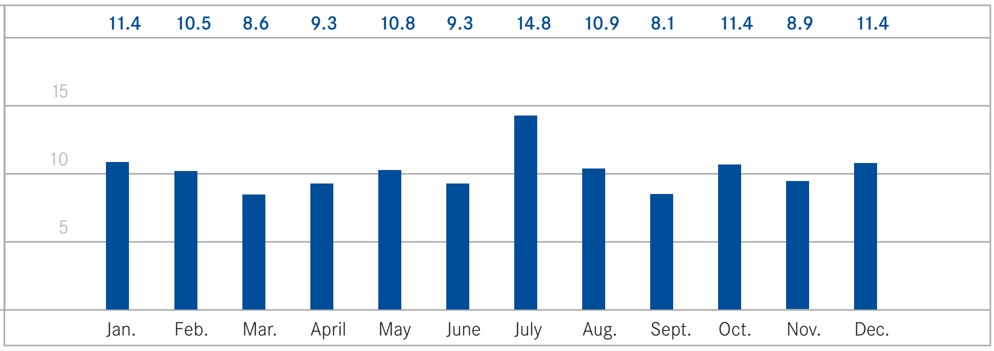
Directed by Uli Edel, principal photography started on Bernd Eichinger's latest major production "Der Baader-Meinhof Komplex" at the beginning of August. The script to this story of the terrorist group, the Red Army Fraction (RAF), who rocked the basic pillars of the Federal Republic of Germany, is based on the non-fiction bestseller of the same name by former "Spiegel" editor-in-chief Stefan Aust. The leading roles were filled by top-class actors such as Moritz Bleibtreu as Andreas Baader, Martina Gedeck as Ulrike Meinhof and Johanna Wokalek as Gudrun Ensslin. But even the supporting cast features an ensemble of star German actors – including Bruno Ganz, Alexandra Maria Lara, Nadja Uhl and the new shooting star Hannah Herzsprung. The film's German release is in autumn 2008.

An important step from a strategic point of view was the closing of a three year first look deal at the start of May with the production company Little Shark Entertainment based in Cologne. The company has been very successful for years with TV and cinema film production activities which include the famous Sönke Wortmann films "Das Wunder von Bern" and "Deutschland. Ein Sommermärchen". The aim of the cooperation between Constantin and Little Shark Entertainment is the joint development, production and exploitation of cinema projects.

TV service production

In the field of service productions, the TV entertainment market has undergone widespread consolidation in recent years, while the market of fictional TV productions is currently still in a phase of consolidation. On account of the intensified cost management among both private and public TV broadcasters, budgets for TV service productions are declining, which is putting sustained pressure on smaller production companies in this area in particular.

Box office admissions in Germany 2007 (in mn)



Source: Filmförderungs-anstalt (FFA)

Expanding Constantin production capacities and successful broadcasts

The Constantin TV service production segment continues to develop very positively. This is shown by the fact that production capacity was once again increased with the forming of PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH. The aim of this joint venture between Constantin and Hamburg-based Polyphon Film- und Fernsehgesellschaft mbH is the development and production of high-quality television plays and entertainment formats. In its first month of establishment, PolyScreen already won a contract from Bayerischer Rundfunk for the production of a new half-hour daily. The series entitled “Dahoam is Dahoam”, of which 200 episodes are planned in the near future, has been successfully broadcast since the start of October as part of Bayerischer Rundfunk’s early evening schedule.

The three-part event “Afrika, mon amour”, produced by the Constantin subsidiary MOOVIE – the art of entertainment on behalf of ZDF also shined with high viewing figures. With the stellar cast of Iris Berben, Robert Atzorn and Matthias Habich, the epic adventure film was watched by over 26 million viewers when broadcast in January 2007. This even exceeded the record set by the TV highlight “Die Patriarchin” from 2005. The seventh episode of the ZDF service production “Kommissarin Lucas” with Ulrike Kriener in the leading role also achieved excellent results in the middle of November. With over 6.3 million viewers and a market share of nearly 21%, the production by the Constantin subsidiary Olga Film achieved the best ratings since the initial broadcast of the crime series.

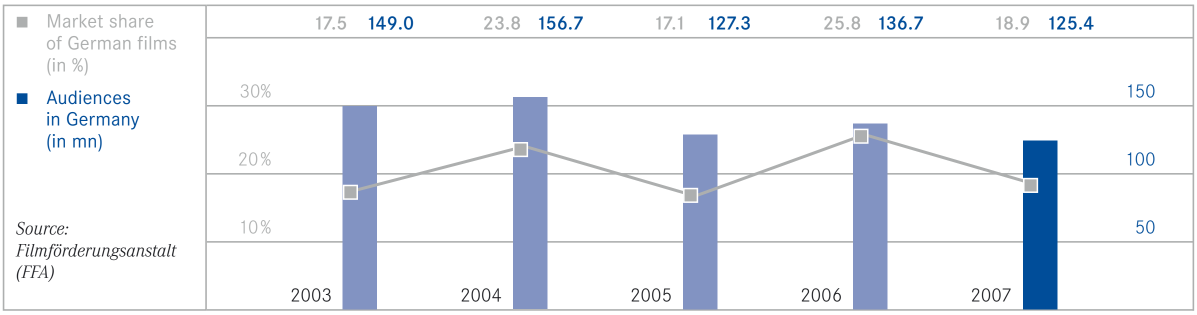
Theatrical distribution

International cinema markets still expanding

The upwards trend in the theatrical industry already apparent in 2006 continued in most countries in 2007. In the largest theatrical market in the world, the USA, various records were broken. With a box office totaling USD 9.7 billion, not only the previous year’s figure was exceeded by nearly 5%, but the previous best from 2002 was also bettered. Moreover, four films achieved the magic box office level of USD 300 million and all six major studios achieved theatrical revenues of over USD 1 billion. The big winner of the year was Paramount Pictures, which increased its revenues by 55% to over USD 1.4 billion – primarily thanks to the DreamWorks titles “Shrek the Third” and “Transformers”.

On foreign markets, the majors recorded an estimated USD 9.4 billion in revenues, thus bettering the previous year’s earnings by 9%. The box office takings for some blockbusters in particular show how important the territories outside North America are for Hollywood studios: for example, “Ratatouille” and “Harry Potter and the Order of the Phoenix” achieved two thirds of their revenues from international box offices and the Bruce Willis sequel “Die Hard 4: Live Free or Die Hard” also attracted significantly more viewers to cinemas abroad than in the USA.

In Europe, Italian cinema operators enjoyed significant growth. 120 million viewers was not only an increase in admissions of 11%, but also the best result since the start of records. Theatrical revenues followed the viewer boom and even rose by 12% to EUR 565 million. A similar positive development occurred in Great Britain. The British box office climbed to a new record level of around EUR 1.2 billion, which is a year-on-year increase of 8% and the number of tickets sold rose by nearly 12% to 175 million.



In France, a decline in visitors of around 5% was reported and Spanish cinemas suffered heavy losses for the third year in succession. The year was also not very pleasing for Swiss cinemas, which shone in 2006 with record earnings. Revenues declined by 14% and admission figures, at a little more than 14 million, were around a million below the lowest level in the last ten years.

Changeable theatrical year in Germany

The German cinema sector did not benefit from the upturn in most international markets. After the major comeback in 2006, things went clearly downhill in 2007. According to analyses from the German Federal Film Board, admission figures sank by over 8% to 125.4 million and were thus below the level of the crisis year of 2005 (127.3 million). Thanks to higher admission prices in comparison to the previous year, revenues only declined by just under 6% and totaled EUR 767.9 million. The figures achieved thus remain significantly below the ambitious expectations, although German distributors experienced a real roller-coaster ride of emotions.

After a solid start in the first two months, a real slump in admission figures was experienced in March and April, which were down by as much as 40% on the figures for the previous year. With the release of “Spider-Man 3”, a catch up ensued from the start of May, driven by a series of US blockbusters. In a relatively short period of time, “Pirates of the Caribbean – At World’s End”, “Shrek the Third”, “Die Hard 4: Live Free or Die Hard” and the crowd puller of the year “Harry Potter and the Order of the Phoenix“ changed places on the screens.

Because each of these releases attracted between 2.6 and 7.1 million viewers to the cinemas, it appeared for a short period of time as if the figures from the previous year would actually be exceeded. However, the budding hopes were destroyed in the last five months, because in this period, there was not a single month which achieved the high level set the year before. The negative admission figures were even not stopped by genuinely successful Hollywood productions such as “The Simpsons Movie” (4.6 million viewers) or “Ratatouille” (5.9 million viewers).

Market share of German productions significantly below the previous year

German productions did not continue on from last year’s success story, although there was no lack of content. A total of 174 domestic films – and thus the same figure as 2006 – had been started and attracted 23.4 million visitors to cinema screens. This corresponds to a market share of just under 19%, and thus a decline of 7 percentage points compared to the previous year. In comparison: The number of US productions was only a little higher at 179 but reported a market share of nearly 71%.

However, it must be taken into account with this analysis that autumn 2006 was a truly golden for German films. This was because the Bernd Eichinger production “Perfume – The Story of a Murderer”, the Sönke Wortmann World Cup documentary “Deutschland. Ein Sommermärchen” and the “7 Zwerge” sequel “Der Wald ist nicht genug” attracted around 13 million viewers to the cinema at the time. This success cannot be recreated at will, as the figures from the past year show. In 2007, only four German productions in total managed to take the million-viewer hurdle, with the sequel “Die wilden Kerle 4” being most successful with just under 2.5 million viewers.

Amusing relationship comedy: “Why Men Don’t Listen and Women Can’t Read Maps”

These figures clearly document that the German cinema market’s results are no longer exclusively dependent on the performance of US blockbusters, but also largely on the quality of domestic products – and these domestic products did not convince viewers last year, save for a few exceptions. Hopes of a change for the better were raised by the furious closing weekend of 2007, which attracted over 3 million viewers to the cinema. The major audience magnet was the Til Schweiger comedy “Keinohrhasen” released at the end of December, which after three weeks attracted more viewers than the most successful German films in the past year and is already heading towards the 6 million mark.

Continued high regard for German films abroad

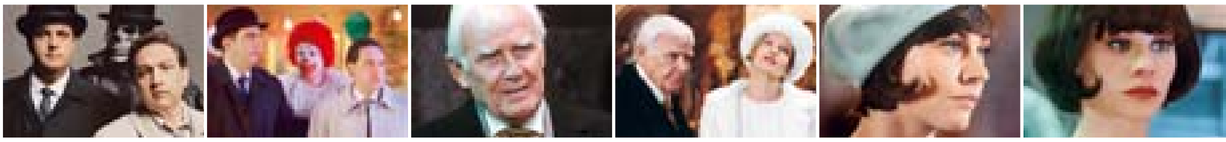
At international level, German films are in demand as never before. The high point for this worldwide recognition came in February, when Florian Henckel von Donnersmarck was awarded with an Oscar® for best foreign language film of the year with his debut film, “Das Leben der Anderen”. After Volker Schlöndorff in 1980 and Caroline Link in 2003, the most important of all film prizes went to Germany for the third time. In the wake of this award, the Stasi thriller became the most successful German film export in US cinemas since “Das Boot”. “Das Leben der Anderen” also received awards in Great Britain: After the best start of all time for a German production, it was awarded a BAFTA for best film not in the English language at the beginning of February 2008.

The German film prize winner “Vier Minuten” also sold well internationally and the German-Turkish director Fatih Akin could not complain about lack of appreciation. After years of German abstinence in Cannes, the Hamburg film maker was invited to the film festival in May 2007 and awarded with the prize of best screenplay for his drama “Auf der anderen Seite”. During the European Film Awards at the start of December, he was awarded the same prize and he received the European Film Award in 2007 for best screenwriter. Furthermore, it is evident that German contributions at many film festivals around the world – from Rome through Park City to Locarno – are welcome guests and have established themselves in all sections.

Constantin is the number 1 independent in Germany

In view of the market weakening, our subsidiary Constantin only released 13 films in German cinemas in the last year. For the nine own and co-productions as well as four licensed films, a total of 8.6 million admission tickets were purchased, which corresponds to a considerable market share of 7.7%. Behind the five major studios, Constantin assured itself confidently in the top position amongst independent distributors. The gap to domestic competitors was again significant: Around a third of all cinema tickets purchased for a German production in 2007 were for films distributed by Constantin.

The exceptional position of our subsidiary is indicated by the fact that five Constantin films were ranked in the top ten of highest selling German productions of the year. With box office takings of nearly EUR 14 million and just under 2.3 million viewers, “Lissi und der wilde Kaiser” was the most commercially successful German film of the year. The first 3D animation film from Michael “Bully” Herbig did not follow on from the impressive results of “Der Schuh des Manitu” and “(T)Raumschiff Surprise: Periode 1”, but again displayed the film maker’s varied talents.



Continuation of the humorous Edgar Wallace parody: "Neues vom Wixxer"

With around 1 million visitors, the Constantin co-production "Die wilden Hühner und die Liebe" met expectations in full. Based on the book series by bestseller author Cornelia Funke, the sequel to the successful "Die wilden Hühner" from 2006 again represented the best of family entertainment. Constantin's own production "Why Men Don't Listen and Women Can't Read Maps" celebrated a similar success at the start of December in German cinemas. The amusing comedy, based on international non-fiction bestsellers by Barbara and Allan Pease, attracted over 900,000 visitors to cinemas by the end of the year and has since exceeded the magic 1 million mark.

Emotional cinema was shown in the Constantin licensed film "La Vie en Rose" – a sensitive homage to Edith Piaf, the greatest chanteuse of all time. Premiered at the Berlinale, the film attracted enthusiastic audiences of over 500,000 in Germany alone. A large part of the success was due to the outstanding acting skills of Marion Cotillard, who was awarded an Oscar® for best actress in a leading role at the end of February 2008 for her brilliant personification of Edith Piaf.

Constantin made an impression on international box offices with its own production "Resident Evil: Extinction" in particular. With worldwide box office takings outside North America of over USD 94 million, the spectacular thriller with Milla Jovovich in the leading role was top of all films not produced by a major studio. Together with the North American box office, the sequel took nearly USD 150 million and became the top-selling part of the "Resident Evil" trilogy.

Home entertainment

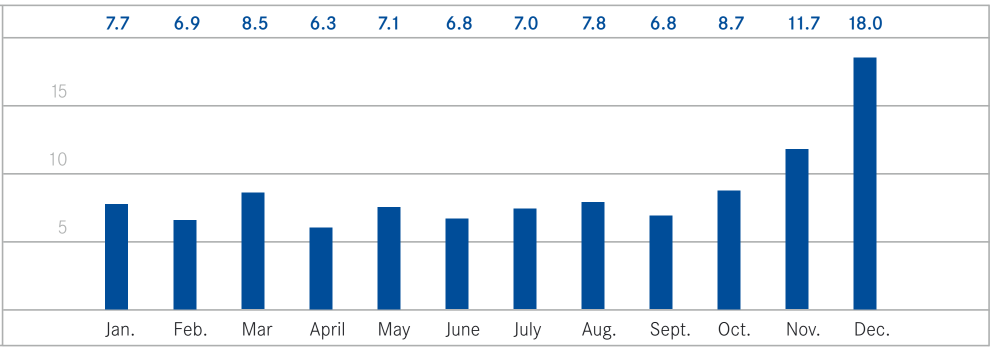
Record sales in the German DVD sell-through market

The international home entertainment market was characterized by very different developments in 2007. For example, total revenues in the USA from DVD sales and rentals declined by 2% to USD 23.7 billion. Whereas the rental market maintained the level from last year at USD 7.5 billion, the sell-through market posted a decline of 3.6%. More significant losses were reported in France. According to provisional figures, revenues from DVD sales declined there by 11% and the number of copies sold moved down by 10%. In the British video market however, the upward trend continued with an increase in volume of over 9% and sales up just under 1%.

The German home entertainment providers also generated positive figures overall. According to analyses by the GfK Group, a consumer research company, the industry achieved total revenues of EUR 1,587 million and exceeded the figure from the previous year (EUR 1,579 million) by 0.5%. In comparison to cinema box office takings, the home entertainment segment generated over twice as much revenue in 2007. Ten years after being introduced to the market, DVD has thus established itself as the undisputed number one level of film exploitation.

The growth was driven once again by the video sell-through market, which set a volume record with 103.3 million DVDs sold. In comparison to the figure from last year (100.8 million units) this corresponds to an increase of 2.5%. Revenues in the sell-through area did not keep pace with the improvement in sales volume with an increase of 1.4% to EUR 1,313 million. The cause for this is a moderate decrease in the average retail price per DVD from EUR 12.85 in the previous year to the current EUR 12.72. In this respect, it is pleasing to note the fact that the era of rapid price erosion which retail still suffered in the previous year obviously belongs to the past.

DVD sales in Germany 2007 (in units mn)



Source: Gesellschaft für Konsumforschung (GfK)

Downward trend in rental business continues

For German rental outlets, 2007 was anything but a good year. After the industry already suffered heavy losses in the previous year, revenues declined again by 3.5%, posting a historical low at EUR 274 million. The same is true for the number of rental transactions, which declined by 2.8% to just under 109 million. In addition to significant structural changes in the industry, this decline is primarily due to a massive loss of customers. Whereas the number of rental customers was 9.7 million in the previous year, it has now dropped by 6.2% to 9.1 million. The most significant downturn by far is among the customer group of 10 to 29 year olds, whose share of rentals exhibited a year-on-year decline from 54% to 50%.

Hopes for an end to the low are provided by the fact that the losses result exclusively from a weak phase in the first four months, whereas accumulated revenues in the rest of the year remain almost exactly at the previous year's level. Moreover, a positive aspect is the increase in rental intensity per rental outlet customer from an average of 11.5 transactions in the previous year to the current 12 rentals. Average spending per DVD rental customer increased by 3.4% to EUR 30, after being EUR 29 the previous year.

Format war over

What worked perfectly for the market introduction of DVDs – namely the agreement of various interest groups on one new common technology – failed for the presentation of the next generation format. Here, two camps were competing for consumers' favor from the start with different technologies. On one side, the electronics giant Toshiba publicized the High Definition DVD (HD DVD) format together with Microsoft and some other companies. On the other side, the Sony group promoted its technically superior Blu-ray standard. Sony was supported by various consumer electronics manufacturers such as Panasonic and Samsung, as well as the computer companies Dell and Apple.

The competition between the two formats, which lasted over two years in the end, divided the major US studios into various fractions. In the Blu-ray camp, Sony Pictures, 20th Century Fox and Disney were present from the start, whereas Paramount and Universal opted for HD DVD. In contrast, Warner Brothers adopted a two-pronged strategy and published its new releases on both formats.

This stand-off situation strongly worried consumers in particular and damaged the home entertainment industry heavily. Neither Blu-ray nor HD DVD was able to develop into a mass market product. For example, in Germany last year only around 40,000 playback units for both formats were sold and in the USA too, there tended to be little readiness to purchase a high definition player. According to a survey, less than 10% of the American population planned to buy such a device in the first half of 2008.

The misery was ended sooner than expected, after the Toshiba group announced in the middle of February that it was stopping production of HD DVD players for good. This surprising development was triggered by Warner Brothers. The second largest US film group according to theatrical revenues in 2007 decided at the start of January to release new titles in Blu-ray format only. With this, a two-thirds majority of Hollywood studios were behind Blu-ray and it already seemed clear at this point which of the two formats would prevail in the end to exploit the undoubtedly large potential present.

Nostalgic comedy about a Bavarian bobsled team: “Schwere Jungs”

This was borne out by the fact that the Sony variant found more and more influential allies. The largest US electronics chain “Best Buy” announced that it would recommend Blu-ray to its customers and the not-insignificant Wal-Mart group announced that it would remove HD DVD from its range from July onwards. The Highlight Group also reached a decision in relation to this at the start of January and released all high definition Constantin titles since March exclusively in the Blu-ray format.

Highlight Group widens its market position

In 2007, the Highlight Group continued to assert its leading position in the German-speaking region with strong new DVD releases and a steadily growing library. In Austria and Switzerland, our Rainbow distribution companies increased market share to around 18% in each country and we also increased it again in Germany. Together with our sales partner Paramount Home Entertainment, we achieved a market share of 10% in the DVD sell-through market, after being 8% the previous year. In the rental market, we even increased our overall market share of 10% in 2006 to 11%.

Our most successful product by far was the home cinema version of Bernd Eichinger’s production “Perfume – The Story of a Murderer”. Delivered to retail outlets in the middle of March 2007, 300,000 copies were sold already in the first two weeks. The visually stunning film adaptation of Patrick Süskind’s bestseller thus took the number 1 spot in the charts in Germany, Austria and Switzerland. By the end of the year, sales had exceeded 800,000 units which made “Perfume” the best-selling German production of 2007.

As expected, the DVD release of the Mel Gibson drama “Apocalypto” was also successful, while its theatrical release was heavily impacted by an “18” certificate. Since the sales launch at the end of May 2007, more than 280,000 copies of the cinematic reworking of the downfall of a Mayan culture were sold. Even more pleasing figures were achieved by the racy dance film “Step Up”, which we released on DVD at the start of February. With around 380,000 units sold, the Constantin licensed film became a genuine surprise hit.

The fact that feature film DVDs can still sell well without prior theatrical exploitation we demonstrated impressively with “Lucky Number Slevin” (sell-through start at the end of January 2007). By the end of 2007, nearly 230,000 copies of the thriller comedy with Josh Hartnett, Bruce Willis and Morgan Freeman had been sold. With this sales success, “Lucky Number Slevin” reached number 1 of 2007 straight-to-video releases in Germany.

We also provided a number of new releases for the DVD TV product market segment, which is still growing strongly (share of revenue in the German sell-through market of 24% in 2007). For example, the three-part event “Afrika, mon amour”, produced by the Constantin subsidiary MOOVIE – the art of entertainment for ZDF, appeared on DVD directly after the successful television broadcast of January 2007. At the end of March, we brought “ProSieben Märchenstunde – Volume 5 und 6” to the market – a TV production by the Constantin subsidiary Rat Pack. In this humorous parody of classic fairy tales, Sonja Kirchberger, Mathieu Carrière, Jasmin Tabatabai and Gudrun Landgrebe demonstrate their comedy talent. For crime fans we also brought to the home cinema the first four episodes of the cult ZDF series “Nachtschicht”, starring Katharina Böhm and Armin Rohde in the leading roles.

Second adventure for the perky gang of girls: “Die wilden Hühner und die Liebe”

The Highlight Group was also impressive in terms of quality. After our DVD production “Der Räuber Hotzenplotz” already received the DVD Champion in the Family Entertainment category in 2006, this prize was again awarded to us in 2007 for “Die wilden Hühner und die Liebe”. The conception, choice of extras and perfect tailoring to the interests of the target youth audience were praised in particular.

License trading/TV exploitation

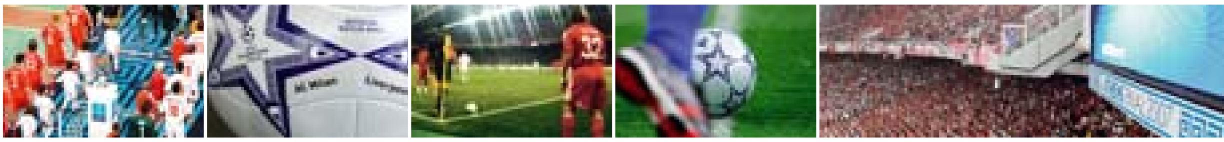
According to calculations by the media and advertising research company Nielsen Media Research, gross advertising investment in the overall media market rose to EUR 20.9 billion in 2007. In comparison to the previous year, this represents an increase of 3.7%, which means that the advertising market grew for the fifth year in succession. With a total of EUR 8.7 billion, the television business again achieved the highest advertising revenues and realized growth of 5.2% in comparison to 2006.

Even so, cost pressure on TV broadcasters remained high in the previous year too, which led in part to a reduction of productions and budgets – especially for German own productions and license purchases. Furthermore, especially in the case of private broadcasters, a shift towards international TV series took place in the last few years which led to budget cuts for feature films. Moreover, the German cinema product generally has a tough time impressing TV audiences if the film was not a blockbuster at the box offices. This is because the distinction between these and high-quality TV events is narrowing because even average German TV movies are of a very high standard.

Constantin continues cooperation with Premiere

It can thus be judged as very positive that the Constantin subsidiary Constantin Film Verleih extended the existing general licensing agreements at the start of February 2007 with Premiere Fernsehen GmbH & Co. KG (Disney Channel) by two years. With this agreement, Premiere secured the German pay TV rights to all of Constantin’s own and co-productions whose principal photography starts before December 31, 2008. This primarily includes the cinema successes “Perfume – The Story of a Murderer”, “Hui Buh – Das Schlossgespenst” and “Why Men Don’t Listen and Women Can’t Read Maps”. In a second contract, Premiere also acquired the rights to various international Constantin licensed films such as the action thriller “Michael Clayton”, the fantasy adventure “Bridge to Terabithia” or the horror shocker “The Grudge 2”.

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



DEVELOPMENT OF THE INDUSTRY SITUATION AND BUSINESS PERFORMANCE IN THE SPORTS AND EVENT MARKETING DIVISION

Global media trends – increasing platform convergence

Convergence of media platforms continues apace. In particular, the increasing availability of internet access via the existing cable TV network is bringing television and the internet ever closer together. As a result, it is now virtually impossible to define the boundaries between these two media. Added to this is a series of mobile transmission channels that deliver content to end users who, in turn, play back this content on a variety of terminal devices such as televisions or PCs.

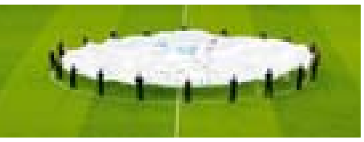
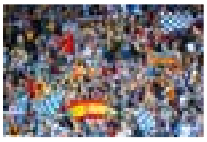
In response to the growing competition, the traditional TV channel providers have developed three strategies, which they are systematically implementing.

1. Investments: In market segments where they occupy a dominant position with respect to new media providers – such as telecommunications groups or cable network operators – the conventional broadcasters are establishing their own and online mobile services.
2. Cooperation: In segments in which new media providers – such as Google/YouTube or Apple/iTunes – have already established a strong market presence, the broadcasters are focusing on cooperation and are deploying their platforms to make their own content accessible to new target groups.
3. Quality: From a technological perspective, High Definition TV (HDTV) and the increasing trend towards digitization offers the TV channel providers the possibility of setting themselves apart from the competition on the basis of higher quality standards. On the other hand, high-quality and exclusive content is becoming an increasingly important means of providing viewers with tangible value added.

For events with a significant public impact, such as the UEFA Champions League, television remains the most important medium, which will also have a dominant role to play in the future when it comes to marketing sports licenses. In addition, the new mobile and online media platforms are establishing themselves in some cases as complementary as well as alternative distribution channels. This trend was widely anticipated by the media partners of the UEFA Champions League and it is the reason behind their increasing focus on a “multi platform strategy” that involves transmitting their traditional TV content across all distribution channels (TV, online and mobile broadcasting).

Internationally renowned sports events such as the UEFA Champions League or the UEFA Cup are profiting notably from these developments as fans are now being reached by the new media in greater numbers than ever before. In a constantly evolving TV market, it is primarily the Internet and mobile services that are providing the media companies with further growth opportunities and new, profitable business models.

On this basis, premium sports licenses can also continue to deliver increased value through worldwide marketing because they are attractive crowd pullers for every media company. The accompanying intensified competition between telecommunications groups, cable network operators and Internet service providers will further strengthen the dominant position of these kinds of first-class sports licenses.

Enthusiastic fans and packed stadiums demonstrate the high attractiveness of the competitions.

Centralized marketing of the entire UEFA Cup from 2009/10

Following UEFA's 2006 decision to market the final stages of the UEFA Cup for the 2006/07 to 2008/09 seasons centrally via TEAM, the marketing activities at our subsidiary were initially focused on this long-established competition. TEAM successfully sold the TV rights to a total of 80 broadcasters, thus ensuring the live transmission of the quarter-final and semi-final encounters as well as the final in around 200 countries worldwide. TEAM also succeeded in signing up Danish brewing group Carlsberg as the "presenting sponsor" for the UEFA Cup.

Due to this marketing success and the very positive outlook, in November 2007 UEFA announced its intention of expanding the centralized marketing of European club football's second most important event, the UEFA Cup, to include the entire competition beginning in the 2009/10 season. This expansion, which will undoubtedly enhance the importance of the UEFA Cup, will also see TEAM's marketing mandate extend from the current 13 to all 205 games.

Successful operating activities: Focus on UEFA Champions League, UEFA Cup Final and UEFA Super Cup

At operating level, our subsidiary once again successfully demonstrated its extensive expertise for major sports events. The starting point was the UEFA Cup Final between Sevilla FC and RCD Espanyol Barcelona held on May 16 in Glasgow – marking the first time in the history of the competition that two Spanish clubs had faced each other in the championship decider.

This was followed a week later by the highlight of the 2006/07 European club football season when AC Milan and Liverpool FC played in the impressive Olympic stadium in Athens to determine the winner of the UEFA Champions League. In addition, TEAM was also responsible for marketing and implementing the TV rights to the U-21 European Championship for national teams, which was staged from June 10 to 23 in the Netherlands.

Thanks to television broadcasts worldwide, all three events garnered enormous attention with the UEFA Champions League Final in particular generating outstanding viewing rates. For example, around 13 million Italian TV viewers tuned in, while the figure for Great Britain was almost 11 million.

In keeping with tradition, the 2007/08 European football season opened with the UEFA Super Cup game between UEFA Champions League winners AC Milan and the winner of the UEFA Cup, Sevilla FC, in Monaco at the end of August. The draw to determine the groups in the UEFA Champions League was held the evening before the match. The opening game of the 16th UEFA Champions League season then took place on September 18; the final will be played on May 21, 2008, in Moscow.

Europe is a guest in Helsinki, the competition venue for the 2007 Eurovision Song Contest

Extension of the marketing of the Eurovision Song Contest

Another key date on the event marketing calendar was the Eurovision Song Contest, which has now been marketed exclusively by TEAM on behalf of the European Broadcasting Union (EBU) since 2004. The contest, which took place in Helsinki in the middle of May, celebrated its 52nd year and once again lived up to its reputation as the leading pan-European music event. This year's total of 42 participating countries not only set a new record, but the contest venue filled with almost 12,000 spectators was also completely sold out.

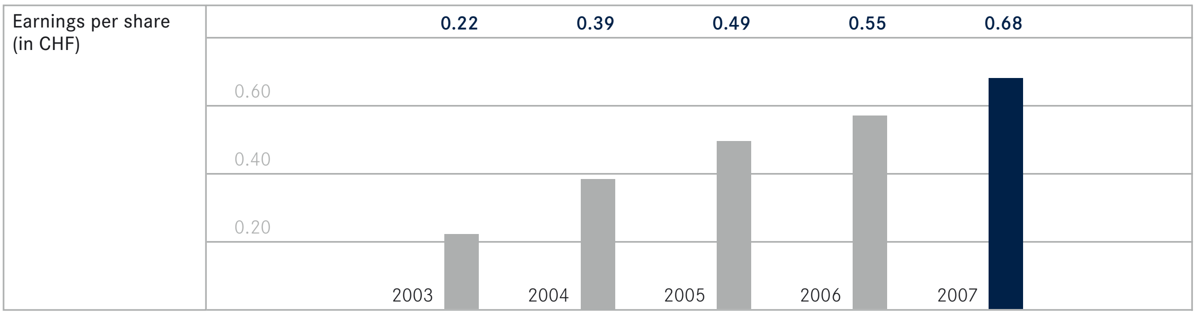
In addition, roughly 2,500 accredited media representatives from all over the world guaranteed comprehensive coverage of the event. Viewer interest was also at a correspondingly high level with the live transmission of the grand final yet again achieving extraordinarily high ratings in many European countries. Finland, for example, reported an average market share of 83% while the figure for Sweden was only marginally lower at 82%. In Germany, the event attracted a television audience of up to 8.9 million fans.

For TEAM, the event represented yet another chapter in a successful history as the EBU marked the event by announcing its intention to extend the existing marketing partnership until 2012. Consequently, TEAM will have exclusive responsibility for marketing this long-established event worldwide for a further five years.

Marketing agreement with the Vienna Philharmonic

At the end of May 2007, TEAM also successfully concluded negotiations regarding yet another prestigious project. Our subsidiary signed a multi-year cooperation agreement with the world-famous Vienna Philharmonic, which was named Europe's finest orchestra in 2006. This mandate allows TEAM to further expand its successful activities in the music area. The long-term objective of this cooperation is to develop the Vienna Philharmonic "brand" on the one hand while implementing innovative concepts to promote classical music in general on the other.

However, the central focus of the partnership with the Vienna Philharmonic will be the global marketing of the orchestra's two most important concerts from 2009. First and foremost, this relates to the long-established New Year's Day Concert, which is now broadcast in around 50 countries and will next year be under the direction of renowned star conductor Daniel Barenboim for the first time. The second highlight to be marketed by TEAM in future is the open-air concert held in the grounds of Schönbrunn Palace. The event, which takes place against the impressive palace backdrop, was first staged in 2004 and has thrilled more than 350,000 visitors since then.



RESULT OF OPERATIONS, FINANCIAL AND NET ASSETS SITUATION OF THE HIGHLIGHT GROUP

The comparative figures for the previous year used to illustrate the development of the Group have been adjusted in accordance with the changes to accounting policies and corrections outlined in the notes to the consolidated financial statements (see notes to the consolidated financial statements, Note 2.1). This enables a comparison to be made between the figures for the previous year and the figures for the year under review.

RESULT OF OPERATIONS

2007 fiscal year concluded with another earnings upturn

In a difficult environment, the Highlight Group concluded the 2007 fiscal year with another earnings increase. Net consolidated earnings (Highlight shareholders) increased by 19.0% to CHF 30.7 million (previous year: CHF 25.8 million). This resulted in earnings per share of CHF 0.68 (EUR 0.41), which is significantly above target (EUR 0.36 to 0.38) and the previous year's figure of CHF 0.55 (EUR 0.35).

Group revenues decline slightly

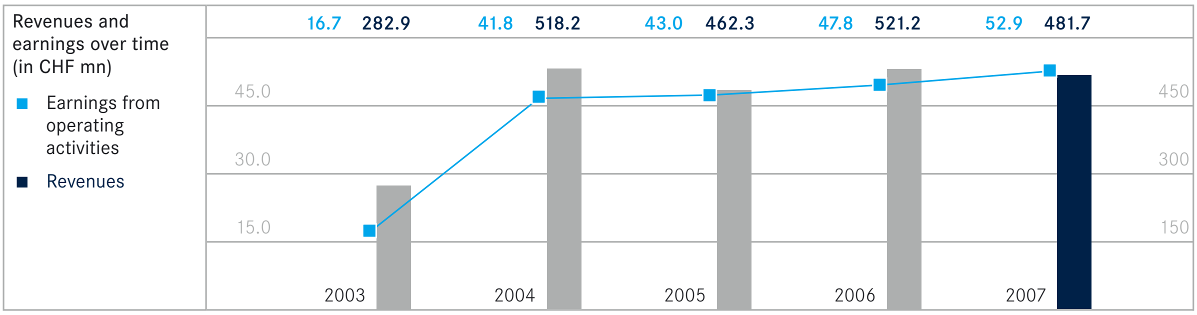
Due to the above-mentioned change in accounting policies, Group revenues were CHF 481.7 million; slightly under the announced guidance of CHF 500 million to CHF 520 million. In comparison to the (adjusted) record value of the previous year (CHF 521.2 million), influenced by the cinema hit "Perfume – The Story of a Murderer", there was a 7.6% decline in revenues.

License income went back from CHF 138.6 million in the previous year to CHF 110.4 million this year, a decline of 20.3%. This primarily includes revenues from theatrical distribution, which declined in the year under review as the theatrical releases in 2007 with films such as "Why Men Don't Listen and Women Can't Read Maps", "Neues vom Wixxer" or "Die wilden Hühner und die Liebe" did not match the performance of "Perfume" from the previous year.

License income also includes income from the licensing of TV rights to broadcasters. Revenues from such licensing of cinema films are only realized upon the expiry of the statutory or contractual holdback period (pay TV: 15 to 18 months after theatrical release, free TV: 24 to 32 months). In the year under review, revenues were generated with titles such as "Mädchen Mädchen 2", "Resident Evil: Apocalypse" and "Napola".

The generally successful exploitation in home entertainment led to a marked increase in revenues of around 40.7% in comparison to the previous year. This success is primarily due to the DVD release of strong cinema films from 2006 such as "Perfume" and "Hui Buh – Das Schlossgespenst". Furthermore, individual titles from the 2007 cinema slate which have already been released on DVD performed well. This primarily relates to "Fantastic Four — Rise of the Silver Surfer" and "Die wilden Hühner und die Liebe", but also third-party productions such as "Step Up" or "Apocalypto".

Service income, which declined from CHF 273.7 million in the previous year to CHF 255.5 million this year, includes revenues from the Sports and Event Marketing division as well as revenues from the marketing of service productions. This includes the TV produc-



tions by Constantin's subsidiaries Olga Film GmbH, MOOVIE – the art of entertainment GmbH, Rat Pack Filmproduktion GmbH and Westside Filmproduktion GmbH as well as significant revenues from the marketing of non-fictional productions by Constantin Entertainment GmbH.

Earnings from operating activities increased to CHF 52.9 million

On the cost side, consolidated expenses declined by 9.3% to CHF 432.3 million in comparison to the previous year (CHF 476.4 million). The most significant reductions were for license expense (CHF –21.1 million) as well as merchandise and production expense (CHF –39.9 million). Due to the fact that cost reductions were proportionately higher overall than the decline in revenues, earnings from operating activities rose by CHF 5.1 million from CHF 47.8 million in the previous year to CHF 52.9 million this year.

Earnings for Highlight shareholders improved by 19.0% to CHF 30.7 million

Taking into account the negative net financial result of CHF 6.0 million, a foreign exchange loss of CHF 1.1 million and after deducting taxes of CHF 12.0, net consolidated earnings for the 2007 fiscal year amounted to CHF 33.8 million, up by 18.6% in comparison to the previous year (CHF 28.5 million). CHF 30.7 million (previous year: CHF 25.8 million) of these earnings are for Highlight shareholders and CHF 3.1 million (previous year: CHF 2.7 million) are for minority interests.

Development of divisions positive but varied

Both Highlight Group divisions displayed various developments in the year under review. The Film division generated revenues of CHF 402.4 million and thus remained below the figure from the previous year (CHF 445.1 million) by 9.6%. In contrast, earnings for the division only declined by CHF 0.7 million from CHF 22.2 million in the previous year to CHF 21.5 million this year. The reason for this development are the very good earnings resulting from fictional and non-fictional TV entertainment as well as the exploitation of video/DVD marketing and licensing of TV rights to broadcasters. The previous year's success in theatrical release could not be repeated.

In the Sports and Event Marketing division, service income could be increased by CHF 3.2 million from CHF 76.1 million to CHF 79.3 million, a growth of 4.2%. This increase is primarily due to the successful sale of commercial rights to the UEFA Champions League for the 2006/07 to 2008/09 seasons and the additional marketing of the quarter and semifinals of the UEFA Cup. These revenues also affected the division's earnings, which rose significantly by 24.2% from CHF 30.6 million to CHF 38.0 million.

Highlight Group restructuring will continue in 2008 fiscal year

The restructuring of the Highlight Group resulted in new holding tasks and agreements, which led to an increase of holding company costs from CHF 5.0 million in the previous year to CHF 6.7 million this year. The restructuring will continue in the 2008 fiscal year. However, the higher revenues and the resulting rise in earnings in the Sports and Event Marketing division draw attention to the fact that the Highlight Group as a whole continues to enjoy stable development.

FINANCIAL SITUATION

Increasing liquidity and high net cash inflow

As at December 31, 2007, cash and cash equivalents in the Highlight Group amounted to CHF 200.5 million, an increase of CHF 24.1 million as against the previous year (CHF 176.4 million). This level of cash and cash equivalents is offset by liabilities subject to interest and loans of CHF 317.0 (previous year: CHF 296.4 million). This results in net debt of CHF 116.5 million, which declined by CHF 3.4 million in comparison to the previous year (CHF 119.9 million).

The Highlight Group achieved a net cash inflow from operating activities of CHF 190.2 million and thus a significant increase of CHF 75.8 million in comparison with the previous year (CHF 114.4 million). Significant factors for this development were changes in net current operating assets which were primarily due to an increase in liabilities (CHF 17.1 million) as well as advance payments received (CHF 26.6 million).

Net cash outflow from investing activities increased in comparison to the previous year by CHF 8.9 million to CHF 133.1 million. Significant factors here were investments in film assets which came to CHF 113.0 million in the year under review, thus exceeding the figure from the previous year by CHF 11.3 million. A net cash outflow of CHF 37.5 million resulted from financing activities (previous year: CHF 25.8 million), which primarily resulted from an increase in the amount of treasury shares.

External sources of financing ensure further liquidity

As external sources of financing, the Highlight Group uses credit facilities with variable interest rates; these are partially utilized. As internal sources of financing, there are principally only inflows from operating activities. Due to the present level of cash and cash equivalents and credit facilities available, the Highlight Group was in a position to fulfill its payment obligations at all times during the year under review.

Rising interest rates could have a negative impact on the result of operations, financial and net assets situation of the Highlight Group as it relies heavily on external finance. Hence, the interest rate risk is monitored and managed very precisely.

The EUR/CHF exchange rate developed in favor of the euro in the 2007 fiscal year. This was an advantage to the Highlight Group in various operating areas, though this is diluted by calculating earnings per share in euro.

The EUR/USD exchange rate development did not have any material impact as the Group had hedged identified and secure future incoming and outgoing payments in foreign currency with currency forwards. However, no guarantee can be made that the hedging measures taken by the Group will necessarily be successful.

NET ASSETS SITUATION

Total assets increased by 11.8 % to CHF 690.5 million

As against the previous year (CHF 617.8 million), total assets of the Highlight Group rose significantly by CHF 72.7 million to CHF 690.5 million. On the assets side of the balance sheet, significant increases occurred in film assets (CHF 26.4 million), in current receivables (CHF 15.3 million), in other financial assets (CHF 12.0 million) as well as in cash and cash equivalents (CHF 24.1 million).

Film assets increased to CHF 301.3 million as at December 31, 2007

Investments in film assets in the year under review amounted to CHF 113.0 (previous year: CHF 101.7 million). This primarily included production costs for own and co-productions such as “Der Baader-Meinhof Komplex”, “Anonyma – Eine Frau in Berlin”, “Asterix at the Olympic Games” and “Die Welle” as well as the minimum guarantees for third-party productions such as “La Vie en Rose”, “Michael Clayton” or “Lissi und der wilde Kaiser”. After deducting amortization of license rights of around CHF 112.1 million (previous year: CHF 133.3 million), film assets amounted to CHF 301.3 million as at December 31, 2007 (previous year: CHF 274.9 million). CHF 227.8 million (previous year: CHF 179.1 million) of this related to in-house productions and CHF 73.5 million (previous year: CHF 95.8 million) to third-party productions.

Increase in liability items

Significant increases of liabilities on the balance sheet related to the area of current liabilities. Here, trade payables and other liabilities rose by CHF 26.4 million, liabilities subject to interest by CHF 25.7 million and advance payments received by CHF 29.6 million.

Adjusted equity ratio at 22.4 % as at December 31, 2007

Consolidated equity (including minority interests) declined slightly in comparison to the figure at the end of last year (CHF 87.6 million) by CHF 4.6 million to CHF 83.0 million as at December 31, 2007. In relation to total assets, there is a calculated equity ratio of 12.0 %, after 14.2 % in the previous year. After netting cash and cash equivalents with liabilities subject to interest and film assets with advance payments received, the adjusted equity ratio as at December 31, 2007 was 22.4 % (previous year: 24.9 %). For more detailed information we refer to the consolidated statement of changes in equity schedule in the consolidated financial statements (pages 56 and 57).

OTHER IMPORTANT EVENTS AND DEVELOPMENTS IN THE FISCAL YEAR

Changes to the shareholder structure

On September 26, 2007, EM.Sport Media AG, Ismaning, announced in an ad hoc disclosure that EM.Sport Media AG had agreed with KF 15 GmbH & Co. KG on the acquisition of a strategic investment of up to 36.4% in Highlight Communications AG.

As part of this ad hoc disclosure, the following material changes in the shareholder structure were announced in the third quarter:

Drueker GmbH & Co. KG, Frankfurt, notified us that on September 24, 2007, its share of voting rights fell below the 25%, 20%, 15%, 10%, 5% and 3% thresholds and that it has held no voting rights from this date.

KF 15 GmbH & Co. KG, Munich, notified us that it exceeded the threshold of 30% of voting rights on September 24, 2007. Its share of voting rights is now 36.58%.

In addition, MarCap Investors L.P., USA, notified us on November 13, 2007 that its share of voting rights in Highlight Communications AG exceeded the 3% and 5% thresholds. Its share of voting rights is now 9.06%.

In November 2006, The Highlight Group had acquired an option to purchase 5,693,089 shares in EM.Sport Media AG (previously: EM.TV AG), held by Constant Ventures II Luxembourg S.A. In November 2006, the Highlight Group had acquired an option to purchase 5,693,089 shares in EM.Sport Media AG (formerly: EM.TV AG), held by Constant Ventures II Luxembourg S.A. ("Constant"). The option premium was EUR 0.40 per option share. The option had a term until October 1, 2007 and allowed Highlight to acquire the shares described above for a price of EUR 4.00 per share. From December 1, 2006, Highlight exercised the voting rights of the option shares through a proxy. Highlight has not exercised the option granted to it by Constant Ventures II Luxembourg S.A. to acquire 5,693,089 shares in EM.Sport Media AG.

On December 28, 2007, Constant Ventures II Luxembourg S.A. exercised its right to the above-mentioned option and acquired 500,000 shares in Highlight at a price of EUR 6.20 per share from Highlight's treasury shares.

Further events were reported relating to Constantin Film AG.

For details of the changes to scope of consolidation of the Highlight Group, we refer to the notes to the consolidated financial statements (Note 34).

PERSONNEL REPORT

As at December 31, 2007, the Highlight Group employed 487 people (432 as at December 31, 2006). Employees on non-permanent, project-related contracts have been included in this total figure if the remaining term of their contracts was at least six months on the reporting date.

The Board of Directors is responsible for Group management contracts and thus determining the remuneration for Group management in particular. The Board of Directors and the Compensation Committee in particular sets out the structure of the remuneration system for Group management and reviews this on a regular basis. The criteria for establishing an appropriate remuneration are primarily the duties of the respective member, his personal performance, the performance of all members of Group management as well as the Company's economic situation, taking the competitive environment into account.

For more detailed information on the remuneration of members of the Board of Directors and their related parties, we refer to the notes to the consolidated financial statements (Note 37).

REPORT ON OPPORTUNITIES AND RISKS

Highlight Group's risk management system established in recent years continues to be developed on an ongoing basis. It is based on a standardized monitoring system which enables developments jeopardizing the Company to be recognized early and enables measures to counter these to be adopted in time. The assessment of the opportunities and risks facing the Highlight Group has not changed significantly as against the assessment in the annual financial statements for 2006.

INDUSTRY-SPECIFIC OPPORTUNITIES AND RISKS IN THE ACQUISITION AND EXPLOITATION OF FEATURE FILMS

Changes in purchase and sales markets require flexibility

The success in the distribution of in-house and third-party titles is dependent on a number of industry-specific risks. Their probability of occurrence and the resulting effects on the financial state and earnings of the Highlight Group are difficult to estimate. The risks can occur as a result of a changed market situation on the part of the exploiters of rights in the area of cinema, video/DVD and TV. In this way, changes to the media laws and the advertising market as well as the structure of forms of TV broadcasting (pay TV, TV on demand) can influence the exploiter's selection of films and TV broadcasters' program schedule and purchasing policy.

Changes in consumer behavior and consumer taste can also cause market adjustments by the rights exploiters. Finally, the strong trend of concentration with TV channels could lead to changes in the sales markets. The trend of concentration is strengthened by the initial tendencies towards digital distribution over the Internet. Online shops have been active for some time. However, they have only generated marginal revenues. With the increasing widespread availability of sufficient bandwidth for downloading and streaming, these forms of distribution will become more attractive. The first big players are starting to work on this market. Here, a competitor to pay TV in particular can emerge in the medium to long-term.

In terms of marketing, the Highlight Group has been working directly with TV broadcasters since 2004; the home entertainment market is also worked with directly. As a result of this expanded value chain, the risks increase for the Highlight Group on the one hand. However, on the other hand the opportunities for earnings increase considerably. In this area, the Highlight Group benefits from excellent connections its subsidiary Constantin has with TV broadcasters as well as synergy effects realized within the Group.

Strong concentration movements influence purchase markets. Whereas independents merely produce and are dependent on sales partners for marketing, the majors possess their own worldwide distribution channels in addition to their film studios. Furthermore, the emergence of new competitors and the resultant increase in competitive pressure is likely to lead to an impairment of the market situation. In this context, it must be mentioned that the majors are increasingly purchasing German productions and thus positioning themselves as competitors for local products on the purchasing market.

The Highlight Group reaffirmed its solid market position even in a difficult market environment and achieved high awareness levels through its subsidiary Constantin. In the future it will also be in a position to adapt flexibly to changed competitive environments. However, there is no guarantee that changed competitive environments or possible pay disputes will not have an unfavorable effect on the business situation, financial state and earnings of the Company.

Increasing levels of piracy can lead to significant declines in revenue. The rise in illegal copies is likely to have the effect of reducing the number of cinemagoers and reducing license fees for home entertainment and TV exploitations of films. The raising of viewers awareness and the expansion of legal Internet content as well as the support of various interest groups are measures which the Highlight Group has already taken. These measures, together with rigorous prosecution of offenders, have made an important contribution to the fight against piracy in 2007.

OPERATING OPPORTUNITIES AND RISKS FOR IN-HOUSE PRODUCTIONS

Partial advance financing of the production budget necessary

Own and co-productions of cinema and TV films as well as their marketing are cost-intensive and involve financial risk. The production costs of an average German cinema film are between EUR 3 and 7 million; international films can be a multiple of this. Part of these costs must be financed in advance by the Highlight Group because the respective budget can not be covered by co-production contributions and funds from film grants. Due to the large amount of funds required for a production, the partial or complete failure of individual film projects is likely to have significant disadvantages on the business situation, financial state and earnings of the Group.

In addition, there can be budget overruns during the production of a film; the costs of this are borne by the Group. Thanks to experience in the production of films, the Highlight subsidiary Constantin has generally managed to cover production costs with the exploitation revenues in the past. Furthermore, Constantin kept film production within the time and financial planning and largely avoided the occurrence of unplanned costs or provided protection against these with appropriate insurance. However, the Highlight Group can not provide a guarantee that it will only realize successful film projects in the future. For TV productions, similar formats are produced worldwide. This results in the risk of format rights disputes in the industry which also affect the Highlight Group, which is why it has taken appropriate precautionary measures.

At the end of 2006, the German Federal Film Fund (DFFF), initiated by Federal Government Commissioner for Culture and the Media Bernd Neumann, was established. These make funds totaling EUR 180 million available to refund production costs for films which fulfill certain criteria up to the end of 2009. This will have a positive effect on the film production landscape.

For two Constantin Film AG in-house productions there are legal disputes with an external distributor. Constantin Film AG and its legal partner concur that no utilization is threatened from these legal disputes. In the area of non-fictional service production, there are risks from the dependence on a single station and its future alignment.

OPERATING OPPORTUNITIES AND RISKS IN SPORTS & EVENT MARKETING

Rights marketing benefits from increasing media diversity

For live events, such as the UEFA Champions League, television is and remains the most important medium and will also have a dominant role to play when it comes to marketing sports licenses. In addition, the new mobile and online media platforms are establishing themselves in some cases as complementary and also competing distribution channels. This trend was widely anticipated by the media partners of the UEFA Champions League and it is the reason behind their increasing focus on a multi platform strategy that involves commercializing their traditional TV content across all distribution channels (TV, online and mobile broadcasting).

Internationally renowned sports events, such as the UEFA Champions League and the UEFA Cup benefit particularly from these developments. Because never before have so many fans been reached by the new media as today. In a constantly evolving TV market, Internet and mobile services provide media companies with further growth opportunities and new, profitable business models.

Football is watched worldwide and is the most significant and attractive sport. Around 60% of the world's population are football fans, in all demographic groups. The UEFA Champions League thus aims for a level of customer awareness which is practically unsurpassable at 90%.

The dependency of TEAM on a customer such as UEFA is significant, but previous success and the positioning of the company in the market as well as the targeted strategic orientation towards the European Football Association justifies this situation. The new mandate from UEFA to market the commercial rights of all 205 UEFA Cup games starting with the 2009/10 season is in any case a further sign of the established relationship with UEFA.

However, the shares in Team Holding AG are encumbered by a call option. The risk is that this call option can be exercised if a person or group acquires Highlight shares accounting for more than 50% of the voting rights.

FINANCIAL RISKS

Derivative financial instruments hedge interest and currency risks

The material financial instruments used by the Highlight Group include – with the exception of derivative financial instruments – bank overdrafts, bank loans, trade payables and other liabilities. The objective of these financial instruments is financing the Group's operating activities. The Group possesses financial assets such as trade receivables, cash and cash equivalents and other financial assets which result directly from its operating activities.

In addition, the Highlight Group also deploys derivative financial instruments. These instruments are used primarily to hedge against interest and currency risks which result from the Group's operating activities and its sources of funding. The Group's business and financing activities expose it to a variety of financial risks. The most significant financial risks for the Group result from changes in foreign currency exchange rates, interest rates, liquidity as well as credit standing and solvency of the Group's counterparties.

For details of the Highlight Group's financial risks, we refer to the notes to the consolidated financial statements (Note 4).

EVENTS AFTER THE BALANCE SHEET DATE

EM.Sport Media AG increases its stake in Highlight

On March 31, 2008, EM.Sport Media AG announced that it had acquired a further 5.33 million shares in Highlight Communications AG. The shares were sold by KF 15 GmbH & Co. KG, Munich. EM.Sport Media AG's stake in Highlight Communications AG thus increases from 26.3% by 11.3% to 37.6%. EM.Sport Media AG plans to further increase its stake in Highlight Communications AG.

As was announced, EM.Sport Media AG is paying KF 15 GmbH & Co. KG EUR 34.9 million in cash for the shares to be transferred as well as 4.346 million EM.Sport Media AG treasury shares. This results in a transaction price of EUR 8.85 per Highlight share, based on the XETRA closing price on March 28, 2008 (EUR 2.83).

Completion of the transaction is pending on approval by cartel authorities in Germany and Austria and is to be notified to the Bavarian Regulatory Authority for Commercial Broadcasting (BLM) respectively the Commission on Concentration in the Media (KEK).

In order to intensify the companies' integration, there will be changes to the management bodies of both media companies. Bernhard Burgener, current Chairman of the Board of Directors at Highlight Communications AG is to assume the role of Chief Executive Officer at EM.Sport Media AG on September 1, 2008, succeeding Werner E. Klatten. Mr. Klatten, CEO at EM.Sport Media AG since 2001, is to be proposed as a member of the company's Supervisory Board from September 1, 2008 at EM.Sport Media AG's Annual General Meeting.

Furthermore, at the Highlight Communications AG's Annual General Meeting on May 30, 2008, it will be proposed that Werner E. Klatten be elected to the Company's Board of Directors, where he will take over the role of Chairman from Mr. Burgener. It is planned that Mr. Burgener will assume the role of CEO for the Board of Directors. This ensures a unified and efficient management structure as part of the integration of the two media companies.

FORECAST

FILM DIVISION

Successful start to the new year for Constantin theatrical distribution

After the generally unsatisfactory year of 2007, the German theatrical industry experienced an unexpected boom in the first three months of 2008. According to official figures from Nielsen EDI, around 30% more cinemagoers were counted at the box office than in the comparable period in 2007 and revenues actually rose by more than 33%. This makes the first quarter of 2008 the third best opening quarter of the century. Our subsidiary Constantin's previously released films also benefited from this positive development.

For example, the international co-production "Asterix at the Olympic Games" attracted around 1.5 million fans of the Gaul to the box office since its start at the end of January. The licensed film "Step Up to the Streets" was also released successfully at the beginning of March. With nearly 800,000 viewers already, the sequel to the surprise hit "Step Up" from 2006 has developed even better than the original. The same is true of "Die Welle" which had engrossed nearly 1 million cinemagoers after only two weeks.

In total, Constantin's distribution slate in 2008 currently comprises 13 titles. Nine of these will be own and co-productions, whilst four licensed titles will round up the distribution slate. A new era will begin at the end of May, when the first self-produced CGI-animated film "Urmel voll in Fahrt" is released, which will be followed by further projects. The highlight of the theatrical year will be without doubt in autumn, when two Constantin major projects, "Der Baader-Meinhof Komplex" and "Anonyma – Eine Frau in Berlin" appear on German screens.

Production level continues to remain high

In the segment of theatrical production, Constantin will realize seven or eight own and co-productions for the German speaking market in the current year, with two further productions being planned for international markets. One of the highlights will in all likelihood be the film adaptation of the bestselling novel "The Legend of Pope Joan" by Donna Cross. Franka Potente will play the leading role under the direction of Sönke Wortmann. The first take of this fascinating historical epic is due to be completed in the first half of the year.

In April, principal photography is to begin for the crime thriller "Tannöd", which Constantin is realizing in cooperation with Wüste Film West. The film is based on the award-winning novel by Andrea Maria Schenkel ("Deutscher Krimipreis" winner in 2007) and tells the story of a very special hunt for a murderer. Directed by Bettina Oberli, the character actress Monica Bleibtreu took on one of the leading roles.

In the area of TV service production, the Constantin subsidiary Constantin Television received a contract from Bayerischer Rundfunk at the start of April to realize 200 further episodes of the successful daily "Dahoam is Dahoam". In addition, various other projects are in preparation, two of which are to start in the first half of the year. The Constantin subsidiary MOOVIE – the art of entertainment is planning a further episode of the successful crime series "Rosa Roth" with Iris Berben in the leading role on behalf of ZDF as well another major project. In the entertainment segment, a further series of "Hitgiganten" is to be realized. Furthermore, the new casting show "Bully sucht die starken Männer" and a new docu-soap with the title "The Real Wedding Crashers" are on the agenda.

Further growth in home entertainment expected

Home entertainment will benefit from the Constantin cinema hits in the current year too. This primarily includes the DVD release of “Lissi und der wilde Kaiser”, which has already been very successful. Unit sales figures were also encouraging for “Resident Evil: Extinction”, the home cinema version of which we released at the start of February.

We expect similar successes from “Why Men Don’t Listen and Women Can’t Read Maps” as well as “Step Up to the Streets”, which we will release in the course of the year. In addition, we are utilizing a whole range of catalogue titles (such as “American Pie” or “Sleepy Hollow”), for which Constantin now owns the video exploitation rights again.

SPORTS & EVENT MARKETING DIVISION

Focus on sale of rights

The marketing of sports rights will also continue to open up attractive prospects in future – in the areas of both TV content and selling sponsoring rights. In particular, a positive development is expected for those rights associated with football. Studies by market research institutes have clearly shown that football is by far the most popular sport in most countries. This situation is not expected to change in the near future, and football is also by far the market leader in terms of TV viewing.

The focus of TEAM activities in the current fiscal year will be the sale of commercial rights to the UEFA Champions League and the UEFA Cup for the 2009/10 to 2011/12 seasons. Comprehensive preparations for negotiations have already begun, with the marketing of TV rights being the primary topic. Because this revenue is the most important source of income, it will be of decisive importance to find the right time of sale in individual markets.

The competition format of the UEFA Champions League remains unchanged with 32 participating clubs. However, the centralized marketing by TEAM also includes the third and last qualifying round. Furthermore, the UEFA Super Cup will now be integrated into the UEFA Champions League rights package. Finally, TEAM will be responsible for marketing the group games and the KO phase of the UEFA Cup (a total of 205 games). At this stage it is already necessary to build up resources in terms of staff and infrastructure.

HIGHLIGHT GROUP

New opportunities and dimensions

Due to the positive aspects in both divisions, the Highlight Group is equipped for controlled, profitable growth. In addition, with the steps announced to integrate EM.Sport Media AG and Highlight Communications AG, new opportunities and dimensions arise.

Pratteln, April 2008

The Board of Directors

Please note that actual results can differ significantly from prospects of expected developments, if the assumptions made for forward-looking statements prove to be inapplicable. Material assumptions made by the Highlight Group relate to the success of individual films in the cinema and on video as well as to financial expectations and risks.

New record participation at the Eurovision Song Contest:
The Serbian singer Marija Serifovic beats 41 competitors.

The Highlight subsidiary TEAM continued its success story at the Eurovision Song Contest too. The European Broadcasting Union extended the existing marketing partnership to 2012.

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2007 of Highlight Communications AG, Pratteln

CONSOLIDATED INCOME STATEMENT FOR 2007

Highlight Communications AG, Pratteln

(TCHF)	Notes	2007	2006[1]
Revenues			
Sales	6	115,744	108,904
License income		110,406	138,552
Service income		255,519	273,734
		481,669	**521,190**
Other income			
Other income	7	3,537	3,014
		485,206	**524,204**
Operating expenses			
License expense	16	114,602	135,705
Merchandise and production expense	8	203,771	243,703
Personnel expense	9	74,069	64,136
Advertising		7,679	5,672
Depreciation/amortization	10	3,472	2,181
Various operating expenses		28,706	25,025
		432,299	**476,422**
Earnings from operating activities		**52,907**	**47,782**
Financial result	11	-6,047	-4,966
Net foreign exchange result		-1,119	-497
Net earnings from investments in associates	19	-15	-618
Earnings before taxes		**45,726**	**41,701**
Taxes	12	-11,968	-13,216
Net consolidated earnings		**33,758**	**28,485**
of which:			
Highlight Communications AG shareholders	13	30,681	25,775
Minority interests		3,077	2,710
		33,758	**28,485**

(CHF)	Notes	2007	2006[1]
Earnings per share relating to net consolidated earnings attributable to shareholders of Highlight Communications AG			
basic	13	0.68	0.55
diluted	13	0.68	0.55

[1] *The figures for the previous year have been adjusted (see notes to the consolidated financial statements, Note 2.1, changes to accounting policies and corrections and restatement of prior-period amounts).*

The Notes on page 60–118 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET FOR THE YEAR ENDED DECEMBER 31, 2007

Highlight Communications AG, Pratteln

ASSETS (TCHF)	Notes	Dec. 31, 2007	Dec. 31, 2006 [1]
Non-current assets			
Property, plant and equipment	15	5,595	4,933
Film assets			
– Own productions	16	227,792	179,134
– Third-party productions	16	73,479	95,739
Goodwill	17	22,469	21,726
Other intangible assets	18	1,190	1,690
Investments in associates	19	7,905	7,880
Non-current receivables	20	1,775	3,563
Other financial assets	23	505	481
Deferred taxes	27	7,202	9,683
		347,912	**324,829**
Current assets			
Inventories	21	4,204	5,299
Current receivables	22	99,430	84,089
Current tax assets		1,939	2,575
Other financial assets	23	36,526	24,520
Cash and cash equivalents	25	200,508	176,444
		342,607	**292,927**
Total assets		**690,519**	**617,756**

[1] *The figures for the previous year have been adjusted (see notes to the consolidated financial statements, Note 2.1, changes to accounting policies and corrections and restatement of prior-period amounts).*

The Notes on page 60 – 118 are an integral part of the consolidated financial statements.

EQUITY AND LIABILITIES (TCHF)	Notes	Dec. 31, 2007	Dec. 31, 2006[1]
Equity attributable to the shareholders of the parent company			
Share capital	28	47,250	47,250
Capital reserves		-40,010	-28,045
Treasury shares	28	-2,199	-1,150
Retained earnings		59,103	48,881
Other reserves		9,142	8,878
		73,286	**75,814**
Minority interests		9,725	11,795
Total equity		**83,011**	**87,609**
Non-current liabilities			
Loans	29	23,482	28,558
Other liabilities		50	50
Retirement benefit obligations	30	725	574
Deferred taxes	27	6,809	5,546
		31,066	**34,728**
Current liabilities			
Trade payables and other liabilities	32	140,153	113,787
Liabilities subject to interest	31	293,546	267,835
Advance payments received		119,556	89,991
Current tax liabilities		3,758	4,855
Provisions	33	19,429	18,951
		576,442	**495,419**
Total liabilities		**607,508**	**530,147**
Total equity and liabilities		**690,519**	**617,756**

[1] *The figures for the previous year have been adjusted (see notes to the consolidated financial statements, Note 2.1, changes to accounting policies and corrections and restatement of prior-period amounts).*

The Notes on page 60–118 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 2007

Highlight Communications AG, Prattel

(TCHF)	Equity attributable to the: Share capital	Capital reserves	Treasury shares	Retained earnings
Balance as at January 1, 2006 (old)	**47,250**	**10,188**	**–319**	**36,411**
Adjustment as a result of accounting changes and corrections[1)]	–	–	–	–823
Balance as at January 1, 2006 (new)	**47,250**	**10,188**	**–319**	**35,588**
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	–	–	–	25,775
Total net earnings for the period	–	–	–	**25,775**
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/sale of minority interests	–	–38,233	–	–
Balance as at December 31, 2006	**47,250**	**–28,045**	**–1,150**	**48,881**
Balance as at January 1, 2007	**47,250**	**–28,045**	**–1,150**	**48,881**
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	–	–	–	30,681
Total net earnings for the period	–	–	–	**30,681**
Issue of capital	–	–	–	–
Acquisition of treasury shares	–	–	–1,760	–20,178
Sale of treasury shares	–	–	711	7,000
Changes in equity of associates	–	–	–	–463
Dividends	–	–	–	–6,818
Acquisition/sale of minority interests	–	–11,965	–	–
Balance as at December 31, 2007	**47,250**	**–40,010**	**–2,199**	**59,103**

[1)] The figures for the previous year have been adjusted (see notes to the consolidated financial statements, Note 2.1, changes to accounting policies and corrections and restatement of prior-period amounts).

The Notes on page 60 – 118 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			
–301	**–**	**2,227**	**95,456**	**34,659**	**130,115**
–	–	–	–823	–331	–1,154
–301	**–**	**2,227**	**94,633**	**34,328**	**128,961**
–	2,208	–	2,208	–	2,208
1,391	–	–	1,391	158	1,549
–	–	3,440	3,440	275	3,715
1,391	**2,208**	**3,440**	**7,039**	**433**	**7,472**
–	–	–	25,775	2,710	28,485
1,391	**2,208**	**3,440**	**32,814**	**3,143**	**35,957**
–	–	–	–	2	2
–	–	–	-8,863	–	-8,863
–	–	–	1,489	–	1,489
–	–	–	–309	–	–309
–	–	–	–5,630	–947	–6,577
-87	–	–	–38,320	–24,731	–63,051
1,003	**2,208**	**5,667**	**75,814**	**11,795**	**87,609**
1,003	**2,208**	**5,667**	**75,814**	**11,795**	**87,609**
–	–2,042	–	–2,042	–	–2,042
–1,054	–	–	–1,054	-71	–1,125
26	–	3,309	3,335	298	3,633
–1,028	**–2,042**	**3,309**	**239**	**227**	**466**
–	–	–	30,681	3,077	33,758
–1,028	**–2,042**	**3,309**	**30,920**	**3,304**	**34,224**
–	–	–	–	–	–
–	–	–	-21,938	–	-21,938
–	–	–	7,711	–	7,711
–	–	–	–463	–	–463
–	–	–	–6,818	–1,759	–8,577
25	–	–	–11,940	–3,615	–15,555
–	**166**	**8,976**	**73,286**	**9,725**	**83,011**

CONSOLIDATED CASH FLOW STATEMENT FOR 2007

Highlight Communications AG, Pratteln

(TCHF)	Notes	2007	2006[1)]
Cash flow from operating activities			
Net consolidated earnings		33,758	28,485
Taxes			
Depreciation of property, plant and equipment	10	2,060	1,948
Amortization of license rights	16	112,090	133,322
Impairment of goodwill	10	227	–
Amortization of other intangible assets	10	1,185	233
Fair value adjustments of other financial assets		2,036	2,143
Non-charged transfers of treasury shares		–	158
Changes in provisions and other transactions		491	5,963
Changes in current and deferred taxes		4,075	6,655
Net earnings from associates after taxes	19	15	618
Gains from disposal of property, plant and equipment and other intangible assets	15/18	–22	11
Cash flow from operating activities before changes in net current operating assets		**155,915**	**179,536**
Changes in net current operating assets			
Inventories		1,173	2,657
Receivables		–10,625	–11,746
Liabilities		17,098	238
Advance payments received		26,617	–56,283
Cash flow from operating activities		**190,178**	**114,402**

[1)] *The figures for the previous year have been adjusted (see notes to the consolidated financial statements, Note 2.1, changes to accounting policies and corrections and restatement of prior-period amounts).*

The Notes on page 60 – 118 are an integral part of the consolidated financial statements.

(TCHF)	Notes	2007	2006[1)]
Investment and disinvestment activities			
Acquisition of film assets	16	–112,974	–101,741
Acquisition of property, plant and equipment	15	–2,888	–3,033
Acquisition of other intangible assets	18	–654	–1,733
Acquisition of other financial assets		–18,093	–21,907
Sale of other financial assets		2,000	9,547
Acquisition of associates		–412	–2,433
Changes in receivables and loans		–	–3,042
Acquisition of equity interests net of cash and cash equivalents acquired (changes to scope of consolidation)	34	–266	–24
Sale of property, plant and equipment		163	189
Sale of other intangible assets		–	8
Cash flow from investing activities		**–133,124**	**–124,169**
Financing activities			
Dividend paid to Highlight shareholders		–6,818	–5,630
Dividends paid to minority interests		–1,348	–947
Capital contribution by minority interests		–	2
Acquisition of minority interests		–16,978	–63,966
Acquisition of treasury shares		–21,938	–8,865
Sale of treasury shares		5,134	–
Acceptance/repayment of liabilities subject to interest and loans		4,495	53,561
Cash flow from financing activities		**–37,453**	**–25,845**
Currency translation differences		4,463	4,107
Net inflow/outflow of funds		**24,064**	**–31,505**
Cash and cash equivalents at beginning of period		**176,444**	**207,949**
Cash and cash equivalents at end of period		**200,508**	**176,444**
Additional cash flow disclosures			
Interests paid		9,796	8,473
Taxes paid		9,929	6,704
Interests received		2,018	1,618
Tax reimbursements received		2,006	1,787

[1)] *The figures for the previous year have been adjusted (see notes to the consolidated financial statements, Note 2.1, changes to accounting policies and corrections and restatement of prior-period amounts).*

The Notes on page 60–118 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2007

Highlight Communications AG, Pratteln

1. General

As a strategic and financial holding company, Highlight Communications AG combines the two divisions of Film and Sports and Event Marketing.

In the Film division, Highlight Communications AG holds a share in Constantin Film AG amongst 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. The nature of the operation is the production and manufacture of films and the exploitation of film rights acquired. In exploiting film rights, various stages of the value added chain from exploitation in the cinema through video/DVD exploitation to television are used. Proprietary film productions are often exploited worldwide. Third-party productions are distributed primarily in the German-speaking region. Foreign subsidiaries are used for international proprietary productions. As well as this, the Constantin group produces fictional and non-fictional products for TV stations.

The Sports and Event Marketing division markets both the UEFA Champions League as its main project and the UEFA Cup from the quarter-finals onwards as well as the UEFA Super Cup in addition to other attractive projects such as the Eurovision Song Contest.

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 25, 2008 and require the approval of the Annual General Meeting on May 30, 2008.

2. Preparation

The material accounting policies, used to prepare these consolidated financial statements are presented below. The methods described were applied consistently for the periods presented in the financial statements, provided nothing else is indicated.

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 (IFRIC) 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 were always 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.

The consolidated financial statements are presented in thousand Swiss francs (TCHF).

Changes to accounting principles

For fiscal year 2007, the Highlight Group applied new standards for the first time as follows:

IAS 1 (revised)	Presentation of Financial Statements – Capital Disclosures (from January 1, 2007). Information on capital risk is presented accordingly in the notes.
IFRS 7	Financial Instruments: Disclosures (from January 1, 2007) The standard is a new regulation for the disclosure of financial instruments and replaces the previous IAS 30 and the disclosure requirements of IAS 32. The information presented in the notes and additional items arising in the balance sheet are adapted accordingly (incl. previous year).

Standards in force in 2007, amendments and interpretations which are not relevant for the Highlight Group:

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)

New standards and interpretations

The following standards and interpretations were newly issued or revised, have not yet been adopted by the Highlight Group but could have an effect on future financial statements:

IFRS 8	Operating Segments (from January 1, 2009) The new standard will replace the previous IAS 14 on segment reporting. New regulations apply for the disclosure of information on the business segment level, in relation to the nature and financial effects of business activities and the company's economic environment.
IAS 23	Borrowing Costs (from January 1, 2009) The IASB amended IAS 23 as part of the short-term convergence project with the US Financial Accounting Standards Board (FASB). The main amendment to the standard concerns the deletion of options, recognizing borrowing costs directly as an expense provided that this can be allocated to the acquisition, construction of manufacture of a qualified asset. As the Highlight Group has previously capitalized borrowing costs which can be directly attributed to the acquisition or production of a qualifying asset, the Group does not expect any material impact on the consolidated financial statements from the change of this standard.

The following interpretations are relevant from fiscal 2008 onwards. The Highlight Group expects no fundamental impact on the financial statements:

IFRIC 11	Group and Treasury Share Transactions (from March 1, 2007)
IFRIC 12	Service Concession Arrangements (from January 1, 2008)
IFRIC 13	Customer Loyalty Programs (from July 1, 2008)
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (January 1, 2008)

The Highlight Group is currently reviewing the possible effects of the revised and new standards which took effect on January 1, 2008. 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.

2.1 Changes to accounting policies and corrections and restatement of prior-period amounts

2.1.1 Accounting for public-sector grants and disclosure of public sector assistance

On December 21, 2006, the German Federal Government improved economic conditions for the film industry in Germany with the BKM rules "Incentive to Promote Film Production in Germany" (German Film Promotion Funds, DFFF).

According to these rules, the German state guarantees annual grants of around CHF 100 million (EUR 60 million) for financing the production costs of a cinema film. The initiative is limited to a maximum of three years (until 2009).

It is a grant that does not have to be repaid and serves to refund the production costs of a cinema film after clearly defined requirements are fulfilled.

With the introduction of the DFFF (refund of production costs) as a newly created form of grant, the Highlight Group has revised the previous accounting policies with regard to the recognition of and reporting of public-sector grants.

This revision concerns the following matters and led to the following amendments to accounting policies:

a) Presentation of grants related to assets (IAS 20.24) and grants related to income (IAS 20.29)

b) Time of recognizing grants (IAS 20.12)

c) Recognizing promotion loans, whose repayment leads to new amounts due (subsequent loan) (IAS 20.7)

In this context, the recognition of two obligations was corrected. All in all, the following changes to accounting policies and corrections lead to a reduction of net consolidated earnings in 2006 amounting to TCHF 363 and profit carried forward as at January 1, 2006 amounting to TCHF 2,682. The effect on earnings per share (both basic and diluted) is CHF –0.01 for fiscal year 2006.

The new accounting policies and corrections which are to be applied retroactively and the required disclosures are presented below:

a) Changes to presentation of grants related to assets (IAS 20.24) and grants related to income (changes to accounting policies) (IAS 20.29)

Grants related to assets which concern grants for the production of films are now deducted when determining the carrying amount of the film asset (IAS 20.24) and recognized in the income statement using a reduced depreciation charge over the useful life of the film asset to be depreciated from the time of release (IAS 20.27).

In accordance with the previously applied accounting policies, grants related to assets were recorded as revenues from the time of the film's release (IAS 20.24). In relation to the recognition on an accrual basis of this income, we refer to the amendment outlined in note b).

As a result of the changes to accounting policies, a reduction of revenues in fiscal year 2006 arises and film assets as at December 31, 2006 amounting to TCHF 19,247. Analyzed in isolation, the lower depreciation of film assets of the same amount which results from this change in accounting policies has no effect on net consolidated earnings and earnings per share.

Grants related to income which are provided for the distribution of films are now deducted from the corresponding expenses in the income statement (IAS 20.29). According to the previous accounting policies, grants were presented as receivables under revenues. As a result of the change to accounting policies, a reduction of revenues amounting to TCHF 7,277 results in fiscal year 2006. Simultaneously, the release costs reported under production expense reduce similarly. There is no effect on net consolidated earnings and earnings per share for fiscal year 2006 and previous fiscal years.

In relation to the changes to accounting policies, the Highlight Group decided to present the amount of proprietary investments in film assets and/or release costs in order to ensure reliable and relevant information to users of financial statements.

If the grants in 2007 were accounted for using the previous accounting policies, the relevant items in the year under review would change as follows:

(TCHF)	2007 Previous method	2007 Amended method
Revenues	501,202	481,669
License expense	126,088	114,602
Merchandise and production expense	211,819	203,771
Film assets	313,943	301,271
Advance payments received	132,228	119,556

b) Changes to the time of recognizing grants (changes to accounting policies) (IAS 20.12)

Grants are recognized in income according to schedule in the course of the periods which are necessary to recognize them with the corresponding expenses that they compensate (IAS 20.12).

According to the previous accounting policies, the Highlight Group recognized all expenses in their full amount at the time of release based on SOP 00-2, which stipulates revenue recognition at the time of the licences starting. Up to now, grants were accounted for when determining the amortization rate for film rights using the individual film forecast method. Using this method, a higher rate of amortization was used for film assets in the year of the grant being agreed and then lower amortization of film assets in subsequent years. From fiscal year 2007 onwards, grants related to depreciable assets are recognized as income over the periods when amortization is offset. This is achieved in that grants related to assets which concern grants for the production of films are now deducted when determining the carrying amount of the film asset (IAS 20.24) and recognized in the income statement using a reduced amortization charge over the useful life of the film asset to be depreciated from the time of release (IAS 20.27).

As a result of this change, there is a postponement of grant distribution in comparison to previous methods. These are still offset over the amortization period with the expenses that they compensate. The new method provides the Company with relevant information about the Company's net assets and results of operations.

As a result of this retroactive change, lower amortization and higher film assets amounting to TCHF 288 as at December 31, 2006 resulted in fiscal year 2006. The effect on profit carried forward (after minority interests) as at January 1, 2006 is TCHF –2,682.

The effect on net consolidated earnings is TCHF 192 for fiscal year 2006. As a result, diluted and basic earnings per share changed only insignificantly.

Had the time of recognizing the grants remained unchanged in 2007, the relevant items in the year under review would change as follows:

(TCHF)	2007 Previous method	2007 Amended method
License expense	115,736	114,602
Film assets	306,254	301,271
Deferred tax liabilities	8,410	6,809
Equity	86,394	83,011

c) Change to the accounting treatment of promotion loans, whose repayment leads to new amounts due (subsequent loan) (changes to accounting policies) (IAS 20.7)

The concept of subsequent loans is as follows:

A project film promotion is provided in the form of a contingently repayable interest free loans in accordance with the requirements of the Film Promotion Act and/or the relevant regional promotions (rules of the Bavarian Film Promotion Fund ("FFF Bayern") for example). This is repayable as soon as or if the producer's income from a film exceeds a certain amount. In accordance with the requirements of the Film Promotion Act and/or relevant regional promotions (Bavarian Film Promotion Fund ("FFF Bayern") for example), the producer of a film can request that the money to be repaid by them, i.e. the loan settlement can be provided for the production of a new film. As a result, a new amount due (subsequent loan) is generated from the repayment.

Previously a corresponding repayment obligation was not presented because the repayment of the loan originally granted was considered an adequate requirement for the granting of a subsequent loan for a new film. The criterion of sufficient certainty for the provision of a grant is now construed differently by the Highlight Group. The new amount due from the settlement of a loan (subsequent loan) is recognized if the producer has met the requirements stipulated by the grant and the grant is provided. This is clarified in detail at the time of requesting the grant of a subsequent loan.

The subsequent loan's realization date is thus amended retroactively. As a result, there is a divergence between the time the repayment obligation is recognized as an expense and the time at which the request for a subsequent loan is made.

This has led to recognition of repayment obligations in fiscal year 2006 amounting to TCHF 1,599. The effect on profit carried forward which resulted from this is TCHF 0 as at January 1, 2006. The effect on net consolidated earnings is TCHF –947 in fiscal year 2006. The effect on basic earnings per share, which corresponds to diluted earnings per share is CHF –0.02 for fiscal year 2006.

If the promotion loans whose repayment leads to new amounts due in 2007 were accounted for using the previous accounting policies, the relevant items in the year under review would change as follows:

(TCHF)	2007 Previous method	2007 Amended method
Current receivables	100,144	99,430
Trade payables and other liabilities	139,219	140,153
Deferred tax liabilities	7,483	6,809
Equity	83,985	83,011

d) Changes to the recognition of repayment obligations in the case of two project promotions (correction)

As part of the adjustments above, corrections resulted from repayment obligations of project promotions valued too highly in the case of two films in fiscal year 2006.

For this reason, the amount of repayment obligations was reduced by TCHF 677 in fiscal year 2006.

The effect on net consolidated earnings is TCHF 392 for fiscal year 2006. The effect on basic earnings per share, which corresponds to diluted earnings per share is CHF 0.01.

2.1.2 Service productions

In the case of service productions, revenue recognition was carried out by the Group in accordance with SOP 00-2 at the time of delivery of materials to the customer.

From fiscal year 2007 onwards, the Group uses the rules of IAS 11 for the first time to account for service productions. The Highlight Group decided to implement this rule in particular in order to provide users of financial statements with reliable and more relevant information about contract revenue and contract costs during the implementation of a service production for a television channel. Furthermore, the Company expects that the information compares better with that of other media companies.

It is a change of accounting policies which requires a retroactive adjustment of comparable amounts for prior periods presented.

The effects of the change in accounting policies are as follows:

(TCHF)	Effect as at Jan. 1, 2006	Amendments for 2006	Effect as at Dec. 31, 2006
Service income		17,238	17,238
Merchandise and production expense		18,339	18,339
Taxes (income)		459	459
Net consolidated earnings		–642	–642
Inventories	–37,899	–18,098	–55,997
Current receivables	–	–138	–138
Receivables from POC	15,326	–1,071	14,255
Deferred taxes	–4,654	–10,961	–15,615
Total assets	**–27,227**	**–30,268**	**–57,495**
Equity	2,941	–556	2,385
Deferred taxes	–3,510	–11,391	–14,901
Trade payables and other liabilities	–483	446	–37
Liabilities from POC	347	246	593
Advance payments received	–26,522	–19,013	–45,535
Total liabilities	**–27,227**	**–30,268**	**–57,495**

The change had an effect on net consolidated earnings amounting to TCHF –642. Diluted earnings per share amount to CHF –0.01 and correspond to basic earnings per share.

Were service productions still valued in accordance with SOP 00-2, the relevant items would be amended as follows:

(TCHF)	2007 SOP 00-2	2007 IAS 11
Revenues	501,892	481,669
Merchandise and production expense	224,104	203,771
Inventories	48,367	4,204
Current receivables	94,270	99,430
Trade payables and other liabilities	137,672	140,153
Advance payments received	164,342	119,556
Deferred tax liabilities	5,471	6,809
Equity	80,936	83,011

2.1.3 Reporting of advance payments received (correction)

Recognition of revenue in the television licensing business is carried out at time when the license starts. However, because the associated material acceptance by the TV station is considerably earlier, a liability of "accrued revenues" is recognized in advance payments received and measured at the corresponding amount provided the receivables have not yet been settled by a cash receipt. This accounting was previously represented in relation to SOP 00-2.8 (Accounting by Producers or Distributors of Film). This opinion is now waived in relation to IAS 18 because the requirements for revenue recognition in accordance with IAS 18 stipulate the conditions and the time when services provided are to be recognized for the first time.

It is a correction which requires a retroactive adjustment of comparable amounts for prior periods presented.

The Company expects that the information can provide a better comparison with that of other media companies.

The effects of this are as follows:

(TCHF)	Effect as at Jan. 1, 2006	Amendments for 2006	Effect as at Dec. 31, 2006
Non-current receivables	–14,204	–31,114	–45,318
Deferred taxes	1,733	–1,792	–59
Current receivables	–27,036	5,715	–21,321
Total assets	**–39,507**	**–27,191**	**–66,698**
Deferred taxes	1,733	–1,792	–59
Advance payments received	–41,240	–25,399	–66,639
Total liabilities	**–39,507**	**–27,191**	**–66,698**

This correction has no effect on net consolidated earnings and earnings per share.

2.1.4 New interpretation of a distribution contract (correction)

As a result of the new interpretation of a video and DVD distribution contract between Highlight companies and a third party, a correction resulted in the year under review. Previous contract interpretation was that the Highlight companies are treated as a principal and not as an agent. With the new interpretation of the distribution contract, the Highlight companies act as an agent in accordance with IAS 18.8 with the consequence that the distribution fee is recognized as revenue from fiscal year 2006 onwards. The correction is adjusted for fiscal year 2006 as follows:

(TCHF)	Effect as at Jan. 1, 2006	Amendments for 2006	Effect as at Dec. 31, 2006
Sales	–	–19,544	–19,544
Service income	–	3,610	3,610
Merchandise and production expense	–	–15,934	–15,934

This correction has no effect on net consolidated earnings and earnings per share.

2.1.5 Overall effects of the change in accounting policies and corrections

The overall effects of the change in accounting policies and corrections are as follows:

(TCHF)	2006 old	Effect as at Jan. 1, 2006	Amendments for 2006	2006 new
Sales	128,448		–19,544	108,904
Service income	252,862		20,872	273,734
Subsidies	26,524		–26,524	–
License expense	154,312		–18,607	135,705
Merchandise and production expense	248,576		–4,873	243,703
Taxes	–13,927		711	–13,216
Net consolidated earnings	29,490		–1,005	28,485
Film assets	280,819	–6,035	89	274,873
Non-current receivables	48,881	–14,204	–31,114	3,563
Deferred taxes	23,095	–980	–12,432	9,683
Inventories	61,295	–37,900	–18,096	5,299
Current receivables	91,293	–11,708	4,504	84,089
Total		**–70,827**	**–57,049**	
Equity	89,829	–1,154	–1,066	87,609
Deferred taxes	20,507	–1,776	–13,185	5,546
Advance payments received	202,165	–67,761	–44,413	89,991
Trade payables and other liabilities	112,308	–136	1,615	113,787
Total		**–70,827**	**–57,049**	

The overall change had an effect on earnings for Highlight shareholders of TCHF –849 and on earnings per share of CHF –0.02. Diluted earnings per share correspond to basic earnings per share.

2.2 Accounting principles

Subsidiaries

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 usually the case if Highlight Communications AG possesses 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 them on the basis of the nature of its relationship with them. 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.

The surplus of acquisition costs above the Group's share of net assets valued at fair value is recognized as goodwill.

With regards to changes in the scope of consolidation we refer to Note 34 (Acquisition/sale of equity interests/changes to scope of consolidation) and Note 35 (List of consolidated companies).

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

Investments in associates

Investments in associates are recognized at equity. They are entities over which the Group has or could have significant influence but not control. In general, this occurs with a shareholding of between 20 % and 50 % of the voting rights or potential voting rights.

In accordance with the equity method, investments in associates are recorded on the balance sheet at acquisition cost plus changes to the Group's share of the associate's net assets after the acquisition. Goodwill from an associate is included in the carrying amount of the share and is not amortized according to schedule. The income statement includes the Group's share of net earning from associates. Changes reported directly in equity of the associate are recorded to the amount of the share and presented in the statement of changes in equity.

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.

Joint ventures

Joint ventures are companies which the Highlight Group controls jointly with partners. The share in these companies is usually 50 %. Joint control is based on a contractual agreement which aims to ensure that there is agreement on decisions regarding management activities and financial policy. These investments are recognized at equity.

Companies in which the Highlight Group holds an interest of 50 % and controls management activities and financial policy are consolidated in full.

Segment reporting

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 products manufactured by the Group and services it provides and less dependent 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, Internal Audit 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. 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.

Assets and liabilities on balance sheets prepared in foreign currencies are translated at year-end exchange rates:

	2007	2006
Euro (EUR)	1.6561	1.6073
US dollar (USD)	1.1253	1.2200
Canadian dollar (CAD)	1.1474	1.0506
Pound sterling (GBP)	2.2546	2.3921

Expenses and income on balance sheets prepared in foreign currencies are translated at annual average exchange rates:

	2007	2006
Euro (EUR)	1.6428	1.5731
US dollar (USD)	1.2002	1.2533
Canadian dollar (CAD)	1.1206	1.1050
Pound sterling (GBP)	2.4008	2.3077

Film assets

Film assets are recognized based on the US-GAAP rules in the consolidated financial statements of the Highlight Group.

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

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

Own productions are carried at production 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.

For film rights (both third-party and own productions) a units of delivery depreciation method is used which shows the consumption of the exploited film rights as a factor of the revenues which can be achieved. This method is known as the “individual film forecast method”. Subsequently, amortization for a film in a given period is calculated on the basis of the quotient of the revenues generated 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 amortization charges include all income generated by the film. In determining amortization in relation to video/DVD revenues, these are eliminated of video/DVD costs. For film assets, the maximum period for estimating revenues is ten years.

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 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. In the event of an indication of impairment, this is recognized accordingly.

Project promotions and subsidies

Project promotion

With these loans, a distinction is made between project and distribution loans as contingently repayable loans and reference funds or project film promotion in accordance with BKM (DFFF) rules.

Project promotions as a contingently repayable loan

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

They are public-sector grants for assets. In the balance sheet, they are offset against the carrying amount of the film assets which will not have to be repaid with sufficient certainty.

The amount which is not repayable with sufficient certainty can usually be determined at the time of release. In the event that it is determined at a later date that a further part of the loan is repayable, the carrying amount of the film asset is raised by this amount, with a liability being recognized for the corresponding obligation.

The grants are recognized as income using a reduced amortization charge of capitalized cost over the exploitation cycle of a film.

Project subsidies

Project subsidies are non-returnable subsidies which a producer is entitled to depending on the number of people who go to see the (subsidized) film in the cinema assessment for financing the project costs for a subsequent film. They are public-sector grants for assets. The subsidies granted are offset in the balance sheet from the carrying amount of the subsidized film when filming on the subsequent film commences.

The grants are recognized as income using a reduced amortization charge of capitalized cost over the exploitation cycle of a film.

Project film promotion in accordance with BKM (DFFF) rules

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

They are public-sector grants for assets. Project film promotions granted are offset in the balance sheet against the carrying amount of the film no later than the film release.

The grants are recognized as income using a reduced amortization charge of capitalized cost over the exploitation cycle of a film.

Distribution loans

With these loans, a distinction is made between distribution loans as contingently repayable loans and reference funds as non-repayable subsidies.

Distribution loans as a contingently repayable loan

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

They are public-sector grants for expenses already incurred. These are recognized as a reduction of release costs by the amount which is not repayable with sufficient certainty.

The amount which is not repayable with sufficient certainty can usually be determined at the time of release. In the event that it is determined at a later date that a further part of the loan is repayable, this is posted as an expense and the corresponding amount recognized as a liability.

The grants are recognized in income in the course of the periods which are necessary to recognize them with the corresponding release costs that they compensate (IAS 20.12).

Sales subsidies

Sales subsidies are non-repayable subsidies which a distributor is entitled to depending on the number of people who go to see the (subsidized) film in the cinema assessment for financing the release costs for a subsequent film.

They are public-sector grants for expenses already incurred. The sales subsidies granted are recognized as a reduction of release costs at the time of the subsequent film's release.

The grants are recognized in income in the course of the periods which are necessary to recognize them with the corresponding release costs that they compensate (IAS 20.12).

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 at transaction date. 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 corresponds to the cost of acquisition less 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 17.

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 economic 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. Intangible assets are amortized on a straight-line basis over their estimated useful lives of three years. 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 equalling 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 instalments over the period of the lease.

Inventories

Inventories consist primarily of DVDs. They are recognized at cost or the net amount realizable in accordance with the lower of cost or market value principle. The net amount realizable is the estimated sale price in the ordinary course of business minus distribution costs. Purchase or production cost is determined by the first-in first-out method (FIFO). Furthermore, inventories include service productions under development.

Service productions

In accordance with IAS 11, service productions are recognized using percentage of completion (POC). Provided the earnings of a service production can be determined reliably, total contract revenue and costs related to this are recognized in income according to the stage of completion.

In determining the stage of completion the method of physical completion is used for dailies and weeklies and for TV films and event shows, the cost-to-cost method is used. Sufficient certainty with regard to earnings from a service production when determining the stage of completion with the cost-to-cost method is usually achieved at the time the rough cut version is accepted.

If the result of the stage of completion can not be reliably determined, revenue recognition is only undertaken at the level of the costs already incurred and likely to be covered by corresponding income (zero profit method). This occurs to the amount of contract costs and therefore without a share of profits. If the uncertainties no longer exist at a later point in time, so that earning from service productions can be estimated reliably, pro rata profits are realized according to the stage of completion.

Service productions under development are reported in inventories.

Financial assets

Financial assets include in particular trade receivables, receivables due from banks, cash in hand, derivative financial assets including marketable securities and financial assets.

With financial assets, the Group distinguishes between the categories "financial assets at fair value through profit and loss", "held-to-maturity financial assets", "loans and receivables" and "available-for-sale financial assets". The classification is dependent on the nature and intent of the purchase. The designation of financial assets to the measurement category occurs at initial recognition.

Financial assets are valued at fair value at initial recognition. In the case of financial assets other than those valued at fair value through profit and loss, transaction costs directly attributable to the acquisition of the asset are also taken into account.

All standard market purchases and sales of financial assets are recognized on the balance sheet on the day of trading, i.e. the day on which the Company entered into the obligation. Standard market purchases and sales are purchases and sales of financial assets which stipulate the delivery of an asset within a time period determined by market regulations or conventions.

Financial assets at fair value through profit and loss

The category of financial assets at fair value through profit and loss includes in principle financial assets held for trading and financial assets which are valued on initial recognition at fair value. Financial assets are classified as financial assets held for trading if they are purchased for sale in the near future. Derivatives are also classified as held for trading with the exception of derivates relating to financial guarantees or designated and effective as a hedge.

Gains and losses from financial assets held for trading are recognized in income.

Financial assets may be designated as financial assets at fair value through profit and loss on initial recognition if the following criteria are fulfilled:

(i) the classification eliminates or substantially reduces mismatching which would arise from the recognition of assets otherwise undertaken or the recognition of gains and losses from different accounting policies; or

(ii) the assets are part of a group of financial assets, which are controlled according to a documented risk management strategy and its performance is evaluated on the basis of fair value.

Held-to-maturity financial assets

Financial assets held to maturity are non-derivative financial investments with fixed or at least determinable payment amounts and fixed maturities which the Group intends to hold to maturity and is in the position to do so. As at December 31, 2007 there were no held-to-maturity financial assets as in the previous year.

Loans and receivables

Loans and receivables are non-derivative financial instruments with fixed or determinable payments which are not listed on an active market. After initial recognition, loans and receivables are valued at amortised cost minus write-downs for impairment using the effective interest rate method. Acquisition costs are calculated taking into account all discounts and premiums at acquisition and include all fees which are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in earnings for the period if loans and receivables are written off or impaired as well as part of amortization. Receivables with a maturity of over twelve months after the balance sheet date are reported as non-current.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which are classified as available for sale and not placed in any of the three above mentioned categories. After initial recognition, available-for-sale financial assets are valued at fair value whereas gains and losses are recognized directly in equity. Gains and losses of non-monetary items recognized in equity include changes due to currency translation. On disposal of financial assets, the cumulated gains or losses previously recognized in equity are transferred to income. Interest received or paid from financial investments is recognized as interest income or interest expense.

Fair value

The fair value of financial investments which are traded on organized markets is determined on the basis of the quoted market price on the balance sheet date (bid price). The fair value of financial investments for which no active market exists is determined by using the method of valuation. The method of valuation includes using the most recent arm's length transactions between knowledgeable and willing parties, comparison to the fair value of another, basically identical financial instrument, the analysis of discounted cash flow and the use of the method of valuation. The Group determines if an impairment of a financial asset or a group of financial assets exists on each balance sheet date.

Impairment of financial assets

Assets which are recognized at amortized cost

If there are objective indications of impairment of receivables and loans recognized at amortized cost, the amount of the loss is the difference between the carrying amount of the asset and the net present value of expected future cash flow (with the exception of future credit defaults not yet occurred), discounted using the original effective interest rate of the financial asset (i.e. the effective interest rate determined on initial recognition). The carrying amount of the asset is reduced using an impairment account. The impairment loss is recognized in income.

If there are objective indications that amounts due from trade receivables (such as the probability of insolvency or significant financial difficulties on the part of the debtor) will not be received in accordance with the originally agreed invoice conditions, impairment using an impairment account is taken. Impairment amounts are recognized if they are classified as uncollectible.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount recognized in equity of the difference between acquisition costs (minus any settlement and amortization) and the current fair value, minus any impairment of this financial asset previously recognized in income is transferred to the income statement.

Reversal of any impairment of available-for-sale equity instruments, is not recognized in the income statement.

Foreign exchange differences of monetary items are presented in the income statement whereas foreign exchange differences on non-monetary items are presented in equity.

Trade receivables and other current receivables

Trade receivables and other current receivables are valued at amortized cost minus impairment.

The write-down for receivables is recognized in a special item and corresponds to the difference between the carrying amount of the receivable and the current cash price equivalent of the expected future cash flow, discounted on the basis of the effective interest method. A receivable is then posted as a write-down if it is no longer retrievable.

The loss which results from an adjustment of the write-down of receivables is recognized as operating expense whereas a reversal of an impairment loss in the same item reduces expenses.

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.

Derivative financial instruments in hedging relationships

The Group only uses derivative financial instruments for hedging purposes. In individual cases, derivative financial instruments can also be deployed without a hedging purpose (e. g. in reference to possible acquisitions).

Derivatives are recognized at fair value at the time of contract conclusion. Subsequent measurement is also carried out at fair value.

Forward exchange contracts are used as derivative financial instruments in order to hedge against exchange rate risks. The derivative financial instruments are carried at fair value and recognized at fair value in subsequent periods. Derivative financial instruments are carried as assets if their fair value is positive, and as liabilities if their fair value is negative. Gains and losses resulting from changes in fair value of derivative financial instruments which do not fulfil the criteria for being accounted for as a hedging relationship, are recognized in income. The fair value of forward exchange contracts is linked to valuations by banks.

For the purposes of accounting for hedging relationships, hedging instruments are classified in principle as follows:

a) as a hedge of the fair value, if it involves hedging the risk from a change of the fair value of an asset or a liability accounted for or an off-balance sheet firm commitment (fair value hedges);

b) as a cash flow hedge, if it involves hedging the risk of cash flow fluctuations which can be allocated to an asset, a liability, a specific risk from a transaction highly probable in the future or foreign exchange risks from an off-balance sheet liability (cash flow hedges).

At the beginning of hedge, both the hedging relationship and the Group's risk management objectives and strategies with regard to the hedging are formally established and documented. The documentation includes the determination of hedging instruments, the hedged item or the hedged transaction and the nature of the risk hedged and a description how the Company determines the effectiveness of hedging instruments in compensating risks from changes to the fair value or cash flow of the hedged item. Such hedging relationships are judged highly effective with regards to obtaining compensation for risks from changes in the fair value or cash flow. They are continually evaluated in order to see if they actually were effective during the whole reporting period for which the hedging relationship was defined.

The Group's hedging strategy is to classify hedges as fair value hedges. In fiscal year 2007 all new hedges were classified as fair value hedges.

Hedges which fulfil the strict criteria for accounting for hedges are accounted for as follows:

a) Fair value hedges

A change of the fair value of derivative hedging instrument is recognized in the income statement. The change in fair value of the hedged item which can be attributed to hedged risk is recognized as part of the carrying amount of the hedged item and also recognized in earnings for the period. The amount is shown under the production costs of the relevant film.

In the case of hedges to protect the fair values of hedged items recognized at amortized cost, the adjustment of the carrying amount is released as income for the remaining term until maturity. Adjustment of the carrying amount of a hedged financial instrument where the effective interest method is used is released in income.

The release can begin as soon as there is an adjustment, but no later than the time the hedged item is no longer adjusted for changes to the fair value which arise from the risk to be hedged. If the hedged item is derecognized, the unamortized fair value is recognized immediately in income.

If an off balance sheet firm commitment is classified as a hedged item, the subsequent cumulative change to the fair value of the firm commitment to which the hedged risk is attributable is recognized as an asset or a liability in the earnings for the period with the corresponding gain or loss. Changes to the fair value of hedging instruments are also recognized in earnings for the period.

b) Cash flow hedges

The effective portion of gains or losses from a hedging instrument is recognized directly in equity whereas the ineffective portion is recognized immediately under production costs of the relevant film. The amounts recognized in equity are transferred to the income statement in the period in which the hedged transaction influences earnings for the period e.g. when hedged financial income or expenses are recognized or if an expected sale is carried out. If hedging results in the recognition of a non-financial liability or asset, amounts recognized in equity become part of acquisition costs on the recognition date of the non-financial asset or non-financial liability.

If it is not longer anticipated that the intended transactions or firm commitments will be entered into, the amounts previously recognized in equity are transferred to the income statement under production costs for the relevant film. If the hedging instrument expires, is sold or exercised, without a replacement or swap of the hedging instrument into another hedging instrument, the amounts previously recognized in equity remain as separate items in equity until the intended transaction or firm commitment takes effect. The same applies if it is determined that the hedging instrument no longer fulfils the criteria to be accounted for as a hedging relationship.

Derivative financial instruments without hedging relationships

Some derivatives cannot be designated as hedging instruments. For these derivatives, changes in fair value are posted directly in income. These are shown in the financial result.

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. For future operating losses, no provisions are recognized.

The provisions shown represent the best possible estimate of the final obligation taking the present values of money into account, provided their effects are 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 – similar to 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 from licensees are received before the time of revenue recognition, these are posted as advance payments received.

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 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, 2007. Details of this valuation are set out in Note 30 (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 include in particular trade payables, liabilities to credit institutes, derivative financial liabilities and other liabilities.

Financial liabilities are recognized at fair value minus transaction costs on initial recognition. After initial recognition, financial liabilities are valued at amortized cost using the effective interest method.

Full or partial amounts from a financial liability due in the following twelve months are reported under current assets. If there is a binding commitment to extend a loan expiring, a new term is taken into account for the classification.

Shareholders' equity

Ordinary shares are classified as equity. As soon as the Group acquires shares in Highlight Communications AG (treasury shares), the paid cash price including attributable transaction costs for the relevant shares is deducted from equity. If treasury shares are sold or issued, the cash price received is attributed to equity.

Transactions with minority interests are treated as transactions with treasury shares. In this way, all payments for the acquisition or disposal of minority interests are posted as equity. Any differences to the corresponding minority interests reported on the balance sheet are settled by the reserves (economic entity concept).

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 film 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.

For the Group's own video/DVD exploitation, revenues from video cassettes and DVDs sold are recognized as of release. Revenues arising from licenses for video/DVD rights are recognized as of the date on which the license takes effect.

Revenues arising from licenses for TV (pay/free) rights are recognized as of the date on which the license takes effect, generally 18–32 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.

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. Allocation is carried out on the basis of historical figures in accordance with corporate planning at the following general rates for cinema, video/DVD and TV rights: 25 % for cinema rights, 15 % for video/DVD rights and 60 % for TV rights. The corresponding revenues are recognized as follows: Movie revenues upon cinema release in Germany, video/DVD revenues six 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 received for services which are provided over a certain time period and for which the customer is periodically charged are recognized over the period in which the service is provided.

Income from service productions is determined using the percentage-of-completion method in order to recognize the share of total revenues for the reporting period. See also the note on service production.

Dividend income is recognized in the fiscal year in which the right to receive the payment arises.

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.

Income taxes and deferred taxes

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.

3. 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 twelve months are discussed below.

Revenue recognition: The Group has recognized provisions of TCHF 14,578 (previous year: TCHF 12,371) for expected returns of merchandise as of December 31, 2007 (see Note 33). 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 in future periods.

Film assets and goodwill: The Group has film assets with a carrying amount of TCHF 301,271 (previous year: TCHF 274,873) (see Note 16) and goodwill with a carrying amount of TCHF 22,469 (previous year: TCHF 21,726) (see Note 17). 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.

Service productions: In determining the stage of completion of productions where the percentage of completion method is used, the cost-to-cost method (production costs incurred in relation to expected total production costs) or the method of physical completion is used. Determination of the expected production cost and the stage of completion is based on estimates. Changes in estimates have a direct effect on earnings generated.

Provisions for litigation: The Group entities are involved in various disputes. The provisions for litigation referred to in Note 33 totalled TCHF 4,351 (previous year: TCHF 6,080) as at December 31, 2007. 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, litigations and examinations will not be insignificant. Such changes may impact the provisions set aside for litigations in future reporting periods.

Deferred taxes: As of December 31, 2007, deferred tax assets were valued at TCHF 7,202 (previous year: TCHF 9,683) and deferred tax liabilities at TCHF 6,809 (previous year: TCHF 5,546) (see Note 27). 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 arising may affect the deferred tax assets and liabilities recognized in future reporting periods.

4. Financial risk management

The significant financial liabilities used by the Group include – with the exception of derivative financial instruments – bank overdrafts, bank loans, trade receivables and other liabilities. The objective of these financial liabilities is financing the Group's operating activities. The Group possesses financial assets such as trade receivables, cash and cash equivalents and other financial assets which result directly from its operating activities.

In addition, the Group possesses derivative financial instruments. These are used to hedge against exchange rate risks which result from the Group's operating activities and its sources of funding.

As a result of acquisitions, it is possible that derivative financial instruments occur that are not intended as hedges.

In accordance with Group guidelines, derivatives were not actively traded in fiscal years 2007 and 2006 and will not be traded in the future.

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 exchange rate risks, 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

As a result of its international orientation, the Highlight Group is exposed to exchange rate risks as part of its ordinary operating activities. In particular in the case of the euro and US dollar. Exchange rate movements can lead to unwanted and unforeseeable earnings and cash flow volatilities. Each subsidiary is exposed to risks due to exchange rate movements, if they do business with international contracting parties and cash flows result from this in the future which do not correspond to the functional currency of the relevant subsidiary. The Highlight Group does not enter into any operating activities in currencies which exhibit an above-average volatility or are otherwise considered to be especially prone to risk. For significant transactions, in particular in US dollars, the Group uses hedges. Derivative financial instruments are transacted with banks. The financial instruments are related to future flows of payments in foreign currencies for film projects. As a matter of principle, the Group ensures that the amount of the hedge does not exceed the value of the hedged item.

If one assumed that the US dollar traded 10% lower than the euro as at December 31, 2007, and all other parameters remained the same, profit before taxes would have been lower by TCHF 1,032 (previous year: TCHF 4,483 higher). By contrast, there are contracts which are serviced from these financial instruments. If these are included, earnings before taxes decline by TCHF 665 (previous year: improvement of TCHF 184) only. The difference to the previous year is due to dollar liabilities to banks as at December 31, 2006 which were repaid by the dollar cash flow in 2007.

If one assumed that the US dollar traded 10% higher than the euro as at December 31, 2007, and all other parameters remained the same, profit before taxes would have been higher by TCHF 1,032 (previous year: TCHF 4,483 lower). By contrast, there are contracts which are serviced from these financial instruments. If these are included, earnings before taxes improve by TCHF 665 (previous year: decline of TCHF 184) only.

Furthermore, the Highlight Group is exposed to exchange rate risk in relation to the euro due to its subsidiaries and their operating activities. These were not hedged in fiscal year 2007 due to the development.

If one assumed that the euro was trading 5% lower than the Swiss franc as at December 31, 2007, and all other parameters remained the same, earnings before taxes would have been higher by TCHF 14 (previous year: TCHF 39 improvement). The effect on equity would have resulted in a reduction of TCHF 166 (previous year: TCHF 1,024). The main reason for the slightly positive effect on earnings before taxes is an overhang in financial liabilities in euro.

If the euro had been 5 % stronger against the Swiss franc on December 31, with all other parameters remaining the same, earnings before taxes would have been TCHF 1,069 lower (previous year: TCHF 39). The impact on equity would have been an increase of TCHF 1,221 (previous year: TCHF 1,024). The main reason for the negative result in respect to earnings before taxes with a strong euro is the overhang of financial liabilities in euro.

The reason for the negative/positive equity trend is financial instruments which are classified as available-for-sale financial assets.

In addition to the accounting risks from financial instruments mentioned above, operating risks exist. Various Swiss subsidiaries have contracts with international partners in foreign currency, particularly in euro. A weakening of the euro/Swiss franc exchange rate would have a direct effect on the individual company's results of operations and thus the Group's.

Many companies are located outside the Swiss franc currency area. Because the Highlight Group's reporting currency is the Swiss franc, the Company translates the subsidiaries' financial statements into Swiss francs. Effects due to translation which arise if the value of net asset items is translated to Swiss francs changes as a result of exchange rate movements are recognized in the consolidated financial statements.

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 generally not hedged.

The Highlight Group monitors equity investments or other assets using their current market values which are affected by the movements of the globally volatile equity markets.

In essence, two classes of other financial assets are combined in other financial assets:

- Financial assets at fair value through profit and loss (current and non-current) amounted to TCHF 12,605 as at December 31, 2007 (previous year: TCHF 4,526). Were these securities priced 10 % lower (bonds and fixed-term deposits are calculated at 2 % and derivative financial instruments at 20 %) and all other parameters remained equal, earnings before tax would have been lower by TCHF 252 (previous year: TCHF 459). If the reverse had been the case, profit before taxes would have risen by the same amount, both in the year 2007 and in the previous year.
- Available-for-sale financial assets amounted to TCHF 24,426 as at December 31, 2007 (previous year: TCHF 20,475). If these securities were priced 10 % lower, and all other parameters remained equal, this would have had no effect on earnings before taxes in the previous year because these were still priced above acquisition costs despite a decline of 10 %. In contrast, as at December 31, 2007 earnings before tax were lower by around TCHF 2,277. If the market value of the securities increased by 10 %, equity would have been TCHF 2,443 (previous year: TCHF 2,048) higher.

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 and loans. Liabilities subject to interest generally have a shorter maturity than the receivables they finance. 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. Due to the mismatch of maturities, a risk of change in interest rates arises which is actively controlled by the Group. Here, the analysis of the yield curve is of primary importance.

In order to determine the total risk of the interest sensitivities, the Company aggregates the risk of change in interest rates for the liabilities subject to interest and for the portfolio of cash and cash equivalents. Depending on whether the Group has an overhang of funds on the asset or liability side, interest risks can result in a rise or a fall of interest rates on the market. In order to calculate the sensitivity, a relative interest rate change of 15 % on net interest expense is calculated. A rise would result in increased expense before taxes of around TCHF 602 (previous year: TCHF 423). With an interest rate reduction at the same level, earnings before taxes would have increased by TCHF 602 (previous year: TCHF 423).

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, including the ability to issue on the market. Here it must be taken into account that various projects, especially in the area of film and other financing activities such as purchase of minority interests and acquisition of treasury shares, can influence liquidity in different ways over time.

The situation with regards to liquidity available as at the balance sheet date is as follows:

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
Cash and cash equivalents	200,508	176,444
Loans	–23,482	–28,558
Liabilities subject to interest	–293,546	–267,835
Net debt	**–116,520**	**–119,949**
Unused credit limits	161,851	139,502

For fiscal year 2008 and subsequent years, the Highlight Group expects positive net flows of cash and cash equivalents from operating activities. Together with credit limits agreed, cash and cash equivalents should be available in sufficient amounts. The gross cash flows of financial liabilities resulting from contractual obligations including interest payments are as follows:

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
0–6 months	382,066	301,483
6–12 months	41,961	79,119
1–2 years	13,765	15,020
Over 2 years	10,979	14,510
Total	**448,771**	**410,132**

This excludes larger investments and spending for future acquisitions. In such cases, an adjustment of the credit limits will be considered. There are also future financial commitments of CHF 35 million for the production of films and the acquisition of film rights (see Note 16). In addition there is the possibility of a market issue; on the balance sheet date, authorized capital approved by the Annual General Meeting amounted to 12,750,000 shares.

Credit risk

Credit risks can exist with cash and cash equivalents, balances at financial institutions and with customer receivables. Financial institutions must have a good credit rating. In addition, any risks to cash and cash equivalents are reduced further in that they are not held in a single bank but various financial service providers. As of December 31, 2007, CHF 184.2 million (92 %) of the cash and cash equivalents were deposited at banks with an S&P rating of A or higher. The largest amounts due from banks make up 46.18 %, 20.67 % and 17.60 % of the total portfolio of cash and cash equivalents.

The three largest receivables in the portfolio of current receivables as of December 31, 2007 (TCHF 99,430) make up 19.9%, 3.3 % and 2.2 % of the total current receivables portfolio.

Due to the differing customer structure in the divisions, there are no general credit limits across the Company. However, the credit rating of customers is examined on a systematic basis. In doing this, the financial situation, previous experience and/or other factors are taken into account.

Management does not expect any additional significant losses from portfolios of receivables not written down.

Capital risk

In managing capital, the Highlight Group pays particular attention that the continuation of the Group’s operating activities is ensured with an appropriate return for shareholders. In order to achieve these goals, the Highlight Group can adjust the dividend payment, repay capital to the shareholders, issue new shares or sell assets in order to reduce debt.

The Group monitors its capital with the help of various parameters. Since January 1, 2007 a lower limit of equity of CHF 80 million applies, without taking into account the acquisition of Constantin which is posted according to the economic entity model. Furthermore, the ratio of net financial debt divided by earnings from operating activities in the last four quarters may never be higher than 3.5. In the event that this value rises to above 3.5 but not over 4.0 on any reporting date, the ratio is considered adhered to if it is below 3.5 on the following reporting date. Exceeding the value of 3.5 may only happen only once per calendar year. The parameters stated above were fulfilled in fiscal year 2007.

A breach of these parameters would result in a premature cancellation on the part of the Highlight Communications AG’s lenders. The same cancellation right applies in a case of a change of investors. (change of control clause).

5. Segment information

The Group 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 (video and DVD) in the cinema, video/DVD and TV areas.

In the “Sports and Event Marketing” division, both the UEFA Champions League as its main project and the UEFA Cup from the quarter-finals onwards as well as the UEFA Super Cup in addition to further projects, such as the Eurovision Song Contest, are marketed.

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

Controlling for these segments is undertaken centrally.

Primary segment reporting format – divisions	Film		Sports & Event Marketing		Other and holding company costs		Consolidated	
(TCHF)	2007	2006	2007	2006	2007	2006	2007	2006
Income								
Income with third parties	402,357	445,105	79,312	76,085	–	–		
	402,357	**445,105**	**79,312**	**76,085**	–	–	**481,669**	**521,190**
Result								
Segment result	21,542	22,150	38,046	30,598	–6,681	–4,966	52,907	47,782
Net financial/currency translation result							–7,166	–5,463
Earnings from investments in associates	–13	–787	–	–	–2	169	–15	–618
Earnings before taxes							**45,726**	**41,701**
Taxes							–11,968	–13,216
Net consolidated earnings							**33,758**	**28,485**
Balance sheet								
Segment assets	590,577	531,895	6,463	4,236	93,479	81,625	**690,519**	**617,756**
Segment liabilities	466,509	411,814	20,610	17,303	120,389	101,030	**607,508**	**530,147**
Other disclosures								
– Investments in property, plant and equipment	1,654	1,875	1,234	1,158	–	–	**2,888**	**3,033**
– Investments in film assets	130,010	101,381	–	–	–	–	130,010	101,381
– Investments in other intangible assets	654	1,733	–	–	–	–	654	1,733
							130,664	**103,114**
Depreciation/amortization								
– Property, plant and equipment	1,386	1,344	674	604	–	–	**2,060**	**1,948**
– Licenses								
ordinary amortization	105,815	128,387	–	–	–	–	105,815	128,387
impairment charge	6,275	4,934	–	–	–	–	6,275	4,934
	112,090	**133,321**	–	–	–	–	**112,090**	**133,321**
– Others								
ordinary amortization	740	233	–	–	–	–	740	233
impairment charge	672	–	–	–	–	–	672	–
	1,412	**233**	–	–	–	–	**1,412**	**233**

Other amortization includes an impairment charge on goodwill of TCHF 227 (previous year: TCHF 0), ordinary amortization of other intangible assets of TCHF 740 (previous year: TCHF 233) and an impairment charge of TCHF 445 (previous year: TCHF 0).

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.

(TCHF)	2007	2006
Switzerland	98,622	83,320
Other countries	383,047	437,870
Total	**481,669**	**521,190**

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, 2007	Dec. 31, 2006	2007	2006
Switzerland	99,742	80,483	2,317	2,758
Other countries	590,777	537,273	131,235	103,389
Total	**690,519**	**617,756**	**133,552**	**106,147**

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

6. Sales

(TCHF)	2007	2006
Home entertainment	101,420	72,103
Other revenues	14,324	36,801
Total	**115,744**	**108,904**

7. Other income

(TCHF)	2007	2006
Insurance compensations	343	447
On-charging of costs	1,595	1,869
Reversal of liabilities/accruals	728	208
Proceeds from disposal of PPE	39	34
Other income	832	456
Total	**3,537**	**3,014**

8. Merchandise and production expense

Production expense primarily relates to release costs for the exploitation of a film, production costs for film copies and costs related to service productions, as well as expenses from the Sports and Event Marketing division.

(TCHF)	2007	2006
Merchandise and sales expense	35,484	28,919
Production expense Film and Sports	168,287	214,784
Total	**203,771**	**243,703**

9. Personnel expense

(TCHF)	2007	2006
Wages and salaries	64,864	55,569
Social security	6,177	5,798
Expenditure on retirement benefit plans *(see Note 30)*	1,925	1,452
Miscellaneous personnel costs	1,103	1,317
Total	**74,069**	**64,136**

Year-end headcount	2007	2006
Switzerland	167	155
Germany	298	251
Austria	12	17
Other	10	9
December 31	**487**	**432**

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 December 31, 2007. Details of this valuation are set out in Note 30 (Retirement benefit obligations).

10. Depreciation/amortization

(TCHF)	2007	2006
on property, plant and equipment *(see Note 15)*	2,060	1,948
on goodwill *(see Note 17)*		
– impairment charge	227	–
on other intangible assets *(see Note 18)*		
– ordinary amortization	740	233
– impairment charge	445	–
Total	**3,472**	**2,181**

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 16 (Film assets).

11. Financial result

Interest is shown net in some cases on account of interest pooling arrangements. See also the details in Note 31 (Liabilities subject to interest).

(TCHF)	2007	2006
Interest expense		
– on liabilities subject to interest	–9,494	–9,209
– less capitalized borrowing costs	3,447	4,776
	–6,047	**–4,433**
Other interest	–26	–9
Fair value adjustments to other financial assets	–	–545
Fair value adjustments to derivative instruments	–2,045	–1,614
Total financial expense	**–8,118**	**–6,601**
Interest income		
– on bank and fixed-term deposits	1,968	1,337
– on bonds	36	174
Miscellaneous interest	57	108
Fair value adjustments to financial assets	10	16
Total financial income	**2,071**	**1,635**
Total financial result	**–6,047**	**–4,966**

In November 2006, the Highlight Group had acquired an option to purchase 5,693,089 shares in EM.Sport Media AG (formerly: EM.TV AG), held be Constant Ventures II Luxembourg S.A. ("Constant"). The option premium was EUR 0.40 per option share. The option had a term until October 1, 2007 and allowed Highlight to acquire the shares described above for a price of EUR 4.00 per share. From December 1, 2006, Highlight exercised the voting rights of the option shares through a proxy. Highlight did not exercise the option granted to it by Constant Ventures II Luxembourg S.A. ("Constant") to acquire 5,693,089 shares in EM.Sport Media AG, which led to a fair value adjustment of TCHF –2,045 in the fiscal year for these options.

As a result of Highlight not exercising this option, Constant has the right in respect of Highlight to acquire up to 500,000 shares in Highlight at a price of EUR 6.20 per share from Highlight's treasury shares. The option was exercised on December 28, 2007.

Fixed-term deposits are made in CHF, EUR and CAD.

12. Taxes

Income taxes relate to Highlight Communications AG as the parent company as well as the consolidated subsidiaries. Tax expense for 2007 and 2006 is set out in the following table:

(TCHF)	2007	2006
Income tax expenses	–7,393	–7,489
Deferred tax charges	–4,575	–5,727
Taxes as per income statement	**–11,968**	**–13,216**

Deferred tax charges of TCHF 4,575 (previous year: TCHF 5,727) 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)	2007	2006
Earnings before taxes	45,726	41,701
Tax at notional Group tax rate of 25 % (previous year: 25 %)	–11,432	–10,425
Difference between notional Group tax rate and local tax rates	139	–1,475
Impact of the reduction of the tax rate on the opening balance for deferred taxes	590	–
Unrecognized tax losses	–107	–57
Applied/applicable tax losses	473	63
Revaluation of loss carryforwards	–358	42
Non-deductible expenses added back	–1,226	–1,491
Income not subject to tax	374	77
Tax refunds, reversals and expense attributable to earlier years	–421	50
Taxes as per income statement	**–11,968**	**–13,216**

13. Earnings per share

Basic

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

	2007	2006
Net consolidated earnings attributable to shareholders in TCHF	30,681	25,775
Weighted average number of shares	45,298,185	46,702,312
Basic earnings per share in CHF	0.68	0.55
Basic earnings per share in EUR	0.41	0.35

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. As at December 31, 2007, no obligation existed that had to be settled with treasury shares. For this reason, the diluted earnings per share correspond to basic earnings per share.

14. Dividend per share

Proposed dividends are not recorded in the books until the approval of the annual financial statements for 2007 and the associated appropriation of retained earnings were 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 0.15) per share for 2007.

15. Property, plant and equipment

	Operating equipment (including IT)		Motor vehicles		Land/ buildings		Total	
(TCHF)	2007	2006	2007	2006	2007	2006	2007	2006
Acquisition costs:								
As of January 1	11,733	11,239	2,019	1,996	479	468	14,231	13,703
Currency translation differences	93	108	9	12	15	11	117	131
Additions	2,226	2,353	534	680	128	–	2,888	3,033
Disposals	–691	–1,967	–476	–669	–	–	–1,167	–2,636
As of Decmeber 31	**13,361**	**11,733**	**2,086**	**2,019**	**622**	**479**	**16,069**	**14,231**
Depreciation:								
As of January 1	–8,247	–8,621	–982	–1,098	–69	–8	–9,298	–9,727
Currency translation differences	–138	–54	–2	–7	–2	1	–142	–60
Depreciation in year	–1,617	–1,488	–371	–398	–72	–62	–2,060	–1,948
Disposals	691	1,916	335	521	–	–	1,026	2,437
As of December 31	**–9,311**	**–8,247**	**–1,020**	**–982**	**–143**	**–69**	**–10,474**	**–9,298**
Net carrying amounts January 1	**3,486**	**2,618**	**1,037**	**898**	**410**	**460**	**4,933**	**3,976**
Net carrying amounts December 31	**4,050**	**3,486**	**1,066**	**1,037**	**479**	**410**	**5,595**	**4,933**

Gains of TCHF 39 (previous year: TCHF 31) and losses of TCHF 17 (previous year: TCHF 45) were generated from the sale of property, plant and equipment.

As at December 31, 2007 there were no obligations for the acquisition of property, plant and equipment, as was the case in the previous year.

Fire insurance values (TCHF)	Dec. 31, 2007	Dec. 31, 2006
Operating equipment (including IT)	16,006	12,745

16. Film assets

(TCHF)	Third-party productions 2007	Third-party productions 2006	Own productions 2007	Own productions 2006	Total 2007	Total 2006
Acquisition costs:						
As of January 1	434,022	409,929	477,895	394,603	911,917	804,532
Currency translation differences	5,784	5,742	15,399	14,916	21,183	20,658
Additions	16,816	32,366	113,194	69,015	130,010	101,381
Disposals	–5,761	–14,015	–3,470	–639	–9,231	–14,654
As of December 31	**450,861**	**434,022**	**603,018**	**477,895**	**1,053,879**	**911,917**
Ordinary amortization:						
As of January 1	–237,116	–226,990	–288,170	–168,379	–525,286	–395,369
Currency translation differences	–2,750	–2,443	–9,256	–8,158	–12,006	–10,601
Additions	–39,738	–16,115	–66,077	–112,272	–105,815	–128,387
Disposals	5,042	8,432	3,470	639	8,512	9,071
As of December 31	**–274,562**	**–237,116**	**–360,033**	**–288,170**	**–634,595**	**–525,286**
Impairment charges (revaluation/valuation allowances):						
As of January 1	–101,167	–104,211	–10,591	–7,554	–111,758	–111,765
Currency translation differences	–342	–326	–357	–316	–699	–642
Additions	–2,030	–2,213	–4,245	–2,721	–6,275	–4,934
Disposals	719	5,583	–	–	719	5,583
As of December 31	**–102,820**	**–101,167**	**–15,193**	**–10,591**	**–118,013**	**–111,758**
Net carrying amounts January 1	**95,739**	**78,728**	**179,134**	**218,670**	**274,873**	**297,398**
Net carrying amounts December 31	**73,479**	**95,739**	**227,792**	**179,134**	**301,271**	**274,873**

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)	2007	2006
Amortization of licenses (ordinary)	105,815	128,387
Impairment charges (as a result of revaluations/valuation allowances)	6,275	4,934
Miscellaneous license expenses/overages	2,512	2,384
License expense recognized in income statement	**114,602**	**135,705**

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 6,275 (previous year: TCHF 4,934) 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 3,447 (previous year: TCHF 4,776) were capitalized in fiscal year 2007.

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 35 million (previous year: CHF 45 million).

17. Goodwill

(TCHF)	2007	2006
Acquisition costs:		
As of January 1	24,648	24,307
Currency translation differences	317	336
Additions	744	5
Disposals	–	–
As of December 31	**25,709**	**24,648**
Impairment charges:		
As of January 1	–2,922	–2,826
Currency translation differences	–91	–96
Additions	–227	–
Disposals	–	–
As of December 31	**–3,240**	**–2,922**
Net carrying amounts January 1	**21,726**	**21,481**
Net carrying amounts December 31	**22,469**	**21,726**
of which in Film division	22,469	21,726
of which in Sports and Event Marketing division	–	–
	22,469	**21,726**

Impairment testing of goodwill: The amount of TCHF 22,469 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 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 8.5 % to 9.5 % before tax depending on the cash generating units. Following the above review, an impairment of TCHF 227 was recognized (previous year: TCHF 0).

A test of the cash generating units using a cost-of-capital rate of 10.5 % before tax would have led to an additional impairment loss on goodwill of TCHF 345.

18. Other intangible assets

(TCHF)	IT software 2007	IT software 2006	Concessions, industrial rights 2007	Concessions, industrial rights 2006	Total 2007	Total 2006
Aquisition costs:						
As of January 1	2,462	705	289	270	2,751	975
Currency translation differences	58	48	9	9	67	57
Additions	654	1,709	–	24	654	1,733
Disposals	–	–	–	–14	–	–14
As of December 31	**3,174**	**2,462**	**298**	**289**	**3,472**	**2,751**
Amortization:						
As of January 1	–809	–584	–252	–220	–1,061	–804
Currency translation differences	–28	–25	–8	–8	–36	–33
Additions	–738	–200	–2	–33	–740	–233
Disposals	–	–	–	9	–	9
As of December 31	**–1,575**	**–809**	**–262**	**–252**	**–1,837**	**–1,061**
Impairment charges:						
As of January 1	–	–	–	–	–	–
Currency translation differences	–	–	–	–	–	–
Additions	–445	–	–	–	–445	–
Disposals	–	–	–	–	–	–
As of December 31	**–445**	–	–	–	**–445**	–
Net carrying amounts January 1	**1,653**	**121**	**37**	**50**	**1,690**	**171**
Net carrying amounts December 31	**1,154**	**1,653**	**36**	**37**	**1,190**	**1,690**

IT software also includes internally created software. Internally created software was written off completely in the year under review (TCHF 668, of which TCHF 445 impairment charge), because it represents no sustained value to the best of management's knowledge.

As part of the acquisition of intangible assets, there is a contractual obligation of TCHF 0 (previous year: TCHF 281).

In the fiscal year, there was no disposal of other intangible assets (previous year: gain of TCHF 3).

19. Investments in associates

Investments in associates developed as follows:

(TCHF)	2007	2006
As of January 1	7,880	–
Carryover from securities	–	5,043
Acquisition of associates	503	3,766
Share in profit/(loss)	623	120
Impairment	–638	–738
Other changes in equity	–463	–309
Currency differences	–	–2
As of December 31	**7,905**	**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 the associates:

(TCHF)	Assets	Liabilities	Revenues	Loss (incl. impairment)
Escor Casinos & Entertainment SA, Switzerland	8,505	764	1,216	–2
PolyScreen Produktionsgesellschaft für Film und Fernsehen mbh	537	467	2,165	–13
BECO Musikverlag GmbH	minor	minor	minor	minor
Total	**9,042**	**1,231**	**3,381**	**–15**

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. Escor Casinos & Entertainment SA has been an associate since the second quarter of 2006.

Furthermore, in the context of this acquisition, a seller was granted the right to participate in the positive performance of the Highlight Communications AG share price. Allowance was made for this right in the accounts of the first quarter 2007. The payment of this participation in added value was carried out in the second quarter of 2007. As a result, the value of the investment in Escor Casinos & Entertainment SA increased by TCHF 326.

The pro-rata market value based on the market price as at December 31, 2007 was TCHF 7,741. As this market value was below the carrying amount of the investment, a write-down of TCHF 638 (previous year: TCHF 96) was required.

Königskinder Schallplatten GmbH

Constantin Film AG acquired an interest of 25 % in Königskinder Schallplatten GmbH in the first quarter of 2006. Königskinder Schallplatten GmbH was considered an associate. In the second quarter of 2007, a further interest of 25 % was acquired by Constantin. From this point in time, the company was fully consolidated due to its financial dependency.

PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH (joint venture)

In the second quarter of 2007, Constantin Film AG and POLYPHON Film- und Fernsehgesellschaft mbH jointly incorporated PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH. Each of the two companies holds 50 % of the shares in the new company. The activities of the company include the development and production of high quality entertainment formats in the areas of television play and entertainment. The investment is consolidated at equity. Net cash outflow from the acquisition was TCHF 86.

BECO Musikverlag GmbH

As at December 17, 2007, Constantin Film AG acquired a 50 % share of BECO Musikverlag GmbH. The acquisition was undertaken as part of the strengthening of activities in the music sector at the Constantin Group. The company was included in the consolidated financial statements at equity from the time of acquisition. The purchase price was TCHF 91. This had not been paid as of December 31, 2007.

The following transactions were made between the Group and its associates: revenue TCHF 384, various income TCHF 21 and other production expenses of TCHF 8.

20. Non-current receivables

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
Trade receivables	1,559	3,173
Non-current loans to third parties	216	390
Total non-current receivables	**1,775**	**3,563**

Non-current trade receivables relate to the value added tax component of receivables due from TV stations whose accounts recognize revenue on material acceptance in accordance with local accounting and are not recognized as per IFRS (IAS 18).

Non-current trade receivables are originally in EUR, both in the current year and the previous year.

21. Inventories

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
DVD – retail	148	203
DVD – wholesale	3,560	2,637
Unfinished service productions	727	2,683
	4,435	**5,523**
Impairment provisions	–231	–224
Total	**4,204**	**5,299**

In the fiscal year, inventories amounting to TCHF 38 (previous year: TCHF 21) were written off.

The carrying amount of the inventories at fair value less sales costs is TCHF 0 (previous year: TCHF 0).

22. Current receivables

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
Trade receivables		
– due from third parties	62,059	60,253
– due from related parties	538	–
– less impairment provisions	–8,381	–11,574
Total net trade receivables	**54,216**	**48,679**
Current loans to third parties	78	580
Receivables from POC	16,286	14,255
Receivables for subsidization loans and subsidies	13,376	7,329
Prepaid expenses	2,077	1,017
Other receivables		
– due from third parties	13,397	12,100
– due from related parties	–	129
Total current receivables	**99,430**	**84,089**

The carrying amount of receivables corresponds to their fair values. Contract revenue from service productions amounted to TCHF 174,107 in the year under review (previous year: TCHF 193,885). The cumulative amount of costs incurred and gains recognized (minus any losses recognized) amounts to TCHF 60,706 (previous year: TCHF 68,177). Advance payments received totaled TCHF 0 (previous year: TCHF 0).

Trade receivables can be classified into due and overdue receivables, taking the conditions agreed with the respective customer into account. The age structure of net amounts is as follows:

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
Not overdue	43,246	30,399
Overdue by 1 to 30 days	7,340	9,136
Overdue by 31 to 60 days	855	835
Overdue by 61 to 90 days	109	2,853
Overdue by 91 to 180 days	1,488	4,122
Overdue by over 181 days	1,178	1,334
Total net trade receivables	**54,216**	**48,679**

Write-downs on trade receivables are undertaken based on current historical data as well as an individual evaluation due to the differing customer structures in the different areas.

(TCHF)	2007	2006
As of January 1	11,574	10,940
Currency differences	297	349
Write-downs for doubtful receivables	883	1,131
Write-down claims	–1,272	–835
Reversal of write-downs	–3,101	–11
As of December 31	**8,381**	**11,574**

Write-downs for doubtful receivables include individual write-downs amounting to TCHF 6,649 (previous year: TCHF 8,153).

Trade receivables are in the following currencies:

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
CHF	6,048	4,635
EUR	43,677	38,055
USD	4,470	5,989
Other	21	–
Total	**54,216**	**48,679**

23. Other financial assets

	Current assets		Non-current assets	
(TCHF)	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Financial assets at fair value through the income statement				
– Bonds	1,000	2,000	505	481
– Fixed-term deposits with a term of more than 3 months	11,100	–	–	–
– Derivative financial instruments	–	2,045	–	–
Total financial assets at fair value through the income statement	**12,100**	**4,045**	**505**	**481**
Available-for-sale financial assets measured at fair value in equity				
– Shares	24,426	20,475	–	–
Total available-for-sale financial assets measured at fair value in equity	**24,426**	**20,475**	–	–
Total	**36,526**	**24,520**	**505**	**481**

The shares acquired in 2006 and 2007 primarily comprise shares in EM.Sport Media (previously: EM.TV AG), a listed company based in Ismaning, Germany. These have been classified as available-for-sale financial assets. The changes in fair value of TCHF –2,042 (previous year: TCHF 2,208) are carried in equity.

The securities in non-current assets at the end of the period amounting to TCHF 505 (previous year: TCHF 481) serve as collateral for liabilities to banks. These are financial assets designated at fair value through profit and loss.

The fair value adjustment of TCHF 2,045 is described under Note 11.

24. Hedging instruments

As at December 31, 2007, foreign currency forwards 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. Hedging instruments still outstanding on the balance sheet date relate to rights purchases in US dollar and are expected to run until September 2008.

The nominal amount of all outstanding foreign currency forwards and loans equals TCHF 14,201. The total market price valuation of these transactions is TCHF –272. 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 after deducting taxes (as of December 31, 2007 including minority interests: TCHF 0; previous year: TCHF 1,090) are reported in equity as a component of other reserves and minority interests. For fair value hedges, changes in market value of TCHF –269 (previous year: TCHF –554) were reported in the income statement. As an opposing effect, the change in the valuation of the outstanding hedged item is recognized in the income statement for fair value hedges.

In the context of the application of cash flow hedge accounting for derivative financial instruments TCHF 1,125 (previous year: TCHF 466) were taken from equity and recognized in revenues. The change of equity from open cash flow hedges was TCHF 0 (previous year: TCHF 1,067).

The market value of hedging instruments breaks down as follows:

		Dec. 31, 2007		Dec. 31, 2006
(TCHF)	Assets	Liabilities	Assets	Liabilities
Currency – cash flow hedges	–	–	–	1,842
Currency – fair value hedges	–	272	–	566
Total	**–**	**272**	**–**	**2,408**

25. Cash and cash equivalents

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
Bank balances and cash holdings	163,412	130,064
Cash equivalents	37,096	46,380
Total	**200,508**	**176,444**

The effective interest rate for bank balances and for non-current deposits by banks was between 0.125 % and 5.0 % (previous year: 0.4 % and 3.45 %).

26. Financial instruments

Financial assets

The following table sets out the carrying amounts and fair values of various financial instruments recognized in the consolidated financial statements.

(TCHF)	2007 Carrying amount	2007 Fair value	2006 Carrying amount	2006 Fair value
Cash and cash equivalents				
Bank balances and cash holdings	163,412	163,412	130,064	130,064
Cash equivalents	37,096	37,096	46,380	46,380
Total cash and cash equivalents	**200,508**	**200,508**	**176,444**	**176,444**
Loans and receivables				
Non-current trade receivables	1,775	1,775	3,563	3,563
Current trade receivables	54,216	54,216	48,679	48,679
Current loans to third parties	78	78	580	580
Receivables from POC	16,286	16,286	14,255	14,255
Receivables for subsidisation loans and subsidies	13,376	13,376	7,329	7,329
Prepaid expenses	1,203	1,203	819	819
Other receivables	4,248	4,248	5,276	5,276
Total loans and receivables	**91,182**	**91,182**	**80,501**	**80,501**
Available-for-sale financial assets				
Other financial assets (shares)	24,426	24,426	20,475	20,475
Total available-for-sale financial assets	**24,426**	**24,426**	**20,475**	**20,475**
Financial assets at fair value through profit and loss				
Other financial assets	12,605	12,605	4,526	4,526
Total financial assets at fair value through profit and loss	**12,605**	**12,605**	**4,526**	**4,526**
Total financial assets	**328,721**	**328,721**	**281,946**	**281,946**

Financial liabilities

(TCHF)	2007 Carrying amount	2007 Fair value	2006 Carrying amount	2006 Fair value
Financial liabilities valued at amortized cost				
Bank liabilities	12,656	12,437	26,215	25,787
Other liabilities subject to interest	10,826	10,826	2,343	2,343
Total non-current financial liabilities valued at amortized cost	**23,482**	**23,263**	**28,558**	**28,130**
Trade payables	41,063	41,063	39,661	39,661
Liabilities to shareholders and related parties	140	140	224	224
Other liabilities	57,736	57,736	20,494	20,494
Deferred income and accruals	30,359	30,359	47,460	47,460
Current liabilities subject to interest	293,546	293,546	267,835	267,835
Total financial liabilities valued at amortized cost	**446,326**	**446,107**	**404,232**	**403,804**
Financial liabilities valued at fair value				
Derivative financial instruments	272	272	2,408	2,408
Total current financial liabilities valued at fair value	**272**	**272**	**2,408**	**2,408**
Total financial liabilities	**446,598**	**446,379**	**406,640**	**406,212**

In order to determine the fair value of derivative financial instruments and other financial assets, the respective market price was used. The fair value for the remaining items is calculated by discounting the expected cash flow using standard market interest rates.

27. Deferred taxes

Changes in deferred tax assets and liabilities are as follows:

	Deferred tax assets		Deferred tax liabilities	
(TCHF)	2007	2006	2007	2006
As of January 1	9,683	24,847	5,546	12,367
Currency translation differences	235	455	174	261
Changes through income statement	–3,486	–12,751	1,089	–7,024
Changes through equity	770	–2,868	–	–58
As of December 31	**7,202**	**9,683**	**6,809**	**5,546**

Deferred taxes on temporary differences:

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
Lower depreciation for tax purposes on property, plant and equipment	3	2
Capitalization of tax loss carryforwards	11,293	17,886
Valuation adjustments		
– Advance payments received	69,682	65,845
– Film assets	–81,082	–79,937
– Others	7,306	5,887
Deferred tax assets	**7,202**	**9,683**

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
Valuation adjustments		
– Film assets	6,623	5,164
– Others	186	382
Deferred tax liabilities	**6,809**	**5,546**

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 84 million (previous year: CHF 103 million) expire between 2007 and 2011. In addition there are deferred tax assets valuation differences amounting to TCHF 855 (previous year: TCHF 1,216) which were not capitalized.

28. Share capital

	Bearer shares	
	Number of shares	TCHF
December 31, 2005	47,250,000	47,250
Capital increase	–	–
December 31, 2006	47,250,000	47,250
Capital increase	–	–
December 31, 2007	**47,250,000**	**47,250**

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, 2007, the authorized share capital comprises 60,000,000 bearer shares with a nominal value of CHF 1 each (December 31, 2006: 60,000,000 bearer shares with a nominal value of CHF 1 each). All shares outstanding are paid up in full.

In 2007, a total of 1,760,137 treasury shares were bought at an average price of CHF 12.46 per share, resulting in a total of TCHF 21,938. 711,395 shares were sold at an average price of CHF 10.84 for a total sum of TCHF 7,711. In accordance with IFRS, the transactions of treasury shares and also gains and losses are assigned to equity. On the balance sheet date, the Company's treasury shares comprised 2,198,852 shares.

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 transactions of treasury shares and also gains and losses 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.

29. Loans

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
Liabilities to banks	12,656	26,215
Other liabilities subject to interest	10,826	2,343
	23,482	**28,558**

Maturity		
Between 1 and 2 years	13,433	14,544
Between 2 and 3 years	10,049	13,545
Between 3 and 4 years	–	469
Between 4 and 5 years	–	–
Over 5 years	–	–

Currencies		
CHF	13,010	23,478
EUR	10,472	5,080
	23,482	**28,558**

Interest rates	Dec. 31, 2007	Dec. 31, 2006
CHF	2.30 %	2.10 %–2.30 %
EUR	EURIBOR + 1.25 %	EURIBOR + 1.25 %

A component of non-current loans amounting to CHF 11 million is secured by the same collateral as current liabilities subject to interest. See Note 31 (Liabilities subject to interest).

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

Assumptions	Dec. 31, 2007	Dec. 31, 2006
Technical interest rate	3.25 %	3.25 %
Long-term return on assets	3.50 %	3.50 %
Future wage developments	1.50 %	1.50 %
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)	2007	2006
Actuarial pension benefit expense	2,730	2,211
Past service cost	–	–3
Interest rate	730	655
Expected return on assets	–602	–537
Non-recurring inclusion of shortfall from conversion of prior or new benefit plans	–	–
Actuarial gains/losses for period	156	158
Restriction on account of Art. 58 b	–	–
Employee contributions	–1,096	–1,038
Benefit plans	**1,918**	**1,446**
Other benefit plans	7	6
Expenditure on retirement benefit plans	**1,925**	**1,452**

The expected premiums for the subsequent year are around CHF 2.0 million.

The amounts recognized as retirement benefit obligations developed as follows:

(TCHF)	2007	2006
Retirement benefit obligations as of January 1	574	506
Employer expense of retirement benefits	1,918	1,446
Employer contributions	–1,767	–1,378
Retirement benefit obligations as of December 31	**725**	**574**

Retirement benefit obligations and assets developed as follows:

(TCHF)	2007	2006
Retirement benefit obligations as of January 1	19,728	18,960
Actuarial pension benefit expense	2,730	2,211
Past service cost	–	–3
Interest rate	730	655
Benefits paid	–1,144	–2,826
Actuarial (gain)/loss on obligations	285	731
Retirement benefit obligations as of December 31	**22,329**	**19,728**

(TCHF)	2007	2006
Assets as of January 1	17,203	17,197
Expected return on assets	602	537
Employer contributions	1,767	1,379
Employee contributions	1,096	1,038
Benefits paid	–1,144	–2,826
Actuarial gain/(loss) on assets	–249	–122
Retirement benefit assets at fair value as of December 31	**19,275**	**17,203**

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

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

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
Retirement benefit obligations	–22,329	–19,728
Assets	19,275	17,203
Shortfall	–3,054	–2,525
Unrecognized losses (+)/gains (–)	2,329	1,951
Unrecognized assets	–	–
Retirement benefit obligations	**–725**	**–574**

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

(TCHF)	2007	2006	2005
Retirement benefit assets at fair value as of December 31	19,275	17,203	17,197
Retirement benefit obligations as of December 31	–22,329	–19,728	–18,960
(Shortfall)/excess cover	**–3,054**	**–2,525**	**–1,763**
Experience adjustment of retirement benefit obligations	598	152	–
Adjustment of retirement benefit obligations owing to changes in assumptions	–883	–883	–692
Experience adjustment of retirement benefit assets	–249	–122	–685

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

(%)	2007	2006
Cash and cash equivalents	5	1.3
Bonds	18.5	23.4
Shares	15.8	19.5
Real estate	8.1	3.8
Other	52.6	52.0
Total	**100.0**	**100.0**

The "Other" item primarily includes the redemption values from foundations, for which assets cannot be broken down. Actual income from the asset amounted to TCHF 353 in the fiscal year (previous year: TCHF 415).

31. Non-current liabilities subject to interest

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
Liabilities subject to interest	293,546	267,835
	293,546	**267,835**

The carrying amount of liabilities subject to interest correspond roughly to the fair values and have the following maturity structure:

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
less than 6 months	282,579	200,330
between 6 and 12 months	12,150	70,025

Liabilities subject to interest can be allocated at their carrying amount in the following currencies:

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
CHF	79,015	69,987
EUR	181,103	122,451
USD	19,693	63,138
Other	13,735	12,259
Total	**293,546**	**267,835**

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

The effective interest rates on the balance sheet date are, according to currency:

Interest rates	Dec. 31, 2007	Dec. 31, 2006
CHF	1.85 %–3.59 %	1.70 %–3.42 %
EUR	4.55 %–7.80 %	3.83 %–7.80 %
USD	7.30 %	7.15 %
Other	6.76 %	6.08 %

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, 2007	Dec. 31, 2006
Syndicate loans, production revolvers	112,530	122,000
Credit line	128,000	139,010
Licence trading and operating funds	101,188	64,292

Credit facilities (production revolvers and license trading facilities) are secured by film rights of TCHF 301,271 carried as film assets and the resultant proceeds from exploitation as well as by receivables of TCHF 36,123.

The credit facilities are secured by the following shares:

EM.Sport Media AG	4,300,000	Number	Fair value: TCHF	24,426
Constantin Film AG	11,887,878	Number	Fair value: TCHF	419,344
Highlight Communications AG	483,862	Number	Fair value: TCHF	6,931

32. Trade payables and other liabilities

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
Trade payables	41,063	39,661
Liabilities to shareholders and related parties	140	224
Other liabilities	61,244	24,793
Liabilities from POC	6,242	593
Deferred income and accruals	31,464	48,516
Total	**140,153**	**113,787**

Conditions of above-listed financial liabilities:

- Trade payables are not subject to interest and are generally due between 30 and 60 days.
- Other liabilities as of December 31, 2007 are due on an average of around five months.

Trade payables can be allocated at their carrying amount in the following currencies:

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
CHF	1,892	2,376
EUR	36,090	31,771
USD	3,065	5,478
Other	16	36
Total	**41,063**	**39,661**

Other liabilities can be allocated at their carrying amounts in the following currencies:

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
CHF	2,575	2,017
EUR	58,573	22,252
USD	94	522
Other	2	2
Total	**61,244**	**24,793**

As a matter of principle, liabilities are recognized at their settlement or redemption amount.

33. Provisions

(TCHF)	Litigation provisions	Returns provisions	Other	Total
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**
January 1, 2007	6,080	12,371	500	18,951
Currency translation differences	170	10	–	180
Additions	260	20,831	–	21,091
Consumption	–	–18,305	–	–18,305
Reversal	–2,159	–329	–	–2,488
December 31, 2007	**4,351**	**14,578**	**500**	**19,429**
Of which				
– current component of provisions	4,351	14,578	500	19,429
– non-current component of provisions	–	–	–	–
Total provisions	**4,351**	**14,578**	**500**	**19,429**

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.

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.

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

Constantin Film AG (acquisition of minority interests)

The investment in Constantin Film AG was increased by a further 3.16 % to 95.23 % as a result of various acquisitions in 2007. The acquisition is carried using the economic entity concept and is therefore shown in equity.

Königskinder Schallplatten GmbH (acquisition of Group company)

A 25 % interest in Königskinder Schallplatten GmbH was acquired by Constantin Film AG in the first quarter of 2006. Königskinder Schallplatten GmbH was considered an associate. In the second quarter of 2007, a further interest of 25 % was acquired by Constantin. From this point in time, the investment has been fully consolidated, because Constantin Film AG controls the company. The acquisition generated a net cash inflow of TCHF 12. The effect of consolidation on earnings was TCHF –350.

Constantin Ring Koprodukcija d.o.o. (acquisition of associate subsequently Group company)

Towards the end of the second quarter of 2007, Constantin Entertainment GmbH and a Croatian producer jointly incorporated Constantin Ring Koprodukcija d.o.o. The activities of the company include the development and production of entertainment formats in the areas of television play and entertainment. As at December 28, 2007, each of the two companies held 50 % of the shares in the new company. The company was carried at equity from the third quarter. From December 28, 2007, the company is fully consolidated as a result of the increase of the investment to 100 %. Net cash outflow from the acquisition was TCHF 283. The effect of consolidation on earnings was TCHF 0.

Constantin Music GmbH

As at December 13, 2007, Constantin Film AG acquired a 90 % share of Constantin Music GmbH. The acquisition was undertaken as part of the strengthening of activities in the music sector at the Constantin Group. The company was fully consolidated from the time of acquisition. The acquisition generated a net cash inflow of TCHF 5. The effect of consolidation on earnings was TCHF 0.

For acquisition/sale of associates we refer to Note 19 (Investments in associates).

35. 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	95.23%	95.23%
Constantin Script & Development GmbH	Acquisition and development of content	D	EUR 26,000	95.23%	100%
Constantin Media GmbH audiovisuelle Produktionen	Acquisition and development of content	D	EUR 26,000	95.23%	100%
Constantin Film Produktion GmbH	Film and TV production	D	EUR 105,100	95.23%	100%
Constantin Television GmbH	TV entertainment production	D	EUR 100,000	95.23%	100%
Constantin Film Services GmbH	Service provider	D	EUR 25,000	95.23%	100%
Constantin Film Development Inc.	Acquisition and development of content	USA	USD 530,000	95.23%	100%
Constantin Productions Services Inc.	International film production	USA	USD 50,000	95.23%	100%
DoA Production Ltd.	International film production	UK	GBP 1,000	95.23%	100%
Resident Evil Mexico S. DE R.L. DE C.V. (Mexico LLC)	International film production	MX	MXN 3,000	95.23%	100%
Constantin Film International GmbH	International film production	D	EUR 105,000	95.23%	100%
Constantin Pictures GmbH	International film and TV production	D	EUR 25,000	95.23%	100%
Constantin Entertainment GmbH	TV entertainment production	D	EUR 200,000	95.23%	100%
Constantin Entertainment Polska Sp. z o.o.	TV entertainment production	PL	PLN 50,000	80.95%	85%
Constantin Entertainment U.K. Ltd.	TV entertainment production	UK	GBP 95,000	95.23%	100%
Constantin Ring Koprodukcija d.o.o.*****	TV entertainment production	Croatia	HRK 20,000	95.23%	100%
Olga Film GmbH	Film and TV production	D	EUR 603,000	48.57%	51%
bob Film GmbH	Film and TV production	D	EUR 25,000	48.57%	100%
MOOVIE – the art of entertainment GmbH	Film and TV production	D	EUR 104,000	48.57%	51%
Rat Pack Filmproduktion GmbH	Film and TV production	D	EUR 103,000	48.57%	51%
Westside Filmproduktion GmbH	Film and TV production	D	EUR 103,000	48.57%	51%
Constantin Film Verleih GmbH	License trading and cinema distribution	D	EUR 250,000	95.23%	100%
Classic Media Werbeagentur GmbH	Advertising and event marketing	D	EUR 105,000	95.23%	100%
Constantin International B.V.	License trading	NL	EUR 18,151	95.23%	100%
Constantin Music Verlags-GmbH	Exploitation of music rights	D	EUR 70,000	95.23%	100%
Constantin Music GmbH*******	Exploitation of music rights	D	EUR 25,000	85.71%	90%
Königskinder Schallplatten GmbH**	Record label and music producer	D	EUR 50,000	47.62%	50%
Constantin Propaganda GmbH	License trading	D	EUR 100,000	95.23%	100%
PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH***	TV productions	D	EUR 100,000	47.62%	50%
Resident Evil Productions LLC****	International film production	USA	USD 100	n/a	n/a
BECO Musikverlag GmbH******	Music publisher	D	EUR 25,565	47.62%	50%
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 company has been fully consolidated since the second quarter as a result of the investment being increased from 25% to 50% ***the companies were incorporated together a partner and consolidated at equity ****the company is included in consolidation under SIC 12 *****the company was co-founded in the second quarter. In the fourth quarter, the minority stakes were acquired, so the size of its share is now 100%. ******the company was acquired in the fourth quarter and consolidated at equity. *******the company was acquired in the fourth quarter.*

The following 10 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	95.23%
Greenland Film Production A.B.*	Sweden	SKR	100,000	95.23%
Smilla Film A.S.*	Denmark	DKR	500,000	95.23%
Constantin Music Publishing US Inc.*	USA	USD	1,000	95.23%
She's French LLC**	USA	USD	1,000	95.23%
Impact Pictures LLC**	USA	USD	1,000	48.57%
Impact Pictures Ltd.***	Great Britain	GBP	1,000	48.57%
The Dark Film Ltd.****	Great Britain	GBP	100	48.57%
Sheep Ltd.****	Isle of Man	GBP	2,000	48.57%
Constantin Entertainment Adria d.o.o.*****	Croatia	HRK	20,000	95.23%

* *share held by Constantin Film Produktion GmbH, Deutschland*
** *share held by Constantin Pictures GmbH, Deutschland*
*** *share held by Impact Pictures LLC, USA*
**** *share held by Impact Pictures Ltd., Grossbritannien*
***** *share held by Constantin Entertainment GmbH, Germany. The company was founded in the third quarter, but is currently inactive.*

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 favour 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.

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

A further stock option plan was agreed in the fiscal year 2003. Up to the end of the 2007 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 Management Board is not planning any further issuing of options as part of SOP 2003.

37. Related party transactions

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
Receivables		
Members of the Board of Directors	139	–
Liabilities		
Members of the Board of Directors	140	248

Remuneration 2007 (TCHF)	Basis remuneration	Variable remuneration	Remuneration as committee member	Social security and pension provisions	Total
Bernhard Burgener, Chairman, executive member	1,310	647	190	243	2,390
Martin Wagner, Vice Chairman, executive member	929	477	109	209	1,724
René Camenzind, non-executive member	–	–	50	4	54
Martin Hellstern, non-executive member	–	–	50	2	52
Dr. Ingo Mantzke, executive member	405	377	10	110	902
Total members of the Board of Directors	**2,644**	**1,501**	**409**	**568**	**5,122**
Total Group management without executive members of the Board of Directors	**1,179**	**694**	**31**	**277**	**2,181**

The basis remuneration also includes flat-rate expenses. The five members of the Board of Directors and the three members of Group management receive part of the cash remuneration in line with the stock price of Highlight Communications AG. At the time of granting (October 30, 2007), the market value of the shares was CHF 14.03 (EUR 8.36). The date for calculating the variable shares was determined by the Board of Directors. The variable remuneration was paid out in the fourth quarter of 2007.

Certain members of the Board of Directors and Group management also receive additional remuneration for their activities in various committees of subsidiaries. These are stated additionally.

All remuneration is paid out in cash. No shares have been issued to the members of the Board of Directors or members of Group management.

In fiscal years 2007 and 2006, no remuneration was granted for former members of the Board of Directors or Group management members. Also, no standard market remuneration was offered to related parties of current or former members of the Board of Directors or Group management.

Loans and credits

As of December 31, 2007 and December 31, 2006, no loans and credits had been granted or were outstanding to members of the Board of Directors or members of Group management or related parties.

Investments

As at December 31, 2007, individual members of the Management Board and Group management (including related parties) held the following number of shares in the Company.

Bernhard Burgener, Chairman, executive member	4,435,000
Martin Wagner, Vice Chairman, executive member	37,500
René Camenzind, non-executive member	1,253,715
Martin Hellstern, non-executive member	1,800,000
Dr. Ingo Mantzke, executive Member	146,010
Antonio Arrigoni, Managing Director	7,000
Paul Graf, Managing Director	33,000
Peter von Büren, Managing Director	34,653

38. Shareholder structure

Shareholders with material holding of over 5 %, without members of the Board of Directors or members of Group management:

(%)	2007	2006
EM.Sport Media AG	26.31	n/a
KF 15 GmbH & Co. KG	11.28	n/a
MarCap Investors L.P.	9.06	n/a
Drueker & Co. GmbH	–	28.44

The share held by members of the Board of Directors or members of Group management and related parties is outlined in Note 37 (Related party transactions).

The Board of Directors is not aware of any other material shareholdings (over 5 %).

39. Contingent liabilities and obligations

There is a rental guarantee for office space leased by Constantin Film AG of TCHF 379 (previous year: TCHF 368). Guarantees totalling TCHF 14,329 have been issued to various TV stations for service productions (previous year: TCHF 13,694).

The impact on the Group's assets, financial state and earnings as of 2008 cannot be estimated with any reliability as of this date.

40. Operating leases and rental agreements

The Group leases and rents motor vehicles, equipment and buildings as well as various items of equipment which are covered by operating lease contracts. Leasing and rental expenses amounted to TCHF 6,842 in the period under review (previous year: TCHF 6,439).

The following minimum lease obligations were in force as of December 31, 2007:

(TCHF)	Dec. 31, 2007	Dec. 31, 2006
up to 1 year	5,669	5,414
from 1 to 5 years	10,276	9,616
over 5 years	3,224	4,582
Total	**19,169**	**19,612**

Lease obligations primarily relate to non-current rental obligations.

41. Events after the balance sheet date

On March 31, 2008, EM.Sport Media AG announced that in addition to its previous 26.3 % stake in the issued capital of Highlight Communications AG, it had acquired a further 11.3 % stake.

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 (income statement, balance sheet, statement of changes in equity, statement of cash flows and notes) included on pages 53 to 118 of Highlight Communications AG for the year ended December 31, 2007.

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

Bruno Häfliger   Josef Stadelmann
Auditor in charge

Lucerne, April 25, 2008

FINANCIAL STATEMENTS

for the year ended December 31, 2007 of Highlight Communications AG, Pratteln

INCOME STATEMENT FOR 2007

Highlight Communications AG, Pratteln

(TCHF)	2007	2006
License income	1,168	818
Miscellaneous revenues	633	291
Financial income		
Interest income	112	57
Income on securities	3,858	1,983
Income on investments	26,192	17,866
Total income	**31,963**	**21,015**
License expense	–373	–857
Personnel expense	–6,992	–3,611
Office and administrative expense	–3,207	–3,635
Depreciation on investments	–6,945	–5,880
Financial expense		
Interest expense	–5,275	–4,625
Expense on securities	–4,087	–2,303
Total expense	**–26,879**	**–20,911**
Net profit before taxes	**5,084**	**104**
Income taxes	–	–
Profit for year	**5,084**	**104**

BALANCE SHEET FOR THE YEAR ENDED DECEMBER 31, 2007

Highlight Communications AG, Pratteln

ASSETS (TCHF)	Dec. 31, 2007	Dec. 31, 2006
Current assets		
Cash and cash equivalents	8,051	2,943
Securities	35,284	26,541
Trade receivables		
from third parties	–	14
Other receivables		
from third parties	13	134
from Group entities	258	201
Prepaid expenses/accrued income	43	24
	43,649	**29,857**
Non-current assets		
Financial assets		
Investments	270,427	258,426
Intangible assets		
Film assets	–	–
	270,427	**258,426**
Total assets	**314,076**	**288,283**

SHAREHOLDERS' EQUITY AND LIABILITIES (TCHF)	Dec. 31, 2007	Dec. 31, 2006
Liabilities		
Trade payables		
to third parties	587	623
to Group entities	4,331	5,182
Current bank liabilities	107,914	75,944
Other current liabilities		
to third parties	1,411	1,387
to related parties	–	157
to Group entities	45,275	37,141
Deferred income/accrued expenses	1,278	1,575
Current provisions	500	500
Non-current loans	11,000	23,000
Other non-current liabilities	3,175	2,343
	175,471	**147,852**
Shareholders' equity		
Share capital	47,250	47,250
Legal reserves		
General reserve	42,140	56,363
Reserve for treasury shares	24,479	10,255
Retained earnings		
Profit carried forward	19,652	26,459
Profit for year	5,084	104
	138,605	**140,431**
Total shareholders' equity and liabilities	**314,076**	**288,283**

NOTES TO THE FINANCIAL STATEMENTS 2007

Highlight Communications AG, Pratteln

1. Pledged assets as collateral for own obligations

	2007	2006
Shares in EM.Sport Media AG (formerly: EM.TV AG)		
Number	4,300,000	3,499,577
TCHF	24,426	20,475
Shares in Constantin Film AG		
Number	11,887,878	11,464,441
TCHF	150,514	137,914
Shares in Highlight Communications AG		
Number	483,862	184,334
TCHF	6,931	1,641
Credit facility utilized		
TCHF	118,914	63,944

2. Fire insurance values of property, plant and equipment

(TCHF)	2007	2006
Furniture and equipment	–	–
Computer equipment	–	850
	–	**850**

3. Notes on main investments

Company, domicile, purpose	Percentage	Issued capital
Team Holding AG, Lucerne *Sports marketing and holding company*	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%	TCHF 256
Constantin Film AG, Munich *Production and distribution of films and holding company*	95.12% (previous year: 91.80%)	TCHF 12,743
Rainbow Home Entertainment GmbH, Vienna *Distribution*	100.00%	TCHF 363
Escor Casinos & Entertainment SA, Düdingen *Gaming machine manufacturer and holding company*	24.97%	TCHF 12,375

4. Share capital/authorized capital

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.

5. Shareholder structure

Shareholders with holdings of over 5 %	2007	2006
EM.Sport Media AG	26.31 %	n/a
KF 15 GmbH & Co. KG	11.28 %	n/a
MarCap Investors L.P.	9.06 %	n/a
Drueker & Co. GmbH	–	28.44 %

The shareholdings of the members of the Board of Directors and the Group management as well as their related parties are specified in Note 7.

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

6. Treasury shares

	Number of shares	Average transaction price CHF	Transaction value TCHF	Reserve for treasury shares TCHF
Balance on January 1, 2007	1,150,110			10,255
Sales	–711,395	10.84	–7,714	–7,714
Acquisitions	1,760,137	12.46	21,938	21,938
Balance on December 31, 2007	**2,198,852**			**24,479**

7. Information on the remuneration of the Board of Directors and the Group management as well as ownership of company shares

Remuneration 2007 (TCHF)	Basis remuneration	Variable remuneration	Remuneration as committee member	Social security/ pension provisions	Total
Bernhard Burgener, Chairman, executive member	1,310	647	190	243	2,390
Martin Wagner, Vice Chairman, executive member	929	477	109	209	1,724
René Camenzind, non-executive member	–	–	50	4	54
Martin Hellstern, non-executive member	–	–	50	2	52
Dr. Ingo Mantzke, executive member	405	377	10	110	902
Total Board of Directors	**2,644**	**1,501**	**409**	**568**	**5,122**
Total Group management excl. executive Board members	**1,179**	**694**	**31**	**277**	**2,181**

The basis remuneration also includes flat-rate expenses. The five members of the Board of Directors and the three members of Group management receive part of the cash remuneration in line with the stock price of Highlight Communications AG. At the time of grant (October 30, 2007), the market value of the shares was CHF 14.03 (EUR 8.36).

The date for calculating the variable parts is determined by the Board of Directors. The variable remuneration was paid out in the fourth quarter of 2007.

Certain members of the Board of Directors and the Group management also receive additional remuneration for their activities in various committees of subsidiaries. These are stated additionally.

All remuneration was paid out in cash. No shares have been issued to the members of the Board of Directors or members of Group management.

In fiscal years 2007 and 2006 no remuneration was granted to former members of the Board of Directors or Group management members. Also no remuneration not in line with the market were granted to actual or former members of the Board of Directors or related parties of Group management members.

Loans and credits

As of December 31, 2007 and December 31, 2006, no loans and credits had been granted or were outstanding to members of the Board of Directors, the Group management members or related parties of the members of the Board of Directors and the Group management.

Shareholdings

As of December 31, 2007, the individual members of the Board of Directors and the Group management (including related parties) held the following number of company shares:

Bernhard Burgener, Chairman, executive member	4,435,000
Martin Wagner, Vice Chairman, executive member	37,500
René Camenzind, non-executive member	1,253,715
Martin Hellstern, non-executive member	1,800,000
Dr. Ingo Mantzke, executive member	146,010
Antonio Arrigoni, Managing Director	7,000
Paul Graf, Managing Director	33,000
Peter von Büren, Managing Director	34,653

PROPOSAL FOR THE APPROPRIATION OF AVAILABLE RETAINED EARNINGS

Highlight Communications AG, Pratteln

(TCHF)	2007
Profit carried forward	19,652
Profit for year	5,084
Retained earnings	**24,736**

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	17,648
	24,736

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 (income statement, balance sheet and notes) included on pages 121 to 126 of Highlight Communications AG for the year ended December 31, 2007.

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

Bruno Häfliger — Josef Stadelmann
Auditor in charge

Lucerne, April 25, 2008

Calendar of events 2008

Film	
Cannes Film Festival	May 14 – 25
Locarno Film Festival	August 6 – 16
Venice Film Festival	August 27 – September 6
Toronto Film Festival	September 4 – 13

Sports and Event Marketing	
UEFA Cup Final	May 14
UEFA Champions League Final	May 21
Eurovision Song Contest, semifinal	May 22
Eurovision Song Contest, final	May 24
UEFA Super Cup	August 29

Investor Relations	
Annual General Meeting	May 30
German Equity Forum	November 10 – 12
Quarterly reports	May / August / November

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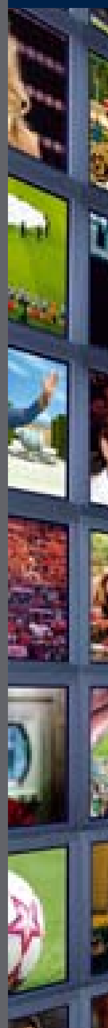

Members of the Highlight Group: Constantin Film RAINBOW HOME ENTERTAINMENT T.E.A.M.