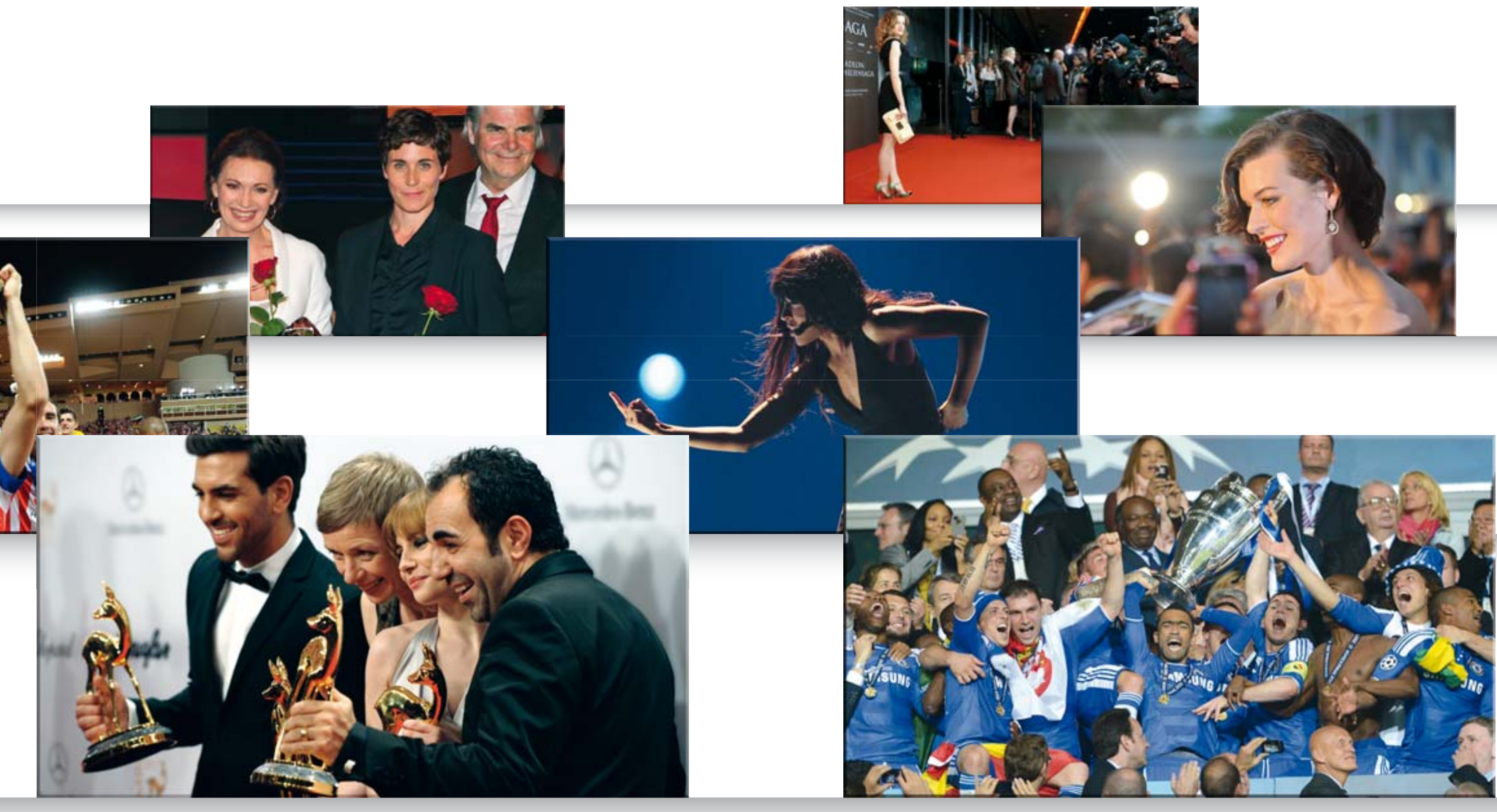
Highlight

Highlight Communications AG

Annual Report 2012



Swiss-based Highlight Group comprises companies with considerable synergy potential. It is one of the biggest media stocks on the German capital market.

Highlight Communications AG at a glance (TCHF)		**2012**	2011
Consolidated balance sheet	Total assets	**421,105**	499,182
	Film assets	**162,633**	154,555
	Cash and cash equivalents	**72,517**	140,711
	Financial liabilities	**136,034**	204,207
	Equity attributable to the shareholders	**102,504**	82,746
Consolidated income statement	Sales	**432,814**	383,452
	Profit from continuing operations	**36,056**	39,702
	Net profit (Highlight shareholders)	**25,530**	31,610
	Earnings per share (CHF)	**0.55**	0.69
	Earnings per share (EUR)	**0.46**	0.56
Consolidated statement of cash flows	Cash flow from operating activities	**156,298**	114,724
	Cash flow for investing activities	**–137,246**	–76,619
	thereof payments for film assets	**–126,646**	–77,544
	Cash flow for financing activities	**–85,845**	–59,818
	thereof dividend payments	**–9,753**	–9,722
	Cash flow for the reporting period	**–66,793**	–22,143
Personnel	Headcount as of December 31	**732**	733

The Highlight Group's expertise covers the planning, production and marketing of top events and first-class entertainment in the areas of film, sports and music.

Highlight Communications AG, Pratteln, Switzerland

Film		Sports- & Event-Marketing	Other Business Activities
100 %	100 %	100 %	59.89 %
Constantin Film AG MUNICH, GERMANY Subsidiaries of Constantin Film AG **Constantin Film Schweiz AG** PRATTELN, SWITZERLAND	**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	**Highlight Event & Entertainment AG** DÜDINGEN, SWITZERLAND **Highlight Event AG** LUCERNE, SWITZERLAND

Members of the Highlight Group

Top movies and TV formats, first-class DVD/Blu-ray releases, top-level European football and world-famous major musical events make up the Highlight portfolio.

Markets & Events of the Highlight Group

Cinema

Highlight subsidiary Constantin Film AG is Germany's leading producer and distributor of theatrical films. In "Türkisch für Anfänger" (1st place), "The Famous Five" (3rd place) and "Resident Evil: Retribution" (8th place), three of the eight most-watched German productions of 2012 belonged to Constantin Film.

Television

Some of Constantin Film's subsidiaries produce very successful TV formats on behalf of major TV stations at home and abroad: daily shows, primetime shows, crime series and TV movies/ miniseries.

Home entertainment

The Highlight Group has its own distribution organization for the best possible exploitation of DVD/Blu-ray rights to theatrical films. Distribution in Switzerland and Austria is performed by the Rainbow Home Entertainment subsidiaries. Highlight Communications (Deutschland) GmbH cooperates with Paramount Home Entertainment to cover the German market.

The bestsellers of 2012 were "Türkisch für Anfänger", "The Three Musketeers" and "Wickie and the Treasure of the Gods".

Football

Based in Lucerne, the TEAM Group is one of the world's leading agencies in the global marketing of major international sports events. On behalf of the Union of European Football Associations, it exclusively markets the "UEFA Champions League", the "UEFA Europa League" and the "UEFA Super Cup" worldwide.

Music

The well-attended projects handled by Highlight Event & Entertainment AG include the marketing of the "Eurovision Song Contest" and a marketing cooperation with the Vienna Philharmonic Orchestra. As part of this cooperation, it markets the orchestra's "New Year's Day Concert" and the "Summer Night Concert".

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Football is king:
Government leaders of the major industrialized nations even interrupted their meeting at the G8 summit in Camp David to watch the UEFA Champions League final.

Foreword by the Chairman

Dear shareholders and other interested parties,

2012 was largely dominated by the ongoing debt crisis in Europe and a downturn in the economy as a whole. In this challenging environment, the Highlight Group again achieved its targets as well as concluding important strategic agreements.

As part of its internationalization strategy, Constantin Film has established "Mister Smith Entertainment Ltd.", which operates in the fields of financing, co-financing and licensing of movies for global distribution. Constantin Film AG has also concluded an output deal with US studio DreamWorks. With this deal, Constantin Film has secured the German-speaking exploitation rights to a large number of high-quality DreamWorks productions over the next few years.

In late 2012, the Union of European Football Associations (UEFA) also concluded a new agency agreement with our rights marketer TEAM, allowing it to market the commercial rights to the top events UEFA Champions League, UEFA Europa League and UEFA Super Cup for at least three more seasons from 2015/16 to 2017/18. All of these agreements are highly strategically important for the further development of our Group in the coming years. They are also proof of the trust placed in us by our partners, most of whom have maintained a close business relationship with us for many years.

The Film and Sports- and Event-Marketing segments contributed to the strong consolidated net profit in the past year, with the exception of the Other Business Activities segment that is still in development.

The Film segment can look back at a positive fiscal year in which sales increased to a greater extent than expected, growing by 21.0% to CHF 353.4 million. In addition to higher revenues from theatrical distribution and license trading, there was also increased momentum in sales from TV service production. The Constantin Film Group released a total of twelve movies in German theaters in 2012, increasing its market share to a good 6% of viewers. The most-watched Constantin title was the comedy "Türkisch für Anfänger", which attracted an audience of 2.4 million. The international 3D own production "Resident Evil: Retribution" met with great international success. The fifth part of the action spectacle brought in more than USD 220 million in over 70 countries by the end of the year.

In marketing the commercial rights to the UEFA Champions League and the UEFA Europa League, the Sports- and Event-Marketing segment again exceeded the performance targets agreed with UEFA in 2012 in spite of the deterioration in global economic conditions. The dramatic Champions League final between FC Bayern München and Chelsea FC held in Munich on May 19 was watched on TV by around 170 million fans around the world – including government leaders of the major industrialized nations, who even interrupted the G8 summit in Camp David to see the result of the penalty shoot-outs live. There could hardly be any more convincing demonstration of the fascination created by this top club football competition.

The considerably lower sales of CHF 69.4 million in this segment in the past year, as compared to CHF 90.3 million in the year before, is due to changes in the business relationship with UEFA, including handing over match organization to UEFA, and the fact that music activities have been hived off to the Other Business Activities segment. By contrast, segment earnings marked a significant rise from CHF 29.6 million in the previous year to CHF 32.1 million.

In the Other Business Activities segment, Highlight Event & Entertainment AG, which is listed on the Swiss stock exchange (SIX), acquired the TEAM Group's music business activities (marketing of the Eurovision Song Contest and the Vienna Philharmonic Orchestra) on April 1, 2012. As part of the capital increase of CHF 8.66 million conducted in late May, our company increased its interest in Highlight Event & Entertainment AG further to 59.89 % in the current year.

In 2013, we are planning a distribution slate expected to consist of 18 films. Our expectations are high for the lavish 3D CGI own production "Tarzan", scheduled for release in Germany in mid-October. The same applies to the co-production "The Mortal Instruments: City of Bones", based on the internationally successful book series "The Mortal Instruments", as well as the licensed titles "Ender's Game" and "Walking with Dinosaurs 3D" and the German own production "Fack ju Göhte", the next German comedy by Bora Dagtekin ("Türkisch für Anfänger").

In the home entertainment business area, the Constantin Film licensed title "Step Up Revolution", issued at the beginning of February, has already posted very strong sales. We expect a similar performance from the action spectacular "Resident Evil: Retribution", the fifth part of our hit franchise, which was released in mid-March on DVD and Blu-ray. The Kaya Yanar comedy "Agent Ranjid rettet die Welt" and the youth adventures "The Famous Five 2" and "Ostwind" are likely to provide further impetus.

In Sports- and Event-Marketing, preparations are underway for the sales process for the TV and sponsorship rights to the two UEFA club football competitions for the 2015/16 to 2017/18 seasons. In addition, TEAM is focused on actively supporting commercial partners in the current season, while two major events are on the horizon for Highlight Event & Entertainment AG – the Eurovision Song Contest and the Vienna Philharmonic Orchestra's Summer Night Concert.

I would like to thank all employees in our Group for their successful work in 2012, which was performed, as always, with energy, passion and skill. I would also like to thank you, our shareholders, for your continued trust in the Highlight Group, which we intend to continue to justify in the new fiscal year.

Yours,

B. Burgener

Bernhard Burgener
Chairman and Delegate of the Board of Directors

Members of the Board of Directors

Bernhard Burgener (born 1957)

Chairman and Delegate of the Board of Directors

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

Since September 2008, Mr. Burgener has again acted as Delegate of the Board. Since being elected as the new Chairman of the Board of Directors by the Annual General Meeting of Highlight Communications AG at the end of May 2011, he has been performing both functions simultaneously. Mr. Burgener has also been the CEO of Constantin Medien AG since September 2008 and the CEO of Constantin Film AG since January 2009.

Martin Wagner (born 1960)

Vice Chairman of the Board of Directors and Head of Legal Affairs & Compliance

Lawyer. Mr. Wagner is a commercial lawyer and a partner at a leading international law firm in Basel. Specializing in stock corporation law, stock market law and media law, he serves as senior legal counsel to several listed companies in Switzerland and abroad. Since May 2000, Mr. Wagner has been a member of the Board of Directors of Highlight Communications AG and Head of Legal Affairs & Compliance of the Highlight Group.

Dr. Ingo Mantzke (born 1960)

Member of the Board of Directors and Chief Investor Relations Officer

MBA. Dr. Mantzke worked at BHF-Bank, Frankfurt/Main, from 1987 to 1989 before receiving a two-year PhD scholarship. From 1991 to 1996 he worked for KPMG Unternehmensberatung GmbH, most recently holding the position of senior manager in the financial services segment. Dr. Mantzke then became a director of Deutsche Börse AG, where he was initially responsible for the areas of Controlling and Investor Relations and later took the position of Head of Finance.

Dr. Mantzke has been a member of Highlight Communications AG's Board of Directors since February 1999. His responsibilities include, among other things, being Chief Investor Relations Officer for all activities of the company in the investor and capital market area.

Antonio Arrigoni (born 1968)

Member of the Board of Directors

Swiss certified accountant. From 1996 to mid-2004, Mr. Arrigoni worked as an auditor at KPMG Fides Peat in Zurich and KPMG LLP in Miami/USA. He then moved to Highlight Communications AG, where he took on the role of CFO as a Managing Director. Since April

2008, Mr. Arrigoni has been a member of the Management Board of Constantin Medien AG, where he is responsible in particular for Finance, Law, Investor Relations, Human Resources, and Accounting. In late May 2008, Mr. Arrigoni was elected to the Board of Directors of Highlight Communications AG.

René Camenzind (born 1951)

Member of the Board of Directors

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

Dr. Erwin V. Conradi (born 1935)

Member of the Board of Directors

Industrial engineer. Dr. Conradi worked at IBM in New York and Dusseldorf from 1959 to 1971. He then joined the Metro Group, Dusseldorf, where he ranked as one of the most important top managers in retail as the head of Metro AG. Dr. Conradi has been a member of the Supervisory Board of Constantin Medien AG since mid-2007 and a member of Highlight's Board of Directors since late May 2008.

Dr. Dieter Hahn (born 1961)

Member of the Board of Directors

Businessman. Dr. Hahn was appointed to the management of the Kirch Group in 1997. He was responsible for communications and sports rights before becoming the Vice Chairman of its executive body in 1998. As the Vice Chairman of Kirch Holding, Dr. Hahn then took over the departments of Corporate Planning, Communications and Multimedia for the entire group in 2001. As Chairman of the Supervisory Boards of Premiere and ProSiebenSat.1 Media AG, he supervised the TV activities of the group. Today, Dr. Hahn is co-owner and Managing Director of KF 15 GmbH & Co. KG. He has had a seat on Constantin Medien AG's Supervisory Board since January 2009 and has been a member of the Board of Directors of Highlight Communications AG since the end of May 2011.

Martin Hellstern (born 1934)

Member of the Board of Directors

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

Corporate Governance

Introduction

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

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 three segments - “Film”, “Sports- and Event-Marketing” and “Other Business Activities”.

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 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, 2012, the market capitalization of the company was around EUR 183.45 million at a closing stock price for the year of EUR 3.98.

1.2.2 Highlight Event & Entertainment AG

Highlight Event & Entertainment AG, headquartered in Düdingen/FR, has been included in the consolidated financial statements of Highlight Communications AG since July 1, 2011 by way of full consolidation. Highlight Event & Entertainment AG has been listed on the Swiss stock exchange SIX since 1987. It is a member of the Main Standard and its shares (ISIN: CH 000 358 3256, securities number: 358 325, ticker: HLEE) belong to the Mid & Small Caps Swiss Shares. As of December 31, 2012, the market capitalization of the company was around CHF 29.45 million at a closing stock price for the year of CHF 17.00.

1.3 Non-listed companies

Further information on the key subsidiaries and the scope of consolidation of Highlight Communications AG can be found under note 3 in the notes to the consolidated financial statements.

1.4 Principal shareholders

As of December 31, 2012, Highlight Communications AG was aware of the following shareholders with a share of more than 5 % of its subscribed capital:

Constantin Medien AG	47.31 %	
DWS Investment GmbH	8.25 % *	*(* as per last confirmed holdings)*

The rest is held by various institutional investors and funds as well as private investors.

Highlight Communications AG maintains an active stock buy-back program. Depending on market conditions, shares of up to a maximum amount of 10 % of the company's subscribed capital as stipulated by Swiss law may be bought back.

In the year under review, no treasury shares were bought back and no shares were sold. As of December 31, 2012, treasury stock comprised 1,156,567 shares, equivalent to 2.45 % of the company's subscribed capital.

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

1.5 Cross shareholdings

Constantin Medien AG holds 47.31 % of the subscribed capital of Highlight Communications AG.

Highlight Communications AG holds and controls 8.72 % of the subscribed capital of Constantin Medien AG. At the level of Constantin Medien AG, these shares are considered treasury stock with no voting rights.

2. CAPITAL STRUCTURE

2.1 Capital

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

2.2 Authorized capital

On June 1, 2012, 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

None.

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 Chairman, its Vice Chairman and the various committees.

3.1 Members of the Board of Directors

The Board of Directors currently comprises eight members. The list below provides an overview of the composition of the Board of Directors on December 31, 2012, the functions of the individual members within the Highlight Group, their nationality and their significant activities and interests outside the Highlight Group:

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

Other (corporate) activities and interests:
Chief Executive Officer of Constantin Medien AG, Ismaning, Germany
Chief Executive Officer of Constantin Film AG, Munich, Germany
Advisory Board of Constantin Entertainment GmbH, Ismaning, Germany
President of the Board of Directors of Constantin Film Schweiz AG, Basel, Switzerland
President of the Board of Directors of KONTRAPRODUKTION AG, Zurich, Switzerland
President of the Board of Directors of Constantin Entertainment AG, Pratteln, Switzerland
President of the Board of Directors of Team Holding AG, Lucerne, Switzerland
President of the Board of Directors of Team Football Marketing AG, Lucerne, Switzerland
President of the Board of Directors of T.E.A.M. Television Event And Media Marketing AG, Lucerne, Switzerland
President of the Board of Directors of Rainbow Home Entertainment AG, Pratteln, Switzerland
President of the Board of Directors of Mood Factory AG, Pratteln, Switzerland
President of the Board of Directors of Highlight Event & Entertainment AG, Düdingen, Switzerland
President of the Board of Directors of Highlight Event AG, Lucerne, Switzerland
Member of the Board of Directors of Escor Automaten AG, Düdingen, Switzerland
President of the Board of Directors of Lechner Marmor AG, Laas, Italy
President of the Board of Directors of Laaser Marmorindustrie GmbH, Laas, Italy
Member of the Board of Directors of CBE Marmor & Handels AG, Ibach, Switzerland
Member of the Board of Directors of Club de Bâle SA, Basel, Switzerland

Martin Wagner
Vice Chairman, member of the Board of Directors since 2000
Swiss national, lawyer; Head of Legal Affairs & Compliance, executive member.

Other (corporate) activities and interests:
Member of the Board of Directors of Constantin Film Schweiz AG, Basel, Switzerland
Member of the Board of Directors of KONTRAPRODUKTION AG, Zurich, Switzerland
Vice President of the Board of Directors of Rainbow Home Entertainment AG, Pratteln, Switzerland
Vice President of the Board of Directors of Constantin Entertainment AG, Pratteln, Switzerland
Delegate of the Board of Directors of Team Holding AG, Lucerne, Switzerland
Delegate of the Board of Directors of Team Football Marketing AG, Lucerne, Switzerland
Delegate of the Board of Directors of T.E.A.M. Television Event And Media Marketing AG, Lucerne, Switzerland

Delegate of the Board of Directors of Highlight Event & Entertainment AG, Düdingen, Switzerland
Vice President of the Board of Directors of Highlight Event AG, Lucerne, Switzerland
President of the Board of Directors of Escor Automaten AG, Düdingen, Switzerland
Member of the Board of Directors of Handelszeitung Medien AG, Zurich, Switzerland
Member of the Board of Directors of Axel Springer Schweiz AG, Zurich, Switzerland
Member of the Board of Directors of Jean Frey AG, Zurich, Switzerland
Member of the Board of Directors of Amiado Group AG, Zurich, Switzerland
Member of the Board of Directors of Amiado Online AG, Zurich, Switzerland
Member of the Board of Directors of Lechner Marmor AG, Laas, Italy
Member of the Board of Directors of CBE Marmor & Handels AG, Ibach, Switzerland
Member of the Board of Directors of IPWR Institut für Politik, Wirtschaft und Recht AG, Basel, Switzerland
Member of the Board of Directors of Pima Canyon JDS AG, Rünenberg, Switzerland
President of the Board of Directors of Maghreb Investment Holding AG, Basel, Switzerland
President of the Board of Directors of Inside World Football IWF AG, Basel, Switzerland

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

Other (corporate) activities and interests:
Member of the Board of Directors of Rainbow Home Entertainment AG, Pratteln, Switzerland
Managing partner of PeopleNet Verwaltungs GmbH, Königstein, Germany
Supervisory Board of avesco Financial Services AG, Berlin, Germany
Chairman of the Supervisory Board of Cornerstone Verwaltungs AG, Heidelberg, Germany

Antonio Arrigoni
member of the Board of Directors since 2008
Swiss national, lic. rer. pol., Swiss certified accountant, non-executive member; no material business relations are maintained with the Highlight Group.

Other (corporate) activities and interests:
CFO of Constantin Medien AG, Ismaning, Germany
Managing Director of EM.TV Verwaltungs GmbH, Ismaning, Germany
Managing Director of Constantin Sport GmbH, Ismaning, Germany
Managing Director of Constantin Sport Medien GmbH, Ismaning, Germany
Managing Director of PLAZAMEDIA GmbH TV- und Film-Produktion, Ismaning, Germany
President and Delegate of the Board of Directors of PLAZAMEDIA SWISS AG, Wollerau, Switzerland

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

Other (corporate) activities and interests:
President of the Board of Directors of Mythen Center AG, Schwyz, Switzerland
President of the Board of Directors of Mythencenter Immobilienverwaltung AG, Schwyz, Switzerland
President of the Board of Directors of Alpicana AG, Ingenbohl, Switzerland
President of the Board of Directors of RC Holding AG, Ingenbohl, Switzerland

Dr. Erwin V. Conradi
member of the Board of Directors since 2008
German national, industrial engineer, entrepreneur, non-executive member; no material business relations are maintained with the Highlight Group.

Other (corporate) activities and interests:
Supervisory Board of Constantin Medien AG, Ismaning, Germany
Chairman of the Supervisory Board of Mang Medical One AG, Essen, Germany
Managing Director of Mang Medical One Holding GmbH, Essen, Germany
President of the Board of Directors of Sensile Holding AG, Baar, Switzerland
President of the Board of Directors of Sensile Medical AG, Hägendorf, Switzerland
President of the Board of Directors of Sensile Pat AG, Hägendorf, Switzerland

Dr. Dieter Hahn
member of the Board of Directors since 2011
German national, businessman, attorney, non-executive member; no material business relations are maintained with the Highlight Group.

Other (corporate) activities and interests:
Supervisory Board of Constantin Medien AG, Ismaning, Germany
Managing Director of KF 15 GmbH & Co. KG, Munich, Germany
Managing Director of KF 15 Verwaltungs GmbH, Munich, Germany
Managing Director of SIRIUS SportsMedia GmbH, Munich, Germany
Supervisory Board of bitop AG, Witten, Germany
Advisory Board of BNK Service GmbH, Munich, Germany

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

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

3.2 Election and tenure

The Board of Directors comprises at least three members who are generally elected at the Annual General Meeting for the period of one year. Re-election is possible at all times.

3.3 Internal organization

3.3.1 Constituent meeting and allocation of duties

The Board of Directors is responsible for supervising, monitoring and overseeing management activities. It is the company's highest body 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 August 28, 2007.

3.3.2 Meetings of the Board of Directors

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

3.3.3 Committees

By way of resolution dated June 2, 2005, the Board of Directors established an audit committee comprising Bernhard Burgener (Chairman), René Camenzind and Martin Hellstern.

At its meeting on June 2, 2005, the Board of Directors resolved 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 Group management.

3.4 Allocation of duties

The allocation of duties on the Board of Directors is governed in the code of conduct dated August 28, 2007.

3.5 Internal management and supervision instruments

The Highlight Group's management information system is structured as follows: The financial statements (income statement, balance sheet and statement of cash flows) for the individual subsidiaries are prepared on a quarterly basis. These figures are consolidated and condensed per segment and for the Group. At the same time, the figures are compared with the previous year and the budget. The Chief Financial Officer informs the Board of Directors regularly of the company's business performance and trends in the relevant business indicators. A Group-wide internal control system (ICS) was implemented and documented. The Internal Audit ensures the periodic evaluation and maintenance of the ICS in the main Group companies and tests its effectiveness. External controlling instruments are provided by the auditors.

4. MANAGEMENT

The following disclosures were correct as of December 31, 2012.

4.1 Members of management

4.1.1 Group management

Bernhard Burgener, Chairman and Delegate of the Board of Directors

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

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, a member of the Board of Directors since 2000.

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 Board of Directors since 1999.

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

Swiss national, businessman, various management activities in the Highlight Group since 1994, a member of Group management since 1999.

Dr. Paul Graf, Managing Director, Head of Mergers & Acquisitions and Secretary of the Board of Directors

Swiss national, businessman, previously Managing Director of electronics at Ciba Specialty Chemicals, a member of Group management since 2000.

4.1.2 TEAM (Sports- and Event-Marketing segment)

Martin Wagner, Delegate of the Board of Directors

Swiss national, lawyer, member of the Board of Directors of Team Holding AG, T.E.A.M. Television Event And Media Marketing AG and Team Football Marketing AG since 2002, Delegate of the Board of Directors since 2010.

Jamie Graham, CEO

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

Simon Crouch, Managing Director & COO

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

Jan Werner, Managing Director & CFO

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

Thomas Schmidt, Managing Director TV Sales

German national, sales executive, worked in media, communications and marketing in Germany from 1992 to 2001; he worked as Project Leader Sales at Highlight Communications AG from 2001 until 2002, and after that as Head of Sales. Since 2012, has been with TEAM as Managing Director Media & TV Sales.

4.1.3 Rainbow Home Entertainment (Film segment)

Franz Woodtli, Managing Director of Rainbow Home Entertainment

Swiss national, businessman, at Rainbow Home Entertainment AG since 1985, Managing Director in charge of video/DVD since 1999, many years of management experience within the Highlight Group.

4.1.4 Constantin Film (Film segment)

Bernhard Burgener, CEO, Licenses and rights trading

Swiss national, member of the Supervisory Board since 2003, Chairman of the Supervisory Board from 2006 to 2008, Chief Executive Officer since 2009, responsible for corporate strategy, corporate communication, legal affairs, national license and rights trading as well as TV entertainment production.

Hans Beese, CFO

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

Martin Moszkowicz, Film and television

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

Franz Woodtli, Cinema and home entertainment

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

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 Group management, who in turn determine the compensation payable in the individual operative units.

5.1 Compensation for the Board of Directors

Of the eight members, three are executive members. In the year under review, total compensation came to CHF 4.344 million (previous year's period: CHF 4.201 million) and was paid to eight people. This includes fees and expenses (see notes to the financial statements of Highlight Communcations AG, note 7).

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 of December 31, 2012, the Directors held the following shares in the company:

	Shares	Share in capital
Bernhard Burgener	1,950,000	4.13 %
René Camenzind	628,715	1.33 %
Martin Hellstern (MH Movie Holding AG)	200,000	0.42 %
Dr. Erwin V. Conradi	177,000	0.37 %
Dr. Ingo Mantzke	100,000	0.21 %
Dr. Dieter Hahn	21,000	0.04 %
Antonio Arrigoni	–	0.00 %
Martin Wagner	–	0.00 %

5.4 Options

There are currently no option programs.

5.5 Additional fees and compensation

None.

5.6 Loans to directors

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

5.7 Maximum total compensation

The member of the Board of Directors with the highest total compensation in the year under review received a sum of CHF 1.874 million (previous year's period: CHF 1.837 million) (see notes to the financial statements of Highlight Communications AG, note 7).

6. SHAREHOLDERS' RIGHTS

6.1 Restrictions on voting rights, voting by proxy

6.1.1 All restrictions on voting rights

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

6.1.2 Statutory rules on participation in the Annual General Meeting

The provisions of the Swiss law of obligations apply.

6.2 Statutory quorum

The statutory provisions apply.

6.3 Procedure for convening the Annual General Meeting

The provisions of the Swiss law of obligations apply.

6.4 Agenda

The provisions of the Swiss law of obligations apply.

6.5 Registration in the share book

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

7. CHANGE OF CONTROL AND DEFENSE MEASURES

7.1 Duty to bid

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

7.2 Change-of-control clause

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

8. AUDITORS

8.1 Duration of auditor mandate

The statutory auditor for Highlight Communications AG is elected for a period of one year subject to a resolution passed by the Annual General Meeting. PricewaterhouseCoopers AG in Lucerne audited our annual financial statements for the year ending December 31, 2001, for the first time. Mr. Bruno Häfliger is the auditor in charge since fiscal year 2007.

8.2 Auditing fees

A sum of TCHF 100 was accrued for auditing services of PricewaterhouseCoopers AG in fiscal year 2012, and TCHF 71 were paid. Additional fees of TCHF 48 were invoiced by PricewaterhouseCoopers AG for assistance with and the preparation of projects (incl. taxes) relating to the AG and the Group.

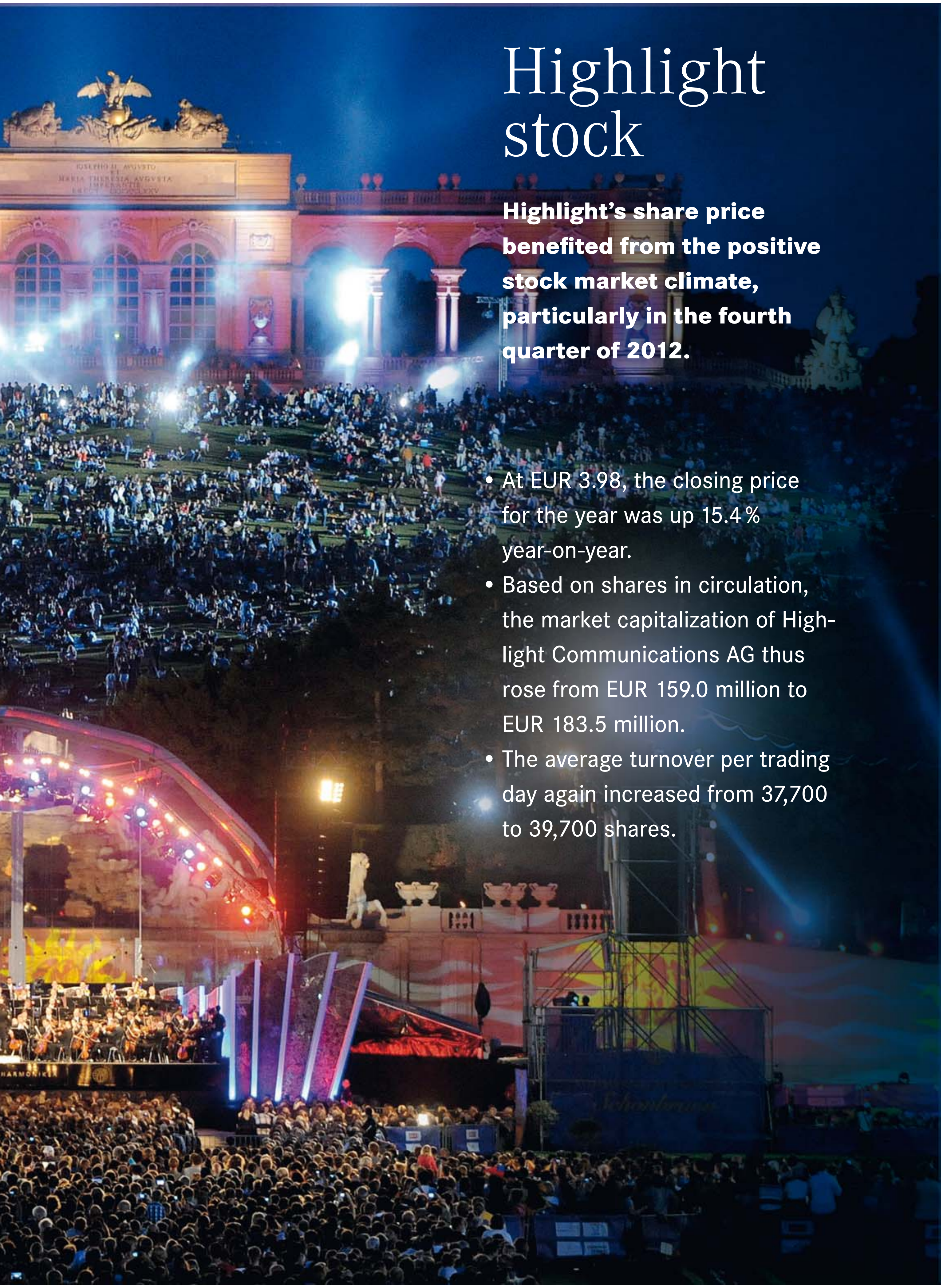
9. INFORMATION POLICY

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

These documents are distributed via defined channels and issued on demand. In addition, the website at www.highlight-communications.ch is kept continuously updated and includes all key information about the company.

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

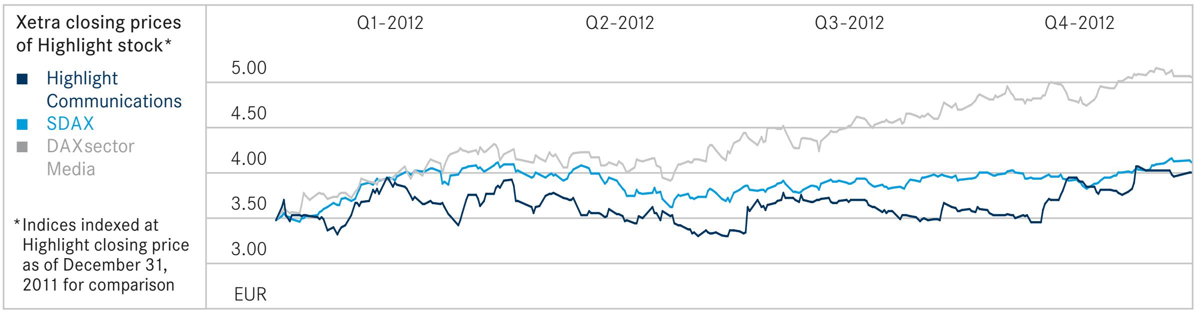
Classical music in unique surroundings: The Vienna Philharmonic Orchestra's Summer Night Concert attracts an audience of around 100,000 people every year.



Highlight stock

Highlight's share price benefited from the positive stock market climate, particularly in the fourth quarter of 2012.

- At EUR 3.98, the closing price for the year was up 15.4 % year-on-year.
- Based on shares in circulation, the market capitalization of Highlight Communications AG thus rose from EUR 159.0 million to EUR 183.5 million.
- The average turnover per trading day again increased from 37,700 to 39,700 shares.



Stock markets on the rise

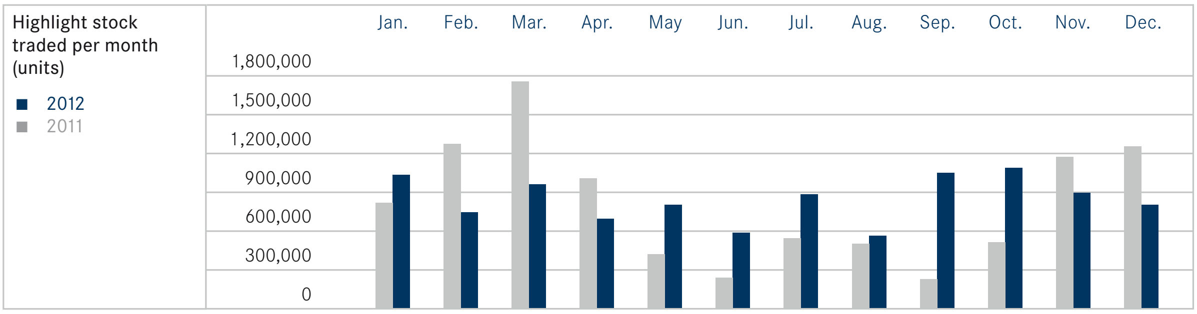
Despite the sustained debt crisis, a significant slowdown in the global economic climate and temporary fears of the collapse of the euro zone, 2012 turned out to be the best year for the stock markets for some time. Most of the international stock markets recorded double-digit growth rates, especially in the second half of the year. This development was driven primarily by political decisions and the expansionary fiscal policy adopted by the central banks, which provided large volumes of liquidity while cutting base rates to a historically low level.

Positive impetus was provided in particular by the decision of the German Federal Constitutional Court classifying the European rescue fund ESM as constitutional, as well as the announcement by the European Central Bank (ECB) that it would buy unlimited amounts of bonds issued by crisis-hit European governments should it become necessary to do so. This was interpreted a clear signal to all stock market participants that the ECB will do everything in its power to rescue the euro. Furthermore, the US Federal Reserve announced that it would extend its measures aimed at supporting the US economy and in addition provide USD 40 billion for the purchase of mortgage-backed securities.

In light of this positive news, the Dow Jones Industrial Average Index gained 7.3 % over the course of the year, closing at 13,104 points on December 31, 2012. Although this represented the fourth consecutive year of growth for the US benchmark index, it was ranked only in the bottom third internationally. The same applies for the British FTSE, which climbed by 5.9 %, whereas the French CAC 40 was a star performer with growth of 15.2 %.

The Swiss Market Index (SMI), which reflects the share price performance of the 20 Swiss companies with the highest capitalization, saw similar development. After rising only slightly in the first six months of 2012, the SMI recorded growth of almost 13 % in the second half of the year. It closed at 6,822 points, corresponding to an increase in value of 14.9 % across 2012 as a whole.

However, the clear winner among the European benchmark indices was the DAX, which closed the year at 7,612 points. This represented growth of 29.1 % as against year-end 2011 – the index's strongest single-year performance since 2003. The SDAX small cap index, which also includes the Highlight stock, closed the year at 5,249 points for year-on-year growth of 18.7 %. However, it was significantly outperformed by the index for German media stocks (DAXsector Media), which improved from 125 points to 183 points in the period from January to December 2012 – an increase of 46.4 %.



Highlight share price follows the market trend

The Highlight stock also benefited from the positive overall stock market sentiment, recording price growth of 15.4 % in the period from January to December 2012. However, there were significant fluctuations in the share price over the course of the year. After starting the year at EUR 3.45, the share price was highly volatile in the first quarter, ranging from EUR 3.29 to EUR 3.92. The closing price at the end of the quarter was EUR 3.89, corresponding to growth of 12.8 %.

By contrast, the second quarter was characterized by the general market weakness triggered by weak economic data in the emerging economies and the continued intensification of the euro debt crisis. As a result of this development, Highlight's share price also declined steadily, reaching its closing price low for the year of EUR 3.27 in mid-June. Following a slight recovery to EUR 3.33 by the end of the quarter, price performance for the first half of the year amounted to -3.5 %.

In the first three trading weeks of the third quarter, the share price increased substantially to EUR 3.75 before moving sideways at around the EUR 3.60 mark. A brief period of weakness at the start of the final quarter, which saw Highlight's share price fall to EUR 3.42, was followed by a strong upward trend that was marked by the highest closing price for the year of EUR 4.05 at the beginning of December.

On the last trading day of the year, Highlight stock closed Xetra trading at EUR 3.98. As of the end of the year, the 52-week high was EUR 4.13 (December 7) while the 52-week low was EUR 3.24 (June 28).

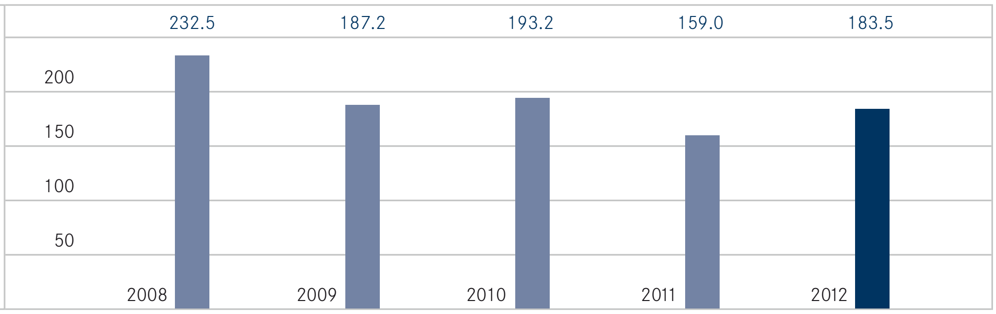
Further growth in the trading volume

In the period from January to December 2012, around 10.09 million Highlight shares were traded on Deutsche Börse's Xetra trading system, corresponding to an increase of 4.1 % as against the previous year (around 9.69 million shares). The average turnover per trading day increased from 37,700 to 39,700. According to the Deutsche Börse ranking for the MDAX and SDAX segments, Highlight stock thus improved to number 97 in terms of trading volume as of the end of the year (December 31, 2011: 102). In terms of free float market capitalization, the stock was ranked 98th (December 31, 2011: 100th).

Dividend policy maintained

Having allowed our shareholders to regularly participate in our company's earnings strength in previous years, we naturally intend to maintain this policy for the year under review. Accordingly, the Board of Directors will propose to the Annual General Meeting on May 31, 2013 to approve the distribution of a dividend in the amount of CHF 0.17 per dividend-entitled share for fiscal year 2012.

Development of Highlight's market capitalization in relation to shares in circulation (in EUR mn)



No change in major shareholders

As of December 31, 2012, the subscribed capital of Highlight Communications AG still amounted to CHF 47.25 million, divided into 47.25 million bearer shares each with a nominal value of CHF 1.00 per share. There were no treasury stock transactions in the year under review, meaning that there was no change in the number of shares held by the company. At the end of the past fiscal year, Highlight Communications AG held around 1.16 million treasury shares without voting rights, corresponding to 2.5% of the subscribed capital. Excluding these shares, there were 46.09 million shares in circulation as of the reporting date.

The structure of our major shareholders also remained unchanged as against the previous year: Constantin Medien AG holds 47.3% of Highlight's shares, while around a further 8.3% are owned by DWS Investment GmbH. In addition, members of the Board of Directors as well as private and institutional investors hold significant share packages. As of December 31, 2012, the free float remained unchanged at 50.3% in accordance with the definition set out by Deutsche Börse.

Dr. Dieter Hahn, a member of the Board of Directors who previously held no shares of our company, acquired 21,000 Highlight shares in March 2012. The same applies to Dr. Erwin V. Conradi, a member of the Board of Directors who acquired 177,000 Highlight shares in December. The Chairman and Delegate of the Board of Directors, Bernhard Burgener, acquired a total of 150,000 Highlight shares in May and June, thereby increasing his shareholdings to 1.95 million shares. We did not receive any notifications from the other members of the Board of Directors or the management of the Highlight Group concerning acquisitions or disposals of shares subject to reporting in fiscal year 2012.

In addition to Mr. Burgener, only the Board of Directors member René Camenzind held direct or indirect shareholdings amounting to more than 1% of the subscribed capital as of December 31, 2012. The shareholdings and share interest from options of the individual members of the Board of Directors and the management of the Highlight Group (including related parties) were as follows as of December 31, 2012:

Board of Directors	Shareholdings	Share interest from options
Bernhard Burgener, Chairman and Delegate, executive member	1,950,000	–
Martin Wagner, Vice Chairman, executive member	–	–
Antonio Arrigoni, non-executive member	–	–
René Camenzind, non-executive member	628,715	–
Dr. Erwin V. Conradi, non-executive member	177,000	–
Dr. Dieter Hahn, non-executive member	21,000	–
Martin Hellstern, non-executive member	200,000	–
Dr. Ingo Mantzke, executive member	100,000	–
Group management		
Dr. Paul Graf, Managing Director	–	–
Peter von Büren, Managing Director	–	–

Focus on communication with the capital markets

From the start, the Highlight Group's strategy has been focused on the sustainable increase of enterprise value. Continuous, open communication with capital market participants forms a key element of this strategy. In 2012, we again provided the target group of financial analysts, fund managers and institutional investors with comprehensive information at a large number of individual meetings in order to make it easier for them to assess our current business situation and the future prospects of the Highlight Group.

We also further increased the number of direct contacts with capital providers. Among other things, this was driven by roadshows and presentations at important financial centers such as Frankfurt, London, Zurich, Geneva and Luxembourg. We also provided capital market participants at the German Equity Forum – the most important investor fair for small and medium-sized stock corporations in Europe – with a detailed overview of the positioning of our business areas in their respective market environment and the strategic focus of the Highlight Group as a whole.

However, the central information tool for all interested parties remains our website (www.highlight-communications.ch). Based on the principle of fair disclosure, all relevant information on the company is published there in a timely manner. This primarily relates to our annual and interim reports, press releases and ad-hoc disclosures, which can be read online or ordered from us in printed form free of charge at all times. Our newsletter service provides an even more comfortable option: after registering online, users receive all of our publications immediately and automatically by e-mail.

Information on Highlight stock as of December 31, 2012

Subscribed capital	CHF 47.25 million
Number of shares	47,250,000
Stock class	Ordinary bearer shares
Shares in circulation	46.09 million
Market capitalization (based on shares in circulation)	EUR 183.5 million
Year-end price	EUR 3.98
52-week high (December 7)	EUR 4.13
52-week low (June 28)	EUR 3.24
Earnings per share	EUR 0.46

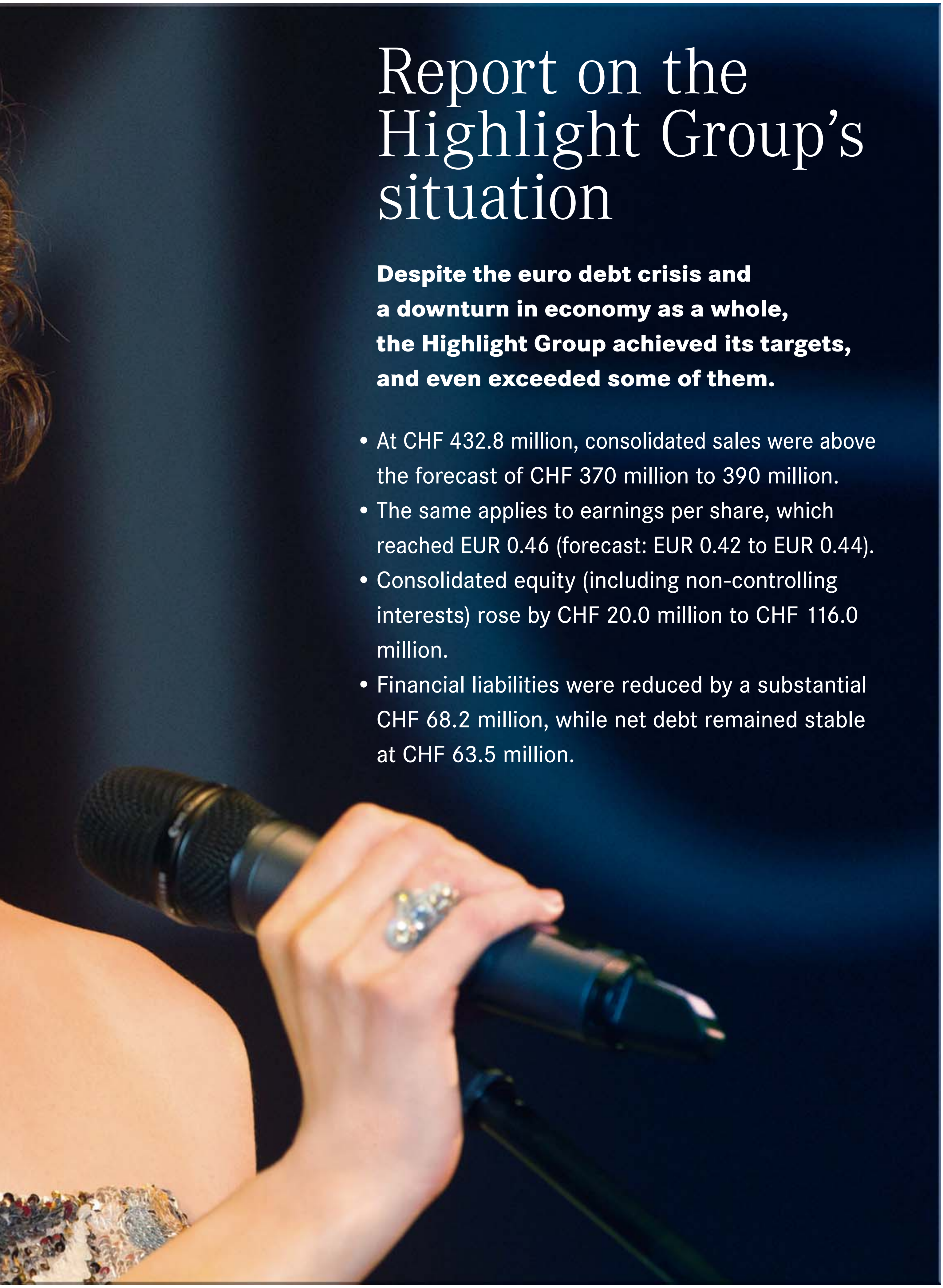
Key data of the Highlight stock

Securities code number (WKN)	920 299
ISIN	CH 000 653 9198
Ticker	HLG
Reuters identification code	HLGZ.DE
Indices	SDAX, DAXsector Media
Traded at	Berlin, Dusseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart, Xetra

Highlight reflected by current analyses

Close Brothers Seydler Research	November 2012	Buy (target price: EUR 6.00)
DZ BANK	February 2013	Buy (target price: EUR 8.00)

Red carpet in Tokyo:
At the world premiere of
"Resident Evil: Retribution",
leading actress Milla Jovovich
was enthusiastically greeted
by a crowd of fans.



Report on the Highlight Group's situation

Despite the euro debt crisis and a downturn in economy as a whole, the Highlight Group achieved its targets, and even exceeded some of them.

- At CHF 432.8 million, consolidated sales were above the forecast of CHF 370 million to 390 million.
- The same applies to earnings per share, which reached EUR 0.46 (forecast: EUR 0.42 to EUR 0.44).
- Consolidated equity (including non-controlling interests) rose by CHF 20.0 million to CHF 116.0 million.
- Financial liabilities were reduced by a substantial CHF 68.2 million, while net debt remained stable at CHF 63.5 million.

BUSINESS AND GENERAL CONDITIONS

Business activity

Success with films, sports and music

Highlight Communications AG, which has been listed on the German stock exchange since May 1999, is an internationally oriented strategic and financial holding company based in Pratteln near Basel. It acts through its operational subsidiaries in the Film, Sports- and Event-Marketing and Other Business Activities segments.

In its Film segment, Highlight Communications AG wholly owns Constantin Film AG, Munich, which, together with its subsidiaries and equity interests, is Germany's leading independent producer and distributor of theatrical movies. Its activities comprise production of films and exploitation of the rights to the films it produces and acquires. Self-produced films are usually marketed worldwide, and third-party productions mainly in German-speaking countries. All stages of the exploitation chain from theatrical distribution and DVD/Blu-ray releases down to TV broadcasting are fully utilized. In addition to theatrical movies, the Constantin Film Group produces fictional and non-fictional products for German and foreign TV broadcasters.

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

Highlight Communications AG has its own distribution organization to best exploit its DVD/Blu-ray rights for in-house and licensed films. Distribution in Switzerland and Austria is performed by the Rainbow Home Entertainment subsidiaries, which are wholly-owned by the company. Highlight Communications (Deutschland) GmbH cooperates with Paramount Home Entertainment on the German market.

In the Sports- and Event-Marketing segment, Highlight Communications AG wholly owns Team Holding AG (TEAM). Based in Lucerne, the TEAM Group specializes in global marketing of major international sports events. As one of the world's leading agencies in this area, it exclusively markets the UEFA Champions League, the UEFA Europa League and the UEFA Super Cup on behalf of the Union of European Football Associations. Until March 31, 2012, TEAM also owned the marketing mandate of the Eurovision Song Contest and the Vienna Philharmonic Orchestra thanks to its 100 % participation in Highlight Event AG.

The Other Business Activities segment comprises the activities of Highlight Event & Entertainment AG (until May 11, 2012: Escor Casinos & Entertainment SA), Düdingen, which is listed on the Swiss stock exchange (SIX Swiss Exchange) and in which Highlight Communications AG holds a 59.89 % stake. On April 1, 2012, Highlight Event & Entertainment AG acquired all the shares in Highlight Event AG from Team Holding AG. As part of this acquisition, it also obtained the marketing mandate of the Eurovision Song Contest and the Vienna Philharmonic Orchestra, giving it a foothold in the event and entertainment business. In addition, the Highlight Event & Entertainment Group operates in the gaming machines business via its subsidiary Escor Automaten AG.

The movie of the cult TV series: "Türkisch für Anfänger"

Until November 29, 2012, Highlight Event & Entertainment AG also held a 50.004 % stake in full-service agency Pokermania GmbH, Cologne, which specialized in the development of online gaming business models and the market of social gaming. This stake was sold to Highlight subsidiary Rainbow Home Entertainment AG. However, Pokermania's activities will continue to be attributed to the Other Business Activities segment.

Control system and performance indicators

Value management system for controlling business activities

Highlight Communications AG's Board of Directors is responsible for the strategic orientation and management of the Highlight Group. In contrast, the responsibility for operating activities lies with the management body of the relevant subsidiary. At Team Holding AG, this body is the Board of Directors, which currently consists of four members, at Constantin Film AG it is the Management Board which is also made up of four people, while Highlight Event & Entertainment AG has a three-member Board of Directors.

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

The economic performance of the Group is also influenced by non-financial performance indicators, which result from the requirements of the respective business model in the Film, Sports- and Event-Marketing and Other Business Activities segments:

- Competitive pressure on the movie market has remained high for years. Against this backdrop, Constantin Film AG is watching the activities of its competitors very closely to achieve the best possible placement of its own movie launches in terms of market environment and time of year, as well as to consider the impact on the exploitation of movies in connection with changing patterns of media use (growing time-independent and location-independent consumption of content via smartphones and tablet PCs, for example). In order to limit the exploitation risks in a market environment that is still saturated, the focus remains on lavish 3D productions, movies of an event nature, family entertainment productions and bestseller adaptations.

  The Constantin Film Group is also exposed to strong competition with regard to the purchase of literary works and screenplays as well as contracts with successful directors, actors, and film studios. However, it has decades of experience working closely with renowned and experienced screenwriters, directors and producers with extensive expertise in producing movie and TV formats at home and abroad. The particular skill of Constantin Film AG in terms of developing and producing movies is documented by the fact that in 2012, two of the four German films with more than one million viewers each were issued by Constantin Film AG: the in-house production "Türkisch für Anfänger" and the licensed title "The Famous Five".

- Comprehensive expertise and the experience to successfully market the TV and sponsorship rights for major international sports events is essential to the success of the Sports- and Event-Marketing segment. The most important requirement for corresponding marketing mandates is a close, trusting business relationship with the rights holders.
- Success in the Other Business Activities segment is determined primarily by extensive specialist knowledge and experience of successfully marketing TV and sponsorship rights for international events and shows, as well as close, trusting business relationships with the rights holders.

Main features of the remuneration system

Highlight Communications AG's Board of Directors is responsible for the handling of contracts for members of the Group management. A Compensation Committee was established to determine the respective remuneration, which consists of fixed and variable components. This committee, most of the members of which are non-executive members of the Board of Directors, determines the structure of the remuneration system and reviews it regularly. The criteria for determining appropriate remuneration are primarily the duties of the respective member of Group management, his personal performance, the performance of Group management overall and the economic situation of the Highlight Group while taking into account the comparative environment.

Important events in fiscal year 2012

Rainbow Home Entertainment AG acquires shares in Kuuluu Interactive Entertainment AG

On January 22, 2012, Rainbow Home Entertainment AG acquired 22 % of the shares in Kuuluu Interactive Entertainment AG, Pratteln, at a purchase price of TCHF 22.

Award-winning Constantin Film productions

On January 20, 2012, the Constantin Film co-production "Wickie and the Treasure of the Gods" received the Bavarian Film Award for best children's film of 2011. Filmmaker Doris Dörrie won the director's category for her filming of Constantin Film's own production "Glück".

The most successful comedy of 2012, "Türkisch für Anfänger" – a production by Constantin Film subsidiary Rat Pack – won the German Comedy Prize. On November 22, 2012, the culture-clash comedy also won the BAMBI media prize in the "Film National" category.

Constantin Film AG shows German films on American video portal

On March 20, 2012, Constantin Film AG announced a cooperation with the American video portal HULU, in which selected Constantin Film titles will be shown on HULU and HULU PLUS in the USA. This cooperation with the leading legal video portal enables Constantin Film AG to bring its films to a new audience in the original German language with subtitles.

Expansion and renaming of Escor Casinos & Entertainment SA

The sale of Highlight Event AG – and therefore the hiving-off of the music business activities with the Vienna Philharmonic Orchestra and Eurovision Song Contest projects from the TEAM Group – to Highlight Event & Entertainment AG (formerly: Escor Casinos & Entertainment SA) was completed on April 1, 2012.

New adaptation based on the classic children's books: "The Famous Five"

To finance the future development and expansion of operations, on May 10, 2012, the company's Board of Directors resolved to implement a capital increase, maintaining the subscription rights of existing shareholders. This capital increase was completed on May 29, 2012 with proceeds of around CHF 8.66 million.

The Annual General Meeting of the company then known as Escor Casinos & Entertainment SA was held on May 11, 2012 in Düdingen. Items approved by the shareholders included the change of the company's name to Highlight Event & Entertainment AG.

Constantin Film again most successful producer and distributor of German films

At the beginning of April 2012, the Constantin Film Group was awarded the "Golden Industry Tiger" in the categories of production and distribution for the eighth time when the German Federal Film Board awarded reference funding for 2011. This award comes with reference funding totaling EUR 2.33 million for production and funding of EUR 0.94 million for distribution.

New management at TEAM

We announced changes to the management of our subsidiary TEAM on May 23, 2012. As part of this restructuring, Simon Thomas (CEO) and Managing Directors David Tyler and Patrick Murphy left the company. The senior management team consisting of Martin Wagner (Delegate of the Board of Directors), Jamie Graham, Thomas Schmidt, Simon Crouch and Jan Werner has since been responsible for operating activities.

Annual General Meeting approves new dividend distribution

At the Annual General Meeting of Highlight Communications AG on June 1, 2012, our company's shareholders approved all proposals by the Board of Directors. In particular, the distribution of a dividend of CHF 0.17 per share for fiscal year 2011 was carried. In addition, the activities of all members of the Board of Directors in 2011 were approved, and the members were then re-elected for fiscal year 2012.

Multiyear contract between Constantin Film and Sky Deutschland

As part of a multiyear agreement, Sky Deutschland secured the pay TV premiere rights for Constantin Film own and co-productions for which filming has started by December 31, 2015 and to which Constantin Film AG holds the pay TV rights. The contract covers already released films such as "Blutzbrüdaz" and "Wickie and the Treasure of the Gods" as well as current productions such as "3096 Tage" and "The Mortal Instruments: City of Bones". In addition to pay TV broadcasting, the agreement also includes exploitation of these titles via pay-per-view and video-on-demand.

Constantin Film steps up its focus on international markets

As part of its internationalization strategy, Constantin Film AG has established "Mister Smith Entertainment Ltd." in conjunction with David Garrett, co-founder of Summit Entertainment and former President of Summit International. The company, managed by David Garrett and headquartered in London, operates in the fields of financing, co-financing and licensing of movies for global distribution.

Lively rhythms and spectacular moves: "Step Up Revolution"

In view of the fact that the TV production business is likely to be increasingly geared towards the international market in future, Cologne-based Nadcon Film GmbH, a 51 % subsidiary of Constantin Film AG, commenced business operations on October 1, 2012. Nadcon Film's managing director and co-partner is Peter Nadermann, one of Germany's highest-profile program planners. The agenda of the company comprises international co-productions of an event nature, serializations and series.

Strategic partnership between Constantin Film and DreamWorks

Constantin Film AG announced the conclusion of an output deal with US studio DreamWorks on September 18, 2012. In the context of this strategic partnership, Constantin Film secured the German-language exploitation rights to a large number of high-quality productions from DreamWorks Studios. The output deal comprises DreamWorks films for which filming has started by December 31, 2016 and covers the marketing rights for Germany, Austria and Switzerland.

Highlight Event & Entertainment AG focused on event and entertainment business

With regard to a focus on event and entertainment business, the Group structures of the Highlight Group have been adapted. As part of this reorganization, Highlight Event & Entertainment AG sold its 50.004 % stake in Pokermania GmbH to Highlight subsidiary Rainbow Home Entertainment AG, Pratteln, on November 29, 2012. In addition, Highlight Event & Entertainment AG no longer sells AGI casino machines since the beginning of 2013. Consequently, the company is now focusing on further expansion of the growing event and entertainment business.

TEAM mandate extended by UEFA

UEFA concluded a new agency contract with TEAM on December 6, 2012. This saw UEFA commission its long-standing partner TEAM with marketing of an enhanced package of commercial rights to the UEFA Champions League, the UEFA Europa League and the UEFA Super Cup for the 2015/16, 2016/17 and 2017/18 seasons. Subject to achieving contractual performance targets, this contract will automatically be extended for an additional three seasons until 2020/21.

As part of the new agreement, TEAM has elected Michael van Praag (member of the UEFA Executive Committee) and David Taylor (CEO of UEFA Events SA) as members of its Board of Directors. Bernhard Burgener remains Chairman and Martin Wagner Delegate of the Board of Directors, while Mr. Taylor and Mr. Wagner constitute the new Management Committee of the Board of Directors to help monitor business activities.

Expansion of partnership between Highlight Event AG and EBU

On December 12, 2012, Highlight Event AG announced the conclusion of an agreement with the European Broadcasting Union (EBU) aimed at intensifying the successful partnership that started 10 years ago. In the context of this agreement, Highlight Event AG will help the EBU to develop a new marketing and communications platform for the Eurovision Young Musicians project, one of the world's leading competitions for young classical musicians. Furthermore, the two partners will be collaborating on the merchandising activities for the Eurovision Song Contest in future in a joint venture in order to enhance the "Eurovision Song Contest" brand.

Visually stunning nonstop action in 3D: "Resident Evil: Retribution"

General economic conditions

Global economy continues to weaken

According to International Monetary Fund (IMF) calculations published in January 2013, the global economy grew by just 3.2 % in 2012 measured in terms of gross domestic product (GDP). The IMF blames the latest economic slowdown compared with the previous year (3.9 %) primarily on political turbulence in the USA, the ongoing debt crisis in Europe and general uncertainty on the markets regarding future developments.

A combination of these factors caused an increasing slowdown in the global economy, particularly in the second half of the year. This also hit the emerging economies, which had posted high growth rates in previous years. For example, the IMF reported GDP growth of 7.8 % for China (2011: 9.3 %) and just 4.5 % for India (2011: 7.9 %).

The economies of industrialized countries developed at a considerably lower level with an average increase of 1.3 %. The US and Japanese economies performed comparatively well here, with economic output up by 2.3 % and 2.0 % respectively. In contrast, the IMF calculated that the economy contracted by 0.4 % in the euro zone. In particular, countries affected by the debt crisis such as Italy (–2.1 %) and Spain (–1.4 %) fell into deep recession.

Despite rising unemployment, the Swiss economy performed far better, although it was curbed by the unfavorable external economic and monetary environment. According to projections by the State Secretariat for Economic Affairs (SECO) in-mid December 2012, GDP rose by 1.0 % (2011: just under 2 %). The Swiss economy benefited from private and government consumption, which were up by 2.1 % and 2.0 % respectively, and from its partly crisis-resistant export sector, which grew by 0.7 %.

After a surprisingly strong start to 2012, the German economy slowed down considerably in the second half of the year. According to provisional calculations by the German Federal Office of Statistics (Destatis) published in mid-January 2013, price-adjusted GDP thus grew by just 0.7 % for the year as a whole, compared with a 3.0 % increase in the previous year. German foreign trade remained highly robust, rising by 4.1 % despite a challenging economic environment. However, investments in machinery and equipment and construction investment declined by 4.4 % and 1.1 % respectively.

A comparable economic development can be seen in Austria. Due to the continuing difficult economic situation throughout the euro zone, the Austrian Institute of Economic Research (WIFO) forecast a 0.6 % increase in real economic output in mid-December 2012 (2011: 2.7 %). The key growth drivers here were private consumption (+0.6 %), gross investments (+0.8 %) and exports of goods (+0.8 %).

Proud winners:
The BAMBI media prize in the "Film National" category went to the hit Constantin Film comedy "Türkisch für Anfänger".

Film segment

Report on business performance and the situation

THEATRICAL PRODUCTION/ACQUISITION OF RIGHTS

High-quality films still in demand

There was substantial global demand for high-quality films in 2012, resulting in brisk license trading at the film markets in Berlin, Cannes, Toronto, and Los Angeles. In particular, dealers from countries with high growth rates in the movie-theater sector such as Russia, Asia and South America drove up bidding prices for the best films considerably, thus further intensifying the price pressure for promising films that has already been strong for several years.

At national level, on November 7, 2012, the German cabinet approved the bill on the amendment of the German Film Subsidies Act (FFG). As payment of the film levy to the German Federal Film Board, vehemently contested by several large movie-theater chains in the past two years, expires on December 31, 2013 under the current FFG, an amended FFG must be passed in this legislative period. One of the provisions of the new FFG is that all exploiters of movies – i.e. movie theaters, companies in the video industry including online providers (also video-on-demand providers based abroad), TV stations and marketers of pay-TV channels – must pay a levy to the German Federal Film Board.

Constantin Film steps up international productions

At Constantin Film AG, the main focal point of production activities in 2012 was internationalization, as the company will be even more committed to producing English-language films for the global market in future. This alignment towards internationally-oriented films was also reflected by the 2012 production slate: Of a total of seven own and co-productions filmed in the year under review, three were intended for global exploitation.

Filming of the co-production "The Mortal Instruments: City of Bones", directed by Harald Zwart, started in August 2012 in Toronto. The film is based on the internationally successful book series "The Mortal Instruments" by Cassandra Clare, and is set to start playing in German theaters at the end of August this year. The own production "Tarzan", a computer-generated version of the adventures of the famous jungle hero in 3D, is scheduled for release in Germany in mid-October 2013.

The last project started by Bernd Eichinger, "3096 Tage", about the kidnapping, captivity and escape of Natascha Kampusch was also filmed last year. The film was released in German theaters at the end of February 2013.

Films in production for German-speaking countries last year included two Constantin Film co-productions with SamFilm GmbH: equestrian adventure "Ostwind", directed by Katja von Garnier (release: mid-March this year) and "The Famous Five 2". The sequel to last year's hit based on the novels of Enid Blyton was released at the end of January, and has been seen by more than 940,00 moviegoers until March 17, 2013. The Olga Film production "Da geht noch was", filmed in 2012 and starring Florian David Fitz is currently in post-production and is expected to reach German theaters at the beginning of September.

In rights acquisition, Constantin Film secured the German exploitation rights to the US horror film "The Green Inferno" and the comedy horror "Scary Movie 5" at the film market in Cannes. The fifth installment in the Scary Movie franchise will be released in German theaters in mid-April this year. Constantin Film also acquired the theatrical and video rights to the US comedy "Imogene" starring Kristen Wiig and the thriller "Motel" with Robert de Niro in the third quarter of 2012.

Movie-quality TV productions: "Liebesjahre" and "Das Adlon. Eine Familiensaga"

TV SERVICE PRODUCTION

TV producers remain in a difficult situation

The situation for German television producers remained difficult last year. A study by the German Producers Alliance – Film & Television published in February 2013 concluded that their economic situation is getting increasingly worse. 58 % of companies surveyed stated that their profit margin has fallen noticeably in the last 10 years.

The study says that the main reason for this development is stagnating budgets and falling prices per minute, which affected almost three quarters of respondents. In particular, private, advertising-funded TV stations have increasingly been commissioning TV producers with comparatively cheap formats such as scripted-reality shows since the advertising crisis in 2008.

However, public program providers are also making deep cuts in programming costs, as the study showed using the example of ARD's crime series "Tatort": While a budget of EUR 1.43 million per episode was available in 2004, producers had to make do with an average of EUR 1.27 million in 2011. In addition, the number of filming days was reduced from 28 to between 22 and 23 in this period.

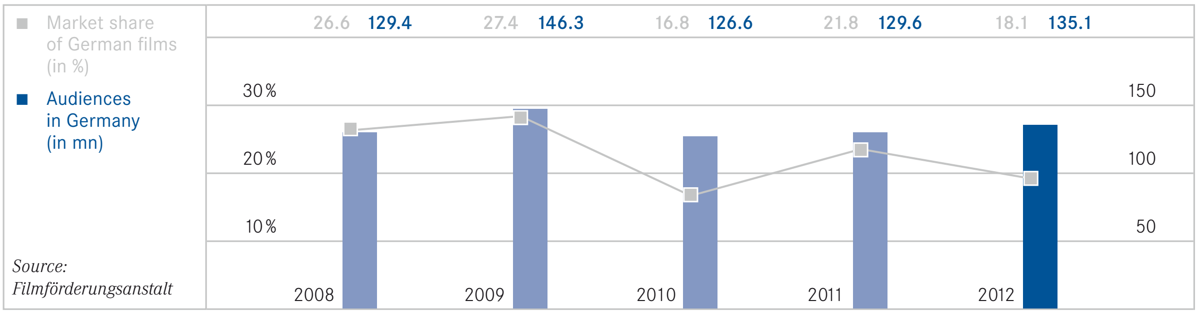
To make matters worse, TV producers are currently having to bear more and more costs – e.g. for script development – that were previously paid by the TV stations. The companies surveyed are closing the gap between effective expenditure and the costs assumed by the respective customer in different ways. Just under half of them explained that this deficit is decreasing their profit, while 22 % of producers are trying to reduce their own costs accordingly. Only 15 % of respondents stated that they are negotiating additional exploitation rights and revenue claims with the TV stations to fill the gap.

Constantin Film productions achieve high ratings again

Several TV productions of Constantin Film subsidiaries achieved very satisfactory ratings again in 2012. For instance, the north German rural comedy "Fischer fischt Frau", produced by Constantin Television GmbH for ZDF and broadcast at the beginning of April, attained a top market share of 14.5 % of the total audience with around 4.75 million viewers. The same applies to the MOOVIE – the art of entertainment production "Trauma", a new episode of the ZDF crime series "Rosa Roth", which attracted an outstanding market share of 18.0 % of the total audience (more than 5.6 million viewers) at the end of March 2012.

The comedy "Rat mal, wer zur Hochzeit kommt", a Rat Pack production commissioned by ARD, also achieved a very strong market share of 12.5 % of the total audience at the end of April. The romantic comedy "Zwei übern Berg" produced by Constantin Television in 2012 was shown on ARD at the end of September and watched by more than 3.5 million viewers.

In mid-September 2012, Constantin Television started filming the TV play "Dampfnudelblues", a service production for ARD (Degeto) based on Rita Falk's popular Lower Bavarian murder mystery. The fourth quarter saw the start of filming of the ARD production "Und bist Du nicht willig", the first episode of the new Hamburg-based "Tatort" with Til Schweiger as chief inspector, which Constantin Television is making as a co-production with Polyscreen. Both films will be broadcast this year.



The major TV project of MOOVIE – the art of entertainment GmbH in 2012 was the lavish three-part series “Das Adlon. Eine Familiensaga”. Directed by Uli Edel, the series boasts a star-studded cast (including Josefine Preuss, Heino Ferch, Anja Kling, Christiane Paul, Ken Duken and Jürgen Vogel). The TV event went out on ZDF at the beginning of January 2013, attracting outstanding market share figures of between 22.5 % (first part) and 25.7 % (third part) of the total audience, with between 8.3 million and more than 8.7 million viewers.

In the area of TV entertainment, Constantin Entertainment GmbH was again confronted by the pronounced cost-awareness of TV stations last year when acquiring new commissions. For example, the successful long-running courtroom show “Richter Alexander Hold” was canceled at the end of the year after more than 2,000 episodes. Even so, Constantin Entertainment made several new formats in the year under review, including the scripted-reality show “Schicksale – und plötzlich ist alles anders” and the docutainment format “Lust auf Deutschland”, which Bayerischer Rundfunk is going to broadcast for ARD this year.

The production activities of Constantin Entertainment subsidiaries in other European countries include the new scripted-reality show “Family Stories Spain” – a co-production with the Spanish broadcaster Cuarzo Producciones – and the commissioning for the casting show “The Voice of Switzerland” for the Swiss broadcaster SRF, which is broadcast there since the end of January 2013.

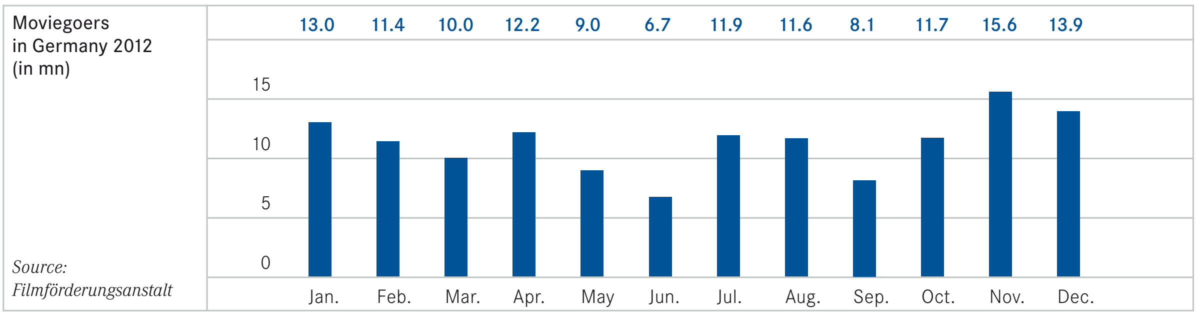
THEATRICAL DISTRIBUTION

Record revenues for the German movie industry

With box-office takings of EUR 1.033 billion, German theaters broke the EUR 1 billion revenues barrier for the first time in 2012. An increase of 7.8 % compared with the previous year (EUR 958.1 million) was thus generated. The rise in the number of moviegoers was less pronounced at 4.2 %. Even so, the figure of 135.1 million visitors (2011: 129.6 million) was the highest since 2009. These results show even more clearly than the previous year that theaters are continuing to hold their own against intense competition from other media and leisure pursuits.

The upturn was driven by the surprise success of the comedy “Intouchables”, released at the beginning of January 2012, which attracted an audience of just under 8.9 million and ensured a year-on-year increase in visitor numbers and revenues until the summer months. In addition, revenues in November and December were among the best in German theater history, with box-office takings of almost EUR 120 million in each month. Films released in this period included the blockbusters “Skyfall” (7.5 million moviegoers), “The Hobbit: An Unexpected Journey” (4.5 million viewers) and “The Twilight Saga: Breaking Dawn – Part 2” (3.6 million moviegoers).

The only blemish in 2012 was the performance of the German own and co-productions. After the strong results of the previous year, when 27.9 million tickets were sold for German films, this figure fell by 14.0 % to 24.0 million in the year under review. Accordingly, the market share of German productions decreased from 21.8 % to 18.1 %. By far the most successful German film of the year was the Constantin Film co-production “Türkisch für Anfänger”, followed by “Cloud Atlas” and the Constantin Film licensed title “The Famous Five”.



Constantin Film had three films with more than one million viewers each

Overall, the Constantin Film Group released 12 movies in German theaters in the year under review: seven own/co-productions and five licensed titles. Three films in this slate broke the million barrier in terms of audience figures, and three Constantin Film titles also featured in the top 10 most-watched German productions of the year. With the performance of all films released in 2012, our subsidiary achieved a revenue share of 5.9 % (2011: 5.9 %) and an audience share of 6.1 % (2011: 5.7 %) on the German movie market.

The most-watched Constantin Film title of the year was the Rat Pack production “Türkisch für Anfänger”. Released in mid-March, the culture-clash comedy was seen and loved by around 2.4 million moviegoers in Germany alone, thus topping the list of German productions.

The Constantin Film licensed title “The Famous Five” came third in the German annual charts. The youth adventure, released at the end of January 2012, attracted an audience of more than a million people. The same applies to the licensed film “Step Up Revolution”, released at the end of August. With this audience response, the fourth installment of the hit franchise seamlessly followed up the performance of its predecessor “Step Up 3D”.

The international 3D own production “Resident Evil: Retribution” reached German theaters in mid-September and fascinated more than 685,000 people, but failed to match the outstanding performance of “Resident Evil: Afterlife” in 2010. However, the action hit fared well on the international movie markets, with takings of over USD 220 million in more than 70 countries.

HOME ENTERTAINMENT

Sharp increases for Blu-ray and electronic sell-through

In 2012, the German home entertainment industry generated total revenues of EUR 1.710 billion, up slightly on the previous year’s level (EUR 1.704 billion). With this strong result, the industry achieved its best revenues figure since the record year 2004. The video sell-through market declined slightly by 1 % to EUR 1.411 billion (2011: EUR 1.427 billion), which was compensated by an 8 % increase in the rental market from EUR 277 million to EUR 299 million.

Within the video sell-through market, income continued to shift from DVD to Blu-ray and the sale of digital content. Revenues from DVDs fell by a further 9 % year-on-year to EUR 1.022 billion (2011: EUR 1.127 billion). Even so, DVDs remain by far the most popular medium on the video sell-through market with a revenue market share of more than 72 %.

Blu-rays posted annual revenues of EUR 343 million, up 28 % on the previous year (EUR 268 million). Electronic sell-through generated even stronger growth, with sales rising by more than 43 % to EUR 46 million (2011: EUR 32 million).

Sales hits of the year: "Wickie and the Treasure of the Gods", "Carnage", and "The Three Musketeers"

Downward trend in rentals comes to an end

The same trend is apparent on the video rental market. Here, revenues from DVD rentals decreased by around 11 % to EUR 173 million (2011: EUR 194 million), while Blu-ray revenues increased by more than 32 % to EUR 49 million (2011: EUR 37 million).

Digital rentals via video-on-demand or pay-per-view experienced a real boom, with revenues up 71 % to EUR 77 million (2011: EUR 45 million). Besides, the Internet ordering service with subsequent mail delivery grew significantly by 35 % to EUR 31 million (2011: EUR 23 million). In contrast, stationary supply channels (rental outlets and rental from vending machines) saw their revenues fall by a further 8 % to EUR 191 million (2011: EUR 208 million).

Highlight Group improves market share

In this environment, the Highlight Group further improved its market position in German-speaking countries with high-quality new releases and a host of successful secondary market releases. On the German market, which is covered in cooperation with Paramount Home Entertainment, the share of the video sell-through market was increased to 10 % (2011: 9 %). On the video rental market, the joint market share rose from 12 % to 13 %.

One of the highest-selling new releases was the comedy "Türkisch für Anfänger", which went straight to the top of the German DVD and Blu-ray sales charts and spent several weeks in the top 10. In addition, "Türkisch für Anfänger" was named best production of the year in the "German Film" category at the Video Champion 2012 industry awards ceremony.

The Constantin Film co-productions "The Three Musketeers" and "Wickie and the Treasure of the Gods", which were launched at the beginning of February and the beginning of March 2012 respectively, also generated highly satisfactory sales figures. The same applies to the licensed title "Immortals", released at the beginning of April, and the theatrical hit "The Famous Five", which was issued on DVD and Blu-ray at the beginning of August.

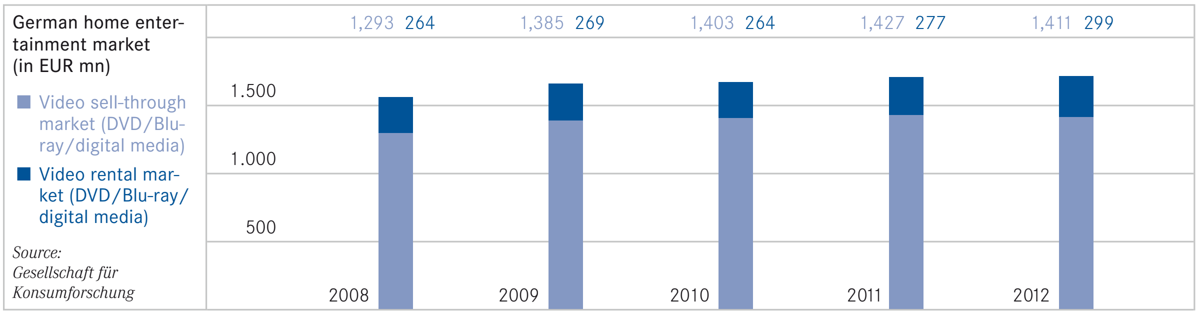
LICENSE TRADING/TV EXPLOITATION

Growing interest in digital channels and HD TV

Two of the most important and most-discussed topics in the TV industry in 2012 were "digitalization" and "smart TV". Almost 72 % of German households now have digital television, giving them access to a much wider range of channels. In addition, 2012 saw rising interest in digital channels and online videos among TV viewers, mainly as a result of the growing spread of smart TVs.

This gives the major TV stations an opportunity to regain lost viewers and attract new audience groups by providing innovative, high-quality content. As all TV-related studies show, audience interest in TV is currently higher than it has been for many years.

This is also demonstrated by preliminary figures from the Central Association of the German Electrical and Electronics Industry (ZVEI), whose market researchers estimate that 10 million TV sets were sold in 2012 – up 4.7 % on the previous year. All sets sold were HD-ready, clearly proving the increased expectations of TV consumers. As well as crystal-clear pictures, these TVs also have many additional features such as Internet connectivity and recording functions.



Constantin Film continues its cooperation with major TV stations

In the year under review, Constantin Film AG generated considerable sales from the licensing of free TV rights with films such as “Das Superweib”, “Pandorum”, “Dinosaurier – Gegen uns seht ihr alt aus”, “Vorstadtkrokodile 2” and “Law-Abiding Citizen”. Rights to films including “Resident Evil: Afterlife”, “The Resident”, “The Switch”, “Step Up 3” and “Vorstadtkrokodile 3” were licensed for the pay-TV sector.

In TV exploitation, the first part of the youth series “Vorstadtkrokodile” achieved a very strong market share of 9.2 % of its target demographic of 14-to-49-year-olds at its free TV premiere at the beginning of January 2012 at 8:15 p.m. on Sat.1. At the end of May 2012, the comic-book adaptation “Fantastic Four – Rise of the Silver Surfer”, also broadcast in the prime 8:15 p.m. slot on ProSieben, attained an outstanding market share of 16.5 % among 14-to-49-year-olds.

The Constantin Film licensed title “Law-Abiding Citizen” also proved popular with its target demographic, achieving a very strong market share of 17.3 % on its free TV premiere on ProSieben at the end of July 2012. At the end of August 2012, ProSieben showed the US comedy “American Pie” in its afternoon schedule, with a sensational market share of 26.6 % in its target demographic. Finally, the licensed title “Centurion” attained an outstanding market share of 17.7 % among 14-to-49-year-old viewers on its free TV premiere on ProSieben at the beginning of December 2012.

Management report

Sports- and Event-Marketing segment

Report on business performance and the situation

All eyes on Monaco:
The live broadcast of the draw for the UEFA Champions League group phase is eagerly anticipated every year.


UEFA
WE CARE ABOUT FOOTBALL
COUPE DES CLUBS CHAMPIONS
EUROPEENS

Internet as the growth driver of the advertising market

The advertising market has been slow to recover from its strong decline in 2009. In 2012, this development was primarily due to the ongoing recession in the euro zone. Against this backdrop, the media planning and buying firm ZenithOptimedia, reduced its forecast for global advertising growth to 3.3 % in December 2012, from the 3.8 % predicted in September.

The Internet continues to be the fastest growing advertising medium by some distance with display the fastest-growing sub-category, with 20 % annual growth, thanks to the rapid rise of social media and online video advertising, each of which are growing at about 30 % a year. Between 2002 and 2012 the Internet's share of global advertising rose by 15 percentage points, while newspapers' share fell 12 points and magazines' share fell by 5 points.

With the ongoing digitalization of the media market, the array of Over The Top (OTT) services are beginning to attract consumers towards unbundling their main TV packages. Consumers increasingly own more than one connected device, which offers an alternative to pay TV subscriptions, and allows consumers to watch TV of their choice when they want, either for free, or on a pay-as-you-go model, which has proved particularly popular among younger audiences. However, even in countries such as the UK, where OTT services are seeing strong uptake, its principal role is likely to be to enable catch-up, rather than to create a bespoke "channel" of TV content.

Rising income on the sports market

The sports market has held strong through difficult times in 2012, with the biggest events reaching new levels of popularity. The year has seen growth in overall sports media and sponsorship rights fees. This can be partly attributed to the major events such as the London Olympic Games and the European Football Championships. However, if the effect of such events were removed continued growth in overall revenues would still be evident.

This was supported by advances in technology, allowing higher-quality coverage. In addition, the growth of social media was enabling broadcasters to more effectively engage with sports fans generating greater interest in a bid to extract more value from their rights.

Sponsors remain intent to financially associate themselves with sports events and are moving towards increasingly sophisticated data mining to gain increasing levels of intelligence and insight on the consumers. This data can also be useful to appease the growing demands to demonstrate the returns on sponsoring investments.

Successful marketing of UEFA projects

For TEAM, fiscal year 2012 was influenced primarily by the marketing process for the commercial rights to the UEFA Champions League and the UEFA Europa League for the 2012/13 to 2014/15 seasons. Despite a sometimes challenging market environment, TEAM again achieved the performance targets agreed with UEFA.

The TV rights for the two leading club football competitions for the 2012/13 to 2014/15 seasons were marketed worldwide, ensuring the continuation of global coverage in future. In addition to contract extensions with long-standing partners, TEAM also attracted a large number of prestigious TV stations for both events. For instance, in France, the broadcasting rights to the UEFA Europa League were awarded to incumbent free-TV partner M6/W9, while

Still pulling in the viewers: the UEFA Champions League, the UEFA Europa League, and the UEFA Super Cup

the pay-TV rights went to Al Jazeera. Similarly, in Spain, a free TV rights package for the UEFA Europa League was awarded to incumbent partner Telecinco and the pay TV rights were awarded to GolTV.

In UEFA Champions League sponsorship, five of the six long-term partners – Ford, Heineken, MasterCard, UniCredit and PlayStation – extended their commitment by a further three years period. TEAM gained Russian energy group Gazprom for the remaining rights package.

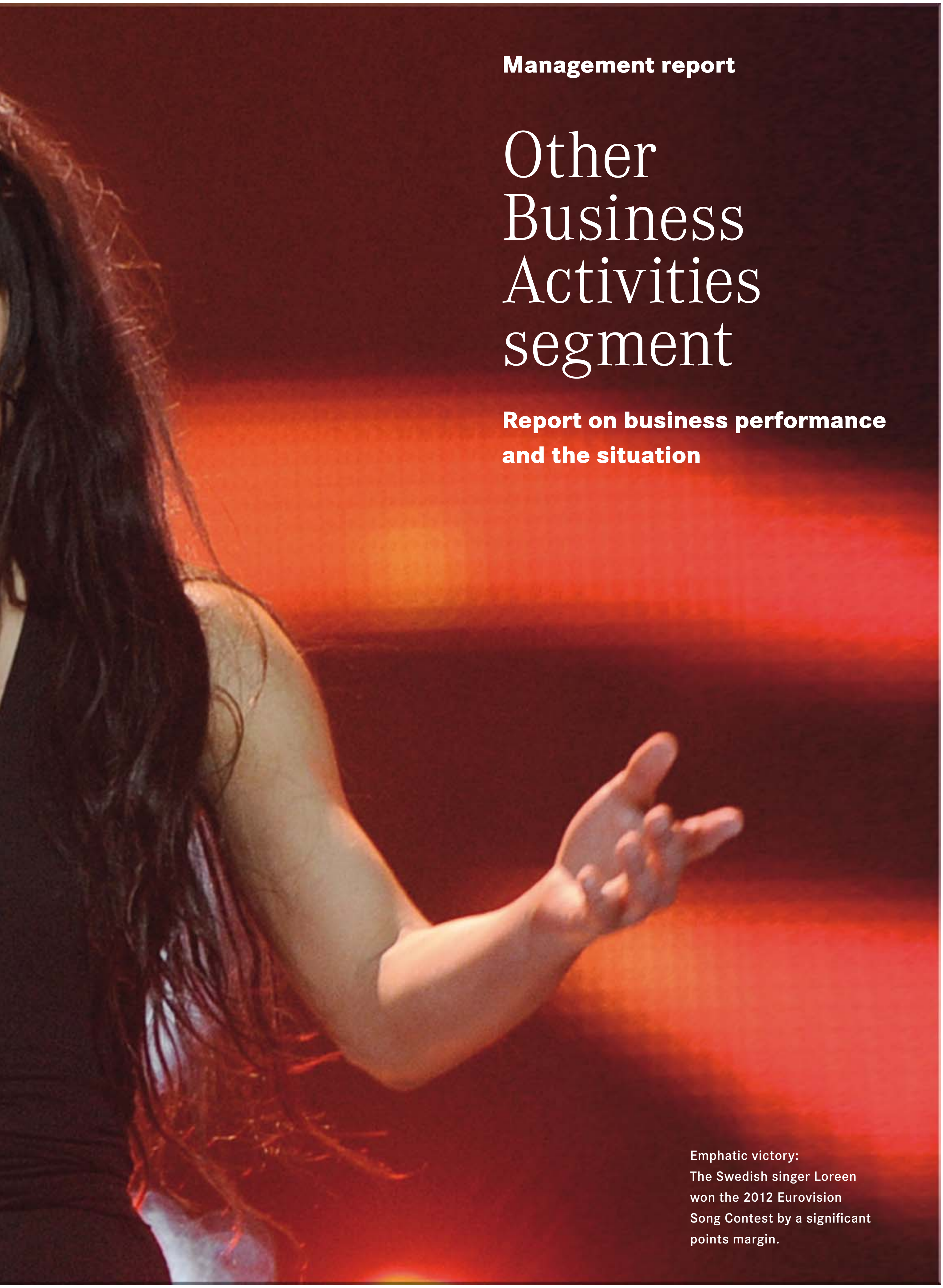
Western Union, a leading provider of global money transfers, is the new presenting sponsor of the UEFA Europa League while Hankook, the biggest South Korean tire manufacturer, acts as an official partner of the competition. The sportswear manufacturer adidas will remain the official supplier for both formats for a further three seasons. In addition, TEAM has signed up with smartphone manufacturer HTC, which is an official provider of cell phones and tablet PCs in the UEFA Champions League and an official partner in the UEFA Europa League.

Diverse operational tasks

In operational terms, the focus was initially on the successful handling and professional support of the knockout phase of the UEFA Champions League and the UEFA Europa League. On this “Road to the Final”, Europe’s top clubs were fighting to reach the finals of Europe’s major club competitions. The final of the UEFA Europa League was then held in Bucharest on May 9, 2012, contested by two Spanish teams, Club Atlético de Madrid and Athletic Club (Bilbao). Club Atlético de Madrid won convincingly to claim the coveted title for the second time in just three years.

On May 19, the UEFA Champions League final between FC Bayern München and Chelsea FC was staged at the Allianz Arena in Munich. In a dramatic game, Chelsea FC won after extra time and penalty shoot-outs to take the trophy for the first time after many attempts. Around 170 million football fans worldwide watched this event on TV. At its peak, it attracted just under 20 million of the total TV audience in Germany alone.

The UEFA Super Cup, also marketed by TEAM and played in Monaco between the UEFA Champions League winner (Chelsea FC) and the winner of the UEFA Europa League (Club Atlético de Madrid), was the traditional curtain-raiser to the new season of the European club football competitions at the end of August 2012. The 15th Super Cup was the last to take place in Monaco. This year’s UEFA Super Cup will be played in Prague and after this the game will take place in a different location each year.



Management report

Other Business Activities segment

Report on business performance and the situation

Emphatic victory:
The Swedish singer Loreen won the 2012 Eurovision Song Contest by a significant points margin.

A jaw-dropping stage and a euphoric atmosphere: the 2012 Eurovision Song Contest

Ongoing cutbacks by TV stations

As a result of the continuing economic gloom in certain regions, particularly Southern Europe, the general conditions in cultural sponsorship remain challenging. Due to economic and corporate policy reasons, many companies in the countries affected can provide only limited financial resources for cultural and entertainment events. Consequently, the host city of the Eurovision Song Contest is becoming increasingly important in terms of sponsorship.

Cutbacks are also continuing to be made by TV stations, especially in public-sector broadcasting of musical and cultural events, although they have not yet had a tangible impact on the top events in this area, including the Vienna Philharmonic Orchestra's New Year's Day Concert and the Eurovision Song Contest.

Internet gaming continues to grow in importance

According to the German Federal Association for Information Technology, Telecommunications and New Media (BITKOM), the computer and video games market in Germany faces considerable upheaval. On the one hand, the Internet is becoming increasingly important as a marketplace, since 63 % of active players already use free Internet games and 41 % buy new games from app stores for mobile devices. These figures clearly show that many players are eager to have constant access to a wide range of games.

On the other hand, this high availability and the ever wider array of games mean that gaming levels are constantly increasing. While only 28 % of Germans played games more or less regularly in 2008, the figure was as high as 35 % last year. One particularly noticeable factor here is the significant growth in the proportion of women, which rose from 22 % to 28 % between 2008 and 2012, and actually increased from 27 % to 38 % among 30-to-49-year-old players during this period.

Successful handling of music projects

The 2012 Eurovision Song Contest, held from May 22 to 26 in Baku, Azerbaijan, was again watched by over 100 million viewers on TV and more than 60,000 fans live throughout the entire contest. Owing to the considerable enthusiasm for the event on the regional market, Highlight Event AG attained outstanding sales figures in the area of sponsorship.

Once again, a telecommunications company, Azercell/TeliaSonera, was secured as the presenting sponsor. TeliaSonera was the principal partner for the event at the Eurovision Song Contest 2007 in Helsinki, and will also be the presenting sponsor in Malmö in 2013. Schwarzkopf/Henkel signed up as the official sponsor, having already acted as the presenting sponsor for the 2011 event in Dusseldorf. In addition to these partnerships, marketing agreements were concluded with SOCAR (State Oil Company of Azerbaijan), Baltika Beer (part of the Carlsberg Group) and the Azerbaijan Tourist Board. On the TV side, the rights outside Europe were also sold to Australia and Kazakhstan. Besides the strong economic result, another positive fact is that all sponsorship packages were sold and existing partnerships were renewed.

Classical music highlights: the Vienna Philharmonic Orchestra's concerts

Highlight Event AG made extensive preparations for the local event. The stadium was specially built for the Eurovision Song Contest and completed just a few weeks before the event. Despite these conditions, all local sponsorship contracts were fulfilled. The rights packages comprised in particular media rights (TV presence), event rights (including hospitality, on-site branding, promotional activities in fan-zones in Baku city center), and online presence. The pan-European telephone voting ran smoothly on all three evenings of the contest.

The Vienna Philharmonic Orchestra's 2012 New Year's Day Concert was again broadcast in more than 70 countries, underlining the event's status as the most famous televised classical music event in the world. Highlight Event AG was responsible for the successful implementation of all sponsorship and TV activities as well as fulfillment of all contracts in this area.

The same applies to the orchestra's Summer Night Concert which was held on June 7, 2012 in the gardens of Schönbrunn Palace and broadcast in more than 60 countries. Attended by around 100,000 people and free of charge, the Summer Night Concert is the biggest annual open-air classical music event in the world. Other concerts jointly organized by Highlight Event AG were successfully held in Stockholm, Barcelona and London, with the BBC Proms concert in London being televised in around 30 countries in cooperation with the EBU.

Growing interest in "Fun Poker" game

Pokermania GmbH's gaming program application "Fun Poker" was enhanced in 2012 and expanded specifically for use by gaming publishers. Operators of Internet gaming platforms are showing considerable interest in licensing Fun Poker, as the white-label version of the software enables licensees to fully integrate the poker game into their gaming environment.

Cooperation agreed between Highlight Event and AvD-Oldtimer-Grand-Prix

On October 5, 2012, Highlight Event & Entertainment AG announced the conclusion of a partnership to market the annual AvD-Oldtimer-Grand-Prix between its subsidiary Highlight Event AG and Germany-based AvD-Oldtimer-Grand-Prix GmbH & Co OHG. The AvD-Oldtimer-Grand-Prix is one of the world's most prestigious classic car racing events. The main aim of the cooperation, which initially covers 2013 and 2014, is to expand and enhance the existing marketing and communication platform.

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

RESULTS OF GROUP OPERATIONS

Highlight Group outperforms planning targets

Despite a challenging market environment at times, the Highlight Group concluded fiscal year 2012 with results ahead of its own forecasts. The balance sheet ratios continued to improve and the forecasts for consolidated sales (CHF 370 to CHF 390 million) and earnings per share (EUR 0.42 to EUR 0.44) were exceeded.

Strong rise in consolidated sales

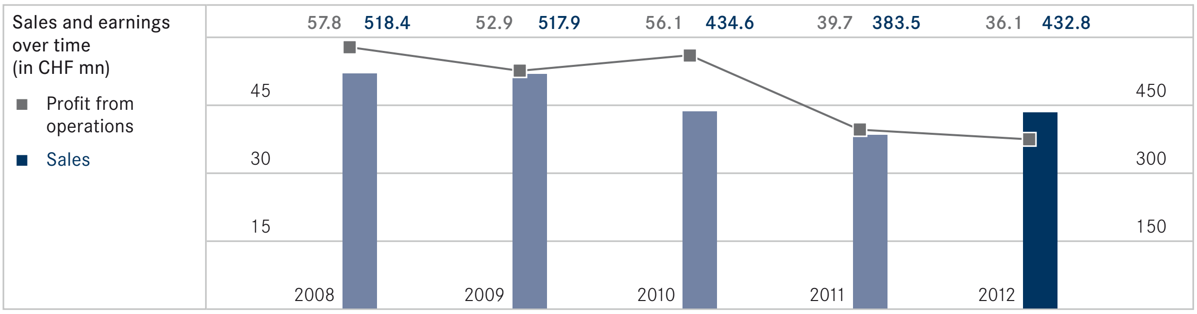
In the past fiscal year, consolidated sales amounted to CHF 432.8 million, an increase of CHF 49.3 million or 12.9 % as against the previous year (CHF 383.5 million). The significant growth is due firstly to a strong film slate – above all “Türkisch für Anfänger”, “The Famous Five”, “Step Up Revolution” and “Resident Evil: Retribution” – in the theatrical distribution business area. Secondly, the home entertainment business area enjoyed sales hits with new releases such as “The Three Musketeers”, “Wickie and the Treasure of the Gods” and “Immortals”.

Capitalized film production costs and other own work capitalized rose by CHF 4.9 million to CHF 59.2 million (previous year’s period: CHF 54.3 million), with the result that the total output of the Highlight Group climbed by CHF 54.2 million or 12.4 % to CHF 492.0 million (previous year’s period: CHF 437.8 million). Other operating income remained virtually constant year-on-year at CHF 24.8 million after CHF 25.3 million.

Expenses up as result of rise in production volume

Operating consolidated expenses rose by CHF 57.4 million or 13.6 % to CHF 480.8 million after CHF 423.4 million in fiscal year 2011. The increase primarily resulted from the cost of materials and licenses, which rose by CHF 40.5 million to CHF 187.0 million (previous year’s period: CHF 146.5 million) in connection with productions. Furthermore, amortization, depreciation and impairment climbed by CHF 30.2 million to CHF 123.5 million (previous year’s period: CHF 93.3 million). This was mainly a result of significantly higher scheduled amortization on films being exploited and goodwill impairment of around CHF 3 million.

Personnel expenses were down by CHF 2.9 million at CHF 106.8 million (previous year’s period: CHF 109.7 million) and other operating expenses declined by CHF 10.4 million to CHF 63.5 million (previous year’s period: CHF 73.9 million). EBIT was down slightly on the previous year’s figure (CHF 39.7 million) as a result of the developments described at CHF 36.1 million. The same applies to the EBIT margin, which dropped from 10.4 % to 8.3 %.



Earnings per share ahead of planning at CHF 0.55 or EUR 0.46

Earnings from investments in associated companies and joint ventures improved by CHF 1.4 million in the year under review to CHF 0.2 million after an expense of CHF 1.2 million in the previous year. By contrast, the financial result dropped by a total of CHF 8.2 million to CHF –4.4 million (previous year's period: CHF +3.8 million), which was essentially due to currency effects. Financial income declined by CHF 9.8 million to CHF 6.5 million while financial expenses fell by CHF 1.6 million to CHF 11.0 million.

After taking into account tax expenses (current and deferred taxes), which declined by CHF 2.9 million to CHF 6.0 million year-on-year, the Highlight Group reported a consolidated net profit for fiscal year 2012 of CHF 25.9 million. This marks a contraction of CHF 5.1 million as against the previous year (CHF 31.0 million). CHF 0.4 million (previous year's period: CHF –0.6 million) of this profit is attributable to non-controlling interests.

The share of profits attributable to Highlight shareholders is CHF 25.5 million, down CHF 6.1 million on the previous year's figure (CHF 31.6 million). Based on 46.1 million average shares outstanding, this resulted in earnings per share of CHF 0.55 (previous year's period: CHF 0.69). Calculated in euro, earnings per share amounted to EUR 0.46 (previous year's period: EUR 0.56), above the planning corridor.

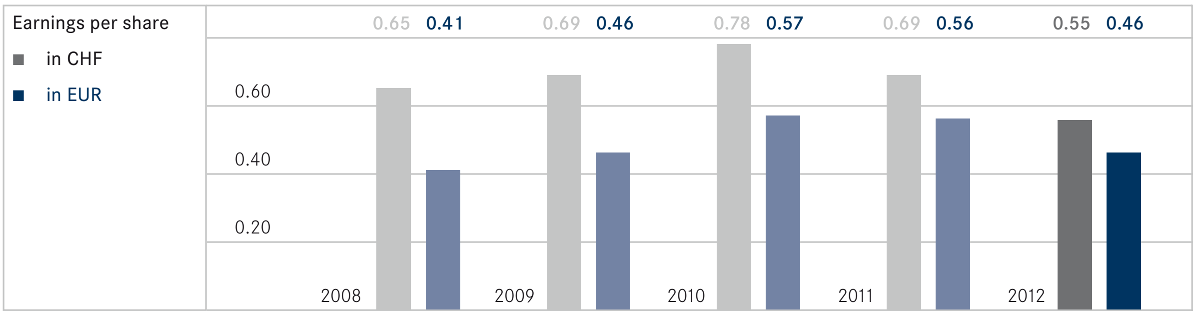
RESULTS OF SEGMENT OPERATIONS

Film: Higher sales and increased production expenses

As a result of the marketing successes in the theatrical distribution and home entertainment business areas, the Film segment generated external sales of CHF 353.4 million in the year under review, thereby bettering the figure for the previous year (CHF 292.0 million) by 21.0 %. Other segment income, which is largely influenced by capitalized film production costs, rose by 4.1 % to CHF 82.9 million (previous year's period: CHF 79.6 million). At the same time, segment expenses climbed by 19.7 % to CHF 424.6 million (previous year's period: CHF 354.8 million), particularly as a result of the greater cost of materials and licenses and higher amortization, depreciation and impairment. As a result of these developments, segment earnings declined from CHF 16.8 million to CHF 11.7 million.

Sports- and Event-Marketing: Lower costs more than compensate for forecast sales decline

At CHF 69.4 million, external sales in the Sports- and Event-Marketing segment were down 23.1 % year-on-year (CHF 90.3 million). This drop was due to changes in the business relationship with UEFA, including handing over match organization to UEFA, on the one hand. Furthermore, sales have also been reduced as a result of the transfer of the music activities to the Other Business Activities segment. As a result of these effects, segment expenses also fell by 37.3 % to CHF 38.1 million (previous year's period: CHF 60.8 million). This more than offset the drop in sales, as a result of which segment earnings improved by 8.4 % to CHF 32.1 million (previous year's period: CHF 29.6 million).



Other Business Activities: New segment still posting start-up losses

The Other Business Activities segment generated external sales of CHF 10.0 million (previous year's period: CHF 1.2 million) and other income of CHF 1.2 million (previous year's period: CHF 0.8 million). After deducting expenses of CHF 14.0 million (previous year's period: CHF 3.5 million), the segment posted a loss for fiscal year 2012 of CHF 2.7 million (previous year's period: CHF 1.5 million). The above figures can only be compared with each other to a limited extent owing to the reorientation of the Other Business Activities segment towards event and entertainment business in the year under review.

Further drop in holding costs

The costs of holding activities, which amounted to CHF 5.1 million in fiscal year 2011, declined by 3.9 % in the year under review to CHF 4.9 million.

NET ASSETS SITUATION

Lower total assets year-on-year

As of December 31, 2012, the total assets of the Highlight Group amounted to CHF 421.1 million, a reduction of CHF 78.1 million as against the end of 2011 (CHF 499.2 million). The main reductions in assets were in cash and cash equivalents, which declined by CHF 68.2 million to CHF 72.5 million (December 31, 2011: CHF 140.7 million), as well as trade accounts receivable and other receivables due from third parties, which declined by CHF 21.0 million to CHF 115.4 million (December 31, 2011: CHF 136.4 million). By contrast, current and non-current receivables due from associated companies and joint ventures rose by CHF 4.7 million to CHF 6.6 million (December 31, 2011: CHF 1.9 million), while other current financial assets climbed by CHF 3.3 million to CHF 17.2 million (December 31, 2011: CHF 13.9 million).

Increase in film assets

The value of film assets as of the end of the reporting period was CHF 162.6 million, a rise of CHF 8.0 million as against December 31, 2011 (CHF 154.6 million). CHF 134.7 million (December 31, 2011: CHF 127.9 million) of this total related to in-house productions and CHF 27.9 million (December 31, 2011: CHF 26.6 million) to third-party productions. The growth in both areas is due to the fact that additions exceeded amortization and impairment losses on films being exploited.

Additions to film assets, which amounted to CHF 124.7 million in fiscal year 2012, were significantly higher than the previous year's level of CHF 75.3 million. This also applies to amortization and impairment losses, which rose from CHF 89.9 million in the previous year to CHF 115.2 million.

Significant reduction in financial liabilities

In terms of capital, non-current liabilities declined by a total of CHF 7.3 million to CHF 15.0 million (December 31, 2011: CHF 22.3 million), essentially as a result of the reclassification of a meanwhile settled liability of around CHF 12 million to other current liabilities. This reduction was partially offset by a rise in deferred tax liabilities of CHF 3.6 million to CHF 9.4 million (December 31, 2011: CHF 5.8 million).

Current liabilities fell significantly by CHF 90.8 million to CHF 290.1 million (December 31, 2011: CHF 380.9 million). This development was primarily due to a reduction in financial liabilities, which declined by CHF 68.2 million to CHF 136.0 million (December 31, 2011: CHF 204.2 million). Furthermore, trade accounts payable and other liabilities due to third parties fell by CHF 20.9 million to CHF 95.6 million (December 31, 2011: CHF 116.5 million).

Increase in equity

Consolidated equity (including non-controlling interests) climbed by CHF 20.0 million from CHF 96.0 million as of the end of the previous year to CHF 116.0 million. The increase is essentially a result of the consolidated net profit for the period of CHF 25.9 million and a share in the capital increase of Highlight Event & Entertainment AG in the amount of CHF 3.0 million relating to non-controlling interests. Equity was reduced by dividend distributions totaling CHF 9.8 million.

Relative to total assets, this equity corresponds to a notional equity ratio of 27.6 % – an improvement of more than eight percentage points as against December 31, 2011 (19.2 %). There was a similar development in the adjusted equity ratio (after netting cash and cash equivalents against financial liabilities and film assets against advance payments received), which rose from 30.4 % to currently 38.3 %. For detailed information on the development of consolidated equity please see the consolidated financial statements (pages 72 and 73).

FINANCIAL SITUATION

Further decline in gearing ratio

Cash and cash equivalents fell by CHF 68.2 million to CHF 72.5 million in fiscal year 2012 (December 31, 2011: CHF 140.7 million). Parallel to this, financial liabilities were reduced by the same amount to CHF 136.0 million (December 31, 2011: CHF 204.2 million). At CHF 63.5 million, net debt therefore remained at exactly the previous year's level, while the gearing ratio of the Highlight Group declined from 66.1 % to 54.7 % – as a result of the increase in equity.

Operating activities generated a net cash inflow of CHF 156.3 million in the year under review – an increase of CHF 41.6 million as against fiscal year 2011 (CHF 114.7 million). This development is essentially due to changes in the operating net current assets, which had a positive effect of CHF 5.7 million in fiscal year 2012 while they had a negative effect of CHF 16.1 million in the previous year.

Net cash of CHF 137.2 million was used in the investing activities of the Highlight Group, an increase of CHF 60.6 million as against the figure for the previous year of CHF 76.6 million. The significant increase was largely due to payments for film assets, which were CHF 49.1 million higher than in the previous year at CHF 126.6 million (CHF 77.5 million). Furthermore, payments for intangible assets, property, plant and equipment and financial assets rose by a total of CHF 8.3 million to CHF 11.1 million (previous year's period: CHF 2.8 million).

Net cash used in financing activities climbed by CHF 26.0 million to CHF 85.8 million (previous year's period: CHF 59.8 million). This development is primarily due to the net repayment of financial liabilities, which was CHF 23.5 million higher in the year under review than in the previous year. In addition, payments for purchase of non-controlling interests climbed by CHF 5.5 million.

External and internal financing sources ensure liquidity

The Highlight Group has access to credit facilities with variable interest rates as external sources of financing. These have been partially utilized. These facilities are loans that usually have a remaining term of one month. Interest rates were between 1.39 % and 1.43 % in the euro zone in the year under review. For other foreign currencies, especially USD and CAD, interest rates were between 1.90 % and 3.16 %.

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

PERSONNEL REPORT

As of December 31, 2012, the Highlight Group employed 732 people (December 31, 2011: 733) – including freelance staff. Of this number, 122 employees (previous year: 162) worked in Switzerland, 597 (previous year: 558) worked in Germany and 13 (previous year: 13) worked in Austria.

EVENTS AFTER THE BALANCE SHEET DATE

Two Bavarian Film Awards for Constantin Film

Constantin Film's hit comedy "Türkisch für Anfänger" won the audience prize at the Bavarian Film Awards, held on January 18, 2013. The Constantin Film co-production "Das Haus der Krokodile" was awarded the Bavarian Film Award for best children's film of 2012.

RISK REPORT

RISK POLICY AND RISK MANAGEMENT

Risk management system based on binding directive

The risk policy of Highlight Communications AG is geared towards ensuring the long-term continued existence of the Group and increasing its enterprise value sustainably. Following these principles, business decisions are always made only after a detailed risk analysis and assessment. Inappropriately high risks or those that are hard to quantify are not taken on principle.

The aim of the risk management system of the Highlight Group is to identify individual risks, analyze them transparently and show appropriate control options. The tracking, assessment and controlling of risks are performed on the basis of a risk management directive that applies to all subsidiaries and equity interests of the Highlight Group. In the risk management system, all identified risks are first broken down by quantifiable and non-quantifiable risks and entered in a risk catalog.

Each risk is then evaluated according to the criteria of "probability" and "possible damage". Quantifiable risks are displayed in monetary figures, while non-quantifiable risks are classified according to qualitative features. If individual risks exceed a set acceptance line, the Group's management initiates corresponding countermeasures and monitors their effectiveness. The results of the risk assessment (including the action plan) are discussed and approved by the Board of Directors.

In line with this risk assessment, the following areas that directly affect the result of operations, net assets and financial situation of the Highlight Group, are subject to a particularly intensive analysis:

PRODUCTION RISKS

Theatrical productions: Pre-financing in part required

The production of theatrical and TV movies and their marketing are cost-intensive and consequently entail corresponding financial risks. Production costs for a German theatrical movie with an average budget are between EUR 3 million and EUR 7 million, while major international productions can be many times this amount. The largest portion of these costs must be financed in advance by the Highlight Group because the respective budget cannot be covered in full by funds from film grants and co-production contributions. Due to these high financial requirements, the partial or complete failure of individual film projects could have considerable disadvantageous consequences for the business situation, earnings and financial situation of the Group.

In addition, there can be budget overruns in the production of a movie that must be borne by the Group. Thanks to its long-term experience in producing movies, the Highlight subsidiary Constantin Film AG has usually managed to fully cover production costs with the exploitation revenues in the past. Furthermore, Constantin Film kept film productions on schedule and on budget and largely avoided unplanned costs or covered these with appropriate insurance policies.

A complaint against the Film Promotion Act (FFG) is currently pending at the German Federal Constitutional Court. One of the provisions of this Act is that film grant funding must be paid according to defined parameters as a levy by the exploiters of movies. The plaintiffs argue that not all subsectors are equally affected by this levy (e.g. cinema operators would be hit harder than TV stations or download portals). If the German Federal Constitutional Court declares the FFG invalid for this reason, this could put the entire German film grants system into question. This would be likely to have considerable negative impacts on the production of German movies.

TV service productions: Development costs risk factor

With TV service productions, the cost risk can be high due to development costs. In the event of non-commissioning, these costs are often only partially borne by the broadcaster. Even in the case of an order, there is no requirement for them to be added as initial costs to the budget of the respective TV provider. Constantin Film AG is currently making bids for formats from various broadcasters in Germany and abroad and has concluded development contracts for series and non-series formats. For this reason, the cost risk described is high for it as well as its competitors.

After the economic crisis, advertising income of TV stations increased again in 2012, causing the advertising market to close with a solid positive result. According to reports by Nielsen Media Research, TV advertising increased by 2 % from the previous year to approximately EUR 11.33 billion. Nonetheless, broadcasters are still very cost-conscious in purchasing and producing program content.

For TV broadcasters, in terms of tying up big-spending advertising partners, successful reach and market share performance are now more important than ever when buying and producing program content. This is why program providers are increasingly reserving the option to back out of a format commissioned in their contracts with producers if it fails to meet ratings expectations. Therefore, producers increasingly face the risk of having productions canceled at short notice.

For TV productions in other European countries, the financing risk is still high as a result of the continuing debt crisis in some EU states.

RISKS IN PURCHASING FILM LICENSES

Increased competitive pressure

The Highlight Group competes with a number of other companies to acquire the rights to promising third-party productions. Although the situation on this market has relaxed somewhat overall, competition for the rights to attractive theatrical movies remains high. On the one hand, this results in the risk of relatively high license prices. On the other, there is the residual risk of whether the movie in question appeals to a wide audience and is therefore a commercial success. Both risks are reduced by the distinct and extensive experience of Constantin Film AG in buying movie rights.

The competitive situation of Constantin Film AG for relevant license products is still influenced mainly by the large German competitors Concorde Filmverleih (Tele München Group) and Studiocanal (Canal+ Group). In addition, major studios such as Warner Bros. are acquiring more and more German productions and thus appearing on the market for German-language films as strong competitors.

Programming at relevant TV stations – especially in primetime – will continue to have movies as a mainstay. For years, the observable trend has been that the major program providers rely mainly on big-budget event films or blockbusters from Hollywood studios, which promise good advertising income. Constantin Film AG is thus under great pressure to acquire such products for licensing to broadcasters. This exposes it to the risk that movie licenses with expensive purchase prices may not be sold on at a profit.

EXPLOITATION RISKS

Sales markets influenced by many factors

The Highlight Group exploits the movie rights to its in-house and third-party productions along the entire value chain. As a result, it competes with a number of providers at all stages of exploitation. In addition, the income in the theatrical distribution and home entertainment areas also depends on popular taste and – especially in times of economic difficulty – private consumer propensity.

In the Film segment, there is a dependence on all major German TV stations, as a considerable part of production costs is covered by sublicensing TV transmission rights to movies. In addition, the Constantin Film Group depends on continuous commissioning of TV service productions. As a result of the existing oligopoly in the German TV station market, the individual TV stations have a strong market position that adversely affects the attainable margins of the Constantin Film Group. Furthermore, in distribution and production in particular, the Constantin Film Group depends on close partnerships, including with film producers and licensors.

Economic success in exploitation is also linked to a number of industry-specific risks, the probability and effects of which on the result of operations and financial situation of the Highlight Group are hard to assess. For example, risks can result at all stages of exploitation from a change in the market situation among the parties exploiting rights. Thus, changes in media laws, the advertising market or the structure of forms of TV broadcasting (pay TV, TV on demand) can influence the exploiter's selection of movies and TV stations' programming and purchasing policy.

Advancing digitalization allows television channels to increasingly expand their digital offering on the Internet. Media libraries, video-on-demand, games and online shops are now easy for customers to access digitally. These forms of distribution are especially popular among 20-to-25-year-old consumers. This can lead to competition in the medium to long term, especially in terms of pay TV.

Changes in consumer behavior and customer taste can also cause market adjustments by the rights exploiters. The movie industry is struggling more and more with competing media products such as video games and the increasing consumption of content on mobile devices and/or social networks. This competitive situation is expected to increase further in the future.

Also, the film industry is still subject to the risk of considerable revenue losses due to film piracy on the Internet. The rise in illegal copies could have the effect of reducing the number of moviegoers and reducing revenues from home entertainment and TV exploitation of films. The countermeasures already taken by the Highlight Group include raising viewer awareness and increasing legal Internet content offerings in addition to supporting various interest groups.

In addition, the prosecution of offenders has also continued to make an important contribution to the fight against piracy in 2012. However, there is still no legal framework for the protection of intellectual property on the Internet that could reduce the risk of financial losses for the film industry due to piracy or reduce legal disputes with those who pirate films.

RISKS IN THE SPORTS- AND EVENT-MARKETING SEGMENT

Possible default risks in the area of sponsorship and TV

In relation to the Sports- and Event-Marketing projects, risks may arise from the TEAM Group's dependence on a major client such as UEFA. Previous success and the company's positioning in the market, as well as the targeted strategic orientation towards UEFA, help qualify this situation.

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

The effects of the current economic climate remain unclear. In general, the TV and sponsorship rights for the UEFA Champions League and the UEFA Europa League have been granted to partners of very good financial strength, and credit default rates to date – even during the recent economic downturn – have been very low. Even so, it cannot be ruled out that individual TV broadcasters or sponsors could run into financial difficulties.

On October 4, 2011, the European Court of Justice (ECJ) issued a judgment concerning the granting of exclusive TV rights for football matches. In its judgment, the ECJ stated that the granting of absolute territorial exclusivity to broadcasters in the EU in a way that prohibits them from offering their TV services in other EU markets is contrary to the principle of the freedom to provide services in the EU. Although the implications of this decision are not yet clear, it is possible that it could have a negative impact on the marketing of TV rights in Europe by TEAM Group.

RISKS IN THE OTHER BUSINESS ACTIVITIES SEGMENT

The main risk factors in terms of the economic result in the context of the EBU projects (particularly in the area of sponsorship) are the dependency on regional factors as well as the general economic situation in the euro zone. Furthermore, enthusiasm for pan-European telephone voting has waned in recent years. This trend is expected to continue, which could hit total income from the project.

Attracting sponsorship for the new projects, the AvD-Oldtimer-Grand-Prix and Eurovision Young Musicians, is extremely challenging due to the economic situation in Europe.

On the gaming publisher market, excess supply is leading to a drop in prices for the purchase of money and for level attainment in games. Therefore, revenues from gaming operations are likely to continue to fall – coupled with an increase in the marketing costs needed to acquire new customers and players.

FINANCIAL RISKS

Strict handling of financial risks

The Highlight Group is exposed to a variety of financial risks resulting from its business and financing activities. The most significant financial risks result from changes in currency exchange rates, interest rates, the Group's liquidity as well as the credit rating and solvency of the Group's counterparties.

Currency risks arise primarily when purchasing movie rights on a US dollar basis as the proceeds from exploiting these rights are incurred only in euros. Fluctuations in either direction in the USD/EUR exchange rate can therefore influence the result of operations and financial situation of the Highlight Group. To minimize this risk, the Group uses suitable derivative financial instruments – such as currency forwards – concluded with banks. It generally ensures that the amount of the hedge does not exceed the value of the hedged item.

Furthermore, the price of the Swiss franc against the euro developed to the considerable disadvantage of the Swiss currency, particularly in 2011, increasing the Highlight Group's currency risk accordingly. However, owing to the intervention of Swiss National Bank, which set a minimum exchange rate of 1.20 Swiss francs relative to the euro at the beginning of September 2011, this risk has been limited on a provisional basis.

Changes in market interest rates can entail a risk if this leads to increases or decreases in incoming payments when investing funds or in outgoing payments when borrowing funds respectively. The interest rate risk of the Highlight Group mainly relates to mismatched terms as current financial liabilities usually have a shorter term than the receivables from customers they finance. Currently, this risk is not hedged with corresponding financial instruments and is therefore subject to ongoing, active controlling.

Detailed information on financial risks can be found in the notes to the consolidated financial statements (note 7).

ASSESSMENT OF OVERALL RISK

The Highlight Group's risk areas have not changed significantly in the year under review as against fiscal year 2011. The overall risk situation remains limited and manageable. In addition, no risks have been identified that individually or in combination threaten the existence of the Group as a going concern based on currently available information.

REPORT ON OPPORTUNITIES

OPPORTUNITIES IN THE FILM SEGMENT

The increasing internationalization of Constantin Film AG's business activities in the field of theatrical movies enables the company to tap international markets via major English-language productions, such as the current films "Tarzan" and "The Mortal Instruments: City of Bones". In addition, the strategic partnership between Constantin Film AG and the US studio DreamWorks can be regarded as a major success. This alliance guarantees top international productions in German-speaking countries for several years while at the same time improving Constantin Film AG's position when purchasing film licenses in a strong competitive environment.

In the TV sector, there are also new opportunities arising from the recent business strategy measures applied by Constantin Film AG to step up its international production activities. With the newly established subsidiary Nadcon Film, the company is strengthening its position as a program provider for German TV broadcasters with international co-productions, and through the new global distribution of the joint venture Mister Smith Entertainment it can now sell in-house productions internationally directly.

OPPORTUNITIES IN THE SPORTS- AND EVENT-MARKETING SEGMENT

Following the further extension of TEAM's mandate to market the commercial rights to the UEFA Champions League, the UEFA Europa League and the UEFA Super Cup (for the 2015/16 to 2017/18 seasons respectively), the prospects for continuation of the close cooperation with the Union of European Football Associations are very strong. If contractual performance targets for that marketing process are achieved, TEAM's mandate with UEFA will be automatically extended by a further three seasons (2018/19 to 2020/21). The close link with UEFA is also demonstrated by the fact that two of its representatives have been on TEAM's Board of Directors since the beginning of December 2012.

OPPORTUNITIES IN THE OTHER BUSINESS ACTIVITIES SEGMENT

With regard to the projects already newly acquired (merchandising of the Eurovision Song Contest and Eurovision Young Musicians), there are sound strategic opportunities to expand the existing business areas even further. In particular, the Eurovision Young Musicians project links our existing activities in the field of classical music with those of the EBU, with which we have had a successful partnership for many years.

Marketing activities in the TV area of the Vienna Philharmonic Orchestra project have been stepped up again. Consequently, a further increase in the number of broadcasting TV stations is expected from 2013.

Pokermania GmbH has triggered significant interest among operators of gaming platforms (gaming publishers) with the development of the powerful Fun Poker software. The poker game can help potential licensees to expand their range of games with Fun Poker. At the same time, Fun Poker gives them a further opportunity to offer their customers/players an attractive alternative to using the in-game currency.

FORECAST

GENERAL ECONOMIC ENVIRONMENT

Slight global economic recovery expected

According to the International Monetary Fund (IMF), there is still no sign of an end to the recession in the euro zone in 2013. In its “Global Economic Outlook” published this January, it identifies significant progress by the countries in the euro zone in combating the debt crisis, but states that the uncertainty regarding a lasting solution to the crisis has not yet subsided. The euro zone continues to pose a major risk to global economic prospects.

Consequently, the IMF also assumes that the global economy will recover more slowly than was expected in autumn 2012. It therefore forecasts a global growth rate of 3.5 % this year. This increase will be chiefly driven by stronger growth in the emerging economies, for which an increase of 5.5 % is forecast. According to the IMF, the expansion in the industrialized nations will average 1.4 %, while the economy in the euro zone is set to contract by a further 0.2 %.

However, this should not affect the German economy, for which the IMF forecasts a 0.6 % increase in economic output. This is slightly more optimistic than the German government, which published an economic forecast in mid-January stating a growth rate of 0.5 %. There are much higher expectations for the Swiss economy, which will grow by 1.3 % this year according to the State Secretariat for Economic Affairs (SECO). However, this is conditional on the debt crisis in the euro zone remaining under control and the global economy picking up again.

FILM SEGMENT

Theatrical production/acquisition of rights

In the theatrical production/acquisition of rights business area, Constantin Film AG is focusing its strategy on maintaining and optimizing the high standards of its national and international own and co-productions as well as on selectively purchasing high-quality licensed titles. In addition, Constantin Film will be concentrating even more on producing English-language titles for the global market in future. In general, efforts will be made to produce and exploit movies of an event nature.

For 2013, Constantin Film currently has 18 promising film projects in the pipeline, several of which are English-language productions geared towards the international market. These particularly include the lavish 3D production “Pompeii”, to be directed by Paul W. S. Anderson.

After filming starts on the comedy “...und Äktschn!” with Gerhard Polt, other films are to be shot in the first few months of this year, including the Constantin Film co-production “Schossgebete”, based on the bestseller by Charlotte Roche, and the international own production “Love, Rosie”, based on the romantic novel by the successful Irish author Cecelia Ahern, as well the Rat Pack production “Fack ju Göhte”.

TV service production

In the TV service production business area, the forecast remains cautious, as many current market developments still remain to be seen. These include the effects of the household levy on production activities of public broadcasters, innovations in the product portfolio of private broadcasters and the pay-TV expansion on the TV service production market. Finally, the Internet, especially the YouTube TV channels, must be closely monitored as potential competition for commercial television.

In the area of national TV service productions, the market environment is generally hard to assess. Four years after the far-reaching advertising crisis, TV stations are still showing restraint in their spending on new formats, even though industry experts are forecasting a buoyant 2013 for the advertising market in Germany. Pay TV is currently developing very positively in Germany, and could become an attractive partner for TV service productions in the near future.

In this business area, too, the Constantin Film Group will be increasingly turning towards major English-language productions that are geared towards international tastes in terms of casting and subject matter. It will also continue to pursue the strategy of further expanding its proven partnerships with the major TV stations and contributing to their success with high-quality, innovative productions, with current examples including the new “Tatort Hamburg” for ARD and the adaptation of the Ken Follett bestseller “A Dangerous Fortune” for ZDF. At an international level, the company intends to gain new co-production partners and produce series and TV films with global appeal through the subsidiary Nadcon Film.

Theatrical distribution

For the German movie market – following the outstanding figures for the final quarter of 2012 and in view of several promising releases such as “A Good Day to Die Hard”, “Django Unchained”, “Oblivion”, “Monsters University”, “Hangover 3”, “Star Trek Into Darkness” and “World War Z” – the first half of 2013 could prove to be strong, thus continuing the run of theatrical success. From a German perspective, the Constantin Film productions “The Famous Five 2” and “Ostwind” as well as “Kokowääh 2” (Warner), “Rubinrot” (Concorde) and “Schlussmacher” (Twentieth Century Fox) could contribute to this, ensuring a very healthy German share of the market.

Constantin Film AG is continuing to pursue its proven strategy of combining top own and co-productions with promising licensed titles, including those from the DreamWorks output deal, and bringing them to the big screen in periods relevant to the audiences due to the highly competitive environment.

The distribution slate for movie year 2013 currently consists of 18 films (9 own/co-productions and 9 licensed titles). As in the past, distribution activities will be focused on the second half of the year. This period will see the release of films such as the international 3D CGI own production “Tarzan”, the own/co-productions “The Mortal Instruments: City of Bones” and “Fack ju Göhte” as well as the licensed titles “Ender’s Game” – a science-fiction thriller with Harrison Ford and Ben Kingsley – and “Walking with Dinosaurs 3D”.

Home entertainment

In the home entertainment business area, there is an expectation that the strong results of 2012 will not necessary be matched this year. Revenues on the German market are likely to be down slightly on the previous year. In physical business, there is a noticeable downward trend in DVD sales, while sales of Blu-ray discs are rising steadily.

In this business area, too, the strong own/co-productions of Constantin Film AG will continue to be supplemented by high-quality licensed titles. The home entertainment strategy also includes attractive presentation of products in multimedia stores and enhancement of the DVDs/Blu-rays with appealing bonus material.

Success in the digital sector, such as a high number of paid video downloads of new Constantin Film releases, is to be built upon further in the future. The first quarter promises to deliver a successful start to 2013, with the launch of the hit Constantin Film movies "Step Up Revolution" and "Resident Evil: Retribution".

License trading/TV exploitation

In its license trading/TV exploitation business area, Constantin Film AG will further expand its good, longstanding contacts with the major German TV channels, and is also planning to acquire new partners. As the TV market is growing increasingly fragmented, new niche broadcasters are attempting to gain market shares. The Constantin Film Group is also endeavoring to supply them with relevant content.

SPORTS- AND EVENT-MARKETING SEGMENT

A study by the auditing company PricewaterhouseCoopers (PwC) forecasts that global income from broadcasting rights for sports events will rise by an average of just under 4 % per year to approx. USD 35 billion in 2015 (2010: approx. USD 29 billion). Of all revenue streams in the sports sector (ticket sales, sponsorship, merchandising etc.), this is therefore set to be the area with the second-highest growth rates. With an approx. 38.3 % share of income from broadcasting rights, the EMEA region (Europe, the Middle East and Africa) is set to remain the biggest submarket here. However, PwC expects the highest growth rates in North and South America.

In the area of sponsorship, according to estimates by the German Sponsorship Association (Faspo), German companies will invest more heavily in sports sponsorship up to 2014. With an estimated total sponsorship volume of around EUR 4.4 billion in 2012, Faspo expects a budget of approx. EUR 2.8 billion for sports sponsorship activities. This amount is set to rise to around EUR 3 billion by 2014. Football will remain the dominant sport, with 81 % of sports sponsors being involved in it according to Faspo. Some distance behind are basketball (32 %), handball (28 %), ice hockey (23 %) and riding (19 %).

According to a forecast by ZenithOptimedia, the global advertising market will grow more quickly between 2013 and 2015 than in previous years. The company expects a 4.1 % increase for 2013, and growth of as much as 5.6 % for 2015. ZenithOptimedia identifies the developing markets as the growth drivers, where advertising investment will increase by 8 % in 2013, while the developed markets will grow by just 2 %.

It remains the strategic goal of the TEAM Group to further consolidate its market position as one of the world's leading sports marketing agencies for major international events. The key success factors here are the company's proven expertise and its close and longstanding relationships with its clients.

In operational terms, the main focal points are active support for commercial partners in the current season and preparations for the marketing process for the new sales cycle (2015/16 to 2017/18) of the UEFA Champions League and the UEFA Europa League, which will start in 2013.

OTHER BUSINESS ACTIVITIES SEGMENT

In August 2012, PwC has forecast rapid growth for the computer and video games market in Germany. The company estimates that German players will spend around EUR 2.9 billion on games in 2016. Based on the equivalent figure of just under EUR 2.0 billion in 2011, this would correspond to average annual growth of 7.7 %. PwC expects by far the strongest increases in the segments of mobile games with an average growth of 18.6 % per year, and online games, where PwC estimates average annual growth at 15.7 %.

The strategic aim of Highlight Event & Entertainment AG is to further expand its position in event and entertainment business. To this end, existing partnerships are to be expanded further while new customers are to be acquired. There are also plans to further intensify the cooperation between Highlight Event & Entertainment AG and Highlight Communications AG, thus strengthening the market position of both companies.

In operational terms, following the successful delivery of the 2013 New Year's Day Concert of the Vienna Philharmonic Orchestra, preparations for the forthcoming highlights are in full swing. This year's Eurovision Song Contest will be staged from May 14 to 18 in Malmö, Sweden, and the Vienna Philharmonic Orchestra's open-air Summer Night Concert will be held on May 30.

HIGHLIGHT GROUP

The Highlight Group remains focused on controlled and profitable growth. Based on the described activities in the individual business areas, we expect consolidated sales of approximately CHF 350 million to CHF 400 million for fiscal year 2013 and are currently forecasting a consolidated net profit.

Pratteln, March 2013

The Board of Directors

Please note that actual results can differ significantly from forecast developments if the assumptions on which forward-looking statements are based prove to be inaccurate. Material assumptions made by the Highlight Group relate to the success of individual films in theatrical release and in home entertainment exploitation as well as to financial expectations and risks.

Consolidated financial statements

as of December 31, 2012
of Highlight Communications AG, Pratteln

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

Pure exhilaration:
The best European football teams, sold-out stadiums and live broadcasts around the world are the hallmarks of the UEFA Champions League.

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2012

Highlight Communications AG, Pratteln

ASSETS (TCHF)	Note	Dec. 31, 2012	Dec. 31, 2011
Non-current assets			
In-house productions		134,687	127,930
Third-party productions		27,946	26,625
Film assets	5.1	162,633	154,555
Other intangible assets	5.2	4,954	4,785
Goodwill	5.2	17,892	20,883
Property, plant and equipment	5.3	5,864	9,380
Investments in associated companies and joint ventures	5.4	406	428
Non-current receivables due from third parties	5.6	1,464	3,036
Receivables due from associated companies and joint ventures	5.9	3,294	–
Other financial assets	5.6	249	250
Deferred tax assets	5.13	2,335	4,621
		199,091	**197,938**
Current assets			
Inventories	5.5	3,875	5,777
Trade accounts receivable and other receivables due from third parties	5.7/5.8	115,363	136,399
Receivables due from related parties	11	102	74
Receivables due from associated companies and joint ventures	5.9	3,326	1,946
Other financial assets	5.6	17,197	13,880
Income tax receivables	5.10	5,484	2,457
Cash and cash equivalents	5.12	72,517	140,711
Non-current assets held for sale	5.11	4,150	–
		222,014	**301,244**
Total assets		**421,105**	**499,182**

The notes on page 76 – 147 are an integral part of the consolidated financial statements.

EQUITY AND LIABILITIES (TCHF)	Note	Dec. 31, 2012	Dec. 31, 2011
Equity	5.14		
Subscribed capital		47,250	47,250
Treasury stock		–1,157	–1,157
Capital reserve		–103,614	–104,602
Other reserves		–28,106	–27,093
Retained earnings		162,601	136,738
Shareholders' interests		25,530	31,610
Equity attributable to shareholders		102,504	82,746
Non-controlling interests		13,538	13,268
		116,042	**96,014**
Non-current liabilities			
Other liabilities	5.16	5	11,875
Pension liabilities	5.18	4,115	4,275
Provisions	5.19	1,434	309
Deferred tax liabilities	5.21	9,444	5,807
		14,998	**22,266**
Current liabilities			
Financial liabilities	5.17	136,034	204,207
Advance payments received	5.23	45,534	42,919
Trade accounts payable and other liabilities due to third parties	5.16	95,570	116,535
Liabilities due to related parties	11	250	286
Liabilities due to associated companies and joint ventures	11	1,344	1,430
Provisions	5.19	4,479	5,203
Income tax liabilities	5.20	6,854	10,322
		290,065	**380,902**
Total equity and liabilities		**421,105**	**499,182**

The notes on page 76 – 147 are an integral part of the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT 2012

Highlight Communications AG, Pratteln

(TCHF)	Note	Jan. 1 to Dec. 31, 2012	Jan. 1 to Dec. 31, 2011
Sales	6.1	**432,814**	**383,452**
Capitalized film production costs and other own work capitalized	6.2	**59,211**	**54,348**
Total output		**492,025**	**437,800**
Other operating income	6.3	**24,776**	**25,274**
Costs for licenses, commissions and materials		–43,733	–42,963
Costs for purchased services		–143,293	–103,517
Cost of materials and licenses	6.4	**–187,026**	**–146,480**
Salaries		–94,941	–97,243
Social security and pension costs		–11,835	–12,469
Personnel expenses	6.6	**–106,776**	**–109,712**
Amortization and impairment on film assets	5.1	–115,220	–89,891
Amortization, depreciation and impairment on intangible assets and property, plant and equipment	5.2/5.3	–5,292	–3,389
Goodwill impairment	5.2	–2,941	–
Amortization, depreciation and impairment		**–123,453**	**–93,280**
Other operating expenses	6.7	**–63,490**	**–73,900**
Profit from continuing operations		**36,056**	**39,702**
Earnings from investments in associated companies and joint ventures	6.8	**241**	**–1,200**
Financial income	6.9	6,527	16,287
Financial expenses	6.10	–10,962	–12,531
Financial result from continuing operations		**–4,435**	**3,756**
Profit from continuing operations before taxes		**31,862**	**42,258**
Current taxes		–69	–12,767
Deferred taxes		–5,922	3,850
Taxes	6.11	**–5,991**	**–8,917**
Profit from continuing operations after taxes		**25,871**	**33,341**
Net loss from discontinued operations		–	**–2,335**
Net profit		**25,871**	**31,006**
thereof shareholders' interests		25,530	31,610
thereof non-controlling interests		341	–604
Earnings per share (CHF)	6.12		
Earnings per share attributable to shareholders, basic		0,55	0,69
Earnings per share attributable to shareholders, diluted		0,55	0,69
Earnings per share from continuing operations (CHF)			
Earnings per share attributable to shareholders, basic		0,55	0,71
Earnings per share attributable to shareholders, diluted		0,55	0,71
Earnings per share from discontinued operations (CHF)			
Earnings per share attributable to shareholders, basic		–	–0,02
Earnings per share attributable to shareholders, diluted		–	–0,02

The notes on page 76 – 147 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS 2012

Highlight Communications AG, Pratteln

(TCHF)	Jan. 1 to Dec. 31, 2012	Jan. 1 to Dec. 31, 2011
Net profit	**25,871**	**31,006**
Currency translation differences	–1,016	–2,233
Gains/losses from financial assets at fair value through other comprehensive income/loss	2,089	–4,632
Other comprehensive income/loss, net of tax	**1,073**	**–6,865**
Total comprehensive income/loss	**26,944**	**24,141**
thereof shareholders' interests	26,606	24,793
thereof non-controlling interests	338	–652
Total comprehensive income/loss attributable to shareholders	**26,606**	**24,793**
thereof continuing operations	26,606	25,503
thereof discontinued operations	–	–710

The notes on page 76 – 147 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2012

Highlight Communications AG, Pratteln

(TCHF)	Note	Equity Subscribed capital	 Treasury stock
Balance as of January 1, 2011		**47,250**	**–1,147**
Currency translation differences		–	–
Gains/losses from financial assets at fair value through other comprehensive income/loss		–	–
Other comprehensive income/loss, net of tax		–	–
Net profit		–	–
Total comprehensive income/loss		–	–
Reclassification of prior year's net profit		–	–
Purchase of treasury stock		–	–10
Sale of treasury stock		–	–
Dividend payments		–	–
Change in non-controlling interests		–	–
Changes in scope of consolidation		–	–
Balance as of December 31, 2011		**47,250**	**–1,157**
Balance as of January 1, 2012		**47,250**	**–1,157**
Currency translation differences		–	–
Gains/losses from financial assets at fair value through other comprehensive income/loss		–	–
Other comprehensive income/loss, net of tax		–	–
Net profit		–	–
Total comprehensive income/loss		–	–
Reclassification of prior year's net profit		–	–
Capital increase		–	–
Purchase of treasury stock		–	–
Sale of treasury stock		–	–
Dividend payments		–	–
Change in non-controlling interests		–	–
Changes in scope of consolidation		–	–
Balance as of December 31, 2012	**5.14**	**47,250**	**–1,157**

The notes on page 76 – 147 are an integral part of the consolidated financial statements.

attributable to the shareholders						
Capital reserve	Other reserves	Retained earnings	Shareholders' interests	Total	Non-controlling interests	Total equity
–102,825	**–24,908**	**113,079**	**36,172**	**67,621**	**4,959**	**72,580**
–	–2,185	–	–	–2,185	–48	–2,233
–	–	–4,632	–	–4,632	–	–4,632
–	**–2,185**	**–4,632**	**–**	**–6,817**	**–48**	**–6,865**
–	–	–	31,610	31,610	–604	31,006
–	**–2,185**	**–4,632**	**31,610**	**24,793**	**–652**	**24,141**
–	–	36,172	–36,172	–	–	–
–	–	–44	–	–54	–	–54
–	–	–	–	–	–	–
–	–	–7,837	–	–7,837	–1,885	–9,722
–1,777	–	–	–	–1,777	–4,584	–6,361
–	–	–	–	–	15,430	15,430
–104,602	**–27,093**	**136,738**	**31,610**	**82,746**	**13,268**	**96,014**
–104,602	**–27,093**	**136,738**	**31,610**	**82,746**	**13,268**	**96,014**
–	–1,013	–	–	–1,013	–3	–1,016
–	–	2,089	–	2,089	–	2,089
–	**–1,013**	**2,089**	**–**	**1,076**	**–3**	**1,073**
–	–	–	25,530	25,530	341	25,871
–	**–1,013**	**2,089**	**25,530**	**26,606**	**338**	**26,944**
–	–	31,610	–31,610	–	–	–
–223	–	–	–	–223	2,953	2,730
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–7,836	–	–7,836	–1,917	–9,753
1,211	–	–	–	1,211	–1,211	–
–	–	–	–	–	107	107
–103,614	**–28,106**	**162,601**	**25,530**	**102,504**	**13,538**	**116,042**

CONSOLIDATED STATEMENT OF CASH FLOWS 2012

Highlight Communications AG, Pratteln

(TCHF)	Note	Jan. 1 to Dec. 31, 2012	Jan. 1 to Dec. 31, 2011
Net profit		**25,871**	**31,006**
Net loss from discontinued operations		–	2,335
Deferred taxes		5,922	–3,850
Current taxes		69	12,767
Financial result (without currency result)		4,190	5,491
Earnings from investments in associated companies and joint ventures	6.8	–241	1,200
Amortization, depreciation and impairment on non-current assets	5.1/5.2/5.3	123,453	93,280
Gain (–)/loss (+) from disposal of non-current assets	6.3/6.7	–159	–14
Other non-cash items		719	1,039
Increase (–)/decrease (+) in inventories, trade accounts receivable and other assets not classified to investing or financing activities		22,612	–12,766
Decrease (–)/increase (+) in trade accounts payable and other liabilities not classified to investing or financing activities		–16,888	–3,310
Dividends received from associated companies and joint ventures		282	352
Interest paid		–3,506	– 4,939
Interest received		481	1,043
Income taxes paid		–7,177	–9,332
Income taxes received		670	422
Cash flow from operating activities, continuing operations		**156,298**	**114,724**

The notes on page 76 – 147 are an integral part of the consolidated financial statements.

(TCHF)	Note	Jan. 1 to Dec. 31, 2012	Jan. 1 to Dec. 31, 2011
Change in cash and cash equivalents due to acquisitions of companies/shares in companies, net		–	3,509
Payments for intangible assets	5.2	–2,040	–1,478
Payments for film assets		–126,646	–77,544
Payments for property, plant and equipment	5.3	–4,416	–1,325
Payments for financial assets		–4,616	–
Proceeds from disposals of intangible assets and film assets		–	10
Proceeds from disposals of property, plant and equipment		472	39
Proceeds from disposals of financial assets		–	170
Cash flow for investing activities, continuing operations		**–137,246**	**–76,619**
Payments for purchase of treasury stock		–	–54
Payments for purchase of non-controlling interests	5.16	–11,870	–6,361
Repayment of current financial liabilities		–229,868	–183,548
Proceeds by other shareholders resulting from capital increases and foundations		2,837	–
Proceeds from receipt of current financial liabilities		162,809	139,867
Dividend payments		–9,753	–9,722
Cash flow for financing activities, continuing operations		**–85,845**	**–59,818**
Cash flow for discontinued operations		**–**	**–430**
Cash flow for the reporting period		**–66,793**	**–22,143**
Cash and cash equivalents at the beginning of the reporting period	5.12	140,711	166,039
Change in cash and cash equivalents due to exchange rate movements		–1,401	–3,185
Cash and cash equivalents at the end of the reporting period	5.12	72,517	140,711
Change in cash and cash equivalents		**–66,793**	**–22,143**

The notes on page 76 – 147 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2012

Highlight Communications AG, Pratteln

1. General information

The consolidated financial statements of the Highlight Group were adopted by the Board of Directors of Highlight Communications AG on March 19, 2013 and require the approval of the Annual General Meeting of May 31, 2013.

1.1 General information on the Group

The parent company Highlight Communications AG is based at Netzibodenstrasse 23b, Pratteln, Switzerland. Highlight Communications AG is included in the consolidated financial statements of Constantin Medien AG, Ismaning, Germany.

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

The operating activities of Highlight Communications AG comprise the segments "Film", "Sports- and Event-Marketing" and "Other Business Activities" (see note 8).

1.2 Basis of presentation

The consolidated financial statements of Highlight Communications AG were prepared in accordance with the International Financial Reporting Standards (IFRS) and the additional commercial provisions an d comply with the Swiss law. All these IFRSs/IASs and SICs/IFRICs whose application was mandatory as of December 31, 2012 have been applied.

A list of the subsidiaries, joint ventures and associated companies included in the consolidated financial statements can be found in these notes. The effects of the first-time consolidation and deconsolidation of subsidiaries, joint ventures and associated companies are shown in the section "Scope of consolidation" (see note 3).

The income statement was prepared in line with the nature of expense method.

The annual financial statements of the companies included in the consolidated financial statements are based on uniform accounting policies in line with their respective business activities.

The consolidated financial statements are prepared based on historical cost with the exception of certain items such as financial assets and other financial instruments. As shown in the following accounting principles, these are reported at fair value.

In preparing the consolidated financial statements in accordance with IFRS, the management is required to make estimates and assumptions influencing the income, expenses, assets, liabilities as well as contingent liabilities and assets reported as of the end of the reporting period. These estimates and assumptions are based on the management's best possible assessment based on past experience and other factors including estimates of future events. Estimates and judgments are reviewed on an ongoing basis. Changes to estimates are required if the circumstances on which they are based change or new or additional information becomes available. Such changes are recognized in the reporting period in which the estimate is modified. More detailed information on the basis of estimates can be found separately under the respective statement of financial position item (see note 9).

The financial statements have been prepared in Swiss francs, which is the functional and reporting currency of the Group's parent company. Amounts are reported in thousands of Swiss francs (TCHF) unless stated otherwise.

2. Accounting

2.1 Standards and interpretations applied for the first time

The mandatory first-time adoption of IFRS 1, First-time Adoption of IFRS (amendment), IFRS 7, Financial Instruments: Disclosures: Transfers of Financial Assets (amendment) and IAS 12, Income Taxes: Recovery of Underlying Assets (amendment) in fiscal year 2012 did not affect these consolidated financial statements.

2.2 Standards, revised standards and interpretations published but not yet adopted

The Highlight Group waived early adoption of the following new and revised standards and interpretations whose adoption is not mandatory for Highlight Communications AG as of December 31, 2012:

Standards/amendments/interpretations		Mandatory application for fiscal years starting on or after
IFRS 1	First-time Adoption of IFRS – Government Loans (amendment)	January 1, 2013
IFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (amendment)	January 1, 2013
IFRS 9	Financial Instruments (2010) and subsequent amendments to IFRS 9 and IFRS 7 – Mandatory Effective Date and Disclosures of Transfers of Financial Assets	January 1, 2015
IFRS 10	Consolidated Financial Statements	January 1, 2013
IFRS 11	Joint Arrangements	January 1, 2013
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2013
Transition regulations (amendments to IFRS 10, IFRS 11 and IFRS 12)		January 1, 2013
Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)		January 1, 2014
IFRS 13	Fair Value Measurement	January 1, 2013
IAS 1	Presentation of Financial Statements (amendment)	July 1, 2012
IAS 19	Employee Benefits (amendment)	January 1, 2013
IAS 27	Separate Financial Statements	January 1, 2013
IAS 28	Investments in Associates and Joint Ventures	January 1, 2013
IAS 32	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (amendment)	January 1, 2014
IFRS amendments (2009 – 2011)*		January 1, 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013

*) Specifically, this affects the following standards and interpretations: IFRS 1, IAS 1, IAS 16, IAS 34

The following standards are significant for the future consolidated financial statements of Highlight Communications AG:

IFRS 9 – Financial Instruments (2010)

IFRS 9 (2009) and IFRS 9 (2010) mark the completion of the first part of a three-part project (classification and measurement, impairment, hedge accounting) to completely replace the former accounting treatment of financial instruments under IAS 39, Financial Instruments: Recognition and Measurement. With the completion of each part of the project, the relevant sections under IAS 39 will be extinguished and the new rules under IFRS 9 introduced.

The Highlight Group adopted the new standard IFRS 9 (2009) for the Group's consolidated financial statements at an early stage starting in July 1, 2010.

In addition to IFRS 9 (2009), IFRS 9 (2010) also includes regulations on the classification and measurement of financial liabilities. Apart from the regulations on the recognition of changes in fair value when using the fair value option, IFRS 9 (2010) does not contain any material changes in comparison to the regulations in IAS 39.

IFRS 9 (2010) is mandatory for annual periods beginning on or after January 1, 2015. Earlier adoption is permitted. The Group is currently examining the possible effects of implementing the amendments.

IFRS 10 – Consolidated Financial Statements

IFRS 10 – Consolidated Financial Statements replaces IAS 27 and SIC 12. The new standard contains a uniform definition of the term "control" and specific regulations on assessing if a parent-subsidiary relationship exists and for defining the consolidated group. As defined by IFRS 10, control comprises the criteria of power, exposure to variability of returns and the ability to use power to affect the amount of returns. If all three criteria are satisfied, an entity is controlled and must be included in consolidation. In addition, the new regulations of IFRS 10 contain explanations and application guidance on de facto control with shares of voting rights of less than 50%, on differentiating between participation and protection rights of other shareholders and the inclusion of agency relationships in allocating existing voting rights.

IFRS 10 is effective for the first time for annual periods beginning on or after January 1, 2013. Based on an assessment of its relationships with other companies as of December 31, 2012, the Group is of the opinion that the adoption of IFRS 10 will not have a significant influence on the consolidated financial statements.

Transition regulations (amendments to IFRS 10, IFRS 11 and IFRS 12)

The amendments to the transition regulations clarify that the date of first-time adoption in IFRS 10 is the start of the reporting period in which IFRS 10 is applied for the first time. They also stipulate that comparative information for the disclosure requirements of IFRS 12 in connection with subsidiaries, associated companies and joint arrangements need only be disclosed for the immediately preceding comparative period on first-time adoption of the new consolidation rules. Comparative information is not required for non-consolidated, structured companies on first-time adoption of IFRS 12.

IFRS 13 – Fair Value Measurement

The objective of IFRS 13 is to standardize the calculation of fair value by prescribing a uniform definition and a transparent measurement hierarchy. Fair value is defined in IFRS 13 as the exit price. As far as possible, observable market parameters should be used to calculate fair value. For non-financial assets, the fair value is calculated on the basis of the highest and best use of the asset. IFRS 13 is effective for the first time for annual periods beginning on or after January 1, 2013. The Group is currently examining the possible effects of implementing the amendments.

IAS 1 – Presentation of Financial Statements (amendment)

Under the IAS 1 amendment, other comprehensive income is divided into two categories depending on whether or not the issue at hand will be posted in the income statement in future. The amendment to IAS 1 is effective for the first time for annual periods beginning on or after July 1, 2012. The amendments will not have any significant effect on the consolidated financial statements.

IAS 19 – Employee Benefits (amendment)

The main changes for the Highlight Group in accounting for defined benefit plans concern the recognition of actuarial gains and losses in other comprehensive income. Owing to retrospective application, all unrecognized, cumulative actuarial gains and losses by January 1, 2012 are transferred to retained earnings/loss carried forward in the opening statement of financial position as of January 1, 2012. Furthermore, the discount rate for pension obligations is used to calculate the net interest expense (basis: net liability). As a result, the expected return on plan assets is assumed to be the discount rate on which the measurement of pension obligations is based. The reporting of current service cost and net interest expense in operating earnings can be retained. The changes are effective for the first time for annual periods beginning on or after January 1, 2013. As a result of the retrospective implementation of the amendment, the profit carryforward before taxes is reduced by around TCHF 4,579 as of January 1, 2012 while pension obligations are increased by the same amount. The retirement benefit costs (before taxes) reported in the income statement are around TCHF 483 lower. Consolidated other comprehensive income for 2012 decreases by TCHF 1,465. Thus, pension obligations as of December 31, 2012 rise by a total of TCHF 5,561. The Group is currently assessing the further effects of implementing the amendments.

3. Scope of Consolidation

The following changes occurred in the consolidated group in fiscal year 2012:

Acquisitions, new companies and first-time consolidation

Kuuluu Interactive Entertainment AG, Switzerland

On January 22, 2012, Rainbow Home Entertainment AG, Pratteln, acquired 22 % in Kuuluu Interactive Entertainment AG, Pratteln, for a purchase price of TCHF 22. The company has been included in the consolidated financial statements at equity.

Highlight Event AG, Switzerland

Highlight Event AG, Lucerne, a wholly owned subsidiary of Team Holding AG, Lucerne, was founded on February 6, 2012 and on April 1, 2012 sold to Highlight Event & Entertainment AG, Düdingen (operating as Escor Casinos & Entertainment SA until May 11, 2012). As a result of this transaction, the music business was hived off from the Team Group and these business activities were transferred to Highlight Event & Entertainment AG. This transaction took place within the existing consolidated group.

Constantin Entertainment AG, Switzerland

Constantin Entertainment AG, Pratteln, a wholly owned subsidiary of Rainbow Home Entertainment AG, Pratteln, was founded on April 2, 2012. The transaction did not have a material effect on these consolidated financial statements.

Capital increase by Highlight Event & Entertainment AG

In the capital increase performed by Highlight Event & Entertainment AG on May 29, 2012, all the bearer shares offered (numbering 495,000) were created and acquired at a price of CHF 17.50. The holding of Highlight Communications AG in Highlight Event & Entertainment AG rose to 58.967 % after the capital increase. Highlight Communications AG also purchased further shares in Highlight Event & Entertainment AG on December 28, 2012, bringing its holding to 59.891 %.

Mister Smith Entertainment Ltd.

On August 8, 2012, Constantin Film AG acquired 50 % of the shares in Mister Smith Entertainment Ltd., London, at a purchase price of CHF 151. Since then the company has been accounted for as a joint venture using the equity method. The transaction did not have a material effect on these consolidated financial statements.

Mood Factory AG

Mood Factory AG, Pratteln, a 52 % subsidiary of Rainbow Home Entertainment AG, was founded on August 29, 2012. The transaction did not have a material effect on these consolidated financial statements.

Constantin Entertainment Hungary Kft.

Constantin Entertainment Hungary Kft., Budapest, a wholly owned subsidiary of Constantin Entertainment GmbH, was founded on September 17, 2012. The transaction did not have a material effect on these consolidated financial statements.

Nadcon Film GmbH

On September 18, 2012, Constantin Film AG acquired 51 % of the shares in the shell company Blitz Nr. K12-182 GmbH, Cologne, at a purchase price of TCHF 17. The company was renamed Nadcon Film GmbH, based in Cologne, in October 2012. The transaction did not have a material effect on these consolidated financial statements.

Other changes

On November 29, 2012, Highlight Event & Entertainment AG, Düdingen, sold its 50.004 % interest in Pokermania GmbH, Cologne, to Rainbow Home Entertainment AG, Pratteln, a wholly owned subsidiary of Highlight Communications AG. This transaction took place within the existing consolidated group.

Overview of fully consolidated companies

	Activity	Country	Subscribed capital		Share in capital*	Voting rights of the respective parent company
Team Holding AG	Holding company	CH	CHF	250,000	100%	100%
Team Football Marketing AG	Exploitation of sports rights	CH	CHF	6,340,000	95.27%	100%
T.E.A.M. Television Event And Media Marketing AG	Marketing of sports events	CH	CHF	200,000	100%	100%
Rainbow Home Entertainment AG	Distribution	CH	CHF	200,000	100%	100%
Constantin Film Schweiz AG	Acquisition and development of content	CH	CHF	500,000	100%	100%
Kontraproduktion AG	Film and TV production	CH	CHF	100,000	100%	100%
Constantin Entertainment AG	TV entertainment production	CH	CHF	100,000	100%	100 %
Mood Factory AG	Exploitation of music rights	CH	CHF	100,000	52%	52%
Pokermania GmbH	Software development	DE	EUR	25,000	50.004%	50.004%
Highlight Event & Entertainment AG	Holding company	CH	CHF	15,592,500	59.89%	59.89%
Escor Automaten AG	Development and distribution of gaming machines	CH	CHF	3,000,000	59.89%	100%
Highlight Event AG	Event marketing	CH	CHF	500,000	59.89%	100%
Highlight Communications (Deutschland) GmbH	Marketing	DE	EUR	256,000	100%	100%
Constantin Film AG	Film production and distribution	DE	EUR	12,742,600	100%	100%
Constantin Media GmbH audiovisuelle Produktionen	Acquisition and development of content	DE	EUR	26,000	100%	100%
Constantin Film Produktion GmbH	Film and TV production	DE	EUR	131,100	100%	100%
Constantin Television GmbH	TV entertainment production	DE	EUR	100,000	100%	100%
Constantin Film Services GmbH	Service provider	DE	EUR	25,000	100%	100%
Constantin Film Development Inc.	Acquisition and development of content	US	USD	530,000	100%	100%
Constantin Production Services Inc.	International film production	US	USD	50,000	100%	100%
DoA Production Ltd.	International film production	GB	GBP	1,000	100%	100%
Resident Evil Mexico S. DE R.L. DE C.V. (Mexico LLC)**	International film production	MX	MXN	3,000	100%	100%
Constantin Film International GmbH	International film production	DE	EUR	105,000	100%	100%
Constantin Pictures GmbH	International film and TV production	DE	EUR	25,000	100%	100%
Constantin Entertainment GmbH	TV entertainment production	DE	EUR	200,000	100%	100%
Constantin Entertainment Polska Sp. z o.o.	TV entertainment production	PL	PLN	54,000	75%	75%
Constantin Entertainment U.K. Ltd.	TV entertainment production	GB	GBP	95,000	100%	100%
Constantin Entertainment Croatia d.o.o.	TV entertainment production	HR	HRK	20,000	100%	100%
Constantin Entertainment Turkey TV Prodüksiyon Ltd. Sirketi***	TV entertainment production	TR	TRY	400,000	100%	100%
Constantin Entertainment Hellas EPE****	TV entertainment production	GR	EUR	15,000	100%	100%
Constantin Entertainment SRB d.o.o.	TV entertainment production	RS	RSD	526,944	100%	100%
Constantin Entertainment Middle East FZ LLC	TV entertainment production	AE	AED	5,000	100%	100%
Constantin Entertainment Israel Ltd.	TV entertainment production	IS	ILS	50,000	56.25%	56.25%
Constantin Entertainment Hungary Kft.	TV entertainment production	HU	HUF	1,000	100%	100%
Olga Film GmbH	Film and TV production	DE	EUR	603,000	95.52%	95.52%
MOOVIE – the art of entertainment GmbH	Film and TV production	DE	EUR	104,000	75.5%	75.5%
Rat Pack Filmproduktion GmbH	Film and TV production	DE	EUR	103,000	51%	51%
Westside Filmproduktion GmbH	Film and TV production	DE	EUR	103,000	51%	51%
Constantin Film Verleih GmbH	License trading and theatrical distribution	DE	EUR	355,000	100%	100%
Constantin International B.V.	License trading	NL	EUR	18,151	100%	100%
Constantin Music Verlags-GmbH	Exploitation of music rights	DE	EUR	70,000	100%	100%
Constantin Music GmbH	Exploitation of music rights	DE	EUR	25,000	90%	90%
Königskinder Music GmbH	Record label and music producer	DE	EUR	50,000	50%	50%
Constantin Family GmbH	Film and TV production	DE	EUR	100,000	100%	100%
Nadcon Film GmbH	International Film and TV production	DE	EUR	100,000	51%	51%
Resident Evil Productions LLC	International film production	US	USD	100	0%	0%
Rainbow Home Entertainment Ges.m.b.H.	Distribution	AT	EUR	363,364	100%	100%

* *direct and/or indirect share held by the Group*
** *50% of the company are held by Constantin Film Produktion GmbH, another 50% are held by Constantin Film International GmbH*
*** *0.03% are held by Constantin Film Produktion GmbH*
**** *0.2% are held by Constantin Film Produktion GmbH*

Königskinder Music GmbH, Munich, is included in consolidation on the basis of de facto control.

Moreover, the company Resident Evil Productions LLC, Delaware, USA, in which there is no direct or indirect holding, was included in consolidation through Constantin Film AG in accordance with SIC 12.

Overview of companies not included in consolidation

The following subsidiaries of Highlight Communications AG are individually and collectively insignificant in providing a true and fair view of the Group's net assets, financial position and results of operations. Therefore, these companies are not included in the Highlight Communications AG consolidated group.

The companies are currently inactive and have no operations.

	Country	Subscribed capital		Share in capital
Smilla Film A.S.*	Denmark	DKR	500,000	100 %
Impact Pictures LLC**	US	USD	1,000	51 %
Impact Pictures Ltd.***	Great Britain	GBP	1,000	51 %
T.E.A.M. UK****	Great Britain	GBP	1	100 %

* *share held by Constantin Film Produktion GmbH, Germany*
** *share held by Constantin Pictures GmbH, Germany*
*** *share held by Impact Pictures LLC, United States of America*
**** *share held by T.E.A.M. Television Event And Media Marketing AG, Switzerland*

Overview of joint ventures

The following joint ventures are included in the consolidated financial statements using the equity method:

(TCHF)	Share in capital	Period recognized in the consolidated financial statements	Currency	Subscribed capital
PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH	50 %	Jan. 1, 2012–Dec. 31, 2012	EUR	100,000
Mister Smith Entertainment Ltd.	50 %	Aug. 8, 2012–Dec. 31, 2012	GBP	200

A detailed presentation of the assets, liabilities, revenues and net profit for the period of the joint ventures can be found under note 5.4.

Overview of associated companies

The following associated companies are included in the consolidated financial statements using the equity method:

(TCHF)	Share in capital	Period recognized in the consolidated financial statements	Currency	Subscribed capital
BECO Musikverlag GmbH	50 %	Jan. 1–Dec. 31, 2012	EUR	25,000
NEF-Production S.A.S.	30 %	Jan. 1–Dec. 31, 2012	EUR	10,000
Kuuluu Interactive Entertainment AG	22 %	Jan. 22–Dec. 31, 2012	CHF	100,000

A detailed presentation of the assets, liabilities, revenues and net profit of the associated companies can be found under note 5.4.

4. Description of the accounting policies applied

4.1 Methods of consolidation

All significant subsidiaries are included in the consolidated financial statements. Subsidiaries are companies that Highlight Communications AG controls directly or indirectly. Control means governing the financial and operating policies of an entity or business so as to obtain benefits from its activities. This is normally the case if Highlight Communications AG directly or indirectly owns more than 50 % of the voting rights or potential voting rights in a company. Companies in which Highlight Communications AG directly or indirectly holds 50 % or less than 50 % of the voting rights but exercises de facto control are also included in the consolidated financial statements of the Highlight Communications AG. For de facto control, control does not result from potential voting rights or contractual or other agreements. Highlight Communications AG has de facto control if, due to the voting rights it is entitled to, control can be exercised at any time during annual general meetings without other shareholders joining together to establish a majority of those attending.

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.

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

Joint ventures, i.e. companies which the Group runs jointly with partners, are included in the consolidated financial statements using the equity method.

Interests in companies in which Highlight Communications AG holds between 20 % and 50 % of voting rights or controls in another way (associated companies) are measured using the equity method. Equity investments are recognized at cost at the time of acquisition. Any goodwill identified is included in the carrying amount of the investment and is not recognized as separate goodwill. The results of associated companies are absorbed into the Group pro rata and allocated to the carrying amount of the investment. Profit distributions by associated companies reduce their carrying amount. The provisions of IAS 36 apply to the calculation of impairment if there are objective indications that assets have become impaired. Changes recognized in the equity of the associated company are recognized by the Group in the amount of its interest and shown in the statement of changes in consolidated equity. Items recognized in other comprehensive income (OCI) in the financial statements of associated companies (e.g. currency translation differences) are shown in the consolidated financial statements as a separate item in other comprehensive income.

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

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

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

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

4.2 Currency translation

Functional currency

The functional currency of Highlight Communications AG and the reporting currency of the Group is Swiss francs. The functional currency is the local currency for a majority of the Group companies. A functional currency other than the local currency is used by Group companies whose local currency is not the currency of the economic area in which most of their operations take place.

Measurement of balances and transactions in foreign currency

Transactions in currencies that are not the functional currency of the Group company in question are recognized by the companies using the exchange rate in effect on the transaction date.

Monetary assets and liabilities are translated at the closing rate as of the end of the reporting period.

Gains/losses from the settlement of these transactions and gains/losses from the translation of monetary assets and liabilities are recognized in profit or loss. Gains/losses from qualifying cash flow hedges and monetary items classified as the Group's net investments in a foreign operation are an exception to this. These gains/losses are show in other comprehensive income (OCI). Translation differences on non-monetary financial instruments are reported either in OCI or in profit or loss in line with the presentation of changes in value of the underlying financial instrument.

Currency translation differences of TCHF 139 were recognized in profit or loss in fiscal year 2012 (previous year's period: TCHF 8,211). There were no gains/losses on cash flow hedges or hedges of net investments in a foreign operation.

Currency translation in the Group

The statement of financial position items of foreign subsidiaries with a functional currency other than Swiss francs are translated in accordance with the functional currency concept at the middle rate at the end of the reporting period while income statement items are translated at annual average exchange rates. Goodwill and fair value adjustments from purchase price allocation denominated in a functional currency other than Swiss francs are also translated at the exchange rate at the end of the reporting period. Any translation differences or differences from currency translation in amounts carried forward from previous years resulting from this are recognized in OCI.

When a foreign Group company is sold, the cumulative translation differences from the translation of the assets and liabilities of that company which were recognized in OCI of the group are recognized as part of the gain or loss on its sale.

Exchange rates

		Rates at balance sheet date		Annual average rates	
				Jan. 1 to	Jan. 1 to
		Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31,2011
Euro	(EUR)	1,20770	1,21710	1,20548	1,23358
US dollar	(USD)	0,91390	0,93990	0,93803	0,88705
British pound	(GBP)	1,47680	1,45260	1,48647	1,42212
Canadian dollar	(CAD)	0,91700	0,92180	0,93842	0,89709

Closing rates are based on the official middle rate on the last trading day of the fiscal year.

4.3 Segment reporting

Segments and segment reporting are defined on the basis of the internal reporting of the organizational units to the chief operating decision maker with regard to the allocation of resources and the assessment of earnings power. The Group's management has been defined as the chief operating decision maker. The Group's business segments are determined on the basis of the organizational units and the allocation of the organizational units to the business segments is based on internal reporting to management. The Group consists of the Film segment, the Sports- and Event-Marketing segment and the Other Business Activities segment. Group functions are shown under Other. These include actual Group Management, Corporate Finance, Investor Relations, Controlling, Legal, Group Accounts, Corporate Communications, Internal Audit and Human Resources. Segments earnings are defined as EBIT as this figure is used internally for performance measurement.

4.4 Film assets

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

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

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

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

The estimate of the total revenues is reviewed at the end of each quarter and adjusted if necessary. The quotient for the amortization for the period is calculated on the basis of any (adjusted) total revenues. Each film is also tested for impairment if there are indications of impairment. If the cost or the carrying amount of the film is not covered by its estimated total revenues less release costs yet to be incurred, taking into account their timing, the film is written down to its value in use. Estimated cash flows are discounted with an individual interest rate that takes into account the terms of the different periods of exploitation. The discount factors before taxes used are between 2.39 % and 7.4 % (previous year: between 5.5 % and 7.5 %). Estimated cash flows can vary significantly as a result of a number of factors, such as market acceptance. The Highlight Group examines and revises the cash flow forecasts and amortization expenses as soon as any changes arise in previous forecasts.

Capitalized costs for the development of new projects (particularly script rights) are regularly reviewed to determine whether they can still be used as a basis for film productions. If, three years after first-time capitalization of costs for a project, the start of filming or the sales of the rights cannot be specifically determined, the costs are written off in full. Any indications of early impairment are recognized accordingly.

4.5 Other intangible assets

This category essentially includes computer programs and intangible assets identified in the process of purchase price allocation. They are measured at cost less straight-line amortization and impairment. Please also see the comments in the section “Impairment of non-financial assets” (see note 4.8). Amortization on computer programs is calculated on the basis of the term or the standard useful life of three to six years.

Development costs for individual projects are capitalized as internally developed intangible assets if all of the following criteria for capitalization are met:

- proof of the technical feasibility of completing the assets
- the intention to complete the asset
- the ability to use the future asset
- future economic benefits
- the availability of adequate technical, financial and other resources
- the ability to reliably measure the expenditure attributable to the intangible asset during its development.

Development costs that do not meet these criteria are recognized in profit or loss as they arise.

Internally developed intangible assets are measured at cost. Capitalized costs are amortized over their useful life once the development phase is complete and utilization is possible. The amortization period is determined according to the economic life and is two to six years. Research costs are reported in the income statement as they arise.

Customer relationships identified during purchase price allocation are also reported under intangible assets. Their carrying amount is their fair value as of the time of acquisition less necessary amortization. Customer relationships are amortized over an expected useful life of ten years.

4.6 Goodwill

Goodwill is carried at cost less any cumulative impairment losses. The cost of goodwill is the total of (i) the fair value of the consideration transferred as of the acquisition date, (ii) the amount of any non-controlling interests and (iii) the fair value of shares of the acquired company previously held by the acquirer in a step acquisition less the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Non-controlling interests can be measured on a transaction basis either at fair value (full goodwill method) or at the proportional share of the net assets of the company acquired. In the latter case, the goodwill is recognized only at the percentage share of the acquirer in the goodwill.

Goodwill is allocated to cash-generating units expected to benefit from the combination on recognition. The cash-generating units to which goodwill is allocated are the organizational units in the segments.

In accordance with IAS 36, goodwill is tested for impairment once per year or more frequently if there are indications of impairment. Goodwill is not amortized.

4.7 Property, plant and equipment

Property, plant and equipment comprises land, land rights and buildings, leasehold improvements, technical equipment and machinery, other equipment, operating and office equipment, advance payments and assets under construction.

Land, land rights and buildings are carried at cost. Land rights and buildings are depreciated over a useful life of up to 50 years. Land is not depreciated. The costs of leasehold improvements are usually depreciated over the term of the respective lease (up to 27.5 years). Technical equipment as well as operating and office equipment are measured at cost less depreciation and impairment. Depreciation is recognized on a straight-line basis over the standard useful life of three to 13 years. Repairs and maintenance expenses are expensed as and when incurred. More extensive renovation work or improvements are capitalized. Renovation work is also depreciated over the above expected useful life. Costs and the associated cumulative depreciation are derecognized on disposal. Any gains or losses are recognized in profit or loss in the fiscal year.

4.8 Impairment of non-financial assets

In accordance with IAS 36, goodwill at the level of cash-generating units and intangible assets with an indefinite useful life are tested for impairment at least once per year or more frequently if there are indications of impairment. Highlight Communications AG carries out annual impairment testing in the fourth quarter of each fiscal year. Impairment testing is carried out in accordance with IAS 36 for other intangible assets and property, plant and equipment if there are indications of any impairment. Indications of impairment include, for example, a marked drop in the fair value of an asset, significant changes in the business environment, substantial evidence of obsolescence or a change in expected income. The basis for the impairment test is the calculation of the recoverable amount, which is the higher of fair value less costs to sell or the value in use of an asset. If the recoverable amount is determined on the basis of value in use, this will be based on the corresponding forecast future cash flows. Impairment is recognized in profit or loss if the recoverable amount is less than the carrying amount.

The calculation of the recoverable amount takes into account management estimates and assumptions. The estimates and assumptions are based on premises that reflect the most recent information available. The amounts occurring may differ from original expectations on account of developments outside the company’s influence which deviate from these assumptions and lead to a restatement of the carrying amounts.

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

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

4.9 Inventories

Service productions under development

Inventories include service productions in development that have not yet been ordered by the broadcaster (see section 4.22).

Merchandise

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

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

Inventories include net asset value per unit and trade accounts receivable that have not yet been invoiced.

4.10 Non-current assets held for sale and disposal groups

Classification as held for sale requires that there are specific non-current assets or groups of assets that can be sold in their current condition and that their disposal is highly likely. Non-current assets (or a disposal group) are measured at the lower of carrying amount or fair value less costs to sell. Non-current assets are no longer depreciated.

4.11 Assets and liabilities of discontinued operations

A discontinued operation is an operation that is either intended for sale or has already been sold and whose activities and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the company. Reporting as a discontinued operation essentially requires that the operation represents a major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. Discontinued operations are reported separately in the income statement and statement of cash flows.

4.12 Financial instruments

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

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

Financial assets and financial liabilities are not usually offset; they are only offset if the entity currently has a right to offset the amounts and intends to settle on a net basis.

Derivative financial instruments and separable embedded derivatives are measured at fair value as of the trading date on first-time and subsequent recognition. Gains/losses from fluctuations in value are recognized immediately in profit or loss.

Financial assets at amortized cost

Under IFRS 9 (2009) financial assets are recognized at amortized cost if the business model allows for the financial asset to be held and the terms of the instrument result only in cash flows that represent interest payments and principal repayments. Financial instruments that do not meet these criteria are recognized at fair value.

The financial instruments assigned to this category are recognized at amortized cost using the effective interest method.

Current trade accounts receivable and other current receivables are carried at cost. Interest-free monetary receivables with a maturity of more than one year are discounted with a matching interest rate.

Receivables from customers are stated at the lower recoverable amount if there are doubts as to their collectability. Impairment is assumed when objective indications – including in particular the creditworthiness of the respective customer, current industry-specific economic developments and the analysis of past defaults – indicate that the company will not receive all amounts at their due dates. The reported carrying amounts are the approximate fair values.

In some cases portfolio impairment losses are also recognized for receivables in different risk classes. Historic rates of default are calculated for these classes. The corresponding receivables are then corrected by the average rate of default.

Financial assets at fair value

Financial assets that cannot be recognized at amortized cost are recognized at fair value.

Financial instruments recognized at amortized cost can be measured at fair value using the fair value option if this prevents or significantly reduces accounting mismatches.

Equity instruments are always measured at fair value. On first-time recognition there is the option to show realized and unrealized changes in value in other comprehensive income rather than in the income statement, provided that the equity instrument is not held for trading.

The fair value is the market price as of the end of the reporting period. If no market price is available, the fair value is determined on the basis of similar market transactions or using recognized measurement methods. If the fair value of an active financial instrument cannot be reliably determined, the cost may be the best estimate.

4.13 Hedge accounting

As an international enterprise, the Group is exposed to currency fluctuations. Both derivative and primary financial instruments are used to hedge foreign currency fluctuations. Hedge accounting means hedging against changes in the fair value of assets, liabilities or unrecognized firm commitments under contracts for sale or purchase (fair value hedges). Currency forwards, currency swaps and non-derivative financial liabilities are designated as hedging instruments, either in full or in part. Non-derivative financial liabilities are used to hedge unrecognized contracts for sale in foreign currency.

In a fair value hedge the changes in the fair value of the hedged item attributable to the hedged risk and the change in the fair value of the hedging derivate are reported net in the income statement. When hedging unrecognized firm commitments under contracts for sale or purchase (hedged item), the cumulative change in the fair value of the hedged item is recognized as a separate asset or liability. In addition, a corresponding profit or loss is reported so that this is offset against the change in the fair value of the hedging instrument.

Such hedges are considered highly effective in terms of compensating the risks of changes in the fair value of the hedged item and the hedging instrument. They are assessed on an ongoing basis to determine if they actually were effective for the whole reporting period for which the hedge was defined. The effectiveness of the hedge is reviewed on the basis of prospective and retrospective effectiveness tests. The prospective effectiveness test uses the critical-term-match method. The dollar-offset method is used for the retrospective effectiveness test. Effectiveness describes the degree to which changes in the value of the hedged item and the hedging instrument offset each other. Compensation within a range of 80 % to 125 % is considered an effective hedge. Hedges are used solely in this area.

At the start of the hedge both the hedge and the risk management goals and strategies of the Group for hedging are formally stipulated and documented.

4.14 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank balances, call and demand deposits at banks and other financial institutes. These are only reported as cash and cash equivalents if they can be converted into amounts of cash determined in advance at any time, are subject to only minor fluctuations in value and have a remaining maturity of three months or less from the date of acquisition.

4.15 Liabilities

Current and non-current financial liabilities, trade accounts payable, advance payments received and other liabilities are reported under liabilities. Except for the derivative financial instruments, they are all carried at amortized cost. Derivative financial instruments that are liabilities at the end of the reporting period are reported under other liabilities. Low-interest and interest-free non-current liabilities are recognized at present value on acquisition and discounted on an accrual basis until maturity. Liabilities from outstanding invoices are reported under trade accounts payable and other liabilities. Non-current liabilities are discounted using the effective interest method.

For compound financial instruments such as convertible bonds, the debt and equity components they contain are separated and recognized/measured separately in accordance with IAS 32.

4.16 Pension liabilities

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

The defined benefit plans relate to the Swiss companies of the Group. Virtually all employees in Switzerland are members of a benefit plan based on the Swiss defined contribution system that 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 insured 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, disability benefits, benefits in the event of death for surviving dependents. These plans are subject to the regulations for defined benefit plans under IAS 19.

The amount of pension obligations is established on the basis of actuarial opinions. The actuarial measurement of defined benefit retirement and similar obligations within the obligations for pensions and similar commitments is based on the projected unit credit method. As a result of the use of the projected unit credit method, future obligations are measured on the basis of the pro rata claims to benefit acquired as of the end of the reporting period. Measurement includes actuarial assumptions as to the discount factor for calculating the present value of obligations, the projected future development of salaries and pensions and the long-term expected rate of return on plan assets. The discount factors are based on market yields of blue chip industrial bonds. The plan return in the assumptions is based on the long-term expected returns of the individual investment categories. These are a result of past observations and forecast expectations.

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

The provision reported in the statement of financial position is the amount of the obligation less the market value of the plan assets and unrecognized actuarial gains and losses.

In addition, the TEAM Group maintains a provident fund for its management staff. This fund manages another savings facility in addition to the pension plan required by law. The fund participates in the capital of Team Football Marketing AG. The dividend income of Team Football Marketing AG is added to the additional savings deposits of the members of management. No contributions for this additional saving facility were charged to the income statement.

4.17 Other provisions, contingent liabilities and contingent assets

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

Provisions are measured in the amount of the most likely expenditure. If the effect of the time value of money is material, non-current provisions are carried at the present value of the expected outflow calculated using current interest rates.

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

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

4.18 Borrowing costs

Borrowing costs for the production of qualifying assets are capitalized in the area of film production under IAS 23. Borrowing costs for non-qualifying assets are recognized as an expense in the period in which they are incurred.

4.19 Deferred taxes

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

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

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

Accounting for tax items often requires estimates and assumptions which may deviate from the subsequent actual tax expenses.

Deferred taxes on items recognized directly in equity are also recognized in equity and not in the income statement.

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

4.20 Equity

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

4.21 Revenue recognition

Trade accounts receivable are recognized if the significant risks and rewards of ownership of the goods and services sold are transferred to the buyer. Appropriate provisions are recognized for additional expenses in connection with such transactions, including expenses for returned products.

In the Film segment, revenues from theatrical films are recognized from the time of their release. The amount of revenues is directly dependent on the number of people who go to see the film. In line with standard practice in the industry, the film rental reported by the movie theater operators to the distributor is recognized as the distribution component of the total movie theater proceeds. Film rentals are calculated on the basis of a percentage of the box office takings.

Income from service productions is determined using the percentage of completion (PoC) method to recognize the share of total revenues in the reporting period (see note 4.22).

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

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

For the Group's own DVD/Blu-ray exploitation, revenues from DVDs and Blu-rays sold are recognized as of release, taking into account the expected returns of merchandise. Revenues from licenses for DVD/Blu-ray rights are recognized as of the date on which the license takes effect.

Revenues in the Sports- and Event-Marketing segment are recognized as per the contracts for the respective projects. Most project contracts, including all key projects, provide for the Highlight Group to receive a share of the earnings of the project in question. These earnings are calculated from the project's proceeds less cost directly attributable to it invoiced by third parties. Project earnings are calculated by project accounting. Pro rata proceeds are assigned to the expenses of the project. This project accounting is prepared for each project on a monthly basis. If it emerges that previous expectations no longer match current expectations, the income from this project is adjusted over the remaining project term in line with the latest forecasts.

Income received for services which are provided over a certain time period and for which the customer is periodically charged are recognized over the period in which the service is provided.

The revenues are recognized net of invoiced value added tax, trade discounts and volume rebates.

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

4.22 Long-term service production

In accordance with IAS 11, service productions are recognized using the percentage of completion method if the necessary requirements are met. Total contract revenue and costs relating to this are recognized in profit or loss according to the stage of completion, provided the earnings of a service production can be determined reliably.

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

If the earnings for the stage of completion cannot be reliably determined, revenue is only recognized in the amount of the costs already incurred (zero profit method). If the uncertainties no longer apply at a later date and the earnings from service productions can be estimated reliably, pro rata profits are realized in line with the percentage of completion. If it is likely that the total cost of the production will exceed its total proceeds the expected loss is expensed immediately.

Service productions in production are reported as a net figure in the statement of financial position under either trade accounts receivable or payables in the amount of the difference between realized revenues and invoices. Service productions in development that have not yet been ordered by the broadcaster are recognized under inventories.

4.23 Leases

In the Group there are leases in which the Group is the lessee. If economic ownership is allocated to the lessor, the leased item is accounted for as an operating lease. The related lease payments are recognized on a straight-line basis as other operating expenses in the income statement over the term of the lease.

If the Group is the economic owner of the leased item, the leased item is capitalized and a lease liability is recognized in the same amount from the start of the lease (finance lease). Under IAS 17, this is the case if the lessee essentially bears all the risks and rewards of ownership of the leased item. In these cases, the leased item is capitalized at the lower of its fair value at the start of the lease and the present value of the minimum lease payments. The corresponding lease liabilities are reported under non-current or current financial liabilities in the statement of financial position. The interest component of the lease payment is recognized in the financial result over the term of the lease. There were no finance leases in the Group as of December 31, 2012 or in the previous year.

4.24 Government grants

Project promotion

For these loans a distinction is made between project promotions as contingently repayable loans and reference funds or project film promotion in accordance with the regulations of the Federal Government Commissioner for Culture and Media (BKM) (German Federal Film Fund: DFFF), which are non-repayable subsidies.

Project promotions as a contingently repayable loan

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

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

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

Project subsidies

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

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

Project film promotion in accordance with BKM (DFFF) regulations

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

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

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

Distribution loans

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

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

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

Sales subsidies

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

The extent of Swiss film grants is of immaterial significance and the previously described accounting policies also apply in the same way to Swiss film grants.

5. Notes to individual items of the consolidated statement of financial position

5.1 Film assets

Film assets break down as follows:

(TCHF)	Third-party productions	In-house productions	Total film assets
Acquisition and production costs 2012			
Balance at January 1, 2012	432,763	733,146	1,165,909
Currency translation differences	-1,650	-5,734	-7,384
Additions	18,315	106,335	124,650
Disposals	5,406	–	5,406
Balance at December 31, 2012	**444,022**	**833,747**	**1,277,769**
Accumulated amortization 2012			
Balance at January 1, 2012	406,138	605,216	1,011,354
Currency translation differences	-1,450	-4,582	-6,032
Amortization for the year	14,383	94,500	108,883
Impairment	2,411	3,926	6,337
Disposals	5,406	–	5,406
Balance at December 31, 2012	**416,076**	**699,060**	**1,115,136**
Acquisition and production costs 2011			
Balance at January 1, 2011	426,568	693,808	1,120,376
Currency translation differences	-4,986	-17,161	-22,147
Additions	15,777	59,506	75,283
Disposals	4,825	2,778	7,603
Reclassifications	229	-229	–
Balance at December 31, 2011	**432,763**	**733,146**	**1,165,909**
Accumulated amortization 2011			
Balance at January 1, 2011	397,858	546,717	944,575
Currency translation differences	-4,327	-13,960	-18,287
Amortization for the year	17,128	70,287	87,415
Impairment	304	2,172	2,476
Disposals	4,825	–	4,825
Balance at December 31, 2011	**406,138**	**605,216**	**1,011,354**
Net carrying amounts December 31, 2012	**27,946**	**134,687**	**162,633**
Net carrying amounts December 31, 2011	**26,625**	**127,930**	**154,555**

Impairment losses of TCHF 6,337 (previous year's period: TCHF 2,476) were recognized in fiscal year 2012 as the value in use no longer covers the cost or the carrying amount of certain films due to a lack of market acceptance. The disposals relate to third-party productions to which the rights expired in the year under review. The carrying amount of these assets was TCHF 0 (previous year: TCHF 0) as of the time of disposal.

In fiscal year 2012, the Highlight Group received project subsidies and project promotion loans of TCHF 14,214 (previous year's period: TCHF 21,029), which were deducted from the capitalized costs.

Deferred project promotion loans amounted to TCHF 2,560 as of December 31, 2012 (previous year: TCHF 745). Project promotions of TCHF 3,595 were repaid in fiscal year 2012 (previous year's period: TCHF 583).

Sales subsidies and distribution loans of TCHF 4,502 (previous year's period: TCHF 5,462) were also recognized in the consolidated income statement in fiscal year 2012 as a reduction of release costs. These grants are recognized in the periods in which the corresponding release costs are incurred. Deferred distribution loans amounted to TCHF 0 (previous year: TCHF 0) as of December 31, 2012. Distribution loans of TCHF 1,048 (previous year's period: TCHF 603) were repaid over fiscal year 2012. As of December 31, 2012, there were receivables for subsidies and grants of TCHF 14,660 (previous year: TCHF 17,193).

Directly attributable financing costs of TCHF 1,643 (previous year's period: TCHF 3,116) were capitalized in fiscal year 2012. The costs to be capitalized were calculated using the interest rates from the funds borrowed specifically for the financing. The financing interest rate varied from 1.82 % to 6.5 % (previous year: 2.95 % to 6.5 %).

5.2 Other intangible assets and goodwill

Other intangible assets broke down as follows as of December 31, 2012:

(TCHF)	Purchased intangible assets	Internally developed intangible assets	Total intangible assets	Goodwill
Acquisition and production costs 2012				
Balance at January 1, 2012	7,785	1,383	9,168	23,264
Currency translation differences	–42	–4	–46	–69
Additions	1,313	727	2,040	–
Disposals	1	–	1	–
Balance at December 31, 2012	**9,055**	**2,106**	**11,161**	**23,195**
Accumulated amortization 2012				
Balance at January 1, 2012	3,714	669	4,383	2,381
Currency translation differences	–17	1	–16	–19
Amortization for the year	1,323	517	1,840	
Impairment	–	–	–	2,941
Balance at December 31, 2012	**5,020**	**1,187**	**6,207**	**5,303**
Net carrying amounts December 31, 2012	**4,035**	**919**	**4,954**	**17,892**

(TCHF)	Purchased intangible assets	Internally developed intangible assets	Total intangible assets	Goodwill
Acquisition and production costs 2011				
Balance at January 1, 2011	3,922	668	4,590	22,920
Changes in scope of consolidation	3,181	–	3,181	548
Currency translation differences	-66	–	-66	-204
Additions	763	715	1,478	–
Disposals	15	–	15	–
Balance at December 31, 2011	**7,785**	**1,383**	**9,168**	**23,264**
Accumulated amortization 2011				
Balance at January 1, 2011	2,842	668	3,510	2,439
Currency translation differences	-57	–	-57	-58
Amortization for the year	934	1	935	
Disposals	5	–	5	–
Balance at December 31, 2011	**3,714**	**669**	**4,383**	**2,381**
Net carrying amounts December 31, 2011	**4,071**	**714**	**4,785**	**20,883**

The purchased intangible assets of TCHF 4,035 (previous year: TCHF 4,071) primarily consist of software (TCHF 2,259; previous year: TCHF 2,060) and customer relationships (TCHF 1,776; previous year: TCHF 2,011).

Internally developed intangible assets include the standard software developed since the acquisition of Pokermania GmbH, which serves as a platform for social games and is adapted for each customer.

Goodwill

Total goodwill of TCHF 17,892 (previous year: TCHF 20,883) was recognized in the statement of financial position as of December 31, 2012. The allocation of goodwill is as follows:

(TCHF)	Dec. 31, 2012	Dec. 31, 2011
Rainbow Home Entertainment AG	–	2,399
Pokermania GmbH	–	546
Constantin Film Verleih GmbH	12,025	12,025
Olga Film GmbH	1,234	1,244
Constantin Entertainment GmbH	4,198	4,231
Constantin Entertainment Croatia d.o.o.	380	383
Other	55	55
Total	**17,892**	**20,883**

Goodwill was tested for impairment at the level of the cash-generating units in the respective segment. Recoverable amounts are calculated using the value in use in impairment testing for goodwill. The basis of the discounted cash flow method in the Highlight Group is future cash flows derived from detailed three-year earnings planning. Growth of 0 % to 2.0 % (previous year: 0 % to 2.0 %) was assumed for the period subsequent to the detailed planning period. The post-tax interest rates used on a segment-specific basis for discounting for the main items of goodwill are calculated on the basis of a capital market-based risk assessment in line with the capital asset pricing model (CAPM). The discount factors before taxes for the main items of goodwill were between 8.41 % and 10.0 % as of December 31, 2012 (previous year: 7.51 % and 9.13 %). Goodwill was subjected to its annual impairment test as of December 31, 2012. Impairment losses were recognized on the goodwill of Rainbow Home Entertainment AG and Pokermania GmbH as a result.

The recoverable amount of the goodwill of Rainbow Home Entertainment AG, the operating activities of which are reported in the Film segment, was determined by calculating its value in use. The discount factor applied before taxes is 8.41 % (previous year: 7.51 %). There is a measurable downward trend in the physical business of the home entertainment division in sales of DVDs. It can also be observed that the simultaneous rise in sales of Blu-rays and digital content is not completely offsetting the decline in DVD revenues. Based on this, the impairment test for 2012 resulted in an impairment loss on goodwill of TCHF 2,399.

The recoverable amount of the goodwill of Pokermania GmbH, the operating activities of which are reported in the Other Business Activities segment, was also determined by calculating its value in use. The discount factor applied takes into account the elevated risk for start-ups. The surplus supply on the gaming publisher market is resulting in a market consolidation with a presumable drop in prices for buying virtual money or leveling in games. Gaming revenues are therefore expected to decline further. The impairment test for 2012 therefore resulted in an impairment loss on goodwill of TCHF 542.

Both impairment losses are reported in the income statement under “Goodwill impairment”.

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

5.3 Property, plant and equipment

Property, plant and equipment broke down as follows as of December 31, 2012:

(TCHF)	Land, land rights and buildings	Technical equipment and machinery	Other equipment, plant and office equipment	Total property, plant and equipment
Acquisition and production costs 2012				
Balance at January 1, 2012	10,781	1,900	12,961	25,642
Currency translation differences	-5	-14	-44	-63
Additions	2,023	471	1,922	4,416
Disposals	2,760	324	2,099	5,183
Reclassification of assets held for sale	-5,282	–	–	-5,282
Balance at December 31, 2012	**4,757**	**2,033**	**12,740**	**19,530**
Accumulated depreciation 2012				
Balance at January 1, 2012	4,934	1,296	10,032	16,262
Currency translation differences	-2	-9	-34	-45
Depreciation for the year	510	322	1,650	2,482
Impairment	970	–	–	970
Disposals	2,706	151	2,014	4,871
Reclassification of assets held for sale	-1,132	–	–	-1,132
Balance at December 31, 2012	**2,574**	**1,458**	**9,634**	**13,666**
Acquisition and production costs 2011				
Balance at January 1, 2011	1,500	3,743	14,792	20,035
Changes in scope of consolidation	5,282	–	3	5,285
Currency translation differences	-18	-35	-142	-195
Additions	–	720	605	1,325
Disposals	–	–	808	808
Reclassifications	4,017	-2,528	-1,489	-
Balance at December 31, 2011	**10,781**	**1,900**	**12,961**	**25,642**
Accumulated depreciation 2011				
Balance at January 1, 2011	643	2,592	11,493	14,728
Currency translation differences	-9	-25	-103	-137
Depreciation for the year	422	339	1,693	2,454
Disposals	–	–	783	783
Reclassifications	3,878	-1,610	-2,268	-
Balance at December 31, 2011	**4,934**	**1,296**	**10,032**	**16,262**
Net carrying amounts December 31, 2012	**2,183**	**575**	**3,106**	**5,864**
Net carrying amounts December 31, 2011	**5,847**	**604**	**2,929**	**9,380**

The category of land, land rights and buildings also includes leasehold improvements in rented premises and buildings.

The reported reclassification in the category land, land rights and buildings refers to the reclassification described under note 5.11 of a property as an asset held for sale. An impairment loss of TCHF 970 was recognized in this context (see note 5.11).

As of December 31, 2012, fire insurance values amounted to TCHF 23,586 (previous year: TCHF 27,249).

5.4 Investments in associated companies and joint ventures

Shares in associated companies and joint ventures developed as follows:

(TCHF)	Dec. 31, 2012	Dec. 31, 2011
January 1	428	7,542
Acquisition of associated companies	22	–
Share in net earnings	241	268
Impairment	–	–1,468
Dividend payments/capital repayments	–282	–352
Disposal to equity interests	–	–5,562
Currency translation differences	–3	–
December 31	**406**	**428**

Associated companies

The annual financial statements of BECO Musikverlag GmbH as of December 31, 2011 were used for reporting on associated companies as the annual financial statements as of December 31, 2012 have not yet been prepared. In the previous year the financial statements as of December 31, 2010 had been used as the financial statements for the year 2011 had not yet been prepared as of the end of the reporting period. No circumstances arose in the current year that would have necessitated an adjustment to the annual financial statements used as a basis. The figures as of December 31, 2012 were used for NEF-Production S.A.S. and Kuuluu Interactive Entertainment AG.

The condensed financial statements are as follows:

(TCHF)	Sales	Net profit after taxes	Total assets	Total liabilities
2012				
BECO Musikverlag GmbH	19	7	114	33
NEF-Production S.A.S.	93	–722	2,048	3,342
Kuuluu Interactive Entertainment AG	2	–1,291	3,493	4,684
2011				
BECO Musikverlag GmbH	27	43	107	34
NEF-Production S.A.S.	13,766	–661	1,317	1,958
Casino Zürich AG in liq.	–	–1,729	499	5,452

As of the end of the reporting period, the carrying amount of the equity investment in BECO Musikverlag GmbH was TCHF 88 (previous year: TCHF 85), in NEF-Production S.A.S. TCHF 0 (previous year: TCHF 0) and in Kuuluu Interactive Entertainment AG TCHF 0 (previous year: TCHF 0). Casino Zürich AG was liquidated in the year under review. The company has not yet been definitively deleted from the commercial register.

As in the previous year, there were no contingent liabilities as of December 31, 2012.

Joint ventures

The carrying amounts of the joint ventures PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH and Mister Smith Entertainment Ltd. as of December 31, 2012 were TCHF 318 (previous year: TCHF 343) and TCHF 0 (previous year: TCHF 0) respectively. The condensed statement of financial position is as follows:

Assets (TCHF)	Dec. 31, 2012	Dec. 31, 2011
Non-current assets	91	5
Current assets	4.229	3,244

Liabilities (TCHF)	Dec. 31, 2012	Dec. 31, 2011
Non-current liabilities	1.057	–
Current liabilities	4.227	2,563

The amounts in the income statement are as follows:

(TCHF)	Jan. 1 to Dec. 31, 2012	Jan. 1 to Dec. 31, 2011
Sales	14,527	14,557
Other operating income	300	17
Cost of materials	–13,375	–13,150
Personnel expenses	–1,396	–443
Amortization	–7	–1
Other operating expenses	–327	–74
Financial result	–25	–
Income taxes	–153	–322
Net profit after taxes	**–456**	**584**

50 % of these figures relate to the Highlight Group. As of December 31, 2012, there were pro rata contingent liabilities of TCHF 69 (previous year: TCHF 0).

The unrecognized pro rata loss of companies accounted for using the equity method was TCHF 945 in the year under review (previous year's period: TCHF 140). The cumulative unrecognized pro rata loss was TCHF 1,085.

5.5 Inventories

Inventories broke down as follows as of December 31, 2012:

(TCHF)	Dec. 31, 2012	Dec. 31, 2011
Net balance		
Unfinished goods and services	1,483	2,517
Finished goods	101	349
Blu-rays/DVDs	2,244	2,852
Other merchandise	47	59
Total	**3,875**	**5,777**

Unfinished goods and services essentially relate to service productions in development that have not yet been ordered by the broadcaster. Finished goods include merchandise for gaming machines. Impairment losses of TCHF 59 (previous year's period: TCHF 313) were recognized in fiscal year 2012 and no impairment losses were reversed (previous year's period: TCHF 0).

5.6 Other financial assets/non-current receivables

Other financial assets

(TCHF)	Current assets Dec. 31, 2012	Current assets Dec. 31, 2011	Non-current assets Dec. 31, 2012	Non-current assets Dec. 31, 2011
Financial assets at fair value through profit or loss				
Preference shares	2,534	1,313	–	–
Bonds	–	–	–	–
Real estate funds	–	–	249	250
Derivative financial instruments	–	–	–	–
Financial assets measured at amortized cost				
Bonds	1,011	1,004	–	–
Financial assets at fair value through other comprehensive income/loss				
Shares	13,652	11,563	–	–
Total	**17,197**	**13,880**	**249**	**250**

Other current financial assets include a share of 8.72 % in Constantin Medien AG (previous year: 8.72 %) with a carrying amount of TCHF 13,652 (previous year: TCHF 11,563) and interest-bearing securities of TCHF 1,011 (previous year: TCHF 1,004). The reported preference shares in a Canadian company in the amount of TCHF 2,534 in total (previous year: TCHF 1,313) were acquired in connection with the production of the movies Resident Evil: Afterlife and Resident Evil: Retribution. There is no active market for these preference shares. The cost of these shares is the best estimate for the fair value of this financial instrument. In accordance with IFRS 9, non-listed equity instruments are also recognized at fair value.

Other non-current financial assets of TCHF 249 (previous year: TCHF 250) included investment securities as of December 31, 2012. The securities were acquired in previous fiscal years with the aim of profitably investing the retained profits of a subsidiary and to use them if liquidity is needed. This led to ongoing monitoring of its fair value by Olga Film GmbH management in order to be able to react quickly in the event of value fluctuations. These assets will be utilized if necessary. In line with this, these securities were allocated to the fair value through profit or loss category.

Non-current receivables

Non-current receivables are all receivables with a maturity of more than one year.

(TCHF)	Dec. 31, 2012	Dec. 31, 2011
Non-current trade accounts receivable and other receivables	1,501	3,054
Discounting (net)	–37	–18
Total	**1,464**	**3,036**

Non-current trade accounts receivable of TCHF 1,373 (previous year: TCHF 2,086) essentially relate to the share of value added tax for revenues not yet recognized under IFRS and are discounted over their term. Other non-current trade accounts receivable of TCHF 128 (previous year: TCHF 968) essentially include various loans to third-party companies.

5.7 Trade accounts receivable

Trade accounts receivable consist of receivables from third parties and PoC receivables. The carrying amount of receivables not yet due and receivables that are up to 90 days past due is approximately their fair value. For receivables that have been outstanding for longer, or if there are actual reasons for so doing, the figures are written down individually to adjust the carrying amount to the fair value.

Impairment on trade accounts receivable is recognized based on current experience and an individual assessment due to the differing customer structures in the different business areas.

Trade accounts receivable broke down as follows as of December 31, 2012:

(TCHF)	Dec. 31, 2012	Dec. 31, 2011
Trade accounts receivable		
Current receivables	32,329	36,226
PoC receivables	9,022	10,913
Gross amount	**41,351**	**47,139**
Write-downs		
Trade accounts receivable (gross)	41,351	47,139
Individual write-downs	–4,418	–4,333
Portfolio write-downs	–180	–293
Net amount	**36,753**	**42,513**

The trade accounts receivable are in the following currencies:

(TCHF)	Dec. 31, 2012	Dec. 31, 2011
CHF	3,299	5,971
EUR	32,821	27,538
USD	633	8,989
Other	–	15
Total	**36,753**	**42,513**

Impairment losses on trade accounts receivable developed as follows in 2012 and 2011:

(TCHF)	2012	2011
Balance write-downs January 1	**4,626**	**4,819**
Changes in scope of consolidation	–	85
Currency translation differences	–32	–99
Additions	663	154
Consumption	–351	–143
Reversal	–308	–190
Balance write-downs December 31	**4,598**	**4,626**

Impairment losses on trade accounts receivable comprise additions to impairment, income from the reversal of impairment losses and expenses for the derecognition of receivables.

The following table shows the maturities of trade accounts receivable:

(TCHF)	Carrying amount	neither impaired nor overdue as of the closing date	(Days) less than 90	between 91 and 180	between 181 and 270	between 271 and 365	more than 365
December 31, 2012							
Trade accounts receivable	36,763	34,494	1,035	663	50	66	445
December 31, 2011							
Trade accounts receivable	42,513	32,488	6,735	2,026	167	191	906

5.8 Other receivables

Other receivables broke down as follows as of December 31, 2012:

(TCHF)	Dec. 31, 2012	Dec. 31, 2011
Prepaid expenses	4,171	4,828
Input tax	2,560	1,026
Other taxes	356	980
Advance payments	5,934	151
Suppliers with debit balances	802	752
Receivables due from personnel	541	685
Receivables from loans/borrowings	38,458	47,599
Subsidies receivables	14,660	17,194
Positive fair value of underlying transactions in hedging relationships	250	1,575
Positive fair value of derivative financial instruments in hedging relationships	1,266	2,081
Positive fair value of derivative financial instruments without hedging relationships	424	287
Other assets	9,188	16,728
Total	**78,610**	**93,886**

The carrying amount for all current financial assets is equal to the fair value.

The receivables from loans/borrowings include a current loan in connection with the productions Resident Evil: Afterlife and Resident Evil: Retribution to the co-producer Davis Film Impact Pictures in the amount of TCHF 19,154 (previous year: TCHF 45,081) and a current loan in connection with the production The Mortal Instruments to the co-producer Unique Features Inc. in the amount of TCHF 13,805 (previous year: TCHF 0). Advance payments include advance payments in Sports- and Event-Marketing and for various future projects in the Film segment.

Other assets include a receivable from a bank of TCHF 3,935 (previous year: TCHF 7,558). This receivable is related to the equity swap transaction described in note 6.9 and is subject to a restriction on disposal. The restriction on disposal expires on early termination of the contract or on expiration of the contract.

The other receivables mature as follows:

(TCHF)	Other receivables	thereof not IFRS 7 relevant*
Dezember 31, 2012		
Prepaid expenses	4,171	4,171
Input tax	2,560	2,560
Other taxes	356	356
Advance payments	5,934	5,934
Suppliers with debit balances	802	–
Receivables due from personnel	541	274
Receivables from loans/borrowings	38,458	–
Subsidies receivables	14,660	–
Positive fair value of underlying transactions in hedging relationships	250	–
Positive fair value of derivative financial instruments in hedging relationships	1,266	–
Positive fair value of derivative financial instruments without hedging relationships	424	–
Other assets	9,188	59
Total	**78,610**	**13,354**
Dezember 31, 2011		
Prepaid expenses	4,828	4,828
Input tax	1,026	1,026
Other taxes	980	980
Advance payments	151	151
Suppliers with debit balances	752	–
Receivables due from personnel	685	315
Receivables from loans/borrowings	47,599	–
Subsidies receivables	17,194	–
Positive fair value of underlying transactions in hedging relationships	1,575	–
Positive fair value of derivative financial instruments in hedging relationships	2,081	–
Positive fair value of derivative financial instruments without hedging relationships	287	–
Other assets	16,728	1,248
Total	**93,886**	**8,548**

** Not IFRS 7 relevant: it does not concern financial instruments*

Other receivables are in the following currencies:

(TCHF)	Dec. 31, 2012	Dec. 31, 2011
CHF	4,264	3,738
EUR	38,252	50,863
USD	4,990	22,028
CAD	31,104	17,118
Other	–	139
Total	**78,610**	**93,886**

total IFRS 7 relevant	thereof neither impaired nor overdue as of the closing date	overdue (days) less than 90	between 91 and 180	between 181 and 270	between 271 and 365	more than 365
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
802	742	60	–	–	–	–
267	267	–	–	–	–	–
38,458	38,358	100	–	–	–	–
14,660	13,268	–	–	–	931	461
250	250	–	–	–	–	–
1,266	1,266	–	–	–	–	–
424	424	–	–	–	–	–
9,129	8,981	–	6	13	90	39
65,256	**63,556**	**160**	**6**	**13**	**1,021**	**500**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
752	752	–	–	–	–	–
370	370	–	–	–	–	–
47,599	47,599	–	–	–	–	–
17,194	17,150	–	–	–	44	–
1,575	1,575	–	–	–	–	–
2,081	2,081	–	–	–	–	–
287	287	–	–	–	–	–
15,480	14,708	37	694	24	5	12
85,338	**84,522**	**37**	**694**	**24**	**49**	**12**

5.9 Receivables from associated companies and joint ventures

As of December 31, 2012 there were receivables due from the associate NEF-Production S.A.S. in the amount of TCHF 1,927 (previous year: TCHF 1,941) and the joint ventures PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH and Mister Smith Entertainment Ltd. in the amounts of TCHF 0 (previous year: TCHF 5) and TCHF 1,399 (previous year: TCHF 0) respectively. There were also non-current receivables due from the associate Kuuluu Interactive Entertainment AG in the amount of TCHF 3,294 (previous year: TCHF 0), which were written down by TCHF 1,300 in the year under review (see note 6.10).

5.10 Income tax receivables

Income tax receivables developed as follows:

(TCHF)	Balance Dec. 31, 2012	Balance Dec. 31, 2011
Income taxes Switzerland	5	–
Income taxes Germany	4,642	1,685
Income taxes rest of the world	837	772
Total income taxes	**5,484**	**2,457**

5.11 Non-current assets held for sale

During the fourth quarter of 2012, Highlight Event & Entertainment AG, the operating activities of which are reported in the Other Business Activities segment, decided to sell its property. Since then the property has been actively offered on the market and it is intended to sell the property by no later than the end of fiscal year 2013. The property, which has a carrying amount of TCHF 4,150 (previous year: TCHF 5,217) is reported in these financial statements separately from the continuing assets as an asset held for sale. Non-current assets classified as held for sale are carried at the lower of the carrying amount and fair value less costs to sell. As of December 31, 2012, the application of this measurement resulted in an impairment loss of TCHF 970. This was reported in the income statement under “Amortization, depreciation and impairment on intangible assets and property, plant and equipment”.

5.12 Cash and cash equivalents

Interest was incurred on any demand deposits or short-term sight deposits at between 0 % and 0.85 % (previous year: 0 % to 0.9 %).

5.13 Deferred tax assets

Deferred tax assets are comprised as follows:

(TCHF)	Dec. 31, 2012	Dec. 31, 2011
Tax loss carryforwards	4,464	4,154
Intangible assets/film assets	738	1,516
Trade accounts receivable	5,955	11,604
Other receivables	5,737	8,023
Inventories	7,563	8,725
Trade accounts payable	2,279	7,249
Advance payments received	7,994	9,916
Pension liabilities	455	540
Total	**35,185**	**51,727**
Netting with deferred tax liabilities	–32,850	–47,106
Deferred tax assets (netted)	**2,335**	**4,621**

The following table shows the breakdown of current and non-current deferred tax assets:

(TCHF)	Balance Dec. 31, 2012	Balance Dec. 31, 2011
Current deferred tax assets	–	–
Non-current deferred tax assets	2,335	4,621

The Group has total loss carryforwards of TCHF 13,711 (previous year: TCHF 36,442) for which no deferred tax assets were recognized. The decline as against the previous year is essentially due to the loss carryforwards at Highlight Event & Entertainment AG that expired in the year under review.

The expiry of the loss carryforwards, for which no deferred taxes were recognized, is as follows:

2012 (TCHF)	Expiry date		
	<1 year	1–5 years	>5 years
	270	9,797	3,644

2011 (TCHF)	Expiry date		
	<1 year	1–5 years	>5 years
	22,860	2,661	10,921

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

5.14 Equity

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

Share capital

As of December 31, 2012, the fully paid-up share capital of the parent company, Highlight Communications AG, amounted to CHF 47,250,000, divided into 47,250,000 bearer shares with a par value of CHF 1.00 per share. A dividend of CHF 0.17 per share was distributed for fiscal year 2011 in the reporting period.

Authorized capital 2012

On June 1, 2012 the Annual General Meeting resolved authorized share capital of CHF 12,750,000 and authorized the Board of Directors to increase capital by issuing 12,750,000 bearer shares at CHF 1.00 each within a period of two years. A partial increase is permitted. No such capital increase has been implemented to date.

Treasury shares

As of December 31, 2012, the separately reported item “Treasury shares” amounted to TCHF -1,157 (previous year: TCHF -1,157). The amount reflects the nominal capital of treasury shares. As of December 31, 2012, the number of directly and indirectly held non-voting treasury shares taking into account those held by subsidiaries was 1,156,567 Highlight Communications AG shares (previous year: 1,156,567). No treasury shares were bought or sold in the year under review.

Capital reserves

As of December 31, 2012, the Group’s capital reserves amounted to a total of TCHF -103,614 (previous year: TCHF -104,602).

The disposal of Highlight Event AG to Highlight Event & Entertainment AG described in notes 3 and 8 satisfies the definition of a common control transaction. The net assets of the purchased company were assumed at carrying amount and the difference between the purchase price and the net assets was offset against equity. In total this disposal resulted in an increase in capital reserves of TCHF 2,344. Highlight Communications AG’s holding in Highlight Event & Entertainment AG rose as a result of the capital increase and its capital reserves decreased by TCHF 213. The transaction costs in connection with the capital increase also resulted in a drop in capital reserves of TCHF 223. The disposal of Pokermania GmbH to Rainbow Home Entertainment AG also described in note 3 (common control transaction) resulted in a decline in capital reserves of TCHF 882. As a result of the purchase of further shares in Highlight Event & Entertainment AG, which were held at Highlight Event & Entertainment AG as treasury shares, capital reserves fell by a total of TCHF 38 (see note 3).

Non-controlling interests

The redistribution of Highlight Event AG within the Group resulted in a total decline in non-controlling interests of TCHF 2,344. The capital increase performed by Highlight Event & Entertainment AG led to a rise in non-controlling interests of TCHF 2,953. This includes the related transaction costs of TCHF 163. Highlight Communications AG’s holding in Highlight Event & Entertainment AG rose as a result of the capital increase. This led to a rise in non-controlling interests of TCHF 213.

The redistribution of Pokermania GmbH within the Group resulted in a rise in non-controlling interests of TCHF 882. The purchase of further shares in Highlight Event & Entertainment AG led to an increase of TCHF 38.

The first-time inclusion in the consolidated group of the newly founded companies Mood Factory AG and Nadcon Film GmbH increased non-controlling interests by a total of TCHF 107. In addition, dividend payments of TCHF 1,917 (previous year’s period: TCHF 1,885) and consolidated net income attributable to non-controlling interests of TCHF 341 (previous year’s period: TCHF –604) led to an increase in the non-controlling interests item. Differences from currency translation amounted to TCHF –3 (previous year: TCHF –48).

Other reserves

As of the end of the reporting period, other reserves totaled TCHF –28,106 (previous year: TCHF –27,093). As of December 31, 2012 and December 31, 2011, these related solely to translation differences.

The changes in other components of equity in fiscal year 2012 and 2011 were as follows:

2012 (TCHF)	before taxes 2012	Tax effect	after taxes 2012
Net profit	**25,871**	–	**25,871**
Currency translation differences	–1,016	–	–1,016
Gains/losses from financial assets at fair value through other comprehensive income/loss	2,089	–	2,089
Other comprehensive income/loss, net of tax	**1,073**	–	**1,073**
Total comprehensive income/loss			**26,944**
thereof shareholders' interests			26,606
thereof non-controlling interests			338
Total comprehensive income/loss attributable to shareholders			**26,606**
thereof continuing operations			26,606
thereof discontinued operations			–

2011 (TCHF)	before taxes 2011	Tax effect	after taxes 2011
Net profit	**31,006**	–	**31,006**
Currency translation differences	–2,233	–	–2,233
Gains/losses from financial assets at fair value through other comprehensive income/loss	–4,632	–	–4,632
Other comprehensive income/loss, net of tax	**–6,865**	–	**–6,865**
Total comprehensive income/loss			**24,141**
thereof shareholders' interests			24,793
thereof non-controlling interests			–652
Total comprehensive income/loss attributable to shareholders			**24,793**
thereof continuing operations			25,503
thereof discontinued operations			–710

Information on capital management

In managing capital, the Highlight Group pays particular attention to ensuring that the continuation of the Group's operating activities. In this respect, consolidated equity is the most important control parameter.

The Highlight Group aims to increase the capital provided to the company by the capital market and to generate an appropriate return for shareholders. The parent company uses its equity for this purpose by acquiring equity investments and co-financing the expansion of its operating activities. The Group can also distribute a dividend, pay back capital to the shareholders or issue new shares.

The aim of management in this is to use equity and borrowed capital efficiently in order to ensure financial flexibility on the basis of a solid capital structure and thereby guarantee sufficient liquidity resources. Liquidity consists of the inflows from operating activities, cash on hand and the borrowings available.

The liquidity of the Highlight Group is managed centrally for all segments by Highlight Communications AG. This does not include Constantin Film AG, which manages its own liquidity individually and independently of Highlight Communications AG. In addition to a liquidity report and liquidity planning, to assess its liquidity status Highlight Communication AG uses its gearing and net debt ratios, defined as current and non-current financial liabilities less cash and cash equivalents.

The equity management of Highlight Communications AG comprises all items of equity reported in the statement of financial position. Highlight Communications AG also monitors the borrowed capital of the Film, Sports- and Event-Marketing and Other Business Activities segments in the context of Group management. Debt capital is monitored non-centrally by Highlight Communications AG and Constantin Film AG.

The credit agreements of Highlight Communications AG and Constantin Film AG include compliance with certain financial covenants. The financial covenants relate to EBIT, the EBIT margin, interest coverage, gearing, the economic equity ratio and the ratio of net financial liabilities to operating earnings. If the conditions on borrowed funds are violated, the interest rate may increase and a termination option may arise. No financial covenants were violated in the fiscal year.

5.15 Summary of provisions and liabilities

The maturity structure of provisions and liabilities as of December 31, 2012 was as follows:

(TCHF)	less than 1 year	1 to 5 years	Total
Non-current liabilities			
Other liabilities		5	5
Pension liabilities		4,115	4,115
Provisions		1,434	1,434
Deferred tax liabilities	365	9,079	9,444
Total	**365**	**14,633**	**14,998**
Current liabilities			
Financial liabilities	136,034		136,034
Advance payments received	45,534		45,534
Trade accounts payable	21,788		21,788
Liabilities due to related parties	250		250
Liabilities due to associated companies and joint ventures	1,344		1,344
Other liabilities	73,782		73,782
Provisions	4,479		4,479
Income tax liabilities	6,854		6,854
Total	**290,065**		**290,065**

The maturity structure of provisions and liabilities as of December 31, 2011 was as follows:

(TCHF)	less than 1 year	1 to 5 years	Total
Non-current liabilities			
Other liabilities		11,875	11,875
Pension liabilities		4,275	4,275
Provisions		309	309
Deferred tax liabilities	33	5,774	5,807
Total	**33**	**22,233**	**22,266**
Current liabilities			
Financial liabilities	204,207		204,207
Advance payments received	42,919		42,919
Trade accounts payable	27,594		27,594
Liabilities due to related parties	286		286
Liabilities due to associated companies and joint ventures	1,430		1,430
Other liabilities	88,941		88,941
Provisions	5,203		5,203
Income tax liabilities	10,322		10,322
Total	**380,902**		**380,902**

5.16 Trade accounts payable and other liabilities

The reported liabilities of TCHF 95,570 (previous year: TCHF 116,535) include trade accounts payable of TCHF 21,788 (previous year: TCHF 27,594) and other liabilities of TCHF 73,782 (previous year: TCHF 88,941).

Trade accounts payable

Apart from the normal retention of title, the reported trade accounts payable are not secured in any other way. They essentially relate to licensing or services.

Overall, the trade accounts payable are non-interest-bearing and short-term, which means that their carrying amount is their fair value.

Trade accounts payable contain PoC liabilities of TCHF 2,190 (previous year: TCHF 817).

Trade accounts payable are in the following currencies:

(TCHF)	Dec. 31, 2012	Dec. 31, 2011
CHF	2,076	1,466
EUR	18,569	24,363
USD	1,138	1,761
Other	5	4
Total	**21,788**	**27,594**

Other current liabilities

Other current liabilities break down as follows:

(TCHF)	Dec. 31, 2012	Dec. 31, 2011
Liabilities for conditional loan repayment (subsidies)	18,848	12,804
Personnel-related liabilities	14,537	17,280
Value-added tax liabilities	2,142	2,287
Other taxes	2,214	2,379
Social security	504	283
Deferred income	8,077	11,426
Customers with credit balances	273	252
Commissions and licenses	21,739	22,286
Other current loans	104	–
Negative fair value of underlying transactions in hedging relationships	1,187	2,081
Negative fair value of derivative financial instruments in hedging relationships	322	–
Negative fair value of financial instruments without hedging relationships	91	3,977
Other current liabilities	3,744	13,886
Total	**73,782**	**88,941**

The other current liabilities are in the following currencies:

(TCHF)	Dec. 31, 2012	Dec. 31, 2011
CHF	18,240	27,058
EUR	43,318	42,693
USD	11,833	19,189
Other	391	1
Total	**73,782**	**88,941**

Other non-current liabilities

The change in other non-current liabilities of TCHF 11,870 to TCHF 5 essentially results from the reclassification of a contingent purchase price payment to UEFA to current other liabilities. The purchase price was settled in the fourth quarter of 2012 and is presented as “payments for purchase of non-controlling interests” in the consolidated statement of cash flows.

5.17 Financial liabilities

Current financial liabilities

As of the end of the reporting period, there were current liabilities to banks amounting to TCHF 136,034 (previous year: TCHF 204,207).

The Highlight Group had free short-term credit facilities totaling around TCHF 218,995 (previous year: TCHF 217,200) as of the end of the reporting period. Of this, the credit facilities utilized by the Constantin Film Group are secured by film rights reported as film assets in the amount of TCHF 160,523 (previous year: TCHF 151,384) and the resulting proceeds from exploitation plus receivables of TCHF 23,707 (previous year: TCHF 24,337). Highlight Communications AG's credit facility of TCHF 50,000 (previous year: TCHF 71,500) is secured by shares in Constantin Film AG, the Constantin Medien shares held by Highlight Communications AG and treasury shares.

The amounts utilized are all due on demand in 2013.

Interest pooling arrangements are available for certain short-term bank overdraft liabilities.

Financial liabilities are in the following currencies:

(TCHF)	Dec. 31, 2012	Dec. 31, 2011
CHF	50,000	71,000
EUR	48,485	72,315
USD	24,865	12,985
CAD	12,684	47,907
Total	**136,034**	**204,207**

5.18 Pension liabilities

The amount of obligations for defined benefit plans and the associated expenses were determined by experts. The projected unit credit method is used to calculate the pension provision.

Actuarial gains and losses are recognized in line with the corridor method.

The provision is equal to the present value of defined benefit obligations and pension-related obligations, less the fair value of plan assets, plus or minus unrecognized actuarial gains and losses and less any unrecognized past service cost.

Pension liabilities developed as follows in fiscal year 2012:

(TCHF)	Dec. 31, 2012	Dec. 31, 2011
Present value of defined benefit obligation	42,210	46,284
Fair value of plan assets	31,452	36,166
Funded status	–10,758	–10,118
Actuarial losses (gains) not yet recognized	6,643	5,843
Balance sheet amount (liability)	**4,115**	**4,275**

The pension obligation developed as follows:

(TCHF)	2012	2011
Present value of defined benefit obligation as of January 1	**46,284**	**40,308**
Changes in scope of consolidation	–	5,720
Current service cost (incl. reduction of employee contributions)	2,409	2,410
Employee contributions	1,207	1,412
Recognition of new benefit plan	142	–
Interest cost	1,084	1,291
Curtailment, settlement	–779	–
Benefits paid	–9,127	–2,958
Actuarial losses/(gains)	990	–1,899
Present value of defined benefit obligation as of December 31	**42,210**	**46,284**

The plan assets developed as follows:

(TCHF)	2012	2011
Fair value of assets as of January 1	**36,166**	**29,077**
Changes in scope of consolidation	–	5,649
Expected return on assets	1,162	1,088
Employee contributions	1,207	1,412
Employer contributions	1,981	2,151
Benefits paid	–9,127	–2,958
Actuarial (losses)/gains	63	–253
Fair value of assets as of December 31	**31,452**	**36,166**

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

(in %)	Dec. 31, 2012	Dec. 31, 2011
Cash and cash equivalents	14.60	12.20
Bonds	41.80	43.40
Shares	1.00	1.80
Real estate	25.50	25.20
Insurance surrender values	14.90	15.70
Other	2.20	1.70
Total	**100.00**	**100.00**

Actual income from the assets in the year under review amounted to TCHF 1,225 (previous year's period: TCHF 835).

Retirement benefit expenses broke down as follows in fiscal year 2012:

(TCHF)	Jan. 1 to Dec. 31, 2012	Jan. 1 to Dec. 31, 2011
Current service cost (incl. reduction of employee contributions)	2,409	2,410
Interest cost	1,084	1,291
Expected return on plan assets	–1,162	–1,088
Amortization of actuarial losses/(gains)	127	424
Recognition of new benefit plan	142	–
Effects from curtailments and settlements	–779	–
Total	**1,821**	**3,037**

The current service cost, actuarial losses and gains and the past service cost are reported in the income statement under personnel expenses and income respectively. The cost of unwinding expected pension obligations and interest income from plan assets are also recognized in personnel expenses. In connection with the hiving off of music business (Highlight Event AG) from the Team Group as described in note 3 and the transfer of these business activities to the Highlight Event & Entertainment Group and additional headcount reduction at the Team Group, the pension plan at the Team Group was curtailed accordingly. A new pension plan was recognized in the Highlight Event & Entertainment Group for the employees of Highlight Event AG.

The forecast employer contributions for fiscal year 2013 amount to TCHF 1,770.

The calculation of the pension provision was based on the following assumptions:

	2012	2011
Interest rate	1.75%	2.50%
Expected return on plan assets	3.00%	3.50%
Pension trend	0.50%	0.50%
Salary trend	1.50%	1.50%
Projected average life after pension (men)	21.23	21.12
Projected average life after pension (women)	24.68	24.58

As in the previous year, the most recent BVG 2010 tables were used for the actuarial assumptions for mortality, disability and employee turnover.

The experience adjustments were as follows.

(TCHF)	2012	2011	2010	2009	2008
Present value of defined benefit obligation	42,210	46,284	40,308	33,752	27,409
Fair value of plan assets	31,452	36,166	29,077	25,219	20,897
Funded status	**–10,758**	**–10,118**	**–11,231**	**–8,533**	**–6,512**
Experience adjustments for plan liabilities	1,853	154	–581	–397	–868
Plan amendments DBO	–2,843	1,745	–847	–1,201	–885
Experience-based adjustments for plan assets	63	–253	136	–87	–1,635

5.19 Provisions

(TCHF)	as of Jan. 1, 2012	Currency translation differences	Consumption	Reversal	Addition	as of Dec. 31, 2012
Licenses and returns	3,699	–23	3,261	1,814	4,925	3,526
Provisions for legal costs	638	–2	77	421	1,027	1,165
Personnel provisions	309	–2	25	–	152	434
Provisions for guarantees and contractual obligations	350	–	350	–	–	–
Other provisions	516	1	16	–	287	788
Total	**5,512**	**–26**	**3,729**	**2,235**	**6,391**	**5,913**
thereof non-current provisions	309	–2	25	–	1,152	1,434
thereof current provisions	5,203	–24	3,704	2,235	5,239	4,479

Provisions for licenses and returns were recognized for uninvoiced licenses from licensors and risks of expected returns of Blu-rays and DVDs sold. The provision for returns is based on an analysis of contractual or legal obligations, historical trends and the Group's experience.

The provisions for legal costs were recognized to provide for various pending and possible legal proceedings. These relate to litigation risks from film production and from the headcount reduction in the Sports- and Event-Marketing segment.

Non-current provisions include provisions for personnel in connection with long-term obligations for anniversaries and provisions for legal costs.

5.20 Income tax liabilities

Income tax liabilities break down as follows

(TCHF)	as of Dec. 31, 2012	as of Dec. 31, 2011
Income taxes Switzerland	1,938	1,961
Income taxes Germany	4,913	7,704
Income taxes rest of the world	3	657
Total income taxes	**6,854**	**10,322**

5.21 Deferred tax liabilities

Deferred tax liabilities broke down as follows as of December 31, 2012:

(TCHF)	Dec. 31, 2012	Dec. 31, 2011
Intangible assets/film assets	33,790	34,735
Property, plant and equipment	146	360
Inventories	11	104
Trade accounts receivable	2,320	3,667
Other receivables	484	357
Provisions	9	17
Trade accounts payable	1,549	2,280
Advance payments received	3,985	11,393
Total	**42,294**	**52,913**
Netting with deferred tax assets	-32,850	-47,106
Deferred tax liabilities (net)	**9,444**	**5,807**

The table below shows the breakdown of current and non-current deferred tax liabilities:

(TCHF)	Dec. 31, 2012	Dec. 31, 2011
Current deferred tax liabilities	365	33
Non-current deferred tax liabilities	9,079	5,774

5.22 Long-term service production

Receivables from customers for service productions amount to TCHF 9,022 (previous year: TCHF 10,913). Liabilities to customers for service productions amount to TCHF 2,190 (previous year: TCHF 817). These are reported under trade accounts receivable and trade accounts payable respectively.

Proceeds from service production for the period under IAS 11.39 amount to TCHF 128,512 (previous year's period: TCHF 91,163). Total costs incurred for contracts in progress under IAS 11.40 and reported profits (less any reported losses) amount to TCHF 31,773 (previous year's period: TCHF 34,934).

5.23 Advance payments received

Advance payments received of TCHF 45,534 (previous year: TCHF 42,919) essentially include amounts received from global distribution for which revenue has not yet been recognized.

6. Notes on individual items of the income statement

6.1 Revenues

Please see the segment reporting under note 8 for a breakdown of revenues.

6.2 Capitalized film production costs and other own work capitalized

Capitalized film production costs and other own work capitalized, which total TCHF 59,211 (previous year's period: TCHF 54,348), relate to in-house film productions of TCHF 58,483 (previous year's period: TCHF 53,623) and internally generated intangible assets of TCHF 728 (previous year's period: TCHF 725).

6.3 Other operating income

(TCHF)	Jan. 1 to Dec. 31, 2012	Jan. 1 to Dec. 31, 2011
Income from the reversal of provisions and accruals	3,808	3,731
Income related to other periods	371	313
Reversal of impairment	308	297
Recharges	1,026	1,121
Currency exchange gains	3,956	5,683
Income from rents and leases	103	25
Income from the disposal of non-current assets	167	32
Income from settlements of claims for damages and settlement agreements	7,854	8,878
Miscellaneous other operating income	7,183	5,194
Total	**24,776**	**25,274**

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

Income from the reversal of provisions and accruals is primarily due to the discontinuation of obligations for licenses and the reversal of provisions for pending legal disputes.

Income related to other periods results from subsequent amendments to contracts signed in previous periods or the discontinuation of obligations recognized in previous years.

Miscellaneous other operating income contains a number of items that cannot be allocated to separate items.

6.4 Cost of materials and licenses

Expenses for licenses, commission and materials amounting to TCHF 43,733 (previous year's period: TCHF 42,963) result from expenses for licenses and commission of TCHF 7,933 (previous year's period: TCHF 10,495) and of other costs of materials amounting to TCHF 35,800 (previous year's period: TCHF 32,468).

The cost of purchased services of TCHF 143,293 (previous year's period: TCHF 103,517) comprises production costs of TCHF 123,754 (previous year's period: TCHF 88,139), expenses for prints and advertising for film production in the amount of TCHF 1,947 (previous year's period: TCHF 1,521) and costs of purchased services of TCHF 4,555 (previous year's period: TCHF 2,376). This also includes overages of TCHF 13,037 (previous year's period: TCHF 11,481) from the Film segment.

6.5 Amortization, depreciation and impairment

Depreciation on property, plant and equipment and amortization on film assets and intangible assets amounted to TCHF 113,205 (previous year's period: TCHF 90,804).

The impairment of film assets amounting to TCHF 6,337 (previous year's period: TCHF 2,476) relates to films whose carrying amount is no longer covered by the value in use. The impairment losses relate to a number of film rights in both the reporting year and the previous year. As in the previous year, there was no impairment on individual films amounting to more than TCHF 1,000 in the reporting period.

The impairment losses on property, plant and equipment include the impairment of TCHF 970 described in note 5.11 in connection with the reclassification of a property as an asset held for sale.

Impairment on goodwill amounted to TCHF 2,941 in the period under review (previous year's period: TCHF 0; see note 5.2).

6.6 Personnel expenses

(TCHF)	Jan. 1 to Dec. 31, 2012	Jan. 1 to Dec. 31, 2011
Salaries	94,941	97,243
Social security and pension costs	11,835	12,469
Total	**106,776**	**109,712**

Contributions to defined benefit and defined contribution plans (including government plans) recognized in profit or loss in fiscal year 2012 amounted to TCHF 1,821 (previous year's period: TCHF 3,037) and TCHF 5,662 (previous year's period: TCHF 4,161) respectively.

6.7 Other operating expenses

(TCHF)	Jan. 1 to Dec. 31, 2012	Jan. 1 to Dec. 31, 2011
Rental costs	6,181	5,927
Repair and maintenance costs	670	973
Advertising and travelling expenses	5,549	7,563
Legal, consulting and auditing costs	11,924	12,426
Additions to impairment and write-off of receivables	1,587	2,466
IT costs	1,882	2,007
Administrative costs	1,382	1,374
Other personnel-related expenses	1,492	1,944
Insurance, dues and fees	956	970
Expenses related to other periods	271	376
Currency exchange losses	2,866	6,719
Vehicle costs	938	958
Bank fees	183	219
Distribution costs	166	179
Losses from the disposal of non-current assets	8	18
Other taxes	194	307
Release and promotion expenses	21,633	22,842
Miscellaneous other expenses	5,608	6,632
Total	**63,490**	**73,900**

Legal, consulting and auditing costs include the costs of auditing the consolidated and separate financial statements, tax consulting fees and the costs of legal advice on issues relating to M&A projects, ongoing legal proceedings and copyright violation.

Release and promotion expenses include the costs of promoting and distributing movies and of releasing home entertainment titles.

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

6.8 Earnings from investments in associated companies and joint ventures

(TCHF)	Jan. 1 to Dec. 31, 2012	Jan. 1 to Dec. 31, 2011
Highlight Event & Entertainment AG	–	–1,468
PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH	259	292
BECO Musikverlag GmbH	4	2
NEF-Production S.A.S.	–	–26
Kuuluu Interactive Entertainment AG	–22	–
Total	**241**	**–1,200**

The previous year's net income from the investment in Highlight Event & Entertainment AG (formerly: Escor Casinos & Entertainment SA) relates to the period from January 1, 2011 to June 30, 2011. Highlight Event & Entertainment AG was included in the consolidated financial statements of the Highlight Group for the first time as of July 1, 2011.

6.9 Financial income

(TCHF)	Jan. 1 to Dec. 31, 2012	Jan. 1 to Dec. 31, 2011
Interest and similar income	580	788
Gains from changes in the fair value of financial instruments	1,596	293
Currency exchange gains from financing activities	4,351	15,206
Total	**6,527**	**16,287**

The gains from changes in the fair value of financial instruments include remeasurement gains on an equity swap of TCHF 424 (previous year's period: losses of TCHF 749). This transaction was the sale of 900,000 treasury shares by Highlight Communications AG to a financial institution (counterparty) at a price of EUR 3.46 per share (previous year's period: EUR 6.90). An early settlement was paid in the third quarter of 2012. At the same time, a new agreement was concluded with a term from September 20, 2012 (transaction date) to December 27, 2013. As before, the contract provides for Highlight Communications AG to receive the profit from the sale of the shares by the counterparty in full. Highlight Communications AG would also have to bear any loss. In the consolidated statement of financial position of the Highlight Group, the difference between the share price as of December 31, 2012 and the original sale price of EUR 3.46 resulted in a financial receivable of TCHF 424 (previous year: financial liabilities of TCHF 3,790), which was reported in other receivables (previous year: other liabilities). The sale of shares by the counterparty has to take place during the contractually agreed sale period (August 29, 2013 to December 20, 2013), subject to early settlement.

In addition, the gains from changes in the fair value of financial instruments also include other fair value adjustments of TCHF 1,172 (previous year's period: TCHF 293).

6.10 Financial expenses

(TCHF)	Jan. 1 to Dec. 31, 2012	Jan. 1 to Dec. 31, 2011
Interest and similar expenses	3,507	5,302
Write-downs on financial assets and non-current securities	1,300	–
Compounding of liabilities and provisions	298	305
Losses from changes in the fair value of financial instruments	555	965
Currency exchange losses from financing activities	5,302	5,959
Total	**10,962**	**12,531**

The write-downs on non-current financial assets include an impairment loss on non-current receivables from associated companies of TCHF 1,300 (previous year's period: TCHF 0).

6.11 Taxes

(TCHF)	Jan. 1 to Dec. 31, 2012	Jan. 1 to Dec. 31, 2011
Current taxes	–69	–12,767
Deferred taxes	–5,922	3,850
Taxes of continuing operations	**–5,991**	**–8,917**

Tax reconciliation (TCHF)	Jan. 1 to Dec. 31, 2012	Jan. 1 to Dec. 31, 2011
Profit before taxes	31,862	39,923
Expected taxes based on a tax rate of 21%	–6,691	–8,384
Differing tax rates	1,281	394
Reversal of deferred tax assets	162	–
Write-down on deferred tax assets	–216	–195
Tax exempt income	22	201
Permanent differences	130	–
Tax rate changes	–108	89
Non-deductable expenses	–909	–640
Income taxes for prior accounting periods	1,493	–60
Other effects	–441	–265
Unrecognized deferred taxes	–714	–57
Actual tax expense	**–5,991**	**–8,917**
Effective tax rate in %	**18.8**	**22.3**

Income taxes paid or owed in the individual countries and deferred taxes are recognized as taxes. The expected tax rate of 21% (previous year: 21%) relates to the tax rate applicable at the domicile of Highlight Communications AG.

6.12 Earnings per share

(TCHF)	2012	2011
Net profit attributable to shareholders in TCHF	25,530	31,610
Weighted average number of shares (basic)	46,093,433	46,098,419
Earnings per share attributable to shareholders (basic) in CHF	0.55	0.69
Earnings per share attributable to shareholders (basic) in EUR	0.46	0.56

As of December 31, 2012 and as of the same date in the previous year, there were no potentially diluting effects, meaning that basic earnings were equal to diluted earnings.

7. Disclosures on financial risk management

The table below shows the carrying amounts and fair values of financial instruments by class and a breakdown into the various categories of financial instruments in accordance with IAS 39 and IFRS 9 (2009).

ASSETS (TCHF)	Classification category IFRS 9 (2009) and IAS 39
Cash and cash equivalents	AC
Trade accounts receivable	AC
Receivables due from associated companies and joint ventures (current and non-current)	AC
Other receivables (current)	
Financial assets at fair value	FVPL
Other receivables	AC
Derivative financial instruments with hedging relationships in accordance with IAS 39	without category
Other assets (underlying transactions in hedging relationships in accordance with IAS 39)	without category
Other financial assets (current)	
Financial assets at fair value (equity instruments)	FVPL
Financial assets measured at amortized cost (debt capital instruments)	AC
Financial assets at fair value (equity instruments)	FVOCI
Non-current receivables and other receivables	AC
Other financial assets (non-current)	
Financial assets at fair value	FVPL

LIABILITIES (TCHF)	
Financial liabilities (current and non-current)	OL
Financial liabilities with hedging relationships in accordance with IAS 39	without category
Trade accounts payable (current and non-current)	OL
Liabilities due to associated companies and joint ventures (current and non-current)	OL
Other liabilities (current and non-current)	
Financial liabilities measured at amortized cost	OL
Financial liabilities at fair value	FLPL
Derivative financial instruments with hedging relationships in accordance with IAS 39	without category
Other liabilities (underlying transactions in hedging relationships in accordance with IAS 39)	without category

AGGREGATED BY CATEGORY (ASSETS AND LIABILITIES IN TCHF)	
Financial assets measured at amortized cost	AC
Financial assets (equity instruments)	FVOCI
Financial assets at fair value	FVPL
Financial liablities measured at amortized cost	OL
Financial liabilities at fair value	FLPL

The class of non-current financial assets measured at fair value through profit or loss comprises only securities that were designated as measured at fair value through profit or loss in previous fiscal years.

Financial liabilities of TCHF 135,803 as of December 31, 2012 (previous year: TCHF 202,632) include only current financial liabilities.

		Valuation in the balance sheet under IFRS 9 (assets)/IAS 39 (liabilities)			
Carrying amount Dec. 31, 2012	thereof not relevant under IFRS 7*	Amortized cost	Fair value through OCI	Fair value through profit or loss	Fair value Dec. 31, 2012
72,517	–	72,517	–	–	72,517
36,753	–	36,753	–	–	36,753
6,620	–	6,620	–	–	6,620
424	–	–	–	424	424
76,772	-13,354	63,418	–	–	63,418
1,266	–	–	–	1,266	1,266
250	–	–	–	250	250
2,534	–	–	–	2,534	2,534
1,011	–	1,011	–	–	1,011
13,652	–	–	13,652	–	13,652
1,464	–	1,464	–	–	1,464
249	–	–	–	249	249
135,803	–	135,803	–	–	135,803
231	–	–	–	231	231
21,788	–	21,788	–	–	21,788
1,344	–	1,344	–	–	1,344
72,437	-13,346	59,091	–	–	59,091
91	–	–	–	91	91
322	–	–	–	322	322
1,187	–	–	–	1,187	1,187
195,137	-13,354	181,783	–	–	181,783
13,652	–	–	13,652	–	13,652
3,207	–	–	–	3,207	3,207
231,372	-13,346	218,026	–	–	218,026
91	–	–	–	91	91

**) Not IFRS 7 relevant: it does not concern financial instruments*

AC: Financial assets at amortized cost
FVOCI: Financial assets at fair value through OCI
FVPL: Financial assets at fair value through profit or loss
FLPL: Financial liabilities at fair value through profit or loss
OL: Other liabilities

ASSETS (TCHF)	Classification category IFRS 9 (2009) and IAS 39
Cash and cash equivalents	AC
Trade accounts receivable	AC
Receivables due from associated companies and joint ventures (current and non-current)	AC
Other receivables (current)	
Financial assets at fair value	FVPL
Other receivables	AC
Derivative financial instruments with hedging relationships in accordance with IAS 39	without category
Other assets (underlying transactions in hedging relationships in accordance with IAS 39)	without category
Other financial assets (current)	
Financial assets at fair value (equity instruments)	FVPL
Financial assets measured at amortized cost (debt capital instruments)	AC
Financial assets at fair value (equity instruments)	FVOCI
Non-current receivables and other receivables	AC
Other financial assets (non-current)	
Financial assets at fair value	FVPL

LIABILITIES (TCHF)	
Financial liabilities (current and non-current)	OL
Financial liabilities with hedging relationships in accordance with IAS 39	without category
Trade accounts payable (current and non-current)	OL
Liabilities due to associated companies and joint ventures (current and non-current)	OL
Other liabilities (current and non-current)	
Financial liabilities measured at amortized cost	OL
Financial liabilities at fair value	FLPL
Derivative financial instruments with hedging relationships in accordance with IAS 39	without category
Other liabilities (underlying transactions in hedging relationships in accordance with IAS 39)	without category

AGGREGATED BY CATEGORY (ASSETS AND LIABILITIES IN TCHF)	
Financial assets measured at amortized cost	AC
Financial assets (equity instruments)	FVOCI
Financial assets at fair value	FVPL
Financial liablities measured at amortized cost	OL
Financial liabilities at fair value	FLPL

Carrying amount Dec. 31, 2011	thereof not relevant under IFRS 7*	Valuation in the balance sheet under IFRS 9 (assets)/IAS 39 (liabilities): Amortized cost	Fair value through OCI	Fair value through profit or loss	Fair value Dec. 31, 2011
140,711	–	140,711	–	–	140,711
42,513	–	42,513	–	–	42,513
1,946	–	1,946	–	–	1,946
287	–	–	–	287	287
90,017	-8,548	81,469	–	–	81,469
2,081	–	–	–	2,081	2,081
1,575	–	–	–	1,575	1,575
1,313	–	–	–	1,313	1,313
1,004	–	1,004	–	–	1,004
11,563	–	–	11,563	–	11,563
3,036	–	3,036	–	–	3,036
250	–	–	–	250	250
202,632	–	202,632	–	–	202,632
1,575	–	–	–	1,575	1,575
27,594	–	27,594	–	–	27,594
1,430	–	1,430	–	–	1,430
95,044	-19,806	75,238	–	–	75,238
3,977	–	–	–	3,977	3,977
–	–	–	–	–	–
2,081	–	–	–	2,081	2,081
279,227	-8,548	270,679	–	–	270,679
11,563	–	–	11,563	–	11,563
1,850	–	–	–	1,850	1,850
326,700	-19,806	306,894	–	–	306,894
3,977	–	–	–	3,977	3,977

**) Not IFRS 7 relevant: it does not concern financial instruments*

AC: Financial assets at amortized cost
FVOCI: Financial assets at fair value through OCI
FVPL: Financial assets at fair value through profit or loss
FLPL: Financial liabilities at fair value through profit or loss
OL: Other liabilities

Net income from the respective classes of financial instruments is shown in the following table:

(TCHF)	from interest	from subsequent measurement: Change in fair value	from subsequent measurement: Foreign currency translation	from subsequent measurement: Impair-ment	Others	2012	2011
Loans and receivables (AC)	580	–	–448	–2,571	–8	–2,447	–6,617
Financial assets at fair value through OCI (FVOCI)	–	2,089	–	–	–	2,089	–4,632
Financial assets at fair value through profit or loss (FVPL)	–139	1,585	14	–	–	1,460	284
Financial liabilities (OL)	–3,666	–	573	3,266	121	294	11,411
Financial liabilities at fair value through profit or loss (FLPL)	–	–544	–	–	–	–544	–956

Impairment losses on loans and receivables (AC) also include income from reversals of write-downs. The Other item mainly shows the effects of the reversal of deferred liabilities.

Management of financial risk

The Group is exposed to various financial risks resulting from its operating and financing activities. Financial risks can be broken down into the categories of liquidity risks, credit risks and market risks (including currency risks, interest rate risks and price risks). These risks are monitored centrally within the Highlight Group. The risk situation is tracked by the risk manager on the basis of a risk management directive that applies to the whole Group using standardized risk reports and reported to the Board of Directors of Highlight Communications AG. Please also see the presentation of risks in the Group Management Report.

Liquidity risks

Liquidity risk is if the Group's future payment obligations cannot be covered by its available liquidity or corresponding credit facilities. There are suitable processes within the Highlight Group to limit this risk, with which cash inflows or outflows and maturities are monitored and controlled on an ongoing basis. Highlight Communications AG and the Highlight Group had sufficient liquidity reserves taking into account the available short-term credit facilities as of the end of the reporting period.

The table on liquidity risk shows the maturity structure of the primary financial liabilities and an analysis of the cash outflows from derivative financial liabilities and assets.

Liquidity risk 2012	Carrying	Cash flows 2013		Cash flows 2014	
(TCHF)	amount Dec. 31, 2012	Fixed interest	Re-payment	Fixed interest	Re-payment
Liabilities due to banks and bonded loans and similar liabilities	136,034	408	136,034	–	–
Other non-interest-bearing financial liabilities	82,223	–	82,223	–	–
Derivative financial liabilities					
Currency derivatives without hedge relationship	91	–	5,425	–	–
Currency derivatives in connection with fair value hedges	322	–	22,355	–	–
Other derivatives	–	–	–	–	–
Derivative financial assets					
Derivatives without hedge relationship	424	–	424	–	–
Currency derivatives with hedge relationship	1,266	–	33,070	–	–

Liquidity risk 2011	Carrying	Cash flows 2012		Cash flows 2013	
(TCHF)	amount Dec. 31, 2011	Fixed interest	Re-payment	Fixed interest	Re-payment
Liabilities due to banks and bonded loans and similar liabilities	204,207	617	204,207	–	–
Other non-interest-bearing financial liabilities	104,262	–	92,392	–	12,171
Derivative financial liabilities					
Currency derivatives without hedge relationship	187	–	3,067	–	–
Currency derivatives in connection with fair value hedges	–	–	–	–	–
Other derivatives	3,790	–	3,790	–	–
Derivative financial assets					
Derivatives without hedge relationship	287	–	3,864	–	–
Currency derivatives with hedge relationship	2,081	–	11,818	–	13,660

In general, the Group companies are responsible for the management of cash and cash equivalents on their own, including current deposits of excess liquidity and the procurement of loans to bridge liquidity bottlenecks. Highlight Communications AG partly supports its subsidiaries and at times acts as a coordinator with banks for purposes of maintaining the most cost-effective coverage of financial requirements. In addition, the Group's creditworthiness enables efficient use of the capital markets for its financing activities. This also includes the ability to issue equity and debt instruments on the capital market. It should be noted that various projects, especially in the area of film and other financing activities such as the purchase of non-controlling interests and acquisition of treasury shares, can influence liquidity differently over time.

In spite of the free working capital facility, it may be necessary to borrow further debt capital on the capital market or from banks both in order to refinance existing liabilities and to finance new projects. There is therefore the risk that, in the event of a deterioration of the economic situation, funding may not be available or not be available to a sufficient extent or could only be available at significantly more disadvantageous terms.

Credit risks

A credit risk exists if a debtor cannot pay a receivable or cannot pay it on time or assets pledged as collateral lose value and therefore cause financial losses. Credit risks include direct counterparty risk and the risk of deterioration in creditworthiness.

The banks with which the Highlight Group performs transactions must have a good credit standing. In addition, any risks to cash and cash equivalents are minimized by allocating cash deposits among several banks. Furthermore, potential risks of default on customer receivables are assessed regularly and allowances for bad debts are recognized if necessary. The company also hedges the risk of default by a creditor by obtaining credit rating information.

Risks from the international distribution of film licenses are minimized by concluding business only with companies of reliable creditworthiness, by transferring rights to the contractual partner only after payment, or entering into transactions in exchange for corresponding collateral (e.g. letters of credit).

The maximum credit risk of the Highlight Group is equal to the carrying amount of its financial assets.

Fair value

Financial assets and liabilities measured at fair value are allocated to a three-level fair value hierarchy:

- Prices (unadjusted) quoted on active markets for identical assets or liabilities (level 1)
- Input data that can be observed either directly (as prices) or indirectly (derived from prices) for the asset or liability that do not constitute quoted prices under level 1 (level 2)
- Information not based on observable market data (non-observable input data) (level 3)

The table below shows the allocation of financial assets and liabilities measured at fair value to the three levels of the fair value hierarchy:

2012 (TCHF)		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	FVPL/ without category	–	1,690	–	1,690
Other assets (underlying transactions in hedging relationships in accordance with IAS 39)	without category	–	250	–	250
Financial assets at fair value through profit or loss	FVPL	249	–	2,534	2,783
Financial assets (equity instruments)	FVOCI	13,652	–	–	13,652
Financial liabilities measured at fair value					
Financial liabilities with hedging relationships in accordance with IAS 39	without category	–	231	–	231
Derivative financial instruments	FVPL/ without category	–	413	–	413
Other liabilities (underlying transactions in hedging relationships in accordance with IAS 39)	without category	–	1,187	–	1,187

Disclosures on level 3 financial instruments:

Designation of the financial instrument	Preference shares
Fair value January 1, 2012	1,313
Currency translation differences through equity	7
Acquisition	1,648
Sale	–434
Fair value December 31, 2012	**2,534**

2011 (TCHF)		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	FVPL/ without category	–	2,368	–	2,368
Other assets (underlying transactions in hedging relationships in accordance with IAS 39)	without category	–	1,575	–	1,575
Financial assets at fair value through profit or loss	FVPL	250	–	1,313	1,563
Financial assets (equity instruments)	FVOCI	11,563	–	–	11,563
Financial liabilities measured at fair value					
Financial liabilities with hedging relationships in accordance with IAS 39	without category	–	1,575	–	1,575
Derivative financial instruments	FVPL	–	3,977	–	3,977
Other liabilities (underlying transactions in hedging relationships in accordance with IAS 39)	without category	–	2,081	–	2,081

The financial assets measured at fair value through profit or loss and included in level 1 are measured using stock prices. The derivative financial instruments in level 2 are measured at current market rates. The discounted cash flow method was used to determine the fair value of level 2 financial instruments. The change in the fair value of the financial assets shown in level 3 is due to purchases in the amount of TCHF 1,648 and sales of TCHF 434 and currency translation effects in the amount of TCHF 7.

There were no reclassifications between the individual levels of the fair value hierarchy.

Market risks

Market risks are the risks of changes in exchange rates and interest rates as well as other risks of changes in a price base.

Currency risk

The Highlight Group is exposed to currency risks as part of its ordinary operating activities, especially in terms of the euro, the US dollar and the Canadian dollar. Exchange rate movements can lead to undesirable and unforeseen earnings and cash flow volatilities. Each subsidiary is subject to risks associated with exchange rate fluctuations when it performs transactions with international contractual partners and incurs future cash flows in a currency other than its functional currency.

The Highlight Group does not enter into any operating activities in currencies that are otherwise considered to be especially prone to risk. In significant transactions, particularly in US and Canadian dollars, the Group attempts to minimize currency risks by using suitable derivative and non-derivative financial instruments. Derivative financial instruments are transacted with banks. The financial instruments predominantly relate to future cash flows in foreign currencies for film projects and loans. The Group ensures that the amount of the hedge does not exceed the value of the hedged item.

The Highlight Group entered into a series of currency forwards and currency swaps for hedging purposes in the current fiscal year. If possible, these are recognized as fair value hedges under IAS 39. They hedged items essentially relate to pending rights purchases and sales (firm commitments) in US dollars. Furthermore, currency forwards were bought to hedge recognized foreign currency receivables and liabilities and to hedge profit distributions by international subsidiaries of Constantin Entertainment GmbH. The options purchased in the previous year in connection with currency forwards were acquired to hedge the profit distribution by Constantin Entertainment Polska Sp. z o.o. and expired in the year under review.

As of December 31, 2012, currency forwards with a nominal amount of TCHF 55,424 (previous year: TCHF 25,478) were designated as hedging instruments in fair value hedges. There were asset forwards in the amount of TCHF 1,266 (previous year: TCHF 2,081) and liability forwards in the amount of TCHF 322 (previous year: TCHF 0) resulting from the difference between the forward rate on conclusion of the transaction and the market value of the forward as of the end of the reporting period. The changes in the fair value of the currency forwards and the pending and recognized hedged items are shown in opposite amounts in the income statement. In effective hedges, the effects of changes in the fair value of hedged items and hedges were reported net in the income statement.

The loss recognized in operating earnings in fiscal year 2012 for carrying amount adjustments to hedges as of the end of the reporting period was TCHF 1,026 (previous year's period: TCHF 2,109). Changes in the fair values of hedges resulted in gains of TCHF 1,026 (previous year's period: TCHF 2,109), which were also recognized in operating earnings.

Foreign currency liabilities are also used as hedging instruments for currency risks. They are used to hedge firm commitments in USD not yet recognized. These hedges are reported as fair value hedges. The fair value of the foreign currency liabilities is TCHF 231 (previous year TCHF 1,575). The change in the fair value of the hedged item resulted in income of TCHF 230 (previous year's period: TCHF 1,596) while the change in the fair value of the hedge resulted in expenses in the same amount, which are recognized in the financial result. The effect of changes in the fair value of the hedged item and the hedge was reported net in the income statement as the hedge was effective.

The nominal amounts and fair values of derivatives not designated in hedge accounting as of December 31, 2012 and 2011 are as follows. The fair value shown in the table for PLN for the previous year is the fair value of the options.

(TCHF)	Dec. 31, 2012 Nominal value	Fair value	Dec. 31, 2011 Nominal value	Fair value
Foreign currency forwards (sale)				
PLN	992	–28	955	22
HRK	248	–1	1,276	–6
USD	–	–	1,793	–181
Foreign currency forwards (acquisition)				
USD	4,187	–62	2,909	287

Interest risk

Interest risks arise when market interest rates fluctuate, which could improve or worsen the proceeds from deposits or payments for money borrowed. In addition, due to the mismatching of maturities, there is a risk of changes in interest rates which is actively controlled by the Group, in particular by monitoring changes in the yield curve.

The risk of change in interest rates to which the Group is exposed primarily relates to financial liabilities. The Highlight Group predominantly has floating-rate current financial liabilities at the current time. The Group does not currently utilize financial instruments to hedge the risk of changes in interest rates, although interest pooling arrangements are available to some extent for bank overdraft liabilities.

Fixed interest agreements provide protection in phases of rising interest rates. They have the disadvantage that the company does not profit from corresponding developments in times of falling interest rates. Fixed interest agreements provide sufficient planning security for financial liabilities without flexible regulations on utilization and repayment. By contrast, for credit agreements with high flexibility, variable interest agreements take into account future fluctuations in credit utilization (for further information on financial liabilities please see note 5.17). If necessary, there is also the option to establish a fixed interest base using interest hedges.

Other price risks

Other price risks are defined as the risk that the fair value or future cash flows of a financial instrument could fluctuate as a result of changes in market prices not already arising from interest or currency risks. Other price risks apply to financial assets measured at fair value. These financial assets are not hedged.

Sensitivities

IFRS 7 requires the presentation of a sensitivity analysis showing the effects of possible changes in market interest rates on earnings or equity. Changes in market interest rates affect interest income and expenses on floating-rate financial instruments. The interest rate sensitivity analysis was prepared assuming a change in the market interest rate of 100 basis points upwards and downwards. An increase would have resulted in additional expenses before taxes of around TCHF 625 (previous year's period: TCHF 559). A drop in interest rates of the same amount would have increased earnings before taxes by TCHF 625 (previous year's period: TCHF 559).

The Group's currency sensitivities were calculated for the main currency pairings of CHF/EUR, EUR/USD and EUR/CAD (each expressed in Swiss francs) assuming that the underlying exchange rate of the pairing fluctuates by 10 % in either direction and all other currency parameters remain the same. The sensitivity analysis does not include translation risks. The following table shows the effects of a change in the exchange rate of 10 % on earnings before taxes. The closing rate was used for the sensitivity analysis. The euro-franc cap of 1.20 established by the Swiss National Bank was not included in the sensitivity analysis.

Sensitivity analysis 2012

(TCHF)	Interest rate risk –1 %	+1 %
Financial assets		
Cash and cash equivalents	–725	725
Trade accounts receivable	–	–
Receivables due from associated companies and joint ventures (current and non-current)	–	–
Other financial assets (current and non-current)	–10	10
Other receivables (current and non-current)	–	–
Derivative financial instruments	–	–
Financial liabilities		
Trade accounts payable (current and non-current)	–	–
Other liabilities (current and non-current)	–	–
Financial liabilities (current and non-current)	1,360	–1,360
Derivative financial instruments	–	–
Total increase/decrease in profit before taxes	**625**	**–625**

Sensitivity analysis 2011

(TCHF)	Interest rate risk –1 %	+1 %
Financial assets		
Cash and cash equivalents	–1,407	1,407
Trade accounts receivable	–	–
Other finacial assets (current and non-current)	–	–
Other receivables	–76	76
Financial liabilities		
Trade accounts payable (current and non-current)	–	–
Other liabilities (current and non-current)	–	–
Financial liabilities (current and non-current)	2,042	–2,042
Foreign currency forwards	–	–
Total increase/decrease in profit before taxes	**559**	**–559**

The other price risks on other financial assets are essentially based on the shares held in Constantin Medien AG, which were measured at fair value in other comprehensive income. The fluctuation of +/–10 % of the share price affects other comprehensive income by TCHF +/– 1,365 (previous year's period: TCHF +/– 1,187).

The other price risks in other receivables as of December 31, 2012 relate to an equity swap transaction with the shares of Highlight Communications AG. A fluctuation of +/– 10 % in market value would result in a change in net income of TCHF +/– 42. In the previous year this equity swap transaction resulted in a financial liability that gave rise to price risks of TCHF +/– 379.

	Exchange rate risk									
	CHF/EUR		EUR/USD		EUR/CAD		Total		Other price risks	
	–10 %	+10 %	–10 %	+10 %	–10 %	+10 %	–10 %	+10 %	–10 %	+10 %
	-358	358	-476	581	-35	42	-869	981	–	–
	-393	393	-58	70	–	–	-451	463	–	–
	-329	329	–	–	–	–	-329	329	–	–
	–	–	–	–	–	–	–	–	-1,392	1,392
	-408	408	-454	554	-2,827	3,456	-3,689	4,418	–	–
	–	–	-1,313	1,604	1,735	-2,122	422	-518	-42	42
	144	-144	104	-127	–	–	248	-271	–	–
	527	-527	1,076	-1,315	35	-43	1,638	-1,885	–	–
	–	–	2,261	-2,763	1,153	-1,409	3,414	-4,172	–	–
	–	–	-1,103	1,347	-542	662	-1,645	2,009	–	–
	–817	**817**	**37**	**–49**	**–481**	**586**	**–1,261**	**1,354**	**–1,434**	**1,434**

	Exchange rate risk									
	CHF/EUR		EUR/USD		EUR/CAD		Total		Other price risks	
	–10 %	+10 %	–10 %	+10 %	–10 %	+10 %	–10 %	+10 %	–10 %	+10 %
	-3,557	3,557	-300	366	-1,835	2,243	-5,692	6,166	–	–
	-885	885	-630	772	–	–	-1,515	1,657	–	–
	–	–	–	–	–	–	–	–	-1,213	1,213
	-1,083	1,083	-1,547	1,890	-1,178	1,440	-3,808	4,413	–	–
	645	-645	124	-151	–	–	769	-796	–	–
	1,801	-1,801	1,412	-1,726	21	-26	3,234	-3,553	-379	379
	–	–	912	-1,114	3,297	-4,030	4,209	-5,144	–	–
	–	–	-2,646	3,235	–	–	-2,646	3,235	–	–
	–3,079	**3,079**	**–2,675**	**3,272**	**305**	**–373**	**–5,449**	**5,978**	**–1,592**	**1,592**

8. Segment reporting

The segment information below is based on the management approach.

The management of the company has been jointly identified as the chief operating decision maker. It continues to make decisions on the allocation of resources to the segments and rates their success on the basis of the figures for revenues and segment earnings. The Group's management does not rate the segments on the basis of their assets and liabilities.

Based on the internal management reporting system and the underlying organizational structure of internal reporting, the Group is still structured as the three operating segments Film, Sports- and Event-Marketing and Other Business Activities.

The internal organizational structure and therefore the segment composition changed as of April 1, 2012 with the hiving off of music business from the Team Group and the transfer of this business area to Highlight Event & Entertainment AG. Since this date, the Highlight Group has therefore reported the activities of Highlight Event AG in the Other Business Activities segment. In previous periods, the segment data was calculated in accordance with the segment structure of fiscal year 2011 (see annual report 2011, notes to the consolidated financial statements, note 8). The effects of this change on the internal organizational structure of the Highlight Group on the previous year are insignificant.

The activities of Constantin Film AG and its subsidiaries plus the Highlight investments in Rainbow Home Entertainment and their subsidiaries (not including Pokermania GmbH) are combined in the Film segment. Its activities comprise the making of films, the exploitation of the rights to the films it produces and acquires and the distribution of theatrical, DVD/Blu-ray and TV movies.

The Sports- and Event-Marketing segment comprises the activities of Team Holding AG, whose principal project is to market the UEFA Champions League via its subsidiaries. Its other marketing projects are the UEFA Europa League and the UEFA Super Cup.

Other Business Activities currently only reports the activities of Highlight Event & Entertainment AG and Pokermania GmbH. These activities essentially comprise event marketing for the Eurovision Song Contest and the Vienna Philharmonic and the performance of services in the field of social gaming and gaming machines. Highlight Event & Entertainment AG and Pokermania GmbH do not constitute an independent reportable segment at the level of the Highlight Communications AG as they do not meet the quantitative thresholds defined in IFRS 8.13.

In addition, the administrative functions of the Highlight Communications AG holding company are reported in the Others segment.

Segment earnings are defined as earnings before earnings from equity investments in associated companies and joint ventures, before financial result, before taxes and before earnings from discontinued operations.

Sales and services between the segments are performed as arm's length transactions.

Segment information 2012

(TCHF)	Film	Sports- and Event-Marketing	Other Business Activities	Other	Recon-ciliation	Group
External sales	353,384	69,408	10,022	–	–	432,814
Other segment income	82,946	788	1,234	–	-981	83,987
Segment expenses	-424,648	-38,137	-13,994	-4,947	981	-480,745
thereof depreciation, amortization	*-111,007*	*-986*	*-1,212*	*–*	*–*	*-113,205*
thereof impairment	*-8,736*	*–*	*-1,512*	*–*	*–*	*-10,248*
Segment result from continuing operations	**11,682**	**32,059**	**-2,738**	**-4,947**	**–**	**36,056**
Non-allocable items:						
Earnings from investments in associated companies and joint ventures						241
Financial income						6,527
Financial expenses						-10,962
Profit from continuing operations before taxes						**31,862**

Segment information 2011

(TCHF)	Film	Sports- and Event-Marketing	Other Business Activities	Other	Recon-ciliation	Group
External sales	292,009	90,262	1,181	–	–	383,452
Other segment income	79,580	149	791	–	-898	79,622
Segment expenses	-354,829	-60,818	-3,499	-5,124	898	-423,372
thereof depreciation, amortization	*-89,291*	*-1,130*	*-383*	*–*	*–*	*-90,804*
thereof impairment	*-2,476*	*–*	*–*	*–*	*–*	*-2,476*
Segment result from continuing operations	**16,760**	**29,593**	**-1,527**	**-5,124**	**–**	**39,702**
Non-allocable items:						
Earnings from investments in associated companies and joint ventures						-1,200
Financial income						16,287
Financial expenses						-12,531
Profit from continuing operations before taxes						**42,258**

The elimination of inter-segment transactions is reported in the reconciliation column.

Segment information by regions

Jan. 1 to Dec. 31, 2012 (TCHF)	Switzerland	Germany	Rest of Europe	Rest of the world	Total
External sales	138,159	164,802	50,055	79,798	432,814
Non-current assets	19,318	163,530	163	8,738	191,749

Jan. 1 to Dec. 31, 2011 (TCHF)	Switzerland	Germany	Rest of Europe	Rest of the world	Total
External sales	150,629	155,092	55,615	22,116	383,452
Non-current assets	24,282	158,246	1,079	6,424	190,031

External sales by product

(TCHF)	2012	2011
Service production	127,861	92,121
Film	225,523	199,888
Sports- and Event-Marketing	69,408	90,262
Other Business Activities	10,022	1,181
Total external sales	**432,814**	**383,452**

Sales by customer

As in the previous year, the Highlight Group generated more than 10 % of its total sales with three customers. These sales relate to the Film segment and the Sports- and Event-Marketing segment.

	2012		2011	
(TCHF)	nominal	in %	nominal	in %
Customer A (Sports- and Event-Marketing segment)	69,395	16	87,680	23
Customer B (Film segment)	71,754	17	48,328	13
Customer C (Film segment)	52,076	12	37,085	10
Sales with other customers	239,589	55	210,359	54
Total external sales	**432,814**	**100**	**383,452**	**100**

9. Judgment/estimation uncertainty

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

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

Impairment of non-financial assets

Goodwill and other intangible assets with an indefinite useful life are tested for impairment at least once a year or more frequently if there are indications of impairment. Film assets and other non-financial assets are tested for impairment if there are indications that their carrying amount exceeds the recoverable amount. To assess whether assets have become impaired, the expected future cash flows from the use and possible disposal of such assets are estimated per cash-generating unit. The actual cash flows may differ significantly from the discounted future cash flows based on these estimates. Changes in revenues and cash flow forecasts could lead to impairment.

Financial assets

The fair value of financial assets which are traded on organized markets is determined on the basis of the quoted market price at the end of the reporting period. The fair value of financial assets for which there is no active market is determined by using measurement methods. Measurement methods include using the most recent transactions between knowledgeable, willing parties in an arm's length transaction, comparing the fair values of other, mostly identical financial instruments, analyzing discounted cash flows and using other measurement models based on management assumptions. At the end of each reporting period or more frequently if there are indications of impairment, the Group determines if a financial asset or a group of assets has become impaired.

Service productions

In determining the stage of completion of productions according to the percentage of completion method (PoC), the cost-to-cost method (realization of results in the amount of production costs incurred as of the end of the reporting period in proportion to the expected total production costs) or the method of physical completion are applied. The expected production cost and the stage of completion are calculated on the basis of estimates. Changes in estimates have a direct effect on earnings generated.

Provisions for expected returns of merchandise

The Group's provisions for expected returns of merchandise are based on an analysis of contractual or legal obligations, historical trends and the Group's experience. On the basis of information currently available, management considers 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.

Provisions for litigation

The Group companies are involved in various legal disputes. On the basis of current knowledge, the Group assumes that its provisions are adequate. However, further litigation could arise resulting in costs not covered by the existing provisions. Moreover, it cannot be ruled out that the extent of legal disputes could increase or that future lawsuits, disputes, proceedings and investigations will be insignificant. Such changes may affect the provisions recognized for litigation in future reporting periods.

Deferred taxes

Extensive estimates are required to determine deferred tax assets and liabilities. Some of these estimates are based on an interpretation of existing tax laws and regulations. Management is of the opinion that the estimates are appropriate and take sufficient account of any uncertainty in the tax assets and liabilities recognized. In particular, the deferred tax assets arising from loss carryforwards that can be offset are dependent on future profits being generated. Deferred tax claims arising from remeasurement are also dependent on future profits. Moreover, tax loss carryforwards expire after a certain number of years in some countries. Actual profits may differ from estimates. Such changes may affect the deferred tax assets and liabilities recognized in future reporting periods.

10. Contingent liabilities, other financial obligations and contingent assets

10.1 Overview

The following table provides an overview of contingent liabilities and other financial obligations:

(TCHF)	Contingent liabilities	Purchase commit-ments for licenses	Other financial obligations	Rental obligations (operating lease contracts)	Total
Balance: December 31, 2012					
Due within one year	10,869	9,191	2,733	4,675	27,468
Due between one and five years	–	6,258	6,023	7,595	19,876
Total	**10,869**	**15,449**	**8,756**	**12,270**	**47,344**
Balance: December 31, 2011					
Due within one year	10,954	26,837	1,979	5,695	45,465
Due between one and five years	–	15,921	4,096	10,418	30,435
Due after five years	–	–	–	960	960
Total	**10,954**	**42,758**	**6,075**	**17,073**	**76,860**

10.2 Contingent liabilities

As of December 31, 2012, there were guarantees to various TV stations for the completion of service productions totaling TCHF 10,869 (previous year: TCHF 10,954). It is not expected that the contingent liabilities will result in significant actual liabilities.

10.3 Purchase commitments for licenses

The Group secures its access to future film rights by concluding license agreements. Film purchasing and production preparations result in future financial obligations of TCHF 15,449 (previous year: TCHF 42,758).

10.4 Other financial obligations

Other financial obligations are future obligations resulting from the development of in-house productions.

10.5 Rental and lease obligations

The Highlight Group rents and leases offices, warehouses, vehicles and facilities. The total rental expenses for fiscal year 2012 amounted to TCHF 5,746 (previous year's period: TCHF 5,821).

The Group had the following minimum lease obligations as of December 31, 2012:

(TCHF)	Building and room rental	Vehicle leases	Other rental and lease obligations	Rental and lease obligations (operating lease contracts)
Balance: December 31, 2012				
Due within one year	4,440	139	96	4,675
Due between one and five years	7,532	24	39	7,595
Total	**11,972**	**163**	**135**	**12,270**
Balance: December 31, 2011				
Due within one year	5,395	167	133	5,695
Due between one and five years	10,201	88	129	10,418
Due after five years	960	–	–	960
Total	**16,556**	**255**	**262**	**17,073**

The minimum lease obligations are calculated based on the respective uncancellable term of the lease.

10.6 Contingent assets

Contingent assets are not capitalized, but disclosed as for contingent liabilities if economic benefits are likely for the Group. There were no contingent assets as of December 31, 2012 or December 31, 2011.

11. Related party disclosures

The company maintains ordinary business relations with associated companies, joint ventures and companies controlled by members of the Board of Directors.

Please refer to the notes to the annual financial statements of Highlight Communications AG, note 7, for details of the remuneration and shareholdings of members of the Board of Directors and members of Group management.

As of December 31, 2012, there were trade accounts receivable from Constantin Medien AG of TCHF 62 (previous year: TCHF 57). The income generated in the reporting year amounted to TCHF 67 (previous year's period: TCHF 71). The expenses incurred in the year under review with Constantin Medien AG of TCHF 238 (previous year's period: TCHF 396) essentially relate to the allocation of Group-wide functions such as the Berlin offices of the Constantin Medien Group and other internal allocations. On December 31, 2012 there were liabilities of TCHF 138 (previous year: TCHF 134).

In the reporting period, total sales of TCHF 441 (previous year's period: TCHF 178) were generated with SPORT1 Gaming I GmbH and SPORT1 Gaming II GmbH, both indirect, wholly owned subsidiaries of Constantin Medien AG. The receivables amounted to TCHF 35 as of December 31, 2012 (previous year: TCHF 17).

In the reporting year, expenses of TCHF 37 (previous year's period: TCHF 7) were incurred with SPORT1 GmbH, an indirect, wholly owned subsidiary of Constantin Medien AG. In addition, income of TCHF 36 was generated from service productions for SPORT1 in the reporting period (previous year's period: TCHF 12). As of December 31, 2012 there were liabilities of TCHF 2 (previous year: TCHF 0). As in the previous year, there were no receivables as of December 31.

Expenses incurred with Plazamedia GmbH TV- & Film-Produktion, an indirect, wholly owned subsidiary of Constantin Medien AG, amounted to TCHF 339 in the reporting period (previous year's period: TCHF 221) in connection with production of TV series. The liabilities amounted to TCHF 41 as of December 31, 2012 (previous year: TCHF 47).

Expenses incurred with Plazamedia Swiss AG, an indirect, wholly owned subsidiary of Constantin Medien AG, amounted to TCHF 7 in the reporting period (previous year's period: TCHF 49). The income generated in the reporting year amounted to TCHF 5 (previous year's period: TCHF 0). The receivables amounted to TCHF 5 as of December 31, 2012 (previous year: liabilities of TCHF 4).

The sales of TCHF 973 (previous year's period: TCHF 971) generated by the Highlight Group with PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH in fiscal year 2012 essentially related to the service production of "Dahoam is Dahoam" and "Tatort Hamburg", as did the recharges of TCHF 12,162 (previous year's period: TCHF 10,033). The revenues and recharges were offset by expenses of TCHF 12,162 (previous year's period: TCHF 10,033). There were also miscellaneous expenses totaling TCHF 293 (previous year's period: TCHF 0). There were no receivables as of December 31, 2012 (previous year: TCHF 5). The liabilities amounted to TCHF 1,002 as of December 31, 2012 (previous year: TCHF 1,430).

Total income of TCHF 17 (previous year's period: TCHF 0) and expenses of TCHF 341 (previous year's period: TCHF 0) were generated with Mister Smith Entertainment Ltd. in fiscal year 2012. As of December 31, 2012 there were receivables of TCHF 1,399 as (previous year: TCHF 0) and liabilities of TCHF 342 (previous year: TCHF 0).

Total income of TCHF 0 (previous year's period: TCHF 3,012) and expenses of TCHF 180 (previous year's period: TCHF 93) were generated with NEF-Production S.A.S. in the reporting period. The outstanding receivables of TCHF 1,927 as of December 31, 2012 (previous year: TCHF 1,941) from the co-production "The Three Musketeers" were recognized and deducted from cost.

Total income of TCHF 640 was incurred with Kuuluu Interactive Entertainment AG in the reporting period (previous year's period: TCHF 0). As of December 31, 2012 there were non-current receivables of TCHF 3,294 (previous year: TCHF 0). There were no liabilities as of December 31, 2012 (previous year: TCHF 0).

Related parties include the members of the Board of Directors, the members of Group management and their relatives.

Highlight Communications AG did not perform significant services for companies controlled by related parties in fiscal year 2012 or the previous period.

There is a consulting agreement with Fred Kogel GmbH. This agreement was extended by one year and runs until December 31, 2013. It covers license trading, TV service production and film distribution. Expenses of TCHF 362 (previous year's period: TCHF 370) were incurred under this agreement in the reporting period. The liabilities amounted to TCHF 28 as of December 31, 2012 (previous year: TCHF 30). Mr. Kogel also received Supervisory Board remuneration of TCHF 36 (previous year's period's period: TCHF 28).

As of December 31, 2012, there were further liabilities to various members of the Board of Directors and managing directors of TCHF 41 (previous year: TCHF 43).

All transactions with related parties are carried out at arm's length conditions.

12. Events after the end of the reporting period

The management and the Board of Directors are not aware of any events that occurred after the end of the reporting period that could significantly influence the net assets, financial position and results of operations of the Highlight Group.

Report of the statutory auditor

to the General Meeting of Highlight Communications AG, Pratteln

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Highlight Communications AG, which comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes (pages 68 to 147), for the year ended 31 December 2012.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2012 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.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers Ltd

Bruno Häfliger	Josef Stadelmann
Audit expert	*Audit expert*
Auditor in charge	

Lucerne, 19 March 2013

Financial statements

as of December 31, 2012
of Highlight Communications AG, Pratteln

BALANCE SHEET AS OF DECEMBER 31, 2012

Highlight Communications AG, Pratteln

ASSETS (TCHF)	Dec. 31, 2012	Dec. 31, 2011
Current assets		
Cash and cash equivalents	5,191	11,721
Securities	17,994	15,351
Trade accounts receivable		
due from Group entities	8,395	–
Other receivables		
due from third parties	435	738
due from Group entities	526	338
Prepaid expenses/accrued income	21	7
	32,562	**28,155**
Non-current assets		
Financial assets		
Investments	248,547	254,847
	248,547	**254,847**
Total assets	**281,109**	**283,002**

EQUITY AND LIABILITIES (TCHF)	Dec. 31, 2012	Dec. 31, 2011
Liabilities		
Trade accounts payable		
due to third parties	70	32
due to Group entities	–	2,028
Current bank liabilities	50,000	71,000
Other current liabilities		
due to third parties	32	3,873
due to related parties	133	134
due to Group entities	32,972	18,174
Deferred income/accrued expenses	523	555
Provisions	500	500
Other non-current liabilities	–	12,919
	84,230	**109,215**
Equity		
Subscribed capital	47,250	47,250
Legal reserves		
Legal reserves from capital contributions	41,864	49,743
Reserves for treasury stock from capital contributions	8,665	8,665
Other general legal reserves	331	331
Free reserves	67,798	–
Profit carried forward	–	54,704
Profit for year	30,971	13,094
	196,879	**173,787**
Total equity and liabilities	**281,109**	**283,002**

INCOME STATEMENT 2012

Highlight Communications AG, Pratteln

(TCHF)	2012	2011
License income	1,978	577
Other revenues	460	508
Financial income		
Interest income	276	244
Income from securities	3,068	–
Income from investments	45,442	36,840
Currency exchange rate gains	1,153	7,738
Total income	**52,377**	**45,907**
License expense	–214	–238
Personnel expense	–4,669	–4,275
Office and administrative expense	–3,074	–3,101
Depreciation on investments	–12,126	–13,258
Financial expense		
Interest expense	–1,259	–2,487
Expense on securities	–11	–6,314
Currency exchange rate losses	–53	–3,140
Total expense	**–21,406**	**–32,813**
Profit before taxes	**30,971**	**13,094**
Income taxes	–	–
Net profit for the year	**30,971**	**13,094**

NOTES TO THE FINANCIAL STATEMENTS 2012

Highlight Communications AG, Pratteln

1. Pledged assets as collateral for own obligations

	Dec. 31, 2012	Dec. 31, 2011
Shares in Constantin Medien AG		
Number	6,012,749	6,012,749
TCHF	11,059	9,367
Shares in Constantin Film AG		
Number	12,742,600	12,742,600
TCHF	143,838	149,681
Shares in Highlight Communications AG		
Number	313,000	313,000
TCHF	1,504	1,312
Credit facility utilized		
TCHF	50,000	71,000

As of December 31, 2012, there was a restriction of the disposal of cash and cash equivalents in the amount of TCHF 3,935 (previous year: TCHF 7,558).

2. Contingent liabilities

Joint liability exists in respect to Group value-added taxation under Section 22 of the Swiss Value-Added Tax Act (Mehrwertsteuerverordnung).

3. Notes on main investments

Company, domicile, purpose	Shareholding in %	Share capital
Team Holding AG, Lucerne *Investments in sports marketing companies*	100.00%	TCHF 250
Rainbow Home Entertainment AG, Pratteln *Distribution*	100.00%	TCHF 200
Highlight Communications (Deutschland) GmbH, Munich *Marketing*	100.00%	TEUR 256
Constantin Film AG, Munich *Production and distribution of films and holding company*	100.00%	TEUR 12,743
Rainbow Home Entertainment GmbH, Vienna *Distribution*	100.00%	TEUR 363
Highlight Event & Entertainment AG, Düdingen (formerly Escor Casinos & Entertainment SA) *Event marketing*	59.89% (previous year: 56.95%	TCHF 15,593

4. Share capital/authorized capital

On June 1, 2012 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 1.00 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 %	Dec. 31, 2012	Dec. 31, 2011
Constantin Medien AG	47.31 %	47.31 %
DWS Investment GmbH	8.25 %*	8.25 %

(as per last confirmed holdings)*

For the stakes held by members of the Board of Directors and the Group management as well as their related parties, refer to note 7.

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

6. Treasury stock (held directly or indirectly via subsidiaries)

	Number of shares	Average transaction price CHF	Transaction value TCHF	Reserve for treasury stock TCHF
Balance on January 1, 2012	1,156,567			8,665
Sales	–	–	–	–
Acquisitions	–	–	–	–
Balance on December 31, 2012	**1,156,567**			**8,665**

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

Remuneration 2012 (TCHF)	Basis remuneration	Variable remuneration	Remuneration as member of the Board of Directors	Social security/ pension liabilities	Total
Bernhard Burgener, Chairman and Delegate, executive member (highest remuneration)	1,139	323	208	204	1,874
Martin Wagner, Vice Chairman, executive member	1,008	193	161	204	1,566
Dr. Ingo Mantzke, executive member	417	155	10	101	683
Antonio Arrigoni, non-executive member	–	–	10	1	11
René Camenzind, non-executive member	–	–	50	3	53
Dr. Erwin V. Conradi, non-executive member	–	–	50	2	52
Dr. Dieter Hahn, non-executive member	–	–	50	3	53
Martin Hellstern, non-executive member	–	–	50	2	52
Total Board of Directors	**2,564**	**671**	**589**	**520**	**4,344**
Group management (consisting of two Managing Directors)	844	228	53	197	1,322
Total Group management	**844**	**228**	**53**	**197**	**1,322**

Remuneration 2011

(TCHF)	Basis remuneration	Variable remuneration	Remuneration as member of the Board of Directors	Social security/ pension liabilities	Total
Bernhard Burgener, Chairman and Delegate, executive member (highest remuneration)	1,141	291	208	197	1,837
Martin Wagner, Vice Chairman, executive member	1,000	167	172	144	1,483
Dr. Ingo Mantzke, executive member	417	135	10	98	660
Antonio Arrigoni, non-executive member	–	–	10	1	11
René Camenzind, non-executive member	–	–	50	3	53
Dr. Erwin V. Conradi, non-executive member	–	–	50	2	52
Dr. Dieter Hahn, non-executive member	–	–	50	3	53
Martin Hellstern, non-executive member	–	–	50	2	52
Total Board of Directors	**2,558**	**593**	**600**	**450**	**4,201**
Group management (consisting of two Managing Directors)	837	196	20	190	1,243
Total Group management	**837**	**196**	**20**	**190**	**1,243**

The basis remuneration also includes flat-rate expenses. The executive members of the Board of Directors and the two members of Group management receive part of the variable remuneration in line with the stock price of Highlight Communications AG.

The date for calculating the variable remuneration is determined by the Board of Directors. The variable remuneration was paid out in the fourth quarter of 2012.

In fiscal year 2012, Martin Wagner received compensation for consultancy in his operating function at Highlight Event & Entertainment AG in the amount of TCHF 100, which is shown under basis remuneration.

Certain members of the Board of Directors receive additional remuneration for their activities in various Boards of Directors of subsidiaries. These are disclosed under remuneration as member of the Board of Directors.

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 2012 and 2011, no remuneration was granted to former members of the Board of Directors or Group management members. Also no remunerations 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, 2012 and December 31, 2011, 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, 2012, the individual members of the Board of Directors and the Group management (including related parties) held the following number of shares in the company:

	2012	2011
Bernhard Burgener, Chairman and Delegate, executive member	1,950,000	1,800,000
René Camenzind, non-executive member	628,715	628,715
Martin Hellstern, non-executive member	200,000	200,000
Dr. Erwin V. Conradi, non-executive member	177,000	–
Dr. Ingo Mantzke, executive member	100,000	100,000
Dr. Dieter Hahn, non-executive member	21,000	–
Martin Wagner, Vice Chairman, executive member	–	–
Antonio Arrigoni, non-executive member	–	–
Dr. Paul Graf, Managing Director	–	–
Peter von Büren, Managing Director	–	–

8. Risk assessment

As part of its risk assessment, the Group’s management compiles a risk report divided into quantifiable and non-quantifiable risks. In so doing, risks identified in prior periods are analyzed, deleted if no longer relevant and newly identified risks are added. The risk tracking process focuses on risks to which the Group as a whole is exposed; company-specific risks affecting the Group’s subsidiaries are reported by their management to the Group’s risk manager and included in the consolidated risk report.

In risk assessment, quantifiable risks are rated with a probability and a monetary value. Non-quantifiable risks are classified according to qualitative features.

The Group’s management initiates and monitors corresponding measures in order to reduce risks to a level acceptable to the company. The results of risk assessment including steering and monitoring (the action plan) are discussed with the Board of Directors and approved by it.

The Group’s management carried out the annual risk assessment on August 2, 2012 and it was approved by the Board of Directors on August 14, 2012.

PROPOSAL FOR THE APPROPRIATION OF RETAINED EARNINGS AND THE LEGAL RESERVES FROM CAPITAL CONTRIBUTIONS

Highlight Communications AG, Pratteln

Appropriation of available retained earnings

(TCHF)	2012
Net profit for the year	30,971
Withdrawal from the legal reserves from capital contributions	8,033
Available retained earnings	**39,004**

The Board of Directors recommends to the Annual General Meeting the following resolution for the appropriation of retained earnings:

Balance to be carried forward	30,971

Distribution of a dividend from legal reserves from capital contributions

Payment of a dividend of CHF 0.17 per share	8,033
	39,004

The dividend amount of TCHF 8,033 is entirely distributed from "legal reserves from capital contributions" and corresponds to a dividend (not subject to withholding tax) of CHF 0.17 per share entitled to a dividend.

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 as well as the withdrawal from the legal reserves from capital contributions depends on the number of shares held as treasury stock as of the date on which the dividend is paid.

Report of the statutory auditor

to the General Meeting of Highlight Communications AG, Pratteln

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Highlight Communications AG, which comprise the balance sheet, income statement and notes (pages 152 to 159), for the year ended 31 December 2012.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2012 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

Bruno Häfliger	Josef Stadelmann
Audit expert	*Audit expert*
Auditor in charge	

Lucerne, 19 March 2013

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TEAM Group, Lucerne
(cover and pages 44, 45)
Highlight Event & Entertainment Group, Düdingen
(pages 48, 49)

Highlight

Highlight Communications AG

Events 2013

Cinema

Cannes Film Festival	May 15 – 26
Locarno Film Festival	August 7 – 17
Venice Film Festival	August 28 – September 7
Toronto Film Festival	September 5 – 15

Football

UEFA Europa League final	May 15
UEFA Champions League final	May 25

Music

Eurovision Song Contest, semifinals	May 14 and 16
Eurovision Song Contest, final	May 18
Vienna Philharmonic's Summer Night Concert	May 30

Investor Relations

Interim reports	May/August/November
Annual General Meeting	May 31
German Equity Forum	November 11 – 13

Highlight Communications AG
Annual Report 2012

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