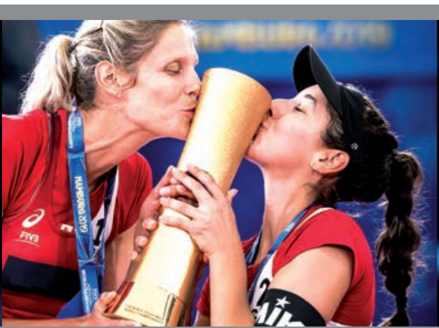
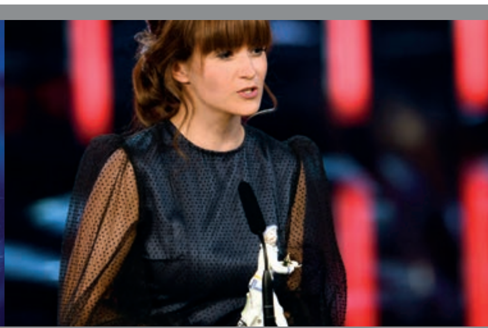
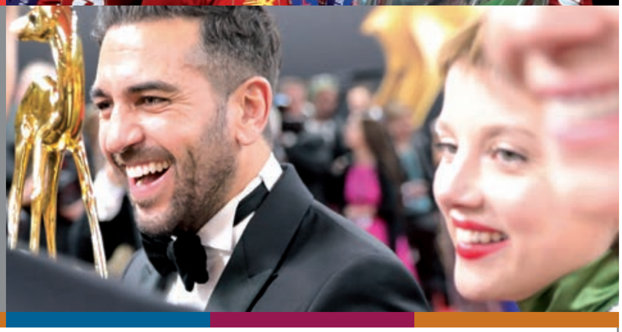
Highlight

Highlight Communications AG







ANNUAL REPORT 2019

KEY FIGURES

	in TCHF	2019	2018
Consolidated balance sheet	Balance sheet total	673,948	638,646
	Film assets	174,673	185,451
	Cash and cash equivalents	52,970	52,530
	Financial liabilities*	187,731	149,938
	Equity	197,688	225,582
	Equity ratio	29.3 %	35.3 %
Consolidated income statement	Sales	486,813	531,610
	■ Film	303,578	364,362
	■ Sports- and Event-Marketing	64,689	63,728
	■ Sports	119,013	104,242
	Profit from operations (EBIT)	29,545	31,954
	■ Film	16,389	12,137
	■ Sports- and Event-Marketing	29,162	31,549
	■ Sports	–8,237	–4,421
	Net profit (Highlight shareholders)	25,173	18,391
	Earnings per share (CHF)	0.44	0.32
	Earnings per share (EUR)	0.40	0.28
Consolidated statement of cash flows	Cash flow from operating activities	125,589	173,477
	Cash flow for investing activities	–111,693	–300,074
	thereof payments for film assets	–93,730	–177,184
	Cash flow for/from financing activities	–11,822	–4,236
	thereof dividend payments	–12,595	–12,447
	Cash flow for/from the reporting period	2,074	–130,833
Personnel	Average number of employees	1,428	1,550

* *The prior-year figures are not comparable due to a new credit agreement, as this was partly classified as non-current for fiscal year 2019, whereas in the previous year the entire amount was classified as current. Non-current financial liabilities of TCHF 934 have been added to the prior-year figure.*

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EVENTS 2020 back inside cover

EVENTS IN 2019

Q1

JANUARY

Shooting on the new Bora Dagtekin comedy “Das perfekte Geheimnis” begins in Munich in the middle of January. The Constantin Film house production has a star cast including Elyas M’Barek, Florian David Fitz, Karoline Herfurth, and Jella Haase and was released in German theaters at the end of October 2019.

The Constantin Film crime comedy “Sauerkrautkoma” is awarded the Audience Award at the 2019 Bavarian Film Awards at the end of January. The adaptation of Rita Falk’s bestselling novel was seen by more than a million moviegoers in 2018.

Bavarian Film Award for “Sauerkrautkoma”

FEBRUARY

In the middle of February, Constantin Television GmbH and Amazon announce the joint production of the series “Wir Kinder vom Bahnhof Zoo.” The planned co-production is a contemporary re-telling of the famous novel “Christiane F. – Wir Kinder vom Bahnhof Zoo” and will be released by Amazon as a German Prime Original.

Just a few days later, the Constantin Film co-production “Ostwind – Aris Ankunft” celebrates its world premiere in Munich. The fourth installment of the popular “Ostwind” series was shot by a new director (Theresa von Eltz) and featured a new lead (Luna Paianao).

Premiere in Munich: “Ostwind – Aris Ankunft”

MARCH

At the start of March, Constantin Film AG announces the continuation of its long-standing and successful collaboration with the ProSiebenSat.1 Group. The existing contract was renewed for a further three years, with the result that the free TV exploitation rights now include all national and international Constantin Film movie productions (in-house and co-productions) on which filming begins between January 2019 and December 2021.

At the allocation of funding for 2018 by the German Federal Film Board, the Constantin Film Group is once again named the most successful German producer. The award comes with funding of around EUR 1.7 million.

German Film Award 2019: Bernd Eichinger Prize goes to Christian Becker

Q2

APRIL

Sport1 GmbH acquires a 5% interest in AGF Videoforschung GmbH at the beginning of April. Sport1 is thus the tenth shareholder in the company, which develops instruments for the quantitative tracking and analysis of data on the use of moving images. AGF Videoforschung GmbH’s main shareholders are ARD, ZDF, and the two private broadcasting groups RTL and ProSiebenSat1.

Just a short time later, the tradition-steeped Berlin Zoo Palast theater hosts the world premiere of the Constantin Film co-production “Der Fall Collini.” The thrilling drama, based on the novel by the successful author Ferdinand von Schirach starring Elyas M’Barek, Alexandra Maria Lara, Franco Nero, and Heiner Lauterbach, tells the story of one the biggest legal scandals in German history.

Premiere in Berlin: “Der Fall Collini”

MAY

Christian Becker is presented with the Bernd Eichinger Prize at the 2019 German Film Awards. Constantin Film’s licensed title “After Passion” is seen by more than a million moviegoers. The movie topped the German charts in April and stuck around in the top ten.

JUNE

At the Annual General Meeting for fiscal year 2018, Highlight’s shareholders approve all motions brought by the Board of Directors. These include the distribution of a dividend of CHF 0.20 per entitled share and the re-election of Bernhard Burgener as President and René Camenzind, Martin Hellstern, and Peter von Büren as members of the Board of Directors.

At the end of June, Constantin Film AG announces that Tim Greve will join Constantin Film Produktion GmbH’s management team beginning in September 2019. He will work on television and movie projects as a general production manager.

Q3

JULY

At the Annual General Meeting of Constantin Medien AG, its shareholders approve the renaming of the company as Sport1 Medien AG effective January 1, 2020.

On July 31, Highlight Communications AG publishes a public delisting tender offer to the remaining shareholders of Constantin Medien AG. At the end of the acceptance period on August 28, the offer was accepted by around 14.25% of Constantin Medien's share capital, increasing Highlight Communications AG's interest to 94.02%.

AUGUST

"Leberkäsjunkie," the sixth big-screen adaptation of a Rita Falk novel, is seen by around 220,000 moviegoers on its release. With more than 1.2 million tickets sold, the movie has the biggest audience of the series.

In the middle of August, Constantin Medien AG applies to have its admission to the regulated market of the Frankfurt Stock Exchange withdrawn. After this application is approved, trading in Constantin Medien shares ends on September 26, 2019.

SEPTEMBER

The final season of the TV crime series "Schuld," starring Moritz Bleibtreu and based on the book by Ferdinand von Schirach, once again lives up to expectations. Broadcast at prime time on ZDF, it is seen by an average of 3.62 to 4.13 million viewers, giving it a total audience share of between 13.8% and 16.1%.

At the end of September, the licensed Constantin Film title "La belle époque" is shown as the opening film of the Hamburg Film Festival and delights the audience. The engaging comedy, which premiered in May at the Cannes International Film Festival, was released in German theaters at the end of November 2019.

Premiere for sixth adaptation of a Rita Falk novel: "Leberkäsjunkie"

Q4

OCTOBER

The TV broadcast of the ARD spy thriller "Wendezeit" – a Moovie GmbH production – is seen by around 4.3 million viewers on October 2, claiming an excellent market share of 15.1% of the total audience. The movie about a double agent who works for both the Stasi and the CIA was inspired by a true story.

The live broadcast of the DFB Cup match between VfL Bochum and FC Bayern Munich garners the free TV special interest broadcaster SPORT1 an exceptionally high market share of 8.3% among viewers aged 14 to 49 at the end of October. This is around six times its normal average of between 1.2% and 1.5%.

Successful TV production: "Wendezeit"

NOVEMBER

The Bora Dagtekin comedy "Das perfekte Geheimnis" seamlessly follows on from the successes of the "Fack Ju Göhte" series. It is seen by more than a million moviegoers on its opening weekend (including previews), making it 2019's best theatrical release of a German production.

Most successful German film in 2019: "Das perfekte Geheimnis"

16.8% market share: "The Master Butchers Singing Club"

DECEMBER

"Das perfekte Geheimnis" continues its success and is seen by more than four million people by the middle of December. By the end of the year, the Constantin Film production was seen by more than 4.6 million people in theaters, making it by far the most successful German film of 2019.

The emigré epic "The Master Butchers Singing Club" is broadcast by ARD on December 27, achieving an excellent market share of 16.8% of the total audience. The Moovie GmbH service production, based on the novel of the same name by the US author Louise Erdrich, features a well-known cast with Jonas Nay, Aylin Tezel, and Leonie Benesch in leading roles.

Foreword by the Chairman

Dear shareholders and other interested parties,

The Highlight Group continued its highly positive development in 2019, and has enjoyed a generally successful financial year in which the consolidated net profit attributable to shareholders significantly outperformed forecasts.

In the past year, we made further progress in the streamlining of our corporate structure and, on July 31, we published a delisting tender offer to the remaining shareholders of Constantin Medien AG (CMAG). After the end of the acceptance period, 14.25 % of shares in Constantin Medien were acquired, with the result that the Management Board of Constantin Medien AG was able to apply to have the company's admission to the regulated market of the Frankfurt Stock Exchange withdrawn. Trading in CMAG's shares was thus suspended on September 20, 2019. As the post-admission requirements no longer apply, we can simplify our existing administrative structures and thereby cut costs.

At the Annual General Meeting of Constantin Medien AG on July 24, 2019, it was resolved by a large majority to rename the company Sport1 Medien AG. From January 1, 2020, the new name reflects the company's clear focus as a multimedia platform for the exploitation of sports rights.

We have increased our consolidated net profit attributable to shareholders by 37 % from CHF 18.0 million to CHF 25.2 million, thereby significantly outperforming our forecast. With consolidated sales of CHF 486.8 million, we were unable to achieve our forecast of CHF 520 million on account of EUR/CHF exchange rate losses and the reclassification of some sales to other income. EBIT declined from CHF 32.0 million to CHF 29.5 million as a result of currency effects. With a consolidated net profit attributable to shareholders of CHF 25.2 million, we considerably overshot our forecast corridor of between CHF 20 and CHF 22 million, with the added bonus of increasing earnings per share for our customers by CHF 0.12 year-on-year to CHF 0.44.

Both the Film segment and the Sports- and Event-Marketing segment contributed significantly to the good business performance.

The Film segment had considerable successes in 2019, once again highlighting its leadership on the German-speaking market. Now seen by an audience of more than five million, "Das perfekte Geheimnis" is by far the most watched German production of 2019. Director Bora Dagtekin has succeeded in drawing an audience of more than a million moviegoers for five consecutive films. In addition to "Das perfekte Geheimnis", both "Leberkäsjunkie" and "After Passion" were also seen by more than a million people in 2019. The TV exploitation framework agreement with the ProSiebenSat.1 Group was renewed in the reporting year, which means that Constantin Film theatrical productions will continue to be broadcast on the ProSiebenSat1 Group's free TV channels in the years ahead. The strong ratings for our TV productions, such as "Mein Freund, das Ekel", "Bier Royal" and "Wendezeit" are also very gratifying, once again confirming the high quality of our productions.

In the Sports- and Event-Marketing segment, our TEAM, together with UEFA, completed the preparations for the marketing of the club competitions for the 2021/22 to 2023/24 seasons and successfully launched marketing operations in the fourth quarter. In the UEFA Europa Conference League, which will be broadcast for the first time in the 2021/22 season, we will be simultaneously marketing the media, sponsorship and licensing rights for the UEFA Champions League and the UEFA Europa League for the Union of European Football Associations.

In the Sports segment, our online sports portal SPORT1 staked its claim as a leading 360° sport platform for Germany in 2019. In addition to the established core sports, Sport1 is the first pay TV e-sports channel to appeal to new, young target groups on all distribution channels. In addition, we achieved strong market shares on free TV with the acquisition of rights to DFB Cup matches, with one match per round, validating the decision to buy these rights.

Multiple theatrical releases are planned at Constantin Film in the current fiscal year. These include two licensed titles and eight in-house and co-productions, including "Ostwind – Der große Orkan", "Kaiserschmarrndrama", "Dragon Rider", "Monster Hunter" and "Contra". In home entertainment exploitation, Constantin Film will release titles such as the hit comedy "Das perfekte Geheimnis", both on digital and as DVDs/Blu-rays.

In Sports- and Event-Marketing, we will continue to focus on the best possible marketing of the UEFA club competitions for the 2021/22 to 2023/24 seasons.

At SPORT1 we will also focus on the systematic exploitation and distribution of multimedia content in 2020. In addition to augmenting the portfolio by acquiring attractive new rights, extending existing partnerships and developing new content cooperations and business areas, the cross-platform exploitation and production of established pillars of programming also remain central to our activities.

In conclusion, I would like to thank the employees of the Highlight Group – both from myself and on behalf of my colleagues on the Board of Directors. Your work, skills and dedication are key factors in the success of our day-to-day business operations. I would especially like to thank all those who have faithfully watched and supported our company over the past year, in particular our shareholders, customers and business partners. Moving forward, we will keep doing our utmost to justify the trust you have placed in us and to continue the success of the Highlight Group.

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 was a shareholder of Highlight Communications AG from 1994 to 2016 and its Delegate of the Board of Directors until 1999. In May 1999, he took the company public and from 1999 to 2008, he was responsible for the activities of the Highlight Group as the Chairman of its Board of Directors.

Since 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 in 2011, he has been performing both functions simultaneously. Mr. Burgener was also the CEO of Constantin Medien AG from 2008 until 2015. In addition, he was the CEO of Constantin Film AG from 2009 until 2013 and he has been the Chairman of the Supervisory Board of Constantin Film AG since 2014.

René Camenzind (born 1951) Non-executive 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 Mythencenter Holding AG. Since 2004, Mr. Camenzind has been a member of Highlight Communications AG's Board of Directors.

Martin Hellstern (born 1934) Non-executive 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 shareholder of Highlight Communications AG since 2003 and a member of the company's Board of Directors since 2004.

Peter von Büren (born 1955) Executive member of the Board of Directors
Businessman. Mr. von Büren exercised various management activities at Highlight Communications AG since 1994. In 1999, he became a member of the Highlight Group's management where he has been Head of IT, Human Resources and Investor Relations as well as CFO. Since 2015, Mr. von Büren has been a member of the Board of Directors of Highlight Communications AG. In addition, he was elected to the Supervisory Board of Constantin Film AG in 2016.

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".

The articles of incorporation of Highlight Communications AG take into account the statutory requirements and duties of the Annual General Meeting in the areas of corporate governance and remuneration.

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 the three segments "Film", "Sports- and Event-Marketing" as well as "Sports".

1.2 Listed companies

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, 2019, the market capitalization of the company was around EUR 237.01 million at a closing stock price for the year of EUR 4.18.

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, 2019, Highlight Communications AG was aware of the following shareholders with a share of more than 5% of its subscribed capital:

Highlight Event and Entertainment AG	45.18%
Stella Finanz AG	12.26%
Axxion S.A.	9.89%

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, 42,000 treasury shares were bought back. As of December 31, 2019, treasury stock comprised 6,299,501 shares, equivalent to 9.99% of the company's subscribed capital.

1.5 Cross-holdings

Constantin Medien AG holds 9.81% of the share capital of Highlight Communications AG as of December 31, 2019. Constantin Medien AG has been included in consolidation by the Highlight Group since the 2018 reporting period.

2. CAPITAL STRUCTURE

2.1 Capital

Highlight Communications AG's subscribed capital amounts to CHF 63,000,000 and is divided into 63,000,000 bearer shares with a nominal value of CHF 1 each; all shares subscribed are paid up.

2.2 Authorized capital

On June 20, 2019, the Annual General Meeting extended the authorized share capital of CHF 31,500,000 until June 20, 2021, and thereby authorized the Board of Directors to execute a capital increase by issuing 31,500,000 bearer shares at CHF 1 each within a period of two years. A partial increase is permitted.

2.3 Changes in capital – changes in nominal value

There were no changes in capital in the reporting period.

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 and the monitoring of Group management. Each member of the Board of Directors is elected by the shareholders. The Board of Directors proposes the election of the Chairman and the members of the compensation committee for the Annual General Meeting. The Vice Chairman and the members of the audit committee are elected by the Board of Directors.

3.1 Members of the Board of Directors

The Board of Directors currently comprises four members. The list below provides an overview of the composition of the Board of Directors on December 31, 2019, 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:
Chairman of the Supervisory Board of Constantin Film AG, Munich, Germany
President of the Board of Directors of Constantin Film und Entertainment AG, Zurich, 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

Chairman of the Board of Trustees of T.E.A.M. Pension fund, Lucerne, Switzerland
President of the Board of Directors of Rainbow Home Entertainment AG, Pratteln, Switzerland
President and Delegate of the Board of Directors of Highlight Event and Entertainment AG, Pratteln, Switzerland
President of the Board of Directors of Highlight Event AG, Emmen, Switzerland
President of the Board of Directors of Lechner Marmor AG, Laas, Italy
President of the Board of Directors of Club de Bâle SA, Basel, Switzerland
President of the Board of Directors of Comosa AG, Zurich, Switzerland
Member of the Board of Trustees of EurAsia Heart – A Swiss Medical Foundation, Zurich, Switzerland
President of the Board of Directors of FC Basel 1893, Basel, Switzerland
President of the Board of Directors of FC Basel Holding AG, Basel, Switzerland
President of the Board of Directors of FC Basel 1893 AG, Basel, Switzerland
President of the Board of Directors of Stadiondienst AG, Basel, Switzerland

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

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 Holding 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
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

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
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
Chairman of the Management Board of MPLC Switzerland GmbH, Zurich, Switzerland
President of the Board of Directors of Kart-Bahn-Wohlen AG, Waltenschwil, Switzerland

Peter von Büren
Member of the Board of Directors since 2015
Swiss national, businessman, CFO, executive member.

Other (corporate) activities and interests:
Member of the Supervisory Board of Constantin Film AG, Munich, Germany
Member of the Board of Directors of Constantin Film und Entertainment AG, Zurich, Switzerland
Vice President of the Board of Directors of Rainbow Home Entertainment AG, Pratteln, Switzerland
Member of the Board of Trustees of T.E.A.M. Pension fund, Lucerne, Switzerland
Member of the Board of Directors of Highlight Event and Entertainment AG, Pratteln, Switzerland
Member of the Board of Directors of Highlight Event AG, Emmen, Switzerland

President of the Board of Directors of Escor Automaten AG, Düdingen, Switzerland
President of the Board of Directors of CBE Marmor & Handels AG, Ibach, Switzerland
Member of the Board of Directors of Comosa AG, Zurich, Switzerland
Member of the Board of Directors of FC Basel Holding AG, Basel, Switzerland
Member of the Management Board of FC Basel 1893 AG, Basel, Switzerland
Member of the Board of Directors of Stadiondienst AG, Basel, Switzerland
Member of the Board of Directors of Team Holding AG, Lucerne, Switzerland
Member of the Board of Directors of Team Football Marketing AG, Lucerne, Switzerland
Member of the Board of Directors of T.E.A.M. Television Event And Media Marketing AG, Lucerne, Switzerland
Member of the Board of Directors of Plazamedia Swiss AG, Pratteln, Switzerland; in liquidation

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. Apart from the election of the Chairman of the Board of Directors and the compensation committee by the Annual General Meeting, the Board of Directors constitutes itself. It appoints the Vice Chairman and the Secretary.

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. The composition of this committee was unchanged in the year under review.

At the Annual General Meeting on June 20, 2019, the members of the Board of Directors René Camenzind and Martin Hellstern were elected to the compensation committee to decide on matters concerning compensation for the Board of Directors and Group management.

3.4 Allocation of duties

Management and representative authorization are based on the law, decisions of the Board of Directors and entries in the commercial register.

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, 2019.

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 from 1994 to 2016, Delegate of the Board of Directors until 2011, Chairman and Delegate of the Board of Directors since 2011.

Peter von Büren, Member of the Board of Directors, CFO, Head of IT, Human Resources and Investor Relations
Swiss national, businessman, various management activities in the Highlight Group since 1994, a member of Group management since 1999, member of the Board of Directors since 2015.

Dr. Paul Graf, Managing Director, Head 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.

His functions were resumed as of September 1, 2018. These functions had temporarily been suspended after Dr. Graf was elected as the Chairman of the Supervisory Board of Sport1 Medien AG. Dr. Paul Graf will continue to serve as the Chairman of the Supervisory Board of Sport1 Medien AG.

4.1.2 TEAM (Sports- and Event-Marketing segment)

Jamie Graham, CEO
British national, Marketing Executive, 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 initially as Director Marketing and as CEO from 2012.

Simon Crouch, COO
British national, chartered accountant, 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; since then, he has worked at TEAM initially as Director Strategy and as Managing Director Marketing as well as COO from 2012.

Jan Werner, 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 the CFO at TEAM since then.

Tom Houseman, Managing Director Legal & Business Affairs
British national, lawyer, worked at ISL Worldwide AG, Lucerne, from 1990 to 2001 and at FIFA, Zurich, as Head of Legal Affairs and a member of the Management Board of FIFA Marketing until 2007, then at Wharf House Pte Ltd, Singapore, as Managing Director and Board Member, then at UFA Sports Asia Pte Ltd, Singapore, and, since March 2013, as Managing Director Legal & Business Affairs at TEAM.

Kerstin Lutz, Managing Director Sponsorship
Swiss national, master's degree in sports administration, International Project Manager at Octagon Birkholz + Jedlicki GmbH in Germany from 1997 to 2000, with TEAM since 2000, first as Marketing Manager, from 2004 to 2012 as Head of Account Management, from 2012 to 2015 as Director Sponsorship, and since 2015 as Managing Director Sponsorship.

Ian Warbrick, Director Sponsorship Sales
British national, postgraduate diploma from Cambridge University, Strategy Consultant at Accenture from 2001 to 2003, Sponsorship Director at Ogilvy Action from 2004 to 2007, then Head of Sponsorship Sales and since 2016 Director Sponsorship Sales at TEAM.

Thomas Höher, Director Media Rights Sales
German national, Sales Executive, worked for various companies in the telecommunications and banking sectors from 1999 to 2002, including VIAG Interkom (now O_2) and Consors AG, at Deutsche Telekom AG from 2002 to 2007, including as project manager for FIFA World Cup 2006 sponsorship for T-Mobile International AG, at TEAM in various positions since 2007 and as Director Media Rights Sales since October 2017.

Oliver Holland, Director of Business Affairs
British national, lawyer, legal consultant at Bird & Bird from 2001 to 2005, European Counsel at EA Sports from 2005 to 2007, Senior Legal Counsel at Sky Sports (UK) from 2007 to 2012, then at TEAM as Head of Legal and, from 2015 on, as Director of Business Affairs.

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 home entertainment since 1999, many years of management experience within the Highlight Group.

4.1.4 Constantin Film (Film segment)

Martin Moszkowicz, CEO
German national, producer and Managing Director since 1990, Board member since 1999, CEO since 2014, responsible for corporate governance and strategy, film production, global distribution, film purchasing, marketing and press relations, corporate communications and legal.

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

Franz Woodtli, Board member cinema and home entertainment
Swiss national, Board member cinema and home entertainment since 2004, responsible for home entertainment, distribution/sales and license sales in german-speaking territories.

Oliver Berben, Board member TV, entertainment and digital media
German national, Board member TV, entertainment and digital media since 2017, responsible for the development and production of all national and international productions for which no theatrical exploitation is planned.

4.1.5 Sport1 Medien AG (Sports segment)

Olaf G. Schröder, CEO
Olaf G. Schröder has been the CEO of Sport1 Medien AG (formerly Constantin Medien AG) since 2017. In this function, he coordinates Management Board policy and is responsible for

the strategic development of Sport1 Medien AG, M&A activities, communications, HR and the activities of Sport1 Medien's sports subsidiaries with Sport1 GmbH, MagicSports Media GmbH, Match IQ GmbH, PLAZAMEDIA GmbH, and LEITMOTIF Creators GmbH. He is also still the Chairman of the Management Board of Sport1 GmbH.

Dr. Matthias Kirschenhofer, Board member
Dr. Matthias Kirschenhofer was appointed to the Management Board of Sport1 Medien AG in 2017. In this function, his responsibilities include Legal, Compliance, Finance and Investor Relations. He is also a member of the management of Sport1 GmbH and Magic Sports Media GmbH, focusing on the marketing operations of both companies.

4.2 Further corporate activities and interests

None.

5. COMPENSATION, SHARES AND LOANS

Information on the compensation and shares of members of the Board of Directors and the management team as well as loans to these parties can be found in the "Remuneration report" section of this annual report.

The articles of incorporation of Highlight Communications AG take into account the statutory requirements and duties of the Annual General Meeting in the areas of corporate governance and remuneration.

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 135 and 163 of the Swiss Financial Market Infrastructure Act.

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 Highlight Communications 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 has been the auditor in charge again since fiscal year 2018.

8.2 Auditing fees

A sum of TCHF 210 was paid for auditing services of PricewaterhouseCoopers AG in fiscal year 2019. Additional fees of TCHF 58 were invoiced by PricewaterhouseCoopers AG for tax consulting relating to Highlight Communications 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.

Remuneration report

This remuneration report for fiscal year 2019 sets out the remuneration system and remuneration to members of the Board of Directors and the management team of Highlight Communications AG. The content and scope of the details comply with the regulations of the Ordinance Against Excessive Compensation in Stock-Exchange Companies (VegüV), passed by the Swiss Federal Council, which came into force on January 1, 2014, and the Corporate Governance Directive (RCGL) of the SIX Swiss Exchange. Remuneration is posted in accordance with the "accrual principle".

The remuneration report of March 31, 2020 of Highlight Communications AG for the fiscal year ending December 31, 2019 has been audited by the statutory auditor. The audit was limited to the disclosures in accordance with Art. 14 – 16 VegüV.

As part of implementation of VegüV, the compensation committee devised proposals for overall remuneration of the Board of Directors, the Chairman of the Board of Directors, the individual members of the Board of Directors, overall remuneration of the management team as well as the individual members of the management team and the members of the committees. The corresponding proposals were submitted by the compensation committee to the full Board of Directors for a resolution. In accordance with the articles of incorporation, the General Meeting once a year, usually at the ordinary Annual General Meeting, separately approves the maximum total amounts of fixed remuneration for the members of the Board of Directors and of the management team for the fiscal year following the Annual General Meeting and the maximum total amounts of variable remuneration of the members of the Board of Directors and of the management team for the past fiscal year. The company's articles of incorporation make a provision for members of the management team who are appointed after approval of the maximum total amount to be allowed to receive additional remuneration.

1. RESPONSIBILITIES AND AUTHORIZATIONS FOR REMUNERATION

The full Board of Directors is responsible for ensuring that the remuneration process is fair, transparent and monitored effectively. The chosen remuneration process is intended to provide adequate compensation for services rendered and a suitable incentive for the individual members of the Board of Directors and the management team, taking into account the longer-term interests of shareholders and the company's success.

The main tasks of the full Board of Directors are:

a. Determining the principles of the remuneration strategy
b. Determining the level and composition of overall remuneration for the Chairman of the Board of Directors
c. Determining the level and composition of individual overall remuneration for the Vice Chairman and the other members of the Board of Directors
d. Remuneration of committee members
e. Determining the level and composition of overall remuneration and individual remuneration for the Delegate as well as the individual members of the management team (see sections 2.1 and 2.1.1)

As two of four members of the Board of Directors were also members of the compensation committee, they implicitly performed the tasks mentioned in points a – e in the meetings of the Board of Directors in the year under review.

2. REMUNERATION TO MEMBERS OF THE BOARD OF DIRECTORS

2.1 Principles

The level of remuneration of the members of the Board of Directors is geared towards the role and degree of responsibility of the individual members.

Remuneration to the Board of Directors consists of the following elements:

- Directors' fee (paid as cash remuneration)
- Pension benefits

The remuneration structure ensures that the Board of Directors is focused on the long-term success of Highlight Communications AG and takes into account the workload and responsibility of the individual members of the Board of Directors.

With due consideration of the maximum amount approved by the Annual General Meeting, at the request of the compensation committee, the full Board of Directors usually decides on the level of the Directors' and committee's fees at its discretion once a year.

2.1.1 Directors' fee

The members of the Board of Directors of Highlight Communications AG receive fixed remuneration. The full Board of Directors determines the level of fixed remuneration at the request of the compensation committee. The level of remuneration is geared towards the role and degree of responsibility of the member of the Board of Directors. No attendance fees are paid to the members of the Board of Directors.

The Directors' fee also includes remuneration for work in the compensation committee, comprising the Directors René Camenzind and Martin Hellstern, and in the audit committee, comprising the Directors Bernhard Burgener (Chairman), René Camenzind and Martin Hellstern.

2.1.2 Pension benefits

Pension benefits consist of all contributions by the employer to old-age and risk insurance as well as employer's contributions for social security, the unemployment insurance and family compensation fund (AHV, ALV, FAK) and the accident and health insurances (BU, NBU and KTG).

2.2 Remuneration to the individual members of the Board of Directors

Fiscal year 2019

In 2019, the executive and non-executive members of the Board of Directors received overall remuneration of TCHF 124.8 (2018: TCHF 124.6). Compensation for the various activities at the subsidiaries is set out in section 3 "Remuneration to members of the management team".

audited

Total remuneration for the members of the Board of Directors for their work on the Board of Directors increased slightly by TCHF 0.2 compared to the previous year on account of pension benefits. The individual members of the Board of Directors received the following remuneration (in TCHF):

(TCHF) Name/role	Directors' fee, gross	Pension benefits	Total remuneration as member of the Board of Directors
Bernhard Burgener, Chairman and Delegate, executive member	10.0	0.6	10.6
Peter von Büren, executive member	10.0	0.6	10.6
René Camenzind, non-executive member	50.0	1.8	51.8
Martin Hellstern, non-executive member	50.0	1.8	51.8
Total	**120.0**	**4.8**	**124.8**

audited

Fiscal year 2018

(TCHF) Name/role	Directors' fee, gross	Pension benefits	Total remuneration as member of the Board of Directors
Bernhard Burgener, Chairman and Delegate, executive member	10.0	0.6	10.6
Peter von Büren, executive member	10.0	0.6	10.6
René Camenzind, non-executive member	50.0	1.7	51.7
Martin Hellstern, non-executive member	50.0	1.7	51.7
Total	**120.0**	**4.6**	**124.6**

No remuneration not in line with the market was granted to current or former members of the Board of Directors or related parties either in the year under review or in fiscal year 2018, and no such remuneration is outstanding.

3. REMUNERATION TO MEMBERS OF THE MANAGEMENT TEAM

3.1 Principles

The level of remuneration of the members of the management team is geared towards the role and degree of responsibility of the individual member, and consists of the following elements:

- Basic remuneration (paid as cash remuneration), including use of a company car for private and business purposes
- Variable remuneration (paid as cash remuneration)
- Indirect remuneration for activities at subsidiaries (paid as cash remuneration)
- Pension benefits

At the request of the compensation committee, the full Board of Directors usually decides on the level of overall compensation at its discretion once a year, taking account of the maximum amount approved by the Annual General Meeting, and also decides on variable remuneration and the underlying company-specific targets once a year.

3.1.1 Basic remuneration

The members of the management team (including the executive members of the Board of Directors) receive fixed remuneration in cash, which has been contractually agreed in the employment contract with due consideration of the role and degree of responsibility.

As a benefit in kind, all members of the management team have the option of using a company car for private and business purposes.

3.1.2 Variable remuneration

The members of the management team (including the executive members of the Board of Directors) also receive variable remuneration. The level of variable remuneration is based on the calculation of the average share price for each period from January 1 to October 31, multiplied by a numerator determined by the Board of Directors in accordance with performance and length of service. Variable remuneration is paid in cash with no resolution to the contrary by the Board of Directors. The remuneration is always paid in the fourth quarter of the reporting year.

At present, there are no stock, option or similar participation programs that give entitlement to (physical) subscription of shares in Highlight Communications AG.

3.1.3 Indirect remuneration for activities at subsidiaries

In addition to the fixed Directors' fee as described in section 2.1.1, various members of the Board of Directors and management team of Highlight Communications AG receive further remuneration for their activities on the Board of Directors or Supervisory Board and/or operating or advisory activities at (direct or indirect) subsidiaries of Highlight Communications AG. This essentially involves fixed basic remuneration, with the exception of remuneration for the Supervisory Board members of Constantin Film AG, where variable remuneration is possible.

3.1.4 Pension benefits

Pension benefits consist of all contributions by the employer to old-age and risk insurance as well as employer's contributions for social security, the unemployment insurance and family compensation fund (AHV, ALV, FAK) and the accident and health insurances (BU, NBU and KTG).

3.2 Overall remuneration to members of the management team in the year under review

Fiscal year 2019

In 2019, the three members of the management team (including executive members of the Board of Directors, BoD) received total remuneration of TCHF 3,193 (2018: TCHF 3,185). The total remuneration of the members of the management team thus increased slightly compared to the previous year.

audited

(TCHF) Name/role	Basic remu-neration, gross[1]	Variable remu-neration, gross	Indirect remuneration for activities at subsidiaries	Pension benefits	Total remuneration as a member of the manage-ment team	Total remu-neration as a member of the Board of Directors[2]	Total remu-neration
Bernhard Burgener, Chairman and Delegate of the BoD, executive member of the BoD (highest remuneration)	833	438	139	230	1,640	11	1,651
Peter von Büren, executive member of the BoD	375	273	25	113	786	11	797
Other member of the management team	318	225	100	101	745	-	745
Total	**1,526**	**936**	**264**	**444**	**3,171**	**22**	**3,193**

[1] *Basic remuneration also includes flat-rate expenses.*

[2] *Details of remuneration as a member of the Board of Directors are set out in section 2.*

audited

Fiscal year 2018

(TCHF) Name/role	Basic remu-neration, gross[1]	Variable remu-neration, gross	Indirect remuneration for activities at subsidiaries	Pension benefits	Total remuneration as a member of the manage-ment team	Total remu-neration as a member of the Board of Directors[2]	Total remu-neration
Bernhard Burgener, Chairman and Delegate of the BoD, executive member of the BoD (highest remuneration)	833	485	129	230	1,640	11	1,651
Peter von Büren, executive member of the BoD	375	301	17	113	786	11	797
Other member of the management team	318	250	12	101	745	–	745
Total	**1,526**	**1,036**	**158**	**444**	**3,171**	**22**	**3,193**

[1] *Basic remuneration also includes flat-rate expenses.*

[2] *Details on remuneration as a member of the Board of Directors are set out in section 2.*

No remuneration not in line with the market was granted to current or former members of the management team or related parties either in the year under review or in fiscal year 2018, and no such remuneration was outstanding.

4. ADVISORY BOARD

Highlight Communications AG did not have an Advisory Board in the year under review or in the previous year.

5. BENEFITS, CONTRACTUAL AGREEMENTS ON LEAVING HIGHLIGHT COMMUNICATIONS AG

No members of the Board of Directors or the management team have a contract with Highlight Communications AG that grants them severance pay on leaving Highlight Communications AG.

The employment contracts with members of the management team provide for notice periods of twelve months.

6. LOANS AND CREDITS TO EXECUTIVE BODIES

As of December 31, 2019 and December 31, 2018, there were no outstanding loans or credits granted by Highlight Communications AG to current or former members of the Board of Directors, the management team or related parties.

7. REMUNERATION TO RELATED PARTIES

7.1 Loans and credits to related parties on conditions not available on the market

As of December 31, 2019 and December 31, 2018, there were no outstanding loans or credits granted by Highlight Communications AG to related parties.

7.2 Other remuneration to related parties on conditions not available on the market

As of December 31, 2019 and December 31, 2018, the company had not paid any non-market-compliant remuneration to related parties.

8. REMUNERATION TO FORMER MEMBERS OF EXECUTIVE BODIES

In the reporting year, no compensation was paid to former members of executive bodies, nor is any such compensation outstanding.

9. MANAGEMENT CONTRACTS

There are no management contracts with third parties.

10. SHAREHOLDINGS IN HIGHLIGHT COMMUNICATIONS AG

As of December 31, 2018, the members of the Board of Directors and the management team (including related parties) held a total of 1.40% of the outstanding bearer shares in Highlight Communications AG (previous year: 1.40%).

The individual members of the Board of Directors and the management team (including related parties) held the following stakes in Highlight Communications AG:

	2019		2018	
	Number of shares	Share in capital	Number of shares	Share in capital
Bernhard Burgener	-	-	-	-
René Camenzind	628,715	1.00%	628,715	1.00%
Martin Hellstern	200,000	0.32%	200,000	0.32%
Peter von Büren	-	-	-	-
Dr. Paul Graf	50,000	0.08%	50,000	0.08%

Report of the statutory auditor

to the General Meeting of Highlight Communications AG

Pratteln

We have audited the accompanying remuneration report of Highlight Communications AG for the year ended 31 December 2019. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labeled 'audited' on pages 17 to 20 of the remuneration report.

Board of Directors’ responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor’s responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report of Highlight Communications AG for the year ended 31 December 2019 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Bruno Häfliger	Bastian Stolzenberg
Audit expert Auditor in charge	Audit expert

Luzern, 30 March 2020

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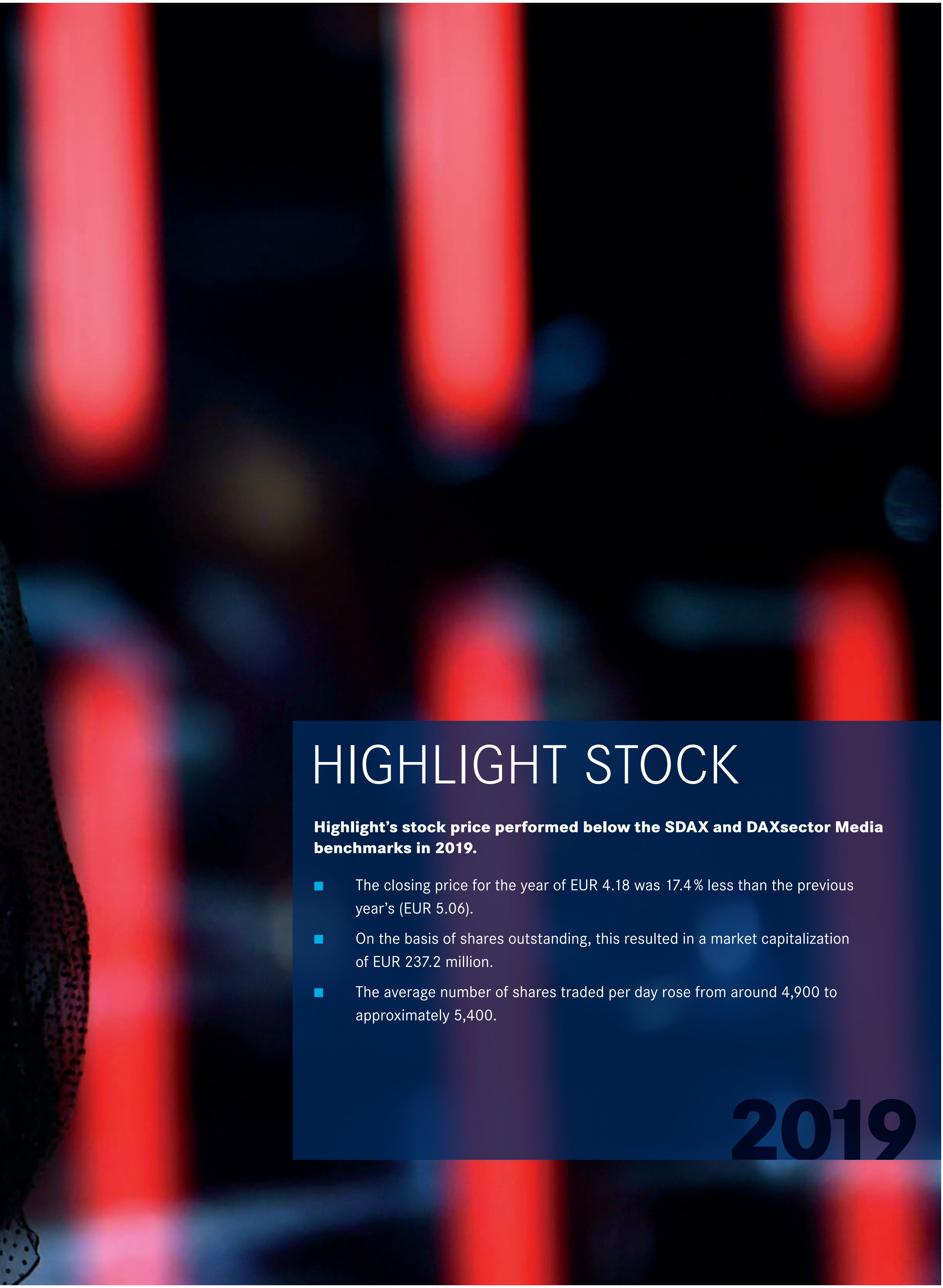
Award-winning blockbuster: The producer's award of the Bavarian Film Award 2020 went to Lena Schömann for the Constantin Film own production "Das perfekte Geheimnis."

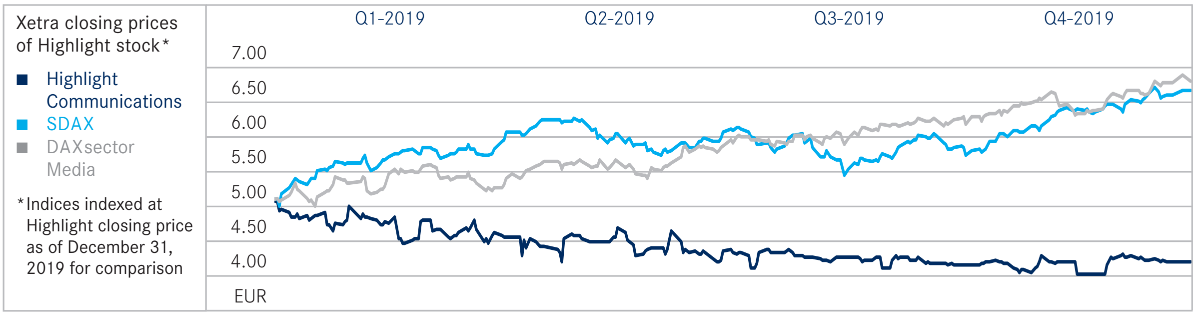


HIGHLIGHT STOCK

Highlight's stock price performed below the SDAX and DAXsector Media benchmarks in 2019.

- The closing price for the year of EUR 4.18 was 17.4 % less than the previous year's (EUR 5.06).
- On the basis of shares outstanding, this resulted in a market capitalization of EUR 237.2 million.
- The average number of shares traded per day rose from around 4,900 to approximately 5,400.

2019



Robust global stock markets

After the substantial sell-off on the global stock markets towards the end of 2018, many experts had a very critical outlook for 2019 and warned of further corrections. But contrary to these expectations, 2019 turned out to be a highly successful year for stocks. The ongoing trade conflict between the US and China and the unresolved Brexit situation, as well as a flagging economy and growing fears of recession, repeatedly caused downward price fluctuations in the past year, but 2019 was nonetheless a strong stock market year. The stock markets benefited from central banks' continued expansionary monetary policy and from positive company results. In the final weeks of the year, the partial agreement reached in the trade conflict between the US and China and improved economic data, among other factors, caused share prices to increase again.

Regardless of the not entirely easy fundamental environment in 2019, the US stock markets recorded strong growth, with the Dow Jones Industrial Average Index marking a new all-time high during the year. The index, which ended trading on December 31, 2019 at 28,538 points, posted a gain of 22.34 % over the course of the year. The Japanese Nikkei 225 index also developed very positively in the past year. After a decline of 12.5 % in the previous year, it closed 2019 with an increase of 18.2 % at 23,657 points. The Euro Stoxx 50 was quoting at 3,745 points on the last trading day, thus posting an increase of 24.8 % for 2019.

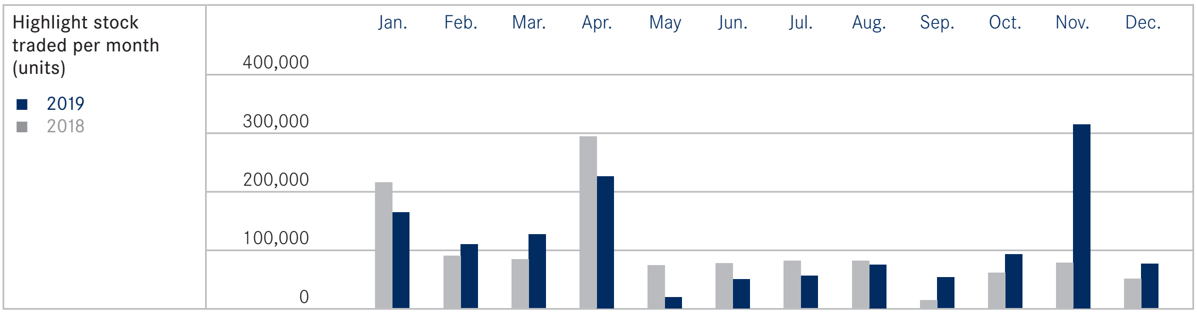
The Swiss Market Index (SMI) closed at 10,617 points on the last trading day. In the first few months of 2019, the index already made up for the previous year's losses before achieving a marked increase of 26 % in total over the course of the year.

The DAX closed 2019 at 13,249 points, representing an increase of 25.5 %. This was its biggest annual gain since 2013. In the same period, the SDAX small cap index even outperformed the DAX. On December 31, the SDAX ended trading at 12,512 points and thus closed the year with an increase of 31.6 %. The index for German media stocks (DAXsector Media) climbed to 414 points in the period from January to December 2019, thereby gaining 34.4 %.

Highlight stock underperforms

The price of Highlight stock recorded a downward trend in the past year before stabilizing at a level of around EUR 4.20 towards the end of the year. The Xetra closing price at the end of the year was EUR 4.18, representing a decrease of 17.4 % compared to the previous year. As such, Highlight's stock did not share in the positive performance of its SDAX and DAXsector Media benchmarks.

Highlight's stock had started 2019 at a closing price of EUR 5.06 as of December 31, 2018. After volatile trading in the first few weeks, the price of the stock at the end of January at EUR 4.99 almost matched the level from the start of the trading year. The following months were characterized by volatility in the stock, leading to a general downward movement. The price then oscillated within a range of EUR 4.86 to EUR 4.16. Highlight's stock ended the first half of 2019 with a loss of 14.62 % at EUR 4.32.



In the second half of the year, the price fluctuations settled down. However, a gradual downward trend could still be observed. During this period, the stock also reached its lowest closing price for the year at EUR 3.98 on November 19, though the price managed to recover from this significantly by the end of the year.

Trading volume up slightly on previous year

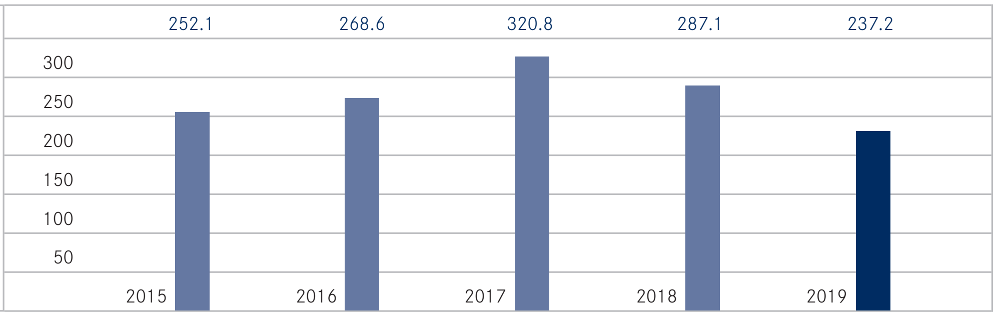
In the period from January to December 2019, around 1.35 million Highlight shares were traded on Deutsche Börse AG's Xetra trading system, an increase of 6.4 % as against the previous year (around 1.23 million). The average number of shares traded per day therefore rose from around 4,900 to approximately 5,400. In November in particular, the stock recorded an extremely strong trading volume of more than 300,000 shares.

No changes in shareholder structure

As of December 31, 2019, the subscribed capital of Highlight Communications AG was unchanged at CHF 63.0 million, divided into 63.0 million bearer shares with a nominal value of CHF 1.00 per share. The number of treasury shares remained unchanged in the 2019 reporting year. This corresponds to around 9.9 % of the subscribed capital. Not including these shares, there were 56.74 million shares outstanding as of December 31, 2019.

Our company's principal shareholders are still Highlight Event and Entertainment AG (45.18 %), Stella Finanz AG (13.81 %), and Axxion S.A. (9.89 %). Further significant share packages are held by members of the Board of Directors and by private investors. As of December 31, 2019, the free float amounted to 31.12 % as per Deutsche Börse AG's index weighting.

Development of Highlight's market capitalization based on shares outstanding (in EUR mn)



Investor relations activities characterized by active communication

One of the priorities of our investor relations work is to provide investors, analysts and the financial press with information that is as detailed and comprehensive as possible. The main basis for this is our promptly published annual and interim reports, which provide a precise insight into our company's current development. In addition, we inform capital market players about all significant events within the Highlight Group in the form of press releases and ad-hoc disclosures.

However, the core element of our investor relations work is still personal communication through active, open dialog. For this reason, we held presentations and roadshows at international financial centers such as the German Equity Forum in Frankfurt – the most important investor's fair in Europe for small and medium sized stock corporations. We were represented there from November 26 – 27, 2019 and answered questions from capital market participants. Our declared objective with this form of public relations activity is both to achieve a fair valuation of Highlight's stock and to persuade potential shareholders of the lasting value of an investment in our company.

Besides direct communication, our website (www.highlight-communications.ch) is the main information tool for all interested parties. It provides all relevant facts about the history and current development of the Highlight Group in a clear form. To ensure equal treatment of all market participants, new documents and information are always published promptly on this medium. In addition to annual and interim reports, press releases and ad-hoc disclosures, this primarily relates to transactions with treasury shares. The dates for the most important events and publications have been clearly compiled in our financial calendar.

Information on Highlight stock as of December 31, 2019

Subscribed capital	CHF 63.0 million
Number of shares	63,000,000
Stock class	Ordinary bearer shares
Shares outstanding	56.74 million
Market capitalization (based on shares outstanding)	EUR 237.2 million
Year-end price	EUR 4.18
52-week high (January 2)	EUR 5.04
52-week low (November 18)	EUR 3.98
Earnings per share	EUR 0.40

Key data for Highlight stock

WKN	920 299
ISIN	CH 000 653 9198
Ticker	HLG
Reuters identification code	HLGZ.DE
Index	DAXsector Media
Trading venues	Berlin, Düsseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart, Xetra

REPORT ON THE HIGHLIGHT GROUP'S SITUATION

The business performance of the Highlight Group was overall satisfactory in 2019.

- At CHF 486.8 million, consolidated sales were below previous year's level of CHF 531.6 million due to one-off effects. Without these effects, consolidated sales would have amounted to around CHF 526 million.
- EBIT declined by 7.5% to CHF 29.5 million.
- At CHF 25.2 million, the consolidated net profit attributable to shareholders exceeded the forecast range of CHF 20–22 million.
- Earnings per share up on the previous year, at CHF 0.44 (2018: CHF 0.32).
- The equity ratio declined by 6 percentage points to 29.3%.

2019


Coveted award: Elyas M'Barek accepted the Bambi Media Award for "Das perfekte Geheimnis" as the best film of 2019.

By far the most successful German theatrical movie of 2019: “Das perfekte Geheimnis”

BASIC INFORMATION ON THE GROUP

GROUP STRUCTURE AND OPERATING ACTIVITIES

Highlight Communications AG, listed on the Frankfurt stock exchange since May 1999, is an internationally oriented strategic and financial holding company based in Pratteln near Basel. It operates through its subsidiaries in the Film, Sports- and Event-Marketing and Sports segments.

Film segment

In its Film segment, Highlight Communications AG wholly owns Constantin Film AG, Munich, which, together with its German and foreign subsidiaries, is Germany’s leading producer and exploiter of productions in the entire fictional and non-fictional audiovisual sector. Its activities comprise the development, production and exploitation of the rights to the movies it produces and acquires. Self-produced theatrical movies are marketed both in Germany and worldwide, while third-party productions are exploited mainly in German-speaking countries. All stages of the exploitation chain from theatrical distribution and home entertainment releases down to TV broadcasting are fully utilized in exploitation. In addition to theatrical movies, the Constantin Film Group produces fictional and non-fictional products for national and international exploiters, including conventional TV broadcasters and streaming services.

Highlight Communications AG operates its own distribution organizations to best exploit its home entertainment rights for in-house and licensed films. Rights are distributed in Switzerland by Rainbow Home Entertainment AG, which is wholly owned by the company. On the German market, digital distribution is handled by Highlight Communications (Deutschland) GmbH, while physical products are distributed in cooperation with Paramount Home Entertainment/Universal Home Entertainment.

The main sources of income in the Film segment result from the exploitation of the rights to the films it produces and acquires across all stages of the exploitation chain and from production orders for TV broadcasters and other exploiters in the audiovisual sector. Further income is generated from national and international film grants. The main expense items consist of acquisition and exploitation rights for screenplays and source material, production costs, as well as release and promotion expenses for the individual films (marketing and copies).

Sports- and Event-Marketing segment

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 (UEFA).

The main source of income in the Sports- and Event-Marketing segment is the agency commission associated with the marketing of TV and sponsorship rights, while personnel expenses account for the largest share of expenses.

Sports segment

The Sports segment comprises the activities of Sport1 Medien AG (until December 31, 2019: Constantin Medien AG), Ismaning, which is 94.18% owned by Highlight Communications AG.

The main sources of income in the sports segment are advertising and sponsorship sales in the free TV and digital areas, and, in pay TV, contractually agreed guarantee payments and subscription-based feed-in agreements in particular. In production, marketing, and consulting operations, this includes long-term production framework agreements and agreements with partners and customers in addition to corresponding distribution agreements in the new digital business areas. The main expense items consist of costs for license rights, production and distribution costs, staff costs, and costs of office space.

CONTROL SYSTEM AND PERFORMANCE INDICATORS

Group management

Highlight Communications AG's Board of Directors is responsible for the strategic orientation and management of the Highlight Group. By contrast, responsibility for operating activities lies with the management body of the relevant subsidiary. At Constantin Film AG, this body is the Management Board, which consists of four members, at Team Holding AG it is the Board of Directors, which is also made up of four people, and at Sport1 Medien AG it is the two-member Management Board. Management of all activities within the Highlight Group is based on short-term and medium-term planning and on regular reporting.

Financial performance indicators

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 EBIT and the EBIT margin calculated as the ratio of EBIT to sales. Another key parameter is earnings per share.

The most watched big-screen adaptation of the Rita Falk series to date: "Leberkäsjunkie"

Non-financial performance indicators

The economic performance of the Group is also influenced by non-financial performance indicators, which result from the specific requirements of the respective business model in the individual segments:

- In theatrical distribution, the audience generated by a film is one of the key factors, as theatrical success usually also affects the subsequent stages of exploitation, particularly in the home entertainment area.
- In home entertainment business, the results generated from digital distribution and the sale of DVDs and Blu-rays is a performance indicator for the success of the Highlight Group.
- In license trading/TV exploitation and service production for TV broadcasters and streaming providers, ratings, market share, and viewing figures are key parameters for the success of a broadcast format with the public. These figures are often the basis for future commissioning decisions by customers of the Constantin Film Group.
- The Constantin Film Group is exposed to strong competition with regard to the purchase of rights to literary works and screenplays, and for contracts with successful directors, actors, and film studios. It therefore has decades of experience working closely with renowned and experienced screenwriters, directors, and producers with extensive expertise in producing theatrical movies and TV formats at home and abroad, and attempts to secure them with appropriate contracts.
- Technical and content-related expertise are crucial factors, not only in view of the increasingly digital and convergent media use of cross-platform offerings. Accordingly, the recruitment, fostering, and retention of well-trained, skilled, committed, and creative employees are of great importance. Other major indicators for the success of the Highlight Group are a highly-developed network of contacts in addition to close, trusting relationships with business partners.
- In the Sports- and Event-Marketing segment, trusting business relationships with rights-holders as well as existing and potential sponsors are crucial to the marketing of international major sports events. The same applies to persistently high ratings to be achieved by TV broadcasting.
- Access to and the availability of attractive sports rights are extremely important to the various platforms of the Sports segment. In free TV, these rights are essential to the ability to maintain and increase market share, as indicated by daily ratings. By contrast, a key performance indicator in pay TV is the number of subscribers.
- Success in the online and mobile sector is measured on the basis of visits and page impressions (PIs), while the success of the video platform is measured by video views.



LEGAL INFLUENCING FACTORS

Highlight Communications AG must comply with a large number of stock market rules and statutory regulations. As a stock corporation under Swiss law, it follows the Codes of Best Practice of the SIX Swiss Exchange and the regulations of the Frankfurt stock exchange for the regulated market (Prime Standard). The operating activities of the Highlight subsidiaries and equity interests are carried out in accordance with a large number of media, data protection, copyright, and regulatory requirements.

Film segment

In the Film segment, the Highlight Group is also subject to statutory regulations with particular significance. These include the regulations of the Copyright Protection Act. Furthermore, it must comply with the German Youth Protection Act, which regulates the commitment to age classifications for movies and video films in association with the FSF – a German organization for the voluntary self-regulation of television.

The scheduled revision of the German Film Subsidies Act (FFG), which regulates the main criteria for awarding film subsidies, is currently pending.

Sports segment

Defining legal influencing factors for the free TV broadcaster SPORT1 and the pay TV broadcasters SPORT1+ and eSPORTS1, not to mention the Internet TV programming of the sports segment, are the German Interstate Broadcasting Treaty and the state media laws, compliance with which is monitored by the respective media institutions of the German federal states. SPORT1, SPORT1+, eSPORTS1, and SPORT1 Livestream are under the responsibility of the Bavarian Regulatory Authority for New Media (BLM).

The German Interstate Broadcasting Treaty contains various regulatory requirements regarding the placement of advertising.

As a private broadcaster, the SPORT1 MEDIEN Group is also subject to the provisions of the German Interstate Treaty on the Protection of Children and Young People. This stipulates that care must be taken to ensure that children and young people are not exposed to content likely to impair their development as a responsible and socially competent person.

More than a million viewers: "After Passion"

MARKET RESEARCH AND DEVELOPMENT

Both nationally and internationally, the collection and analysis of market data in the areas of audience, user, and customer research is important to the development and enhancement of the business areas in which the Group operates so that trends in the respective industry segments and changes in patterns of consumer behavior can be anticipated or responded to quickly. Furthermore, the data and findings obtained are used by the companies of the Highlight Group to provide customers, business partners, and the advertising industry with authoritative and sound information for assessing their investment decisions.

In-house productions in the Film segment partially undergo an audience test in the form of screenings. Awareness figures are also collected for current theatrical releases, partly in order to assess the effect of marketing activities for the film in question and optimize these if necessary.

In addition to these purely quantitative performance measures, qualitative data – relating to research of advertising effectiveness, for example – is also an important basis for assessing, classifying, and aligning the production, exploitation, and marketing activities within the various segments. Wide-ranging studies and research work on the development of the media industry are also used here, as are surveys, screenings, and audience tests relating to the Group's products. The level of market acceptance of elaborate source material is tested even prior to their respective production.

ECONOMIC REPORT

GENERAL ECONOMIC ENVIRONMENT

According to the calculations published by the International Monetary Fund (IMF) in January 2020, the growth of the world economy fell short of the previous year's level in 2019 at 2.9% – the weakest growth figure in a decade. Global economic uncertainty is the main reason given for this. The dominant issue in 2019 was the trade conflict between the world's two biggest economies, the US and China. There was also a rising level of geopolitical conflict, such as that between the US and Iran, and weather-related natural disasters, not to mention negative developments from some emerging markets, such as India. By contrast, the loose monetary policy of leading central banks had a positive effect on the economy.

For emerging and developing countries, these factors resulted in growth of 3.7%, lower than in the previous year (4.5%). On the other hand, the economies of the industrialized nations reported only a slightly lower reduction in growth to 1.7% after 2.3% in the previous year. The strongest increase was reported by the Japanese economy, which expanded by 1.0% in 2019 (2018: 0.3%) thanks in particular to higher investment and growth in private consumer spending. By contrast, the US economy failed to repeat the growth rate of 2.3% reported in 2018. The IMF calculated an increase of 1.2% for the euro area – a further deterioration compared to the previous year (1.3%).

Switzerland was also affected by the slowdown of the global economy in 2019. According to projections published by the State Secretariat for Economic Affairs (SECO) published in mid-December 2019, growth in gross domestic product (GDP) fell to just 0.9% in the past year after a strong increase

of 2.8 % in 2018. This was mainly on account of a downbeat domestic economy and the resulting corporate restraint in equipment investment as well as a decline in the otherwise strong foreign trade sector, which was slowed by weaker stimulus from international demand and the appreciation of the Swiss franc. Private consumer spending remained stable with an increase of 1.0 %.

According to calculations published by the German Federal Statistical Office (Destatis), the German economy grew by just 0.6 % in 2019 (2018: 1.5 %). The economy was primarily held back by significantly lower growth in the export sector, which was rocked by the ongoing trade conflicts and Brexit, not to mentions problems in the automotive industry that is so vital to Germany. Growth stimulus was mainly generated by private consumer spending (up 1.6 %), the construction industry (up 3.8 %), and government spending, which includes social benefits and employee wages.

Unlike in the previous year, the ongoing decline in industrial activity stifled overall economic momentum in Austria. However, domestic demand was able to stabilize GDP growth. Private consumer spending climbed slightly by 1.5 % as against the previous year (1.1 %), and gross fixed capital formation remained at a relatively high level of 3.1 %. According to provisional calculations, the Austrian Institute of Economic Research (WIFO) is forecasting GDP growth of 1.6 % in 2019.

MEDIA AND ENTERTAINMENT MARKET ENVIRONMENT IN GERMANY

The development of the media and entertainment industry in Germany is closely linked to that of the economy as a whole. However, companies generally respond to economic changes in their spending on advertising more directly and more promptly than consumers. Overall, the market in Germany is characterized by moderate yet steady and long-term growth. The current drivers are still the increasingly widespread use of digital devices such as smartphones and tablets, and the expansion of broadband technologies and infrastructure.

Audit company PricewaterhouseCoopers (PwC) forecast sales growth of 2.0 % to around EUR 54 billion for the media and entertainment industry as a whole in Germany for 2019. On the basis of final figures, there was a moderately lower increase of 1.0 % in the previous year.

The growth of the market as a whole was primarily driven by digital media content and industry newcomers. The rate of growth for digital segments was 9.6 % in total, while analog sales declined slightly to -1.0 %. For example, the e-sports segment put up strong increases of 26.5 %, and online advertising and video games likewise enjoyed strong expansion of 6.8 % and 6.9 % respectively, while the traditional segments were in decline, significantly so in some cases (linear TV advertising: down 2.0 %; television: down 1.4 %; newspapers: down 1.2 %).

By contrast, there is compelling growth potential on the German production market. This primarily results from substantial production budgets that streaming services want, and are required, to invest. In particular, this is on account of the EU Audiovisual Media Services Directive that was adopted in November 2018 and requires streaming platforms to have a minimum share of 30 % European content.

Successfully defending its title: With "Leberkäsjunkie," the Bavarian Film Awards' audience award was won – as in the previous year – by a Rita Falk adaptation.

Management report: Film segment

Report on business performance and the situation

2019

Bestseller adaptation with an all-star cast: "Der Fall Collini"

INDUSTRY CONDITIONS

Theatrical distribution

At around EUR 1.02 billion, sales on the German theatrical movie market was up approximately 13.9 % year-on-year in 2019 (2018: around EUR 899.3 million). Audience figures rose by approximately 12.6 % to around 118.6 million (2018: around 105.4 million). The market share of German in-house and co-productions was slightly lower than in the previous year at 21.5 % (2018: 23.5 %).

Of all the movies released in Germany in 2019, 25 drew an audience of more than a million people (including previews). The most successful theatrical releases in 2019 were: "Frozen 2" with an audience of around 5.7 million, followed by "The Lion King" (around 5.6 million), "Avengers: Endgame" (around 5.1 million), "Das perfekte Geheimnis" (around 4.6 million), and "Joker" (around 4.1 million).

Home entertainment

On the German home entertainment market as a whole, the rising trend in SVoD (subscription video-on-demand) business continued in the past year with sales of EUR 1.187 billion, an increase of 37 % as against the previous year (EUR 865 billion). Digital exploitation formats (electronic sell-through and transactional video-on-demand) also continued their growth. Sales here rose by 16 % from EUR 0.336 billion to EUR 0.390 billion.

By contrast, the decline in physical media is continuing, with sales down 15 % last year at EUR 0.702 billion (previous year EUR 0.834 billion). Including digital proceeds, sales came to EUR 1.092 billion in 2019, down 7 % on the previous year's figure (EUR 1.169 billion). This decrease primarily resulted from falling sales volumes for purchases and rentals of physical media (DVD and Blu-ray).

The growth in sales from SVoD compensated for the decline in physical media in the reporting year, resulting in a 12 % increase for the market as a whole (2018: EUR 2.034 billion; 2019: EUR 2.279 billion).

OPERATIONAL DEVELOPMENT

Twelve theatrical movies in production

A total of twelve in-house and co-productions were undertaken in the period from January to December 2019. In particular, the hit production "Das perfekte Geheimnis" – another Bora Dagtekin movie – (featuring Elyas M'Barek, Florian David Fitz, Frederick Lau, Wotan Wilke Möhring, Karoline Herfurth, Jella Haase, Jessica Schwarz) was shot and released. Nationally, there was also filming on "Stasikomödie" by Leander Haußmann and "Kaiserschmarrndrama" (already the seventh installment in the series of extremely successful big-screen adaptations of Rita Falk novels).

Filming likewise began on a new Sönke Wortmann production, a comedy called "Contra," starring Christoph Maria Herbst, Nilam Farooq, and Hassan Akkouch.

The popular "Ostwind" franchise continued with "Ostwind – Der große Orkan."

Other movies to begin shooting included the international productions "Wrong Turn: The Foundation" (a horror) and "Black Beauty."

Successful new installment in the youth adventure series: "Ostwind – Aris Ankunft"

Strong theatrical distribution performance for Constantin two movies

The Constantin Film Group released 14 movies in German theaters in 2019 (13 secured releases had originally been planned). Its slate comprised eight in-house/co-productions and six licensed titles (including "A Dog's Journey").

In particular, good audience figures were achieved by the in-house production "Das perfekte Geheimnis," the licensed production "After Passion," and the co-production "Leberkäsjunkie." The four most successful German features released in theaters in 2019 were distributed by Constantin.

"Der Vorname" performs well in digital and physical sectors

As expected, market share in the home entertainment sector did not quite match the previous year's level – because "Fack Ju Göhte 3" came out in 2018. Thanks to a balanced portfolio, which included theatrical hits such as "After Passion," "Der Fall Collini" and "Ostwind – Aris Ankunft," German movies held on to their strong position on the home entertainment market. Consistently strong catalog business also contributed to this success.

Major license launches in TV exploitation/license trading

Various license sales of in-house and third-party productions again took place in 2019. As in the previous year, the conventional exploitation stages of free TV and pay TV/pay-per-view (PPV), and in some cases streaming services (SVoD) as well, accounted for most of the transactions relevant to sales in this business area.

In free TV, sales was generated by the initial licenses for "The BFG" (Pro7), "Office Christmas Party" (Pro7), and "The Girl on the Train" (Pro7). In the pay TV sector, there were also the initial licenses for "Fack Ju Göhte 3" (Sky) and "Dieses bescheuerte Herz" (Sky).

Further expansion of service production (TV channels and streaming providers)

The establishment and expansion of the business area for productions not intended for primary theatrical exploitation continued successfully in 2019. National highlights include the second season of "Die Heiland – Wir sind Anwalt" (ARD), "We Are the Wave" (Netflix), and "Der Feind – Recht oder Gerechtigkeit" based on the novel by Ferdinand von Schirach (ARD). Moreover, TV movies such as "Frankentatort" (BR), "Kranke Geschäfte" (ZDF), "Das Unwort" (ZDF), sequels to "Kroatien-Krimi" (ARD), and further episodes of the soap opera "Dahoam is Dahoam" (BR) were also produced.

In non-fiction entertainment, further episodes were produced of the formats "Genial daneben" (SAT.1) and "Shopping Queen" (VOX), in addition to the new show "Chris Tall Presents" (Amazon).

Very high TV market share: “Mein Freund, das Ekel”

ANALYSIS OF NON-FINANCIAL PERFORMANCE INDICATORS

Focus on long-term collaboration

The size of the theatrical movie market is primarily defined by the commercial qualities of the movies released each year. The movies that the Constantin Film Group presented to audiences in the past fiscal year were worked on by numerous producers with creative control, a large number of executive producers and many filmmakers, writers, directors, and actors, some of whom have agreed to work with Constantin for some time to come.

Three movies seen by more than a million in theatrical distribution

Several Constantin movies were seen by more than a million people in German theaters in 2019. These included two Constantin Film Group in-house and co-productions: “Das perfekte Geheimnis” (seen by around 4.6 million moviegoers) and the sixth installment in the series of Eberhofer crime comedies “Leberkäsjunkie” (around 1.2 million), plus the licensed production “After Passion” (around 1 million).

On the basis of these successes, the Constantin Film group placed fifth in Germany in terms of distributor sales; in terms of audience numbers, it even just beat out Sony International to take fourth place.

Two new releases report good sales figures in home entertainment

Of the past year’s new releases, in particular the two Constantin Film in-house productions “Der Vorname” and “Der Fall Collini,” and the international production “After Passion” lived up to sales expectations. “Der Vorname” was a major hit with 257,000 video-on-demand and electronic sell-through transactions and 125,000 discs sold. “After Passion” was the top-performing licensed production with 196,000 video-on-demand and electronic sell-through transactions and 137,000 discs played. “Der Fall Collini” turned in an impressive performance in digital distribution with 139,000 video-on-demand and electronic sell-through transactions.


Historical emigré epic: "The Master Butchers Singing Club"

TV exploitation still at good level

In TV exploitation/license trading, premiere broadcasts of Constantin Film theatrical productions in particular again achieved good ratings on free TV in 2019. The biggest hit with audiences was the Rita Falk crime comedy "Sauerkrautkoma" (ARD; 18.3 % share of the overall market).

Strong ratings for TV service productions

Above all, the broadcast of the ZDF comedy "Mein Freund, das Ekel" starring Dieter Hallervorden had top ratings with a 25.5 % share of the overall market. The ARD-Degeto two-parter "The Master Butchers Singing Club," directed by Uli Edel, was seen by 16.8 % of the overall market. The spy thriller "Wendezeit" (ARD) was also particularly successful among viewers with a 15.1 % share of the overall market.

Europe's best team: After its triumph in the 2019 UEFA Champions League finals, Liverpool FC also won the UEFA Super Cup.

Management report: Sports- and Event-Marketing segment

Report on business performance and the situation

Top-flight European football in three UEFA formats: Champions League, Europa League, and Super Cup

INDUSTRY CONDITIONS

In December 2019, the media planning and purchasing company ZenithOptimedia predicted that global advertising expenditure would grow by 4.3 % to around USD 667 billion in 2020. This forecast is quite conservative given the Summer Olympics that will be held this year and UEFA Euro 2020. ZenithOptimedia is forecasting growth of 4.5 % in 2021 and 2022. Advertising expenditure is not expected to match the growth of the global economy in this forecast period.

Key areas

Following the successful finalization of the business plan for the 2021/22 to 2023/24 rights cycle, the TEAM group is now focusing on marketing the rights to potential media, sponsorship and licensing partners. This requires a tendering process on various markets on the media side, while for sponsors and licensees it involves the extension of existing contracts or the acquisition of new ones. The TEAM Group maintains very close relationships with established TV broadcasters, sponsors, and licensees around the world in this distribution phase.

OPERATIONAL DEVELOPMENT

Finalization of business plan and start of sales

The TEAM group successfully completed the development of commercial concepts and rights packages for the 2021/22 to 2023/24 cycle of the UEFA Champions League, the UEFA Europa League, and the new UEFA European Conference League in the reporting year. As a result, TEAM was able to start selling the commercial rights in the second half of the year. TEAM experienced a strong start to its sales operations on both the media and the sponsorship sides, closing several key deals early on. The media deal with British Telecom (BT) was the largest in TEAM's history.



Successful implementation of knockout phase and final round

Operations in the first half of the year continued to focus on the successful integration of new business partners (media, sponsorship, and licensing) and on assisting UEFA in the first knockout phase for the 2018/19 to 2020/21 rights cycle. A further priority was the active support of commercial partners and UEFA in the handling of the UEFA, UEFA Europa League, and UEFA Super Cups finals.

In the final of the UEFA Europa League, Arsenal FC met Chelsea FC in Baku on May 29. This was followed by the UEFA Champions League final between Tottenham Hotspur and Liverpool FC in Madrid on June 1. The winners of these two matches (Chelsea FC and Liverpool FC) then faced off for the UEFA Super Cup in Istanbul on August 14.

ANALYSIS OF NON-FINANCIAL PERFORMANCE INDICATORS

UEFA Champions League dominates social media, while UEFA Europa League final repeats last year’s audience numbers

The official social media accounts of the UEFA Champions League experienced a strong surge in followers, especially on Instagram. Follower numbers on the popular social media platform climbed by 81 % from 17.5 million in the previous year to almost 32 million.

As expected, viewer figures were down for the first final of the 2018/19 to 2020/21 rights cycle as a result of the switch to pay TV on several key markets. The final of the UEFA Champions League was broadcast in more than 200 countries and seen by over 91 million TV viewers on average – down by 43 % on the previous year’s final.

Average viewer figures for the UEFA Europa League final, which was broadcast in over 100 countries worldwide, was more 50 million, matching the figures for 2018. The UEFA Super Cup was broadcast in more than 50 markets and was seen by an audience of around 20 million.

Top-class beach volleyball: The Canadian duo Melissa Humana-Paredes and Sarah Pavan took home the title in the 2019 World Championships in Hamburg.

Management report: Sports segment

Report on business performance and the situation

2019

Full venues and enthusiastic spectators: the easyCredit Basketball Bundesliga

INDUSTRY CONDITIONS

According to the measurement and data analysis company Nielsen Holdings, the total German gross advertising market grew only marginally by 1.9 % year-on-year to EUR 32.6 billion in 2019. The strongest growth was again achieved in advertising on mobile devices, where gross advertising expenditure rose by 24.2 % to EUR 1.2 billion, while desktop advertising increased by only 1.6 % as against the previous year to EUR 2.6 billion. According to Nielsen, gross television advertising expenditure amounted to around EUR 15.6 billion in 2019, corresponding to growth of 0.6 % compared to 2018. In print media, all three segments reported a drop in gross advertising expenditure in 2019 compared to 2018.

In production, major live sports events still offer an ideal opportunity for the use of innovative technologies. Interest again focused on the ongoing development and distribution of high-resolution technologies such as 4K, 8K, and HDR in 2019. Consumer demand for sporting events, movies, TV shows and other content in UHD quality is growing in line with the increasingly widespread proliferation of UHD TVs in Germany. Established streaming and pay TV providers especially are gradually expanding their UHD content libraries, while linear TV broadcasters are still being more reticent.

OPERATIONAL DEVELOPMENT

In 2019, SPORT1 continued to focus on optimizing its portfolio of rights, improving and creating new digital content and marketing environments in addition to cross-platform content exploitation, networking, and capitalization.

Acquisition of new top rights

In 2019, Sport1 GmbH acquired further attractive rights and launched new formats for its free and pay TV, online, mobile, audio, and social media channels, including football, volleyball, beach volleyball, handball, and motorsports as well as highlight rights to DTM and American football.

DFB Cup premieres on SPORT1

On August 9, 2019, SPORT1 showed the DFB Cup with the game KFC Uerdingen against Borussia Dortmund for the first time in its history – and as the first private free TV broadcaster. There was also extensive reporting before and after the match in addition to highlights from other matches in the new “DFB Cup Pur” format. The match between VfL Bochum and FC Bayern Munich was broadcast live on October 29.

New broadcaster eSPORTS1 launched

eSPORTS1 was launched as the first e-sports station in the German-speaking region on January 24, 2019. Its line-up includes at least 1,200 live hours of top international and national events each year, as well as highlight programs and self-produced magazine shows. Since its launch, eSPORTS1 has been available on the platforms of Vodafone Deutschland, Telekom, Unitymedia, 1&1, T-Mobile Austria, A1 Telekom, UPC Schweiz, and Zattoo, and on the new eSPORTS1 app. Sky and Waipu.tv have since also come on board as distribution partners.

SPORT1 podcast family created

SPORT1 launched its new podcast family in September 2019. This already comprised nine formats by the end of the year, which are available on the usual streaming platforms Spotify, Apple Podcasts, Deezer, and Podigee.

Excitement guaranteed: the Women's Volleyball Bundesliga

Integration of marketing and new advertising/sponsorship partnerships

In December 2019, the marketing unit, previously attached to Sport1 Media GmbH, was integrated into Sport1 GmbH to further optimize synergies between product and marketing. In its marketing activities, the SPORT1 business units signed up advertising customers including ŠKODA and LIQUI MOLY for the 2019 IIHF Ice Hockey World Championship, and Volkswagen, ERGO Group, and bwin for the DFB Cup, as well as bwin, ELTEN, heycar, Maschinensucher, McDart, and URSAPHARM for the World Darts Championship.

For the 2019/20 Bundesliga season, the corresponding environments were marketed to renowned partners such as CHECK24, Clausthaler Alkoholfrei, SCHÖNER WOHNEN, O_2, Hankook, and Tipico. For the 2019/20 easyCredit Basketball Bundesliga, they were again marketed to Mitsubishi Motors. SPORT1 Business also expanded its partnership with Telefónica Deutschland: The highlights magazine show "Bundesliga Pur – Lunchtime" has been broadcast from Germany's highest TV studio in Munich's O_2 Tower every Sunday since the start of 2019.

Establishment of new and expansion of existing customer relationships in production

In the studio production sector, PLAZAMEDIA signed well-known new customers in 2019: Telekom Deutschland GmbH awarded PLAZAMEDIA the contract to produce and provide the sports channels MyTeam TV-Fussball, MyTeam TV-Basketball, and MyTeam TV-Ice Hockey as part of Telekom's MagentaSport programming. The contract runs for four years and includes the in-house production of all of the more than 1,200 matches on these linear TV channels.

PLAZAMEDIA was also signed by ProSiebenSat.1 Sports GmbH to produce a weekly live broadcast of the Virtual Bundesliga: Club Championship for the 2019/20 season on ProSieben MAXX.

Moreover, PLAZAMEDIA was again commissioned by Bayerischer Rundfunk to produce the "Ringlstetter" talk show and by FIBA Media to continue producing the Basketball Champions League (BCL).

Now in its fourth season overall, the 2019/2020 season, PLAZAMEDIA is in charge of producing the international world feed for all home matches of German clubs with integrated on-air graphics and a feed from the main camera including the shot clock.

ANALYSIS OF NON-FINANCIAL PERFORMANCE INDICATORS

Free TV market share slightly below previous year's high level

The free TV broadcaster SPORT1 was available in 31.87 million (2018: 32.72 million) of all reachable households in Germany in 2019 (82.2 %; 2018: 84.4 %) – and therefore almost nationwide. It achieved a market share of 0.7 % among viewers aged three and over (2018: 0.7 %) and 1.1 % in the core target group of men aged 14 to 59 (2018: 1.2 %).

Ratings highlights included football with a number of attractive live matches and well-known formats such as "Der CHECK24 Doppelpass," "Fantalk," "SPORT1 News," "Bundesliga Pur," and other highlight round-ups of national and international football. "Der CHECK24 Doppelpass" was a hit with audiences once again: On average, it was watched by 950,000 viewers over the age of three in the 2018/2019 season – a market share of 7.2 % (over the age of three) and 11.6 % in the core target group of men between 14 and 59. SPORT1 also achieved top ratings in the past year with the Ice Hockey World Championship, the final of the Champions Hockey League with EHC Red Bull München, and, in addition to the World Darts Championship, Darts World Matchplay, and the Grand Slam of Darts as well.

Fast-paced games with thrilling one-on-ones: the international women's handball matches

Pay TV distribution still at high level

The pay TV broadcaster SPORT1+ had around 2.43 million subscribers in total as of December 31, 2019 (December 31, 2018: 2.17 million). eSPORTS1 had around 1.11 million subscribers as of December 31, 2019. It replaced the pay TV SPORT1 US on January 24, 2019, since when US sports content has been broadcast on SPORT1+.

Ongoing shift in content use from online to mobile

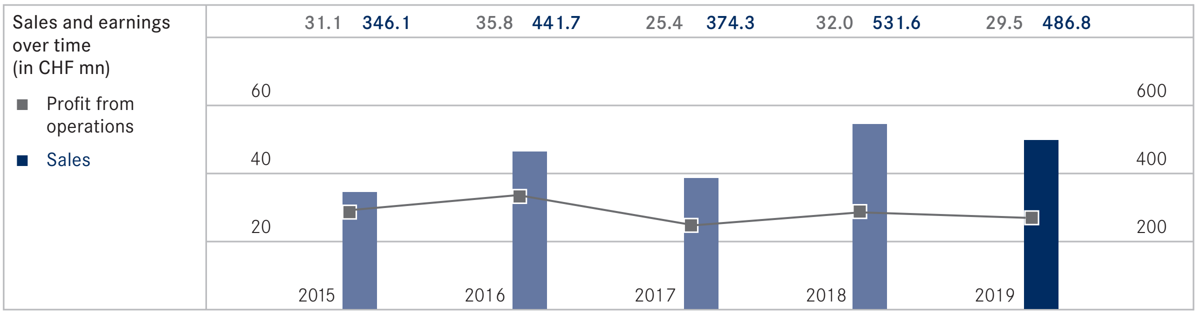
In its online activities, the SPORT1 platforms reached the same level as in the previous year – despite the FIFA World Cup in 2018. They also benefited from strong unique user numbers thanks to SEO and social initiatives. At the same time, page impressions (PIs) were down year-on-year in 2019. This development is still being influenced by the shift in content use from online to mobile. On top of this, there was a strategic reorientation favoring more marketable content forms over those that generate more page impressions. Mobile activities were down slightly on the previous year's level, which was particularly high on account of the 2018 World Cup.

Continuing strong performance in video views; new podcasts

The video operations of the SPORT1 platforms had a very successful second half of 2019. The development of new video formats, securing the video rights to the DFB Cup and more mobile hits all had a positive impact. A similarly positive performance was enjoyed by SPORT1's YouTube channel, which benefited from the focus on social product development.

SPORT1 launched its new podcast family in September 2019. The podcasts – currently nine formats – are available on the usual streaming platforms Spotify, Apple Podcasts, Deezer, and Podigee.

On its social media channels – Facebook, Instagram, Twitter, YouTube, Messenger, and TikTok – SPORT1 had 5.67 million fans and followers in total by the end of 2019 (December 2018: 5.5 million), consolidating its position as a leading social media sports platform in the German-speaking world.



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

OVERALL ASSESSMENT OF THE REPORTING PERIOD

The overall business performance of the Highlight Group in 2019 was satisfactory from the company's perspective. At CHF 486.8 million, consolidated sales were down 8.4 % on the prior-year figure of CHF 531.6 million. Due to non-recurring effects, a reclassification of sales to "other operating income" of around CHF 22 million and currency effects of around CHF 17 million, sales fell below the forecast of CHF 520–540 million. Adjusted for these non-recurring effects, consolidated sales would have amounted to around CHF 526 million.

EBIT declined by 7.5 % to CHF 29.5 million, while consolidated net profit was up significantly at CHF 25.4 million (previous year: CHF 18.0 million).

At CHF 25.2 million, consolidated net profit attributable to shareholders comfortably exceeded the forecast range of CHF 20–22 million. Earnings per share increased by CHF 0.12 year-on-year to CHF 0.44.

RESULTS OF GROUP OPERATIONS

Reduction in consolidated sales

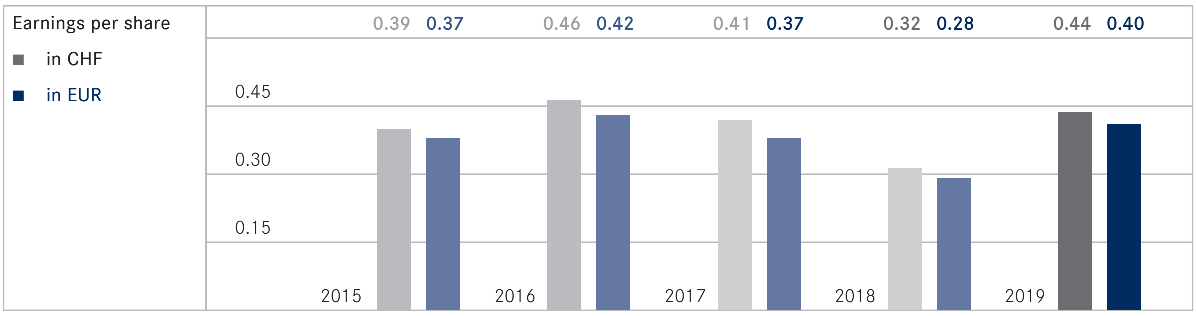
The Highlight Group generated consolidated sales of CHF 486.8 million in the past fiscal year, a decrease of CHF 44.8 million as against the previous year (CHF 531.6 million). This was due in part to the aforementioned non-recurring effects. At the same time, however, the Sports and Sports- and Event-Marketing segments generated higher external sales.

At CHF 95.9 million, capitalized film production costs and other own work capitalized were also down CHF 59.0 million on the figure for 2018 (CHF 154.9 million). This was due to the lower production volume in the Film segment compared to the previous year. Other operating income rose by CHF 21.1 million to CHF 41.8 million (previous year's period: CHF 20.7 million).

EBIT down slightly on previous year

At CHF 594.9 million in total, consolidated operating expenses were down CHF 80.4 million or 11.9 % on the figure for 2018 (CHF 675.3 million). The cost of materials and licenses fell by CHF 63.5 million to CHF 224.5 million (previous year's period: CHF 288.0 million), while personnel expenses rose by CHF 17.1 million to CHF 170.6 million (previous year's period: CHF 153.5 million). At CHF 116.3 million, amortization, depreciation and impairment were down CHF 44.3 million on the previous year's figure (CHF 160.6 million). Amortization on film assets is performance-based, reflecting the loss in value of the film rights used based on the recoverable sales. The decrease in amortization is therefore essentially a result of the lower sales in the Film segment in the reporting year.

As a result of the decrease in sales and the lower level of capitalized film production costs, which was not fully offset by the reduction in consolidated operating expenses, EBIT fell by CHF 2.5 million or 7.5 % to CHF 29.5 million (previous year's period: CHF 32.0 million).



Currency effects squeeze consolidated net profit

The financial result was down by CHF 0.1 million at CHF –7.1 million (previous year's period: CHF -7.0 million). Financial income declined by CHF 2.1 million to CHF 2.3 million (previous year's period: CHF 4.4 million), while financial expenses fell by CHF 2.0 million to CHF 9.4 million (previous year's period: CHF 11.4 million). Taking into account tax income (current and deferred taxes) in the amount of CHF 2.9 million compared with tax expenses of CHF 7.0 million in the previous year, the Highlight Group reported a consolidated net profit for fiscal 2019 of CHF 25.4 million (previous year's period: CHF 18.0 million). CHF 0.2 million (previous year's period: CHF -0.4 million) of this profit is attributable to non-controlling interests. The share of earnings attributable to Highlight's shareholders is therefore CHF 25.2 million after CHF 18.4 million in the previous year. Based on an average of 56.8 million shares in circulation in the reporting year (previous year's period: 58.2 million), this resulted in earnings per share of CHF 0.44 (previous year's period: CHF 0.32).

RESULTS OF SEGMENT OPERATIONS

Film: Strong earnings improvement

The Constantin Film Group largely achieved its targets in fiscal 2019. There were twelve in-house and co-productions in total in theatrical production, including the Bora Dagtekin comedy "Das perfekte Geheimnis", "Kaiserschmarrndrama", the seventh big-screen adaptation of a Rita Falk novel, and "Ostwind – Der große Orkan", the fifth installment in the popular "Ostwind" series.

Fourteen films were released in German movie theaters in theatrical distribution (thirteen were planned), including the four most successful German features to be released in theaters in 2019. In particular, very good audience figures were achieved by the in-house production "Das perfekte Geheimnis", the co-production "Leberkäsjunkie" and the licensed title "After Passion".

Home entertainment exploitation retained a strong market position thanks to a balanced portfolio, including theatrical successes such as "Der Fall Collini" and "Ostwind – Aris Ankunft".

In TV exploitation/license trading, various license sales of in-house and third-party productions again took place in 2019. In free TV, sales were generated in particular by the start of initial licenses such as "The BFG" (Pro7). In the pay TV sector, there were also the initial licenses for "Fack Ju Göhte 3" (Sky) and "Dieses bescheuerte Herz" (Sky).

Sales in the Film segment amounted to CHF 303.6 million in the year under review (previous year: CHF 364.4 million). Other segment income, which is largely influenced by capitalized film production costs, fell by 23.1 % to CHF 128.0 million as a result of the lower production volume (previous year's period: CHF 166.5 million). Segment expenses fell – in particular on account of a significant reduction in amortization – by 20.0 % in total to CHF 415.2 million (previous year's period: CHF 518.8 million), resulting in segment earnings improving by 35.0 % to CHF 16.4 million (previous year's period: CHF 12.1 million).

Spy thriller set in final days of East Germany: "Wendezeit"

Sports- and Event-Marketing: Slight growth in sales

The TEAM group successfully completed the development of commercial concepts and rights packages for the 2021/22 to 2023/24 cycle of the UEFA Champions League, the UEFA Europa League, and the new UEFA European Conference League in the reporting year. As a result, TEAM was able to start selling the commercial rights in the second half of the year.

TEAM experienced a strong start to its sales operations on both the media and the sponsorship sides, closing several key deals early on.

At CHF 64.7 million, external sales in the Sports- and Event-Marketing segment were up by 1.5 % on the previous year's level (CHF 63.7 million). The increase was due to the higher agency commission that the TEAM Group generated as a result of the successful marketing of UEFA club competitions. Segment expenses climbed from CHF 33.1 million to CHF 36.2 million, while other income fell from CHF 0.9 million to CHF 0.7 million. As a result, segment earnings were down 7.6 % year-on-year at CHF 29.2 million (previous year: CHF 31.5 million).

Sports: Negative earnings contribution

In the reporting year, the Sports segment continued to focus on optimizing its portfolio of rights, improving and creating new digital content and marketing environments in addition to cross-platform content exploitation, networking and capitalization.

The segment generated sales of CHF 119.0 million and other income of CHF 9.2 million in fiscal 2019. Expenses amounted to CHF 136.5 million, bringing segment earnings to CHF -8.3 million. Due to the different consolidation periods of the Sports segment in 2018 (nine months) and 2019 (twelve months), it is not currently possible to make informative statements about the development of sales and expenses.

Holding costs at prior-year level

The costs of holding activities increased slightly by CHF 0.5 million to CHF 7.8 million in fiscal 2019 (previous year's period: CHF 7.3 million).

NET ASSETS SITUATION

Increase in the balance sheet total

As of December 31, 2019, the balance sheet total of the Highlight Group amounted to CHF 673.9 million, an increase of CHF 35.3 million as against the end of 2018 (CHF 638.6 million).

On the assets side of the balance sheet, the increase was almost exclusively due to non-current assets, which rose by CHF 44.5 million to CHF 457.8 million (December 31, 2018: CHF 413.3 million). This development was primarily due to the balance sheet item "right-of-use assets" in the amount of CHF 38.2 million (December 31, 2018: CHF 0.0 million) in connection with the adoption of IFRS 16, Leases. The share of non-current assets in total assets therefore increased to 67.9 % (previous year: 64.7 %).

Current assets decreased by CHF 9.2 million to CHF 216.1 million (December 31, 2018: CHF 225.3 million). In particular, this was due to the significant reduction in trade accounts receivable and other receivables of CHF 6.2 million to CHF 136.5 million and the decline in contract assets of CHF 4.9 million to CHF 18.6 million. At CHF 53.0 million, cash and cash equivalents were up slightly on the prior-year figure of CHF 52.5 million.

TV two-parter about a Munich brewing dynasty: "Bier Royal"

Slight decrease in film assets

The value of film assets as of the end of the reporting year was CHF 174.7 million, a decrease of CHF 10.8 million as against the end of 2018 (CHF 185.5 million). CHF 159.6 million of this total related to in-house productions (December 31, 2018: CHF 151.4 million) and CHF 15.1 million to third-party productions (December 31, 2018: CHF 34.1 million).

Additions to film assets amounted to CHF 92.5 million in fiscal 2019 – down CHF 86.1 million on the previous year (CHF 178.6 million). This was offset by amortization of CHF 91.3 million (previous year's period: CHF 142.6 million) and impairment losses of CHF 5.6 million (previous year's period: CHF 9.4 million).

Increase in non-current liabilities and decrease in current liabilities

On the equity and liabilities side of the balance sheet, non-current liabilities rose by CHF 155.2 million in total to CHF 191.8 million (December 31, 2018: CHF 36.7 million), largely a result of the CHF 120.2 million increase in financial liabilities in connection with the acquisition of additional shares in the former Constantin Medien AG. In addition, lease liabilities of CHF 31.9 million were recognized for the first time as a result of the adoption of IFRS 16.

Current liabilities fell by CHF 92.0 million to CHF 284.4 million (December 31, 2018: CHF 376.4 million). This development results in particular from the decrease in financial liabilities of CHF 82.3 million to CHF 66.7 million. There were other notable declines in advance payments received (down CHF 14.6 million to CHF 57.5 million) and provisions (down CHF 3.3 million to CHF 4.6 million). Current liabilities now also include lease liabilities of CHF 8.0 million as a new item.

Equity ratio down year-on-year

Consolidated equity (including non-controlling interests) declined by CHF 27.9 million, from CHF 225.6 million as of the end of the previous year to CHF 197.7 million. This was primarily due to changes in non-controlling interests (down CHF 35.1 million) and dividend payments of CHF 12.6 million. By contrast, equity was increased by the consolidated net profit for the period of CHF 25.4 million.

Relative to the balance sheet total, this equity corresponds to a notional equity ratio of 29.3 % – a reduction of six percentage points as against December 31, 2018 (35.3 %). The adjusted equity ratio (after netting cash and cash equivalents against financial liabilities and film assets against advance payments received) was 35.1 % as of the end of 2019 (December 31, 2018: 43.9 %).

For detailed information on the development of consolidated equity, please see the consolidated financial statements (pages 86 and 87).

Successful long-running crime series: "Kommissarin Lucas"

FINANCIAL SITUATION

Current net debt of CHF 21.7 million

Cash and cash equivalents amounted to CHF 53.0 million as of December 31, 2019, up CHF 0.5 million as against the end of fiscal year 2018 (CHF 52.5 million). At the same time, financial liabilities fell by CHF 82.3 million to CHF 66.7 million (December 31, 2018: CHF 149.0 million). This resulted in current net debt of CHF 21.7 million as of the end of the reporting year (December 31, 2018: CHF 96.5 million), equivalent to gearing of 11.0 % (previous year: 42.8 %). Including non-current financial and lease liabilities, net debt amounted to CHF 174.7 million.

Operating activities generated a net cash inflow of CHF 125.6 million in the year under review – a decrease of CHF 47.9 million as against fiscal year 2018 (CHF 173.5 million), which was amongst other things due to changes in net working capital.

Net cash used in investing activities fell significantly by CHF 188.4 million as against the previous year (CHF 300.1 million) to CHF 111.7 million. This change was mainly due to the fact that the acquisition of shares in Constantin Medien resulted in a cash outflow of CHF 107.8 million in the previous year, whereas the change in cash and cash equivalents due to acquisition/disposal of companies/shares in companies saw a net inflow of CHF 0.9 million in the reporting period. In addition, payments for film assets declined by CHF 83.5 million to CHF 93.7 million (previous year's period: CHF 177.2 million), while payments for property, plant and equipment were down CHF 5.6 million at CHF 6.6 million (previous year's period: CHF 12.2 million).

The cash used by the Highlight Group's financing activities amounted to CHF 11.8 million in fiscal year 2019 (previous year's period: CHF 4.2 million). It should be noted that the adoption of IFRS 16 means the principal payments for the lease installments in the amount of CHF 7.6 million have been reclassified from cash flow from operating activities to cash flow from financing activities. In addition, the purchase of non-controlling interests resulted in a cash outflow of CHF 35.1 million (previous year's period: CHF 1.7 million), while dividend payments remained essentially unchanged year-on-year at CHF 12.6 million (previous year: CHF 12.5 million).

External and internal financing sources ensure liquidity

The Highlight Group has access to credit facilities, mostly with floating interest rates, as external sources of financing that have been partially utilized. These facilities are loans that usually have a remaining term of one month. The corresponding interest rates were between 1.25 % and 2.5 % in the euro area in the year under review. For other foreign currencies, especially USD and CAD, interest rates were between 1.9 % and 4.5 %. In general, the only internal sources of financing are the returns on operating activities. Given the level of cash funds and credit facilities available, the Highlight Group was able to meet its payment obligations at all times in the period under review.

PERSONNEL REPORT

In fiscal 2019, the Highlight Group employed an average of 1,428 people (previous year: 1,550), including freelance staff. 131 of these (previous year: 126) worked in Switzerland, 1,297 (previous year: 1,421) in Germany, and 0 (previous year: 3) worked in Austria.

REPORT ON RISKS AND OPPORTUNITIES

Entrepreneurial action and taking advantage of opportunities is always associated with risks. To protect the existence of the Highlight Group as a going concern, and to support the company in achieving its goals, an integrated, company-wide opportunity and risk management system (RMS) has been implemented.

RISK MANAGEMENT SYSTEM

The RMS is defined in a directive. Highlight Communications AG uses the definition from German Accounting Standard 20 "Group Management Report" issued by the Accounting Standards Committee of Germany (ASCG), which defines risks (opportunities) as "possible future developments or events that may lead to a negative (positive) deviation from forecasts/targets for the company". The RMS follows the general principles of the overall framework for "enterprise risk management", as developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The following objectives are pursued:

- Creating freedom of action by means of early and systematic identification of opportunities and risks
- Increasing reaction speed through transparency and timely communication of opportunities and risks
- Supporting the company management in assessing the expected development of the Group with its main opportunities and risks
- Reducing potential liability risks
- Raising employees' awareness of risk-conscious and autonomous self-monitoring
- Ensuring the company's continued existence as a going concern

The Highlight Group's risk management system comprises risks and opportunities in equal measure. In line with the decentralized Group structure, operational responsibility for dealing with risks lies with the respective risk officers. These are mainly the directors and committee members, or the management members and department managers of the individual subsidiaries. The factors underlying the risks and opportunities are identified and assessed on a quarterly basis and approved by the risk officers. At Group level, the reported factors are standardized and consolidated where appropriate. Potential risks to the company as a going concern are required to be reported immediately. Please also refer to the reports on risks and opportunities of SPORT1 Medien AG and the Constantin Film AG.

In the periodic report, the cause and effects of the factors are described, as well as possible early warning indicators and measures that are planned or have already been taken. If a loss or a measure can be quantified meaningfully, this value is determined and stated. If quantification is not reasonably possible, the possible loss is described verbally and classified in one of the categories “immaterial”, “limited”, “high” or “serious”. The same applies to the probability of occurrence with the categories “low”, “medium” “high” and “very high”.

The product of the probability of occurrence and the level of loss results in the following risk levels:

- Small risks
  Small risks are immaterial to the company and no risk reduction measures must be agreed.
- Medium risks
  Medium risks exist in the case of a limited level of loss and a medium probability of occurrence. There is no need for immediate action. Efficient and effective measures are sufficient to reduce medium risks or to overcome them quickly if they occur.
- Significant risks
  In comparison to medium risks, significant risks have a higher level of loss and/or a higher probability of occurrence. They should be reduced by means of suitable controls or process optimization. If possible, suitable measures should be used to reduce the significant gross risk to the medium or small risk level.
- Large risks
  Large risks may in some circumstances threaten the existence of an organizational unit or of the entire Highlight Group as a going concern. Measures to reduce the gross risk are imperative and must be initiated immediately. The implementation of the measures is monitored by the management. Large risks must be reported to the management immediately, independently from the periodic reporting.

The net risk is derived from the potential gross loss, the probability of occurrence, and the effect of the measures. To improve the structure, risks are divided into the categories of regulatory risks, business and market risks, operational risks, financial risks, legal risks, and compliance risks.

In particular, risks beyond the control of the Group and risks arising from legal regulation often cannot be actively managed and avoided. Furthermore, risks with an extremely low or non-measurable probability of occurrence combined with a potentially major effect are not reliably determined. This includes unexpected and unavoidable events (force majeure).

INFORMATION ON INDIVIDUAL RISKS

Individual risks, their risk factors and their effects are set out below. The risks are presented in groups in line with the RMS risk categories. The presentation in the risk report has a higher level of aggregation than in the RMS itself. Within each category, the risks whose impact on the net assets, financial position and results of operations is considered highest are listed first. Unless otherwise specified, the risks apply to all segments. If the classification of the risk does not make any reference to the measures taken, then this relates to classification as a gross risk. If a risk factor may threaten the existence of a significant organizational unit as a going concern, this is referred to in the following. The same applies if a risk threatens the existence of the Group as a going concern.

Regulatory risks

The Highlight Group's business models are highly dependent on legislation, legal practice, and regulatory interventions by public authorities

Regulatory interventions, changes in legislation, or legal proceedings may have a negative impact on the cost or revenue structure. For example, they could lead to restrictions for customers when purchasing licenses. A drastic change in licensing practice in the Film segment could have a negative impact on the business model. The following factors have a notable effect on this risk:

- The European Commission has further specified its plans for a digital single market. Geoblocking is to be prohibited for certain content. The aim of the new directive is to prevent Internet users from being unable to use digital services that they pay for when traveling or on vacation. Under the draft law, the country-of-origin principle is also to apply to online offers from broadcasting companies that accompany broadcasts (live streaming and on-demand catch-up). For the Constantin Film Group, this means that it may no longer be possible to issue on-demand licenses exclusively for individual countries in the future.
- The new German Film Subsidies Act (FFG) came into force on January 1, 2017. The aim of the new law is to make subsidies more efficient. For example, subsidies are to be focused on fewer but more promising films. Another important change is that now that the new law has come into force there are no longer any "success loans," i.e. subsidies granted that are repaid on the basis of success are indirectly available to producers such as Constantin Film AG and its subsidiaries again in that the repaid success loans add to the general subsidy funds.
- The current planning in the Film segment is based on various national and international film funding programs, the design of which could change in a negative way.
- The sale of advertising time to providers of products such as sports betting, online casinos, lotteries or poker schools is heavily regulated. Regulatory measures such as concessions, prohibitions, or other restrictions could change the economic conditions for providers of these products, which could have an indirect effect on the planned sales.
- On May 1, 2019, the revision of the public telemedia mandate in the form of the amended German Interstate Broadcasting Treaty came into force. Under this treaty, in future EU licensed productions can be stored in media libraries (for up to 30 days after broadcast, with viewing possible only from Germany). In addition, the "seven-day rule" has been removed as the time limit for all other productions. The longer time for which productions can stay in media libraries as a result of this liberalization could negatively impact commercial home entertainment exploitation and lead to sales losses. It is planned to remunerate producers appropriately for media library use. However, it is still unclear exactly how this will be implemented.

- Further regulatory risks result from the entry into force of the German Interstate Media Treaty, which is to be ratified in the federal states in 2020. The planned easy findability of public-sector and private-sector content that meets certain diversity criteria could give rise to a disadvantage for SPORT1 if it does not meet the criteria for an easily findable channel. Furthermore, platform access is not to be expanded to platforms that are not linked to infrastructure, meaning that major OTT players could make access difficult for SPORT1.
- Other regulatory risks could arise from the current discussion of a possible future “New Media Ordinance” or “Convergent TV Regulation”, e.g. as a result of an amended German Interstate Broadcasting Treaty, and thereby a new model of regulation for linear and non-linear media services. This might not sufficiently take into account the interests of Sport1 GmbH, particularly in the context of the distribution of SPORT1 TV programming and its findability in the digital media world.
- The e-Privacy Regulation, which is intended to regulate the use of cookies and similar technologies, the admissibility of creating user profiles (tracking, profiling, retargeting) or measures on the use of personal data, is currently working its way through the EU legislative procedure. It is expected to become binding after a transition period for 2020/2021. Under this regulation, there will have to be an active declaration of consent from every Internet user for every website and every device before that user’s data can be collected and thereby advertising based on these data can be deployed. If users refuse their consent, it will not be permitted to display any data-driven advertising. Even a frequency cap on the number of times an ad is shown will no longer be possible as the use of cookies will no longer be permitted. This has an enormous impact on the way that advertising campaigns will be devised in the future, and could have a negative impact on sales and earnings. In addition, a violation of the regulation could lead to substantial fines.

As countermeasures, the Highlight Group keeps track of the relevant rulings and legislative proposals and attempts to form contacts with political decision-makers by means of lobbying and external studies.

In light of the possible effects, this risk continues to be classified as significant overall.

Business and market risks

The Highlight Group requires access to licenses and source material

The Highlight Group requires access to exploitation rights for its product portfolio. The following factors have a notable effect on this risk:

- In the Film segment, access to and acquisition of rights to literary works, exploitation rights and screenplays, as well as the conclusion of contracts with successful directors, actors and licensors are important factors for the production of TV and theatrical movies. The Constantin Film Group therefore has decades of experience working closely with renowned and experienced screenwriters, directors and producers with extensive expertise in producing theatrical movies and TV formats at home and abroad.

- In the Film segment, third-party productions are generally acquired on individual film markets. Various prices are paid here depending on the particular project and the specific market. Usually, the film has not yet been made at this point, but the rights are sold in advance for financing. Nonetheless, films bought at a high price can adversely affect the Group's net assets, financial position, and results of operations if they are a complete failure.
- In order to operate its platforms, the SPORT1 Medien Group is dependent on attractive broadcast rights to sports events and programming formats. The relicensing of exploitation rights for sports events or programming formats can entail an increase in the planned license costs. The unavailability of broadcast rights to sports events, including on account of greater competition such as OTT platforms, or an increase in license costs in the future could lead to the SPORT1 Medien Group lacking attractive content for its TV stations or other platforms. This would mean lower market share, lower advertising, and/or sponsorship revenue and lower pay-TV revenue.

These risks are monitored by experienced employees responsible for purchasing rights and licenses at the relevant subsidiaries. Firstly, source material, films, and rights are acquired on a long-term basis where possible in order to build up an inventory of material that reduces uncertainty in the planning period. Secondly, the development of alternative formats and in-house productions is being continuously expanded so as to create a certain degree of independence from third-party rights. In the Film segment, the "Constantin Film" brand plays an important role as the leading independent German film producer and distributor.

Overall, this risk continues to be classified as significant.

The Highlight Group is in intense competition regarding sales of its products

The Group's sales planning assumes certain market shares, audience figures and proceeds from the different stages of exploitation. If these assumptions are not matched, the planned sales may not be achieved. There is also a risk that it may not be possible to adapt the cost structure in a timely manner. The following factors are notable in this context:

- Market changes in the movie-theater or the home entertainment sector, such as falling audience and sales figures or growing competition, could be linked with a drop in prices for productions and licensed products. The expiry of framework agreements or a deterioration in the economic situation of licensees can lead to falling sale prices for licenses and thus threaten the intrinsic value of the film assets.
- A strong competitive environment could result in decreasing margins in theatrical distribution business.
- There is not inconsiderable competition for advertisers' limited budgets, coupled with a rising number of TV broadcasters and other potential advertising platforms. Declining advertising investment and falling prices in the marketing of airtime and ad space could have a material impact on the Group's sales and earnings performance.

- The changes or adjustments to AGF Videoforschung GmbH's television panel weighting model can lead to an unplanned loss of market share for the free-TV broadcaster SPORT1, and as a consequence of this possibly to declining prices in the marketing of airtime and ad space.

The Group's diversification in unrelated products and markets reduces the risk of competition in an individual area/segment. Because market shares and audience figures in particular are key factors for the amount of revenue that can be generated, the Highlight Group endeavors to gain possession of attractive program content for TV stations and other platforms and for its theatrical movies and TV productions in order to increase its competitiveness and to raise the profile and enhance the appeal of products through higher expenses for marketing them.

Accordingly, this risk continues to be classified as significant.

The Highlight Group is dependent on customers and business partners

Like any other enterprise, the Highlight Group is dependent on customers, suppliers and other business partners. The media and entertainment industry involves specific requirements. If contracts with key customers or business partners expire, are not extended and/or are terminated during their term, this could have a significant negative impact on sales and earnings in subsequent periods. The following factors are significant in this context:

- In the Sports- and Event-Marketing segment, the TEAM Group is dependent on the major client UEFA.
- With regard to the exploitation of theatrical productions, the Group is dependent on Sky Deutschland Fernsehen GmbH & Co. KG at the pay-TV exploitation stage, as a considerable portion of its pay-TV license sales is generated with this partner. If framework agreements are not extended, or are extended only at considerably worse terms, this could result in declining sales for the Highlight Group.
- There is a dependence on the major German TV stations and on the number/size of the stations overall. In the Film segment, a considerable part of production costs is covered by sublicensing TV transmission rights to theatrical movies. The attainable margins could be lower than planned due to a strong position held by the TV stations.
- The market for TV ad time is defined by concentrated structures on both the supply and the demand sides. On the demand side, there are essentially seven large associations of media agencies that, in turn, typically consist of a number of smaller agencies. Their counterparts on the supply side are mainly the two private broadcast groups RTL and ProSiebenSat.1 and the public broadcasters, along with independent marketing companies, which include Sport1 Media GmbH and Magic Sports Media GmbH, which market SPORT1's platforms and content. If advertising budgets diminish, the price level for airspace marketing falls or customers cease to operate, this could have significant consequences for the company's sales and earnings performance. A further increase in competitive intensity on the German advertising market can currently be observed.

- Sport1 GmbH has significant cross-media cooperations with various automotive manufacturers. As a result of the introduction of new emissions standards and the associated sales difficulties, advertising investments by the automotive industry and related sectors could decline in the future or lead to falling prices in the marketing of airtime and ad space. This could have a material impact on the sales and earnings performance.

Cultivating relationships with customers and business partners represents a key management task. Compliance with contractual agreements and the quality of goods supplied and services performed are reviewed on a regular basis.

Overall, this risk continues to be classified as significant.

The business models are dependent on catering to customers' tastes and the way in which content is consumed, and reacting quickly to changes

The changes in patterns of use and the technical possibilities for handling media may have the effect that consumers use Highlight Group's product portfolio less than planned, causing it to lose appeal, range or relevance and meaning that the planned sales consequently are not achieved. The following factors are particularly relevant:

- Due to technical possibilities for producing illegal copies of movies and the lack of legal protection against breaches of copyright, there is a risk of lost sales.
- The changing market environment for in-home viewing is likely to result in significant changes in consumer behavior and the provider structure in the medium term. Analyzing the opportunities and risks for content producers as a result of this development, which is driven chiefly by IP-based offers such as SVoD, is a central topic of the Constantin Film Group's strategic discussions.
- There are contracts in place with the key cable network, satellite, and platform operators in Germany to secure the digital distribution of the channels operated by Sport1 GmbH in the medium term. However, contractual termination rights or changing legal requirements and competitor conduct on other channels could have a negative impact on the cable distribution of SPORT1 and the distribution of pay-TV programming in general.
- Analog cable distribution is gradually being discontinued in Germany. Since the middle of 2019, the relevant cable network operators will halt analog TV broadcasts, relying instead on digital channels. Media institutions do not currently assign capacity on digital cable for private broadcasters.
- As only digital broadcasts will be available in the future, the free-TV channel SPORT1 will no longer be just one of 30 analog programs, but rather one of several hundred digital programs. The ability to find channels will therefore be essential to them.

By means of targeted market research and analyses of use, the Highlight Group is attempting to anticipate future trends in terms of both content and technological developments, as is also reflected in the Film segment's digitalization strategy. The appeal of the products is enhanced by developing consumer-friendly programming and source material. The effects of piracy are reduced by means of lobbying, awareness campaigns, and systematic prosecution of violations.

Overall, this risk continues to be classified as a significant risk.

Legal risks

The Highlight Group is subject to risks from legal disputes

As an international enterprise, the Highlight Group is exposed to a number of legal risks. These particularly include risks relating to copyright law, company law and securities trading law. The outcomes of currently pending and future legal proceedings often cannot be reliably predicted, meaning that, among others, court rulings or decisions by public authorities may result in expenses that are not covered, or not fully covered, by insurance policy benefits and could have a negative impact.

As part of the legal support for operating activities, legal risks are identified and assessed qualitatively and quantitatively in terms of their probability of occurrence and potential impact.

Based on the assessments made and the measures taken, this risk is still classified as small.

Operational risks

In the Film segment, the production of a theatrical or TV movie is a cost-intensive and long-term project

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 period from the initial idea to the final marketing stage may last several years. The following factors have a notable effect on this risk:

- In 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 respective broadcaster. Even in the case of an order, there is no requirement for these costs to be added as initial costs to the budget of the respective TV provider.
- For TV broadcasters, in terms of tying up big-spending advertising partners, successful coverage and market share performance are important 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.
- In the unlikely event of a delay or cancelation of a theatrical or TV service production due to unforeseeable market or project developments, it is possible that already delivered or commissioned services may no longer be usable and additional costs may arise from renewed commissioning of the services.
- The lack of budget discipline in terms of release expenses can cause an overspend on film-related marketing costs and reduce a film’s contribution margin.
- In contrast to theatrical movies, international TV series cannot be financed largely by way of advance sales based on the script. Sales cannot generally be made until at least one completed pilot episode has been presented. As a result, production costs have already reached an advanced stage by the time any sales take place.

If there are budget overruns in the production of a movie, this could negatively affect a movie's planned contribution margin and therefore its earnings. In addition to the regular monitoring of production costs, movie insurance and completion bonds in particular are agreed to help ensure the completion of a movie.

Constantin Film AG is applying for formats at various broadcasters and program providers/distribution platforms in Germany and abroad and has entered into development contracts for series and non-series formats. Thanks to its long-term experience in producing movies, Constantin Film AG has usually managed to fully cover production costs with the exploitation sales in the past. Furthermore, Constantin Film AG kept film productions on schedule and on budget and largely avoided unplanned costs or insured against them.

Overall, this risk continues to be classified as a medium risk.

The Highlight Group is dependent on a secure and well-functioning IT infrastructure

The Highlight Group depends on smooth functioning of its IT systems in order to ensure smooth operations. Despite security measures such as access control systems, contingency plans and an uninterruptible power supply for critical systems, back-up systems and regular data mirroring, it cannot be ruled out that the protection against damage from a failure of its IT systems may prove insufficient.

In the event of a failure of the IT systems, theft of company data or manipulation of the company's IT, there could be negative effects on operations and thus on earnings.

The risks with regard to unauthorized access to company data are largely eliminated by using virus scanners and firewall systems. In addition, the Group has taken measures to keep the existing IT service landscape in line with the current technological standard and to counteract the obsolescence process in device and program technology. Broadcasting-related technology is often available in duplicate form and its functionality is monitored in a timely manner.

Taking into account the effects of the countermeasures, this risk continues to be classified in the medium risk level.

The Highlight Group is dependent on the creativity, commitment and expertise of its employees

The future success of the Highlight Group depends to a significant extent on the performance of its managers and employees. There is intense and increasing competition for staff with the relevant qualifications and knowledge of the industry.

The Highlight Group therefore cannot guarantee that it will be able to retain its highly qualified and committed staff and gain new employees with the relevant qualifications in future.

If qualified staff or key personnel leave the Group, this could lead to a loss of expertise and give rise to unplanned costs for the recruitment and orientation of new staff, which would have negative effects on earnings.

To minimize this risk, target agreement and feedback discussions are held on a regular basis. In addition, the Highlight Group offers an attractive work environment, appropriate compensation, and opportunities for development. To increase the Group's appeal as an employer on the recruitment market, increased investments have been made in social networks and job portals.

Overall, this risk continues to be classified in the small risk level.

The Highlight Group could have insufficient insurance against damages and claims

The Highlight Group decides on the type and scope of insurance cover on the basis of a business analysis of the costs and benefits in order to cover the risks it considers significant. However, the Highlight Group cannot guarantee that it will not suffer losses or that no claims will be raised that go beyond the scope of the existing insurance cover.

If the Highlight Group suffers material damages for which there is no insurance cover, or only insufficient insurance cover, this could have negative effects on earnings. In the event of damages, third-party claims or replacement investments would have to be financed from own resources.

Overall, this risk continues to be classified in the small risk level.

Compliance risks

Despite the existing control and monitoring systems in the Highlight Group, these may prove insufficient to prevent violations of the law by employees, representatives, external service providers or partners, and to detect violations of the law that have already taken place

It is not possible for the Highlight Group to comprehensively monitor the activities of employees, representatives and partners in paving the way for business with customers. If it transpires that persons whose actions are attributable to the Highlight Group accept or grant unfair advantages in connection with paving the way for business or use other corrupt business practices, this could lead to legal sanctions under Swiss and German law and under the law of other countries in which the Highlight Group operates. Possible sanctions could include substantial fines or a loss of orders.

This could have a negative impact on earnings and cause damage to the Highlight Group's reputation.

Overall, this risk continues to be classified in the small risk level.

Financial risks

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).

The risks associated with financing are described in detail in note 8, disclosures on financial risk management, of the notes to the consolidated financial statements. The Group uses corresponding hedges for currency and interest rate risks where appropriate.

The Highlight Group is subject to the credit risk

A credit risk exists if a debtor cannot pay a receivable or cannot pay it on time. Credit risks include direct counterparty risk and the risk of deterioration in credit quality.

Potential risks of default on customer receivables are assessed regularly and allowances for bad debts are recognized if necessary. Furthermore, the Group also hedges the risk of default due to insolvency of a debtor by obtaining credit rating information. Therefore, the Group rates its credit quality for receivables that are neither overdue nor impaired as predominantly good.

Default on receivables from customers could have a negative impact on earnings.

Taking into account the measures implemented, this risk continues to be classified as a small risk.

The Highlight Group is subject to liquidity risks

Liquidity risks arise when the Group's payment obligations cannot be covered by its available liquidity or by corresponding credit facilities. As of the end of the reporting period, the Highlight Group had liquidity reserves taking into account the available short-term credit facilities. Nonetheless, it cannot be ruled out that the guarantee or master credit agreements in place will be cancelled or not renewed by individual banks or investors, with the result that the Highlight Group, even taking into account the free working capital facilities, is forced to borrow further debt capital on the capital market or from banks, at short notice or in the medium term, to finance new projects or to refinance existing financial liabilities.

Therefore, there is the risk that, in the event of a deterioration of the Group's economic situation, further funding may not be available or not be available to a sufficient extent, or could only be available at more disadvantageous terms. If the Highlight Group does not service the respective loans when due or does not repay them following termination or at the end of their term, there is a risk that the respective lender may liquidate the assets pledged as security by the Highlight Group. In the event of such liquidation, there is a risk that assets might have to be sold below their actual value, which would have a significant negative impact on earnings.

Overall, this risk continues to be classified in the small risk level.

The Highlight Group is exposed to currency risks

These currency risks mainly relate to the euro, the US dollar and the Canadian dollar.

In significant transactions, the Group attempts to reduce currency risks by using suitable derivative financial instruments. However, it cannot be ensured that the currency hedging measures taken by the Group are sufficient, and that fluctuations in exchange rates will not have a negative impact on earnings.

In view of the fact that the EUR/CHF exchange rate recovered in the past reporting period compared to the previous years, this risk is currently still assessed as a medium risk.

The Highlight Group is subject to the risk of changes in interest rates

Interest rate risks primarily relate to current and non-current financial liabilities. There is also an interest rate risk resulting from the mismatching of maturities.

At the current time, the Highlight Group has fixed-rate and floating-rate current financial liabilities and fixed-rate non-current financial liabilities.

Risks from changes in the interest rates for financial liabilities may have a negative impact on earnings.

Overall, this risk continues to be classified in the small risk level.

The Highlight Group is subject to risks in the measurement of financial and non-financial assets

As of the end of the reporting period, the Highlight Group held material financial and non-financial assets such as film assets, other intangible assets, goodwill and preference shares as well as other non-current financial assets.

The Highlight Group's goodwill and film assets are tested for impairment at least once a year or more frequently if there are indications of impairment.

If there is no market value available, the evaluation approach includes management estimates and assumptions on the basis of premises that reflect the most recent information available. The actual development, which is often beyond the control of the company, may outstrip the assumptions made and necessitate an adjustment of the carrying amounts. This may have a negative impact on earnings.

Overall, this risk continues to be classified in the medium risk level.

Despite proper processes and careful checks, the Highlight Group cannot rule out risks in connection with future tax or social security audits

Highlight Communications AG believes that the tax returns and details for the social security agencies prepared within the Group were submitted completely and correctly. Nonetheless, there is a risk that additional tax claims could be made, particularly in light of the complex regulations on sales tax and withholding tax in the media industry. In the event of a social security audit within the Highlight Group, it also cannot be ruled out that the social security agency may arrive at a different perception of the social security contributions, resulting in additional claims against the Highlight Group.

If differing tax assessments or additional social security claims arise, this could have a negative impact on earnings.

Overall, this risk continues to be classified in the small risk level.

OPPORTUNITY MANAGEMENT SYSTEM

Similarly to risk management, the Highlight Group's opportunity management has the objective of implementing the strategic and operational goals rapidly and efficiently by means of specific activities. Opportunities may arise in any area. Identifying opportunities and taking advantage of them in a target-oriented way is a management task that is involved in day-to-day decision-making.

To improve the structuring and communication of the opportunity portfolio, the existing risk management system (RMS) was supplemented by the identification and assessment of opportunities. The corresponding guidelines and procedures also apply.

In line with the definition of the term "risk", the Highlight Group defines an opportunity as a possible future development or event that may lead to a positive deviation from forecasts/targets for the company. This means that events that are already included in the budget planning or the medium-term planning do not represent opportunities according to this definition and are not reported below. As with risks, opportunities are classified in four categories: "minor", "medium", "significant" and "high".

INFORMATION ON INDIVIDUAL OPPORTUNITIES

Individual opportunities, their factors, and their effects are set out below. The opportunities are presented in groups in line with the RMS opportunity categories. The presentation in the opportunity report has a higher level of aggregation than in the RMS itself.

Business and market opportunities

The Highlight Group sees opportunities in implementing the digital transformation strategy

Advancing digitization is changing the individual patterns of media use. For some time, the Highlight Group has been vigorously developing its business models, thus actively promoting digital transformation within the Group, for example by way of licensing agreements with digital distribution providers, new forms of digital marketing or productions for international and national providers such as Netflix. The broad operational positioning that covers the categories of Sports- and Event-Marketing and Film and Entertainment, the excellent and in several cases leading market positions of the Group's business, and its strong, well-known brands represent clear advantages in a media world that is undergoing massive upheaval.

The planning of the sales that can be generated using these business models is based on cautious assumptions. There is the chance that actual development will be far better than the assumptions made and that digital transformation results in increased sales more quickly than anticipated.

The opportunity continues to be classified as medium.

Operational opportunities

The Highlight Group sees opportunities in the exploitation and development of licenses, formats and source material that have already been secured, as well as in the connection to a distinctive network

The Highlight Group already has a range of exploitation and/or marketing rights for sports and entertainment events that are important for its operating activities in the different segments, as well as film rights and source material. This establishes the basis for generating sales beyond the planning period as well. The Group's image and the maintenance and updating of a distinctive network will continue to facilitate access to these rights in the future.

Attractive film rights and source material for films that have already been secured could lead to higher sales than planned along the entire exploitation chain if they suit customers' tastes better than expected. In particular, there is the option of international relaunches of existing established intellectual property/brands belonging to the Constantin Film Group.

This opportunity continues to be classified as medium.

The Highlight Group sees opportunities in the cooperation with UEFA

Based on the TEAM Group's long-term collaboration with UEFA for marketing the commercial rights to the UEFA Champions League, the UEFA Europa League, and the UEFA Super Cup until the 2023/24 season, the prospects for continuation of the close cooperation with the Union of European Football Associations for further seasons until 2025/26 are – subject to TEAM's ongoing performance – very strong.

This opportunity continues to be classified as medium.

SUMMARY OF THE OPPORTUNITY AND RISK SITUATION

In line with the RMS directive, the risks and opportunities reported by the individual risk officers are combined, aggregated, and assessed at the level of the Group as a whole. The decentralized Group structure is taken into account here. The officers at the company concerned are responsible for full and accurate identification, assessment and communication of opportunities and risks.

Based on the available information and estimates, particularly for probabilities of occurrence, maximum losses and the effect of the countermeasures taken, the Group management of Highlight Communications AG has come to the conclusion that these risks do not represent a threat to the existence of the Group as a going concern. This applies to the risks both on an individual basis and also in combination, provided the effect of the combined risks can be meaningfully simulated or estimated in another way. The Group management currently considers the Highlight Group to be equipped to deal with the residual risks that are not reduced by countermeasures.

In summary, three risk clusters can be identified: The first category comprises risks originating externally, which arise in particular from regulatory interventions and legal requirements and are difficult to influence. These topics are monitored closely in order to identify unfavorable developments at an early stage. In general, the effect of these topics is inherently not short-term, meaning that it is possible to respond to them with adjustments in the planning process. The second category covers topics that the Group management knowingly accepts for reasons relating to the implementation of the business strategy. These include in particular risks arising from film and TV production, access to license rights and source material, sales-, taste- and consumer-related risks. The Group management believes that the effects of these risks are manageable in relation to the income opportunities arising from the business areas concerned. By monitoring key indicators, it is possible to identify whether this relationship between risk and opportunity is worsening on a long-term basis in individual areas. If so, this can be addressed by adapting the strategy. The last group comprises operational risks and particularly includes business risks, safety and security plans, contractual/financial obligations, ensuring liquidity, and legal risks. These are controlled by the Group management by way of guidelines and process checks and by consulting external advisors, thereby ensuring that the residual risk remains at an economically acceptable level.

The Group management continues to see the biggest opportunities in the rigorous expansion of the digital strategy and the potential afforded by a transformation of the media world. There are further opportunities arising from the continuous maintenance of existing business relationships, the establishment of new partnerships, and the diversification of business activities in the two established segments.

All the Group companies are established in their respective sectors, can access a broad network of technical and creative energy, and respond quickly to changes. Accordingly, the Group management believes that the measures taken keep the risk to an economically acceptable level and considers the Group's risk-bearing capacity to be sufficient. At the same time, it is rigorously pursuing the existing opportunities.

INTERNAL CONTROL SYSTEM (ICS) AND RISK MANAGEMENT SYSTEM IN RELATION TO THE GROUP ACCOUNTING PROCESS

The Highlight Group's accounting-related ICS comprises the measures to ensure complete, correct and timely transfer of relevant information required for the preparation of the financial statements and the consolidated financial statements as well as the Group management report. This is intended to minimize risks of misstatements in the accounting and external reporting.

Like the risk management system, the ICS also follows the general principles of the overall framework for “enterprise risk management”, as developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Accounting within the Highlight Group is organized on a decentralized basis. While separate departments exist at the levels of the subgroups, Highlight Communications AG supports its direct subsidiaries with specific accounting-related issues. The separate financial statements of Highlight Communications AG and its subsidiaries are prepared in accordance with the legal regulations of the individual countries. To fulfill the requirements to prepare consolidated financial statements in accordance with the provisions of IFRS, reconciliations are prepared for all companies included in the Group and are reported to Group Accounting. The accounting provisions in the Highlight Group regulate uniform accounting policies and define a uniform chart of accounts throughout the Group in accordance with the applicable IFRS provisions. Laws, accounting standards and other pronouncements are analyzed on an ongoing basis with regard to whether and to what extent they are relevant and how they affect the accounting. Relevant requirements are, for example, set out in the Group accounting directive and communicated. Together with the financial reporting calendar that applies throughout the Group, they represent the basis for the process of preparing the financial statements. In addition, supplementary procedural instructions, standardized report forms, IT systems as well as IT-based reporting and consolidation processes support the process of uniform and correct Group accounting. Where necessary, we also use external service providers, for instance to measure pension liabilities. The qualifications of the employees involved in the accounting process are ensured by means of suitable selection processes and regular training.

The specific control activities performed at Group level to ensure proper and reliable Group accounting comprise the analysis and, where necessary, the correction of the separate financial statements presented by the Group companies. Clear delimitations of responsibilities and process-integrated controls such as the use of the dual control principle constitute additional control measures. The correctness and effectiveness of the internal control system is ensured on an annual basis by process-independent auditing activities by the Internal Audit department and is regularly reported to the Group management and the Board of Directors.

RISKS AND OPPORTUNITIES OF HIGHLIGHT COMMUNICATIONS AG

The financial statements of Highlight Communications AG are largely impacted by the risks and opportunities of the subsidiaries, as it is directly involved as a financial holding company and parent company. Accordingly, the above-mentioned opportunities and risks also apply to Highlight Communications AG.

The risks and opportunities may impact Highlight Communications AG at a different time from when they impact the operating subsidiaries.

FORECAST

GENERAL ECONOMIC ENVIRONMENT

In its latest World Economic Outlook, the International Monetary Fund (IMF) is forecasting stabilization in global growth for 2020. The loose monetary policy of leading central banks, an initial partial agreement in the US/China trade conflict and the increased chances of an orderly Brexit are having a positive effect on the global economy. However, the IMF does not expect to see a return to the sometimes high growth rates of previous years for some time to come. According to IMF experts, the growth forecast for global economic output is 3.3 % for the current year, a minor reduction of 0.1 % compared to its previous forecast in October 2019. This is due in part to recent negative developments on some emerging markets such as India, and risks such as a renewed flare-up of the trade disputes between the US and China, and the EU, geopolitical conflicts – for instance those between the US and Iran – and natural disasters caused by weather.

According to IMF estimates, the economy in the euro area will expand by 1.3 % in 2020, a marginal increase of 0.1 percentage points as against the previous year. The IMF has slightly scaled back its growth forecast for Germany once again to 1.1 % for the current year.

The Swiss State Secretariat for Economic Affairs (SECO) is forecasting moderate growth for the Swiss economy, which will likely be reflected in GDP growth of 1.7 % in the current year (2019: 0.9 %). However, according to SECO, the economic acceleration will above all be thanks to the licensing income of the sports organizers based in Switzerland, UEFA, and IOC, for their major sporting events in 2020 – the European Football Championship and the Summer Olympics. Adjusted for this effect, economic momentum is likely to be at a similarly low level to 2019. As in the previous year, this is because of slowing investment in construction and equipment by Swiss companies and a further decline in exports of goods in the current year. On the other hand, the SECO is forecasting something of a recovery in consumer spending in 2020 thanks to the good situation on the Swiss labor market.

MEDIA AND ENTERTAINMENT MARKET ENVIRONMENT IN GERMANY

Audit company PricewaterhouseCoopers (PwC) is forecasting that the media industry will grow by 1.8 % to EUR 55.0 billion in 2020. An average annual growth rate of 1.6 % is assumed from 2019 to 2023, which would see the market volume climb to EUR 57.3 billion within the space of five years. This development is mainly driven by digital content such as virtual reality, e-sports, and Internet video, for which PwC's experts are forecasting average annual growth of 19.2 %, 18.1 %, and 9.3 % between now and 2023.

FOCUS IN FISCAL YEAR 2020

Film segment

Industry conditions

The ongoing development of the movie theater market will likely be characterized by slight increases in sales. For example, the German movie theater market is expected to experience an average annual growth rate of 0.3 % between now and 2023. A relatively constant development at a comparatively low level has also been forecast for the linear television market, and the average annual increase between now and 2023 is set to be 0.8 %.

While the negative trend on the physical home entertainment market will presumably continue, the growth prospects for digital home entertainment are still very positive. Thus, a volume of around EUR 1.6 billion is projected for the VoD market as a whole by 2023, corresponding to an average annual growth rate of 9.3 %. The SVoD segment is set to grow at an annual rate of 11.3 %, outperforming the anticipated growth rate in the TVoD segment (4.8 %).

Key areas

In theatrical production/acquisition of rights, the Constantin Film Group is still focused on the continuous optimization of the consistently high quality of its national and international in-house productions. The goal is to produce titles that are heavily geared towards the audience's emotional needs and that are ideally based on well-known brands or are of an event nature. However, productions with smaller budgets and a correspondingly manageable box office risk are attractive if they have a convincing concept. Each production is centered around an analysis of the audience segment to be addressed.

The theatrical movie market, like other market segments as well, is experiencing a bestseller effect, i. e. audiences are generally focusing on fewer titles, but are consuming these to a greater extent. For smaller-scale titles, production of which cannot be completely given up for portfolio reasons, this means increasing pressure on production costs.

In the area of theatrical distribution, Constantin Film AG is continuing to implement its proven strategy of combining national and international in-house and co-productions with high-quality third-party productions and releasing these titles in theaters with a suitable press and marketing strategy at the most favorable time. As theatrical exploitation and the associated brand launch remain the foundation for the subsequent exploitation stages, the Constantin Film Group will design its strategy on a product-by-product basis. This means that quantities depend on the extent to which promising titles can be produced or acquired.

As things currently stand, at least ten new theatrical releases are intended for 2020. They consist of two licensed titles and eight in-house and co-productions. These include “Ostwind – Der große Orkan,” “Kaiserschmarrndrama,” “Dragon Rider,” “Monster Hunter,” and “Contra.”

The Constantin Film Group is again excellently positioned for home entertainment exploitation in 2020 with the hit movies “Das perfekte Geheimnis” and “Die drei !!!” from 2019, and the movies “After We Collided,” “Ostwind – Der große Orkan,” and “Dragon Rider.” Consequently, the market position in the home entertainment sector in the current fiscal year is expected to be unchanged from the previous year. The good prospects for 2020 are also built on the Constantin Film Group’s own digital distribution operations and the consistently good sales figures for catalog products.

In free TV exploitation, sales in 2020 will be generated by movies including “Ostwind – Aufbruch nach Ora” and “Shadowhunters: The Mortal Instruments.” Titles expected to generate sales on pay TV include “Der Vorname” and “Ostwind – Aris Ankunft.”

The subsidiaries of Constantin Film AG are constantly working to develop innovative TV formats in the TV service production business area. In addition to conventional service production for German TV networks and digital platforms, other key areas are the generation of rights through in-house productions and concept developments and the expansion of international TV production.

Constantin Film AG still expects to see an improvement in the order situation in this area for the next few months, which will also be positively influenced by consistently high demand for content, including from new providers. Constantin Film’s subsidiaries are therefore preparing a number of projects for 2020, including the high-end series “Friedrichstadtpalast” (ZDF), the Ufa co-production “KaDeWe” (ARD/rbb), and more Ferdinand von Schirach projects.

The “Resident Evil” series is the main English-language production in preparation.

With its TV service productions and the TV exploitation of its theatrical productions, the Constantin Film Group is also assuming ratings above the respective network’s average for the current year.

Sports- and Event-Marketing segment

Industry conditions

In December 2019, the media planning and purchasing company ZenithOptimedia predicted that global advertising expenditure would grow by 4.3 % to around USD 667 billion in 2020. This forecast is quite conservative given the Summer Olympics that will be held this year and UEFA Euro 2020. ZenithOptimedia is forecasting growth of 4.5 % in 2021 and 2022. Advertising expenditure is not expected to match the growth of the global economy in this forecast period.

Key areas

Following the successful finalization of the business plan for the 2021/22 to 2023/24 rights cycle, the TEAM group is now focusing on marketing the rights to potential media, sponsorship and licensing partners. This requires a tendering process on various markets on the media side, while for sponsors and licensees it involves the extension of existing contracts or the acquisition of new ones. The TEAM Group maintains very close relationships with established TV broadcasters, sponsors, and licensees around the world in this distribution phase.

Sports segment

Industry conditions

In its latest forecast on the development of the media industry in Germany for 2019 to 2023, the auditing and consulting firm PwC forecasts average growth of 1.6 % per year. In total, this would mean that the German media market will grow by almost EUR 4 billion compared to 2018 (2018: EUR 53.0 billion; 2023: EUR 57.3 billion).

According to PwC, growth is being driven by digital products that are gathering momentum thanks to innovative products and services. By 2023, advertising sales from digital operations will virtually match the level of traditional advertising. PwC is forecasting annual growth of 5.7 % for digital advertising (2023: EUR 10.7 billion), while analog media advertising business will contract by an average of 1 % per year (2023: EUR 11.1 billion).

According to PwC, the digital newcomers are set to experience particularly rapid development over the next five years: 19.2 % per year for virtual reality, 18.1 % per year for e-sports, and 9.3 % per year for Internet video (2018: EUR 1.0 billion; 2023: EUR 1.6 billion). For the German pay TV market, PwC predicts a continuation of dynamic growth in the years ahead, in particular as a result of new in-house productions, innovative models, and cooperations with VoD providers. Accordingly, PwC is forecasting average annual sales growth on the German pay TV market of 2.7 % to EUR 2.7 billion between 2019 and 2023.

Key areas

SPORT1 will continue to focus on the systematic use, distribution, and capitalization of multimedia content in fiscal 2020 as well. In addition to augmenting the portfolio by acquiring attractive new rights, extending existing partnerships, and developing new content cooperations and business areas, cross-platform exploitation and production of established pillars of programming also remain central. In particular, these include the core sports of football, including Bundesliga 1 and 2 and the DFB Cup, and motorsports, ice hockey, basketball, volleyball, darts, tennis, boxing, US sports, and e-sports.

Given the still massive growth in the digital and cross-platform use of media content, Sport1 GmbH will continue to promote the digital diversification of the SPORT1 brand in fiscal 2019, while at the same time creating new content and marketing environments. The fundamental priorities here are the development of new mobile content, the intensification of social media activities, and the expansion of the video area using proprietary apps and video brand channels or new social media video content. Activities also include proprietary content and formats in the rapidly growing e-sports segment – such as the pay service eSPORTS1 launched in January 2019 and the new eSPORTS1 app as further milestones.

In 2020, in addition to sophisticated and complex live sports productions and non-live formats, PLAZAMEDIA will continue to focus on the development of innovative production technologies, content management solutions, and technical content distribution. Alongside conventional broadcast activities, the expansion of the PLAZAMEDIA portfolio will focus in particular on the development of new and existing digital production activities, products, and services in fiscal 2020. Cooperations with various renowned partners in this area are opening up access to new markets and players. The goal is to build on existing business relationships on the basis of the diverse range of services, to tap new business areas and customer groups, and thus to create a broader basis for the customer portfolio as a whole in fiscal 2020.

Financial targets of the Highlight Group

In the Film segment, Constantin Film AG will also release successful movies in Germany in the current fiscal year. Candidates with high commercial potential at the box office are "Kaiserschmarrndrama," "Monster Hunter," "Ostwind – Der große Orkan," "After We Collided," "Contra," and "Caveman." Overall, sales from German theatrical exploitation is expected to be lower than in the previous year, as the 2019 release slate was dominated by "Das perfekte Geheimnis," which had an excellent box office.

Home entertainment sales in Germany from the product content available in 2020 will be higher than in the previous year. Top titles for exploitation in 2020 include "Das perfekte Geheimnis," "Die Drei !!!," "After We Collided," "Ostwind – Der große Orkan," and "Dragon Rider."

Sales generated in Germany is expected to be lower than in the previous year in license trading/TV exploitation. Sales from TV productions is expected to rise significantly year-on-year given the increased level of production activity. All in all, the Constantin Film Group is currently forecasting net profit before taxes of EUR 11–14 million and net profit attributable to shareholders of EUR 8–10 million on the back of a similar level of sales to the previous year and lower other operating income. License exploitation, particularly internationally, could result in positive potential if additional profit participation is realized; however, this potential cannot currently be quantified.

In the Sports- and Event-Marketing segment, the agency commission within the current contract agreement for the marketing of the UEFA Champions League and the UEFA Europa League is determined in euro. Assuming that the Swiss franc/euro exchange rate remains virtually the same, sales and earnings are therefore expected to be higher than in the previous year.

A slight decrease in TV sales is expected in the Sports segment as the new rights to the DFB Pokal (from the second half of 2019) will not be able to completely make up for the loss of UEFA Europa League broadcasts on account of the lower number of matches. By contrast, in digital operations, we are anticipating an increase in cumulative online and mobile coverage – in particular as a result of the optimization of editorial and functional content in addition to a number of traffic initiatives – which will also lead to rising sales. The same is also true of production, hence sales in the Sports segment is expected to match the previous year's level overall. Segment EBIT will presumably be considerably higher than the prior-year figure thanks to savings in the cost of materials and personnel expenses.

Pratteln, March 2020

The Board of Directors

Notes and forward-looking statements

This document contains forward-looking statements that are based on estimates and expectations of the Group management. Words such as "anticipate," "intend," "expect," "can/could," "plan," "intended," "further improvement," "target is," and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not historical facts. These are subject to risks, uncertainty, and factors that are mostly difficult to assess and, in general, beyond the control of the Group management. If one or more of these risks or uncertainties materializes, or if underlying expectations do not occur or assumptions prove to be incorrect, the actual results, performance, or achievements of the Highlight Group may differ significantly from those described explicitly or implicitly in the forward-looking statements. Highlight Communications AG does not intend to update the forward-looking statements contained in this document on an ongoing basis.

Although every effort has been made to ensure that the information and facts provided are correct, and that the opinions and expectations are reasonable, no liability or warranty as to the completeness, correctness, adequacy, or accuracy of any forward-looking statements in this document is assumed.

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.

Red carpet in Berlin: The team from the Constantin Film co-production “Der Fall Collini” celebrated the world premiere of the hit film along with many enthusiastic guests.

CONSOLIDATED FINANCIAL STATEMENTS

as of December 31, 2019 of Highlight Communications AG, Pratteln

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CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2019

Highlight Communications AG, Pratteln

ASSETS (TCHF)	Note	Dec. 31, 2019	Dec. 31, 2018
Non-current assets			
In-house productions		159,617	151,364
Third-party productions		15,056	34,087
Film assets	6.1	174,673	185,451
Other intangible assets	6.2	58,216	62,220
Goodwill	6.2	133,554	133,531
Property, plant and equipment	6.3	14,686	17,555
Right-of-use assets	6.4	38,236	–
Advance payments for shares in affiliated companies	3.1	8,000	–
Investments in associated companies	6.6	54	54
Non-current receivables	6.7	16,021	13,343
Other financial assets	6.9	910	9
Deferred tax assets	6.8	13,499	1,141
		457,849	413,304
Current assets			
Inventories	6.10	7,187	5,860
Trade accounts receivable and other receivables	6.11	136,488	142,709
Contract assets	6.12	18,626	23,507
Other financial assets	6.9	14	–
Income tax receivables	6.13	814	736
Cash and cash equivalents	6.14	52,970	52,530
		216,099	225,342
Total assets		673,948	638,646

The notes on pages 90 – 158 are an integral part of the consolidated financial statements.

EQUITY AND LIABILITIES (TCHF)	Note	Dec. 31, 2019	Dec. 31, 2018
Equity	6.15		
Subscribed capital		63,000	63,000
Treasury stock		–6,300	–6,258
Capital reserve		–98,968	–67,203
Other reserves		–38,753	–34,356
Retained earnings		268,374	244,287
Equity attributable to shareholders		187,353	199,470
Non-controlling interests		10,335	26,112
		197,688	225,582
Non-current liabilities			
Financial liabilities	6.18	121,059	934
Lease liabilities	6.4	31,904	–
Other liabilities	6.20	311	1,958
Pension liabilities	6.16	5,042	3,563
Deferred tax liabilities	6.17	33,527	30,204
		191,843	36,659
Current liabilities			
Financial liabilities	6.18	66,672	149,004
Lease liabilities	6.4	8,046	–
Advance payments received	6.19	57,487	72,111
Trade accounts payable and other liabilities	6.21	134,421	135,015
Contract liabilities	6.22	7,401	8,131
Provisions	6.23	4,572	7,856
Income tax liabilities	6.24	5,818	4,288
		284,417	376,405
Total equity and liabilities		673,948	638,646

The notes on pages 90 – 158 are an integral part of the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT 2019

Highlight Communications AG, Pratteln

(TCHF)	Note	Jan. 01 to Dec. 31, 2019	Jan. 01 to Dec. 31, 2018
Sales	7.1	**486,813**	**531,610**
Capitalized film production costs and other own work capitalized	7.2	**95,857**	**154,877**
Other operating income	7.3	**41,799**	**20,744**
Costs for licenses, commissions and materials		–50,590	–48,501
Costs for purchased services		–173,915	–239,501
Cost of materials and licenses	7.4	**–224,505**	**–288,002**
Salaries		–149,743	–134,741
Social security, pension costs		–20,858	–18,729
Personnel expenses		**–170,601**	**–153,470**
Amortization and impairment on film assets	6.1	–96,636	–151,744
Amortization, depreciation and impairment on intangible assets and property, plant and equipment	6.2/6.3	–11,405	–8,858
Amortization, depreciation and impairment on right-of-use assets	6.4	–8,272	–
Amortization, depreciation and impairment		**–116,313**	**–160,602**
Other operating expenses	7.5	**–82,858**	**–71,858**
Impairment/reversals of impairment on financial assets	7.6	**–645**	**–1,298**
Gains/losses from the derecognition of financial assets measured at amortized cost		**–2**	**–47**
Profit from operations		**29,545**	**31,954**
Earnings from investments in associated companies	6.6	**7**	**12**
Financial income	7.7	2,268	4,365
Financial expenses	7.8	–9,389	–11,358
Financial result		**–7,121**	**–6,993**
Profit before taxes		**22,431**	**24,973**
Current taxes		–5,269	–5,998
Deferred taxes		8,200	–1,011
Taxes	7.9	**2,931**	**–7,009**
Net profit for the period		**25,362**	**17,964**
thereof shareholders’ interests		25,173	18,391
thereof non-controlling interests		189	–427

Earnings per share (CHF)			
Earnings per share attributable to shareholders (basic)		0.44	0.32
Earnings per share attributable to shareholders (diluted)		0.44	0.32
Average number of shares in circulation (basic)		56,762,061	58,175,579
Average number of shares in circulation (diluted)		56,762,061	58,175,579

The notes on pages 90 –158 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS 2019

Highlight Communications AG, Pratteln

(TCHF)	Note	Jan. 01 to Dec. 31, 2019	Jan. 01 to Dec. 31, 2018
Net profit for the period		**25,362**	**17,964**
Unrealized gains/losses from currency translation		–4,939	–3,300
Reclassification of realized gains/losses through profit or loss		630	–
Currency translation differences	6.15	–4,309	–3,300
Gains/losses from cash flow hedges	6.15	–251	1,598
Items that may be reclassified to the income statement in future		**–4,560**	**–1,702**
Actuarial gains/losses of defined benefit pension plans	6.15	–911	1,182
Gains/losses from financial assets at fair value through other comprehensive income	6.15	–18	–
Items that will not be reclassified to the income statement in future		**–929**	**1,182**
Total other comprehensive income/loss, net of tax		**–5,489**	**–520**
Total comprehensive income/loss		**19,873**	**17,444**
thereof shareholders’ interests		19,847	18,058
thereof non-controlling interests		26	–614

The notes on pages 90 – 158 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2019

Highlight Communications AG, Pratteln

(TCHF)	Note	Equity Subscribed capital	 Treasury stock
Balance as of January 1, 2019		63,000	-6,258
Currency translation differences		–	–
Gains/losses from cash flow hedges		–	–
Items that may be reclassified to the income statement in future		–	–
Actuarial gains/losses of defined benefit pension plans		–	–
Gains/losses from financial assets at fair value through other comprehensive income		–	–
Items that will not be reclassified to the income statement in future		–	–
Total other comprehensive income/loss, net of tax		–	–
Net profit for the period		–	–
Total comprehensive income/loss		–	–
Purchase of treasury stock		–	–42
Dividend payments		–	–
Change in the scope of consolidation		–	–
Change in non-controlling interests		–	–
Balance as of December 31, 2019	6.15	63,000	–6,300
Balance as of January 1, 2018		63,000	–45
Currency translation differences		–	–
Gains/losses from cash flow hedges		–	–
Items that may be reclassified to the income statement in future		–	–
Actuarial gains/losses of defined benefit pension plans		–	–
Gains/losses from financial assets at fair value through other comprehensive income		–	–
Items that will not be reclassified to the income statement in future		–	–
Total other comprehensive income/loss, net of tax		–	–
Net profit for the period		–	–
Total comprehensive income/loss		–	–
Purchase of treasury stock		–	–30
Sale of treasury stock		–	2,000
Dividend payments		–	–
Change in the scope of consolidation		–	–8,183
Change in non-controlling interests		–	–
Balance as of December 31, 2018	6.15	63,000	–6,258

The notes on pages 90 – 158 are an integral part of the consolidated financial statements.

attributable to shareholders					
Capital reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
-67,203	-34,356	244,287	199,470	26,112	225,582
–	-4,146	-	-4,146	-163	-4,309
–	-251	-	-251	-	-251
–	-4,397	-	-4,397	-163	-4,560
–	–	-911	-911	-	-911
–	–	–18	–18	–	–18
–	–	–929	–929	–	–929
–	–4,397	–929	–5,326	–163	–5,489
–	–	25,173	25,173	189	25,362
–	–4,397	24,244	19,847	26	19,873
–	–	–157	–199	–	–199
–11,348	–	–	-11,348	-1,247	-12,595
–	–	–	-	107	107
–20,417	–	–	-20,417	-14,663	-35,080
–98,968	–38,753	268,374	187,353	10,335	197,688
–54,956	–32,841	256,067	231,225	4,842	236,067
–	–3,113	–	–3,113	–187	–3,300
–	1,598	–	1,598	–	1,598
–	–1,515	–	–1,515	–187	–1,702
–	–	1,182	1,182	–	1,182
–	–	–	–	–	–
–	–	1,182	1,182	–	1,182
–	–1,515	1,182	–333	–187	–520
–	–	18,391	18,391	–427	17,964
–	–1,515	19,573	18,058	–614	17,444
–	–	–140	–170	–	–170
–	–	10,221	12,221	–	12,221
–11,355	–	–	–11,355	–1,092	–12,447
–	–	–41,434	–49,617	23,828	–25,789
–892	–	–	–892	–852	–1,744
–67,203	–34,356	244,287	199,470	26,112	225,582

CONSOLIDATED STATEMENT OF CASH FLOWS 2019

Highlight Communications AG, Pratteln

(TCHF)	Note	Jan. 01 to Dec. 31, 2019	Jan. 01 to Dec. 31, 2018
Net profit for the period		25,362	17,964
Deferred taxes		–8,200	1,011
Current taxes		5,269	5,998
Financial result (without currency result)		7,208	4,590
Earnings from investments in associated companies	6.6	–7	–12
Amortization, depreciation and impairment on non-current assets	6.1/6.2/ 6.3/6.4	116,313	160,602
Gain (-)/loss (+) from disposal of non-current assets	7.3/7.5	–275	56
Other non-cash items		1,351	3,180
Increase (-)/decrease (+) in inventories, trade accounts receivable and other assets not classified to investing or financing activities		3,517	–13,148
Decrease (-)/increase (+) in trade accounts payable and other liabilities not classified to investing or financing activities		–17,222	5,354
Dividends received from associated companies	6.6	5	6
Interest paid		–4,354	–8,533
Interest received		389	17
Income taxes paid		–4,272	–5,339
Income taxes received		505	1,731
Cash flow from operating activities		125,589	173,477

The notes on pages 90 –158 are an integral part of the consolidated financial statements.

(TCHF)	Note	Jan. 01 to Dec. 31, 2019	Jan. 01 to Dec. 31, 2018
Change in cash and cash equivalents due to acquisition/ disposal of companies/shares in companies (net)	3.1	859	–107,829
Payments for intangible assets	6.2	–3,697	–3,274
Payments for film assets		–93,730	–177,184
Payments for property, plant and equipment	6.3	–6,602	–12,230
Payments for financial assets	6.9	–620	–
Payments for purchase of non-controlling interests	3.1	–8,000	–
Proceeds from disposal of intangible assets and film assets		–	125
Proceeds from disposal of property, plant and equipment		97	277
Proceeds from disposal of financial assets		–	35
Proceeds from disposal of investments in associated companies		–	6
Cash flow for investing activities		**–111,693**	**–300,074**
Payments for purchase of treasury stock	6.15	–199	–170
Proceeds from sale of treasury stock		–	12,221
Payments for purchase of non-controlling interests	6.15	–35,080	–1,744
Repayment of current financial liabilities	6.18	–93,050	–117,026
Repayment of lease liabilities	6.4	–8,372	–
Proceeds from sale/leaseback	6.4	3,936	–
Proceeds from receipt of current financial liabilities	6.18	133,538	114,930
Dividend payments	6.15	–12,595	–12,447
Cash flow for financing activities		**–11,822**	**–4,236**
Cash flow from/for the reporting period		**2,074**	**–130,833**
Cash and cash equivalents at the beginning of the reporting period	6.14	52,530	186,553
Effects of currency differences		–1,634	–3,190
Cash and cash equivalents at the end of the reporting period	6.14	52,970	52,530
Change in cash and cash equivalents		**2,074**	**–130,833**

The notes on pages 90 – 158 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2019

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 30, 2020, and require the approval of the Annual General Meeting to be held in June 2020.

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 Highlight Event and Entertainment AG, Pratteln, Switzerland.

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 as well as Sports- and Event-Marketing. Please see note 9 for further information on segment reporting.

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 provisions of Swiss Commercial law. All IFRSs/IASs and SICs/IFRICs applicable as of December 31, 2019, were complied with.

A list of the subsidiaries 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 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; exceptions to this are described in the accounting policies (see note 4).

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. More detailed information on the basis of estimates can be found separately under the respective balance sheet item (see note 5).

The financial statements have been prepared in Swiss francs, which is the functional and reporting currency of the Group's parent company. In general, the amounts are reported in thousands of Swiss francs (TCHF) unless stated otherwise. For calculation-related reasons, rounding differences of +/- one unit (TCHF) may arise and the percentages shown may not precisely reflect the absolute figures to which they relate.

2. ACCOUNTING

2.1 Relevant standards and interpretations applied for the first time

First-time adoption of IFRS 16 "Leases"

The IASB published the final version of IFRS 16 "Leases" in January 2016. The Standard replaces IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

The Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 provides for a single accounting model for lessees. All assets and liabilities under leases are recognized in the balance sheet unless the lease has a term of twelve months or less or the lease is for a low-value asset (see also note 4.8). The lessor still distinguishes between finance and operating leases for accounting purposes. There are no leases within the Group for which the Highlight Group is the lessor.

IFRS 16 is effective for the first time for annual periods beginning on or after January 1, 2019. The Highlight Group has chosen modified retrospective application with the recognition of the cumulative amount of adjustments in equity. As the right-of-use assets corresponded to the value of the lease liabilities on initial recognition, there were no cumulative adjustments. In accordance with IFRS 16.C7, comparative information for earlier periods is not restated. Its adoption essentially affects the leases previously classified as operating leases.

In accordance with the option provided by IFRS 16.5, short-term leases with a term of not more than twelve months (and without a purchase option) and leases for low-value assets (i.e. typically less than TEUR 5 per asset) were not accounted for in accordance with IFRS 16, but rather recognized as other operating expenses on a straight-line basis over the term of the lease. Furthermore, in accordance with IFRS 16.15, no lease classes are separated into lease and non-lease components; instead, all contract components are recognized as a lease. The Highlight Group also applied the practical expedients of IFRS 16.C3(b) and did not review contracts that were not classified as leases under IAS 17 "Leases" in conjunction with IFRIC 4 "Determining whether an Arrangement contains a Lease" according to the definition of a lease in IFRS 16. Contracts classified as leases in accordance with IAS 17 continue to be treated as such. The Highlight Group does not exercise the option provided by IFRS 16.4 for intangible assets, and still accounts for right-of-use assets for intangible assets in accordance with the principles of IAS 38.

The Group has leases for various items of property, vehicles, technical equipment, and other leased assets. When IFRS 16 was applied for the first time, the right-of-use asset for the lease asset was measured at the value of the lease liability, adjusted for prepaid or deferred lease payments. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The Group's weighted average incremental borrowing rate was between 0.16 % and 3.23 %. In accordance with IFRS 16.C10(d), the initial direct costs were not taken into account when measuring the right-of-use asset at the date of initial application.

For leases previously classified as finance leases, the carrying amount of the lease asset in accordance with IAS 17 immediately before the adoption of IFRS 16 and the carrying amount of the lease liability in accordance with IAS 17 were recognized as the initial carrying amount of the right-of-use asset and the lease liability in accordance with IFRS 16. The measurement principles of IFRS 16 are only applied thereafter.

The reconciliation of the rental and lease obligations not shown in the balance sheet as of December 31, 2018 to the lease liabilities recognized as of January 1, 2019 is as follows:

(TCHF)	Building and room rental	Vehicles	Other	Total
Lease and rental obligations not shown in the balance sheet as of December 31, 2018	**42,043**	**1,024**	**485**	**43,552**
Rental and lease obligations reported under other financial liabilities as of December 31, 2018	242	–	973	1,215
Discounting	–2,811	–25	–35	–2,871
Short-term leases	–1,689	–116	–2	–1,807
Leases for low-value assets	–	–	–72	–72
Variable lease payments	–3,569	–	–	–3,569
Reasonably certain extension and termination options	5,633	–	–	5,633
Non-lease components	–769	–	–	–769
Intangible assets	–	–	–250	–250
Other	714	–16	–	698
Lease liabilities due to the first-time adoption of IFRS 16 as of January 1, 2019	**39,794**	**867**	**1,099**	**41,760**
Lease liabilities from finance leases as of January 1, 2019	–	–	1,164	1,164
Total lease liabilities as of January 1, 2019	**39,794**	**867**	**2,263**	**42,924**

Please see note 5.2.9 for further disclosures on the treatment of judgments.

The quantitative impact of the adoption of IFRS 16 on the consolidated balance sheet as of January 1, 2019 is shown by the table below:

(TCHF)	Dec. 31, 2018	Adjustments IFRS 16	Reclassifi-cations IFRS 16	Jan. 01, 2019
Non-current assets				
In-house productions	151,364	–	–	151,364
Third-party productions	34,087	–	–	34,087
Film assets	185,451	–	–	185,451
Other intangible assets	62,220	–	–	62,220
Goodwill	133,531	–	–	133,531
Property, plant and equipment	17,555	–	–1,340	16,215
Right-of-use assets	–	39,902	1,340	41,242
Investments in associated companies	54	–	–	54
Non-current receivables	13,343	–	–	13,343
Other financial assets	9	–	–	9
Deferred tax assets	1,141	–	–	1,141
	413,304	**39,902**	**–**	**453,206**
Current assets				
Inventories	5,860	–	–	5,860
Trade accounts receivable and other receivables	142,709	–	–	142,709
Contract assets	23,507	–	–	23,507
Income tax receivables	736	–	–	736
Cash and cash equivalents	52,530	–	–	52,530
	225,342	**–**	**–**	**225,342**
Total assets	**638,646**	**39,902**	**–**	**678,548**
Equity				
Subscribed capital	63,000	–	–	63,000
Treasury stock	–6,258	–	–	–6,258
Capital reserve	–67,203	–	–	–67,203
Other reserves	–34,356	–	–	–34,356
Retained earnings	244,287	–	–	244,287
Equity attributable to shareholders	199,470	–	–	199,470
Non-controlling interests	26,112	–	–	26,112
	225,582	**–**	**–**	**225,582**
Non-current liabilities				
Financial liabilities	934	–	–934	–
Lease liabilities	–	34,324	934	35,258
Other liabilities	1,958	–1,788	–	170
Pension liabilities	3,563	–	–	3,563
Deferred tax liabilities	30,204	–	–	30,204
	36,659	**32,536**	**–**	**69,195**
Current liabilities				
Financial liabilities	149,004	–	–230	148,774
Lease liabilities	–	7,436	230	7,666
Advance payments received	72,111	–	–	72,111
Trade accounts payable and other liabilities	135,015	–70	–	134,945
Contract liabilities	8,131	–	–	8,131
Provisions	7,856	–	–	7,856
Income tax liabilities	4,288	–	–	4,288
	376,405	**7,366**	**–**	**383,771**
Total equity and liabilities	**638,646**	**39,902**	**–**	**678,548**

The first-time adoption of IFRS 16 resulted in a reduction of other operating expenses of TCHF 7,792 in the reporting period. Total depreciation and amortization increased by TCHF 7,506 as a result of the amortization of right-of-use assets, while total financial expense rose by TCHF 661 due to the interest effect. In the statement of cash flows, the principal payments for the lease installments in the amount of TCHF 7,612 were reclassified from cash flow from operating activities to cash flow from financing activities. Leases that would have been classified as finance leases under the old IAS 17 are not included in the above figures.

There were no onerous leases as of the adoption date of IFRS 16, hence there was no impairment on right-of-use assets.

The difference between the right-of-use assets from leases and the current and non-current lease liabilities of TCHF 1,858 relates to reclassifications of deferred lease liabilities as a result of the adoption of IFRS 16.

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

The Highlight Group waived early adoption of the new and revised standards and interpretations whose adoption is not yet required for Highlight Communications AG. The Group considers the impact of these new standards and interpretations on current or future reporting periods and foreseeable future transactions to be immaterial.

3. SCOPE OF CONSOLIDATION

3.1 Acquisitions

In the first half of 2019, Highlight Communications AG increased its shareholding in Constantin Medien AG, which was already fully consolidated, from 79.18 % to 79.44 %. The shareholding increased to 93.92 % in the third quarter of 2019 as a result of the public delisting tender offer. The shareholding increased to 94.18 % in the fourth quarter of 2019 as a result of further acquisitions (stock market trading). This involved a transaction between equity providers. The total transaction volume was TCHF -35,080.

In accordance with the memorandum of association dated and with economic effect from July 4, 2019, Constantin Television GmbH, Munich, together with Maren Lüthje and Florian Schneider founded Lüthje Schneider Film GmbH by way of a cash contribution together with a non-cash contribution. Maren Lüthje and Florian Schneider contributed their entire shareholding in Lüthje Schneider Hörl Film OHG to the company as a premium. By way of a supplementary agreement in July 2019, this was then renamed “PSSST! Film GmbH”. The contribution agreement results in goodwill non-deductible for tax purposes of TCHF 275, which primarily represents the strategic synergy and development potential of the productions.

The purpose of the company is the development, production and exploitation of primarily but not exclusively national fictional film and TV productions for the purposes of global exploitation and the licensing of exploitation rights in such products. The Group founded the company in order to further expand its production activities. A cash contribution of TCHF 97 was made in the form of a premium and proportionate share capital of TCHF 14 was contributed.

Constantin Television GmbH holds 51 % of the shares in the company. Maren Lüthje and Florian Schneider jointly hold 49 % of the shares in the amount of TCHF 107. The company is fully consolidated.

The effective date of first-time consolidation is July 4, 2019. As there are no significant reconciling items to be taken into account, the closing balance sheet of Lüthje Schneider Hörl Film OHG as of June 30, 2019 is applied for the non-cash contribution for reasons of materiality.

The assets included in the consolidated financial statements at fair value comprise property, plant and equipment of TCHF 3, goodwill of TCHF 275, and current assets comprising receivables and other assets of TCHF 360 and cash and cash equivalents of TCHF 873. These are offset by liabilities assumed at fair value totaling TCHF 1,293.

As a result of the first-time consolidation of the company as of July 4, 2019, sales of TCHF 4,381 and profit after tax of TCHF 135 were included in the Highlight Group’s consolidated financial statements.

By way of agreement dated and effective January 1, 2020, Highlight Communications AG, Pratteln, acquired 100 % of the shares in Highlight Event AG, Emmen, from Highlight Event and Entertainment AG, Pratteln, for a purchase price of TCHF 9,000. As a result of gaining control, this equity investment will be included in consolidation from the acquisition date onwards. An advance payment for the acquisition in the amount of TCHF 8,000 was made in December 2019.

3.2 Other changes

Sport1 Media GmbH was merged into Sport1 GmbH effective September 30, 2019.

The consolidated company Rainbow Home Entertainment Ges.m.b.H., Vienna, was liquidated on October 9, 2019. At the liquidation date, TCHF 630 in negative currency translation differences were reclassified from other comprehensive income (OCI) to profit or loss.

The consolidated company Constantin Entertainment Hungary Kft., Budapest, was liquidated in December 31, 2019. The effect of this transaction on these consolidated financial statements is immaterial.

3.3 Overview of fully consolidated companies

Königskinder Music GmbH, in which Constantin Film AG holds a 50% interest, is included in consolidation on the basis of de facto control. As the two managing directors of this company are related parties of Constantin Film AG, Constantin Film AG currently has the ability to control key activities of this investee. Constantin Film AG is also subject to the variable returns from this company, and can significantly influence their amount through the two managing directors.

Fully consolidated companies as of December 31, 2019

	Activity	Country	Currency	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 und Entertainment AG	Acquisition and development of content	CH	CHF	500,000	100%	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	105,100	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%
Mythos Film GmbH	Administration	DE	EUR	37,500	100%	100%
Mythos Film Verwaltungs-GmbH	Administration	DE	EUR	25,000	100%	100%
Mythos Film Produktions-GmbH & Co. KG**	Film and TV production	DE	EUR	12,000	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	100%	100%
Constantin Entertainment SRB d.o.o.	TV entertainment production	RS	RSD	526,944	100%	100%
Constantin Entertainment Israel Ltd.	TV entertainment production	IL	ILS	50,000	56.25%	56.25%
Constantin Entertainment RO SRL***	TV entertainment production	RO	RON	10,000	100%	100%
Constantin Entertainment Bulgarien EOOD	TV entertainment production	BG	BGN	5,000	100%	100%
Constantin Entertainment CZ s.r.o.	TV entertainment production	CZ	CZK	200,000	100%	100%
Constantin Entertainment Slovakia s.r.o.****	TV entertainment production	SK	EUR	25,000	100%	100%
Olga Film GmbH	Film and TV production	DE	EUR	603,000	95.52%	95.52%
Moovie GmbH	Film and TV production	DE	EUR	104,000	100%	100%
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	250,000	100 %	100 %
Constantin Film Licensing, Unipessoal Lda*****	License trading	PT	EUR	5,000	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 consulting	DE	EUR	50,000	50 %	50 %
Constantin Film Production Services GmbH	Film and TV production	DE	EUR	100,000	100 %	100 %
Constantin Television GmbH	TV entertainment production	DE	EUR	100,000	100 %	100 %
Hager Moss Film GmbH	TV entertainment production	DE	EUR	102,300	100 %	100 %
PSSST! Film GmbH	Film and TV production	DE	EUR	25,000	51 %	51 %
Constantin Medien AG	Holding company	DE	EUR	93,600,000	94.18%	94.18 %
Sport1 Holding GmbH (formerly: Constantin Sport Holding GmbH)	Holding company	DE	EUR	55,000	100 %	100 %
Sport1 GmbH	Platform operator	DE	EUR	500,000	100 %	100 %
Sport1 Gaming GmbH	Inactive	DE	EUR	25,000	100 %	100 %
PLAZAMEDIA GmbH	Production service provider	DE	EUR	150,000	100 %	100 %
PLAZAMEDIA Austria Ges.m.b.H., in liquidation	Production service provider	AT	EUR	35,000	100 %	100 %
PLAZAMEDIA Swiss AG, in liquidation	Production service provider	CH	CHF	100,000	100 %	100 %
LEitMOTiF Creators GmbH	Consulting	DE	EUR	25,000	100 %	100 %
Magic Sports Media GmbH	Marketing	DE	EUR	25,000	100 %	100 %
Match IQ GmbH	Consulting	DE	EUR	30,000	50.1 %	50.1 %
Event IQ GmbH	Consulting	DE	EUR	25,000	100 %	100 %

* *Direct and/or indirect share held by the Group.*
** *33.33 % are held by Mythos Film Verwaltungs-GmbH.*
*** *0.1 % are held by Constantin Film Produktion GmbH.*
**** *3 % are held by Constantin Film Produktion GmbH.*
***** *50 % are held by Constantin Film AG.*

3.4 Overview of companies not included in consolidation

Owing to a lack of business activities, 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. These companies are therefore not included in Highlight Communications AG's scope of consolidation. The non-consolidated companies have been reported at a carrying amount of TCHF 0 (previous year: TCHF 0). The companies are currently inactive and have no operations. Their assumed fair value is equal to their carrying amount.

Companies not included in consolidation as of December 31, 2019

	Country	Currency	Subscribed capital	Share in capital
Impact Pictures LLC*	USA	USD	1,000	51 %
T.E.A.M. UK**	UK	GBP	1	100 %

* *Share held by Constantin Pictures GmbH, Germany.*
** *Share held by T.E.A.M. Television Event And Media Marketing AG, Switzerland.*

3.5 Overview of associated companies

The following associated company is included in the consolidated financial statements using the equity method:

	Share in capital	Period recognized in the consolidated financial statements	Currency	Subscribed capital
BECO Musikverlag GmbH	50 %	Jan. 01 to Dec. 31, 2019	EUR	25,565

The annual financial statements of BECO Musikverlag GmbH as of December 31, 2018 were used for reporting as the annual financial statements as of December 31, 2019 have not yet been prepared.

Financial information on the associated companies can be found in note 6.6.

4. SUMMARY OF THE KEY ACCOUNTING POLICIES

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. Highlight Communications AG controls an investee when all the following criteria are met:

- control of the investee,
- risks from or rights to variable returns from its exposure in the investee, and
- the ability to utilize its control so as to influence the amount of returns from the investee

Highlight Communications AG monitors on an ongoing basis whether it controls an investee when facts or circumstances indicate that one or more of the three control criteria have changed.

If Highlight Communications AG holds less than a majority of the voting or similar rights in the investee, Highlight Communications AG takes into account all relevant facts and circumstances in assessing whether it controls an investee, including:

- a contractual arrangement with other parties entitled to vote,
- rights resulting from other contractual arrangements,
- potential voting rights held by Highlight Communications AG, other parties entitled to vote or other parties, and
- all additional facts and circumstances which indicate that Highlight Communications AG can currently determine the relevant business activities, including voting patterns at prior general meetings.

Structured companies 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 remeasured 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 (full goodwill method) or at the pro rata identifiable net assets (partial goodwill method).

An associated company is a company in which Highlight Communications AG has significant influence. Significant influence is the ability to participate in the financial and business policy decisions of the investee, but not control or joint control of these decisions.

A joint venture is a joint arrangement in which parties exercise joint control of the arrangement and have rights to the net assets of the arrangement. Joint control is the contractually agreed common control of an arrangement. It exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Associated companies and joint ventures 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 and joint ventures are absorbed into the Group pro rata and allocated to the carrying amount of the investment. Profit distributions by these companies reduce their carrying amount. If there are objective indications of impairment, impairment losses are recognized in profit or loss. Changes recognized in the equity of associated companies and joint ventures 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 and joint ventures (e. g. currency translation differences) are shown in the consolidated financial statements as a separate item in other comprehensive income (OCI).

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 balance sheet. They are reported in the consolidated balance sheet 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

4.2.1 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.

4.2.2 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 or losses from the settlement of these transactions and gains or losses from the translation of monetary assets and liabilities are recognized in profit or loss. Gains or losses from qualified cash flow hedges and monetary items classified as the Group's net investments in a foreign operation constitute an exception to this. These gains or losses are shown in other comprehensive income (OCI). Translation differences on non-monetary equity instruments measured at fair value through other comprehensive income are also recognized in other comprehensive income.

4.2.3 Currency translation in the Group

The balance sheet 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 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 are recognized as part of the gain or loss on its sale.

4.2.4 Exchange rates

		Closing rate		Annual average rate	
				Jan. 01 to	Jan. 01 to
		Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Euro	(EUR)	1.08538	1.12633	1.11261	1.15135
US dollar	(USD)	0.96754	0.98405	0.99373	0.97685
British pound	(GBP)	1.27591	1.25329	1.26928	1.29918
Canadian dollar	(CAD)	0.74330	0.72191	0.74901	0.75202

4.3 Fair value measurement

The Group measures its financial instruments, including derivatives, and non-financial assets and liabilities measured at fair value at the end of each reporting period. Fair value is the price that independent market participants would receive or pay under normal market conditions as of the measurement date when selling an asset or transferring a liability (exit price).

In measuring this, it is assumed that the sale/transfer takes place on the priority market (market with the largest volume) for this asset/liability. If a priority market is not available, the most advantageous market must be used to measure fair value. The fair value of an asset or liability is measured assuming that market participants act in their economic best interest when pricing the asset or liability.

Counterparty non-performance risk is measured using the Standard & Poor's model (AAA – CCC). The risk of default is calculated using a percentage for each rating category. An entity's own rating is determined using a peer group model approach. Third-party credit risk is taken into account when measuring the fair value of financial assets and derivative financial instruments where material. An entity's own credit risk is taken into account in the measurement of debt instruments and derivative financial instruments where material.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring non-financial liabilities and an entity's own equity instruments, a transfer to another market participant is assumed. An exit scenario is assumed here. When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available, an entity shall measure the instruments from the perspective of a market participant that holds the identical item as an asset.

The Group applies measurement methods that are appropriate in the circumstances and for which there are sufficient data to measure fair value. In doing so, the use of relevant, observable input factors is maximized and that of non-observable input factors is minimized.

All assets and liabilities that are measured at fair value or for which the fair value is disclosed in the notes are assigned to the following levels of the fair value hierarchy based on the lowest input significant overall for measurement:

- Level 1: (non-adjusted) prices quoted on active markets accessible to the Group on the measurement date for identical assets or liabilities
- Level 2: other input factors than the quoted prices listed in level 1 that can be observed either directly or indirectly for the asset or liability
- Level 3: input factors that are not observable for the asset or liability

The fair value of non-current financial instruments measured at amortized cost is calculated for the disclosures in the notes by discounting the forecast future cash flows using the interest rates currently applicable for financial instruments with similar conditions and remaining terms if a level 1 measurement is not possible. Matched term interest rates are calculated annually as of the end of each reporting period.

For assets and liabilities that are measured at fair value on a recurring basis, the Group determines as of the end of the reporting period whether there were transfers between the levels of the fair value hierarchy based on the lowest input factor significant overall to measurement. Information on the measurement methods used and the input factors for determining the fair value of assets and liabilities can be found in notes 6, 7 and 8.

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 (own 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 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. Costs for releasing the film, such as press and marketing costs, are also incurred but not capitalized and instead are recognized immediately 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 sales. Under the individual film forecast method, the amortization for a film in a period is calculated by the formula "sales generated by the film in the period divided by the film's estimated total remaining sales and multiplied by the residual carrying amount of the film". The sales used as a basis for calculating amortization include all income generated by the film. This income is adjusted for home entertainment costs when calculating amortization in connection with home entertainment sales. The maximum period for estimating sales is ten years for films as recognized in the film assets of the Highlight Group.

The estimate of the total sales 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 sales. Each film is also tested for impairment at the end of each reporting period and if there are indications of impairment. If the cost or the carrying amount of the film is not covered by its estimated total sales less release costs yet to be incurred, 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. Estimated cash flows can vary significantly as a result of a number of factors such as market acceptance. The Group examines and revises the cash flow forecasts and amortization expenses as soon as any changes arise in previous forecasts. Impairment losses on film assets are reversed if there are indications that the reasons for the original write-down have ceased to apply, resulting in a higher recoverable amount. They must not exceed the amortized cost. Reversals of impairment are offset against losses in value in the fiscal year.

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 sale of the rights cannot be specifically determined or are no longer considered likely, the costs are written off in full. Any indications of early impairment are recognized accordingly.

4.5 Other intangible assets

This category essentially includes purchased software and licenses, internally generated intangible assets and intangible assets identified in 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 4.9). 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 as an expense.

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 between two and six years. Development costs not eligible for capitalization are reported in the income statement as they arise.

Customer relationships identified in purchase price allocations are reported under other intangible assets. Their carrying amount is their fair value as of the time of acquisition less necessary amortization.

As a result of initial consolidation of Constantin Medien AG, purchase price allocation identified customer relationships, the brand name for Sport1 and licenses that are reported under other intangible assets. The amortization period is between six and 20 years. Their carrying amount is their fair value as of the time of acquisition less necessary amortization.

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 (partial goodwill method). 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.

4.7 Property, plant and equipment

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

Leasehold improvements are measured at cost less depreciation and impairment. Scheduled depreciation is usually carried out over the term of the respective rental agreement lease (of up to 27.5 years). Technical equipment and other equipment, 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 25 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 mentioned expected useful life. Costs and the associated cumulative depreciation are derecognized on disposal. Any resulting gains or losses are recognized in profit or loss in the fiscal year. If the cost of specific components of an item of property, plant and equipment is material, these components are recognized and depreciated individually.

4.8 Leases

As discussed in note 2.1, the Group is changing the way in which it accounts for leases in which the Group is the lessee.

Until December 31, 2018, the Highlight Group recognized its existing leases in accordance with IAS 17 “Leases”. This required the Group to classify them (as a lessee) as either finance or operating leases at the inception of the lease.

A lease was classified as a finance lease when substantially all the risks and opportunities of ownership to the Group; otherwise, it was classified as an operating lease. On the inception of the lease, finance leases were carried at the lower of the fair value of the leased asset and the present value of the minimum lease payment. Lease payments were broken down into interest (reported as financing costs) and principal components. In the case of operating leases, the leased asset was not capitalized and the lease payments were recognized as rental expenses in the income statement on a straight-line basis over the term of the lease. Any rent prepayments and deferrals were reported in deferred income/prepaid expenses or trade accounts payable and other liabilities.

The Group applied IFRS 16 "Leases" for the first time from the start of fiscal 2019 (see note 2.1). In accordance with IFRS 16, a lease is a contract under which the lessor grants the lessee the right to use an asset for a period of time in exchange for a payment or a series of payments.

4.8.1 Lease liabilities

At the inception of the lease, the Group recognizes lease liabilities measured at the present value of the lease payments to be made over the term of the lease. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate and amounts expected to be payable under residual value guarantees. Lease payments also include the exercise price of a purchase option that the Group can exercise with reasonable certainty and the payments of penalties for terminating the lease early if the Group exercises the option. Variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

If it is not possible to determine the interest rate implicit in the lease, the Group uses the incremental borrowing rate at the inception of the lease to calculate the present value of the lease payments. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow the funds necessary to obtain an asset of a similar value and similar conditions to the right-of-use asset in a similar economic environment.

After the inception of the lease, the amount of the lease liability is increased by the interest accreted and reduced by the lease payments made. Furthermore, the carrying amount of the lease liabilities is remeasured if there is a change in the term of the lease, a change in the significant fixed lease payments or a change in the acquisition-date value of the lease asset.

4.8.2 Short-term leases and leases for low-value assets

The Group exercises the option of not recognizing short-term leases (i. e. leases with a term of twelve months or less from the inception date and without a purchase option).

The Group also refrains from recognizing leases for low-value assets (typically less than TEUR 5 per asset).

Lease payments for short-term leases and leases for low-value assets are recognized in other operating expenses on a straight-line basis over the lease term.

4.8.3 Leases for intangible assets

The Group does not exercise the option concerning right-of-use assets for intangible assets, and still accounts for intangible assets in accordance with the principles of IAS 38. In the case of IT leases where hardware and software cannot be separated, the leased asset including the software is recognized in accordance with IFRS 16 "Leases".

4.8.4 Additional lease components

Contracts containing both lease components and non-lease components are not separated. Each lease component is recognized as a lease together with the other service components.

4.8.5 Right-of-use assets

The Group recognizes right-of-use assets at the inception of the lease, i. e. when the underlying asset is available for use. Right-of-use assets are measured at cost less cumulative depreciation and impairment and adjusted for the remeasurement of lease liabilities.

The cost of a right-of-use asset comprises the amount of the lease liabilities recognized, the initially incurred direct costs and the lease payments made at or before the inception of the lease, less any lease incentives received. If the Group is not reasonably certain that it will acquire ownership of the lease asset at the end of the lease term, the capitalized right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

4.9 Impairment of non-financial assets

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 as of December 31 of each fiscal year. Impairment testing is carried out for other intangible assets, property, plant and equipment and right-of-use assets 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 forecast future cash flows. Impairment is recognized if the recoverable amount is less than the carrying amount.

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, property, plant and equipment and right-of-use assets 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.

4.10 Inventories

Inventories, consisting of DVDs and Blu-rays in particular, are 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 also include service productions in development that have not yet been ordered by the broadcaster (see note 4.16). In addition, inventories include trade receivables not yet invoiced.

4.11 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 usually not offset. They are only netted if there is a currently enforceable legal right to offset the recognized amounts and there is an intention 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, if they are not part of a designated hedge. Gains/losses from fluctuations in value are recognized immediately in profit or loss.

Write-downs on receivables are generally recognized in separate allowance accounts. They are derecognized at the same time as the corresponding impaired receivable. Amounts in the allowance account are only derecognized against the carrying amount of impaired financial assets if the issue in question is past the statute of limitations.

4.11.1 Financial assets at amortized cost

The Group recognizes financial assets 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 (cash flow condition). 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 amortized cost. Interest-free monetary receivables with a maturity of more than one year are discounted with a matching interest rate.

The reported carrying amounts of the current receivables are the approximate fair values.

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. Cash and cash equivalents are measured at amortized cost.

4.11.2 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 irrevocable option to show realized and unrealized changes in value in other comprehensive income (OCI) rather than in the income statement, provided that the equity instrument is not held for trading. Amounts recognized in other comprehensive income (OCI) cannot be reclassified to profit or loss in the future.

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.

The effects of the currency translation of monetary items are recognized in the income statement, while the currency translation effects of non-monetary items are recognized in other comprehensive income (OCI) with the change in fair value.

4.11.3 Financial liabilities

Financial liabilities held for trading (e.g. non-hedge derivative financial instruments) are measured at fair value through profit or loss.

All other financial liabilities are measured at amortized cost – unless Highlight Communications AG voluntarily designates them at fair value through profit or loss on initial recognition (fair value option). 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 measured using the effective interest method.

4.11.4 Impairment of financial assets (debt instruments at amortized cost)

The impairment model is based on expected credit losses and is applicable to financial debt instruments that are measured either at amortized cost or at fair value through other comprehensive income. In addition, the impairment provisions of IFRS 9 also apply to contract assets, lease receivables, irrevocable loan commitments and financial guarantees. Loss allowances are recognized in profit or loss in separate allowance accounts, thereby reducing the carrying amount of the financial assets accordingly.

The general impairment model uses a three-stage procedure to determine loss allowances in the amount of the expected credit losses.

Level 1: All instruments are initially assigned to level 1. The present value of expected credit losses from possible defaults in the twelve months after the end of the reporting period is expensed for such instruments. Interest is recognized on the basis of the gross carrying amount, i. e. the effective interest method is applied based on the carrying amount before loss allowances.

Level 2: This contains all instruments with significant increases in credit risk at the end of the reporting period compared to the initial amount. Loss allowances are recognized at the present value of all expected losses over the remaining term of the instrument. Interest is recognized on the basis of the gross carrying amount, i. e. the effective interest method is applied based on the carrying amount before loss allowances.

Evidence of significant increases in credit risk includes:

- significant deterioration in the expected performance and behavior of the debtor
- significant deterioration in the credit quality of other instruments of the same debtor
- actual or expected deterioration in the economic, financial, regulatory, or technological circumstances relevant to the debtor’s credit rating

The application of an assumed number of days past due of 30 is not appropriate.

Level 3: If there is objective evidence of impairment in addition to a significant increase in credit risk at the end of the reporting period, the loss allowance is also measured on the basis of the present value of the expected losses over the remaining term. However, the recognition of interest in subsequent periods must be adjusted so that future interest income is calculated on the basis of the net carrying amount, i. e. the carrying amount after deducting loss allowances.

Objective evidence of impairment includes:

- significant financial difficulty of the issuer or obligor
- a breach of contract, such as a default or delinquency in interest or principal payments
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization

The simplified approach in accordance with IFRS 9 is always applied to trade accounts receivable or contract assets that do not contain a significant financing component. Changes in credit risk do not have to be tracked. Instead, a loss allowance is initially and subsequently recognized for the lifetime expected credit losses.

The Highlight Group recognizes specific loss allowances on trade accounts receivable and contract assets where there is clear objective evidence such as default or an increased probability of bankruptcy. For assets that are not credit-impaired, impairment is calculated using a provision matrix that determines the expected losses over the remaining term as percentages on the basis of the number of days past due and external ratings available for the borrower. These percentages are based on historical loss rates, which are adjusted for forward-looking estimates.

Besides additions to impairment losses, the item “Impairment and reversals of impairment on financial assets” also includes net income from the reversal of impairment losses.

Financial assets covered by the scope of the impairment provisions under IFRS 9 are derecognized when there is no reasonable expectation of recovery. These are reported at amortized cost under “Gains and losses on the derecognition of financial assets”. Amounts previously written off received subsequently are recognized in the same item.

Cash and cash equivalents are also subject to the impairment provisions of IFRS 9. As long as the counterparties – banks and financial institutions – have a good rating and do not have any going concern problems, no impairment losses are recognized on account of immateriality.

For long-term financial debt instruments, expected losses are discounted to the reporting date using the effective interest rate of the instrument determined at initial recognition to reflect the time value of money. The remaining term is the maximum term of the contract taking possible extension options into account.

4.11.5 Hedging instruments

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 assets and liabilities are designated as hedging instruments, either in full or in part. Non-derivative financial assets and liabilities are used to hedge unrecognized contracts for sale and license agreements in foreign currency. Furthermore, the Group uses cash flow hedges to hedge against the currency risk on future cash flows.

If all relevant criteria are met, hedge accounting is used to eliminate the accounting mismatch between the hedging instrument and the hedged item. This results in the reporting of the following items in the income statement and in other comprehensive income (OCI):

For forward contracts used to hedge expected transactions, the Group designates the change in the fair value of the forward contract as a hedge, regardless of whether it is a fair value hedge or cash flow hedge. Any material ineffectiveness arising from the cross currency basis spread (CCBS) is recognized directly in profit or loss.

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.

In a cash flow hedge, the effective portion of the change in the fair value of the derivative is recognized in other comprehensive income (OCI) and in equity under other reserves. Possible ineffectiveness is immediately recognized in profit or loss. When hedging foreign currency transactions, ineffectiveness may arise when the timing of the planned transaction differs from the original estimate, there is CCBS ineffectiveness or when changes occur in the probability of default of the Group or the derivative's counterparty.

Cumulative amounts recognized in other comprehensive income (OCI) as part of a cash flow hedge or assets or liabilities recognized as part of a fair value hedge are reclassified as follows in the periods in which the hedged item is recognized in profit or loss:

- If the hedged item results in the recognition of a non-financial asset (e. g. film assets), the deferred hedging gains and losses are included in the original cost of the asset. The deferred amounts are ultimately recognized in the income statement when the hedged item is recognized in profit or loss.
- If the hedging instrument expires or is sold or terminated, or when the hedge no longer meets the criteria for hedge accounting, any cumulative deferred hedging gains and losses previously recognized in other comprehensive income remains in equity, or in the recognized asset or liability, until the forecast transaction occurs and results in the recognition of a non-financial asset, such as film assets. If the transaction is no longer expected to occur, the cumulative deferred hedging gains and losses are reclassified to profit or loss.

The 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. The effectiveness of the hedge is reviewed on the basis of prospective effectiveness tests to ensure that there is an economic relationship between the hedged item and the hedging instrument. The prospective effectiveness test uses the critical terms match method. The hedged item and the hedging instrument are therefore subject to the same risk and the resulting changes in value largely offset each other.

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

Derivatives are solely used for hedging purposes and not as speculative investments. However, if derivatives do not meet the criteria for hedge accounting, they are recognized at fair value through profit or loss for accounting purposes. They therefore constitute current assets or liabilities expected to be settled within twelve months of the end of the reporting period.

4.12 Pension obligations

Post-employment benefits comprise employee pension benefits. These are divided into defined benefit and defined contribution 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.

For defined benefit plans, the present value of defined benefit obligations is calculated each year by an independent actuary using the projected unit credit method. The actuarial assumptions on which the calculations are based are determined by market expectations, at the end of the reporting period, for the period over which the obligations are to be settled. The pension plans are funded. The plan assets are recognized at fair value.

Actuarial gains and losses arise from changes in the assumptions made, deviations between the actual and forecast return on plan assets and differences between benefits acquired and those calculated using actuarial assumptions. These are recognized in other comprehensive income (OCI) under "Items that will not be reclassified to the income statement in future". The current service cost and net interest are recognized in profit or loss under personnel expenses. A reduction in contributions within the meaning of IAS 19 occurs when the employer must pay larger contributions than the service cost. Special events such as plan amendments that change employee claims, curtailments and settlements are recognized in profit or loss.

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. This provident fund of the management staff is not relevant under IAS 19.

4.13 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. Non-current provisions with a material interest effect are carried at the present value of the expected outflow calculated using current interest rates.

Provisions for onerous contracts (pending losses) 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 disclosed as for contingent liabilities if economic benefits are likely for the Group.

4.14 Income taxes

Current taxes are calculated on the basis of the results for the fiscal year and in accordance with the national tax laws of the respective tax jurisdiction. Forecast and actual additional tax payments or refunds for previous years are also taken into account.

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 on deductible temporary differences and tax loss carryforwards are reported only to the extent that it can be assumed with sufficient probability that the respective company will have sufficient taxable income against which temporary differences and unutilized loss carryforwards can be used.

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.

Deferred taxes on items recognized directly in other comprehensive income (OCI) are also recognized in other comprehensive income (OCI) and not in the income statement.

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

4.15 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.

4.16 Revenue from contracts with customers

Revenue for goods and services is recognized when a performance obligation is satisfied by the transfer of a promised good or service. Appropriate refund liabilities are recognized under trade accounts payable for additional expenses in connection with goods and services, including expenses for returned products.

Revenue from the exchange of services is recognized in profit or loss only when services of different types and values have been exchanged and the amount of the revenue can be reliably determined.

In the Film segment, revenue from theatrical films is recognized at a point in time from the time of their release. The amount of sales 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.

Sales from licenses for TV (pay/free) rights are recognized at a point in time 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, sales 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, home entertainment, TV rights). These are allocated to the various sales types. They are allocated on the basis of past experience in line with corporate planning at the following general rates: 25 % for movie theater rights, 15 % for home entertainment rights and 60 % for TV rights. The corresponding sales are recognized at a point in time as follows: movie sales on theatrical release, home entertainment sales six months after theatrical release, TV sales 24 months after theatrical release. Sales from global distribution without any minimum guarantee are recognized on the royalty settlements being received from the licensees.

For home entertainment exploitation, sales from DVDs and Blu-rays sold are recognized at a point in time as of release, taking into account the expected returns of merchandise. For digital purchase and rental transactions, sales are also recognized at a point in time from release, based on the number of digital transactions. Sales from licenses for home entertainment rights are recognized as of the date on which the license takes effect.

Revenue from service productions is recognized over time in the amount of the share of total revenue for the reporting period. Total contract sales and costs relating to this are recognized in profit or loss according to the stage of completion, provided the earnings from 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 from a service production cannot be reliably determined, sales are 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 a service production 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 progress are reported as contract assets or contract liabilities in the amount of the difference between realized sales and invoices. Service productions in development that have not yet been ordered by the broadcaster are recognized under inventories.

Sales from theatrical distribution, home entertainment, license trading/TV exploitation and other revenue are reported under the product type “Film”. Sales from TV service productions is shown under the product type “Production services”.

Sales in the Sports- and Event-Marketing segment are recognized in accordance with the contracts for the respective project. The Group receives a share of the earnings from the project in question. This share contains fixed remuneration and a variable component based on the income generated by the project. Project earnings are calculated by project accounting. The annual accounting period for project accounting does not have to be the same as the fiscal year. In the event that previous expectations no longer match current expectations, the variable 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.

In the Sports segment, TV advertising revenue is recognized when the corresponding advertisement is broadcast for consumers. Discounts and commission for advertising agencies are deducted directly from revenue. There are no financing components as the contracts with the advertising agencies are concluded for one year. The normal payment period is 30 days.

The marketing and settlement of advertising revenue for digital platforms are largely outsourced to a third-party company. This contract has a term of two years. However, as revenue is settled monthly and possible prepayments cover a maximum time horizon of three months, there is no financing component in this business. Revenue is recognized over time using the output method on the basis of the advertisements placed. Discounts and commission are deducted directly from revenue.

Distribution revenue is recognized over time using the output method (performance rendered to date).

The sales are recognized net of invoiced value added tax and trade discounts.

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.

4.17 Government grants

Project promotion

Project promotion 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 balance sheet, they are deducted from the carrying amount of the film assets in the amount which is sufficiently certain not to 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 balance sheet 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 balance sheet 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

Distribution loan 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 or 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 is sufficiently certain not to 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. The accounting policies described above apply analogously to Swiss film grants.

5. 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.

5.1 Significant risks

5.1.1 Impairment of non-financial assets

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 estimates and assumptions are based on premises that reflect the most recent information available. The actual cash flows may differ significantly from the discounted future cash flows based on these estimates. Changes in sales and cash flow forecasts could lead to impairment.

5.2 Other risks

5.2.1 Estimates used to determine the transaction price for revenue from contracts with customers

Certain contracts with customers at the Highlight Group have variable consideration. Typically, however, the effective transaction prices are known when the financial statements are prepared and no estimates are required. Nonetheless, it may occur that variable consideration has to be estimated; this is done using the probability-weighted expected value or the most likely amount – depending on which of the two values is closest to the consideration owed to the Highlight Group. Even if the price is fixed but is dependent on future events, the Highlight Group classifies such consideration as variable. Variable future revenue from licenses based on future transactions (sales-based royalties) are recognized at the later of license utilization or fulfillment of the performance obligation.

5.2.2 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.

5.2.3 Impairment of financial assets (debt instruments)

The requirements for the recognition of impairment on financial assets, which is based on the expected loss model, include substantial judgments regarding the extent to which expected credit losses can be influenced by changes in economic factors. Financial assets must be divided into different risk classes/ratings in accordance with historical and expected probabilities of default (for example, due to the general economic situation and related forecasts). Loss allowances must be recognized before loss events occur.

At the Highlight Group, expected losses are defined as the weighted average of credit losses or using available external ratings, which are weighted by the respective probabilities of default. The estimates always account for the possibility of default and the possibility of non-default, even if the most probable scenario is non-default.

Please see note 4.11.4 for further disclosures.

5.2.4 Service productions

The percentage of completion of customer-specific service productions for which revenue is recognized over time is determined using the cost-to-cost method (recognition in the amount of costs incurred as of the end of the reporting period in proportion to the expected total costs) or the physical completion method. 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.

5.2.5 Refund liabilities for expected returns of merchandise

The Group's refund liabilities 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 the refund liabilities recognized for expected returns of merchandise to be adequate. As they are based on management estimates, they may have to be revised upon better information becoming available. Such adjustments could affect the refund liabilities recognized for expected returns of merchandise and the sales in future periods.

5.2.6 Provisions for litigation

The Group companies are involved in various legal disputes. On the basis of current knowledge, the Group assumes that its provisions recognized 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 and the costs of legal disputes could increase. Such changes may affect the provisions recognized for litigation in future reporting periods.

5.2.7 Pension liabilities

Pension liabilities and the associated net pension costs for each period are calculated by way of actuarial measurement. Such measurement is based on key premises, including discounting factors, salary trends and pension trends. The discounting factors used are determined on the basis of the returns at the end of the reporting period on high quality corporate or government bonds of a consistent currency and term. The premises used can differ from actual development owing to fluctuations in the market and economic situation. This can have a material impact on pension obligations. Differences resulting from this are recognized in other comprehensive income (OCI) in the period in which they arise.

5.2.8 Income 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.

5.2.9 Leases

The Group determines the lease term as the non-cancellable lease term and all periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option and all periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option. The Group assesses whether it is reasonably certain to exercise the extension option at its own discretion. This means that management takes into account all relevant factors that create an economic incentive to extend the lease. After the inception of the lease, the Group reassesses the term of the lease when a material event or change in circumstances (such as a change in business strategy) occurs within the Group's control and affects its ability to exercise (or not exercise) the option.

In the initial measurement of the lease liability and the right-of-use asset from the sale/leaseback transactions for the broadcasting center and the expansion of the broadcasting center, it was deemed reasonably certain that the purchase option would be exercised on termination of the lease. Accordingly, the right-of-use asset is written down over its economic life, which is longer than the fixed duration of the lease.

6. NOTES TO INDIVIDUAL ITEMS OF THE BALANCE SHEET

6.1 Film assets

(TCHF)	Third-party productions	In-house productions	Total film assets
Acquisition and production costs 2019			
Balance on January 1, 2019	514,388	1,396,878	1,911,266
Currency translation differences	–12,177	–52,510	–64,687
Additions	12,923	79,560	92,483
Disposals	1,432	633	2,065
Balance on December 31, 2019	**513,702**	**1,423,295**	**1,936,997**
Accumulated amortization/value adjustments 2019			
Balance on January 1, 2019	480,301	1,245,514	1,725,815
Currency translation differences	–11,391	–46,671	–58,062
Depreciation for the year	29,894	61,449	91,343
Impairment	1,559	4,062	5,621
Write-ups	285	43	328
Disposals	1,432	633	2,065
Balance on December 31, 2019	**498,646**	**1,263,678**	**1,762,324**
Acquisition and production costs 2018			
Balance on January 1, 2018	524,663	1,280,917	1,805,580
Change in the scope of consolidation	–3,225	–3,393	–6,618
Currency translation differences	–12,509	–50,882	–63,391
Additions	8,367	170,236	178,603
Disposals	2,908	–	2,908
Balance on December 31, 2018	**514,388**	**1,396,878**	**1,911,266**
Accumulated amortization/value adjustments 2018			
Balance on January 1, 2018	488,800	1,154,966	1,643,766
Change in the scope of consolidation	–2,794	–7,252	–10,046
Currency translation differences	–11,209	–45,532	–56,741
Depreciation for the year	6,981	135,604	142,585
Impairment	1,556	7,885	9,441
Write-ups	125	157	282
Disposals	2,908	–	2,908
Balance on December 31, 2018	**480,301**	**1,245,514**	**1,725,815**
Net carrying amounts on December 31, 2019	**15,056**	**159,617**	**174,673**
Net carrying amounts on December 31, 2018	**34,087**	**151,364**	**185,451**

Impairment losses of TCHF 5,621 (previous year's period: TCHF 9,441) were recognized in the year under review as the value in use no longer covers the acquisition costs or the carrying amount of certain films due to a lack of market acceptance. The pre-tax discount rates used for determination of impairment are between 1.61 % and 3.08 % (previous year: between 1.89 % and 4.45 %). The disposals relate to co-productions and third-party productions to which the distribution rights expired in the year under review. Write-ups are recognized for projects for which a write-down has been recognized in the past and whose forecast revenues for the remaining exploitation period are considerably higher than the previous year's estimates.

In the year under review, the Highlight Group received project subsidies and project promotion loans of TCHF 19,114 (previous year's period: TCHF 15,687), which were deducted from the capitalized production costs.

Deferred project promotion loans amounted to TCHF 5,986 as of December 31, 2019 (previous year: TCHF 4,054). Project promotions of TCHF 902 were repaid in the year under review (previous year's period: TCHF 1,151).

In addition, sales subsidies and distribution loans of TCHF 4,437 (previous year's period: TCHF 2,378) were recognized in the consolidated income statement in the year under review 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, 2019. Distribution loans of TCHF 1,166 (previous year's period: TCHF 709) were repaid over the year under review. As of December 31, 2019, there were receivables for subsidies and grants of TCHF 20,357 (previous year: TCHF 18,163).

Directly attributable financing costs of TCHF 1,722 (previous year's period: TCHF 1,094) were capitalized in the year under review. 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 1.2 % to 7.8 % (previous year: 1.2 % to 7.8 %).

6.2 Other intangible assets and goodwill

(TCHF)	Patents and licenses	Purchased software	Internally developed intangible assets	Advance payments	Total intangible assets	Goodwill
Acquisition and production costs 2019						
January 1, 2019	60,759	9,112	4,309	2,370	76,550	139,639
Change in the scope of consolidation	–	–	–	–	–	275
Currency translation differences	–12	–193	–75	–115	–395	–387
Additions	78	1,034	1,396	1,189	3,697	–
Disposals	–	1,034	–	–	1,034	–
Transfers	7	–7	–	–	–	–
Balance on December 31, 2019	**60,832**	**8,912**	**5,630**	**3,444**	**78,818**	**139,527**
Accumulated amortization/value adjustments 2019						
January 1, 2019	3,710	6,971	3,649	–	14,330	6,108
Currency translation differences	–6	–138	–38	–	–182	–135
Depreciation for the year	4,975	622	879	–	6,476	–
Impairment	9	–	–	–	9	–
Disposals	–	31	–	–	31	–
Transfers	6	–6	–	–	–	–
Balance on December 31, 2019	**8,694**	**7,418**	**4,490**	**–**	**20,602**	**5,973**
Acquisition and production costs 2018						
January 1, 2018	–	6,752	3,167	–	9,919	24,244
Change in the scope of consolidation	60,758	1,123	1,320	603	63,804	115,788
Currency translation differences	–12	–192	–53	–65	–322	–393
Additions	13	1,429	–	1,832	3,274	–
Disposals	–	–	125	–	125	–
Balance on December 31, 2018	**60,759**	**9,112**	**4,309**	**2,370**	**76,550**	**139,639**
Accumulated amortization/value adjustments 2018						
January 1, 2018	–	6,552	3,167	–	9,719	6,247
Currency translation differences	–2	–121	–12	–	–135	–139
Depreciation for the year	3,712	540	494	–	4,746	–
Balance on December 31, 2018	**3,710**	**6,971**	**3,649**	**–**	**14,330**	**6,108**
Net carrying amounts on December 31, 2019	**52,138**	**1,494**	**1,140**	**3,444**	**58,216**	**133,554**
Net carrying amounts on December 31, 2018	**57,049**	**2,141**	**660**	**2,370**	**62,220**	**133,531**

Goodwill

The table below shows the allocation of goodwill:

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Constantin Medien AG	114,747	114,747
Constantin Film Verleih GmbH	12,025	12,025
Constantin Entertainment GmbH	3,773	3,916
Constantin Television GmbH	1,723	1,788
Hager Moss Film GmbH	511	530
Mythos Film GmbH	460	477
PSSST! Film GmbH	269	–
Other	46	48
Total	**133,554**	**133,531**

Goodwill was tested for impairment at the level of the cash-generating units in the respective segment. The recoverable amounts are equal to 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 three-year earnings planning. For the impairment test of Constantin Film Verleih GmbH and Constantin Medien AG, the growth rate beyond the detailed planning period was set at 1 % (previous year: 1 %), for other items this was set at between 0 % and 2.0 % (previous year: 0 % to 2.0 %). The capital asset pricing model (CAPM) was used to calculate the costs of capital and a peer group was referred to. As of December 31, 2019, the CAPM-based discount factor before taxes was set at 7.72 % (previous year: 7.84 %) for the impairment test of Constantin Film Verleih GmbH, at 7.23 % for Constantin Medien AG (previous year: 7.55 %) and at 7.64 % for other items (previous year: between 7.91 % and 8.03 %).

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 sales growth, the discount factor and the EBIT margin, no further goodwill impairment was required.

Results and sensitivity of impairment testing

Goodwill Sport1 Medien AG

At the measurement date, the recoverable amount, which is based on the value in use, exceeded the relevant carrying amount for impairment testing for all cash-generating units. Highlight believes that none of the changes in the assumptions made that can be expected from a rational perspective would lead to the carrying amount of the cash-generating units exceeding the recoverable amount.

At the measurement date, impairment testing did not result in any reduction in goodwill. The recoverable amount exceeded the net carrying amount by CHF 18.0 million (previous year: CHF 47.0 million). The following changes in the significant assumptions would lead to the value in use corresponding to the net carrying amount:

	2019	
	Assumption	Sensitivity
Revenue growth in 2023 with costs unchanged as compared to the business plan	2.3 %	1.2 %
Normalized EBITDA margin in 2023 and in terminal value	13.3 %	12.3 %
Discount rate after taxes	5.68 %	6.17 %
Long-term growth rate	1.0 %	0.45 %

6.3 Property, plant and equipment

(TCHF)	Leasehold improvements	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and assets under construction	Total property, plant and equipment
Acquisition and production costs 2019					
Balance on January 1, 2019	5,908	12,497	16,673	1,871	36,949
Change in the scope of consolidation	–	–	3	–	3
Currency translation differences	-52	-374	-431	-25	-882
Additions	1,404	1,670	3,599	24	6,697
Disposals	3,027	2,865	1,493	95	7,480
Transfers	–	-1,399	1,713	-1,713	-1,399
Balance on December 31, 2019	**4,233**	**9,529**	**20,064**	**62**	**33,888**
Accumulated depreciation 2019					
Balance on January 1, 2019	5,073	3,504	10,817	–	19,394
Currency translation differences	-31	-171	-221	–	-423
Depreciation for the year	360	1,991	2,569	–	4,920
Disposals	3,027	184	1,419	–	4,630
Transfers	–	-59	–	–	-59
Balance on December 31, 2019	**2,375**	**5,081**	**11,746**	**–**	**19,202**
Acquisition and production costs 2018					
Balance on January 1, 2018	5,132	2,554	12,543	613	20,842
Change in the scope of consolidation	350	3,492	1,062	1,725	6,629
Currency translation differences	-51	-388	-318	-85	-842
Additions	482	7,500	4,555	1,381	13,918
Disposals	5	736	1,169	1,688	3,598
Transfers	–	75	–	-75	-
Balance on December 31, 2018	**5,908**	**12,497**	**16,673**	**1,871**	**36,949**
Accumulated depreciation 2018					
Balance on January 1, 2019	4,832	2,456	9,793	–	17,081
Currency translation differences	-24	-71	-127	–	-222
Depreciation for the year	267	1,849	1,996	–	4,112
Disposals	2	730	845	–	1,577
Balance on December 31, 2018	**5,073**	**3,504**	**10,817**	**–**	**19,394**
Net carrying amounts on December 31, 2019	**1,858**	**4,448**	**8,318**	**62**	**14,686**
Net carrying amounts on December 31, 2018	**835**	**8,993**	**5,856**	**1,871**	**17,555**

With the adoption of IFRS 16, lease assets are presented as a separate balance sheet item (see note 6.4). This resulted in reclassifications of lease assets previously reported in technical equipment and machinery for which the Highlight Group was the lessee under a finance lease in the net amount of TCHF 1,340.
The disposals of technical equipment and machinery are primarily attributable to the sale/leaseback agreement for the broadcasting center.

6.4 Leases

The Highlight Group has applied the new IFRS 16 "Leases" since January 1, 2019. The impact of the adoption of IFRS 16 on the net assets, financial position and results of operations of the Group is discussed in note 2.1.

Right-of-use assets

(TCHF)	Real estate	Vehicles	Technical equipment	Operating and office equipment	Total right-of-use assets
Acquisition and production costs 2019					
December 31, 2018	–	–	–	–	–
Adjustments from first-time adoption of IFRS 16	37,936	867	713	386	39,902
January 1, 2019	**37,936**	**867**	**713**	**386**	**39,902**
Currency translation differences	–1,055	–35	–218	–16	–1,324
Additions	643	168	5,767	78	6,656
Disposals	248	–	–	–	248
Transfers	–	–	1,399	–	1,399
Balance on December 31, 2019	**37,276**	**1,000**	**7,661**	**448**	**46,385**
Accumulated depreciation 2019					
December 31, 2018	–	–	–	–	–
Adjustments from first-time adoption of IFRS 16	–	–	–	–	–
January 1, 2019	**–**	**–**	**–**	**–**	**–**
Currency translation differences	–131	–12	–37	–2	–182
Depreciation for the year	6,310	442	1,415	105	8,272
Transfers	–	–	59	–	59
Balance on December 31, 2019	**6,179**	**430**	**1,437**	**103**	**8,149**
Net carrying amounts on December 31, 2019	**31,097**	**570**	**6,224**	**345**	**38,236**
Net carrying amounts on December 31, 2018	**–**	**–**	**–**	**–**	**–**

Reconciliation of liabilities arising from financial liabilities

(TCHF)	
Balance on December 31, 2018	–
Adjustments from first-time adoption of IFRS 16	41,760
Reclassification from first-time adoption of IFRS 16	1,164
Balance on January 1, 2019	**42,924**
Additions	2,743
Interest cost	798
Payments	–5,234
Currency translation	–1,202
Other	–79
Balance on December 31, 2019	**39,950**
thereof non-current lease liabilities	31,904
thereof current lease liabilities	8,046

The amounts in the consolidated income statement attributable to leases are shown in the following table:

Lease payments in the consolidated income statement

(TCHF)	Jan. 01 to Dec. 31, 2019
Income from the disposal of right-of-use assets	1
Expenses from short-term leases	1,749
Expenses from leases of low-value assets (if not already short-term)	1
Expenses from variable lease payments (not included in lease liabilities)	587
Amortization on right-of-use assets from leases	8,272
Interest expenses from lease liabilities	798
Total	**11,406**

The amounts in the consolidated cash flow statement attributable to leases are shown in the following table:

Lease payments in the consolidated cash flow statement

(TCHF)	Jan. 01 to Dec. 31, 2019
Short-term leases	1,749
Leases for low-value assets	1
Variable lease payments	587
Repayment and interest on lease liabilities	9,170
Total	**11,507**

Under IFRS 16, the following lease-related future payments are not included in the measurement of lease liabilities:

Future unrecognized lease payments

(TCHF)	Future payments from short-term leases	Future payments from leases for low-value assets	Future variable lease payments	Future payments from contractually agreed leases that have not yet begun	Future payments from unrecognized residual value guarantees	Future payments from uncertain extension options	Future payments from uncertain termination options	Total
As of December 31, 2019								
Due within one year	603	1	1,266	457	–	151	–	2,478
Due between one year and five years	–	–	6,156	2,463	120	9,470	340	18,549
Due after five years	–	–	4,058	528	–	5,969	–	10,555
Total	**603**	**1**	**11,480**	**3,448**	**120**	**15,590**	**340**	**31,582**

6.5 Financial information of subsidiaries with material non-controlling interests

The financial information of subsidiaries with material non-controlling interests is as follows:

Subsidiaries with significant non-controlling interests

Subsidiary	Dec. 31, 2019	Dec. 31, 2018
Constantin Medien AG, Ismaning, Germany	5.82%	20.82%

Disclosures on financial information (after elimination of internal relations)

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Share in equity of non-controlling interests	5,361	21,695

(TCHF)	Jan. 01 to Dec. 31, 2019	Apr. 01 to Dec. 31, 2018
Share of earnings of non-controlling interests	–1,587	–747

Disclosures on financial information (before elimination of internal relations)

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Current assets	42,027	41,110
Non-current assets	62,203	73,233
Total assets	**104,229**	**114,343**
Current liabilities	36,770	32,036
Non-current liabilities	8,249	15,528
Total liabilities	**45,018**	**47,564**
Net assets	**59,211**	**66,779**

(TCHF)	Jan. 01 to Dec. 31, 2019	Apr. 01. to Dec. 31, 2018
Sales	119,013	104,242
Earnings from continuing operations after taxes	–1,842	–3,335
Other earnings after taxes	–4,278	–353
Total earnings for the year	**–6,120**	**–3,688**
Cash flow from/for operating activities	3,806	–3,616
Cash flow for/from investing activities	–5,128	2,793
Cash flow for financing activities	–965	–73,936
Cash flow for the reporting period	**–2,287**	**–74,759**

This is the consolidated financial information of the Constantin Medien Group, which was included in the consolidated financial statements for the first time as of March 31, 2018.

The other non-controlling interests are immaterial.

6.6 Investments in associated companies

As of December 31, 2019 – as in the previous year – the Group has investments in one associated company that is included in the consolidated financial statements using the equity method.

Carrying amounts

(TCHF)	
Balance on December 31, 2017	**57**
Disposals	–6
Dividends/repayments of capital	–6
Share of earnings	6
Gain on disposal	6
Currency translation	–3
Balance on December 31, 2018	**54**
Dividends/repayments of capital	–5
Share of earnings	7
Currency translation	–2
Balance on December 31, 2019	**54**

Financial information

(TCHF)	Jan. 01 to Dec. 31, 2019	Jan. 01 to Dec. 31, 2018
Earnings after taxes	14	12
Other comprehensive income/loss (OCI)	–	–
Total earnings	**14**	**12**

	Dec. 31, 2019	Dec. 31, 2018
Contingent liabilities (proportional)	–	–

For updating reasons, the annual financial statements of BECO Musikverlag GmbH as of December 31, 2018 were used for reporting on associated companies as the annual financial statements as of December 31, 2019 have not yet been prepared. No circumstances arose in the current fiscal year that would have necessitated an adjustment to the annual financial statements used as a basis.

6.7 Non-current receivables

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Non-current trade accounts receivable (financial assets)		
Non-current trade accounts receivable	16,026	13,343
Credit losses expected over the entire term (level 2)	–66	–127
Total	**15,960**	**13,216**
Non-current other receivables (financial assets)		
Non-current other receivables	61	127
Total non-current receivables	**16,021**	**13,343**

Non-current receivables primarily relate to the transfer of rights. Non-current receivables also relate to the VAT portion for sales not yet recognized in accordance with IFRS. They are discounted in line with their maturity and measured in accordance with the impairment provisions under IFRS 9.

Write-downs on non-current trade accounts receivable

(TCHF)	Credit losses expected over the entire term (level 2)	Individual value adjustments (level 3)
Balance on January 1, 2018	**24**	–
Currency translation differences	–3	–
Addition due to an increase in the volume of receivables	106	–
Balance on December 31, 2018	**127**	**–**
Currency translation differences	–4	–
Reduction due to a decrease in the volume of receivables	–57	–
Balance on December 31, 2019	**66**	–

6.8 Deferred tax assets

Breakdown of deferred tax assets

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Tax loss carryforwards	8,671	8,919
Intangible assets/film assets	5,300	316
Property, plant and equipment	867	921
Trade accounts receivable and other receivables and assets	19,258	18,831
Contract assets	2	33
Inventories	14,041	13,896
Lease liabilities	8,349	–
Trade accounts payable and other liabilities	1,952	2,156
Contract liabilities	1,007	1,441
Advance payments received	1,121	1,426
Provisions	296	1,074
Pension liabilities	651	468
Total	**61,515**	**49,481**
Netting with deferred tax liabilities	–48,016	–48,340
Deferred tax assets (net)	**13,499**	**1,141**

Maturities

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Current deferred tax assets	983	11
Non-current deferred tax assets	12,516	1,130

The Group has total loss carryforwards of TCHF 46,352 (previous year: TCHF 48,638) for which no deferred tax assets were recognized. These are scheduled to expire as follows:

2019 (TCHF)	Expiry date			
	< 1 year	1 – 5 years	> 5 years	thereof without expiry
	654	18,365	27,333	8,582

2018 (TCHF)	Expiry date			
	< 1 year	1 – 5 years	> 5 years	thereof without expiry
	–	17,083	31,555	16,143

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

(TCHF)	Jan. 01 to Dec. 31, 2019	Jan. 01 to Dec. 31, 2018
Changes in deferred taxes (assets and liabilities)	9,035	–16,419
thereof:		
Change in income statement	8,200	–1,011
Change in other comprehensive income/loss	150	–439
Change in the scope of consolidation	–	–15,562
Change in currency translation	685	593

6.9 Other financial assets

Other non-current financial assets

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Equity instruments at fair value through other comprehensive income (FVTOCI)		
Investment in Geenee Inc.	–	–
Investment in AGF Videoforschung GmbH	504	–
Investment in Summacum GmbH	329	–
Investments in the leAD SPORT1 Accelerator Program	54	–
Other investments	9	9
Equity instruments at fair value through profit or loss (FVTPL)		
Convertible loans	14	–
Total	**910**	**9**

Other current financial assets

Equity instruments at fair value through other comprehensive income (FVTOCI)		
Investment in Highlight Event and Entertainment AG	–	–
Equity instruments at fair value through profit or loss (FVTPL)		
Convertible loans	14	–
Total	**14**	**–**

The shares in Geenee Inc. are held by Rainbow Entertainment AG with 4.54 % while Constantin Entertainment GmbH holds 0.46 % and Sport1 GmbH 5.0 %. The equity investment is measured at fair value through other comprehensive income (FVTOCI) and allocated to level 3 of the fair value hierarchy (see note 8.4). Due to financial difficulties at Geenee Inc., the equity investment was written off in full in previous years and the corresponding impairment loss was recognized in other comprehensive income (OCI). There were no indications of a reversal of impairment in the year under review.

Sport1 GmbH acquired 5.56 % of the shares in AGF Videoforschung GmbH at a price of TCHF 518 in mid-March 2019. The purchase price was paid in cash. Sport1 GmbH also acquired 10 % of the shares in Summacum GmbH on June 28, 2019. The purchase price was paid in the form of a cash contribution of TCHF 3 and a media-for-equity contribution of TCHF 333. In summer 2019, Sport1 GmbH entered into a partnership with leAD Sports Accelerator Management GmbH and launched the leAD SPORT1 Accelerator Program. As part of this strategic program, Sport1 GmbH acquired shares in start-ups with a total purchase price of TCHF 54. All of the new equity investments are irrevocably recognized at fair value through other comprehensive income (FVTOCI). These equity investments are allocated to level 3 of the fair value hierarchy (see note 8.4). They are strategic financial investments of Constantin Medien AG.

The remaining 5 % equity investment in Mister Smith Entertainment Ltd., London, is measured at fair value through other comprehensive income (FVTOCI). The carrying amount is TCHF 0 (previous year: TCHF 0). As there is no active market for these shares and their fair value cannot be reliably determined, this equity investment is carried at cost, which corresponds to the carrying amount at the reclassification date, and allocated to level 3 of the fair value hierarchy (see note 8.4).

Other non-current assets also include two equity investments of 1.0 % and 5.556 %, both of which are allocated to level 3 of the fair value hierarchy (see note 8.4).

Highlight Communications AG acquired shares in Highlight Event and Entertainment AG at a price of TCHF 423 in the first half of 2019 and sold them at a price of CHF 405 in the fourth quarter of 2019. The equity investment was recognized at fair value through other comprehensive income (FVTOCI).

As part of the leAD SPORT1 Accelerator Program, Sport1 GmbH has also extended a long-term convertible loan and a short-term convertible loan each with a volume of TCHF 14, both of which are measured at fair value through profit or loss.

6.10 Inventories

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Net balance		
Unfinished goods and services	6,388	4,508
Blu-rays/DVDs	647	1,194
Other merchandise	12	13
Constants	140	145
Total	**7,187**	**5,860**

Unfinished goods and services essentially relate to service productions in development that have not yet been ordered by the broadcaster. In the year under review, impairment losses were recognized in the amount of TCHF 431 (previous year's period: TCHF 158) and reversed in the amount of TCHF 50 (previous year's period: TCHF 24).

6.11 Trade accounts receivable and other receivables

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Trade accounts receivable	51,930	57,639
Other receivables	84,558	85,070
Total	**136,488**	**142,709**

6.11.1 Trade accounts receivable

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Trade accounts receivable (financial assets)		
Current receivables	52,999	61,304
Liabilities due to related parties	5	–
Credit losses expected over the entire term (level 2)	–278	–475
Individual value adjustments (level 3)	–5,230	–5,376
Total	**47,496**	**55,453**
Trade accounts receivable (non-financial assets)		
Receivables from countertrades	4,434	2,186
Total	**4,434**	**2,186**
Total trade accounts receivable	**51,930**	**57,639**

The carrying amount of receivables not yet due and receivables that are overdue by up to 90 days is approximately their fair value.

Impairment losses

(TCHF)	Credit losses expected over the entire term (level 2)	Individual value adjustments (level 3)
Balance on January 1, 2018	**372**	**4,484**
Change in the scope of consolidation	46	1,078
Currency translation differences	–12	–199
Addition due to an increase in the volume of receivables	108	–
Reduction due to a decrease in the volume of receivables	–39	–
Additions	–	760
Consumption	–	–418
Reversals	–	–329
Balance on December 31, 2018	**475**	**5,376**
Currency translation differences	–11	–191
Addition due to an increase in the volume of receivables	9	–
Reduction due to a decrease in the volume of receivables	–195	–
Additions	–	680
Consumption	–	–101
Reversals	–	–534
Balance on December 31, 2019	**278**	**5,230**

Trade accounts receivable are measured using the simplified approach. Stage 3 impairment is recognized following an individual assessment. There is no relevant collateral or other credit enhancements.

Currency profile

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
CHF	1,747	1,655
EUR	33,346	17,236
USD	16,837	38,701
Other	–	47
Total	**51,930**	**57,639**

6.11.2 Other receivables

Other receivables (financial assets)

(TCHF) Dec. 31, 2019	Gross	Expected credit losses Level 1	Level 2	Level 3	Net
Suppliers with debit balances	511	–	–	–	511
Receivables from loans	11,576	–25	–	–929	10,622
Subsidies receivables	20,357	–	–	–	20,357
Positive fair value of derivative financial instruments without hedging relationships	287	–	–	–	287
Receivables due from personnel (financial)	310	–	–	–	310
Other assets (financial)	11,718	–	–	–1,773	9,945
Other receivables due from related parties	14,852	–	–	–	14,852
Total	**59,611**	**–25**	**–**	**–2,702**	**56,884**

(TCHF) Dec. 31, 2018	Gross	Expected credit losses Level 1	Level 2	Level 3	Net
Suppliers with debit balances	455	–	–	–	455
Receivables from loans	4,981	–37	–	–964	3,980
Subsidies receivables	18,163	–	–	–	18,163
Positive fair value of derivative financial instruments in hedging relationships	25	–	–	–	25
Positive fair value of derivative financial instruments without hedging relationships	1,265	–	–	–	1,265
Receivables due from personnel (financial)	663	–	–	–	663
Other assets (financial)	31,172	–22	–	–1,001	30,149
Other receivables due from related parties	3,619	–	–	–	3,619
Total	**60,343**	**–59**	**–**	**–1,965**	**58,319**

The receivables from loans essentially include a loan in connection with the production "The Silence" to the co-producer.

The carrying amount for all current financial assets is approximately their fair value. They are measured using the general approach.

Impairment losses

(TCHF)	Credit losses expected over 12 months (level 1)	Credit losses expected over the entire term (level 2)	Individual value adjustments (level 3)
Balance on January 1, 2018	**20**	**–**	**1,730**
Change in the scope of consolidation	–	–	355
Currency translation differences	–2	–	–46
Addition due to an increase in the volume of receivables	41	–	–
Additions	–	–	654
Consumption	–	–	–728
Balance on December 31, 2018	**59**	**–**	**1,965**
Currency translation differences	–23	–	–25
Reduction due to a decrease in the volume of receivables	–11	–	–
Additions	–	–	762
Balance on December 31, 2019	**25**	**–**	**2,702**

Other receivables (non-financial assets)

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Prepaid expenses	25,860	22,867
Input tax	990	2,396
Other taxes	264	40
Advance payments	513	1,091
Positive fair value of underlying transactions in hedging relationships	–	342
Receivables due from personnel (non-financial)	–	15
Other assets (non-financial)	47	–
Total	**27,674**	**26,751**

Advance payments include advance payments for various future projects in the Film segment.

Currency profile

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
CHF	17,846	4,702
EUR	60,163	53,584
USD	6,183	25,092
CAD	366	1,692
Total	**84,558**	**85,070**

6.12 Contract assets

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Contract assets	18,632	23,509
Credit losses expected over the entire term (level 2)	–6	–2
Total	**18,626**	**23,507**

The contract assets are mainly services rendered that have not yet been invoiced or that it has not yet been possible to invoice. They are measured using the simplified approach in accordance with IFRS 9.

Development of contract assets

(TCHF)	
Balance on December 31, 2017	**–**
First-time application of IFRS 15	13,628
Change in the scope of consolidation	3,245
Currency translation differences	–733
Additions	24,002
Impairment	–2
Reclassification to trade accounts receivable	–16,633
Balance on December 31, 2018	**23,507**
Currency translation differences	–756
Additions	19,101
Impairment	–6
Reclassification to trade accounts receivable	–23,220
Balance on December 31, 2019	**18,626**

Impairment losses

(TCHF)	Credit losses expected over the entire term (level 2)	Individual value adjustments (level 3)
Balance on January 1, 2018	**6**	**–**
Currency translation differences	–1	–
Reduction due to a decrease in the volume of receivables	–3	–
Balance on December 31, 2018	**2**	**–**
Addition due to an increase in the volume of receivables	4	–
Balance on December 31, 2019	**6**	**–**

6.13 Income tax receivables

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Income taxes Germany	715	677
Income taxes rest of the world	99	59
Total	**814**	**736**

6.14 Cash and cash equivalents

Interest is paid on call money and short-term sight deposits. The interest rate varies between 0 % and 0.25 % (previous year: 0 % to 0.25 %).

6.15 Equity

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

Share capital

As of December 31, 2019, the fully paid-up share capital of the parent company, Highlight Communications AG, totaled CHF 63,000,000 (previous year: CHF 63,000,000), divided into 63,000,000 bearer shares with a par value of CHF 1.00 per share (previous year: 63,000,000 bearer shares of CHF 1.00 per share).

A dividend of CHF 0.20 per share was paid for fiscal year 2018 in the year under review.

Treasury stock

As of December 31, 2019, the separately reported item "Treasury stock" amounted to TCHF –6,300 (previous year: TCHF –6,258). The amount reflects the nominal capital of treasury shares. As of December 31, 2019, the number of directly held non-voting treasury shares was 6,299,501 shares in Highlight Communications AG (previous year: 6,257,501). In the year under review, 42,000 treasury shares were acquired at a transaction value of TCHF 199.

As a result of the first-time consolidation of Constantin Medien AG as of March 31, 2018, the number of treasury shares increased to 8,182,518 in the previous year, while retained earnings declined by TCHF 41,434. In the second quarter of 2018, 2,000,000 treasury shares were sold at TCHF 12,221 and 30,000 treasury shares were acquired at a transaction value of TCHF 170.

Capital reserve

As of December 31, 2019, the Group's capital reserve amounted to a total of TCHF –98,968 (previous year: TCHF –67,203).

The dividend payments in the reporting year amounted to TCHF 11,348 (previous year: TCHF 11,355).

The increase in the equity investment in Constantin Medien AG from 79.18 % to 94.18 % led to a reduction in capital reserves of TCHF 20,417 (previous year: reduction in capital reserves of TCHF 892 as a result of the increase in the equity investment in Constantin Medien AG from 78.38 % to 79.18 %).

Non-controlling interests

Non-controlling interests in consolidated subsidiaries amounted to TCHF 10,335 as of December 31, 2019 (previous year: TCHF 26,112).

Dividend payments in the reporting year amounted to TCHF 1,247 (previous year's period: TCHF 1,092) and the net profit for the period attributable to non-controlling interests was TCHF 189 (previous year's period: TCHF –427). The 15.0 % increase in the equity investment in Constantin Medien AG led to a reduction in non-controlling interests of TCHF 14,663. The initial consolidation of PSSST! Film GmbH led to an increase in non-controlling interests of TCHF 107. Differences from currency translation amounted to TCHF –163 (previous year: TCHF –187).

The initial consolidation of Constantin Medien AG and Match IQ GmbH resulted in a total increase in non-controlling interests of TCHF 22,496 in the previous year. Non-controlling interests also increased by TCHF 480 as a result of the deconsolidation of Nadcon Film GmbH.

Other reserves

As of the end of the reporting period, other reserves totaled TCHF –38,753 (previous year: TCHF –34,356). As of December 31, 2019, these relate to the translation of the equity of companies that do not use Swiss francs as their functional currency (TCHF –38,363; previous year: TCHF –34,217) and to other cash flow hedge reserves of TCHF –390 (previous year: TCHF –139).

The cash flow hedge reserve before taxes developed as follows as of December 31, 2019.

Reconciliation of the market valuation of financial instruments

(TCHF)	
Balance on January 1, 2018	**2,043**
Gains or losses from effective hedging relationships	198
Reclassification due to the realization of the underlying transaction	–1,601
Reclassification, as the underlying transaction is no longer expected	–442
Other changes	–
Balance on December 31, 2018	**198**
Gains or losses from effective hedging relationships	332
Reclassification, as the underlying transaction is no longer expected	26
Balance on December 31, 2019	**556**

The changes in other components of equity in fiscal years 2019 and 2018 were as follows:

Other comprehensive income/loss (OCI)

2019 (TCHF)	Before taxes	Tax effect	After taxes
Unrealized gains/losses from currency translation	–4,939	–	–4,939
Reclassification of realized gains/losses through profit or loss	630	–	630
Currency translation differences	–4,309	–	–4,309
Gains/losses from cash flow hedges	–358	107	–251
Items that may be reclassified to the income statement in future	**–4,667**	**107**	**–4,560**
Actuarial gains/losses of defined benefit pension plans	–954	43	–911
Gains/losses from financial assets at fair value through other comprehensive income	–18	–	–18
Items that will not be reclassified to the income statement in future	**–972**	**43**	**–929**
Other comprehensive income/loss	**–5,639**	**150**	**–5,489**

2018 (TCHF)	Before taxes	Tax effect	After taxes
Currency translation differences	–3,300	–	–3,300
Gains/losses from cash flow hedges	1,845	–247	1,598
Items that may be reclassified to the income statement in future	**–1,455**	**–247**	**–1,702**
Actuarial gains/losses of defined benefit pension plans	1,374	–192	1,182
Items that will not be reclassified to the income statement in future	**1,374**	**–192**	**1,182**
Other comprehensive income/loss	**–81**	**–439**	**–520**

Information on capital management

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

Highlight Communications AG 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 their operating activities. The Highlight 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 and Constantin Medien AG, which manage their own liquidity independently of Highlight Communications AG. In addition to a liquidity report and liquidity planning to assess its liquidity status, Highlight Communications AG essentially uses its gearing and net debt ratios, defined as current and non-current financial liabilities less cash and cash equivalents, to monitor its liquidity resources.

The equity management of Highlight Communications AG comprises all items of equity reported in the balance sheet. Highlight Communications AG also monitors the borrowed capital of the Film, Sports and Sports- and Event-Marketing segments in the context of Group management. Debt capital is monitored non-centrally by Highlight Communications AG, Constantin Medien AG and Constantin Film AG.

Financial ratios and other conditions must be complied with for borrowed funds, and information must be provided.

The credit agreements of Highlight Communications AG and Constantin Film AG include compliance with certain financial covenants. The financial covenants of the Highlight Group relate to EBITDA, gearing, the economic equity ratio and reported equity including non-controlling interests, as well as the ratio of net financial liabilities to profit from operations. If the conditions on borrowed funds are violated, the interest rate may increase and a termination option may arise. The financial covenants had not been violated as of December 31, 2019. The equity management of Constantin Medien AG comprises all items of equity reported in the balance sheet. Constantin Medien AG also monitors the borrowed capital of the Sports segment and the Others segment in the context of Group management. Constantin Medien AG has not agreed any financial covenants.

6.16 Pension liabilities

6.16.1 Defined benefit pension plans

The defined benefit pension plans in place relate to the Swiss companies of the Highlight Group. Practically all employees and pensioners of these companies are insured in various pension plans. These pension plans have ties to various collective facilities. These are independent legal entities in the form of foundations for the purpose of retirement and invalidity pensions for employees and their surviving dependents after their death.

The pension plans grant more than the individual benefits demanded by law in the event of invalidity, death, old age and resignation. The risk benefits are defined on the basis of the insured salary. The retirement pension is calculated on the basis of the projected interest-bearing savings and a conversion rate.

Through these defined benefit pension plans, the Group is exposed to actuarial risks such as longevity, interest rate risk as well as market and investment risk.

Companies abroad have defined contribution plans only.

Funding agreements for future contributions

The Swiss occupational pension scheme (BVG – Swiss Federal Law on Occupational Retirement, Surviving Dependents' and Disability Pension and related ordinances) stipulates the minimum pension benefits. Legislation prescribes minimum annual amounts for employers. However, an employer can also pay higher contributions than those prescribed by law. These contributions are set out in the pension plan/regulations. In addition, an employer can also pay non-recurring contributions or advances to the scheme. These contributions cannot be paid back to the employer, but they are available to the employer in order to settle future employer contributions (employer contribution reserve).

Even if the pension plan has a statutory excess, the law still demands annual minimum contributions. For active insured parties, both the employer and the employee must pay contributions. The employer contribution must at least equal the employee contributions. The minimum annual contributions are dependent on the age and insured salary of the insured party. They are set out in the pension plan/regulations.

In the event that an insured party changes employer before reaching pension age, termination benefits (accrued savings) are payable. These are transferred by the pension scheme to the pension plan of the new employer.

As described above, the pension plans/regulations prescribe minimum requirements for contributions. The pension plans/regulations do not stipulate additional funding requirements provided that the pension plan has a statutory excess. If, however, funding is insufficient, additional contributions ("restructuring contributions") are required from the insured party and the employer until pension obligations are covered again.

The forecast employer contributions for fiscal year 2020 amount to TCHF 1,292.

Maturity profile of defined benefit obligation

(TCHF)	2019	2018
Less than 1 year	2,693	2,498
Weighted average maturity of defined benefit obligation (in years)	15.9	15.7

Change in defined benefit liabilities

The defined benefit liabilities recognized in the consolidated balance sheet are calculated as follows:

Pension liabilities

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Present value of defined benefit obligation	41,060	36,832
Fair value of plan assets	36,018	33,269
Balance sheet amount	**5,042**	**3,563**

Development of defined benefit obligation

(TCHF)	2019	2018
Present value of defined benefit obligation as of January 1	**36,832**	**37,004**
Current service cost (without employee contributions and administrative expenses)	1,865	1,895
Employee contributions	995	914
Interest cost	265	242
Curtailment, settlement	–150	–
Benefits paid	–1,110	–2,231
Actuarial losses/(gains) from experience adjustments	–307	–382
Actuarial losses/(gains) from changes in financial assumptions	2,670	–610
Present value of defined benefit obligation as of December 31	**41,060**	**36,832**
thereof actively insured persons	37,307	33,493
thereof pensioners	3,753	3,339

Development of plan assets

(TCHF)	2019	2018
Fair value of assets as of January 1	**33,269**	**32,804**
Interest income	236	215
Employee contributions	995	914
Employer contributions	1,316	1,267
Administrative expenses of the foundation	–97	–82
Benefits paid	–1,110	–2,231
Actuarial (losses)/gains from experience adjustments	1,409	382
Fair value of assets as of December 31	**36,018**	**33,269**

Retirement benefit expenses broke down as follows:

(TCHF)	Jan. 01 to Dec. 31, 2019	Jan. 01 to Dec. 31, 2018
Current service cost (without employee contributions and administrative expenses)	1,865	1,895
Administrative expenses of the foundation	97	82
Effects from curtailments and settlements	–150	–
Net interest cost (income)	29	27
Total income statement	**1,841**	**2,004**

Plan assets

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

(TCHF)	2019	2018
Cash and cash equivalents	148	352
Bonds with quoted market prices on active markets	11,246	9,542
Bonds without quoted market prices	844	154
Shares with quoted market prices on active markets	9,157	8,544
Real estate	13,060	12,779
Other	1,563	1,898
Total	**36,018**	**33,269**

The actual return on plan assets in the year under review amounted to TCHF 1,645 (previous year's period: TCHF 597).

Actuarial assumptions

The calculation of the pension provision was based on the following assumptions (in %):

	2019	2018
Discount rate	0.20	0.80
Pension trend	0.00	0.00
Salary trend	1.50	1.50
Average life expectancy after pension men (in years)	22.72	22.61
Average life expectancy after pension women (in years)	25.75	25.64

As in the previous year, the new BVG 2015 generation table was used for the actuarial assumptions for mortality, disability and employee turnover.

Sensitivity analysis

Changes in one of the key actuarial assumptions that would reasonably be expected to be possible as of the end of the reporting period would affect the pension obligation as follows:

	Discount rate (incl. change in interest rate applied)		Pension trend		Salary trend		Average life expectancy
2019 (TCHF)	+25 BP	–25 BP	+25 BP	–25 BP	+25 BP	–25 BP	+ 1 year
Effect on defined benefit obligation	–1,152	1,333	915	–	288	–280	1,129

	Discount rate (incl. change in interest rate applied)		Pension trend		Salary trend		Average life expectancy
2018 (TCHF)	+25 BP	–25 BP	+25 BP	–25 BP	+25 BP	–25 BP	+ 1 year
Effect on defined benefit obligation	–960	1,018	826	–	243	–236	994

Although the analysis does not fully reflect the forecast cash outflow from the pension plans, it shows an approximation of the sensitivity of assumptions. The same method (present value of defined benefit pension obligations calculated with the projected unit credit method as of the end of the reporting period) was used as for the calculation of the pension liabilities recognized in the consolidated balance sheet.

6.16.2 Defined contribution plans

The expenses recognized in profit or loss for defined contribution plans (including state plans) amounted to TCHF 8,830 in the year under review (previous year's period: TCHF 6,298).

6.17 Deferred tax liabilities

Breakdown of deferred tax liabilities

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Film assets	35,629	32,201
Intangible assets	15,233	16,295
Right-of-use assets	7,803	–
Inventories	2	2
Trade accounts receivable and other receivables	2,158	42
Contract assets	4,484	5,440
Provisions	307	234
Trade accounts payable and other liabilities	5,086	8,031
Contract liabilities	264	275
Advance payments received	10,577	16,024
Total	**81,543**	**78,544**
Netting with deferred tax assets	–48,016	–48,340
Deferred tax liabilities (net)	**33,527**	**30,204**

Maturities

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Current deferred tax liabilities	–	99
Non-current deferred tax liabilities	33,527	30,105

6.18 Financial liabilities

6.18.1 Non-current financial liabilities

In the previous year, non-current financial liabilities related solely to finance lease liabilities (TCHF 934). As part of the adoption of IFRS 16, these were reclassified and reported as lease liabilities as of January 1, 2019 (see note 2.1).

On July 17, 2019, a new credit agreement was concluded by Highlight Communications AG to replace the existing credit agreement. The new credit agreement provides for three facilities. Facility A amounts to EUR 40.6 million (nominal value EUR 37.9 million) and Facility B amounts to CHF 49.4 million (nominal value CHF 50 million); both are required to be repaid in the amount of 20 % per year. Facility C amounts to CHF 49.3 million (nominal value CHF 50 million) and is due in five years. Accordingly, Highlight Communications AG now classifies financial liabilities as current and non-current for the first time. The repayment amounts due for Facility A and Facility B in the 2020 reporting period are reported as current in note 6.18.2. Highlight Communications AG's credit facilities of TCHF 100,000 and TEUR 45,000 (previous year: TCHF 100,000) are secured by the shares in Constantin Medien AG and Constantin Film AG.

6.18.2 Current financial liabilities

As of the end of the reporting period, there were current liabilities to banks of TCHF 66,672 (previous year: TCHF 148,774), TCHF 48,438 (previous year: TCHF 50,758) of which relates to the financing of film projects. The Highlight Group had free short-term credit facilities totaling around TCHF 172,067 (previous year: TCHF 142,135) as of the end of the reporting period. Of this, the Constantin Film Group's credit facilities (production financing and license trading facilities) are secured by the film rights reported as film assets in the amount of TCHF 174,633 (previous year: TCHF 184,418) and the resulting proceeds from exploitation in addition to receivables of TCHF 51,655 (previous year: TCHF 62,303). The security interests of the banks serve as collateral for all current and future receivables of the banks from Constantin Film AG. The banks are entitled to liquidate this collateral if necessary. They will be transferred back to Constantin Film AG by the banks after all secured claims have been satisfied. In late June 2020, Highlight Communications AG was required to make repayments of TEUR 7,574 for Facility A and TCHF 10,000 for Facility B. These repayments are reported by Highlight Communications AG. Interest pooling arrangements are available for certain short-term bank overdraft liabilities. As of the end of the reporting period, the Constantin Medien Group has a working capital facility of TCHF 7,598 (previous year: TCHF 7,884) and guarantee lines of TCHF 7,598 (previous year: 7,884). 4,000,000 Highlight Communications AG shares with a carrying amount of TCHF 18,148 (previous year: 4,000,000 Highlight Communications AG shares with a carrying amount of TCHF 22,797) were pledged in total for the two credit facilities as of December 31, 2019. Financial covenants do not have to maintained for the borrowed capital.

Furthermore, there were current finance lease liabilities of TCHF 230 in the previous year. As part of the adoption of IFRS 16, these were reclassified and are reported as lease liabilities (see note 2.1).

Reconciliation of liabilities arising from financial liabilities

			Non-cash changes								
(TCHF)	Dec. 31, 2018	Cash changes	Reclassifications from first-time adoption of IFRS 16	Adjustments from first-time adoption of IFRS 16	Accrual of interest	Change in the scope of consolidation	Additions from new leases	Currency translation	Reclassification	Other	Dec. 31, 2019
Non-current financial liabilities	**934**	120,756	–934	–	2,117	–	–	–139	–	–1,675	**121,059**
Current financial liabilities	**149,004**	–80,268	–230	–	–	–	–	–1,834	–	–	**66,672**
Total financial liabilities	**149,938**	**40,488**	**–1,164**	**–**	**2,117**	**–**	**–**	**–1,973**	**–**	**–1,675**	**187,731**

					Non-cash						
(TCHF)	Dec. 31, 2017	Cash			Accrual of interest	Change in the scope of consolidation	New liabilities from finance leases	Currency translation	Reclassification	Other	Dec. 31, 2018
Non-current financial liabilities	**–**	–			–	–	1,013	–12	–67	–	**934**
Current financial liabilities	**77,172**	–2,096			–	76,280	168	–2,587	67	–	**149,004**
Total financial liabilities	**77,172**	**–2,096**			**–**	**76,280**	**1,181**	**–2,599**	–	–	**149,938**

Currency profile

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
CHF	10,000	98,000
EUR	40,666	27,083
USD	16,006	22,607
CAD	–	1,314
Total	**66,672**	**149,004**

6.19 Advance payments received

Advance payments received totaling TCHF 57,487 (previous year: TCHF 72,111) essentially include amounts received for productions for which revenue has not yet been recognized and advance payments from customers of TCHF 15,467 (previous year: TCHF 16,050).

6.20 Non-current liabilities

Other non-current liabilities include a contingent purchase price component of TCHF 231 (previous year: TCHF 74) from the acquisition of Hager Moss Film GmbH in the previous year.

In the previous year, this item also included deferred long-term subsidies received for rent and construction costs in the amount of TCHF 1,788. As part of the adoption of IFRS 16, these were reclassified and reported in lease liabilities as of January 1, 2019 (see note 2.1).

6.21 Trade accounts payable and other liabilities

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Trade accounts payable	46,846	51,315
Other liabilities	87,575	83,700
Total	**134,421**	**135,015**

6.21.1 Trade accounts payable

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Trade accounts payable (financial)		
Current liabilities	21,064	28,999
Liabilities due to related parties	44	–
Outstanding invoices	25,176	21,999
Total	**46,284**	**50,998**
Trade accounts payable (non-financial)		
Liabilities from countertrades	562	317
Total	**562**	**317**
Total trade accounts payable	**46,846**	**51,315**

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

Overall, the trade accounts payable are non-interest-bearing and short-term, which means that the carrying amount of the trade accounts payable relevant under IFRS 7 is approximately their fair value.

Currency profile

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
CHF	884	2,588
EUR	22,871	34,335
USD	22,963	14,356
Other	128	36
Total	**46,846**	**51,315**

6.21.2 Other short-term liabilities

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Other liabilities (financial)		
Liabilities from conditional loan repayment (subsidies)	18,382	18,166
Customers with credit balances	197	733
Commissions, licenses and royalty payments	29,888	30,913
Current other loans	222	–
Negative fair value of derivative financial instruments without hedging relationships	855	1,485
Personnel-related liabilities (financial)	16,512	15,212
Other current liabilities (financial)	3,636	2,969
Other liabilities due to related parties	949	1,813
Total	**70,641**	**71,291**
Other liabilities (non-financial)		
Value-added tax liabilities	2,077	807
Other taxes	4,992	3,771
Social security	740	842
Prepaid expenses	7,570	5,225
Negative fair value of underlying transactions in hedging relationships	–	113
Personnel-related liabilities (non-financial)	1,555	1,636
Other current liabilities (non-financial)	–	15
Total	**16,934**	**12,409**

Currency profile

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
CHF	15,259	12,556
EUR	70,989	50,225
USD	–	20,818
Other	1,327	101
Total	**87,575**	**83,700**

6.22 Contract liabilities

Development of contract liabilities

(TCHF)	
Balance on December 31, 2017	–
First-time application of IFRS 15	8,734
Change in the scope of consolidation	2,853
Currency translation differences	–373
Additions	6,711
Amounts consumed due to performance	–9,794
Balance on December 31, 2018	**8,131**
Currency translation differences	–283
Additions	6,021
Amounts consumed due to performance	–6,468
Balance on December 31, 2019	**7,401**

Contract liabilities relate to consideration already received from customers for which the Highlight Group has not yet fulfilled its performance obligations.

The line “Amounts consumed due to performance” relates to revenue recognized in the reporting period that was contained in net contract liabilities at the beginning of the period.

6.23 Provisions

(TCHF)	Jan. 01, 2019	Change in the scope of consolidation	Currency translation differences	Con-sumption	Reversal	Reclassi-fication	Addition	Dec. 31, 2019
Provisions for litigation risks	1,887	–	–61	1,386	115	–	1,167	1,492
Staff provisions	2,712	–	–88	1,057	913	362	1,043	2,059
Provisions for guarantees and contractual obligations	1,203	–	–33	7	373	–	2	792
Other provisions	2,054	–	–30	1,739	217	–	161	229
Total	**7,856**	**–**	**–212**	**4,189**	**1,618**	**362**	**2,373**	**4,572**
thereof non-current provisions	–	–	–	–	–	–	–	–
thereof current provisions	7,856	–	–212	4,189	1,618	362	2,373	4,572

(TCHF)	Jan. 01, 2018	Change in the scope of consolidation	Currency translation differences	Con-sumption	Reversal	Reclassi-fication	Addition	Dec. 31, 2018
Licenses and returns	3,716	–	–4	200	29	–3,483	–	–
Provisions for litigation risks	16	2,382	–89	1,085	206	–	869	1,887
Staff provisions	–	2,562	–112	486	181	–	929	2,712
Provisions for guarantees and contractual obligations	–	1,153	–50	–	7	–	107	1,203
Other provisions	1,292	4,537	–158	2,441	373	–864	61	2,054
Total	**5,024**	**10,634**	**–413**	**4,212**	**796**	**–4,347**	**1,966**	**7,856**
thereof current provisions	5,024	10,634	–413	4,212	796	–4,347	1,966	7,856

The provisions for litigation risks were recognized to provide for various pending and possible legal proceedings.

Staff provisions essentially comprise the risk of potential future obligations for termination benefits.

Other provisions include provisions for onerous contracts that will be consumed within the next twelve months. Furthermore, provisions were recognized for outstanding costs for the “Thank You for Your Service” film project and utilized in the year under review.

As in the previous year, there were no non-current provisions as of the end of the reporting period.

6.24 Income tax liabilities

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Income taxes Switzerland	2,224	2,385
Income taxes Germany	3,373	1,822
Income taxes rest of the world	221	81
Total	**5,818**	**4,288**

7. NOTES TO INDIVIDUAL ITEMS OF THE INCOME STATEMENT

7.1 Future revenue from contracts with customers

Please see the segment reporting under note 9 for a breakdown of revenue.

Revenue from contracts with customers from prior periods recognized in the current period amounted to TCHF 1,053 (previous year's period: TCHF 1,937).

Revenue from contracts with customers

Revenue expected to be recognized (TCHF)	Dec. 31, 2019	Dec. 31, 2018
within one year	160,975	217,284
between one and five years	338,790	349,613
after five years	295	36,009
Total	**500,060**	**602,906**

The revenue expected to be recognized does not contain any limited variable consideration.

7.2 Capitalized film production costs and other own work capitalized

The capitalized film production costs and the TV service productions amount to TCHF 92,850 (previous year's period: TCHF 152,258). Other own work capitalized of TCHF 3,007 (previous year's period: TCHF 2,619) mainly relates to digital internally generated intangible assets.

7.3 Other operating income

(TCHF)	Jan. 01 to Dec. 31, 2019	Jan. 01 to Dec. 31, 2018
Income from the reversal of provisions and deferred liabilities	4,713	4,980
Prior-period income	1,180	747
Recharges	699	614
Price gains	2,600	5,590
Income from rents and leases	24	-
Negative difference from the acquisition of subsidiaries	–	23
Write-off of liabilities	673	310
Income from the disposal of non-current assets	31	180
Income from deconsolidation	–	530
Income from settlements of claims for damages and settlement agreements	5,780	3,518
Income from the disposal of right-of-use assets from leases	1	–
Miscellaneous operating income	26,098	4,252
Total	**41,799**	**20,744**

Income from the reversal of provisions and deferred liabilities is primarily due to the discontinuation of obligations for licenses as well as the reversal of other provisions and deferred liabilities.

Prior-period income includes refunds and distributions from authorities and associations from previous years.

Miscellaneous operating income includes TCHF 22,165 in income from the transfer of rights of use.

7.4 Cost of materials and licenses

(TCHF)	Jan. 01 to Dec. 31, 2019	Jan. 01 to Dec. 31, 2018
Licenses and commission	36,833	35,602
Other costs of material	13,757	12,899
Total licenses, commissions and material	**50,590**	**48,501**
Production costs	166,065	226,772
Purchased services	1,145	1,633
Royalty payments in the Film segment	6,705	11,096
Total purchased services	**173,915**	**239,501**

7.5 Other operating expenses

(TCHF)	Jan. 01 to Dec. 31, 2019	Jan. 01 to Dec. 31, 2018
Rental costs	2,862	10,672
Repair and maintenance costs	1,067	787
Advertising and traveling expenses	10,111	9,611
Legal, consulting and auditing costs	14,981	13,099
IT costs	5,818	4,865
Administrative costs	1,986	2,411
Other personnel-related expenses	2,289	2,262
Insurance, dues and fees	1,999	1,448
Expenses relating to other periods	61	114
Price losses	3,066	3,610
Vehicle costs	719	1,499
Bank fees	187	1,338
Losses from the disposal of non-current assets	27	236
Expenses from deconsolidation	630	–
Other taxes	93	130
Release and promotion expenses	28,847	14,510
Expenses from short-term leases	1,749	–
Expenses from leases of low-value assets (if not already short-term)	1	–
Expenses from variable lease payments (not included in lease liabilities)	587	–
Miscellaneous operating expenses	5,778	5,266
Total	**82,858**	**71,858**

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 including for ongoing legal proceedings and copyright violations.

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

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

7.6 Impairment/reversals of impairment on financial assets

This item includes impairment losses on financial assets of TCHF 1,442 (previous year's period: TCHF 1,667) and reversals of impairment losses on financial assets totaling TCHF 797 (previous year's period: TCHF 369).

7.7 Financial income

(TCHF)	Jan. 01 to Dec. 31, 2019	Jan. 01 to Dec. 31, 2018
Interest and similar income	418	28
Gains from changes in the fair value of financial instruments	307	2,593
Currency exchange gains	1,543	1,744
Total	**2,268**	**4,365**

7.8 Financial expenses

(TCHF)	Jan. 01 to Dec. 31, 2019	Jan. 01 to Dec. 31, 2018
Interest and similar expenses	6,223	4,413
Write-down of financial assets and non-current securities	213	221
Losses from changes in the fair value of financial instruments	699	2,577
Currency exchange losses	1,456	4,147
Interest expenses from lease liabilities	798	–
Total	**9,389**	**11,358**

As in the previous year, several derivative financial instruments were not in a formal hedge in accordance with IFRS 9 in the year under review. However, there were still economic hedges.

7.9 Taxes

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.

Effective tax rate reconciliation

(TCHF)	Jan. 01 to Dec. 31, 2019	Jan. 01 to Dec. 31, 2018
Profit before taxes	22,431	24,973
Expected taxes based on a tax rate of 21 %	–4,711	–5,244
Differing tax rates	–59	893
Reversal of deferred tax assets	50	68
Write-down on deferred tax assets	–	–602
Tax-exempt income	–114	300
Permanent differences	–613	734
Non-deductible expenses	–1,294	–2,335
Aperiodic income taxes	108	–280
Other effects	1,071	354
Effects from changes in tax laws in Switzerland	10,963	–
Unrecognized deferred taxes	–2,470	–896
Actual tax expense	**2,931**	**–7,008**
Effective tax rate in %	**–13.1**	**28.1**

8. DISCLOSURES ON FINANCIAL RISK MANAGEMENT

8.1 Financial instruments by class

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 IFRS 9.

Disclosures IFRS 7: Classes as of December 31, 2019

ASSETS (TCHF)
Cash and cash equivalents
Trade accounts receivable
Contract assets
Other receivables (current)
Financial assets at fair value
Other receivables
Other financial assets (current)
Financial assets at fair value
Non-current receivables and other receivables
Other financial assets (non-current)
Financial assets at fair value
Financial assets at fair value

EQUITY AND LIABILITIES (TCHF)
Financial liabilities (current and non-current)
Financial liabilities with hedging relationships (current and non-current)
Lease liabilities (current and non-current) **
Trade accounts payable (current and non-current)
Contract liabilities
Other liabilities (current and non-current)
Financial liabilities at amortized cost
Financial liabilities at fair value

AGGREGATED BY CATEGORY
Assets (TCHF)
Financial assets at amortized cost
Financial assets at fair value through profit or loss
Financial assets at fair value through OCI
Equity and liabilities (TCHF)
Financial liabilities at amortized cost
Financial liabilities at fair value

			Valuation in the balance sheet under IFRS 9			
Classification category IFRS 9	Carrying amount on Dec. 31, 2019	thereof not relevant under IFRS 7*	Amortized cost	Fair value through OCI	Fair value through profit or loss	Fair value on Dec. 31, 2019
AC	52,970	–	52,970	–	–	52,970
AC	51,930	−4,434	47,496	–	–	47,496
without category	18,626	−18,626	–	–	–	–
FVTPL	287	–	–	–	287	287
AC	84,271	−27,674	56,597	–	–	56,597
FVTPL	14	–	–	–	14	14
AC	16,021	–	16,021	–	–	16,021
FVTPL	14	–	–	–	14	14
FVTOCI	896	–	–	896	–	896
AC	187,175	–	187,175	–	–	181,363
AC	556	–	556	–	–	556
without category	39,950	–	–	–	–	–
AC	46,846	−562	46,284	–	–	46,284
without category	7,401	−7,401	–	–	–	–
AC	86,800	−16,934	69,866	–	–	69,866
FLTPL	1,086	–	–	–	1,086	1,086
AC	205,192	−32,108	173,084	–	–	173,084
FVTPL	315	–	–	–	315	315
FVTOCI	896	–	–	896	–	896
AC	321,377	−17,496	303,881	–	–	298,069
FLTPL	1,086	–	–	–	1,086	1,086

*Not relevant under IFRS 7: It does not concern financial instruments.
**In accordance with IFRS 7.29(d), no fair value disclosures are required for lease liabilities.

AC: Financial assets at amortized cost
FVTOCI: Financial assets at fair value through OCI
FVTPL: Financial assets at fair value through profit or loss
FLTPL: Financial liabilities at fair value through profit or loss

Disclosures IFRS 7: Classes as of December 31, 2018

ASSETS (TCHF)
Cash and cash equivalents
Trade accounts receivable
Contract assets
Other receivables (current)
Financial assets at fair value
Other receivables
Derivative financial instruments with hedging relationships
Other assets (underlying transactions in hedging relationships)
Other financial assets (current)
Financial assets at fair value
Non-current receivables and other receivables
Other financial assets (non-current)
Financial assets at fair value
Financial assets at fair value

EQUITY AND LIABILITIES (TCHF)
Financial liabilities (current and non-current)
Financial liabilities with hedging relationships (current and non-current)
Trade accounts payable (current and non-current)
Contract liabilities
Other liabilities (current and non-current)
Financial liabilities at amortized cost
Non-current liabilities (non-cash items)
Financial liabilities at fair value
Derivative financial instruments with hedging relationships
Other liabilities (underlying transactions in hedging relationships)

AGGREGATED BY CATEGORY
Assets (TCHF)
Financial assets at amortized cost
Financial assets at fair value through profit or loss
Financial assets at fair value through OCI
Equity and liabilities (TCHF)
Financial liabilities at amortized cost
Financial liabilities at fair value

The category of financial assets measured at fair value through profit or loss only includes derivative financial instruments. The category of financial liabilities measured at fair value through profit or loss includes derivative financial instruments as well as an earn-out liability.

			Valuation in the balance sheet under IFRS 9			
Classification category IFRS 9	Carrying amount on Dec. 31, 2018	thereof not relevant under IFRS 7*	Amortized cost	Fair value through OCI	Fair value through profit or loss	Fair value on Dec. 31, 2018
AC	52,530	–	52,530	–	–	52,530
AC	57,639	–2,186	55,453	–	–	55,453
without category	23,507	–23,507	–	–	–	–
FVTPL	1,265	–	–	–	1,265	1,265
AC	83,438	–26,409	57,029	–	–	57,029
without category	25	–	–	25	–	25
without category	342	–342	–	–	–	–
FVTPL	–	–	–	–	–	–
AC	13,343	–	13,343	–	–	13,343
FVTPL	–	–	–	–	–	–
FVTOCI	9	–	–	9	–	9
AC	149,715	–	149,715	–	–	149,715
AC	223	–	223	–	–	223
AC	51,315	–317	50,998	–	–	50,998
without category	8,131	–8,131	–	–	–	–
AC	82,198	–12,296	69,902	–	–	69,902
without category	1,788	–1,788	–	–	–	–
FLTPL	1,559	–	–	–	1,559	1,559
without category	–	–	–	–	–	–
without category	113	–113	–	–	–	–
AC	206,950	–28,595	178,355	–	–	178,355
FVTPL	1,265	–	–	–	1,265	1,265
FVTOCI	9	–	–	9	–	9
AC	283,451	–12,613	270,838	–	–	270,838
FLTPL	1,559	–	–	–	1,559	1,559

**Not relevant under IFRS 7: It does not concern financial instruments.*

AC: Financial assets at amortized cost
FVTOCI: Financial assets at fair value through OCI
FVTPL: Financial assets at fair value through profit or loss
FLTPL: Financial liabilities at fair value through profit or loss

8.2 Offsetting

For derivative financial instruments, according to the contractual agreements in the event of insolvency, all asset and liability derivatives with the counterparty in question are offset and only the net amount of the receivable or liability remains. As offsetting is only legally enforceable in the event of insolvency and the Group neither has a legal right to offset amounts at the current time nor does it intend to settle on a net basis, the derivative financial instruments are reported in the consolidated balance sheet on a gross basis.

The tables below show an overview of the offsetting performed or contractually intended:

Offsetting as of December 31, 2019

Offsetting of financial assets

(TCHF)	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the balance sheet	Net amounts of financial assets shown in the balance sheet	Related amounts not offset in the balance sheet	Net amount
Financial assets at fair value through profit or loss	287	–	287	–60	227

Offsetting of financial liabilities

(TCHF)	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the balance sheet	Net amounts of financial liabilities shown in the balance sheet	Related amounts not offset in the balance sheet	Net amount
Financial liabilities at fair value through profit or loss	855	–	855	–60	795

Offsetting as of December 31, 2018

Offsetting of financial assets

(TCHF)	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the balance sheet	Net amounts of financial assets shown in the balance sheet	Related amounts not offset in the balance sheet	Net amount
Financial assets at fair value through profit or loss	1,265	–	1,265	–60	1,205
Derivative financial instruments with hedging relationships	25	–	25	–	25

Offsetting of financial liabilities

(TCHF)	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the balance sheet	Net amounts of financial liabilities shown in the balance sheet	Related amounts not offset in the balance sheet	Net amount
Financial liabilities at fair value through profit or loss	1,485	–	1,485	–60	1,425
Derivative financial instruments with hedging relationships	–	–	–	–	–

8.3 Management of financial risks

The Group is exposed to various financial risks resulting from its operating and financing activities. Financial risks can be broken down into the categories 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. Financial risks are identified, assessed and hedged in close cooperation with the Group's operating companies.

8.3.1 Liquidity risks

A liquidity risk arises if future payment obligations of the Group cannot be covered by available liquidity or corresponding credit facilities. In order to limit this risk, suitable processes are in place within the Highlight Group, 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 liquidity risk tables show the maturity structure of the primary financial liabilities and an analysis of the cash outflows from derivative financial liabilities and assets. These are undiscounted cash flows.

Liquidity risk

		Due within one year			Due within one year and five years			Due after five years		
2019 (TCHF)	Carrying amount Dec. 31, 2019	Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment
Non-derivative financial liabilities										
Liabilities due to banks	187,731	–	2,765	66,672	–	6,853	122,883	–	–	–
Lease liabilities	39,950	–	119	8,314	–	387	21,309	–	56	12,237
Other non-interest-bearing financial liabilities	116,381	–	–	116,381	–	–	–	–	–	–
Derivative financial liabilities										
Derivatives without hedging relationships	855	–	–	12,634	–	–	2,753	–	–	–
Currency derivatives in connection with fair value/cash flow hedges	–	–	–	–	–	–	–	–	–	–
Derivative financial assets										
Derivatives without hedging relationships	287	–	–	5,052	–	–	2,343	–	–	–
Currency derivatives in connection with fair value/cash flow hedges	–	–	–	–	–	–	–	–	–	–

2018 (TCHF)	Carrying amount Dec. 31, 2018	Due within one year			Due within one year and five years			Due after five years		
		Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment	Fixed interest	Variable interest	Repay-ment
Non-derivative financial liabilities										
Liabilities due to banks	148,774	–	1,960	148,774	–	–	–	–	–	–
Liabilities from finance leases	1,164	–	–	261	–	–	987	–	–	–
Other non-interest-bearing financial liabilities	120,974	–	–	120,974	–	–	–	–	–	–
Derivative financial liabilities										
Currency derivatives without hedging relationships	1,485	–	–	38,972	–	–	9,565	–	–	–
Currency derivatives in connection with fair value/cash flow hedges	–	–	–	–	–	–	–	–	–	–
Derivative financial assets										
Derivatives without hedging relationships	1,265	–	–	29,442	–	–	–	–	–	–
Currency derivatives in connection with fair value/cash flow hedges	25	–	–	435	–	–	–	–	–	–

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 in credit financing 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 credit quality 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 film business, and other financing activities such as the purchase of non-controlling interests and the acquisition of treasury shares, can influence liquidity differently over time.

Despite unused working capital facilities, 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 to a sufficient extent or could only be available at significantly more disadvantageous terms.

8.3.2 Credit risks

The default risk arises from cash and cash equivalents, contractual cash flows from debt instruments carried at amortized cost, from derivative financial instruments that are assets, balances with banks and financial institutions and lending to customers including outstanding receivables.

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 the direct counterparty risk and the risk of deterioration in credit quality.

Banks and financial institutions with which the Highlight Group performs transactions must have a good credit quality and a good rating. In addition, any risks to cash and cash equivalents are minimized by allocating cash deposits among several banks.

The default risks of the Highlight Group's key customers are also monitored and assessed on an ongoing basis. Furthermore, in significant cases, 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 credit quality, by transferring rights to the contractual partner only after payment, and/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.

Please see note 4.9 for further information on impairment of non-financial assets.

8.3.3 Market risks

Currency risk

The Highlight Group is exposed to currency risks in its ordinary business activities. This primarily relates to 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.

Currency translation differences in net operating income and net finance costs of TCHF –379 (previous year's period: TCHF -423) were recognized in profit or loss in the year under review. In addition, currency differences from the translation of foreign subsidiaries of TCHF -4,309 (previous year's period: TCHF -3,300) and from cash flow hedges of TCHF -251 (previous year's period: TCHF 1,598) were recognized in other comprehensive income (OCI).

Hedge accounting is used where permissible; the earnings effects of economic hedges otherwise largely offset each other as a result of natural hedging.

Interest risk

An interest risk arises 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 in 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 Group currently does not 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 against additional expenses 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 6.18. 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

The sensitivity analysis shows the effects of possible changes in market interest rates on earnings before taxes 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.

The Group's currency sensitivities were calculated for the main currency pairings of EUR/CHF, 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 with all other currency parameters remaining 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 %. The closing rate was used for the sensitivity analysis.

Sensitivity analysis

Dec. 31, 2019 (TCHF)	Interest rate risk –1 %	+1 %
Financial assets		
Cash and cash equivalents	–530	530
Trade accounts receivable (current and non-current)	–	–
Other receivables (current and non-current)	–	–
Derivative financial instruments	–	–
Other financial assets (current and non-current)	–	–
Financial liabilities		
Financial liabilities (current and non-current)	1,877	–1,877
Lease liabilities (current and non-current)	84	–84
Trade accounts payable (current and non-current)	–	–
Other liabilities (current and non-current)	–	–
Derivative financial instruments	–	–
Total increase/decrease	**1,431**	**–1,431**
thereof through OCI	–	–
thereof through profit or loss	–	–

Dec. 31, 2018 (TCHF)	Interest rate risk –1 %	+1 %
Financial assets		
Cash and cash equivalents	–526	526
Trade accounts receivable (current and non-current)	–	–
Other receivables (current and non-current)	–	–
Derivative financial instruments	–	–
Other financial assets (current and non-current)	–	–
Financial liabilities		
Financial liabilities (current and non-current)	1,488	–1,488
Trade accounts payable (current and non-current)	–	–
Other liabilities (current and non-current)	–	–
Derivative financial instruments	–	–
Total increase/decrease	**962**	**–962**
thereof through OCI	–	–
thereof through profit or loss	–	–

Exchange rate risk									
EUR/CHF		EUR/USD		EUR/CAD		Total		Other price risks	
–10 %	+10 %	–10 %	+10 %	–10 %	+10 %	–10 %	+10 %	–10 %	+10 %
–1,017	1,017	–1,597	1,950	–54	66	–2,668	3,033	–	–
–151	166	–2,963	3,620	–	–	–3,114	3,786	–	–
–	–	–562	688	–34	40	–596	728	–	–
–	–	–452	551	–	–	–452	551	–	–
–	–	–	–	–	–	–	–	–92	92
4,059	–4,059	1,455	–1,779	–	–	5,514	–5,838	–	–
–	–	114	–139	–	–	114	–139	–	–
264	–266	296	–362	–	–	560	–628	–	–
–	–	1,792	–2,190	120	–148	1,912	–2,338	–	–
–	–	668	–816	–	–	668	–816	–	–
3,155	**–3,142**	**–1,249**	**1,523**	**32**	**–42**	**1,938**	**–1,661**	**–92**	**92**
–	–	–	–	–	–	–1,151	1,402	–	–
–	–	–	–	–	–	3,089	–3,063	–	–

Exchange rate risk									
EUR/CHF		EUR/USD		EUR/CAD		Total		Other price risks	
–10 %	+10 %	–10 %	+10 %	–10 %	+10 %	–10 %	+10 %	–10 %	+10 %
–1,359	1,352	–362	444	–2	2	–1,723	1,798	–	–
–17	19	–4,686	5,726	–5	6	–4,708	5,751	–	–
–338	338	–2,280	2,787	–	–	–2,618	3,125	–	–
–	–	–862	1,053	–	–	–862	1,053	–	–
–	–	–	–	–	–	–	–	–1	1
–	–	2,056	–2,512	119	–146	2,175	–2,658	–	–
105	–119	1,706	–2,087	–	–	1,811	–2,206	–	–
16	–17	1,893	–2,314	9	–11	1,918	–2,342	–	–
–	–	1,053	–1,287	–409	500	644	–787	–	–
–1,593	**1,573**	**–1,482**	**1,810**	**–288**	**351**	**–3,363**	**3,734**	**–1**	**1**
–	–	–	–	–	–	–1,557	1,902	–	–
–	–	–	–	–	–	–1,806	1,832	–	–

8.4 Fair value of financial and non-financial assets and liabilities

8.4.1 Fair value of financial assets and liabilities

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

Fair value hierarchy

2019 (TCHF)		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	FVTPL/without category	–	287	–	287
Financial assets at fair value through profit or loss	FVTPL	–	–	28	28
Financial assets (equity instruments)	FVTOCI	–	–	896	896
Financial liabilities measured at fair value					
Financial liabilities with hedging relationships	AC	–	556	–	556
Derivative financial instruments	FLTPL	–	855	–	855
Financial liabilities	FLTPL	–	–	231	231

2018 (TCHF)		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	FVTPL/without category	–	1,290	–	1,290
Financial assets (equity instruments)	FVTOCI	–	–	9	9
Financial liabilities measured at fair value					
Financial liabilities with hedging relationships	AC	–	223	–	223
Derivative financial instruments	FLTPL	–	1,485	–	1,485
Financial liabilities	FLTPL	–	–	74	74

Disclosures on level 3 financial instruments

	Investment in Geenee Inc.	AGF Videoforschung GmbH	Summacum GmbH	Other investments	Convertible loans	Financial liabilities
Fair value on December 31, 2017	**–**	**–**	**–**	**–**	**–**	**–**
Change in the scope of consolidation	–	–	–	9	–	74
Fair value on December 31, 2018	**–**	**–**	**–**	**9**	**–**	**74**
Gains/(losses) through profit or loss	–	–	–	–	–	164
Gains/(losses) through equity	–	–14	–7	–	–	–7
Purchase	–	518	336	54	28	–
Fair value on December 31, 2019	**–**	**504**	**329**	**63**	**28**	**231**

The financial assets measured at fair value through profit or loss and included in level 1 are measured using stock market prices.

The derivative financial instruments in level 2 are measured at current market rates. A discounted cash flow method was used to determine the fair value of level 2 derivative financial instruments.

The shares in Geenee Inc. assigned to level 3 of the fair value hierarchy had already been written down in full in previous years. There were no indications of a reversal of impairment in the year under review. The fair values of the equity investments acquired in fiscal 2019 are their respective purchase prices (adjusted for currency effects), as they were acquired in the year under review. For reasons of materiality, other equity instruments totaling TCHF 9 (previous year: TCHF 9) are recognized at historical cost. There was an earn-out liability of TCHF 231 (previous year: TCHF 74) recognized as a level 3 financial instrument as of the end of the reporting period. Deviations from the planning of Hager Moss Film GmbH resulted in changes to the earn-out liability. The measurement of the earn-out liability is based on the actual EBIT for fiscal 2019 and the forecast EBIT for fiscal 2020 of Hager Moss Film GmbH, which was acquired in the previous year. A +/- 10 % change in the forecast EBIT of Hager Moss Film GmbH for fiscal 2020 would result in a change in the earn-out liability of TCHF +/- 25.

There were no reclassifications between the individual levels of the fair value hierarchy. They are reclassified quarterly in each reporting period if circumstances requiring a different classification arise.

8.4.2 Financial assets and liabilities at amortized cost

Given the short remaining term, the carrying amounts of current financial receivables and liabilities as of the end of the reporting period are approximately the fair value. Non-current receivables are discounted according to their remaining term. Their carrying amounts are therefore also approximately their fair value.

8.4.3 Fair value of non-financial assets and liabilities

As of December 31, 2019 and December 31, 2018, there were no non-financial assets or liabilities measured at fair value.

8.5 Use of hedging instruments

In significant transactions, particularly in US dollars and euro, as well as in Canadian dollars in the previous year, 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 various projects and loans. The Group ensures that the amount of the hedge does not exceed the value of the hedged item.

The Group entered into a series of currency forwards and currency swaps for hedging purposes in the current fiscal year. To the extent possible, these are accounted for as fair value hedges or cash flow hedges in accordance with IFRS 9.

The hedged items essentially relate to pending rights purchases and sales in US dollars. Furthermore, currency forwards were bought as a hedge for recognized foreign currency receivables and liabilities and to hedge the profit distribution of an international subsidiary of Constantin Entertainment GmbH.

8.5.1 Fair values of hedging instruments in hedges

Fair value hedges

As in the previous year, no derivatives were designated as hedging instruments in fair value hedges as of December 31, 2019.

Cash flow hedges

As of December 31, 2019, the currency risk component of non-derivative financial liabilities with a nominal amount of TCHF 12,658 (previous year: TCHF 17,559) was designated as a hedging instrument in cash flow hedges. The hedged items are forecast transactions that are highly likely to occur.

The unrealized profit before tax from the remeasurement of hedging instruments recognized in other comprehensive income amounts to TCHF 332 (previous year: TCHF 198).

Derivatives and non-derivative financial liabilities included in hedge accounting are used only to hedge currency risks.

The following table shows the conditions of the derivative and non-derivative financial instruments designated in existing hedges as of the end of the reporting period:

Derivative financial instruments in hedges

				Dec. 31, 2019	
(TCHF)	< 1 year	1 – 5 years	> 5 years	Nominal volume	Annual average rate
Foreign currency forward sale					
USD	–	12,658	–	12,658	1.11961

				Dec. 31, 2018	
(TCHF)	< 1 year	1 – 5 years	> 5 years	Nominal volume	Closing rate
Foreign currency forward sale					
USD	–	17,124	–	17,124	1.14449
Foreign currency forward acquisition					
USD	435	–	–	435	1.14449

The carrying amounts and nominal amounts of existing cash flow hedges are shown in the following table:

Information on hedging instruments

Currency risk

(TCHF)	2019	2018
Cumulative fair value changes to determine ineffectiveness	332	198
Carrying amount of other receivables	–	25
Carrying amount of financial liabilities	556	223
Nominal value	12,658	17,559

The designated hedged items are as follows:

Information on underlying transactions

Currency risk

(TCHF)	2019	2018
Cumulative fair value changes to determine ineffectiveness	332	198
Reserve for active cash flow hedges	556	198

Only the change in the carrying amount of the designated currency risk component is shown in the table as of December 31, 2019.

Hedging instruments in hedge accounting

Currency risk

(TCHF)	Jan. 01 to Dec. 31, 2019	Jan. 01 to Dec. 31, 2018
Unrealized gains and losses from hedging instruments	332	198
Reclassification of realized gains and losses through profit or loss due to realization of the underlying transaction	–	–1,601
Reclassification of realized gains and losses through profit or loss as realization of the underlying transaction is no longer expected	26	–442

Owing to changes in market conditions, one designated project was canceled and the items recognized in other comprehensive income were reclassified to the financial result.

Please see note 6.15 for the reconciliation of the reserve for the fair value remeasurement of financial instruments in other comprehensive income.

CCBS ineffectiveness was immaterial in fiscal year 2019 and was therefore not recognized in profit or loss.

8.5.2 Derivative financial instruments without a hedge

Derivatives that are not or no longer included in a hedge are still used to hedge a financial risk from operating activities. The hedging instruments are closed out if the operating hedged item no longer exists or is no longer expected.

The nominal amounts and fair values of derivatives not designated in hedge accounting as of December 31, 2019 and 2018 are as follows:

Derivative financial instruments without a hedge

	Dec. 31, 2019		Dec. 31, 2018	
(TCHF)	Nominal value	Fair value	Nominal value	Fair value
Foreign currency forwards (sale)				
CZK	2,454	–66	–	–
PLN	500	-7	–	–
USD	8,479	–668	37,352	–398
ZAR	1,361	–68	–	–
USD/CAD-Swap	2,210	19	4,776	–226
ZAR/USD-Swap	–	–	738	24
thereof credit balance	1,457	29	11,210	278
thereof debit balance	13,547	–819	31,656	–878
Foreign currency forwards (acquisition)				
CZK	1,204	31	–	–
USD	6,574	191	35,114	380
thereof credit balance	5,938	258	18,233	987
thereof debit balance	1,840	–36	16,881	–607

9. SEGMENT REPORTING

The segment information below is based on the management approach.

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 management of the company as the chief operating decision maker makes decisions on the allocation of resources to the segments and assesses their success on the basis of key indicators for sales and segment earnings. The Group's management does not rate the segments on the basis of their assets and liabilities.

The Group consists of the Film segment, the Sports segment and the Sports- and Event-Marketing segment. Group functions of Highlight Communications AG are shown under "Other" and do not represent an operating segment. These include actual Group Management, Corporate Finance, Investor Relations, Controlling, Legal, Group Accounts, Corporate Communications, Internal Audit and Human Resources. Segment earnings are defined as EBIT as this figure is used internally for performance measurement.

The activities of Constantin Film AG and its subsidiaries plus the Highlight Communications equity investments in Rainbow Home Entertainment and its subsidiaries are combined in the Film segment as they have similar business features and are comparable in terms of the type of their products, services, processes, customers and sales methods. Its activities comprise the production 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.

The Sports segment mainly comprises activities in the TV and digital areas with the umbrella brand SPORT1 and in the areas of production, content solutions services, and content marketing with PLAZAMEDIA. Magic Sport Media GmbH comprises the marketing portfolio and comprehensive expertise in the fields of betting, poker, casino and lottery. The Sports segment also includes Match IQ GmbH, an event agency specialized in the sporting preparation of professional teams and athletes as well as the implementation of sports events and brand activation measures.

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

Segment information 2019

(TCHF)	Film	Sports- and Event-Marketing	Sports	Other	Reconciliation	Group
External sales	303,522	64,689	118,602	–	–	486,813
Intragroup sales	56	–	411	–	–467	–
Total sales	303,578	64,689	119,013	–	–467	486,813
Other segment income	128,026	712	9,203	–	–285	137,656
Segment expenses	–415,215	–36,239	–136,453	–7,769	752	–594,924
thereof amortization, depreciation	*–95,360*	*–1,550*	*–13,773*	*–*	*–*	*–110,683*
thereof impairment	*–5,621*	*–*	*–9*	*–*	*–*	*–5,630*
Segment earnings	**16,389**	**29,162**	**–8,237**	**–7,769**	**–**	**29,545**
Time reference of sales						
Over time	139,702	–	51,209	–	–	190,911
Point in time	163,820	64,689	67,393	–	–	295,902
	303,522	**64,689**	**118,602**	**–**	**–**	**486,813**
Sales by product						
Film	163,820	–	–	–	–	163,820
Production services	139,702	–	–	–	–	139,702
Sports- and Event-Marketing	–	64,689	–	–	–	64,689
Platform	–	–	95,553	–	–	95,553
Services	–	–	23,049	–	–	23,049
	303,522	**64,689**	**118,602**	**–**	**–**	**486,813**

Segment information 2018

(TCHF)	Film	Sports- and Event-Marketing	Sports	Other	Reconciliation	Group
External sales	363,848	63,728	104,034	–	–	531,610
Intragroup sales	514	–	208	–	–722	–
Total sales	364,362	63,728	104,242	–	–722	531,610
Other segment income	166,530	917	8,558	–	–384	175,621
Segment expenses	–518,755	–33,096	–117,221	–7,311	1,106	–675,277
thereof amortization, depreciation	*–143,450*	*–453*	*–7,258*	*–*	*–*	*–151,161*
thereof impairment	*–9,441*	*–*	*–*	*–*	*–*	*–9,441*
Time reference of sales	**12,137**	**31,549**	**–4,421**	**–7,311**	**–**	**31,954**
Time reference of sales						
Over time	137,417	–	42,250	–	–	179,667
Point in time	226,431	63,728	61,784	–	–	351,943
	363,848	**63,728**	**104,034**	**–**	**–**	**531,610**
Sales by product						
Film	226,431	–	–	–	–	226,431
Production services	137,417	–	–	–	–	137,417
Sports- and Event-Marketing	–	63,728	–	–	–	63,728
Platform	–	–	86,827	–	–	86,827
Services	–	–	17,207	–	–	17,207
	363,848	**63,728**	**104,034**	**–**	**–**	**531,610**

The elimination of inter-segment transactions is reported in the “Reconciliation” column.

IFRS 16 was applied for the first time in fiscal 2019. As the prior-period figures have not been restated, the segment information is not fully comparable with the information shown for the previous year.

With regard to the performance of the Sports segment, it should also be noted that Constantin Medien AG was consolidated for the first time effective March 31, 2018, and allocated to the Sports segment. The company’s consolidation period was thus only nine months in the period from April 1 to December 31, 2018, but a full twelve months for the current reporting period. Comparability with prior-year figures is therefore limited.

Segment information by region

Jan. 01 to Dec. 31, 2019 (TCHF)	Switzerland	Germany	Rest of Europe	Rest of the world *	Total
External sales	84,210	313,496	53,950	35,157	486,813
Non-current assets	146,449	280,970	–	–	427,419

** of which TCHF 32,685 is attributable to the US*

Jan. 01 to Dec. 31, 2018 (TCHF)	Switzerland	Germany	Rest of Europe	Rest of the world	Total
External sales	91,260	281,693	43,682	114,975	531,610
Non-current assets	129,954	268,857	–	–	398,811

External sales by customers

(TCHF)	2019 Nominal	2019 in %	2018 Nominal	2018 in %
Customer A (Sports- and Event-Marketing segment)	64,689	13	63,728	12
Customer B (Film segment)	63,174	13	59,966	11
Customer C (Film segment)	23,825	5	48,155	9
Sales with other customers	335,125	69	359,761	68
Total external sales	**486,813**	**100**	**531,610**	**100**

In total, the Highlight Group generated more than 10% of its total sales with two customers (previous year's period: two customers). These sales relate both to the Film segment and the Sports- and Event-Marketing segment.

10. FINANCIAL COMMITMENTS, CONTINGENT LIABILITIES AND OTHER UNRECOGNIZED FINANCIAL OBLIGATIONS

10.1 Overview

Financial commitments, contingent liabilities and other unrecognized financial obligations

(TCHF)	Financial commitments	Contingent liabilities	Purchase commitments for licenses	Other unrecognized financial obligations	Lease liabilities	Total
As of December 31, 2019						
Due within one year	14,653	–	30,870	23,536	2,478	71,537
Due between one year and five years	7,920	–	27,522	11,901	18,549	65,892
Due after five years	–	–	–	822	10,555	11,377
Total	**22,573**	**–**	**58,392**	**36,259**	**31,582**	**148,806**
As of December 31, 2018						
Due within one year	15,205	2,887	45,438	26,162	8,519	98,211
Due between one year and five years	–	–	43,724	20,492	23,083	87,299
Due after five years	–	–	–	1,564	11,950	13,514
Total	**15,205**	**2,887**	**89,162**	**48,218**	**43,552**	**199,024**

10.2 Financial commitments

As of December 31, 2019, there were guarantees to various TV stations for the completion of service productions totaling TCHF 14,653 (previous year: TCHF 15,205). As there are no indications that the collateralized service productions will not be completed as contractually agreed, it is not expected that material actual liabilities will result from the contingent liabilities.

Sport1 Medien AG has assumed directly enforceable guarantees for all liabilities of PLAZAMEDIA GmbH arising from multiple leases. These guarantees are perpetual and are capped at a total of TCHF 7,920.

10.3 Contingent liabilities

There were no contingent liabilities as of the end of the reporting period.

10.4 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 12,781 (previous year: TCHF 19,162).

Furthermore, the purchase commitments for licenses include TCHF 45,611 (previous year: TCHF 70,000) for broadcasting and transmission rights of Sport1 GmbH.

10.5 Other unrecognized financial obligations

Other financial obligations not recognized in the balance sheet include TCHF 15,077 (previous year: TCHF 16,809) for obligations under option, work and film contracts for the development of in-house productions in addition to obligations for distribution costs and other services of TCHF 21,182 (previous year: TCHF 31,409).

10.6 Rental and lease obligations

The Highlight Group rents numerous offices, warehouses, vehicles and facilities.

Since January 1, 2019, the Group has recognized right-of-use assets for these leases with the exception of short-term leases and leases for low-value assets (for more information see notes 2.1, 4.8 and 6.4).

The minimum lease obligations as of December 31, 2018 are as shown in the table below:

Rental and lease obligations

(TCHF)	Building and room rental	Vehicle lease	Other rental and lease obligations	Rental and lease obligations (operating lease contracts)
As of December 31, 2018				
Due within one year	7,677	551	291	8,519
Due between one year and five years	22,416	473	194	23,083
Due after five years	11,950	–	–	11,950
Total	**42,043**	**1,024**	**485**	**43,552**

The minimum lease obligations were calculated based on the respective uncancellable lease terms.

The total rental and lease expenses for fiscal 2018 amounted to TCHF 10,624.

11. RELATED PARTY DISCLOSURES

As part of its normal business activities, the company maintains relations with associated companies, the main shareholder and its subsidiaries as well as with companies controlled by members of the Board of Directors.

Related party disclosures

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Receivables	–	–
Liabilities	57	59

(TCHF)	Jan. 01 to Dec. 31, 2019	Jan. 01 to Dec. 31, 2018
Sales and other income	–	–
Cost of materials and licenses and other expenses	76	39

Parent company and its direct subsidiaries

(TCHF)	Dec. 31, 2019	Dec. 31, 2018
Receivables	14,857	3,619
Liabilities	936	1,754

(TCHF)	Jan. 01 to Dec. 31, 2019	Jan. 01 to Dec. 31, 2018
Sales and other income	361	350
Cost of materials and licenses and other expenses	840	14

As in the previous year, there were no transactions with associated companies or joint ventures in the reporting year.

Other expenses of the direct parent company Highlight Event and Entertainment AG were incurred in the amount of TCHF 134 in the reporting year (previous year's period: TCHF 14).

As of December 31, 2019, there were further liabilities to various members of the Board of Directors and managing directors of TCHF 57 (previous year: TCHF 59).

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 the reporting period or in the same period of the previous year.

Please see the remuneration report for information on the remuneration of the Board of Directors and members of the Group's management, and note 9 to the annual financial statements of Highlight Communications AG for details of their shareholdings. There are no deviations between Swiss and international accounting law.

12. DISCLOSURES ON EVENTS AFTER THE BALANCE SHEET DATE

Constantin Medien AG was renamed Sport1 Medien AG effective January 1, 2020.

By way of agreement dated and effective January 1, 2020, Highlight Communications AG, Pratteln, acquired 100% of the shares in Highlight Event AG, Emmen, from Highlight Event and Entertainment AG, Pratteln, for a purchase price of TCHF 9,000. As a result of gaining control, this equity investment will be included in consolidation from the acquisition date onwards. An advance payment for the acquisition in the amount of TCHF 8,000 was made in December 2019.

Constantin Sport Holding GmbH was also renamed Sport1 Holding GmbH in January 2020.

The new coronavirus strain has continued to spread around the world in the first quarter of 2020. Given this development, the Board of Directors is not currently able to issue an updated forecast for fiscal 2020 that takes coronavirus into account as of this date. In view of the ongoing nature of the situation, the extent of the overall impact on our business in 2020 cannot be reliably quantified at this time. It is uncertain how business will be affected as the year progresses. The company's outlook for fiscal 2020 as described in this report could change depending on the further developments in connection with the coronavirus outbreak.

The Board of Directors is monitoring the situation and will take the corresponding action when necessary. The Board of Directors assumes that the spread of coronavirus will affect the Highlight Group.

Report of the statutory auditor

to the General Meeting of Highlight Communications AG

Pratteln

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Highlight Communications AG and its subsidiaries (the Group) which comprise the consolidated balance sheet as at 31 December 2019, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 82 to 158) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: CHF 1,100,000

We concluded full scope audit work at 18 Group companies in 3 countries. These Group companies represent 97% of the Group's sales. Additionally, specified audit procedures were concluded at a further 4 Group companies in 4 countries, addressing a further 2% of the Group's sales.

As key audit matters, the following areas of focus were identified:

- Sales recognition in the Film and the Sport and Event Marketing segments
- Valuation of film assets
- Impairment testing of goodwill from the acquisition of Constantin Medien AG

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Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

On the basis of our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 1,100,000
How we determined it	5% of profit before taxes
Rationale for the materiality benchmark applied	We chose earnings before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark for materiality considerations.

We agreed with the Audit Committee that we would report to them misstatements above CHF 55,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Sales recognition in the Film and the Sport and Event Marketing segments

Key audit matter	How our audit addressed the key audit matter
a) Film segment We consider sales recognition in the Film segment to be a key audit matter because the recognition of sales over the different stages of exploitation, from in-house and third-party productions, may differ significantly in time from the invoice date and the date on which payment is received. b) Sports and Event Marketing segment We consider sales recognition in the Sports and Event marketing segment to be a key audit matter because the entire segment's sales stem from a single contract. This agency agreement with UEFA encompasses the global marketing of the commercial rights relating to the UEFA Champions League and the UEFA Europa League on behalf of and for the account of UEFA. The income of the Highlight Group from this agency agreement comprises a fixed element and a variable element, which is based on the revenues from marketing these two competitions. However, the annual accounting period for the competitions does not correspond with the Group's financial year. Hence, the proper recording in the appropriate period of the revenues from this agency agreement is of particular importance. Please refer to note 4.16 (Revenue from contracts with customers) in the notes to the consolidated financial statements.	We performed the following audit procedures at Group companies that recorded significant sales in the Film segment and the Sports and Event Marketing segment: • We examined the design of the internal controls relating to the measurement and the recording of sales. • We assessed the consistency of the sales recognition method used, taking into account the accounting principles set out in note 4.16 to the consolidated financial statements. • In the Film segment, we examined in addition on a sample basis whether sales were recorded correctly and in the right period. • In the Sport and Event Marketing segment, we examined in addition whether the recorded income from the agency agreement for the 2018/2019 season ending in the 2019 financial year was in line with the contractual terms and conditions. • Further, we examined whether the underlying definitive financial results of the competitions had been approved by UEFA and the related variable consideration paid. • For the ongoing 2019/2020 season, we examined whether the accrued income from the agency agreement was correctly booked, taking into account the contractual terms and conditions and the expected financial results of this period. In doing so, we relied on the calculation of the expected marketing revenues of both competitions, which are reconciled periodically with UEFA. We included in our assessment the outcomes of our interviews with Management about the actual and the expected financial results of the current season and our experience of the accuracy of the prior year's accruals. On the basis of the audit evidence we obtained, we concluded that the sales recognition methods of the Highlight Group and the recorded revenues of the Film segment and the Sports and Event Marketing segment are based on appropriate evidence and tenable assumptions.

Valuation of film assets

Key audit matter	How our audit addressed the key audit matter
The impairment testing of film assets was deemed a key audit matter for the following two reasons: Film assets, comprising in-house and third-party productions, in the amount of CHF 174.7 million represent a significant share (26%) of the assets. There is significant scope for judgement in determining the assumptions used to forecast the revenues and cash flows in the different stages of exploitation and in determining the discount rates. These estimates and the scope for judgement can have a material impact on valuation, unit of production amortisation and any potential impairment. Please refer to note 4.4 (Film assets) and note 5 (Judgement/estimation uncertainty) and note 6.1 (Notes to individual items of the balance sheet – Film assets) in the notes to the consolidated financial statements.	For the Group companies that reported significant film assets, we performed the following procedures: • We examined the design of the internal controls relating to the valuation of film assets. • We assessed the consistency of the application of the valuation model for film assets. • In addition, for a number of samples, we examined the unit of production amortisation and the impairment tests relating to specific film projects. • In doing so, we checked the plausibility of the forecasting assumptions underlying the amortisation calculations and impairment tests by comparing them with the contractual terms and conditions and discussing them with the project leaders and Management. • We discussed with Management and the project leaders whether and to what extent the results from the initial period of exploitation (cinema) or other indicators led to additional impairment of the book value of specific films. • We compared the discount rate with the cost of capital of the Group and of comparable enterprises, taking into account the country-specific particularities. • For the above-mentioned samples, we examined also the mathematical accuracy of the calculation of the unit of production amortisation and of any impairments. With regard to the valuation of film assets, we considered the assessments of the Board of Directors and Management to be based on appropriate and consistently applied assumptions and correct conclusions.

Impairment testing of goodwill from the acquisition of Constantin Medien AG

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill arising from the acquisition of Constantin Medien AG in the 2018 financial year was deemed a key audit matter for the following two reasons: The goodwill from the acquisition of Constantin Medien AG represents a significant amount on the balance sheet. It totals CHF 114.7 million, representing 17% of the total assets. In addition, there is significant scope for judgement in determining the assumptions relating to the future business results and the discount rate applied to the forecasted cash flows. Please refer to note 4.6 (Goodwill), note 5 (Judgement/estimation uncertainty) and note 6.2 (Other intangible assets and goodwill) in the notes to the consolidated accounts.	We assessed the impairment test carried out by the Group by performing the following audit procedures: • For the forecasted cash flows, we assessed the budget process, especially whether Group Management and the Board of Directors monitored this process and challenged the applied assumptions. • We tested whether the values used for the impairment test were in line with the budget approved by the Board of Directors. • We compared the assumptions relating to the prior year's revenues and results with those for the year under review in order to identify, in retrospect, any assumptions that were too optimistic regarding the budgeted revenues and results. • We checked for plausibility the discount rates and the assumptions that were used. • In addition, based on sensitivity analyses, we tested whether a significant change in the key assumptions (in each case for the discount rate, the EBITDA margin and the long-term growth rate) resulted in an impairment of the goodwill. • We discussed the results of these tests with Management in terms of the headroom available before the goodwill would be impaired and the probability of such a change in the assumptions occurring. On the basis of the audit procedures performed, we addressed the risk of the impairment of goodwill. We have no findings to report. The assumptions used were consistent and in line with our expectations.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of Highlight Communication AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is available on the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

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Report on other legal and regulatory requirements

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 AG

Bruno Häfliger	Bastian Stolzenberg
Audit expert Auditor in charge	Audit expert

Luzern, 30 March 2020

Financial statements

as of December 31, 2019 of Highlight Communications AG, Pratteln

BALANCE SHEET AS OF DECEMBER 31, 2019

Highlight Communications AG, Pratteln

ASSETS (TCHF)	Dec. 31, 2019	Dec. 31, 2018
Current assets		
Cash and cash equivalents	872	3,188
Other current receivables		
due from third parties	15	31
due from shareholders	14,735	3,379
due from Group entities	31	67
Prepaid expenses/accrued income	558	3
	16,211	6,668
Non-current assets		
Non-current receivables		
due from Group entities	–	3,775
Non-current prepaid expenses/accrued income	1,273	–
Advance payments to shareholders	8,000	–
Equity investments	443,480	408,400
Licenses	–	–
	452,753	412,175
Total assets	468,964	418,843

EQUITY AND LIABILITIES (TCHF)	Dec. 31, 2019	Dec. 31, 2018
Liabilities		
Current liabilities		
Trade accounts payable		
due to third parties	20	52
due to Group companies	237	–
Current interest-bearing liabilities		
due to banks	18,221	98,000
due to Group entities	19,678	17,935
Other current liabilities		
due to third parties	23	21
due to shareholders	892	1,867
Deferred income/accrued expenses	952	642
	40,023	**118,517**
Non-current liabilities		
Non-current interest-bearing liabilities		
due to banks	122,882	–
	122,882	**–**
Equity		
Subscribed capital	63,000	63,000
Legal capital reserves		
Reserves from capital contributions	51,844	64,429
Other legal capital reserves	2,758	2,758
Legal reserves for treasury shares	37,395	37,395
Voluntary retained earnings	30,403	30,403
Retained earnings	102,747	95,001
Net profit/loss for the year	18,516	7,746
Treasury shares		
against reserves from capital contributions	–604	–406
	306,059	**300,326**
Total equity and liabilities	**468,964**	**418,843**

INCOME STATEMENT 2019

Highlight Communications AG, Pratteln

(TCHF)	2019	2018
License income	61	96
Other income	16	299
Income from equity investments	36,031	23,450
Total income	36,108	23,845
License expenses	–6	–24
Personnel expenses	–3,463	–3,546
Office and administrative expense	–5,029	–4,938
Amortization, depreciation and impairment on non-current assets	–5,000	–4,500
Earnings before interest and taxes (EBIT)	22,610	10,837
Financial expense		
Interest expense	–3,411	–3,236
Price losses	–725	–1,253
Financial income		
Interest income	17	18
Price gains	25	1,380
Profit/loss before taxes	18,516	7,746
Income taxes	–	–
Net profit/loss for the year	18,516	7,746

NOTES TO THE FINANCIAL STATEMENTS 2019

Highlight Communications AG, Pratteln

1. ACCOUNTING

These financial statements were prepared in accordance with the provisions on commercial accounting of the Swiss Code of Obligations. The material items of the balance sheet are accounted for as shown below.

Securities with a market price

Securities with a market price are measured at their market price on the reporting date. A fluctuation reserve was not recognized.

Foreign currency positions

The functional currency is the Swiss franc (CHF). Transactions in foreign currencies are translated into the functional currency CHF at the exchange rate as of the transaction date. Balance sheet items are translated at the closing rate.

Other current receivables

Other current receivables are recognized at nominal value less any necessary impairment losses. All changes in value are recognized in income.

Equity investments

Equity investments are valued individually. They are recognized at cost less any necessary impairment losses. Additional impairment losses are recognized at the discretion of the Board of Directors.

Treasury shares

From fiscal year 2015, treasury shares are recognized at cost without subsequent remeasurement.

2. DETAILS ON INDIVIDUAL ITEMS

Advance payments to shareholders

On December 17, 2019, Highlight Communications AG acquired from Highlight Event and Entertainment AG the stake in Highlight Event AG at a purchase price of CHF 9 million. The shares were transferred only as of January 1, 2020. Completion and transfer of control happened on January 1, 2020. A payment of CHF 8 million was made. On January 1, 2020 the remaining amount of the purchase price of CHF 1 million is due.

Current and non-current interest-bearing liabilities due to banks

On July 17, 2019, a new credit agreement was concluded. In the financial statements amortization for FY 2020 is recognized as current.

Equity

The dividend of CHF 12.6 million was paid from reserves from capital contributions.

Income from equity investments

This item contains dividends from Group entities.

Price gains

There were operating foreign currency gains of CHF 0.0 million in the reporting period.

Office and administrative expense

This item contains management expenses, consulting expenses and investor relations costs. Costs remained practically unchanged. In the previous year there were various consultancy expenses for consultancy expenses for Constantin Medien AG acquisition and control. In the reporting period there were costs in connection with the delisting of Constantin Medien AG.

Amortization, depreciation and impairment on non-current assets

In the reporting period, write-downs on receivables from Group companies amounted to CHF 5 million (with subordination). Total subordination amounted to CHF 13.5 million.

In FY 2019 impairment recognition on investments of 49,875 CHF and hidden reserves of same amount have been released.

3. PLEDGED ASSETS AS COLLATERAL FOR OWN OBLIGATIONS

	Dec. 31, 2019	Dec. 31, 2018
Shares in Constantin Medien AG		
Number	88,151,753	73,365,840
Carrying amount in TCHF	233,553	196,729
Shares in Constantin Film AG		
Number	12,742,600	12,742,600
Carrying amount in TCHF	132,151	132,151
Credit facility used		
TCHF	141,103	98,000

4. CONTINGENT LIABILITIES

Joint liability exists in respect to Group value-added taxation under Section 22 of the Swiss Value-Added Tax Act.

5. NOTES ON MAIN INVESTMENTS

The list of all companies with own legal identity, including minority investments held directly or indirectly by the holding company and consolidated at the level of the Highlight Group, can be found in Note 3 of the consolidated financial statements in this annual report.

6. CHANGE IN LEGAL CAPITAL RESERVES

The dividend of TCHF 12,585 was paid entirely from “Reserves from capital contributions”.

7. SHAREHOLDER STRUCTURE

Shareholders with holdings of over 5%	Dec. 31, 2019	Dec. 31, 2018
Highlight Event and Entertainment AG	45.18%	44.71%
Stella Finanz AG	12.26%	13.81%
Axxion S.A.	9.89%	9.89%
Constantin Medien AG	9.81%	9.81%

For the stakes held by members of the Board of Directors and the Group management as well as their related parties, refer to Note 9.

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

8. TREASURY SHARES (HELD DIRECTLY OR INDIRECTLY VIA SUBSIDIARIES)

Directly

	Number of shares	Carrying amount TCHF	Transaction value TCHF
Balance on January 1, 2019	74,983	406	–
Sales	–	–	–
Acquisitions	42,000	199	–
Balance on December 31, 2019	116,983	605	–

	Number of shares	Carrying amount TCHF	Transaction value TCHF
Balance on January 1, 2018	44,983	236	–
Sales	–	–	–
Acquisitions	30,000	170	–
Balance on December 31, 2018	74,983	406	–

Indirectly

	Number of shares	Carrying amount TCHF	Transaction value TCHF
Balance on January 1, 2019	6,182,518	37,396	–
Sales	–	–	–
Acquisitions	–	–	–
Balance on December 31, 2019	6,182,518	37,396	–

	Number of shares	Carrying amount TCHF	Transaction value TCHF
Balance on January 1, 2018	–	–	–
Sales	2,000,000	12,221	12,221
Acquisitions	8,182,518	49,617	49,617
Balance on December 31, 2018	6,182,518	37,396	–

9. INFORMATION ON THE SHAREHOLDINGS OF THE BOARD OF DIRECTORS AND THE GROUP MANAGEMENT

As of December 31, 2019, the individual members of the Board of Directors and the Group management (including related parties) held the following number of shares in the company:

	2019	2018
Bernhard Burgener, Chairman and Delegate, executive member	–	–
René Camenzind, non-executive member	628,715	628,715
Martin Hellstern, non-executive member	200,000	200,000
Peter von Büren, executive member	–	–
Dr. Paul Graf, Managing Director	50,000	50,000

10. NUMBER OF FULL-TIME EQUIVALENTS

The average number of full-time equivalents over the year was not more than 10 employees.

11. ADDITIONAL INFORMATION, STATEMENT OF CASH FLOWS AND MANAGEMENT REPORT

Additional information, the statement of cash flows and the management report have been waived in accordance with Article 961d (1) of the Swiss Code of Obligations as Highlight Communications AG prepares consolidated financial statements in accordance with a recognized accounting standard.

12. EVENTS AFTER THE BALANCE SHEET DATE

On December 17, 2019, Highlight Communications AG acquired from Highlight Event and Entertainment AG the stake in Highlight Event AG at a purchase price of CHF 9 million. The shares were transferred only as of January 1, 2020. Completion and transfer of control happened on January 1, 2020. A payment of CHF 8 million was made. On January 1, 2020, the remaining amount of the purchase price of CHF 1 million was paid.

The new coronavirus strain has continued to spread around the world in the first quarter of 2020. Given this development, the Board of Directors is not currently able to issue an updated forecast for fiscal 2020 that takes coronavirus into account as of this date. In view of the ongoing nature of the situation, the extent of the overall impact on our business in 2020 cannot be reliably quantified at this time. It is uncertain how business will be affected as the year progresses. The company's outlook for fiscal 2020 as described in this report could change depending on the further developments in connection with the coronavirus outbreak.

The Board of Directors is monitoring the situation and will take the corresponding action when necessary. The Board of Directors assumes that the spread of coronavirus will affect the Highlight Group.

PROPOSAL FOR THE APPROPRIATION OF RETAINED EARNINGS AND THE LEGAL RESERVES FROM CAPITAL CONTRIBUTIONS

Highlight Communications AG, Pratteln

PAYMENT OF A DIVIDEND FROM LEGAL RESERVES FROM CAPITAL CONTRIBUTIONS

(TCHF)	**2019**
Payment of a dividend of CHF 0.20 per share	12,600
Withdrawal from the legal reserves from capital contributions	**12,600**

APPROPRIATION OF AVAILABLE RETAINED EARNINGS

(TCHF)	**2019**
Profit carried forward	102,747
Net profit for the year	18,516
Available retained earnings	**121,263**

The Board of Directors recommends to the Annual General Meeting the following resolution for the appropriation of retained earnings:

(TCHF)	
Retained earnings	121,263
Dividend payment	–
Carryforward to new account	121,263

The dividend amount of TCHF 12,600 is entirely distributed from “Legal reserves from capital contributions” and corresponds to a dividend (not subject to withholding tax) of CHF 0.20 per share entitled to a dividend.

The dividend proposal applies to all shares. 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 on the audit of the financial statements

Opinion

We have audited the financial statements of Highlight Communications AG, which comprise the balance sheet as at 31 December 2019, income statement for the year then ended and notes, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 168 to 173) as at 31 December 2019 comply with Swiss law and the articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall materiality: CHF 1,500,000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter, the following area of focus has been identified:

Impairment of equity investments

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Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

On the basis of our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 1,500,000
How we determined it	0.5% of net assets
Rationale for the materiality benchmark applied	We chose net assets as the benchmark because it is a generally accepted benchmark for materiality considerations for a holding company.

We agreed with the Audit Committee that we would report to them misstatements above CHF 75,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of equity investments

Key audit matter	How our audit addressed the key audit matter
Equity investments in the amount of CHF 443.5 million are a significant item on the company’s balance sheet, representing more than 94% of total assets. Equity investments are valued individually. The recoverability of equity investments depends on the economic substance and the future results or cash flows. The Board of Directors and Management have considerable scope to apply their judgement in determining the assumptions underlying forecasts of future results and cash flows. Owing to the significance of this balance sheet item to the financial statements as a whole and owing to the scope for judgement involved in determining the relevant input factors and the assumptions used in the valuation model, we consider the impairment testing of the equity investments as a key audit matter.	The impairment testing of equity investments is performed separately for each of the three main equity investments, Team Holding AG, Lucerne, Constantin Film AG, Munich and Constantin Medien AG, Munich. The calculations for the Team Holding AG, Constantin Film AG and Constantin Medien AG equity investments were performed in the year under review by the Management of Highlight Communications AG. We assessed the assumptions and forecasts made by Management by examining critically the most important assumptions used in forecasting future revenues and profits. This included a comparison of the revenues and profits forecast in the prior year with the results that were actually realised in the year under review in order to identify, in retrospect, any assumptions regarding the budgeted revenues and results that were too optimistic.

The impairment testing of equity investments is performed on the basis of future results or cash flows. Please refer to note 1 (Accounting) and note 5 (Notes on main investments) in the notes to the financial statements 2019.	We checked for plausibility the discount rates and the assumptions that were used. The assumptions used were consistent and in line with our expectations. We consider the valuation procedures to be an appropriate and adequate basis for the impairment testing of the equity investments. The results of our audit support the reasonableness of the assumptions applied by the Board of Directors and Management.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors intends either to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is available from the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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 AG

Bruno Häfliger	Bastian Stolzenberg
Audit expert Auditor in charge	Audit expert

Luzern, 30 March 2020

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Highlight

Highlight Communications AG

EVENTS

2020

Cinema	Cannes Film Festival	May 12 – 23
	Locarno Film Festival	August 5 – 15
	Venice Film Festival	September 2 – 12
	Toronto Film Festival	September 10 – 20
Football	UEFA Europa League final	May 27
	UEFA Champions League final	May 30
	UEFA Super Cup	August 12
Investor Relations	Interim reports	May/August/November
	Annual General Meeting	June 25
	German Equity Forum	November 17 – 18

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