Highlight

Annual Report 2011

Swiss-based Highlight Group
is one of the most successful media stocks
listed on the German capital market.
Its unique selling proposition is its broad
product portfolio.

Highlight Communications AG at a glance (TCHF)		**2011**	2010
Consolidated balance sheet	Total assets	**499,182**	525,569
	Film assets	**154,555**	175,801
	Cash and cash equivalents	**140,711**	166,039
	Financial liabilities	**204,207**	251,391
	Equity attributable to the shareholders	**82,746**	67,621
Consolidated income statement	Sales	**383,452**	434,562
	Profit from continuing operations	**39,702**	56,120
	Net profit (Highlight shareholders)	**31,610**	36,172
	Earnings per share (CHF)	**0.69**	0.78
	Earnings per share (EUR)	**0.56**	0.57
Consolidated statement of cash flows	Cash flow from operating activities	**114,724**	175,313
	Cash flow for investing activities	**–76,619**	–111,552
	thereof payments for film assets	**–77,544**	–106,844
	Cash flow for financing activities	**–59,818**	–75,810
	thereof dividend payments	**–9,722**	–2,005
	Cash flow for the reporting period	**–22,143**	–12,049
Personnel	Headcount as of December 31	**733**	787

The companies of the
Highlight Group design, produce and market
events and premium formats
in the areas of film, sports and music
that are known worldwide.

Highlight Communications AG, Pratteln, Switzerland

Film

100 %	100 %
Constantin Film AG MUNICH, GERMANY Subsidiaries of Constantin Film AG **Constantin Film Schweiz AG** BASEL, SWITZERLAND	**Highlight Communications (Deutschland) GmbH** MUNICH, GERMANY **Rainbow Home Entertainment AG** PRATTELN, SWITZERLAND **Rainbow Home Entertainment GmbH** VIENNA, AUSTRIA

Sports- and Event-Marketing

100 %
Team Holding AG LUCERNE, SWITZERLAND **T.E.A.M. Television Event And Media Marketing AG** LUCERNE, SWITZERLAND **Team Football Marketing AG** LUCERNE, SWITZERLAND

The Highlight spectrum ranges from top feature films and TV formats, high-selling DVD and Blu-ray releases, European premium football to traditional music events.

Members of the Highlight Group

Constantin Film | RAINBOW HOME ENTERTAINMENT | T.E.A.M.

Cinema

Highlight subsidiary Constantin Film AG is Germany's leading producer and distributor of theatrical films. It brought two of the six most popular German productions of 2011 into cinemas: "Wickie auf grosser Fahrt" and "The Three Musketeers".

Television

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

Home entertainment

The Highlight Group has its own distribution organization for the best possible exploitation of DVD/Blu-ray rights of theatrical films. Distribution in Switzerland and Austria is performed by the Rainbow Home Entertainment subsidiaries.

Highlight Communications (Deutschland) GmbH cooperates with Paramount Home Entertainment to cover the German market.

The bestsellers of 2011 were "Resident Evil: Afterlife", "Step Up 3 – Make Your Move" and "Animals United".

Football

The TEAM Group is one of the world's leading agencies in the global marketing of international major events. It markets exclusively the "UEFA Champions League", the "UEFA Europa League" and the "UEFA Super Cup".

Music

Other well-known projects handled by the TEAM Group include the marketing of the "Eurovision Song Contest" and a marketing cooperation with the Vienna Philharmonic Orchestra. As part of this cooperation, it markets the orchestra's "New Year's Day Concert" and the "Summer Night Concert".

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Foreword by the Chairman

The Highlight Group further shored up its operating position as one of the leading media groups in the Film and Sports- and Event-Marketing areas in fiscal year 2011.

Red carpet in Munich:
The stars of "Wickie auf grosser Fahrt" celebrated the film's world premiere with more than 1,500 fans.

- Constantin Film AG released two movies in German theaters seen by more than a million people: "Wickie auf grosser Fahrt" and "The Three Musketeers".
- The Highlight Group further expanded its market position on the German home entertainment market with high-selling new releases.
- The TEAM Group generated excellent results in the marketing process for the commercial rights to the UEFA Champions League and the UEFA Europa League.

Dear shareholders and other interested parties,

Fiscal year 2011 was dominated by events that had not been foreseeable at the start of the year. In March, the earthquake and nuclear disaster in Japan triggered turbulence on the global capital markets and almost the entire second half of the year was overshadowed by the European debt crisis which cast a pall over the economic climate. This entailed a strong appreciation of the Swiss franc against the euro and the US dollar.

In this environment, the Highlight Group further shored up its operating position as one of the leading media groups in the Film and Sports- and Event-Marketing areas.

TEAM: Successful marketing of the UEFA competitions

The TEAM Group's activities over the year were primarily influenced by the marketing process for the commercial rights to the UEFA Champions League and the UEFA Europa League for the 2012/13 to 2014/15 seasons. In spite of the gloomy economic climate, TEAM successfully achieved excellent results.

In the field of TV rights, more than 100 deals have already been concluded on a wide range of markets. In addition, a whole slew of sponsorship contracts has already been agreed, including with the proven partners Heineken, UniCredit, adidas, Mastercard and Ford, which have extended their commitment to the UEFA Champions League by a further three years. These results emphasize the TEAM Group's expertise and the strong attraction of Europe's two biggest club football competitions.

The negotiations with the European Broadcasting Union (EBU) for a continued cooperation were brought to a successful conclusion. TEAM's mandate to market the Eurovision Song Contest will now remain in place until 2015 and will be automatically extended by a further three years if certain performance targets are achieved in this period.

Constantin Film: Two movies seen by millions

Following a clear decline in 2010, the German movie industry experienced a resurgence in the past year. Key factors driving this success were a strong product offering and the ongoing popularity of 3-D movies. The number of moviegoers rose by 2.4 % and box office takings increased even more by 4.1 %. The market share of German productions developed very well, surging from 16.8 % to 21.8 %.

Several films from Constantin Film AG again contributed to this success, including in particular the co-production "Wickie auf grosser Fahrt". Germany's first movie filmed in 3-D was seen and loved by audiences of more than 1.7 million by the end of 2011. The star-studded 3-D production "The Three Musketeers" with Logan Lerman, Milla Jovovich and Matthew Macfadyen also passed the magic million marker with 1.2 million moviegoers.

The international Constantin co-production "Carnage" featuring the international stars Kate Winslet, Jodie Foster, Christoph Waltz and John C. Reilly also found a strong audience. Having been released in German movie theaters at the end of November 2011, this drama fascinated more than 815,000 people by the end of February 2012. With all the movies released in 2011, Constantin Film AG achieved a market share of 5.9 % in terms of sales and 5.7 % in terms of moviegoers, enough to secure eighth place among all distributors on the German movie theater market.

An artistic highlight was the German Film Prize, presented to the Olga Film production “vincent will meer” at the start of April 2011 as the best film of 2010. The picture’s screenwriter and lead actor, Florian David Fitz, also took home the prize for best actor in a leading role.

Home entertainment: Highlight Group consolidates its market position

The German home entertainment market also continued to grow in 2011. Key factors in this were the significant sales increases in the Blu-ray segment and digital consumption (electronic sell-through, video-on-demand and pay-per-view). The Highlight Group also benefited from this positive environment and further expanded its market position – both on the video sell-through market and in rental business.

This success was once again underpinned by new DVD and Blu-ray releases of hit Constantin Film movies – above all its international own production “Resident Evil: Afterlife”. Other highlights in our 2011 slate included the licensed title “Step Up 3 – Make Your Move”, the CGI co-production “Animals United” and the youth films “Freche Mädchen 2” and “Vorstadtkrokodile 3”. The road movie “vincent will meer”, released in 2010, continued to post highly satisfactory sales figures, establishing itself as a constant in the catalog segment in 2011.

New business area in development

We increased our equity holding in Escor Casinos & Entertainment SA to 56.95% by way of a public tender offer in line with strategic considerations. This also entailed a reorientation of the company’s activities which is currently in the implementation phase. The aim of this is to focus on the rapidly growing area of social gaming.

Financial results affected by exchange rates

A comparison of the 2010 and 2011 annual average rates shows that the euro lost almost 11% and the US dollar even 15% of value in relation to the Swiss currency. The Highlight Group as well could not escape this change in exchange rates.

With consolidated sales of CHF 383.5 million (2010: CHF 434.6 million), we achieved the target that we had redefined in November 2011 – of a range between CHF 370 and 400 million – on account of the appreciation of the Swiss franc and the slide in the euro/dollar exchange rate.

Exchange rate effects essentially led to a profit from operations (EBIT) of CHF 39.7 million (2010: CHF 56.1 million) – not least due to the fact that most of the expenses in the Sports- and Event-Marketing segment are incurred in Swiss francs while sales are realized in euro and US dollars.

The share of profits attributable to the shareholders of Highlight Communications AG for 2011 amounted to CHF 31.6 million (2010: CHF 36.2 million). Based on an average of 46.1 million shares outstanding, earnings per share amounted to CHF 0.69 (2010: CHF 0.78). In euro – and therefore without consideration for currency effects of the past fiscal year – we even exceeded our original forecast for earnings per share of EUR 0.52 to EUR 0.54 with EUR 0.56.

We also continued to improve our balance sheet ratios: Equity (including non-controlling interests) rose by CHF 23.4 million to CHF 96.0 million. Net debt was reduced further from CHF 85.4 million to CHF 63.5 million.

2012: Confidence in dependence on general economic developments

The general economic prospects for 2012 – specifically in the euro zone – are marred by considerable uncertainty. Nonetheless, the Highlight Group is confident that it will master the coming challenges and continue its success. Based on the established business areas, a proven, broadly positioned business model and with due caution, we are currently anticipating consolidated sales of between CHF 370 and 390 million for the current year and earnings per share of EUR 0.42 to EUR 0.44. However, the prerequisite for this are nearly stable exchange rates between the Swiss franc and the euro.

There is a full slate of Constantin movies for theatrical distribution, covering over a dozen own/co-productions and licensed titles. The licensed title "The Famous Five", based on the stories by Enid Blyton, already got off to an excellent start at the end of January. The movie adaptation of the internationally successful children's books has so far been seen by more than 750,000 moviegoers. We are expecting a similar performance from the comedy "Türkisch für Anfänger" released in the middle of March and the 3-D productions "Step Up 4" and "Resident Evil: Retribution", both slated for German theatrical release in late summer/early fall.

The home entertainment business area will benefit from new DVD and Blu-ray releases of Constantin Film hits from last year in particular. For example, the cloak-and-dagger adventure "The Three Musketeers", which was released at the start of February, went straight to the top of the German retail charts – on both DVD and Blu-ray. Similar successes are also expected from "Wickie auf grosser Fahrt" and "Carnage".

The activities in Sports- and Event-Marketing will on the one hand continue to focus on the sales process for TV and sponsorship rights to the UEFA Champions League and the UEFA Europa League, which is to end in the summer of 2012. On the other, there will be the organizational monitoring and handling of the current season of both competitions, which will be brought to a glorious conclusion with finals in May. This will then be immediately followed by the Eurovision Song Contest and the Vienna Philharmonic Orchestra's Summer Night Concert.

In conclusion, I would like to thank the employees of our company for their work – both from myself and on behalf of my colleagues on the Board of Directors. Their motivation and commitment are essential factors in the success of the Highlight Group. My special thanks also go to all those people who have watched our company faithfully and fairly in the past year – be it as shareholders, customers or business partners. Moving forwards, we will continue to do everything possible to justify this faith and to create sustainable value added.

B. Burgener

Bernhard Burgener
Chairman and Delegate of the Board of Directors

MEMBERS OF THE BOARD OF DIRECTORS

Bernhard Burgener (born 1957)

Chairman and Delegate of the Board of Directors

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

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

Martin Wagner (born 1960)

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

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

Dr. Ingo Mantzke (born 1960)

Member of the Board of Directors and Chief Investor Relations Officer

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

Dr. Mantzke has been a member of Highlight Communications AG's Board of Directors since February 1999 and acted as Chief Financial Officer of the Highlight Group until November 2003. Since then, his responsibilities include being Chief Investor Relations Officer for all activities of the company in the investor area.

Antonio Arrigoni (born 1968)

Member of the Board of Directors

Swiss certified accountant. Mr Arrigoni was an auditor at KPMG in Zurich and Miami from 1996 to the middle of 2004. He then came to Highlight Communications AG, where he took on the role of CFO as a Managing Director. Mr Arrigoni has been CFO of Constantin Medien AG since April 2008 and a member of the Board of Directors of Highlight Communications AG since the end of May 2008.

René Camenzind (born 1951)

Member of the Board of Directors

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

Dr. Erwin V. Conradi (born 1935)

Member of the Board of Directors

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

Dr. Dieter Hahn (born 1961)

Member of the Board of Directors

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

Martin Hellstern (born 1934)

Member of the Board of Directors

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

CORPORATE GOVERNANCE

INTRODUCTION

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

1. GROUP STRUCTURE

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

1.1 Operative Group structure

Highlight Communications AG and its Group companies make up the Highlight Group, hereinafter referred to as the “Highlight Group”. The operative structure of the Highlight Group consists of three segments – “Film”, “Sports- and Event-Marketing” and “Other Business Activities”.

1.2 Listed companies

1.2.1 Highlight Communications AG

Highlight Communications AG has its registered offices in Pratteln/BL, Switzerland, and has been listed on the Frankfurt stock exchange since 1999. It is a member of the Prime Standard (ISIN: CH 000 653 9198, German WKN number: 920 299, ticker: HLG). As of December 31, 2011, the market capitalization of the company was around EUR 159.0 million at a closing stock price for the year of EUR 3.45.

1.2.2 Escor Casinos & Entertainment SA

Escor Casinos & Entertainment SA, headquartered in Düdingen/FR, has been included in the consolidated financial statements of Highlight Communications AG since July 1, 2011 by way of full consolidation. Escor Casinos & Entertainment SA has been listed on the Swiss stock exchange SIX since 1987. It is a member of the Main Standard and its shares (ISIN: CH 000 358 3256, securities number: 358 325, ticker: ESRI) belong to the Mid & Small Caps Swiss Shares. As of December 31, 2011, the market capitalization of the company was around CHF 20.75 million at a closing stock price for the year of CHF 17.00.

1.3 Non-listed companies

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

1.4 Principal shareholders

As of December 31, 2011, Highlight Communications AG was aware of the following shareholders with a share of more than 5 % of its subscribed capital:

Constantin Medien AG	47.31 %
DWS Investment GmbH	8.25 %

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, 10,000 treasury shares were bought back and no shares were sold. As of December 31, 2011, treasury stock comprised 1,156,567 shares, equivalent to 2.45 % of the company's subscribed capital.

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

1.5 Cross shareholdings

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

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

2. CAPITAL STRUCTURE

2.1 Capital

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

2.2 Authorized capital

On May 28, 2010, the Annual General Meeting established authorized share capital of CHF 12,750,000 and empowered the Board of Directors to execute a capital increase by issuing 12,750,000 bearer shares at CHF 1 each within a period of two years. A partial increase is permitted. No such capital increase has been implemented to date.

2.3 Changes in capital – changes in nominal value

None.

2.4 Shares, participating and profit-sharing rights

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

2.5 Restrictions on the transferability of shares and registration of nominees

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

3. BOARD OF DIRECTORS

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

3.1 Members of the Board of Directors

The Board of Directors currently comprises eight members. The list below provides an overview of the composition of the Board of Directors on December 31, 2011, the functions of the individual members within the Highlight Group, their nationality and their significant activities and interests outside the Highlight Group:

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

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

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

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

President of the Board of Directors of Escor Automaten AG, Düdingen, Switzerland
Board of Directors of Handelszeitung Medien AG, Zurich, Switzerland
Board of Directors of Axel Springer Schweiz AG, Zurich, Switzerland
Board of Directors of Jean Frey AG, Zurich, Switzerland
Board of Directors of Amiado Group AG, Zurich, Switzerland
Board of Directors of Amiado Online AG, Zurich, Switzerland
Board of Directors of Lechner Marmor AG, Laas, Italy
Board of Directors of Laaser Marmorindustrie GmbH, Laas, Italy
Board of Directors of CBE Marmor & Handels AG, Ibach, Switzerland
Board of Directors of IWF Institut für Wirtschaftsförderung AG, Liestal, Switzerland
Board of Directors of IPWR Institut für Politik, Wirtschaft und Recht AG, Basel, Switzerland
Board of Directors of Pima Canyon JDS AG, Rünenberg, Switzerland

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

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

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

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

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

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

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

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

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

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

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

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

3.2 Election and tenure

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

3.3 Internal organization

3.3.1 Constituent meeting and allocation of duties

The Board of Directors is responsible for supervising, monitoring and overseeing management activities. It is the company's highest body and is self-constituting. It appoints the Chairman, the Vice Chairman and the Secretary. It issues the code of conduct, which was last amended on August 28, 2007.

3.3.2 Meetings of the Board of Directors

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

3.3.3 Committees

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

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

3.4 Allocation of duties

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

3.5 Internal management and control 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, 2011.

4.1 Members of management

4.1.1 Group management

Bernhard Burgener, Chairman and Delegate of the Board of Directors

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

Martin Wagner, Vice Chairman of the Board of Directors, Head of Legal Affairs & Compliance

Swiss national, responsible for all the Group's legal affairs, partner and business attorney in an international law firm in Basel, advises various listed companies in Switzerland and abroad, a member of the Board of Directors since 2000.

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

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

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

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

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

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

4.1.2 TEAM (Sports- and Event-Marketing segment)

Martin Wagner, Delegate of the Board of Directors

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

Simon Thomas, CEO

New Zealand and Swiss national, attorney and MBA, he worked as a lawyer in the UK, from 1995 until 1997 he was Manager Legal with TEAM and after that Marketing Manager with NIKE Australia as well as Manager Football Operations and Senior TV Manager with the Organization Committee of the Summer Olympics in Sydney; since 2001, he has been back at TEAM as Managing Director Television & Event, CEO since 2011.

David Tyler, Managing Director Business Affairs

British national, lawyer, from 1995 until 1997 he worked as a lawyer with Bird & Bird in London and since 1997, he has been with TEAM as Manager Legal and Director Legal, Managing Director Business Affairs since 2010.

Patrick Murphy, Managing Director Content Sales

Irish national, marketing expert, worked selling TV and media rights in Asia from 1993 to 2001; since 2001, he has been with TEAM as Director Sponsorship Sales, Managing Director Content Sales since 2011.

4.1.3 Rainbow Home Entertainment (Film segment)

Franz Woodtli, Managing Director of Rainbow Home Entertainment

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

4.1.4 Constantin Film (Film segment)

Bernhard Burgener, CEO, Licenses and rights trading

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

Hans Beese, CFO

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

Martin Moszkowicz, Film and television

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

Franz Woodtli, Cinema and home entertainment

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

4.2 Further corporate activities and interests

None.

4.3 Management contracts

There are no management contracts with third parties.

5. COMPENSATION, SHARES AND LOANS

The Board of Directors oversees the compensation paid to members of the management bodies. The compensation committee established by the Board of Directors determines the amount of compensation paid to members of Group management, who in turn determine the compensation payable in the individual operative units.

5.1 Compensation for the Board of Directors

Of the eight members, three are executive members. In the year under review, total compensation came to CHF 4.201 million (previous year's period: CHF 4.784 million) and was paid to eight people. This includes fees and expenses (see notes to the financial statements of Highlight Communcations AG, note 7).

5.2 Allocation of shares in the year under review

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

5.3 Shareholdings

As of December 31, 2011, the Directors held the following shares in the company:

	Shares	Share in capital
Bernhard Burgener	1,800,000	3.81 %
René Camenzind	628,715	1.33 %
Martin Hellstern (MH Movie Holding AG)	200,000	0.42 %
Dr. Ingo Mantzke	100,000	0.21 %
Antonio Arrigoni	–	0.00 %
Dr. Erwin V. Conradi	–	0.00 %
Dr. Dieter Hahn	–	0.00 %
Martin Wagner	–	0.00 %

5.4 Options

There are currently no option programs.

5.5 Additional fees and compensation

None.

5.6 Loans to directors

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

5.7 Maximum total compensation

The member of the Board of Directors with the highest total compensation in the year under review received a sum of CHF 1.837 million (previous year's period: CHF 1.953 million) (see notes to the financial statements of Highlight Communications AG, note 7).

6. SHAREHOLDERS' RIGHTS

6.1 Restrictions on voting rights, voting by proxy

6.1.1 All restrictions on voting rights

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

6.1.2 Statutory rules on participation in the Annual General Meeting

The provisions of the Swiss law of obligations apply.

6.2 Statutory quorum

The statutory provisions apply.

6.3 Procedure for convening the Annual General Meeting

The provisions of the Swiss law of obligations apply.

6.4 Agenda

The provisions of the Swiss law of obligations apply.

6.5 Registration in the share book

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

7. CHANGE OF CONTROL AND DEFENSE MEASURES

7.1 Duty to bid

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

7.2 Change-of-control clause

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

8. AUDITORS

8.1 Duration of auditor mandate

The office of auditor for Highlight Communications AG is held for a period of one year subject to a resolution passed by the shareholders. PricewaterhouseCoopers AG in Lucerne audited our annual financial statements for the year ending December 31, 2001, for the first time. Mr Bruno Häfliger is the auditor in charge for fiscal year 2011.

8.2 Auditing fees

A sum of TCHF 100 was accrued for auditing services of PricewaterhouseCoopers AG in fiscal year 2011, and TCHF 64 were paid. Additional fees of TCHF 69 were invoiced by PricewaterhouseCoopers AG for assistance with and the preparation of projects (incl. taxes) relating to the AG and the Group.

9. INFORMATION POLICY

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

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

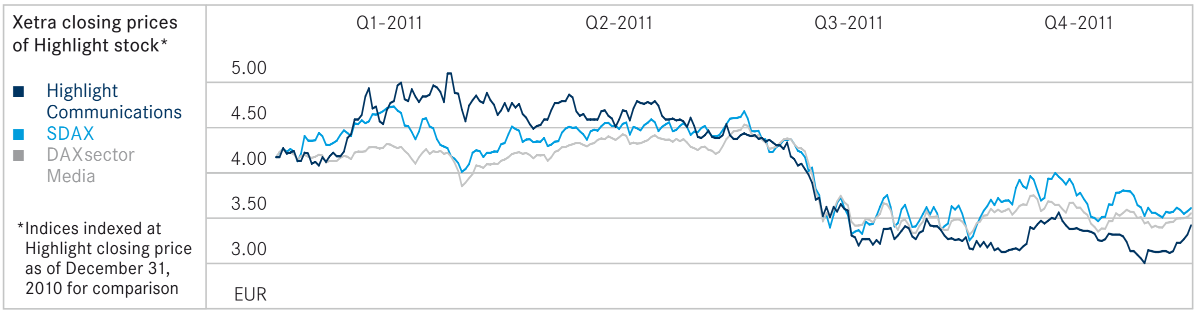
Publications are available from the IR department, which will also accept requests for inclusion in the distribution list. This is also possible via the company's website.

Highlight stock

The performance of Highlight's shares was highly stable in the first half of 2011, and then influenced by the turbulence on the international financial markets in the second half of the year.

Triumph in Dusseldorf:
The Azerbaijani duo Ell/Nikki won the 2011 Eurovision Song Contest by a landslide.

- At EUR 3.45, the closing price for the year was around 18 % lower year-on-year.
- Based on shares outstanding, market capitalization therefore amounted to EUR 159.0 million.
- Average trading volume again increased significantly from just under 30,100 to around 37,700 shares per trading day.



Sovereign debt crisis triggers global price slide

Stock market investors will not remember 2011 fondly because this is second time in the past four years that a crash-like price collapse left deep scars on the stock exchange landscape. After the global financial crisis resulting from the collapse of the Lehman Brothers investment bank in the US shook the markets in 2008, the European sovereign debt crisis led to major upheavals in the past year.

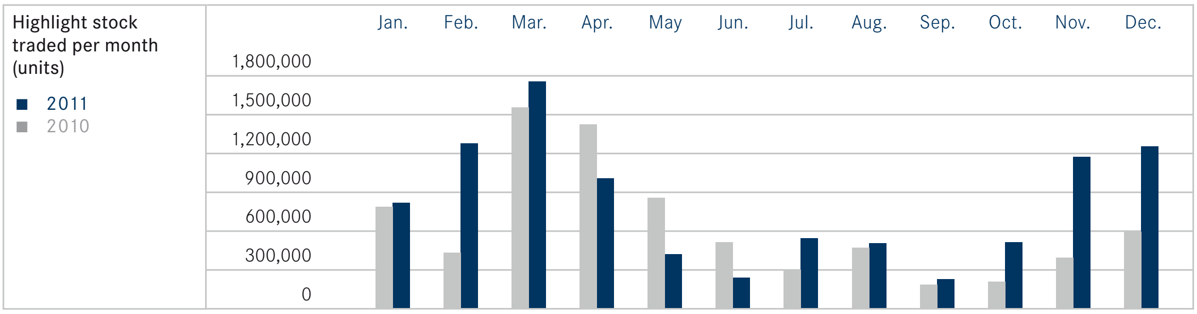
Performance was relatively unspectacular until mid-year, after price losses due to the earthquake and reactor disaster in Japan were again compensated for. However, investors increasingly focused their attention on the threatening bankruptcy of the governments of Greece, Italy and Portugal in the second half of the year, which caused leading indices on the global stock markets to tumble on a broad front. This trend was exacerbated by market players' massive loss of confidence that these debt problems can be solved with political skill and by fears of backsliding into recession.

Against this backdrop, the Euro Stoxx 50, which reflects the price performance of the 50 top stocks in the eurozone, shed around 18.9% of its value in the second half alone (–17.6% since the start of the year). The same holds true for the French CAC 40, which suffered a loss of 20.6% in the period from July to December, corresponding to a decline of around 17.0% for the year.

The Swiss Market Index (SMI), whose performance is carried to a large extent by blue chip stocks Roche, Nestlé and Novartis, closed trading at 5,936 points on December 31, 2011. This closing price represents a loss of 7.8% for the year, comparatively a relatively good result. Undoubtedly a crucial factor contributing to this was the decision made by the Swiss National Bank at the start of September to set a minimum exchange rate of 1.20 Swiss francs relative to the euro in order to counteract the steadily falling exchange rate of both currencies.

Germany's benchmark index DAX, which reached its highest point in three-and-a-half years in May at 7,600 points, was up by 6.7% to the middle of the year. However, it shed more than 2,600 points from the end of July to the middle of September. Market capitalization of the 30 companies included in the index fell by around EUR 214 billion in the process. The DAX recovered in the last quarter to end the year at 5,898 points, corresponding to a drop of 14.7% for the year.

Small caps and media stocks on the German stock market, which had boasted considerable gains in the previous year, had similar performances. The small cap index SDAX, which also includes the Highlight stock, closed at 4,421 points, thus shedding 14.5% of its value. The index for German media stocks (DAXsector Media) closed trading at 125 points, a drop of 13.2% from last year.



Highlight's stock performance impacted by negative stock market climate

Highlight's stock maintained a comfortable position for a long while in this turbulent market environment. Having started the new year at the previous year's closing price of EUR 4.19, the stock initially moved sideways. A strong upward trend began at the end of January and lasted until the beginning of March, briefly pushing the stock price above the EUR 5 mark. As part of this upswing, Highlight stock hit its high for the year of EUR 5.12 on March 5.

However, due to the general market weakness as a result of the earthquake disaster in Japan, the Highlight stock could not maintain this level and declined steadily until mid-April. The rest of the second quarter was marked by a sideward trend, with the stock price ranging in a corridor between EUR 4.40 and EUR 4.87 with a high level of volatility.

Our stock could not escape the rapid global price collapse that began in the third quarter, which pushed the share price down to EUR 3.16 by mid-October. The subsequent recovery which continued until the start of November briefly brought the share price back over the EUR 3.50 line before a renewed downswing set in that led to the low for the year of EUR 3.02 on December 12. On December 31, Highlight stock closed Xetra trading at EUR 3.45, thus suffering a loss of its value of 17.7 % for 2011.

Trading volume increases significantly again

Around 9.69 million Highlight shares were traded in the Xetra trading system of the Deutsche Börse in the year under review. This marks an increase of more than 26 % as against the previous year (around 7.67 million). Average trading per trading day therefore increased from just under 30,100 to around 37,700 shares. According to the Deutsche Börse ranking for the MDAX and SDAX segments, Highlight shares thus were number 102 as of December 31, 2011 by trading volume (December 31, 2010: 103). In terms of free float market capitalization, they stood at number 100 (December 31, 2010: 103).

Dividend payment of CHF 0.17 planned

Despite the less-than-pleasing price performance of Highlight stock, we would like to again share our company's positive operating performance with our shareholders. After we achieved earnings per share of CHF 0.69 in the past fiscal year, the Board of Directors will recommend approval of a dividend distribution of CHF 0.17 per share at the Annual General Meeting on June 1, 2012.

Slight increase in treasury stock

As of December 31, 2011, the subscribed capital of Highlight Communications AG remained unchanged at CHF 47.25 million, divided into 47.25 million bearer shares with a nominal value of CHF 1.00 per share. In the third quarter of 2011, the company acquired 10,000 treasury shares without voting rights, bringing the holdings up to around 1.16 million shares as of the end of the fiscal year. These account for 2.45 % of the subscribed capital. After deducting these shares, there were 46.09 million shares in circulation as of the reporting date.

There were no changes in Highlight Communications AG's shareholder structure in fiscal year 2011: Constantin Medien AG still holds 47.3 % of Highlight's shares, while around a further 8.3 % are owned by DWS Investment GmbH. In addition, members of the Board of Directors as well as private and institutional investors hold significant share packages. As of December 31, 2011, the free float remained unchanged at 50.3 % as per the definition of Deutsche Börse.

The Chairman and Delegate of the Board of Directors, Bernhard Burgener, acquired a total of 183,847 Highlight shares in December 2011 and thus increased his holdings to 1.8 million shares. Highlight Communications AG received no notifications from the other members of the Board of Directors or the management of the Highlight Group regarding acquisition or sales transactions subject to reporting.

In addition to Mr Burgener, only the Board of Directors member René Camenzind held direct or indirect shares of more than 1 % of the subscribed capital as of December 31, 2011. The shareholdings and share interest from options of the individual members of the Board of Directors and the management of the Highlight Group (including related parties) were as follows as of December 31, 2011:

Board of Directors	Shareholdings	Share interest from options
Bernhard Burgener, Chairman and Delegate, executive member	1,800,00	–
Martin Wagner, Vice Chairman, executive member	–	–
Antonio Arrigoni, non-executive member	–	–
René Camenzind, non-executive member	628,715	–
Dr. Erwin V. Conradi, non-executive member	–	–
Dr. Dieter Hahn, non-executive member	–	–
Martin Hellstern, non-executive member	200,000	–
Dr. Ingo Mantzke, executive member	100,000	–
Group management		
Dr. Paul Graf, Managing Director	–	–
Peter von Büren, Managing Director	–	–

The most important event for our shareholders: the Annual General Meeting

Investor relations activities characterized by active communication

One of the focus points of our investor relations activities is informing investors, analysts and the financial press in a timely and comprehensive manner. The basis for this are primarily our annual and interim reports, which give a detailed insight into the current performance of our company. We also inform market players on all key events of the Highlight Group in the form of press releases and ad-hoc disclosures.

However, the main element of our investor relations work is and will remain personal communication by means of active and open dialog. This is why we conducted presentations and roadshows at international financial centers such as Frankfurt, London, Luxembourg, Zurich and Geneva in 2011. We were also available to field questions from market players at the German Equity Forum – the most important investors' fair for small and medium-sized enterprises in Europe. Our declared goal is to use this type of public relations to obtain a fair valuation of the Highlight stock and also to convince potential shareholders of the intrinsic value of an investment in our company.

In addition to direct communication, our website is the main information tool for all interested parties. It offers all relevant facts on the history and the current development of the Highlight Group in a clearly laid-out format. In order to ensure equal treatment of all market players, new documents and information are always published in a timely manner in this medium. In addition to annual reports, interim reports, press releases and ad-hoc disclosures, this relates mainly to transactions with treasury shares and acquisition/sale of shares by Highlight's management. In addition, our financial calendar contains all dates of the most important events and publications.

Information on Highlight stock as of December 31, 2011

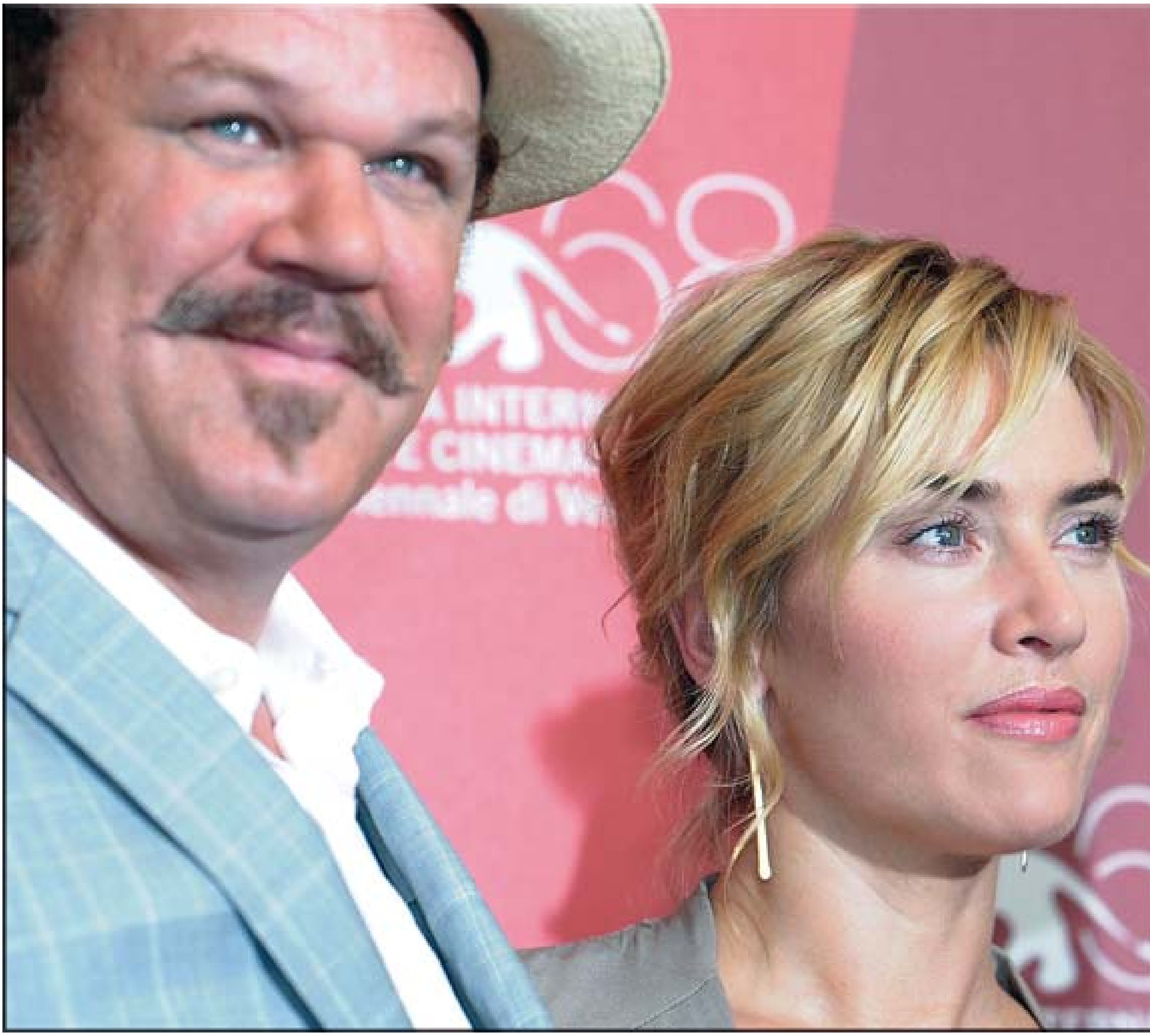
Subscribed capital	CHF 47.25 million
Number of shares	47,250,000
Stock class	Ordinary bearer shares
Shares in circulation	46.09 million
Market capitalization (in relation to shares in circulation)	EUR 159.0 million
Year-end price	EUR 3.45
52-week high (March 5)	EUR 5.12
52-week low (December 12)	EUR 3.02
Earnings per share	EUR 0.56

Key data of the Highlight stock

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

Highlight reflected by current analyses

Close Brothers Seydler Research	November 2011	Buy (price target: EUR 8.00)
Silvia Quandt Research	November 2011	Buy (price target: EUR 8.50)
DZ BANK	January 2012	Buy (price target: EUR 8.50)
Börse Online	January 2012	Favorite



Report on the Highlight Group’s situation

The Highlight Group’s financial results were substantially influenced by the strong appreciation of the Swiss franc against the euro and the US dollar.

World premiere on the big stage:
John C. Reilly, Kate Winslet
and Christoph Waltz presented
"God of Carnage"
at the Venice Film Festival.

- At CHF 383.5 million, consolidated sales were in line with the planning corridor, which had to be redefined owing to shifting exchange rates.
- The original forecast for earnings per share of EUR 0.52 to EUR 0.54 was exceeded at EUR 0.56.
- Consolidated equity (including non-controlling interests) rose by CHF 23.4 million to CHF 96.0 million.
- Net debt was reduced further from CHF 85.4 million to CHF 63.5 million.

BUSINESS AND GENERAL CONDITIONS

Business activity

Successful with films, sports and music

Swiss Highlight Communications AG is an internationally oriented strategic and financial holding company based in Pratteln near Basel. It acts through its operational subsidiaries in the Film and Sports- and Event-Marketing segments as well as the new Other Business Activities segment formed as of July 1, 2011.

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

To expand the Highlight Group's position on the Swiss movie market, Constantin Film Schweiz AG, Basel, which is indirectly wholly-owned by Highlight Communications AG, was founded in December 2009. The company specializes in the production and distribution of movie, television and video productions as well as providing entertainment and new media services.

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

In the Sports- and Event-Marketing segment, Highlight Communications AG wholly owns Team Holding AG (TEAM). Based in Lucerne, the TEAM Group specializes in global marketing of major international 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. Further attractive projects of the TEAM Group include the marketing the traditional Eurovision Song Contest and a marketing cooperation with the Vienna Philharmonic Orchestra. In this cooperation, TEAM markets the orchestra's internationally famous New Year's Day Concert and the Summer Night Concert, an open-air event held each year in the park of Schönbrunn Palace.

Grand cinema with a star-studded cast: "Carnage"

The new Other Business Activities segment comprises the activities of Escor Casinos & Entertainment SA (Escor), Düdingen, which is listed on the Swiss stock exchange (SIX Swiss Exchange). Escor is a holding company that is active in the fields of casino machines trading, development of skill game machines and social gaming through its operational subsidiaries and equity interests. The areas of casino machines trading and development of skill game machines are bundled in the wholly-owned subsidiary Escor Automaten AG, Düdingen.

In May 2011, Escor acquired a 50.004 % stake in full-service agency Pokermania GmbH, based in Cologne. This step secures the expertise needed to develop promising online gaming business models and to diversify on the booming market of social gaming. As a result, a new strategic direction for the Other Business Activities segment was also ushered in at the same time.

On July 1, 2011, Highlight Communications AG acquired a 5.05 % stake in Escor, thus increasing its stake to 30.02 %. Owing to its resulting de facto control, Escor has been fully consolidated in the consolidated financial statements of Highlight Communications AG since that time (until June 30, 2011: associated company). Highlight Communications AG further increased its holdings by means of a public tender offer for all outstanding bearer shares in Escor. It has held 56.95 % of this company since December 2, 2011.

Control system and performance indicators

Focus on increasing enterprise value

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

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

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

- Competitive pressure on the movie market has remained high for years. Against this backdrop, Constantin Film AG is watching the activities of its competitors very closely to achieve the best possible placement of its own movie launches in terms of market environment and time of year. In order to limit the exploitation risks in a market environment that is still saturated, the focus remains on lavish 3-D productions, movies of an event nature, family entertainment productions and bestseller adaptations. In addition, Constantin Film AG has decades of experience working closely with renowned and experienced screenwriters, directors and producers with extensive expertise in producing movie and TV formats at home and abroad.

  The particular skill of Constantin Film AG in terms of developing and producing movies is documented by the fact that 13 of Germany's top 30 films shown in theaters from 2002 to 2011 were distributed and/or produced by Constantin Film Group. Over the same period, 35 % of the movie tickets sold for a German production was for a Constantin title.
- The expertise and the experience to successfully market the TV and sponsorship rights for major international events is essential to the success of the Sports- and Event-Marketing segment. The most important requirement for the corresponding marketing mandates is a close, trusting business relationship with the rights holders.

Main features of the remuneration system

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

Important events in fiscal year 2011

Cooperation between EBU and TEAM extended

On January 14, 2011, we announced the continuation of the successful marketing cooperation between the TEAM Group and the European Broadcasting Union (EBU). TEAM's mandate for the Eurovision Song Contest was extended until 2015. Subject to achieving certain contractual performance targets during this period, the contract will automatically be extended for an additional three-year term.

Mourning Bernd Eichinger

The producer and filmmaker Bernd Eichinger died completely unexpectedly from a heart attack on January 24, 2011. In him, the Highlight Group has lost a friend and a companion who shaped Constantin Film AG and the German film industry on both the national and international stage for more than 30 years.

Germany's first movie filmed in 3-D: "Wickie auf grosser Fahrt"

Prestigious awards for Constantin Film productions

Successful Olga Film production "vincent will meer" was awarded the 2010 audience prize at the Bavarian Film Awards on January 14, 2011. Screenwriter and lead actor Florian David Fitz also took home the prize in the screenplay category for this film. Constantin Film co-production "Animals United" won the Bavarian Film Award for best children's film of 2010.

"vincent will meer" also did well at the 61st German Film Awards on April 8, 2011, where it received the "Golden Lola" statuette for the best film of 2010. Florian David Fitz also won the German Film Award in the "Best Male Performance in a Lead Role" category for his convincing performance as Vincent, who suffers from Tourette's syndrome.

At the Filmfest München 2011, director Ralf Huettner received the "METROPOLIS" director's awards for "vincent will meer" and Constantin Film majority holdings Rat Pack Filmproduktion and Westside Filmproduktion won the "DER WEISSE ELEFANT" children's media prize for the "Vorstadtkrokodile" film series.

At the end of August 2011, "Animals United" was honored at the Tokyo Children's Film Festival with the "Grand Prix" from the children's jury and the coveted audience award.

The Constantin Entertainment series "Stellungswechsel – Job bekannt, fremdes Land" took the award for best production in the category "Best Entertainment Documentary" at the German Television Prize 2011, which took place in Cologne on October 2.

Bernhard Burgener becomes Chairman of Highlight's Board of Directors

The following key resolutions were passed on May 27, 2011 on the occasion of the Annual General Meeting of Highlight Communications AG:

- The Delegate of Highlight's Board of Directors, Mr Bernhard Burgener, was elected as the new Chairman of the Board of Directors, succeeding Mr Werner E. Klatten. Since then, Mr Burgener has combined the functions as both Chairman and Delegate of the Board of Directors.
- The shareholders also elected Dr. Dieter Hahn as a new member of the Board of Directors.
- The Board of Directors' proposal to distribute a dividend of CHF 0.17 per share for fiscal year 2010 was approved. Payments to shareholders entitled to a dividend took place from June 1, 2011.

Constantin Film again most successful producer and distributor of German films

At the beginning of June 2011, the Constantin Film Group was awarded the "Golden Industry Tiger" in the categories of production and distribution for the seventh time when the German Federal Film Board awarded reference funding for 2010. This award comes with reference funding of EUR 2.5 million for production and funding of approximately EUR 1.2 million for distribution.

A masterful balance of humor and tragedy: "Hotel Lux"

New management structure at TEAM

On June 6, 2011, TEAM announced a new management structure. Simon Thomas, previously Managing Director Television & Event, was appointed as CEO and Patrick Murphy, previously Managing Director Content Sales, was appointed as Managing Director Sales.

On June 6, 2011, TEAM also announced that UEFA has decided to take over certain match organization responsibilities for the UEFA Champions League, UEFA Europa League and UEFA Super Cup starting with the 2012/13 season. In 2010, TEAM already successfully renewed its commercial mandate for the marketing of the UEFA Champions League and UEFA Europa League for the period 2012 to 2015.

Investment in Escor increased to almost 57 %

On July 1, 2011, Highlight Communications AG acquired a 5.05 % stake in Escor Casinos & Entertainment SA from Mr Christian Vollmer at a purchase price of around TCHF 1,251. The interest in Escor's share capital held by Highlight Communications AG therefore increased to 30.02 %. Owing to its resulting de facto control, Escor has been fully consolidated in the consolidated financial statements of Highlight Communications AG since then.

In this connection, on September 23, 2011, Highlight Communications AG announced a public tender offer for all publicly held Escor bearer shares listed on the SIX Swiss Exchange. At CHF 17.50 per bearer share, the offer price was 9.375 % higher than the closing price of Escor shares on September 15, 2011 (CHF 16.00). The offer period was October 10 to November 4, 2011.

As part of this offer, Highlight Communications AG was tendered a total of 333,170 Escor shares by the expiration of the additional offer period ending November 24, 2011. This corresponds to 39.21 % of the 849,732 Escor shares that the offer related to. Including the 387,554 Escor shares held by Highlight Communications AG and persons acting in concert with the company already prior to the offer, Highlight's interest, after completion of the transaction through payment of the offer price on December 2, 2011, now amounts to a total of 56.95 % of Escor's share capital.

Escor sells casino operations in Montenegro

On November 29, 2011, Escor sold its 100 % stake in Casino Promotion Montenegro d.o.o., Bar, Montenegro, including the shareholder's loan to AC Associated Consultants Schweiz Gesellschaft mbH. This sale marks the end of Escor's exit from the casino business on-site.

Visually stunning 3-D fantasy action: "Immortals"

General economic conditions

Global economic slowdown

After a good start to 2011, global economic growth slowed considerably. Around the end of the year, it was definitely floundering. This development was influenced by several factors: The burden of the sharp increase in commodities prices and the aftermath of the earthquake in Japan, which resulted in considerable production bottlenecks, put pressure on the first half of the year. The second half of the year was characterized by the steady intensification of the sovereign debt crisis in the eurozone and fears that the US economy would slip into recession again.

According to International Monetary Fund (IMF) calculations, these influences caused global gross domestic product (GDP) to increase by just 3.8 % in 2011 (previous year: over 5 %). Growth was again carried by emerging economies, especially those in Asia. For example, the IMF reported a jump of 9.2 % in China and an increase of 7.4 % for India.

In contrast, the economies of industrialized countries developed at a considerably lower level. The US economy expanded a moderate 1.8 %, while GDP growth in the eurozone was somewhat weaker at 1.6 %. The Japanese economy, which suffered the earthquake and nuclear reactor catastrophes, even experienced a downturn of 0.9 %.

The Swiss economy, which was very solid until mid-year, cooled noticeably in the fall. The global economic slowdown and the strong appreciation of the Swiss franc to the euro had a negative impact here. Although the intervention of the Swiss National Bank diffused the situation somewhat by setting a minimum rate of 1.20 Swiss francs per euro, the international competitiveness of Swiss companies was still negatively impacted. Against this backdrop, the State Secretariat for Economic Affairs (SECO) forecasted a GDP increase of just 1.8 %, carried mainly by domestic sectors and especially the building sector, in mid-December of 2011.

The situation in Germany is much different: According to the calculations of the Federal Statistical Office (Destatis), adjusted GDP was 3.0 %, meaning the German economy expanded almost twice as much as the eurozone as a whole. Domestic sectors provided most of the growth stimulus. For instance, building investments rose by 5.4 % and private households increased their consumption by 1.5 % – a figure achieved for the last time five years ago. Foreign trade also remained dynamic with an 8.2 % increase. In the process the German economy benefited from a real boom in the first half of the year, which lost significant momentum as the year progressed.

Austria showed a comparable economic development. The preliminary figures from the Institute of Economic Research (WIFO) published in mid-December 2011 reported an increase in real gross domestic product of 3.2 %. This growth was boosted by exports of goods increasing by 7.8 % and gross investments increasing by 5.6 %. In contrast, private consumption was relatively moderate, increasing only 0.8 % from the previous year.

Film segment

Report on business performance and the situation

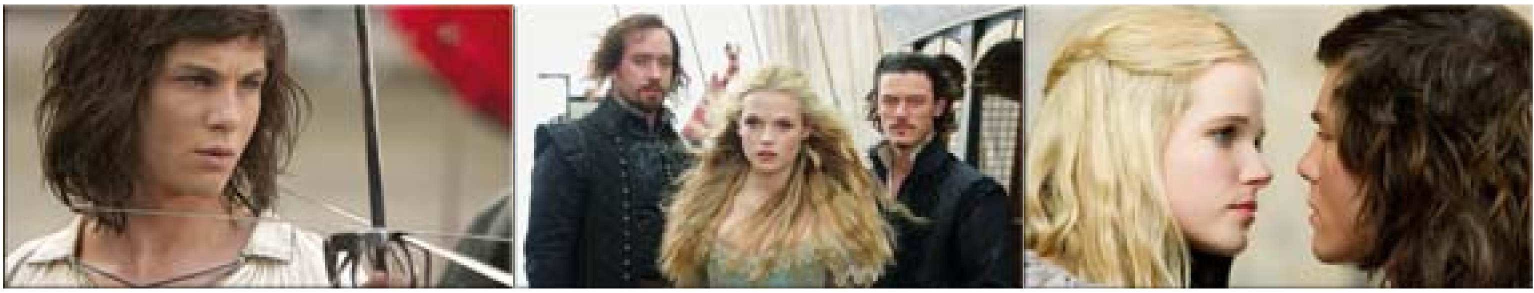
Close enough to touch: Milla Jovovich celebrated the premiere of “The Three Musketeers” with her delighted fans.

THEATRICAL PRODUCTION/ACQUISITION OF RIGHTS

Waning excitement for 3-D in the US

After restrained purchasing behavior on the international film markets over the last two years, 2011 saw significantly more rights contracts being successfully concluded in the area of license purchasing/acquisition of rights. Many high-quality film projects ensured strong sales figures and therefore the film markets at the Berlinale and in Cannes as well as the American film market closed with a good result.

In the past year, the global cinema market was essentially dominated by sequels and remakes of already well-known brands as well as comedies. Of the 15 most successful films of the year at a global level, “Bridesmaids” was the only one with original content. Another key topic was again 3-D productions. While the trend is trailing off more and more in the US due to a lot of poorly converted films, it is still impressively high in Germany and many other countries. This is causing German production companies to continue relying on producing high-quality 3-D titles this year as well.



At the end of 2011 in particular, there was intense discussion on the amendment of the German Film Subsidies Act (FFG), the new version of which is expected to take effect on January 1, 2014. Many industry experts believe the FFG should concentrate on its original task: All movie user-groups should pay fees to the FFA that will then be available to promote the production and release of films. High-quality and successful films ultimately benefit all participants – from the distributor to the cinema operator.

Constantin Film steps up production volume

Constantin Film AG began filming on a total of nine own and co-productions in 2011 – four more than in the previous year. For example, the first take of Constantin's international co-production "Carnage" was completed in Paris at the end of January. Directed by Roman Polanski, the film features international stars Kate Winslet, Jodie Foster, Christoph Waltz and John C. Reilly in front of the camera. The bizarre drama has been performing very well in German theaters since the end of November 2011 and fascinated more than 815,000 viewers until the end of February 2012.

The comedy "Türkisch für Anfänger" – a production by Constantin Film majority holding Rat Pack – was filmed in Munich and Thailand from the beginning of April to the middle of June 2011. Award-winning screenwriter Bora Dagtekin (who has won the Grimme Prize and the German Television Prize for the TV series of the same name on ARD, among other prizes) makes his directing debut with a cinema remake of this story of a German-Turkish multi-cultural family. The film was released in German cinemas in mid-March 2012.

Director Paul W. Anderson began filming on the international Constantin 3-D production "Resident Evil: Retribution" at the beginning of October 2011 in Toronto. Milla Jovovich again played the main role in the fifth part of this Resident Evil series. The movie is currently in post-production and is expected to reach German theaters in mid-September 2012.

Constantin Film also acquired the German exploitation rights to a number of high-quality films at the Berlinale 2011 and at the film market in Cannes. Some of these films are "Ender's Game" – a science fiction film (with CGI elements) based on the well-known novel by Orson Scott Card – and "Enchanted Kingdom", a 3-D documentary about the African continent. The German cinema release for these films has not yet been set, while the action thriller "Bullet to the Head", in which Sylvester Stallone plays a contract killer, is expected to start playing in German theaters in mid-April of this year.

At the national level, Constantin Film secured the exploitation rights for such films as the SamFilm production "The Famous Five", based on the world-renowned novel of best-selling author Enid Blyton. The film was released at the end of January 2012 and has already attracted more than 750,000 people to theaters. At the beginning of September 2011, filming was started on the new comedy by Marcus H. Rosenmüller, "Wer's glaubt wird selig", starring Christian Ulmen. The Wiedemann & Berg production will be distributed by Constantin Film starting in mid-August 2012.

Spectacular remake of a classic movie: "The Three Musketeers"

TV SERVICE PRODUCTION

Ongoing cutbacks by TV stations

The market for TV service productions has not yet recovered from the far-reaching advertising crisis even after almost three years. Despite slowly increasing budgets, TV stations are still reluctant to spend money on new broadcasting formats. At the same time, they are asking TV production companies to deliver a high-quality product for the lowest possible price, disregarding constantly increasing production costs.

A survey conducted by the "German Producers Alliance – Film & Television" of its members at the beginning of June 2011 also clearly demonstrated that producers' largest problem by far is insufficient compensation for their services. For this reason, their assessment of their future prospects has hardly improved since 2009: Currently, only 57 % of those surveyed view their economic prospects in a positive light, while this was the case with 50 % of producers in 2009.

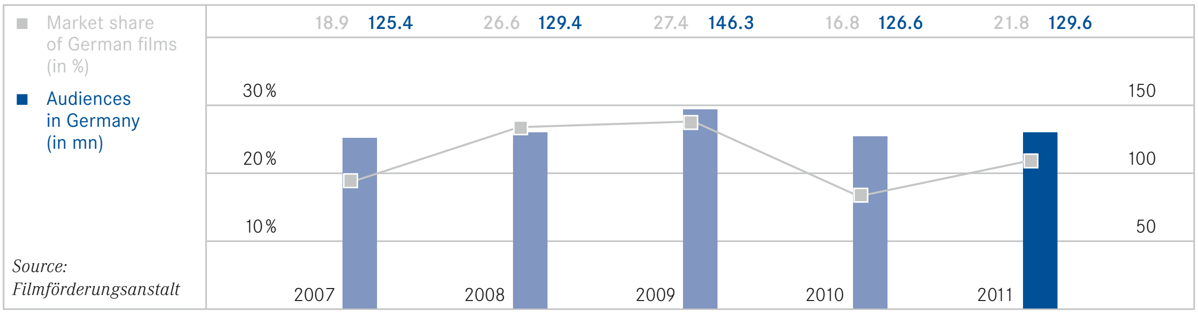
TV producers also agree there is still a lack of sufficient transparency regarding available service production budgets in German TV. Regular reporting on program volumes and contracts awarded by TV stations for fair compensation could reduce competitive pressure in future and create more room for innovative projects and artistically sophisticated product again.

In light of this, the announcement by ARD's subsidiary Degeto (Deutsche Gesellschaft für Ton und Bild) caused a considerable stir on the German TV landscape in September 2011: According to Degeto, programming volumes have already been met for 2012 and 2013 and therefore a decline in commissioned productions and license purchasing is expected to 2014. Constantin Film AG and its subsidiaries have repeatedly and successfully collaborated with Degeto in recent years. To what extent the future cooperation will be affected by the current events cannot be assessed at present.

Good viewer response from Constantin Film productions

Production volume in Constantin Film's TV service production business area did still not reach the level of the years before the advertising crisis in 2009, but remained stable on the whole. Constantin Film subsidiaries responsible for creating service productions benefited from their long-standing and successful business relationships with public TV channels and the large private broadcasters ProSiebenSat.1 and RTL.

In addition, 2011 demonstrated again that interesting material and high-quality productions with corresponding acting performances are still very much favored by TV viewers. For example, a ZDF service production by MOOVIE – the art of entertainment GmbH celebrated a major public success at the beginning of January 2011. The star-studded drama "Familiengeheimnisse – Liebe, Schuld und Tod" featuring Hardy Krüger, Dennenesch Zoudé, Devid Striesow and Gila von Weitershausen attracted around 7.2 million viewers, achieving a very high market share of 19.9 % of the total audience.



ZDF also broadcast the MOOVIE comedy “Meine Familie bringt mich um” starring Iris Berben, August Zirner and Ben Unterkofler at the end of January 2011. Around six million viewers gave the film a market share of 17.4% of the total audience. The MOOVIE-produced ZDF drama “Liebesjahre”, in which Nina Kunzendorf, Iris Berben, Peter Simonischek and Axel Milberg proved their thespian talents, enjoyed similar success at the beginning of December 2011. The actors’ performance was seen by an audience of more than 4.8 million, corresponding to a market share of 14.7% of the total audience.

In the area of TV entertainment, the stage show of ventriloquist-comedian Sascha Grammel was recorded by Constantin Entertainment GmbH and broadcast by RTL at the beginning of February. The show achieved an outstanding market share of 33.4% in the relevant demographic of viewers between the ages of 14 and 49. The second season of the sketch comedy “Ich bin Boes” ran on RTL from mid-September to the beginning of November and consistently stayed at an average market share of over 17% of 14-to-49-year-olds. RTL service production “Der Grosse Comedy Adventskalender” generated a very good market share of 16.5% in its target demographic during primetime in mid-December 2011.

Some productions by Constantin Entertainment achieved extraordinarily high market shares elsewhere in Europe as well. For example, Serbian beauty documentary “Beautiful at last” has been broadcast on PRVA Serbia since the end of October 2011 and achieved an average market share of between 21% and 26% per month in the target demographic. From February to May 2011, the second season of the Polish cooking show “Kuchenne Rewolucje” attracted an excellent average market share of 31.5% of 14-to-49-year-olds. The third season has been showing on TVN Poland since September 2011 and has achieved an average market share of 26% in the target demographic.

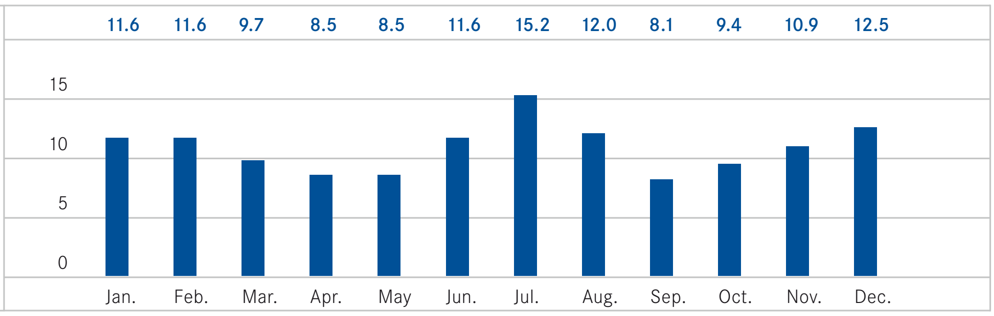
THEATRICAL DISTRIBUTION

German productions on the upswing

The US cinema market seems to be saturated at the moment because the middle class of the population is rather shrinking than growing and the extensive multiplex cinema coverage in the country means that there is little room for growth. In contrast, regions such as the Middle East, Russia, China and South America have large potential and are seeing rapid growth in their cinema markets.

According to a study by PricewaterhouseCoopers (PwC), 63% of all theatrical revenues are generated in markets outside the US. PwC forecasts that this trend will intensify further considering revenues in emerging economies will record double-digit growth rates in the next three years. Against this backdrop, the major Hollywood studios will tailor their films more and more to the world market and global tastes in future.

Moviegoers in Germany 2011 (in mn)



Source: Filmförderungsanstalt

On the German cinema market, the EUR 1 billion in revenues target was again not taken. But, at EUR 958.1 million in box office takings and up year-on-year by 4.1 % (EUR 920.4 million), 2011 still had one of the strongest theatrical revenues in the last 50 years. At 129.6 million tickets redeemed, audience numbers were also up by 2.4 % over the previous year (2010: 126.6 million). The main reason the results were not even better was the driest fall of all time – a time of the year that more people normally go to cinemas. Therefore, many movies released in that period did not perform to their potential.

As expected, the most successful film of the year was the second part of “Harry Potter and the Deathly Hallows”, watched by over 6.4 million visitors and taking in almost EUR 57.0 million. “Pirates of the Caribbean – On Stranger Tides” came in second place with an audience of almost 4.4 million viewers and box office takings of more than EUR 43.8 million. The most-watched German production was the Til Schweiger comedy “Kokowääh”, seen by around 4.3 million people, followed by the Constantin Film co-production “Wickie auf grosser Fahrt” with 1.7 million viewers.

All in all, German own and co-productions in 2011 made a much larger contribution to the total than in the previous year. The number of tickets sold increased by 33.5 % from 20.9 million to 27.9 million – the second-best result in the last five years. The market share of German productions increased proportionately from 16.8 % to 21.8 %.

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

Constantin Film AG experienced a challenging movie year in 2011. Two films of its varied and high-quality distribution slate 2011, comprising a total of 15 films (9 own/co-productions and 6 licensed titles) attracted more than one million viewers in Germany. Constantin Film thus achieved 5.9 % of the market by revenues and 5.7 % by visitor numbers, placing eighth among distributors in Germany behind Warner, Paramount, Disney, Sony, Fox, Universal and Concorde.

The Constantin title with the highest audience figures for the year was co-production “Wickie auf grosser Fahrt” – the first 3-D movie filmed in Germany. Since being released at the end of September, the new adventures of the clever Viking boy delighted more than 1.7 million moviegoers by the end of the year, 1.1 million of whom chose to watch 3-D screenings. The second major Constantin 3-D production was star-studded, cloak-and-dagger adventure “The Three Musketeers” launched at the beginning of September and attracting a total of 1.2 million moviegoers (of whom over 95 % watched 3-D screenings). However, the performance of both films was affected by the extraordinarily good fall weather in Germany, dampening audience interest.

Youth’s film “Vorstadtkrokodile 3” by the Constantin majority holdings Rat Pack Filmproduktion and Westside Filmproduktion was also very popular with the public. Launched in mid-January 2011, this last part of the young adult’s adventure trilogy attracted more than 760,000 visitors.

Bestsellers on DVD and Blu-ray: "Resident Evil: Afterlife" and "Animals United"

HOME ENTERTAINMENT

Blu-ray and digital sales continue to grow

The German home entertainment industry generated total revenues of around EUR 1.7 billion, thus exceeding the level of the previous year (EUR 1.67 billion) by almost 2 %. This strong result is the second-best sales year on the German home entertainment market since 2004 (over EUR 1.7 billion). Business due to sales and rentals of physical data carriers DVD and Blu-ray still dominate here. Regardless of this, digital consumption (video-on-demand, pay-per-view and electronic sell-through) increased significantly, lifting its revenues from rentals and sales by 49 % to just under EUR 64 million (2010: EUR 43 million).

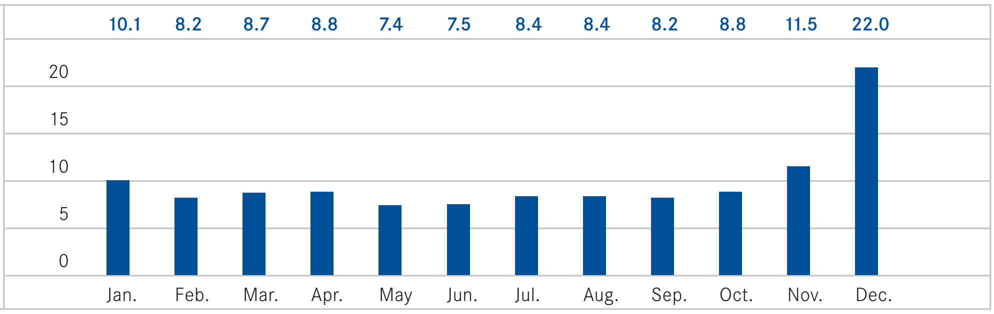
Revenues from DVD sales fell in 2011 by 8 % to around EUR 1.1 billion (2010: just under EUR 1.2 billion). However, this decrease was offset by significant growth in the Blu-ray segment and in electronic sell-through. Blu-ray discs generated retail revenues of EUR 267 million in 2011 (previous year: EUR 193 million), an increase of more than 38 %. The "blue discs" have thus already increased to 19 % of the video sell-through market. Revenues from electronic sell-through increased by 45 % to EUR 32 million (2010: EUR 22 million).

Rental market slightly below previous year's level

At EUR 261 million, income from the video rental market was only just below the previous year's level of EUR 264 million. The main reason for this was the ongoing negative development in the number of rental transactions, which fell from 109 million in 2010 to 105 million currently. As is the case in the video sell-through market, DVD rental income has also been decreasing for years, falling again by around 12 % to EUR 192 million (2010: EUR 219 million).

In contrast, revenues from Blu-ray rentals jumped by 54 % to EUR 37 million (2010: EUR 24 million). In just five years, Blu-ray discs have gained a market share of 14 % of the German rental market. However, digital rental (video-on-demand and pay-per-view) is growing faster, with strong rise again in 2011 of more than 52 % to EUR 32 million (2010: EUR 21 million).

DVD/Blu-ray disc sales in Germany 2011 (in units mn)



Source: Gesellschaft für Konsumforschung

Highlight Group had successful new releases

Under these overall positive framework conditions, the Highlight Group was able to expand its market position in German-speaking countries in the year under review. Based on an attractive slate for 2011 and a large number of high-selling secondary market releases, we and our sales partner Paramount Home Entertainment secured a market share of 9 % (2010: 8 %) of the German video sell-through market. In the rental market, we achieved a joint market share of 11 % (2010: 10 %).

Our product portfolio was carried in 2011 as well by new releases under the Constantin Film label – particularly the international movie hit “Resident Evil: Afterlife” with Milla Jovovich in the leading role. Available in stores at the beginning of March 2011, the fourth part of the apocalyptic horror-action series immediately shot to the top five of the German sales charts – both in the DVD and the Blu-ray segment.

Licensed Constantin Film title “Step Up 3 – Make Your Move”, released in mid-February 2011, and CGI animation “Animals United”, released at the end of March 2011, sold similarly well.

Some of the remaining top new releases were youth comedy “Freche Mädchen 2”, the last part of the juvenile gang trilogy “Vorstadtkrokodile” and licensed title “New Kids Turbo”. In addition, the road movie “vincent will meer” which was released in 2010 already became a perennial hit in the 2011 catalog charts.

Bestsellers on DVD and Blu-ray: "Animals United" and "Step Up 3 – Make Your Move"

LICENSE TRADING/TV EXPLOITATION

Slight increase in TV consumption

In the TV sector, increasing use of videos via tablet PCs and smartphones as well as the growing spread of hybrid TV devices were discussed in detail in 2011. Contrary to all skepticism, these devices have not led to decreased TV use on the part of the consumer, but have even promoted and added to them. According to a study by marketing company IP Deutschland that appeared at the end of 2011, German viewers older than three years spent an average of 225 minutes per day in front of the TV – two minutes longer than in the previous year.

The study also proves that the interactive TV viewer is a multi-tasker, who uses his cell, laptop and the TV at the same time relatively often. Social networks like Facebook now accompany TV formats (such as casting shows) and achieve good results this way. Consumers can also surf on their cells, smartphones or iPods while watching the TV program. The main motivation for such parallel use is searching for information on the respective format. This additional reach is especially attractive for advertising customers.

Constantin Film successful at the film market in Cannes

Constantin Film AG experienced the most successful Cannes film market in its history in terms of the global sales of their new cinema productions. For example, major 3-D project "Pompeii" was already pre-sold in almost all the countries in the world. The continuation in the Resident Evil series "Resident Evil: Retribution" found buyers in the remaining areas outside Germany and France. The English-language CGI film "Tarzan" (in 3-D) was also pre-sold almost at a global level.

In the free TV area, Constantin Film generated considerable sales from the licensing of TV rights in the year under review with films such as "Cassandra's Dream", "Freche Mädchen 1", "One Year Ago in Winter", "Die Perlmutterfarbe" and "Vorstadtkrokodile 1". The TV rights to "The Experiment", "Law-Abiding Citizen", "Pandorum", "Solomon Kane", "Zeiten ändern Dich" and others were licensed for pay TV.

In TV exploitation, several highly satisfactory ratings for Constantin Film Group productions in 2011 have shown that high-quality movies are enjoyed by a wide audience in primetime slots. Bernd Eichinger production "Perfume – The Story of a Murderer" was broadcast in mid-January 2011 as a rerun on Sat.1 and generated a good market share of 11.3 % among viewers between 14 and 49 years old. At the beginning of April 2011, the free TV premiere of "The Wave" (a production by Constantin Film majority holding Rat Pack) performed even better, recording an excellent market share of 20.4 % in its target demographic of 14- to 49-year olds on ProSieben.

Movie-quality TV productions: “Liebesjahre”, “Verbrechen” and “Die Löwin”

The absolute free TV ratings winner for the third quarter of 2011 was the premiere of “Wickie und die starken Männer” on Sat.1 at the end of September. With an audience of around 3.4 million of the target demographic, this family entertainment production had an excellent market share of 30.1 %.

Two weeks before this, Mario Barth comedy “Männersache” on RTL reached a very pleasing market share of 15.7 % of viewers between 14 and 49 years old. ARD also had a ratings winner thanks to a Constantin Film production: The free TV premiere of Sönke Wortmann’s cinematic success “Pope Joan” with Johanna Wokalek in the title role was watched by a more than 6.1 million people in mid-December 2011. “Pope Joan” thus enjoyed a very good market share of 15.5 % among 14- to 49-year olds.

Sports- and Event-Marketing segment

Report on business performance and the situation

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

Pay TV on the rise

Despite a strong growth at the start of 2011, the media sector rebound slowed. Renewed uncertainty in the wider economy, the continuing debt crisis in the eurozone and rising fears of a double-dip recession, caused advertisers to reduce budgets towards the end of the year. Forecasts for global advertising spend reflected this uncertainty. ZenithOptimedia, the media planning and buying firm, revised its prediction for global advertising growth in 2011 from 4.1 %, projected in July 2011, to a rise of 3.5 %.

The pay TV market continued its expansion as increasing availability and new premium offerings around High Definition (HD) continued to drive both subscriber numbers and average revenue per subscriber. According to Informa Telecoms & Media, global pay TV subscription revenues were USD 163 billion in 2011, an increase of around 6 % compared to 2010.


Premium sports rights still in great demand

The sports rights market continued to change in 2011 impacted by a range of factors including the wider economic slowdown, changes to the regulatory framework as well as new delivery technologies and consumption patterns. Rightsholders remained focused on the challenge of protecting and monetizing rights in an increasingly complex multi-platform world of unlimited, and often free, digital content.

The potential bidders for sports rights, traditionally categorized by their underlying business models, continued to evolve. The ongoing competitive pressure through new digital players as serious bidders for premium rights remained, although the majority of these potential new entrants ultimately continued to observe rather than participate in the acquisition of premium sports rights. The relative resilience of the pay TV sector during the economic downturn further increased its ability to outbid advertising and public service funded competitors in many countries.

Nevertheless difficult market conditions, rather than structural changes, demonstrated the significance of premium sports rights. The difficulty in consistently delivering the young mass audiences that broadcasters need and the ability of sports programming to attract these viewers meant that premium sports rights attracted an increasing share of rights acquisition budgets.

The economic downturn further increased this longer-term polarization of value between premium sports rights and the rest of the market. The properties with global reach and interest have continued to attract major sponsorship deals and strong broadcaster interest whilst mid-tier properties have struggled, as reduced spend by brands and broadcasters has been focused on a smaller number of ”must have” properties.

As a result, premium live sports rights such as the UEFA Champions League and the UEFA Europa League remain vitally important content offerings for broadcasters seeking to engage with these valuable audiences.

Top football in three UEFA competitions: Europa League, Champions League and Super Cup

Strong sales results for UEFA projects

Despite the unstable economic and market conditions in 2011, TEAM has achieved strong results in the sales process for TV and sponsorship rights for the new UEFA contract cycle (seasons 2012/13, 2013/14 and 2014/15). Over 100 TV deals were concluded by TEAM in 2011 in markets as diverse as Germany, France, the UK, Spain, Scandinavia, the Netherlands, Greece, Portugal, Austria, Africa, Latin America and Japan.

In Germany, for the first time UEFA Champions League free TV rights have been awarded to public broadcaster ZDF, with Sky being awarded the pay TV rights. In the UK, the rights for the UEFA Champions League have been awarded to incumbent partners ITV and BSkyB, with UEFA Europa League rights awarded to ITV and ESPN. Long-term partner Modern Times Group also renewed its UEFA Champions League rights for Denmark, Sweden and Norway. In France, UEFA Champions League rights have been awarded for the first time to two pay TV operators, incumbent partner Canal+ and new market entrant Al Jazeera.

Several sponsorship deals for the 2012–2015 period have also been successfully concluded by TEAM. Incumbent partners Heineken, UniCredit, adidas, Mastercard and Ford have all renewed their partnerships with the UEFA Champions League. These strong sales results illustrate once again that TEAM's experience and expertise enables it to achieve the best possible sales results from the market.

First class operational delivery in the football sector

In operational terms, the first focus of 2011 was the successful delivery of the knock-out phases of the UEFA Champions League and UEFA Europa League season 2010/2011. During this "Road to the Final" stage of the competitions, 88 matches were delivered to TEAM's usual high standards.

At the same time, TEAM managed the extensive preparations for the commercial delivery of the finals of Europe's two leading club football competitions. The UEFA Europa League final was played in Dublin on May 18, with FC Porto emerging victorious over local Portuguese rivals SC Braga. In the UEFA Champions League, Wembley Stadium provided the perfect setting for a classic encounter between European giants FC Barcelona and Manchester United on May 28. A global TV audience of 179 million tuned-in to watch Barcelona's victory, an increase of 33 million compared to the previous UEFA Champions League final.

TEAM also once again managed the commercial delivery of the UEFA Super Cup, which was played at the end of August in Monaco between the reigning UEFA Champions League and UEFA Europa League winners. As in previous years, the UEFA Super Cup and other "Monaco week" events marked the kick-off of the new European club football season.

After the UEFA Super Cup, attention shifted to the group stages of the UEFA Champions League and UEFA Europa League season 2011/2012. Between August and December 2011, a total of 260 matches were successfully delivered by TEAM throughout Europe.

Continuing success for TEAM's music projects

At the start of 2011, the initial activities of TEAM's music division focused on the New Year's Day Concert of the Vienna Philharmonic Orchestra, conducted by Franz Welser-Möst. Around 45 million people in 73 countries around the world followed the event on a live or delayed basis. This international reach again underlined the New Year's Day Concert's value as the leading event in the classical music world.

In addition to the renewal in 2010 of the exclusive sponsorship arrangements between Rolex and the Vienna Philharmonic Orchestra through to 2017, in 2011 TEAM successfully extended many important TV deals for the same period including with the European Broadcasting Union (EBU), ORF Austria, OTI (the South American Broadcasting Union) and CCTV China.

TEAM supported EBU in the delivery of the Eurovision Song Contest 2011 in Dusseldorf. This year, 43 countries took part in the contest, the 56th staging of the most important popular music event in Europe. With 35,500 people in attendance, the event hall was completely sold out, and the live broadcast of the final again generated outstanding viewing figures in many countries. In total over 70 million TV viewers tuned-in around the world to follow Azerbaijan's victory.

As in previous years, the Eurovision Song Contest was also a great success on the sponsorship side, with TEAM successfully selling out the rights to major international and German brands. The events were presented by Schwarzkopf Henkel and the international sponsor line-up also included Vodafone, Lufthansa, Metro and Trumpf.

The second musical highlight of the summer – the Summer Night Concert of the Vienna Philharmonic Orchestra – took place on June 2, conducted by Valery Gergiev. This open-air event in the unique setting of the park of the Schönbrunn Palace fascinated not only the 100,000 people there, but also the many fans of classical music in front of their TVs in 60 countries.

Major events encapsulating decades of television history: the Eurovision Song Contest and the Vienna Philharmonic Orchestra's concerts

Other Business Activities segment

Report on business performance and the situation

A jaw-dropping stage and an euphoric atmosphere: The 2011 Eurovision Song Contest again set new standards.

Due to the desired reorientation of this segment, the following statements refer only to the social gaming area in which Escor operates.

With growth of almost 28 %, online games were the fastest-growing segment of the video game market in 2010. Expansion of broadband access and higher transmission speeds are energizing this market. At the same time, the target group for video games has also changed in recent years: Young men are not the only players anymore, but an increasing number of women are playing now as well. In the case of browser games, women are even the majority at 51 % of users. Casual games are especially popular with women. These are browser-based games in which users can play board games or strategy games, such as online poker, on a website.

Online games in social networks, called social games, are another key growth driver. The added value for users is that the games are wide-spread so they can play against a large number of other players. Revenues are generated by advertising and microtransactions.

The growth of social networks will have an additional stimulating effect: PwC anticipates annual growth of 8.2 % on average in the browser games market in the forecast period. In line with this, market volume of EUR 42 million is expected in 2015.

Escor majority holding Pokermania GmbH has many years of experience in the area of social gaming and has developed a multi-client capable casual poker application. Equipped with numerous social gaming modules, this platform opens up revenue potential by selling virtual items. Players can also interact with each other and express their personalities by creating their own avatar. The poker application developed by Pokermania is casual poker, in which players also play with virtual money and virtual items instead of real money.

Pokermania developed the software architecture on which the gaming modules are based back in 2008. Due to the operational start of the social gaming platform in June 2011, the company is considered a start-up in the expansion phase and has room for further growth in existing and new markets. The first contract with customers to develop individual software was signed at the end of 2010 with more customer contracts following in 2011.

Overall, the business activities of Pokermania are creating, licensing, developing, distributing, operating, hosting and maintaining social gaming products.

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

RESULTS OF GROUP OPERATIONS

Highlight Group meets its planning targets

In fiscal year 2011, sales and results of operations at the Highlight Group were substantially influenced by the exchange rate of the Swiss franc in relation to the euro and accordingly the US dollar, which was very disadvantageous to the Swiss franc from the second quarter. A comparison of the 2010 and 2011 annual average rates shows that the euro lost almost 11 % and the US dollar even 15 % of value in relation to the Swiss currency.

The Highlight Group's sales forecast, which had to be redefined to a corridor of between CHF 370 million and CHF 400 million in mid-november 2011 due to this decrease, was met in full. The original, unrevised objective of earnings per share of EUR 0.52 to EUR 0.54 was exceeded by a clear margin at EUR 0.56 per share.

Change in accounting policies

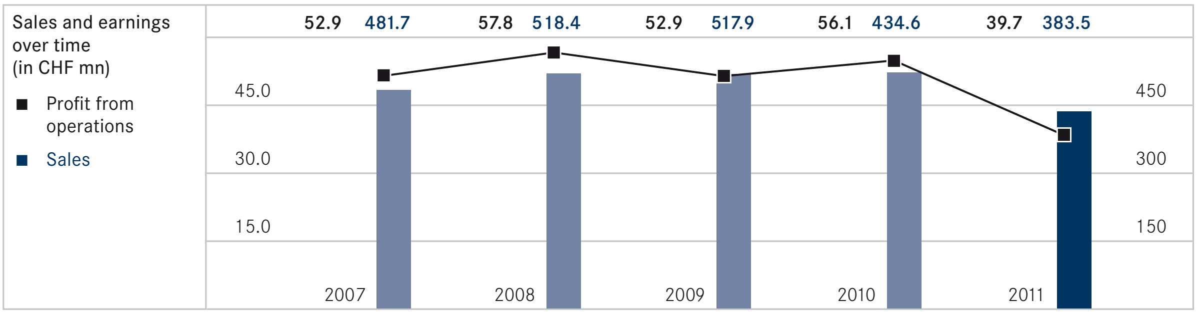
The Highlight Group revised its Group-wide chart of accounts in fiscal year 2011. Account allocations within the income statement were redefined as part of this revision. The aim of the revision was an improved presentation of individual transactions in line with their business purpose (see notes to the consolidated financial statements, note 2.1, Change in accounting policies). The prior-year figures shown below refer to the restated ones.

Decline in production activity

Consolidated sales of the Highlight Group reached a volume of CHF 383.5 million in the year under review (previous year's period: CHF 434.6 million). In addition to the exchange rate impact, this change also stems from the TV service production, theatrical distribution and license trading/TV exploitation business areas.

The TV service production and license trading/TV exploitation business areas still faced difficult market conditions in fiscal year 2011, so that fewer TV productions were created than in the previous year while less income was generated from licensing TV rights. In theatrical distribution, Constantin Film AG's slate could not match last year's successes – especially "Resident Evil: Afterlife", "Animal United", "Step Up 3D" and "vincent will meer".

The decline in production activity is also reflected in the "Capitalized film production costs and other own work capitalized" item, which was down on the previous year's level (CHF 97.1 million) by CHF 42.8 million at CHF 54.3 million. At the same time, other operating income decreased by CHF 12.4 million to CHF 25.3 million (previous year's period: CHF 37.7 million). This decline is mainly due to currency effects and lower compensation for copyright violations.



Considerable decrease in consolidated operating expenses

Consolidated operating expenses declined significantly by CHF 89.8 million or 17.5 % from CHF 513.2 million in the previous year to CHF 423.4 million. The reduction was seen mainly in the cost of materials and licenses, which recorded a decline of CHF 45.5 million to CHF 146.5 million (previous year's period: CHF 192.0 million) due to the lower number of productions. Amortization, depreciation and impairment, most of which were on film assets, decreased by CHF 20.2 million year-on-year to CHF 93.3 million (previous year's period: CHF 113.5 million).

Personnel expenses were reduced by CHF 19.9 million to CHF 109.7 million (previous year's period: CHF 129.6 million), mainly due to a decrease in the number of project staff in the Film segment. Other operating expenses decreased by CHF 4.2 million to CHF 73.9 million (previous year's period: CHF 78.1 million).

The developments described above as well as changes in the Highlight Group's chart of accounts, which was redefined for the purposes of a better transparency in the year under review, led to a decline in EBIT from CHF 56.1 million to CHF 39.7 million. Due to these changes, the previous year's figures have been adjusted accordingly which improved the EBIT of 2010 by CHF 5.6 million. The EBIT margin (EBIT in relation to sales) therefore fell from 12.9 % in the previous year to 10.4 % in fiscal year 2011.

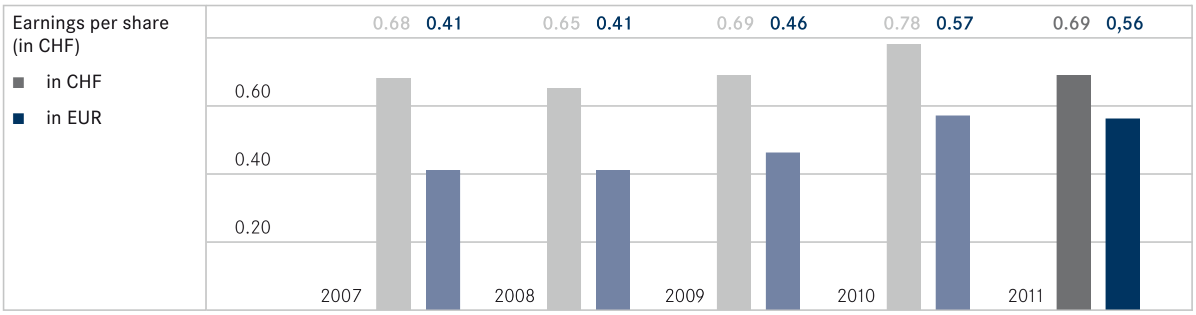
Earnings per share at EUR 0.56 above planning

Losses from investments in associated companies and joint ventures amounted to CHF 1.2 million in the year under review, an increase of CHF 1.1 million against the same period of the previous year (CHF 0.1. million). By contrast, the financial result improved from CHF –3.5 million to CHF +3.8 million, largely due to currency effects. Financial income increased from CHF 14.2 million to CHF 16.3 million while financial expenses fell from CHF 17.7 million to CHF 12.5 million.

Taking into account the tax expenses (current taxes and deferred taxes) of CHF 8.9 million (previous year's period: CHF 9.8 million) and the loss from discontinued operations of CHF 2.3 million (previous year's period: CHF 0 million), the Highlight Group reported a consolidated net profit of CHF 31.0 million. This corresponds to a decline of CHF 11.8 million as against last year (CHF 42.8 million).

A loss of CHF 0.6 million (previous year's period: profit of CHF 6.6 million) of this result relates to non-controlling interests. The significant change as against the same period of the previous year reflects the fact that the 20 % interest that UEFA held in Team Holding AG until June 30, 2010 was reported under this item until this time.

A profit of CHF 31.6 million relates to the shareholders of Highlight Communications AG (previous year's period: CHF 36.2 million). Based on 46.1 million shares in circulation on average, earnings per share are CHF 0.69 (previous year's period: CHF 0.78). On an euro basis – meaning without consideration for currency effects from the fiscal year – earnings per share are EUR 0.56 (previous year's period: EUR 0.57) and clearly above planning.



RESULT OF SEGMENT OPERATIONS

Sports- and Event-Marketing results characterized by euro price collapse

As a result of the lower income from the TV service production, theatrical distribution and license trading/TV exploitation business areas and the significant collapse of the euro, the Film segment's external sales decreased by 12.5 % year-on-year to CHF 292.0 million (previous year's period: CHF 333.7 million). Other segment income, influenced mainly by capitalized film production costs, recorded a decline from CHF 134.4 million to CHF 79.6 million, while segment expenses fell considerably by 20.8 % to CHF 354.8 million (previous year's period: CHF 448.2 million). Due to these developments, the segment result recorded a decline from CHF 19.9 million to CHF 16.8 million.

The Sports- and Event-Marketing segment generated external sales of CHF 90.3 million, which corresponds to a decrease of 10.5 % compared with fiscal year 2010 (CHF 100.9 million). This loss was due solely to currency translation differences and thus reflects the depreciation of the euro and the US dollar against the Swiss franc. In contrast to this and despite one-off costs (see consolidated financial statements, note 5.16), segment expenses, most of which are incurred in Swiss francs, remained almost at the prior year's level at CHF 60.8 million (previous year's period: CHF 60.1 million). For this reason, the drop in sales due to currency effects also had a direct effect on the segment result, which fell from CHF 41.1 million in the previous year to CHF 29.6 million at the current time.

The Other Business Activities segment is reported for the first time and contains the results of Escor Casinos & Entertainment SA, which have been fully consolidated since July 1, 2011. The segment generated external sales of CHF 1.2 million and other income of CHF 0.8 million. After subtracting segment expenses of CHF 3.5 million, the segment recorded a loss of CHF 1.5 million. The costs of holding activities rose by 4.1 % in the reporting period to CHF 5.1 million (previous year's period: CHF 4.9 million).

NET ASSETS SITUATION

Decrease of total assets

As against the end of 2010 (CHF 525.6 million), the total assets of the Highlight Group as of December 31, 2011 fell by CHF 26.4 million to CHF 499.2 million. The main changes in assets were primarily an increase in trade accounts receivable and other receivables due from third parties by CHF 26.5 million to CHF 136.4 million (December 31, 2010: CHF 109.9 million). In contrast to this, receivables due from associated companies and joint ventures fell by CHF 9.6 million to CHF 1.9 million (December 31, 2010: CHF 11.5 million), while cash and cash equivalents decreased by CHF 25.3 million to CHF 140.7 million (December 31, 2010: CHF 166.0 million).

Decline in film assets due to theatrical exploitation

The value of film assets as of the end of 2011 was CHF 154.6 million, thus recording a decline by CHF 21.2 million as against December 31, 2010 (CHF 175.8 million). This total figure is comprised of in-house productions of CHF 127.9 million (December 31, 2010: CHF 147.1 million) and third-party productions of CHF 26.6 million (December 31, 2010: CHF 28.7 million). The drop in both areas is due to amortization and impairment on films being exploited totaling CHF 89.9 million (previous year's period: CHF 110.3 million), which was significantly higher than the additions.

Liabilities fall further

The main reductions on the capital side of the balance sheet related to current liabilities in particular. Financial liabilities decreased by CHF 47.2 million to CHF 204.2 million (December 31, 2010: CHF 251.4 million), while advance payments received fell by CHF 14.6 million to CHF 42.9 million (December 31, 2010: CHF 57.5 million). By contrast, trade accounts payable and other liabilities due to third parties recorded an increase of CHF 18.4 million to CHF 116.5 million (December 31, 2010: CHF 98.1 million).

Significant increase in equity

Consolidated equity (including non-controlling interests) increased by CHF 23.4 million to CHF 96.0 million as compared to the end of 2010 (CHF 72.6 million). The increase was due mainly to the balance from consolidated net profit for the period (CHF 31.0 million), changes in scope of consolidation (CHF 15.4 million), dividend distributions (CHF –9.7 million) and changes in non-controlling interests (CHF –6.4 million). There were also negative effects from currency translation (CHF –2.2 million) as well as losses from financial assets (CHF –4.6 million).

This equity corresponds to a notional equity ratio of 19.2 % – an increase of more than five percentage points against December 31, 2010 (13.8 %). The adjusted equity ratio (after netting cash and cash equivalents against financial liabilities and advance payments received against film assets) performed even better, increasing from 24.0 % at the end of 2010 to 30.4 % at the moment. For detailed information on the development of consolidated equity please see consolidated financial statements (pages 76 and 77).

FINANCIAL SITUATION

Net debt decreases further

As of December 31, 2011, cash and cash equivalents of the Highlight Group amounted to CHF 140.7 million – a decrease of CHF 25.3 million as compared with the end of 2010 (CHF 166.0 million). At the same time, financial liabilities decreased by CHF 47.2 million to CHF 204.2 million (December 31, 2010: CHF 251.4 million). This reduced net debt from CHF 85.4 million to CHF 63.5 million. In relation to equity, this represents gearing of 66.1 % (December 31, 2010: 117.6 %).

The Highlight Group's operating activities generated a net cash inflow of CHF 114.7 million in the year under review, corresponding to a decline of CHF 60.6 million as against the same period of the previous year (CHF 175.3 million). This development is essentially a result of the changes in the operating net current assets, which had a negative effect of CHF 16.1 million in 2011 after a positive effect of CHF 22.6 million in the previous year. Moreover, current amortization, depreciation and impairment on intangible assets and property, plant and equipment were down CHF 20.2 million on the previous year's figure.

Net cash used in investing activities decreased by CHF 35.0 million to CHF 76.6 million as against fiscal year 2010 (CHF 111.6 million). The reduction is essentially due to payments for film assets, which declined significantly by CHF 29.3 million to CHF 77.5 million as compared with the previous year's period (CHF 106.8 million). In addition, the acquisition of shares in companies in the year under review led to a cash inflow of CHF 3.5 million after CHF 0.1 million in 2010.

The Highlight Group's financing activities used cash of CHF 59.8 million in the year under review (previous year's period: CHF 75.8 million). This reduction was mainly due to the fact that payments of CHF 40.3 million were incurred in the previous year for the acquisition of the 20% share in Team Holding AG (non-controlling interests), while there were payments of only CHF 6.4 million in the year under review. This was countered by net repayment of financial liabilities, which increased from CHF 33.5 million to CHF 43.7 million, as well as dividend payments, which increased from CHF 2.0 million to CHF 9.7 million.

Solvency ensured at all times

The Highlight Group has access to credit facilities with variable interest rates as external sources of financing. These have been partially utilized. These facilities are loans that usually have a remaining term of one month. Interest rates were between 1.93% and 3.5% in the euro zone in the year under review. For other foreign currencies, especially USD and CAD, interest rates were between 1.85% and 3.2%.

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

PERSONNEL REPORT

As of December 31, 2011, the Highlight Group employed 733 people (December 31, 2010: 787). Of this number, 162 employees (previous year: 172) worked in Switzerland, 558 (previous year: 602) worked in Germany and 13 (previous year: 13) worked in Austria. Employees on non-permanent, project-based contracts have been included in this total figure if the remaining term of their contracts was at least six months on the reporting date. The decrease as against the previous year is essentially due to a considerably lower number of project staff in the Film segment.

EVENTS AFTER THE BALANCE SHEET DATE

Three Bavarian Film Awards for Constantin Film

Constantin Film co-production "Wickie auf grosser Fahrt" was named the best children's film of 2011 at the Bavarian Film Awards on January 20, 2012. Filmmaker Doris Dörrie also won the director's category for her filming of Constantin Film's own production "Glück". The Bavarian Film Award for the Best German Production of 2011 went to Constantin's licensed title "Hotel Lux".

Golden Camera for Constantin TV movie

"Liebesjahre", a production by MOOVIE – the art of entertainment, was awarded "Best TV Movie of 2011" at the 47th GOLDEN CAMERA Film and Television Awards in Berlin on February 4, 2012.

RISK REPORT

RISK POLICY AND RISK MANAGEMENT

Long-term continued existence of the Highlight Group in focus

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

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

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

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

RISKS IN FILM PRODUCTION

Pre-financing required

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

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

TV service productions market still challenging

After the economic crisis, advertising income of TV stations increased again in 2011, causing the advertising market to close with a strong positive result. According to reports by Nielsen Media Research, TV advertising increased by 1.8 % from the previous year to approximately EUR 11.1 billion. Nonetheless, broadcasters are still very cost-conscious in purchasing and producing program content.

The cost risk to producers is especially high when producing series that are broadcast daily, since the development costs are extremely high and only part of them are assumed by the broadcaster if the series is not ordered. Even in the case of an order, there is no requirement for them to be added as initial costs to the budget of the respective broadcaster. Constantin Film AG is currently making bids for formats from all of the major broadcasters and has concluded development contracts for series and non-series formats. For this reason, the cost risk described is high for it as well as its competitors.

For TV productions in other European countries, the financing risk is still high due to the continuing debt crisis.

RISKS IN PURCHASING MOVIE LICENSES

Licenses for attractive movies still in demand

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

The competitive situation of Constantin Film AG for relevant license products is still influenced mainly by the large German competitors Concorde (Tele München Group) and Studiocanal (Canal+ Group). For instance, Concorde entered into an output deal with mini-major Summit Entertainment, which was taken over by Lionsgate in January 2012. In contrast, Studiocanal has the financially strong parent company Canal+ at its side. This group would like to increase its production further and continue on its path of acquisitions. In addition, major studios such as Warner Bros. are buying more and more German productions and thus appearing on the purchasing market for German licensed titles as strong competitors.

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

EXPLOITATION RISKS

Market development depends on several factors

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

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

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

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

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

In addition, the prosecution of offenders has also continued to make an important contribution to the fight against piracy in 2011. The German Federation Against Copyright Infringement (GVU) landed an important blow against the piracy portal kino.to. In mid-June 2011, the Office of the Chief Public Prosecutor in Dresden arrested several persons and stream hosters, which had stored linked pirated copies on their portals, were removed from the Internet.

The proceedings of the US authorities against online storage service Megaupload.com in January 2012 is also a major win in the fight against Internet piracy. Nonetheless, there is still no legal framework for the protection of intellectual property on the Internet that could reduce the risk of financial losses for the film industry due to piracy or reduce legal disputes with those who pirate films.

RISKS IN THE SPORTS- AND EVENT-MARKETING SEGMENT

Effects of changed framework conditions not yet foreseeable

In relation to the Sports- and Event-Marketing projects, risks may arise from the TEAM Group's dependence on a major client such as UEFA. Previous success and the company's positioning in the market, as well as the targeted strategic orientation towards UEFA, help qualify this situation. This is reflected in the extension of TEAM's successful partnership with UEFA until at least June 2015, which was signed in March 2010. Subject to achieving contractual performance targets, this contract will automatically renew until at least June 2018.

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

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

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

RISKS IN THE OTHER BUSINESS ACTIVITIES SEGMENT

Escor's activities, which are bundled in the new Other Business Activities segment, are presently undergoing a phase of strategic reorientation, which entails the usual risks.

FINANCIAL RISKS

Targeted use of derivative financial instruments

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

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

Furthermore, the price of the Swiss franc has reached historic highs against the euro in the year under review. Against this backdrop, the exchange rate risk for the Highlight Group has therefore also increased. However, owing to the intervention of Swiss National Bank, which set a minimum exchange rate of 1.20 Swiss francs relative to the euro at the beginning of September 2011, this risk appears to be limited in the short-term view.

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

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

ASSESSMENT OF OVERALL RISK

The Highlight Group's risk areas have not changed significantly in the year under review as against fiscal year 2010. The overall risk situation also remains limited and manageable. In addition, based on the information currently available, no risks have been identified that could threaten the existence of the Group as a going concern, either individually or combined.

REPORT ON OPPORTUNITIES

OPPORTUNITIES IN THE FILM SEGMENT

In the TV service production business area, Constantin Film AG is systematically implementing its strategy of increasing the expansion efforts abroad – by tapping new markets among other activities – and of pushing sales with additional programming providers. These measures will reduce the current dependency on domestic business.

Given Constantin Film AG's major international projects that will be produced soon, the Highlight Group might be able to benefit from significant shares of income if these films are very successful in non-German speaking countries.

OPPORTUNITIES IN THE SPORTS- AND EVENT-MARKETING SEGMENT

Following a strong sales performance in 2011 in relation to the marketing process for TV broadcasting and sponsorship rights for the UEFA Champions League and UEFA Europa League (seasons 2012/2013, 2013/14 and 2014/2015), there are good prospects for a positive overall result. If contractual performance targets for that marketing process are achieved, TEAM's mandate with UEFA will be automatically extended until at least June 2018. In relation to business development, any business activities in the sports sector with clients other than UEFA will be subject to a careful selection process. In this context it will be a priority to ensure that TEAM's core projects for UEFA are not adversely affected.

On the basis of past success and strong customer relationships, the prospects are also good for TEAM's music projects. The extension of TEAM's mandate with the Vienna Philharmonic Orchestra signed in September 2010 as well as the continuation of TEAM's mandate with the European Broadcasting Union (EBU) for the Eurovision Song Contest signed in January 2011 provide a good platform for developing this sector within the Highlight Group.

OPPORTUNITIES IN THE OTHER BUSINESS ACTIVITIES SEGMENT

The first phase of the strategic reorientation of Escor's activities includes a focus on the areas of social gaming and entertainment. The second phase concerns additional diversification by further expanding the entertainment range. This involves a stronger and increasingly integrated cooperation between Escor and Highlight Communications AG, which should result in a sustainable consolidation of the market position of both companies and facilitate the cultivation of new markets.

FORECAST

GENERAL ECONOMIC ENVIRONMENT

Global economy slows down further

Given the very subdued economic development in the fourth quarter of the past year and persistent high uncertainty regarding the euro crisis, the current assessments of global economic growth in 2012 are much more modest than even those from the fall of 2011. For instance, the International Monetary Fund (IMF) corrected its forecast sharply downwards from 4.0 % to 3.3 % in the economic outlook it published at the end of January this year.

The IMF substantiates its pessimistic assessment with a slowdown in the economy of the emerging countries, for which it now expects only 5.4 % growth instead of the 6.4 % it forecast previously. Due to the intensification of the euro crisis in the fourth quarter of 2011, it is also forecasting that the eurozone will slide into a "mild" recession. It therefore drastically lowered its forecast for the eurozone from +1.6 % to –0.5 %. However, this assessment is based on the assumption that the euro crisis will not escalate further.

The IMF expects marginal economic growth of 0.3 % in Germany. This is more pessimistic than the German government, which published an economic forecast in mid-January stating a growth rate of 0.7 %. The forecasts for the Swiss economy are roughly at the same level as the State Secretariat for Economic Affairs (SECO) anticipates a slight growth of 0.5 % in the gross domestic product for 2012.

FILM SEGMENT

Theatrical production/acquisition of rights

In the theatrical production/acquisition of rights business area, Constantin Film AG is focusing its strategy on maintaining and optimizing the high standards of its national and international own and co-productions as well as on purchasing high-quality licensed titles. Its main goal is to produce titles that are emotionally highly geared towards the audience's needs, have convincing concepts and possess a manageable budget and moviegoer risk.

These are some of the titles slated for production in 2012: the school drama "Ich knall Euch ab!", the drama "The Poison Kitchen", the new Mario Barth comedy "Der Paartherapeut", "3096" – a film about the kidnapping of Natascha Kampusch, the movie adaptation based on a series of novels by bestselling author Cassandra Clare "The Mortal Instruments", another comedy by Bora Dagtekin and the animal documentary film "Krieg und Frieden unter Ameisen".

TV service production

In the TV area, industry experts forecast a relatively stable advertising market for 2012. It remains to be seen how this development will affect the market for TV service productions. It has to be noticed that Google has announced to start a TV search engine for the web in Germany this year. This could result in new distribution options for content of German production companies if Google intends to buy programming itself or even produce it. On the one hand, Google could position itself as an interesting future partner for production firms, on the other hand, it could be their future competitor.

Strategically, Constantin Film AG and its subsidiaries still aim to offer TV stations a high-quality and innovative product at suitable prices in this business area. In order to generate the best results possible, the global TV market and the requirements of the TV-watching public must be carefully observed. This is the only way to pick up on new trends and convert them into innovative formats. Expanding TV activities in the Constantin Entertainment Group abroad is also becoming more important.

In the German TV market, Constantin Television GmbH will produce the Sat.1 series "Gertschie und der Graf" among other things. Constantin Television GmbH is also working on "A Dangerous Fortune", a movie adaptation of the successful novel by bestselling author Ken Follett, for ZDF. MOOVIE – the art of entertainment GmbH is preparing to film "Das Jerusalem-Syndrom" (SWR), "Der Wagner-Clan" (ZDF), two-part event "Hotel Adlon" (ZDF) and a "Polizeiruf 110" (BR) in 2012. Olga Film GmbH is planning two new episodes of the popular ZDF crime series "Kommissarin Lucas", a family comedy for ZDF and a movie production with director Ralph Huettner in the current year.

Also in 2012, Constantin Entertainment GmbH will work with its Spanish partner CUARZO in Madrid to produce a scripted reality show for the Spanish market. In Germany, the new daily "Shopping Queen" was broadcast by VOX at the end of January, while Jürgen von der Lippe's new stage show was recorded in Berlin at the end of February. In March, the scripted reality "Lenssen & Partner" returned to Sat.1's daily programming and a new scripted reality daily will be produced for VOX in April. Over the rest of the year, new episodes of "Klick Stars", "Extrem Schön" and "Frauentausch" can be seen on RTL II as well as "Die Dreisten Drei" on Sat.1.

Theatrical distribution

For the production and distribution of German films, it will be especially important that an industry consensus be reached regarding the German Film Subsidies Act (FFG) in the near future. A future-oriented FFG can help to support German films sustainably for the years to come and keep filmmaking cost-effective in a rapidly evolving media age.

It is assumed that the sales and audience figures from last year can be increased in 2012. In addition to a number of promising German productions, many international top titles in different genres will be released to the public this year. Some examples are the surprise French hit "Intouchables", which has already had a splendid launch, the new "James Bond", "Star Wars 3-D", "Titanic 3-D", the new Pixar film "Brave", the second part of "The Twilight Saga: Breaking Dawn" and Peter Jackson's "The Hobbit: An Unexpected Journey (3-D)".

Constantin Film AG is standing by its proven strategy of combining top own and co-productions with promising licensed titles. A critical factor for successful theatrical exploitation in a highly competitive environment is selecting the right launch date for the respective film. A good dozen releases are planned for 2012 so far with the focus on late summer/early fall as in previous years. Licensed title "Step Up 4" and international Constantin Film own production "Resident Evil: Retribution" (both filmed in 3-D) are some of the films that will be released in this time period.

The first release in 2012 was licensed title "New Kids Nitro", which came out at the beginning of January and has been seen by more than 316.000 moviegoers. Children's film "The Famous Five", to which Constantin Film secured the exploitation rights last year, was released at the end of January 2012 to delight more than 750,000 moviegoers already.

Home entertainment

After the very positive performance of the German home entertainment market in 2011, the industry is feeling optimistic about the new fiscal year. Business with video-on-demand will probably continue to increase in 2012 in connection with higher sales figures for hybrid TV devices. In addition, sales volume of Blu-ray-3-D discs is expected to increase further due to a more comprehensive film offering.

Our proven strategy to augment the strong Constantin Film own and co-productions with high-quality licensed titles will also be retained in fiscal year 2012. The highlights of this year's slate include Constantin cinematic hits such as "The Three Musketeers", "Wickie auf grosser Fahrt" and "Immortals", marketed both in 2-D and 3-D. There are also plans to release "The Courier" – an action-thriller with Jeffrey Dean Morgan, Til Schweiger and Mickey Rourke – and "Movie 43" – a film made up of several comedy sketches – straight to video.

License trading/TV exploitation

In order to offer their public appealing programming, TV broadcasters constantly depend on interesting film product. Therefore, a brisk trade in licenses between film production companies and broadcasters is expected in 2012. In TV exploitation, new forms of exploitation such as media libraries and video-on-demand open up new opportunities to offer the public TV product. More offerings in these areas can be expected in 2012.

Constantin Film AG will further expand its long-standing and good contacts to the major German TV broadcasters, offer them top product and also acquire new partners. In free TV exploitation, the beginning of this year is expected to generate revenues from licensing films such as "vincent will meer", "Zeiten ändern Dich", "Die Friseuse", "Dinosaurier – Gegen uns seht Ihr alt aus!", "Here Comes Lola!" and "Law-Abiding Citizen". The rights to "Resident Evil: Afterlife", "Animals United", "Die Superbullen", "Werner – Eiskalt!" and others will be licensed for pay TV.

SPORTS- AND EVENT-MARKETING SEGMENT

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

The sales process for TV and sponsorship rights for the new contract cycle for the UEFA Champions League and UEFA Europa League (seasons 2012/13, 2013/14 and 2014/15) will continue until summer 2012. Sales in TV markets and sponsor product categories will be staggered and tactically timed to achieve the optimum sales results. In relation to the music sector, marketing activities will be focused on concluding the sales for the Eurovision Song Contest 2012.

On the operational side, a busy 2012 has started with the Vienna Philharmonic Orchestra's New Year's Day Concert. The knock-out phases of the UEFA Europa League and UEFA Champions League will be followed by the finals, which will be staged respectively in Bucharest (May 9) and Munich (May 19). The final of the Eurovision Song Contest will be staged in Baku/Azerbaijan on May 26 and the Vienna Philharmonic Orchestra's open air Summer Night Concert is scheduled for June 7.

Starting with the 2012/13 season, UEFA will be taking over certain operational event organization responsibilities for the UEFA Champions League and UEFA Europa League.

OTHER BUSINESS ACTIVITIES SEGMENT

A stronger and increasingly integrated cooperation between Escor and Highlight Communications AG should result in a sustainable consolidation of the market position of both companies. In particular, leveraging the proven expertise of Highlight Communications AG in the marketing of top international events and the development of entertainment concepts should aid the successful expansion of Escor's entertainment range and the opportunity to cultivate new markets, especially in the field of social gaming.

HIGHLIGHT GROUP

The strategy of the Highlight Group is still geared towards controlled and profitable growth. Based on the described activities of the individual business areas, a proven, broadly positioned business model and with sufficient caution, our sales expectations for the current fiscal year range from CHF 370 million to CHF 390 million. However, the prerequisite for this are nearly stable exchange rates between the Swiss franc and the euro. We expect earnings per share in a corridor of between EUR 0.42 and EUR 0.44.

Pratteln, March 2012

The Board of Directors

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

Classical music in the Park of Schönbrunn Palace: 100,000 spectators experienced the Summer Night Concert of the Vienna Philharmonic Orchestra live.

Consolidated financial statements

as of December 31, 2011
of Highlight Communications AG, Pratteln

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

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2011

Highlight Communications AG, Pratteln

ASSETS (TCHF)	Note	Dec. 31, 2011	Dec. 31, 2010
Non-current assets			
In-house productions		127,930	147,091
Third-party productions		26,625	28,710
Film assets	5.1	154,555	175,801
Other intangible assets	5.2	4,785	1,080
Goodwill	5.2	20,883	20,481
Property, plant and equipment	5.3	9,380	5,307
Investments in associated companies and joint ventures	5.4	428	7,542
Non-current receivables	5.6	3,036	860
Other financial assets	5.6	250	264
Deferred tax assets	5.13	4,621	2,438
		197,938	**213,773**
Current assets			
Inventories	5.5	5,777	3,323
Trade accounts receivable and other receivables due from third parties	5.7/5.8	136,399	109,885
Receivables due from related parties	11	74	191
Receivables due from associated companies and joint ventures	5.9	1,946	11,537
Other financial assets	5.6	13,880	18,715
Income tax receivables	5.10	2,457	2,106
Cash and cash equivalents	5.12	140,711	166,039
		301,244	**311,796**
Assets from discontinued operations		–	–
Total assets		**499,182**	**525,569**

The notes on page 80–151 are an integral part of the consolidated financial statements.

EQUITY AND LIABILITIES (TCHF)	Note	Dec. 31, 2011	Dec. 31, 2010
Equity	5.14		
Subscribed capital		47,250	47,250
Treasury stock		-1,157	-1,147
Capital reserve		-104,602	-102,825
Other reserves		-27,093	-24,908
Retained earnings		136,738	113,079
Shareholders' interests		31,610	36,172
Equity attributable to shareholders		82,746	67,621
Non-controlling interests		13,268	4,959
		96,014	**72,580**
Non-current liabilities			
Other liabilities	5.16	11,875	13,200
Pension liabilities	5.18	4,275	3,318
Provisions	5.19	309	2,127
Deferred tax liabilities	5.21	5,807	6,296
		22,266	**24,941**
Current liabilities			
Financial liabilities	5.17	204,207	251,391
Advance payments received	5.23	42,919	57,483
Trade accounts payable and other liabilities due to third parties	5.16	116,535	98,078
Liabilities due to related parties	11	286	4,033
Liabilities due to associated companies and joint ventures	11	1,430	2,982
Provisions	5.19	5,203	7,886
Income tax liabilities	5.20	10,322	6,195
		380,902	**428,048**
Liabilities from discontinued operations		–	–
Total equity and liabilities		**499,182**	**525,569**

The notes on page 80 – 151 are an integral part of the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT 2011

Highlight Communications AG, Pratteln

(TCHF)	Note	Jan. 1 to Dec. 31, 2011	Jan. 1 to Dec. 31, 2010[1)]
Sales	6.1	**383,452**	**434,562**
Capitalized film production costs and other own work capitalized	6.2	**54,348**	**97,052**
Total output		**437,800**	**531,614**
Other operating income	6.3	**25,274**	**37,683**
Costs for licenses, commissions and materials		–42,963	–54,970
Costs for purchased services		–103,517	–136,988
Cost of materials and licenses	6.4	**–146,480**	**–191,958**
Salaries		–97,243	–115,510
Social security and pension costs		–12,469	–14,100
Personnel expenses	6.6	**–109,712**	**–129,610**
Amortization and impairment on film assets	5.1	–89,891	–110,260
Amortization, depreciation and impairment on intangible assets and property, plant and equipment	5.2/5.3	–3,389	–3,208
Amortization, depreciation and impairment		**–93,280**	**–113,468**
Other operating expenses	6.7	**–73,900**	**–78,141**
Profit from continuing operations		**39,702**	**56,120**
Earnings from investments in associated companies and joint ventures	6.8	**–1,200**	**–75**
Financial income	6.9	16,287	14,189
Financial expenses	6.10	–12,531	–17,725
Financial result from continuing operations		**3,756**	**–3,536**
Profit from continuing operations before taxes		**42,258**	**52,509**
Current taxes		–12,767	–8,392
Deferred taxes		3,850	–1,365
Taxes	6.11	**–8,917**	**–9,757**
Profit from continuing operations after taxes		**33,341**	**42,752**
Net loss from discontinued operations		**–2,335**	**–**
Net profit		**31,006**	**42,752**
thereof shareholders' interests		31,610	36,172
thereof non-controlling interests		–604	6,580
Earnings per share (CHF)	6.12		
Earnings per share attributable to shareholders, basic		0.69	0.78
Earnings per share attributable to shareholders, diluted		0.69	0.78
Earnings per share from continuing operations (CHF)			
Earnings per share attributable to shareholders, basic		0.71	0.78
Earnings per share attributable to shareholders, diluted		0.71	0.78
Earnings per share from discontinued operations (CHF)			
Earnings per share attributable to shareholders, basic		–0.02	0.00
Earnings per share attributable to shareholders, diluted		–0.02	0.00

1) The figures for the previous year have been adjusted (see notes to the consolidated financial statements, note 2.1, change in accounting policies).

The notes on page 80–151 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/LOSS 2011

Highlight Communications AG, Pratteln

(TCHF)	Jan. 1 to Dec. 31, 2011	Jan. 1 to Dec. 31, 2010
Net profit	**31,006**	**42,752**
Currency translation differences	–2,233	–20,654
Gains/losses from financial assets at fair value through other comprehensive income/loss	–4,632	–6,136
Other comprehensive income/loss, net of tax	**–6,865**	**–26,790**
Total comprehensive income/loss	**24,141**	**15,962**
thereof shareholders' interests	24,793	9,832
thereof non-controlling interests	–652	6,130
Total comprehensive income/loss attributable to shareholders	**24,793**	**9,832**
thereof continuing operations	25,503	9,832
thereof discontinued operations	–710	–

The notes on page 80 – 151 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2011

Highlight Communications AG, Pratteln

(TCHF)	Note	Equity Subscribed capital	 Treasury stock
Balance as of January 1, 2010		**47,250**	**–1,147**
Currency translation differences		–	–
Gains/losses from financial assets at fair value through other comprehensive income/loss		–	–
Other comprehensive income/loss, net of tax		–	–
Net profit		–	–
Total comprehensive income/loss		–	–
Reclassification of prior year's net profit		–	–
Purchase of treasury stock		–	–
Sale of treasury stock		–	–
Dividend payments		–	–
Change in non-controlling interests		–	–
Other changes		–	–
Balance as of December 31, 2010		**47,250**	**–1,147**
Balance as of January 1, 2011		**47,250**	**–1,147**
Currency translation differences		–	–
Gains/losses from financial assets at fair value through other comprehensive income/loss		–	–
Other comprehensive income/loss, net of tax		–	–
Net profit		–	–
Total comprehensive income/loss		–	–
Reclassification of prior year's net profit		–	–
Purchase of treasury stock		–	–10
Sale of treasury stock		–	–
Dividend payments		–	–
Change in non-controlling interests		–	–
Changes in scope of consolidation		–	–
Balance as of December 31, 2011	**5.14**	**47,250**	**–1,157**

The notes on page 80–151 are an integral part of the consolidated financial statements.

attributable to the shareholders						
Capital reserve	Other reserves	Retained earnings	Shareholders' interests	Total	Non-controlling interests	Total equity
–54,519	**–4,704**	**87,212**	**31,999**	**106,091**	**4,712**	**110,803**
–	–20,204	–	–	–20,204	–450	–20,654
–	–	–6,136	–	–6,136	–	–6,136
–	**–20,204**	**–6,136**	–	**–26,340**	**–450**	**–26,790**
–	–	–	36,172	36,172	6,580	42,752
–	**–20,204**	**–6,136**	**36,172**	**9,832**	**6,130**	**15,962**
–	–	31,999	–31,999	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–2,005	–2,005
–48,306	–	–	–	–48,306	–3,878	–52,184
–	–	4	–	4	–	4
–102,825	**–24,908**	**113,079**	**36,172**	**67,621**	**4,959**	**72,580**
–102,825	**–24,908**	**113,079**	**36,172**	**67,621**	**4,959**	**72,580**
–	–2,185	–	–	–2,185	–48	–2,233
–	–	–4,632	–	–4,632	–	–4,632
–	**–2,185**	**–4,632**	–	**–6,817**	**–48**	**–6,865**
–	–	–	31,610	31,610	–604	31,006
–	**–2,185**	**–4,632**	**31,610**	**24,793**	**–652**	**24,141**
–	–	36,172	–36,172	–	–	–
–	–	–44	–	–54	–	–54
–	–	–	–	–	–	–
–	–	–7,837	–	–7,837	–1,885	–9,722
–1,777	–	–	–	–1,777	–4,584	–6,361
–	–	–	–	–	15,430	15,430
–104,602	**–27,093**	**136,738**	**31,610**	**82,746**	**13,268**	**96,014**

CONSOLIDATED STATEMENT OF CASH FLOWS 2011

Highlight Communications AG, Pratteln

(TCHF)	Note	Jan. 1 to Dec. 31, 2011	Jan. 1 to Dec. 31, 2010[1)]
Net profit		**31,006**	**42,752**
Net loss from discontinued operations		2,335	–
Deferred taxes		-3,850	1,365
Current taxes		12,767	8,392
Financial result (without currency result)	6.9/6.10	5,491	2,414
Earnings from investments in associated companies and joint ventures	6.8	1,200	75
Amortization, depreciation and impairment on non-current assets	5.1/5.2/5.3	93,280	113,468
Gain (–)/loss (+) from disposal of non-current assets	6.3/6.7	-14	–13
Other non-cash items		1,039	–2,138
Increase (–)/decrease (+) in inventories, trade accounts receivable and other assets not classified to investing or financing activities		-12,766	16,668
Decrease (–)/increase (+) in trade accounts payable and other liabilities not classified to investing or financing activities		-3,310	5,962
Dividends received from associated companies and joint ventures		352	741
Interest paid		-4,939	–3,403
Interest received		1,043	948
Income taxes paid		-9,332	–12,247
Income taxes received		422	329
Cash flow from operating activities, continuing operations		**114,724**	**175,313**

1) Due to a better significance, dividends received from associated companies and joint ventures are reported under cash flow from operating activities from the reporting period. Until then, they were reported under cash flow for investing activities.

The notes on page 80–151 are an integral part of the consolidated financial statements.

(TCHF)	Note	Jan. 1 to Dec. 31, 2011	Jan. 1 to Dec. 31, 2010
Change in cash and cash equivalents due to acquisitions of companies/shares in companies, net	3	3,509	73
Payments for intangible assets	5.2	–1,478	–765
Payments for film assets		–77,544	–106,844
Payments for property, plant and equipment	5.3	–1,325	–2,443
Payments for financial assets		–	–2,568
Acquisition of associated companies		–	–4
Proceeds from disposals of intangible assets and film assets		10	244
Proceeds from disposals of property, plant and equipment		39	28
Proceeds from disposals of financial assets		170	727
Cash flow for investing activities, continuing operations		**–76,619**	**–111,552**
Payments for purchase of treasury stock	5.14	–54	–
Payments for purchase of non-controlling interests		–6,361	–40,280
Repayment of current financial liabilities		–183,548	–146,577
Proceeds from receipt of current financial liabilities		139,867	113,052
Dividend payments		–9,722	–2,005
Cash flow for financing activities, continuing operations		**–59,818**	**–75,810**
Cash flow for discontinued operations		**–430**	**–**
Cash flow for the reporting period		**–22,143**	**–12,049**
Cash and cash equivalents at the beginning of the reporting period	5.12	166,039	201,090
Change in cash and cash equivalents due to exchange rate movements		–3,185	–23,002
Cash and cash equivalents at the end of the reporting period	5.12	140,711	166,039
Change in cash and cash equivalents		**–22,143**	**–12,049**

The notes on page 80–151 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2011

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 20, 2012 and require the approval of the Annual General Meeting of June 1, 2012.

1.1 General information about the Group

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

The company is listed on the Regulated Market (Prime Standard) of the Frankfurt stock exchange.

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

1.2 Basis of presentation

The consolidated financial statements of Highlight Communications AG were prepared in accordance with the International Financial Reporting Standards (IFRS) as well as the additional commercial provisions and comply with the Swiss law. All those IFRS/IAS and SIC/IFRIC whose application was mandatory as of December 31, 2011 have been applied.

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

The profit and loss account was prepared in line with the nature of expense method.

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

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

In preparing the consolidated financial statements in accordance with IFRS, the management is required to make estimates and assumptions influencing the income, expenses, assets, liabilities as well as the contingent liabilities and assets reported as of the balance sheet date. These estimates and assumptions represent management’s best estimate based on historical experience and other factors, including estimates about future events. Estimates and judgments are reviewed on an ongoing basis. Changes to estimates are required if the circumstances on which they are based change or new information and additional findings are 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 9).

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

2. Accounting policies

2.1 Change in the accounting policies

The Highlight Group revised its Group-wide system of accounts in fiscal year 2011. During the revision, account assignments within the income statement were redefined. The aim of the revision was improved presentation of individual transactions in line with their economic content.

The changes do not affect profit and loss and led to shifts in the cost of materials and licenses in terms of costs for licenses, commissions and materials and costs for services purchased, as well as shifts between cost of materials and licenses and other operating expenses and income.

The key factor for reporting in the cost of materials and licenses is the direct connection with providing its own services/that expenses are added to own services as a key component. If these criteria do not exist, expenses are reported under other operating expenses. This affects primarily release costs, which have been reported under other operating expenses since January 1, 2011. Release costs are primarily advertising expenses. Analogous to this, income from the reversal of provisions and impairment losses that are not connected with expenses from own services have been reported under other operating income since January 1, 2011. There are also other changes in the financial result due to the changed allocation of the currency translation differences. Currency translation differences due to film productions are now reported in the financial result.

The shifts in the income statement that do not affect profit and loss are summarized in the following table. The previous year's figures were adjusted accordingly. Due to the adjustments, the cost of materials and licenses in 2010 was TCHF 13,064 lower, other operating expenses were TCHF 24,917 higher, other operating income was TCHF 17,476 TCHF higher and the financial result was TCHF 5,623 lower. Since the adjustments do not affect profit and loss, there are no effects on the Group profit, earnings per share, and the cash flow statement. The opening balance sheet is not provided since the change in methodology has no effect on the opening balance sheet.

(TCHF)	Jan. 1 to Dec. 31, 2010 audited	Adjustments	Jan. 1 to Dec. 31, 2010 adjusted
Other operating income	20,207	17,476	37,683
Cost of materials and licences	–205,022	13,064	–191,958
Other operating expenses	–53,224	–24,917	–78,141
Profit from continuing operations	50,497	5,623	56,120
Financial result from continuing operations	2,087	–5,623	–3,536

2.2 Accounting standards and interpretations applied for the first time

The mandatory adoption of the following amended accounting regulations or interpretations did not materially impact the accompanying consolidated financial statements for the 2011 fiscal year:

IFRS 1	First-time Adoption of IFRS – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (amendment)
IAS 24	Related Party Disclosures (amendment)
IAS 32	Classification of Rights Issues (amendment)
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (amendment)
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

Amendments to IFRSs 2010/Improvement Project 2010 *)

*) The following individual standards and interpretations have been impacted by this:
IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13

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

The Highlight Group waived early adoption of the following new and revised standards and interpretations whose application is not mandatory as of December 31, 2011:

Standards/Interpretation		Mandatory application for fiscal years starting on or after
IFRS 1	First-time Adoption of IFRS (amendment)	July 1, 2011
IFRS 7	Financial Instruments: Disclosures: Transfers of Financial Assets (amendment)	July 1, 2011
IFRS 9	Financial Instruments (2010)	January 1, 2015
IFRS 10	Consolidated Financial Statements	January 1, 2013
IFRS 11	Joint Arrangements	January 1, 2013
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13	Fair Value Measurement	January 1, 2013
IAS 1	Presentation of Financial Statements (amendment)	July 1, 2012
IAS 12	Income Taxes (amendment)	January 1, 2012
IAS 19	Employee Benefits (amendment)	January 1, 2013
IAS 27	Separate Financial Statements	January 1, 2013
IAS 28	Investments in Associates and Joint Ventures	January 1, 2013

Of particular significance for Highlight Communications AG are:

IFRS 9 – Financial Instruments (2010)

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

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

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

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

IFRS 10 – Consolidated Financial Statements

IFRS 10 – Consolidated Financial Statements replaces IAS 27 and SIC 12. The new standard contains a uniform definition of the term ownership as well as specific regulations on assessing if a parent-subsidiary relationship exists and for the segregation of the consolidated group. The control definition of IFRS 10 includes the criteria of power, exposure to variability of returns, and the ability to use its power to affect the amount of returns. If all three criteria have been met, control is present and the entity must be fully consolidated. In terms of economic aspects, IFRS 10 creates stronger causality between the individual criteria. In addition, the new regulations of IFRS 10 contain explanations and examples of use such as on de facto control with below 50% of the voting rights, on the difference between rights of participation and protection, and on the consideration of agency relationships in allocating existing voting rights that had not previously been included under IAS 27.

IFRS 10 is mandatory for the first time for annual periods beginning on or after January 1, 2013. The Group is currently evaluating the possible effects of implementing the changes.

IFRS 13 – Fair Value Measurement

IFRS 13 aims to standardize the way fair value is determined by issuing a uniform definition and a transparent valuation hierarchy. IFRS 13 defines fair value as "under market conditions as of the measurement date, the price that independent market players would receive when selling an asset or would pay when transferring a liability (exit price) that would be received when selling an asset or would be paid for transferring a debt as part of an arranged business transaction among market participants on the measurement date". In the assessment, 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, it is assumed that the most advantageous market is used to measure fair value. In the case of non-financial assets, the fair value is calculated on the basis of the best possible use of the asset (highest and best use). Determining the fair value under IFRS 13 is based on a three-level hierarchy that depends on the existence and/or quality and reliability of the measurement parameter (Measurement Level 1: market price, Measurement Level 2: modified market prices (comparison value approach), Measurement Level 3: model-based measurement due to parameters that are not directly observable on the market). IFRS 13 is mandatory for the first time for annual periods beginning on or after January 1, 2013. The Group is currently evaluating the possible effects of implementing the changes.

IAS 1 – Presentation of Financial Statements (amendment)

Under IAS 1 amendment, other comprehensive income is divided into two categories depending on if future content will be recorded in the profit and loss account or not. The term other comprehensive income has been changed to profit and loss account and other comprehensive income. Other descriptions are allowed as well under IAS 1.10. Companies retain the right to chose to present the items of other comprehensive income before or after taxes.

Different from what was proposed in the draft, the components of profit or loss of the profit and loss account and of other comprehensive income may be presented in one statement or two consecutive statements. The amendment to IFRS 1 is mandatory for the first time for annual periods beginning on or after July 1, 2012. The amendments are not expected to materially impact the consolidated financial statements.

IAS 19 – Employee Benefits (amendment)

The amendment to IAS 19 has significant effects on the accounting of defined benefit plans and termination benefits. The main changes to the accounting of defined benefit plans are the required recognition of so-called actuarial gains and losses directly in other comprehensive income. The previous option between direct recognition in profit or loss, other comprehensive income, or deferred recognition under the so-called corridor method is eliminated. In addition, only one interest rate will be used to determine net interest expense/income in future. This interest rate is a discount rate that must be used in discounting the pension obligation. As a result, the rate of return of plan assets is assumed to be the discount rate on which the measurement of the pension obligation is based. Reporting the expense associated with the pension plan has changed as well. As already mentioned above, actuarial gains and losses (revaluation components) must always be reported directly in other comprehensive income. Expense to be reported in the profit and loss account is broken down under the new regulations into (1) the expense for benefits/changes to benefits earned in the period (current service cost) and (2) the net of interest expense from the compounding of obligations and the expected income from plan assets (net financing expense or income). Current service cost is to be reported in the operating result, net financing expense or income is reported in the financial result. The changes are to be applied for the first time for annual periods beginning on or after January 1, 2013. The Group is currently evaluating the possible effects of implementing the changes.

3. Scope of consolidation

The following changes occurred in the scope of consolidation in fiscal year 2011:

Acquisitions, new companies and first-time consolidation

MOOVIE – the art of entertainment GmbH, Germany

On March 16, 2011, Constantin Film AG acquired 24.5 % of the shares in MOOVIE – the art of entertainment GmbH, Berlin, at a purchase price of CHF 1. Due to the acquisition, the shareholding interest increased from 51.0 % to 75.5 %. The transaction did not have a material effect on the present consolidated interim financial statements.

Constantin Entertainment Israel Ltd., Israel

As of April 17, 2011, Constantin Entertainment GmbH founded Constantin Entertainment Israel Ltd., Tel Aviv, Israel, together with a local partner. The share in the company held by Constantin Entertainment GmbH is 56.25 %. The transaction did not have a material effect on the present consolidated interim financial statements.

Escor Casinos & Entertainment SA, Switzerland

As of July 1, 2011, Highlight Communications AG acquired a stake of 5.05 % (62,528 shares at a nominal price of CHF 9) in Escor Casinos & Entertainment SA (referred to hereafter as Escor). The purchase price was TCHF 1,251. Highlight Communications AG's holding in Escor then amounted to 30.02 %. Including the treasury shares held by Escor, Highlight Communications AG had a holding of 30.417 %. This allows Highlight Communications AG to exercise de facto control over Escor due to its majority in attendance at the general meetings. Escor Casinos & Entertainment SA was therefore included in the consolidated financial statements of the Highlight Communications AG for the first time as of July 1, 2011 by way of full consolidation. In conformity with IFRS 3.45 initial consolidation is preliminary, because in respect of the purchase price allocation additional information could arise as part of the fair value measurement. The assets and liabilities assumed were recognized at the following values:

(TCHF)	Fair values at acquisition date
Non-current assets	
Other intangible assets	3,181
Property, plant and equipment	5,285
Deferred tax assets	32
	8,498
Current assets	
Inventories	1,143
Trade accounts receivable and other receivables due from third parties	8,076
Cash and cash equivalents	4,760
	13,979
Assets from discontinued operations	**2,232**
Total assets	**24,709**
Non-current liabilities	
Pension liabilities	71
Provisions	75
Deferred tax liabilities	1,268
	1,414
Current liabilities	
Trade accounts payable and other liabilities due to third parties	376
Provisions	1,176
	1,552
Liabilities from discontinued operations	**48**
Total liabilities	**3,014**
Net assets 100 %	21,695
Non-controlling interests 69,583 %	15,430
Net assets acquired 30,417 %	6,265
Fair value of shares held (as associated company)	5,562
Acquisition price	1,251
Goodwill	548
Cash inflow from acquisition (net)	3,509

Non-controlling interests were measured at the pro rata fair value (“partial goodwill method”) of the acquired assets and liabilities. The goodwill resulting from the provisional purchase price allocation reflects the expected benefit from entering the social gaming market.

Other intangible assets comprise mainly customer relationships and software developments. Trade accounts receivable include write-downs of TCHF 85.

The assets of the discontinued operation, the subsidiary Casino Promotion Montenegro d.o.o, chiefly consist of a casino license and casino establishment.

Escor’s sales, which have been included in the consolidated financial statements since July 1, 2011, total TCHF 1,181. The effect on net results since July 1, 2011 amounts to TCHF –3,838.

If Escor had already been acquired and fully consolidated in the Highlight Group as at January 1, 2011, sales would have been TCHF 2,765 in total. Net profit before effects from purchase price allocation would have decreased by TCHF –7,611 in the period January 1 to December 31, 2011, with the discontinued operation accounting for TCHF -4,668 of this amount.

On September 23, 2011, Highlight Communications AG announced a public tender offer for all bearer shares outstanding of Escor Casinos & Entertainment SA. The offer price was CHF 17.50 per bearer share and the offer ran from October 10 to November 24, 2011. On November 30, 2011, Highlight Communications AG announced the definitive end result after the end of the offer period and declared the tender offer successful.

In line with the definitive end result, a total of 333,170 Escor shares were tendered to Highlight Communications AG. Including the 30.02 % already held by Highlight Communications AG prior to the offer, Highlight Communications AG’s interest increased to 56.95 % of the share capital in total. Including the treasury shares held by Escor, Highlight Communications AG has a holding of 57.69 %. The settlement of the transaction and the payment of the offer price of TCHF 6,140 took place on December 2, 2011 (see note 5.14). Subsidiary Casino Promotion Montenegro d.o.o. was sold on November 29, 2011 (see note 5.11).

Other changes

Classic Media Werbeagentur GmbH, Germany

Classic Media Werbeagentur GmbH, Munich was merged with Constantin Film Verleih GmbH with retroactive effect from January 1, 2011. This transaction does not result in any effect on the present consolidated financial statements.

KJP Holding AG, Switzerland

As of July 1, 2011, KJP Holding AG, Lucerne, was merged with Highlight Communication AG. This transaction does not result in any effect on the present consolidated financial statements.

Overview of fully consolidated companies

	Activity	Country	Subscribed capital		Share in capital*	Voting rights of the respective parent company
Team Holding AG	Sports marketing	CH	CHF	250,000	100 %	100 %
Team Football Marketing AG	Exploitation of sports licenses	CH	CHF	6,340,000	95.27 %	100 %
T.E.A.M. Television Event And Media Marketing AG	Marketing of sports and cultural events	CH	CHF	200,000	100 %	100 %
Rainbow Home Entertainment AG	Distribution	CH	CHF	200,000	100 %	100 %
Constantin Film Schweiz AG	Acquisition and development of content	CH	CHF	500,000	100 %	100 %
Kontraproduktion AG	Film and TV production	CH	CHF	100,000	100 %	100 %
Escor Casinos & Entertainment SA	Holding company	CH	CHF	11,137,500	56.95 %	56.95 %
Escor Automaten AG	Development and distribution of gaming machines	CH	CHF	3,000,000	56.95 %	100 %
Pokermania GmbH	Software development	DE	EUR	25,000	28.48 %	50.004 %
Highlight Communications (Deutschland) GmbH	Marketing	DE	EUR	256,000	100 %	100 %
Constantin Film AG	Film production and distribution	DE	EUR	12,742,600	100 %	100 %
Constantin Media GmbH audiovisuelle Produktionen	Acquisition and development of content	DE	EUR	26,000	100 %	100 %
Constantin Film Produktion GmbH	Film and TV production	DE	EUR	131,100	100 %	100 %
Constantin Television GmbH	TV entertainment production	DE	EUR	100,000	100 %	100 %
Constantin Film Services GmbH	Service provider	DE	EUR	25,000	100 %	100 %
Constantin Film Development Inc.	Acquisition and development of content	US	USD	530,000	100 %	100 %
Constantin Production Services Inc.	International film production	US	USD	50,000	100 %	100 %
DoA Production Ltd.	International film production	GB	GBP	1,000	100 %	100 %
Resident Evil Mexico S. DE R.L. DE C.V. (Mexico LLC)**	International film production	MX	MXN	3,000	100 %	100 %
Constantin Film International GmbH	International film production	DE	EUR	105,000	100 %	100 %
Constantin Pictures GmbH	International film and TV production	DE	EUR	25,000	100 %	100 %
Constantin Entertainment GmbH	TV entertainment production	DE	EUR	200,000	100 %	100 %
Constantin Entertainment Polska Sp. z o.o.	TV entertainment production	PL	PLN	54,000	75 %	75 %
Constantin Entertainment U.K. Ltd.	TV entertainment production	UK	GBP	95,000	100 %	100 %
Constantin Entertainment Croatia d.o.o.	TV entertainment production	HR	HRK	20,000	100 %	100 %
Constantin Entertainment Turkey TV Prodüksiyon Ltd. Sirketi***	TV entertainment production	TR	TRY	400,000	100 %	100 %
Constantin Entertainment Hellas EPE****	TV entertainment production	GR	EUR	15,000	100 %	100 %
Constantin Entertainment SRB d.o.o.	TV entertainment production	RS	RSD	526,944	100 %	100 %
Constantin Entertainment Middle East FZ LLC	TV entertainment production	AE	AED	5,000	100 %	100 %
Constantin Entertainment Israel Ltd.	TV entertainment production	IS	ILS	50,000	56.25 %	56.25 %
Olga Film GmbH	Film and TV production	DE	EUR	603,000	95.52 %	95.52 %
MOOVIE – the art of entertainment GmbH	Film and TV production	DE	EUR	104,000	75.5 %	75.5 %
Rat Pack Filmproduktion GmbH	Film and TV production	DE	EUR	103,000	51 %	51 %
Westside Filmproduktion GmbH	Film and TV production	DE	EUR	103,000	51 %	51 %
Constantin Film Verleih GmbH	License trading and theatrical distribution	DE	EUR	355,000	100 %	100 %
Constantin International B.V.	License trading	NL	EUR	18,151	100 %	100 %
Constantin Music Verlags-GmbH	Exploitation of music rights	DE	EUR	70,000	100 %	100 %
Constantin Music GmbH	Exploitation of music rights	DE	EUR	25,000	90 %	90 %
Königskinder Music GmbH	Record label and music producer	DE	EUR	50,000	50 %	50 %
Constantin Family GmbH	Film and TV production	DE	EUR	100,000	100 %	100 %
Resident Evil Productions LLC*****	International film production	US	USD	100	0 %	0 %
Rainbow Home Entertainment Ges.m.b.H.	Distribution	AT	EUR	363,364	100 %	100 %

* *direct and/or indirect share held by the Group*
** *50 % of the company are held by Constantin Film Produktion GmbH, another 50 % are held by Constantin Film International GmbH*
*** *0.03 % are held by Constantin Film Produktion GmbH*
**** *0.2 % are held by Constantin Film Produktion GmbH*
***** *the company is included in consolidation under SIC 12*

Overview of non-consolidated companies

The following subsidiaries of Highlight Communications AG are individually and as a whole of immaterial significance for the true and fair view of the Group's net assets, financial position and results of operations. Therefore, these companies are not included in the scope of consolidation of Highlight Communications AG.

The non-consolidated companies have been reported at a carrying value of TCHF 0. The companies are currently inactive and have no operations. The estimated fair value is approximately equivalent to the carrying value.

	Country	Subscribed capital		Share in capital
Greenland Film Production A.B.*	Sweden	SEK	100,000	100%
Smilla Film A.S.*	Denmark	DKR	500,000	100%
Constantin Music Publishing US Inc.*	US	USD	1,000	100%
She's French LLC**	US	USD	1,000	100%
Impact Pictures LLC**	US	USD	1,000	51%
Impact Pictures Ltd.***	Great Britain	GBP	1,000	51%
Constantin Entertainment Adria d.o.o.****	Croatia	HRK	20,000	100%
T.E.A.M. UK*****	Great Britain	GBP	1	100%

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

Overview of joint ventures

The following joint venture is included in the consolidated financial statements at equity:

(TCHF)	Share in capital	Period recognized in the consolidated financial statements	Currency	Subscribed capital
PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH	50%	Jan.1, 2011 – Dec.31, 2011	EUR	100,000

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

Overview of associated companies

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

(TCHF)	Share in capital	Period recognized in the consolidated financial statements	Currency	Subscribed capital
BECO Musikverlag GmbH	50%	Jan.1 – Dec.31, 2011	EUR	25,000
NEF-Production (Société par Action Simplifiée)	30%	Jan.1 – Dec.31, 2011	EUR	10,000
Casino Zürich AG in Liq.	36.50%	Jan.1 – Dec.31, 2011	CHF	100,000

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

4. Description of the accounting policies applied

4.1 Methods of consolidation

All significant subsidiaries are included in the consolidated financial statements in full. Subsidiaries are defined as entities which Highlight Communications AG controls directly or indirectly. Control means the power to govern the financial and operating activities and to derive benefits from these. This is usually the case if Highlight Communications AG possesses more than 50 % of the voting rights or potential voting rights of an entity either directly or indirectly. Companies in which Highlight Communications AG directly or indirectly holds 50 % or less than 50 % of the voting rights but exercises de facto control are also included in the consolidated financial statements of the Highlight Communications AG by way of full consolidation. In the case of de facto control, control does not result from potential voting rights or contractual or other agreements. Highlight Communications AG has de facto control if, due to the voting rights it is entitled to, control can be exercised at any time during Annual General Meetings without other shareholders joining together to establish a majority of those attending.

Special purpose entities are included in the consolidated financial statements if the Group controls them on the basis of the nature of its relationship with them.

In accordance with IFRS 3, the first-time capital consolidation is carried out by offsetting the acquisition costs (consideration rendered) of the investment against the revalued proportionate equity share in the subsidiary at 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. Acquisition-related costs are recognized as an expense. If acquisition takes place in stages, shares held before control is obtained must be measured at fair value at the time of acquisition and added to the consideration rendered. Profit or loss resulting from the remeasurement must be recognized in income. The remaining positive difference amount is recognized as goodwill, which is subject to an annual impairment test or tested whenever there are indications of impairment. Any impairment loss arising from this is immediately expensed. Any negative difference arising from capital consolidation following a re-assessment is reported in full as income in the year incurred. For each acquisition the acquirer can elect to measure non-controlling interests either at fair value or at the pro rata revalued equity.

Joint ventures, i. e. companies which the Group runs jointly with partners, are consolidated at equity in line with IAS 31.38.

Interests in companies in which Highlight Communications AG holds between 20 % and 50 % of voting rights or which it controls in another way (associated companies) are measured using the equity method. Equity investments are recognized at their acquisition cost at the time of acquisition. Any goodwill identified is included in the carrying amount of the investment and is not recognized as separate goodwill. The results of associated companies are absorbed into the Group pro rata and allocated to the carrying amount of the investment. Dividends paid by associated companies reduce their carrying amount. The provisions of IAS 36 apply to the calculation of impairment if there are objective indications that assets have become impaired. Changes recognized directly in the equity of the associated company are recognized by the Group to the extent of its holding and shown in changes in consolidated equity.

Companies are deconsolidated in accordance with IAS 27 when they are no longer controlled. Deconsolidation is shown as the disposal of all assets attributable to the subsidiary including goodwill and liabilities as well as differences from currency translation. Expenses and income accrued 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 profit and net assets not attributable to the Group. Non-controlling interests are reported separately in the consolidated income statement, 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 from transactions with non-controlling interests which 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 revaluation of the retained shares at fair value.

4.2 Currency translation

Functional currency

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

Measurement of balances and transactions in foreign currency

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

Monetary assets and liabilities are translated at the balance sheet date exchange rate.

Gains/losses from the settlement of these transactions and gains/losses from the translation of monetary assets and liabilities are recognized in income. Gains/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/losses are taken to equity. Translation differences on non-monetary financial instruments are recognized either in equity or through profit or loss in line with the presentation of changes in value of the underlying financial instrument.

Currency translation differences of TCHF 8,211 were recognized in income in fiscal year 2011 (previous year’s period: TCHF 6,986). There were no gains/losses on cash flow hedges or hedges of net investments in foreign operations.

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 on the balance sheet date while items of the profit and loss account are translated at annual average exchange rates. Goodwill and fair value adjustments from the purchase price allocation denominated in a currency other than Swiss francs are also translated at the exchange rate at the balance sheet date. Any translation differences or differences from currency translation in amounts carried forward from previous years resulting from this are recognized in equity.

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 consolidated equity are recognized as part of the gain or loss on its sale.

Exchange rates

		Rates at balance sheet date		Annual average rates	
				Jan. 1 to	Jan. 1 to
		Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
Euro	(EUR)	1.21710	1.24680	1.23358	1.38330
US dollar	(USD)	0.93990	0.94080	0.88705	1.04331
British pound	(GBP)	1.45260	1.45540	1.42212	1.61123
Canadian dollar	(CAD)	0.92180	0.94090	0.89709	1.01261

Balance sheet date rates are based on the official middle rate on the last trading day of the fiscal year.

4.3 Segment reporting

Segments and segment reporting are defined on the basis of the internal reporting of the organizational units to the main decision makers with regard to the allocation of resources and the assessment of earnings power. The Group's management has been defined as the chief operating decision maker. The Group's business segments are determined on the basis of the organizational units that report to the Group. The Group consists of the Film segment, Sports- and Event-Marketing segment, and the Other Business Activities (since July 1, 2011). Certain Group management functions are shown under the Others segment. These include actual Group Management, Corporate Finance, Investor Relations, Controlling, Legal, Group Accounts, Corporate Communications, Internal Audit and Human Resources. Segments earnings are defined as EBIT as this figure is used internally for performance measurement.

4.4 Film assets

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

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

In-house productions are carried at cost. Production costs also include the finance costs that can be allocated to the production in question. Costs for releasing the film, such as press and marketing costs, are also incurred. They are not capitalized, but recognized in other operating expenses.

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

The estimate of the total revenues is reviewed at the end of each quarter and adjusted if necessary. The quotient for the amortization for the period is calculated on the basis of any (adjusted) total revenues. Each film is also tested for impairment if there are indications for impairment. If the acquisition costs or the carrying amount of the film is not covered by the estimated total revenues 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. The interest rates over the different periods of exploitation are between 5.5 % and 7.5 % (previous year: between 5.5 % and 8.3 %). Estimated cash flows can vary significantly as a result of a number of factors such as market acceptance. The Highlight Group examines and revises the cash flow forecasts and amortization expenses upon any changes to previous forecasts occurring.

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

4.5 Other intangible assets

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

Software developments for social gaming platforms are reported as internally developed intangible assets. Development costs for individual projects are capitalized as internally developed intangible assets if all of the following criteria for capitalization are fulfilled:

- Proof of the technical feasibility of completion
- Intention of completion
- Ability of future use
- Future economic benefits
- Availability of adequate technical, financial and other resources
- Ability to measure reliably the expenditure attributable to the intangible asset during its development

Development costs that do not fulfill the criteria are charged against current earnings as they arise.

Internally developed intangible assets are assessed at cost. Capitalized costs are written off over their useful life as soon as the development phase is completed and utilization is possible. The depreciation period is measured according to the economic life and is two years. Research costs are reported in the profit and loss account as they arise.

Customer relationships identified during purchase price allocation are also reported under intangible assets. The carrying value corresponds to fair value at the time of acquisition minus necessary amortization. Customer relationships are written down over the expected useful life of 10 years.

4.6 Goodwill

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

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

In line with IAS 36, goodwill is tested for impairment once per year or more frequently if there are indications of impairment. There is no scheduled depreciation.

4.7 Property, plant and equipment

Property, plant and equipment comprise land, land rights and buildings, tenant's fixtures, technical equipment and machinery, other equipment, plant and office equipment as well as advance payments made and plant under construction.

Land, land rights and buildings are carried at acquisition costs. Property rights and buildings are depreciated ordinarily based on an estimated useful life of up to 50 years. Land is not depreciated. The costs of tenant's fixtures are usually depreciated over the term of the respective lease (up to 27.5 years). Technical equipment and plant and office equipment are measured at acquisition costs less scheduled depreciation or impairment. Scheduled depreciation is recognized on a straight-line basis over the standard useful life of 3 to 13 years. Repairs and maintenance expenses are expensed at the time they are incurred. More extensive renovation work or fixtures are capitalized. Renovation work is also depreciated over the above mentioned expected useful life. Acquisition costs and the associated cumulative depreciation are derecognized on disposal; any gains or losses accruing are recognized in profit or loss in the fiscal year.

4.8 Impairment of non-financial assets

In accordance with IAS 36, goodwill at the level of cash-generating units and intangible assets with an indefinite useful life are tested for impairment at least once per year or more frequently if there are indications of impairment. Highlight Communications AG carries out annual impairment testing in the fourth quarter of each fiscal year. Impairment testing is carried out in accordance with IAS 36 for other intangible assets and property, plant and equipment if there are indications of a possible 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 relevant cash flows. Impairment is recognized in income if the recoverable amount is less than the carrying amount.

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

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

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

4.9 Inventories

Service productions under development

Inventories include service productions under development that have not yet been ordered by the broadcaster (see note 4.21 Long-term service production).

Merchandise

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

Impairment on merchandise is recognized on the basis of coverage analyses. 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. Other impairment losses are recognized for damaged or defective merchandise.

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

4.10 Assets and liabilities from discontinued operations

A discontinued operation is a business area that is either classified for sale or already sold and whose business activities and cash flow can be limited operationally as well as separated from other company activities for accounting purposes. Reporting a discontinued operation assumes that the business area represents a major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. Discontinued operations are reported separately in the profit and loss account and cash flow statement.

The result of the discontinued operation is a subsidiary that has since been sold and was acquired for the sole purpose of resale.

4.11 Financial instruments

The management classifies financial assets at the time of acquisition and ascertains at regular intervals whether the criteria for classification have been complied with. Acquisition costs include transaction costs. Transaction costs for financial assets measured at fair value through profit or loss are expensed immediately.

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

In general, financial assets and financial liabilities are not offset. They are offset and the net amount presented in the balance sheet when, and only when, the entity currently has a right to set off the recognized amounts and intends to settle on a net basis.

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

Financial assets at amortized cost

With the application of IFRS 9 (2009) financial assets are recognized at amortized cost if the business model specifies holding the financial asset and the contractual terms of the instrument lead only to cash flows that represent interest payments and repayments. Financial instruments that do not fulfill 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 acquisition costs. Interest-free monetary receivables with a maturity of more than one year are discounted with a matching interest rate.

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

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

Financial assets at fair value

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

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

Equity instruments are always measured at fair value. On initial recognition, there is an option to present realized and unrealized changes in value in other comprehensive income instead of in the profit and loss account, provided the equity instrument is not held for trading.

The fair value is the market price as of the balance sheet date. If no market price is available, the fair value is determined on the basis of similar market transactions or using recognized measurement procedures. If the fair value of an active financial instrument cannot be reliably determined, the acquisition cost may represent the best estimate.

4.12 Hedge accounting

In principle, the Group uses derivative financial instruments to hedge foreign currency fluctuations when buying film rights in foreign currencies and hedging loans in foreign currencies. These transactions are usually in US dollars.

Hedge accounting is intended to reduce the risk of a change in the fair value of an asset. In this case the unrecognized firm commitments from purchases of film rights designated as the hedged item are hedged as they are subject to currency fluctuations in the time between the contract being concluded and being fulfilled. Currency futures are used as hedging instruments. These are designated either in full or in part. In addition, non-derivative financial liabilities are designated hedges in order to hedge currency risks. They hedge against sales contracts denominated in a foreign currency that are still off-balance sheet. The hedges are recognized in accounting as a fair value hedge. The opposing changes in the fair value of the hedged item and the hedging instrument are recognized in profit or loss so that they offset each other.

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

At the start of the hedge, both the hedging relationship and the Group's risk management objectives and strategies with regard to hedging are formally stipulated and documented.

4.13 Cash and cash equivalents

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

4.14 Liabilities

Current and non-current financial liabilities, trade accounts payable, advance payments received and other liabilities are reported under liabilities. Except for the derivative financial instruments, they are all carried at amortized acquisition costs. Derivative financial instruments with negative fair values on the balance sheet date are reported under other liabilities. Low-interest and interest-free non-current liabilities are recognized at present value on acquisition and discounted on an accrual basis until maturity. Liabilities from outstanding invoices are reported under trade accounts payable and other liabilities. Non-current liabilities are recognized using the effective interest method.

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

4.15 Pension liabilities

Pension liabilities include both defined benefit and defined contribution post-retirement plans. The key defined benefit pension plans are located in Switzerland. Virtually all employees in Switzerland are members of a benefit plan based on the Swiss defined contribution system that exceeds the minimum requirements specified by Swiss law. Contributions are paid by the individual companies and employees. The employees' contributions are defined as a percentage of insured annual salary and deducted on a monthly basis. The amounts deducted from salaries to cover the post-retirement benefits vary according to age. The benefits cover old-age pensions, disability benefits, benefits in the event of death and benefits for surviving dependants. These plans are subject to the regulations for defined benefit plans under IAS 19.

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

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

The provision reported in the balance sheet matches the extent of the obligation less the market value of the plan assets and unrecognized actuarial gains and losses.

In defined contribution plans, the company pays contributions to government or private pension schemes on a statutory or contractual and/or voluntary basis. The company has no further benefit obligations on payment of these contributions. Payments made are expensed immediately in the respective year.

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

4.16 Other provisions, contingent liabilities and contingent assets

In line with IAS 37, provisions take into account all discernible obligations to third parties arising from a past event for which a cash outflow/an outflow of resources is likely in order to settle the obligation. Another requirement for measurement 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 are carried at the present value of the expected outflow calculated using current interest rates, if the interest effect is material.

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

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

4.17 Borrowing costs

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

4.18 Deferred taxes

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

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

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

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

Deferred taxes on items recognized directly in equity are not recognized in the profit and loss account but also in equity.

No deferred tax liabilities were recognized on temporary differences in connection with shares in subsidiaries as it is not likely that these temporary differences will reverse in the foreseeable future.

4.19 Equity

Ordinary bearer shares outstanding are classified as equity. As soon as 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.

4.20 Revenue recognition

Trade account receivables are recognized if the major risks and opportunities related to the ownership of the goods and services sold are transferred to the buyer. Appropriate provisions are created for additional expenses in connection with trade accounts, including expenses for returned products.

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

Income from service productions is determined using the percentage of completion (POC) method in order to recognize the share of total revenues in the reporting period (see note 4.21 Long-term service production).

Revenues from licenses for TV (pay/free) rights are recognized as of the date on which the license takes effect, generally 18 to 32 months after the commencement of movie exploitation. With these forms of exploitation of film rights, revenues are realized upon the expiry of the contractual holdback period. Therefore, they are 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 (cinema, DVD/Blu-ray, TV rights). These are allocated to the various revenue types. Allocation is carried out on the basis of historical figures in accordance with corporate planning at the following general rates: 25 % for cinema rights, 15 % for DVD/Blu-ray rights and 60 % for TV rights. The corresponding revenues are recognized as follows: movie revenues on cinema release, DVD/Blu-ray revenues six months after cinema release, TV revenues 24 months after cinema release. Revenues from global distribution sales without any minimum guarantee are recognized on the royalty settlements being received from the licensees.

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

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

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

The revenues are recognized excluding the invoiced value added tax, trade discounts and volume rebates.

Dividend income is recognized in the fiscal year in which the right to receive the payment arises. Interest income is recognized on accrual basis using the effective interest method.

4.21 Long-term service production

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

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

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

Service productions in production are reported as a net figure in the balance sheet under either receivables or liabilities in the amount of the difference between realized revenues and invoices. Service productions in development that have not yet been ordered by the broadcaster are recognized under inventories.

4.22 Leases

In leases where the Group is the lessee, leased items are capitalized and a lease liability of the same amount is recognized if economic ownership of the leased item is allocated to the lessee (finance lease). Under IAS 17, this is the case if the lessee essentially bears all the opportunities and risks associated with ownership of the leased item. In these cases, the leased item is capitalized at the lower of its fair value at the start of the lease and the present value of the minimum lease payments. The corresponding lease liabilities are reported under non-current or current financial liabilities in the balance sheet. The interest component of the lease payment is recognized in profit or loss in the net financial result over the term of the lease. There were no finance leases in the Group as of December 31, 2011 or in the previous year.

If economic ownership is allocated to the lessor (operating lease), the leased item is accounted for in the lessor's financial statements. Lease payments in connection with operating leases are recognized as other operating expenses in the profit and loss account over the term of the lease.

4.23 Project promotion and subsidies

Project promotion

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

Project promotions as a contingently repayable loan

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

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 will not have to be repaid with sufficient certainty 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, with a liability being 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 the theatrical exploitation for financing the project costs of a subsequent film. These are public sector 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 public sector grants for assets. In the balance sheet, project film promotions granted are deducted from the carrying amount of the film no later than the time of its 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

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

Distribution loans as a contingently repayable loan

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

These are public sector grants for expenses already incurred. These are recognized as a reduction of release costs by the amount which will not have to be repaid with sufficient certainty. These grants are recognized in the periods in which the corresponding release costs are incurred.

The amount which will not have to be repaid with sufficient certainty 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 public sector grants for expenses already incurred. The sales subsidies granted are recognized in profit or loss as a reduction of release costs at the time of the subsequent film’s release.

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

5. Notes to individual items of the consolidated balance sheet

5.1 Film assets

Film assets break down as follows:

(TCHF)	Third-party productions	In-house productions	Total film assets
Acquisition and production costs 2011			
Balance at January 1, 2011	426,568	693,808	1,120,376
Currency translation differences	-4,986	-17,161	-22,147
Additions	15,777	59,506	75,283
Disposals	4,825	2,778	7,603
Reclassifications	229	-229	–
Balance at December 31, 2011	**432,763**	**733,146**	**1,165,909**
Accumulated amortization 2011			
Balance at January 1, 2011	397,858	546,717	944,575
Currency translation differences	-4,327	-13,960	-18,287
Amortization for the year	17,128	70,287	87,415
Impairment	304	2,172	2,476
Disposals	4,825	–	4,825
Balance at December 31, 2011	**406,138**	**605,216**	**1,011,354**
Acquisition and production costs 2010			
Balance at January 1, 2010	452,057	721,027	1,173,084
Changes in scope of consolidation	–	5,299	5,299
Currency translation differences	-37,996	-125,857	-163,853
Additions	14,314	93,823	108,137
Disposals	1,807	484	2,291
Balance at December 31, 2010	**426,568**	**693,808**	**1,120,376**
Accumulated amortization 2010			
Balance at January 1, 2010	415,271	552,067	967,338
Currency translation differences	-32,272	-98,460	-130,732
Amortization for the year	14,155	87,492	101,647
Impairment	2,511	6,102	8,613
Disposals	1,807	484	2,291
Balance at December 31, 2010	**397,858**	**546,717**	**944,575**
Net carrying amounts December 31, 2011	**26,625**	**127,930**	**154,555**
Net carrying amounts December 31, 2010	**28,710**	**147,091**	**175,801**

Impairment losses of TCHF 2,476 (previous year's period: TCHF 8,613) were recognized in fiscal year 2011, as the value in use no longer covers the acquisition costs or the carrying amount of certain films.

In fiscal year 2011, the Highlight Group received project subsidies and project promotion loans of TCHF 21,029 (previous year's period: TCHF 32,369), which were deducted from the capitalized production costs.

Deferred project promotion loans amounted to TCHF 745 as of December 31, 2011 (previous year: TCHF 2,391). Project promotions of TCHF 583 were repaid in fiscal year 2011 (previous year's period: TCHF 977).

Sales subsidies and distribution loans of TCHF 5,462 (previous year's period: TCHF 4,819) were also recognized in the consolidated profit and loss account in fiscal year 2011 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, 2011. Distribution loans of TCHF 603 (previous year's period: TCHF 362) were repaid over fiscal year 2011. As of December 31, 2011, there were receivables for subsidies and grants of TCHF 17,193 (previous year: TCHF 19,156).

In fiscal year 2011, directly attributable financing costs of TCHF 3,116 (previous year's period: TCHF 1,671) were capitalized. 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 2.95 % to 6.5 % (previous year: 2.8 % to 6.5 %).

5.2 Other intangible assets/goodwill

As of December 31, 2011, other intangible assets comprise the following:

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

(TCHF)	Purchased intangible assets	Internally developed intangible assets	Total intangible assets	Goodwill
Acquisition and production costs 2010				
Balance at January 1, 2010	3,613	668	4,281	24,561
Currency translation differences	–432	–	–432	–1,641
Additions	765	–	765	–
Disposals	24	–	24	–
Balance at December 31, 2010	**3,922**	**668**	**4,590**	**22,920**
Accumulated amortization 2010				
Balance at January 1, 2010	2,671	668	3,339	2,910
Currency translation differences	–395	–	–395	–471
Amortization for the year	566	–	566	
Balance at December 31, 2010	**2,842**	**668**	**3,510**	**2,439**
Net carrying amounts December 31, 2010	**1,080**	–	**1,080**	**20,481**

Purchased intangible assets of TCHF 4,071 (previous year: TCHF 1,080) primarily consist of software (TCHF 2,060) and customer relationships (TCHF 2,011). In the acquisition of Escor, these customer relationships (TCHF 2,117) and further software developments (TCHF 1,064) were identified as separate intangible assets. Escor has commercial relationships with several customers and will generate significant future income from these customer relationships.

Internally developed intangible assets include the standard software developed since the acquisition of Escor. The software serves as the platform for social games and is adapted for each customer.

Goodwill

Total goodwill of TCHF 20,883 (previous year: TCHF 20,481) was recognized in the balance sheet as of December 31, 2011. The allocation of goodwill is as follows:

(TCHF)	Dec. 31, 2011	Dec. 31, 2010
Rainbow Home Entertainment AG	2,399	2,399
Pokermania GmbH	546	–
Constantin Film Verleih GmbH	12,025	12,025
Olga Film GmbH	1,244	1,274
Constantin Entertainment GmbH	4,231	4,334
Constantin Entertainment Croatia d.o.o.	383	393
Other	55	56
Total	**20,883**	**20,481**

Goodwill was tested for impairment at the level of the cash generating units below the corresponding segment. Recoverable amounts are calculated using the value in use in impairment testing for goodwill. The basis of the discounted cash flow method in the Highlight Group is future cash flows derived from detailed three-year earnings planning. Growth of 0 % to 2.0 % (previous year: 0 % to 1.0 %) was assumed for the period subsequent to the detailed planning period. The post-tax interest rates used on a sector-specific basis for discounting for the main items of goodwill are calculated on the basis of a capital market-based risk assessment in line with the capital asset pricing model (CAPM). The discount factors before taxes for the main items of goodwill amounted to between 7.51 % and 9.13 % as of December 31, 2011 (previous year: 8.7 % and 10.3 %). Goodwill was subjected to its annual impairment test as of December 31, 2011. This did not result in any impairment losses.

Corporate planning was also supplemented with further alternative scenarios for the possible development of the Highlight Group and these were also used for the purposes of impairment testing. Even using more conservative scenarios concerning revenues growth, discount rate and EBIT margin, a goodwill impairment of TCHF 2,000 was required for one item. Goodwill impairment was not required for the remaining items.

5.3 Property, plant and equipment

As of December 31, 2011, property, plant and equipment comprise the following:

(TCHF)	Land, land rights and buildings	Technical equipment and machinery	Other equipment, plant and office equipment	Total property, plant and equipment
Acquisition and production costs 2011				
Balance at January 1, 2011	1,500	3,743	14,792	20,035
Changes in scope of consolidation	5,282	–	3	5,285
Currency translation differences	–18	–35	–142	–195
Additions	–	720	605	1,325
Disposals	–	–	808	808
Reclassifications	4,017	–2,528	–1,489	–
Balance at December 31, 2011	**10,781**	**1,900**	**12,961**	**25,642**
Accumulated depreciation 2011				
Balance at January 1, 2011	643	2,592	11,493	14,728
Currency translation differences	–9	–25	–103	–137
Depreciation for the year	422	339	1,693	2,454
Disposals	–	–	783	783
Reclassifications	3,878	–1,610	–2,268	–
Balance at December 31, 2011	**4,934**	**1,296**	**10,032**	**16,262**
Net carrying amounts December 31, 2011	**5,847**	**604**	**2,929**	**9,380**

(TCHF)	Land, land rights and buildings	Technical equipment and machinery	Other equipment, plant and office equipment	Total property, plant and equipment
Acquisition and production costs 2010				
Balance at January 1, 2010	1,549	3,884	14,142	19,575
Currency translation differences	–124	–237	–1,012	–1,373
Additions	75	454	1,914	2,443
Disposals	–	366	235	601
Reclassifications	–	8	–17	–9
Balance at December 31, 2010	**1,500**	**3,743**	**14,792**	**20,035**
Accumulated depreciation 2010				
Balance at January 1, 2010	457	2,634	10,515	13,606
Currency translation differences	–50	–189	–686	–925
Depreciation for the year	236	693	1,713	2,642
Disposals	–	366	220	586
Reclassifications	–	–180	171	–9
Balance at December 31, 2010	**643**	**2,592**	**11,493**	**14,728**
Net carrying amounts December 31, 2010	**857**	**1,151**	**3,299**	**5,307**

The category of land, land rights and buildings also includes tenant’s fixtures in rented premises and buildings.

Investment groups were redefined in fiscal year 2011, which led to reclassifications of property, plant and equipment. Reclassification in the category of “Land, land rights and buildings” of TCHF 4,017 are conversions in rented premises and buildings.

As of December 31, 2011, fire insurance values stood at TCHF 27,249 (previous year: TCHF 17,836).

5.4 Investments in associated companies and joint ventures

Shares in associated companies and joint ventures developed as follows:

(TCHF)	2011	2010
January 1	7,542	8,450
Acquisition of associated companies	–	4
Share in net earnings	268	469
Impairment	–1,468	–544
Other changes recognized in equity	–	4
Dividend payments/capital repayments	–352	–741
Disposal to equity interests	–5,562	–
Currency translation differences	–	–100
December 31	**428**	**7,542**

Associated companies

The annual financial statements as of December 31, 2010 of BECO Musikverlag GmbH were used as a basis in reporting on associated companies as the annual financial statements as of December 31, 2011 have not yet been prepared. In the previous year the financial statements as of December 31, 2009 had been used as the financial statements for the year 2010 had not yet been prepared as of the balance sheet date. No circumstances arose in the current year that would have necessitated an adjustment to the annual financial statements used as a basis. At NEF-Production (Société par Action Simplifiée) and Casino Zürich AG in liq., the figures as of December 31, 2011 were used. Escor Casinos & Entertainment SA was measured using the equity method until June 30, 2011 and was fully consolidated from July 1, 2011.

The condensed financial statements are as follows:

(TCHF)	Sales	Net profit	Total assets	Total liabilities
2011				
BECO Musikverlag GmbH	27	43	107	34
NEF-Production (Société par Action Simplifée)	13,766	–661	1,317	1,958
Casino Zürich AG in liq.	–	–1,729	499	5,452
2010				
BECO Musikverlag GmbH	32	17	101	12
Escor Casinos & Entertainment SA	2,792	223	24,086	1,482
NEF-Production (Société par Action Simplifée)	761	82	121	35

At the balance sheet date, the carrying amount of the investment in BECO Musikverlag GmbH was TCHF 85 (previous year: TCHF 85), in NEF-Production (Societé par Action Simplifiée) TCHF 0 (previous year: TCHF 26), and in Casino Zürich AG in liq. TCHF 0. Net profit from Casino Zürich AG in liq. is from the period January 1 to June 30, 2011 before the company belonged to the Highlight Group's scope of consolidation. Liabilities of Casino Zürich AG in liq. include a shareholder's loan of TCHF 5,000. As in the previous year, there were no contingent liabilities as of December 31, 2011.

Joint ventures

The carrying amount of the joint venture PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH as of December 31, 2011 amounts to TCHF 343 (previous year: TCHF 401). The condensed balance sheet is as follows:

Assets (TCHF)	Dec. 31, 2011	Dec. 31, 2010
Non-current assets	5	5
Current assets	3,244	3,062

Liabilities (TCHF)	Dec. 31, 2011	Dec. 31, 2010
Non-current liabilities	–	–
Current liabilities	2,563	2,263

The items of the profit and loss account comprise the following:

(TCHF)	Jan. 1 to Dec. 31, 2011	Jan. 1 to Dec. 31, 2010
Sales	14,557	14,100
Other operating income	17	10
Cost of materials	-13,150	-12,512
Personnel expenses	-443	-459
Amortization	-1	-1
Other operating expenses	-74	-57
Income taxes	-322	-331
Net profit after taxes	**584**	**750**

50% of these figures relate to the Highlight Group. As in the previous year, there were no contingent liabilities as of December 31, 2011.

5.5 Inventories

As of December 31, 2011, inventories comprise the following:

(TCHF)	Dec. 31, 2011	Dec. 31, 2010
Net balance		
Unfinished goods and services	2,517	1,108
Finished goods	349	–
Blu-rays/DVDs	2,852	2,215
Other merchandise	59	–
Total	**5,777**	**3,323**

Unfinished goods and services essentially relate to service productions in development that have not yet been ordered by the broadcaster. Finished goods include merchandise for casino machines. In fiscal year 2011, impairments of TCHF 313 (previous year's period: TCHF 0) were formed and no impairments were reversed (previous year's period: TCHF 14).

5.6 Other financial assets/non-current receivables

Other financial assets

(TCHF)	Current assets Dec. 31, 2011	Current assets Dec. 31, 2010	Non-current assets Dec. 31, 2011	Non-current assets Dec. 31, 2010
Financial assets at fair value through profit or loss				
Preference shares	1,313	1,517	–	–
Bonds	–	–	–	–
Real estate funds	–	–	250	264
Derivative financial instruments	–	–	–	–
Financial assets measured at amortized cost				
Bonds	1,004	1,003	–	–
Financial assets at fair value through other comprehensive income/loss				
Shares	11,563	16,195	–	–
Total	**13,880**	**18,715**	**250**	**264**

Other current financial assets include a stake of 8.72 % in Constantin Medien AG (previous year: 8.72 %) with a carrying amount of TCHF 11,563 (previous year: TCHF 16,195) and interest-bearing securities of TCHF 1,004 (previous year: TCHF 1,003). The reported preference shares in a Canadian partner company in the amount of TCHF 1,313 (previous year: TCHF 1,517) were acquired last year in connection with the production of the film Resident Evil: Afterlife. There is no active market for these preference shares. Because the shares were acquired last year and a tranche was sold at the same price in fiscal year 2011, the acquisition costs represent the best estimate of the fair value for this financial instrument. In accordance with IFRS 9, non-listed equity instruments are also generally recognized at fair value.

Non-current financial assets of TCHF 250 (previous year: TCHF 264) consisted of investment securities as of December 31, 2011. The securities were acquired in previous fiscal years with the aim of profitably investing undistributed corporate profits of a subsidiary and deploy them if liquidity is needed. This led to ongoing monitoring of its fair value by Olga Film GmbH management, in order to be able to react quickly in the case of value fluctuations. The call up will take place if necessary. In line with this, these securities were allocated to the fair value through profit or loss category.

Non-current receivables

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

(TCHF)	Dec. 31, 2011	Dec. 31, 2010
Non-current trade accounts receivable and other receivables	3,054	917
Discounting (net)	–18	–57
Total	**3,036**	**860**

Non-current trade accounts receivable of TCHF 2,086 (previous year: TCHF 702) essentially relate to the value added tax to be paid for revenues not yet recognized under IFRS. Other non-current receivables of TCHF 968 (previous year: TCHF 215) consists mainly of different loans to third-party companies.

5.7 Trade accounts receivable

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

Write-downs on trade accounts receivable are recognized based on current historical data and an individual evaluation due to the differing customer structures in the different business areas.

Trade accounts receivable comprise the following as of December 31, 2011:

(TCHF)	Dec. 31, 2011	Dec. 31, 2010
Trade accounts receivable		
Current receivables	36,226	52,423
POC receivables	10,913	8,432
Gross amount	**47,139**	**60,855**
Write-downs		
Trade accounts receivable (gross)	47,139	60,855
Individual write-downs	–4,333	–4,431
Portfolio write-downs	–293	–388
Net amount	**42,513**	**56,036**

Trade accounts receivable are in the following currencies:

(TCHF)	Dec. 31, 2011	Dec. 31, 2010
CHF	5,971	14,162
EUR	27,538	40,281
USD	8,989	1,593
Other	15	–
Total	**42,513**	**56,036**

Write-downs on trade accounts receivable developed as follows in 2011 and 2010:

(TCHF)	2011	2010
Balance write-downs January 1	**4,819**	**6,616**
Changes in scope of consolidation	85	–
Currency translation differences	–99	–907
Additions	154	548
Reversal/consumption	–333	–1,438
Balance write-downs December 31	**4,626**	**4,819**

Write-downs on trade accounts receivable comprise additions to write-downs, income from the reversals of write-downs and expenses for derecognizing receivables.

The following table shows the maturities of trade accounts receivable:

(TCHF)	Carrying amount	neither impaired nor overdue as of the closing date	(Days) less than 90	between 91 and 180	between 181 and 270	between 271 and 365	more than 365
December 31, 2011							
Trade accounts receivable	42,513	32,488	6,735	2,026	167	191	906
December 31, 2010							
Trade accounts receivable	56,036	47,096	7,073	470	345	117	935

5.8 Other receivables

As at December 31, 2011, other receivables comprise the following:

(TCHF)	Dec. 31, 2011	Dec. 31, 2010
Prepaid expenses	4,828	3,486
Input tax	1,026	2,162
Other taxes	980	2,424
Advance payments	151	156
Suppliers with debit balances	752	799
Receivables due from personnel	685	273
Receivables from loans/borrowings	47,599	3,021
Subsidies receivables	17,194	20,335
Positive fair value of underlying transactions in hedging relationships	1,575	–
Positive fair value of derivative financial instruments in hedging relationships	2,081	14
Positive fair value of derivative financial instruments without hedging relationships	287	–
Other assets	16,728	21,179
Total	**93,886**	**53,849**

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

Other taxes essentially relate to withholding tax receivables.

Receivables from loans/borrowings include a current loan in connection with the production “Resident Evil” to the co-producer Davis Film Impact Pictures in the amount of TCHF 45,081 (previous year: TCHF 2,702).

A receivable from a bank of TCHF 7,558 (previous year: TCHF 7,743) is also reported under other assets. This receivable is related to the equity swap transaction described in note 6.10 and is subject to a restriction on disposal. The restriction on disposal expires on early termination of the contract or on expiration of the contract.

The maturities of other receivables are as follows:

(TCHF)	Other receivables	thereof not IFRS 7 relevant	total IFRS 7 relevant
Dezember 31, 2011			
Prepaid expenses	4,828	4,828	–
Input tax	1,026	1,026	–
Other taxes	980	980	–
Advance payments	151	151	–
Suppliers with debit balances	752	–	752
Receivables due from personnel	685	315	370
Receivables from loans/borrowings	47,599	–	47,599
Subsidies receivables	17,194	–	17,194
Positive fair value of underlying transactions in hedging relationships	1,575	–	1,575
Positive fair value of derivative financial instruments in hedging relationships	2,081	–	2,081
Positive fair value of derivative financial instruments without hedging relationships	287	–	287
Other assets	16,728	1,248	15,480
Total	**93,886**	**8,548**	**85,338**
Dezember 31, 2010			
Prepaid expenses	3,486	3,486	–
Input tax	2,162	2,162	–
Other taxes	2,424	2,424	–
Advance payments	156	156	–
Suppliers with debit balances	799	–	799
Receivables due from personnel	273	1	272
Receivables from loans/borrowings	3,021	–	3,021
Subsidies receivables	20,335	20,335	–
Positive fair value of derivative financial instruments in hedging relationships	14	–	14
Other assets	21,179	3,638	17,541
Total	**53,849**	**32,202**	**21,647**

thereof neither impaired nor overdue as of the closing date	overdue (days)				
	less than 90	between 91 and 180	between 181 and 270	between 271 and 365	more than 365
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
752	–	–	–	–	–
370	–	–	–	–	–
47,599	–	–	–	–	–
17,150	–	–	–	44	–
1,575	–	–	–	–	–
2,081	–	–	–	–	–
287	–	–	–	–	–
14,708	37	694	24	5	12
84,522	**37**	**694**	**24**	**49**	**12**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
799	–	–	–	–	–
272	–	–	–	–	–
3,021	–	–	–	–	–
–	–	–	–	–	–
14	–	–	–	–	–
9,754	–	22	1	7,747	17
13,860	–	**22**	**1**	**7,747**	**17**

Other receivables relate to the following currencies:

(TCHF)	Dec. 31, 2011	Dec. 31, 2010
CHF	3,738	6,864
EUR	50,863	17,832
USD	22,028	15,382
CAD	17,118	13,740
Other	139	31
Total	**93,886**	**53,849**

5.9 Receivables due from associated companies and joint ventures

As of December 31, 2011, there were receivables due from the associated company NEF-Production (Société par Action Simplifiée) in the amount of TCHF 1,941 (previous year: TCHF 11,537) and from the joint venture PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH in the amount of TCHF 5 (previous year: TCHF 0). The decline in the case of NEF-Production (Société par Action Simplifiée) is due to the repayment of the loans issued to the company for the production of "The Three Musketeers".

5.10 Income tax receivables

Income tax receivables developed as follows:

(TCHF)	Balance Jan. 1, 2011	Currency translation differences	Con-sumption	Reversal	Addition	Balance Dec. 31, 2011
Income taxes Switzerland	196	–	146	50	–	–
Income taxes Germany	1,808	–42	144	–	63	1,685
Income taxes rest of the world	102	–12	6	2	690	772
Total income taxes	**2,106**	**–54**	**296**	**52**	**753**	**2,457**

5.11 Discontinued operations

In connection with the first-time full consolidation of Escor as of July 1, 2011, the held for sale subsidiary Casino Promotion Montenegro d.o.o., Bar, Montenegro (referred to hereafter as CPM) was classified as a discontinued operation in accordance with IFRS 5.32 c. The company was sold on November 29, 2011. The assets of the discontinued operation CPM chiefly consist of a casino license and casino establishment. CPM's contribution to earnings from July 1 to November 29, 2011 amounts to TCHF –2,335, while the cash outflow totals TCHF 430. The earnings of the discontinued operation attributable to shareholders amount to TCHF –710, or CHF –0.02 per share.

5.12 Cash and cash equivalents

Interest is paid in the case of call money and short-term sight deposits. The interest rate varied from 0% to 0.9% (previous year: 0% to 0.8%).

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

5.13 Deferred tax assets

Deferred tax assets are comprised as follows:

(TCHF)	Dec. 31, 2011	Dec. 31, 2010
Tax loss carryforwards	4,154	4,870
Intangible assets/film assets	1,516	7,423
Trade accounts receivable	11,604	4,819
Other receivables	8,023	2,300
Inventories	8,725	9,676
Trade accounts payable	7,249	6,492
Advance payments received	9,916	10,719
Provisions	540	397
Total	**51,727**	**46,696**
Netting with deferred tax liabilities	-47,106	-44,258
Deferred tax assets (netted)	**4,621**	**2,438**

Of the deferred tax assets TCHF 0 are current (previous year: TCHF 877) and TCHF 4,621 non-current (previous year: TCHF 1,561).

The Group has total loss carry forwards of TCHF 36,442 (previous year: TCHF 1,600) for which no deferred tax assets were recognized. The year-on-year increase is due mainly to the full consolidation of Escor Casinos & Entertainment SA.

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

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

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

5.14 Equity

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

Share capital

As of December 31, 2011, the fully paid-up capital of the parent company, Highlight Communications AG, totaled CHF 47,250,000, divided into 47,250,000 bearer shares with a par value of CHF 1.00 per share. A dividend per share of CHF 0.17 was distributed for fiscal year 2010 in the reporting period.

Authorized capital 2010

On May 28, 2010 the Annual General Meeting established authorized share capital of CHF 12,750,000 and empowered the Board of Directors to execute a capital increase by issuing 12,750,000 bearer shares at CHF 1.00 each within a period of two years. A partial increase is permitted. No such capital increase has been implemented to date.

Treasury stock

As of December 31, 2011, the separately reported item for "Treasury stock" amounted to TCHF –1,157 (previous year: TCHF –1,147). The amount reflects the nominal capital of treasury shares held. As of December 31, 2011, the balance of directly and indirectly held non-voting treasury shares taking into account the position held by subsidiaries amounted to 1,156,567 Highlight Communications AG shares (previous year: 1,146,567). In the year under review, 10,000 additional shares were acquired at a purchase price of TCHF 54.

Capital reserve

As of December 31, 2011, the Group's capital reserve amounted to a total of TCHF –104,602 (previous year: TCHF –102,825).

The reduction of capital reserves results primarily from increasing the number of shares in Escor Casinos & Entertainment SA, Düdingen, which was directly recognized in equity, from 30.02 % to 56.95 % in the fourth quarter of the fiscal year. Due to this transaction, capital reserves decreased by TCHF 1,585. This includes the resulting transaction costs of TCHF 310. In addition, the increase in the cash settlement of TCHF 223 (CHF 0.81 for each ordinary no-par-value share) that was determined as part of the Constantin Film AG squeeze-out valuation proceedings was recognized in the capital reserve.

Non-controlling interests

The change in non-controlling interests is mainly due to the initial consolidation of Escor Casinos & Entertainment SA (increase of TCHF 15,430) and increasing the number of shares in Escor Casinos & Entertainment SA in the fourth quarter (decrease of TCHF 4,555). In addition, dividend payments of TCHF 1,885 (previous year's period: TCHF 2,005) and consolidated profit or loss attributable to non-controlling interests amounting to TCHF –604 (previous year's period: TCHF 6,580) led to a decrease in the non-controlling interests item. Differences from currency translation amounted to TCHF –48 (previous year: TCHF –450).

Other reserves

As of the balance sheet date, other reserves totaled TCHF –27,093 (previous year: TCHF –24,908). As of December 31, 2011 and December 31, 2010, these related solely to translation differences.

The changes in other components of equity in fiscal years 2011 and 2010 were as follows:

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

2010 (TCHF)	before taxes 2010	Tax effect	after taxes 2010
Net profit	**42,752**	–	**42,752**
Currency translation differences	–20,654		–20,654
Gains/losses from financial assets at fair value through other comprehensive income/loss	–6,136	–	–6,136
Other comprehensive income/loss, net of tax	**–26,790**	–	**–26,790**
Total comprehensive income/loss			**15,962**
thereof shareholders' interests			9,832
thereof non-controlling interests			6,130

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. In this respect, consolidated equity is the most important control parameter.

The Highlight Group aims to increase the capital provided to the company by the capital market and to generate an appropriate return for shareholders. The Group can also distribute a dividend, pay back capital to the shareholders or issue new shares.

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

5.15 Summary of provisions and liabilities

Provisions and liabilities mature as follows as of December 31, 2011:

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

Provisions and liabilities as of December 31, 2010 mature as follows:

(TCHF)	less than 1 year	1 to 5 years	Total
Non-current liabilities			
Other liabilities		13,200	13,200
Pension liabilities		3,318	3,318
Provisions		2,127	2,127
Deferred tax liabilities	24	6,272	6,296
Total	**24**	**24,917**	**24,941**
Current liabilities			
Financial liabilities	251,391		251,391
Advance payments received	57,483		57,483
Trade accounts payable	25,553		25,553
Liabilities due to related parties	4,033		4,033
Liabilities due to associated companies and joint ventures	2,982		2,982
Other liabilities	72,525		72,525
Provisions	7,886		7,886
Income tax liabilities	6,195		6,195
Total	**428,048**		**428,048**

5.16 Trade accounts payable and other liabilities

The reported liabilities of TCHF 116,535 (previous year: TCHF 98,078) include trade accounts payable of TCHF 27,594 (previous year: TCHF 25,553), and other liabilities of TCHF 88,941 (previous year: TCHF 72,525). Liabilities for outstanding invoices in the amount of TCHF 8,017 TCHF were presented last year in other liabilities. This item was reclassified to trade accounts payable this fiscal year. The previous year's figures were adjusted accordingly.

Trade accounts payable

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

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

Trade accounts payable contain POC liabilities of TCHF 817 (previous year: TCHF 507).

Trade accounts payable are in the following currencies:

(TCHF)	Dec. 31, 2011	Dec. 31, 2010
CHF	1,466	8,162
EUR	24,363	17,087
USD	1,761	304
Other	4	–
Total	**27,594**	**25,553**

Other current liabilities

Other current liabilities consist of the following:

(TCHF)	Dec. 31, 2011	Dec. 31, 2010
Liabilities for conditional loan repayment (subsidies)	12,804	15,662
Personnel-related liabilities	17,280	18,424
Value-added tax liabilities	2,287	1,519
Other taxes	2,379	503
Social security	283	323
Deferred income	11,426	3,513
Customers with credit balances	252	227
Commissions and licenses	22,286	18,402
Negative fair value of underlying transactions in hedging relationships	2,081	14
Negative fair value of derivative financial instruments without hedging relationships	3,977	3,213
Other current liabilities	13,886	10,725
Total	**88,941**	**72,525**

Changes in other current liabilities include one-time expenses of around TCHF 4,000 TCHF for early terminations of contracts due to the adjustment of the management structure in the Sport- and Event Marketing segment as well as additional expenses of around TCHF 2,000 for securing the performance of the match organization before the planned handover to the contractual partner in summer 2012.

Other current liabilities relate to the following currencies:

(TCHF)	Dec. 31, 2011	Dec. 31, 2010
CHF	27,058	16,542
EUR	42,693	43,577
USD	19,189	12,086
Other	1	320
Total	**88,941**	**72,525**

Other non-current liabilities

Other non-current liabilities of TCHF 11,875 (previous year: TCHF 13,200) mainly relate to a discounted, contingent purchase price payment of TCHF 11,870 (previous year: TCHF 11,859) in connection with the acquisition of shares in Team Holding AG.

5.17 Financial liabilities

Current financial liabilities

As of the balance sheet date, there were current liabilities to banks amounting to TCHF 204,207 (previous year: TCHF 251,391).

The Highlight Group had free short-term credit facilities totaling around TCHF 217,200 (previous year: TCHF 122,728) as of the balance sheet date. Of this, the Constantin Film Group's credit facilities (production finance and license trading facilities) are secured by film rights reported as film assets in the amount of TCHF 151,384 (previous year: TCHF 170,648) and the resulting proceeds from exploitation as well as receivables of TCHF 24,337 (previous year: TCHF 45,224). Highlight Communications AG's credit facility of TCHF 71,500 (previous year: TCHF 95,500) is secured by shares in Constantin Film AG, the Constantin Medien shares held by Highlight Communications AG and treasury shares. The amounts drawn down are all due in 2012 when called.

Financial liabilities are in the following currencies:

(TCHF)	Dec. 31, 2011	Dec. 31, 2010
CHF	71,000	55,000
EUR	72,315	188,858
USD	12,985	7,287
CAD	47,907	194
Other	–	52
Total	**204,207**	**251,391**

5.18 Pension liabilities

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

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

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

There were the following changes to pension liabilities in fiscal year 2011:

(TCHF)	Dec. 31, 2011	Dec. 31, 2010
Present value of defined benefit obligation	46,284	40,308
Fair value of plan assets	36,166	29,077
Funded status	–10,118	–11,231
Actuarial losses (gains) not yet recognized	5,843	7,913
Balance sheet amount (liability)	**4,275**	**3,318**

The pension obligation developed as follows:

(TCHF)	2011	2010
Present value of defined benefit obligation as of January 1	**40,308**	**33,752**
Changes in scope of consolidation	5,720	–
Current service cost	3,822	3,521
Past service cost	–	1,072
Interest cost	1,291	1,119
Benefits paid	–2,958	–584
Actuarial losses/(gains)	–1,899	1,428
Present value of defined benefit obligation as of December 31	**46,284**	**40,308**

The plan assets developed as follows:

(TCHF)	2011	2010
Fair value of assets as of January 1	**29,077**	**25,219**
Changes in scope of consolidation	5,649	–
Expected return on assets	1,088	883
Employee contributions	1,412	1,360
Employer contributions	2,151	2,063
Benefits paid	–2,958	–584
Actuarial gains/(losses)	-253	136
Fair value of assets as of December 31	**36,166**	**29,077**

The major categories of plan assets as a percentage of total plan:

(in %)	Dec. 31, 2011	Dec. 31, 2010
Cash and cash equivalents	12,20	6,50
Bonds	43,40	53,30
Shares	1,80	7,80
Real estate	25,20	29,70
Other	17,40	2,70
Total	**100,00**	**100,00**

The Other item mainly comprises redemption values of foundations which cannot be divided into the individual asset categories. In the reporting period, actual income from the assets amounted to TCHF 835 (previous year's period: TCHF 1,019). The expected return on plan assets in 2012 amounts to TCHF 1,266.

In fiscal year 2011, retirement benefit expenses comprised the following:

(TCHF)	Jan. 1 to Dec. 31, 2011	Jan. 1 to Dec. 31, 2010
Current service cost	3,822	3,521
Interest cost	1,291	1,119
Expected return on plan assets	–1,088	–883
Amortization of actuarial losses/(gains)	424	399
Past service cost	–	1,072
Employee contributions	–1,412	–1,360
Total	**3,037**	**3,868**

The current service cost, actuarial losses and gains and the past service cost are reported in the profit and loss account under net personnel expenses and income, respectively. The cost of unwinding expected pension obligations and interest income from plan assets are also recognized in personnel expenses.

For fiscal year 2012, the expected employer contributions amount to TCHF 2,075.

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

	2011	2010
Interest rate	2.50%	2.75%
Expected return on plan assets	3.50%	3.50%
Pension trend	0.50%	0.50%
Salary trend	1.50%	1.50%
Projected average life after pension (men)	21.12	17.90
Projected average life after pension (women)	24.58	21.85

In the year under review, the basis of calculation for the actuarial assumptions for mortality, disability, and employee turnover was changed from BVG 2005 to the new BVG 2010 generation tables. However, the effects on the pension liabilities for the insured offset each other for the most part.

The experience adjustments were as follows:

(TCHF)	2011	2010	2009	2008	2007
Present value of defined benefit obligation	46,284	40,308	33,752	27,409	22,329
Fair value of plan assets	36,166	29,077	25,219	20,897	19,275
Funded status	**–10,118**	**–11,231**	**–8,533**	**–6,512**	**–3,054**
Experience adjustments for plan liabilities	154	–581	–397	–868	598
Plan amendments DBO	1,745	–847	–1,201	–885	–883
Experience-based adjustments for plan assets	–253	136	–87	–1,635	–249

Contributions to defined contribution plans (including government plans) recognized in profit or loss amounted to TCHF 4,161 in fiscal year 2011.

5.19 Provisions

(TCHF)	as of Jan. 1, 2011	Changes in scope of consoli-dation	Currency translation differences	Con-sump-tion	Reversal	Re-classifi-cation	Addition	as of Dec. 31, 2011
Licenses and returns	6,513	–	–107	6,699	1,725	–	5,717	3,699
Provisions for legal costs	873	510	–13	640	160	–	68	638
Personnel provisions	327	313	–8	443	–	–	120	309
Provisions for guarantees and contractual obligations	1,800	350	–	1,800	–	–	–	350
Other provisions	500	78	–	–	–	–78	16	516
Total	**10,013**	**1,251**	**–128**	**9,582**	**1,885**	**–78**	**5,921**	**5,512**
thereof non-current provisions	2,127	–	–8	1,930	–	–	120	309
thereof current provisions	7,886	1,251	–120	7,652	1,885	–78	5,801	5,203

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

The provision for litigation risks was recognized to provide for various pending and contingent legal proceedings. The proceedings relate to litigation from film production. Provisions assumed from the change to the scope of consolidation are associated with current legal proceedings and conflicts.

The provisions for guarantees and benefit obligations for a proportionate amount of the liquidation costs for associated company Casino Zürich AG in liq.

Long-term provisions contain exclusively provisions for personnel in connection with long-term obligations for jubilee benefits.

5.20 Income tax liabilities

(TCHF)	as of Jan. 1, 2011	Changes in scope of consoli-dation	Currency translation differences	Con-sumption	Reversal	Addition	as of Dec. 31, 2011
Income taxes Switzerland	3,012	13	–	4,862	12	3,810	1,961
Income taxes Germany	2,250	–	–129	2,409	–	7,992	7,704
Income taxes rest of the world	933	–	–20	1,935	–	1,679	657
Total	**6,195**	**13**	**–149**	**9,206**	**12**	**13,481**	**10,322**

5.21 Deferred tax liabilities

Deferred tax liabilities as of December 31, 2011 comprise the following:

(TCHF)	Dec. 31, 2011	Dec. 31, 2010
Intangible assets/film assets	34,735	36,609
Property, plant and equipment	360	–
Inventories	104	–
Trade accounts receivable	3,667	2,488
Other receivables	357	–
Provisions	17	19
Trade accounts payable	2,280	2,168
Advance payments received	11,393	9,245
Other temporary differences	-	25
Total	**52,913**	**50,554**
Netting with deferred tax assets	–47,106	–44,258
Deferred tax liabilities (net)	**5,807**	**6,296**

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

(TCHF)	Dec. 31, 2011	Dec. 31, 2010
Current deferred tax liabilities	33	24
Non-current deferred tax liabilities	5,774	6,272

5.22 Long-term service production

The gross amount due from customers for contract work amount to TCHF 10,913 (previous year: TCHF 8,432). The gross amount due to customers for contract work is TCHF 817 (previous year: TCHF 507). These are reported under trade accounts receivable and trade accounts payable respectively.

Proceeds from service production for the period under IAS 11.39 amount to TCHF 91,163 (previous year's period: TCHF 100,461). Total costs incurred for contracts in progress under IAS 11.40 and reported profits (less any reported losses) amount to TCHF 34,934 (previous year's period: TCHF 39,099).

5.23 Advance payments received

Advance payments of TCHF 42,919 (previous year: TCHF 57,483) include amounts received from global distribution for which the revenue has not yet been recognized and other advance payments received.

6. Notes to individual items of the consolidated income statement

6.1 Sales

Please refer to the segment reporting in note 8 of the notes to the consolidated financial statements for a breakdown of sales.

6.2 Capitalized film production costs and other own work capitalized

Capitalized film production costs and other own work capitalized, which amount to TCHF 54,348 (previous year: TCHF 97,052), relate to in-house film productions of TCHF 53,623 (previous year: TCHF 97,052) as well as internally generated intangible assets of TCHF 725 (previous year: TCHF 0).

6.3 Other operating income

(TCHF)	Jan. 1 to Dec. 31, 2011	Jan. 1 to Dec. 31, 2010
Income from the reversal of provisions and accruals	3,731	7,013
Income related to other periods	313	571
Reversal of impairment	297	494
Recharges	1,121	1,177
Currency exchange gains	5,683	13,050
Income from rents and leases	25	11
Income from the disposal of non-current assets	32	13
Income from settlements of claims for damages and settlement agreements	8,878	12,913
Miscellaneous other operating income	5,194	2,441
Total	**25,274**	**37,683**

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

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

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

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

6.4 Cost of materials and licenses

Costs for licenses, commissions, and materials amounting to TCHF 42,963 (previous year's period: TCHF 54,970) result from expenses for licenses and commissions of TCHF 10,495 (previous year's period: TCHF 4,510), and other costs of materials amounting to TCHF 32,468 (previous year's period: TCHF 50,460).

The costs for services purchased of TCHF 103,517 (previous year's period: TCHF 136,988) comprise production costs of TCHF 88,139 (previous year's period: TCHF 115,805) and expenses for purchased services of TCHF 3,897 (previous year's period: TCHF 6,456). This also includes overages of TCHF 11,481 (previous year's period: TCHF 14,712) from the Film segment.

6.5 Amortization, depreciation and impairment

Scheduled depreciation/amortization of film assets, property, plant and equipment and intangible assets amounted to TCHF 90,804 (previous year's period: TCHF 104,855). The impairment of film assets amounting to TCHF 2,476 (previous year's period: TCHF 8,613) relates to films whose carrying amount is no longer covered by the value in use.

In both the reporting year and the previous year, the impairment losses relate to a number of film rights. As in the previous year, there were no impairments on individual films amounting to more than TCHF 1,000 in the reporting period.

6.6 Personnel expenses

(TCHF)	Jan. 1 to Dec. 31, 2011	Jan. 1 to Dec. 31, 2010
Salaries	97,243	115,510
Social security	9,463	10,257
Retirement benefit costs	3,006	3,843
Total	**109,712**	**129,610**

6.7 Other operating expenses

(TCHF)	Jan. 1 to Dec. 31, 2011	Jan. 1 to Dec. 31, 2010
Rental costs	5,927	6,477
Repair and maintenance costs	973	417
Advertising and travelling expenses	7,563	6,596
Legal, consulting and auditing costs	12,426	13,151
Additions to impairment	2,466	584
IT costs	2,007	1,951
Administrative costs	1,374	4,446
Other personnel-related expenses	1,944	1,609
Insurance, dues and fees	970	311
Expenses related to other periods	376	935
Currency exchange losses	6,719	4,942
Vehicle costs	958	646
Bank fees	219	139
Distribution costs	179	188
Losses from the disposal of non-current assets	18	–
Other taxes	307	41
Advertising expense	22,842	30,174
Miscellaneous other expenses	6,632	5,534
Total	**73,900**	**78,141**

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

Advertising expense includes the cost for promoting and distributing movies and from releasing home entertainment titles.

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

6.8 Earnings from investments in associated companies and joint ventures

(TCHF)	Jan. 1 to Dec. 31, 2011	Jan. 1 to Dec. 31, 2010
Escor Casinos & Entertainment SA	–1,468	–483
PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH	292	375
BECO Musikverlag GmbH	2	8
NEF-Production (Société par Action Simplifiée)	–26	25
Total	**–1,200**	**–75**

Income from the participation in Escor Casinos & Entertainment SA relates to January 1, 2011 to June 30, 2011. Escor was therefore included in the consolidated financial statements of the Highlight Group for the first time as of July 1, 2011 by way of full consolidation (see note 3).

6.9 Financial income

Of the financial income of TCHF 16,287 (previous year's period: TCHF 14,189), TCHF 788 (previous year's period: TCHF 638) relate to interest and similar income and TCHF 293 (previous year's period: TCHF 769) to gains from changes in the fair value of financial instruments. In the year under review, no income from accrued interest was generated. There were also currency exchange gains from financing activities amounting to TCHF 15,206 (previous year's period: TCHF 12,718).

6.10 Financial expenses

(TCHF)	Jan. 1 to Dec. 31, 2011	Jan. 1 to Dec. 31, 2010
Interest and similar expenses	5,302	3,729
Compounding of liabilities and provisions	305	153
Losses from changes in the fair value of financial instruments	965	3
Currency exchange losses	5,959	13,840
Total	**12,531**	**17,725**

Financial expenses include valuation losses from an equity swap transaction in the amount of TCHF 749 (previous year's period: income of TCHF 766). This equity swap transaction was the sale of 900,000 treasury shares by Highlight Communications AG to a financial institution (counterparty) at a price of EUR 6.90 per share. On September 6, 2011, the contract with a term from August 11, 2008 (transaction date) to December 23, 2011 was extended by one year, until December 21, 2012. As before, the contract provides for Highlight Communications AG receiving the profit from the sale of the shares by the counterparty in its entirety. Highlight Communications AG would also have to bear any loss. In the consolidated financial statements of the Highlight Group, the difference between the share price as of December 31, 2011 and the original sale price leads to a financial liability of TCHF 3,790 (previous year: TCHF 3,041), which is reported in other liabilities. The sale of shares by the counterparty has to take place during the contractually agreed sale period (August 30, 2012 to December 19, 2012) unless payment is settled earlier.

The losses from changes in the fair value of financial instruments also include other fair value adjustments of TCHF 216 (previous year's period: TCHF 3).

The financial expenses also include interest of TCHF 5,302 (previous year's period: TCHF 3,729) and exchange rate losses from financing activities of TCHF 5,959 (previous year's period: TCHF 13,840). In the year under review, expenses from accrued interest of TCHF 305 (previous year's period: TCHF 153) were incurred.

6.11 Taxes

(TCHF)	Jan. 1 to Dec. 31, 2011	Jan. 1 to Dec. 31, 2010
Current taxes	–12,767	–8,392
Deferred taxes	3,850	–1,365
Total	**–8,917**	**–9,757**

Tax reconciliation (TCHF)	Jan. 1 to Dec. 31, 2011	Jan. 1 to Dec. 31, 2010
Profit before taxes	39,923	52,509
Expected taxes based on a tax rate of 21%	–8,384	–11,027
Differing tax rates	394	2,494
Utilization of unrecognized deferred tax assets	–195	–133
Tax exempt income	201	114
Tax rate changes	89	29
Non-deductable expenses	–640	–719
Income taxes for prior accounting periods	–60	42
Other effects	–265	–557
Unrecognized deferred taxes	–57	–
Actual tax expense	**–8,917**	**–9,757**
Effective tax rate in %	**22,3**	**18,6**

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 residence of Highlight Communications AG.

6.12 Earnings per share

(TCHF)	2011	2010
Net consolidated earnings attributable to shareholders in TCHF	31,610	36,172
Weighted average number of shares (basic)	46,098,419	46,103,433
Earnings per share (basic) in CHF	0.69	0.78
Earnings per share (basic) in EUR	0.56	0.57

As of December 31, 2011 and as of the same date in the previous year, there were no potentially diluting effects, meaning that basic earnings were equal to diluted earnings.

7. Disclosures on financial risk management

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

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

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

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

Financial liabilities of TCHF 202,632 as of December 31, 2011 (previous year: TCHF 251,391) include only current financial liabilities.

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

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

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

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

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

Carrying amount Dec. 31, 2010	thereof not relevant under IFRS 7	Valuation in the balance sheet under IFRS 9 (assets)/IAS 39 (liabilities) Amortized cost	Fair value through OCI	Fair value through profit or loss	Fair value Dec. 31, 2010
166,039	–	166,039	–	–	166,039
56,036	–	56,036	–	–	56,036
11,537	–	11,537	–	–	11,537
1,003	–	1,003	–	–	1,003
1,517	–	–	–	1,517	1,517
16,195	–	–	16,195	–	16,195
54,026	-32,202	21,824	–	–	21,824
860	–	860	–	–	860
264	–	–	–	264	264
14	–	–	–	14	14
251,391	–	251,391	–	–	251,391
17,536	–	17,536	–	–	17,536
2,982	–	2,982	–	–	2,982
94,548	-12,405	82,143	–	–	82,143
3,213	–	–	–	3,213	3,213
14	–	–	–	14	14
289,501	-32,202	257,299	–	–	257,299
16,195	–	–	16,195	–	16,195
1,781	–	–	–	1,781	1,781
366,457	-12,405	354,052	–	–	354,052
3,213	–	–	–	3,213	3,213

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

(TCHF)	from interest	from subsequent measurement: Change in fair value	Foreign currency translation	Impair-ment	Others	2011	2010
Loans and receivables (AC)	773	–	–5,217	–2,173	–	–6,617	2,639
Financial assets at fair value through other comprehensive income (FVOCI)	–	–4,632	–	–	–	–4,632	–6,136
Financial assets at fair value through profit or loss (FVPL)	–	284	–	–	–	284	15
Financial liabilities (OL)	–5,592	–	13,428	3,563	12	11,411	–617
Financial liabilities at fair value through profit or loss (FLPL)	–	–956	–	–	–	–956	560

Expenses for valuation allowances on loans and receivables (AC) also include income from reversals. The Other item sets out mainly effects from the reversal of accruals.

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 of liquidity risks, credit risks and market risks (including currency risks, interest rate risks and price risks). These risks are monitored centrally within the Highlight Group. The risk situation is tracked by the risk manager on the basis of a risk management directive that applies to the whole Group using standardized risk reports and reported to the Board of Directors of Highlight Communications AG. In this context, please also refer to the presentation of risks in the report on the Highlight Group's situation.

Liquidity risks

Liquidity risk arises if the Group's payment obligations cannot be covered by its available liquid resources or corresponding credit facilities. To limit the risk, there are suitable processes within the Highlight Group, with which cash inflows or outflows and maturities are continually monitored and steered. As of the balance sheet date, Highlight Communications AG and the Highlight Group had sufficient liquidity reserves taking into account the available short-term credit facilities.

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

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

Liquidity risk 2010	Carrying	Cash flows 2011		Cash flows 2012 and later	
(TCHF)	amount Dec. 31, 2010	Fixed interest	Re-payment	Fixed interest	Re-payment
Liabilities due to banks and bonded loans and similar liabilities	251,391	285	251,391	–	–
Other non-interest-bearing financial liabilities	102,661	–	89,461	–	13,811
Derivative financial liabilities					
Currency derivatives without hedge relationship	172	–	13,256	–	389
Derivatives in connection with fair value hedges	–	–	–	–	–
Other derivatives	3,041	–	7,743	–	–
Derivative financial assets					
Currency derivatives without hedge relationship	–	–	–	–	–
Currency derivatives with hedge relationship	14	–	–	–	1,557

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 shortages. 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 creditworthiness enables efficient use of the capital markets for its financing activities. This also includes the ability to issue equity and debt instruments on the capital market. It should be noted that various projects, especially in the area of film and other financing activities such as the purchase of non-controlling interests and acquisition of treasury shares, can influence liquidity differently over time.

It should be noted that in spite of the free working capital line, it may be necessary to borrow further debt capital through banks both in order to refinance existing liabilities and to finance new projects. The risk therefore still exists that, in the event of a deterioration of the economic situation, funding could only be available at more disadvantageous terms.

Credit risks

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

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

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

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

Fair value

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

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

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

2011 (TCHF)		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	without category	–	2,081	–	2,081
Financial assets at fair value through profit or loss	FVPL	250	287	1,313	1,850
Financial assets (equity instruments)	FVOCI	11,563	–	–	11,563
Financial liabilities measured at fair value					
Financial liabilities with hedging relationships in accordance with IAS 39	without category	–	1,575	–	1,575
Derivative financial instruments	FLPL	–	3,977	–	3,977

Disclosures on level 3 financial instruments

Name of the financial instrument	Preference shares
Fair value January 1, 2011	1,517
Currency translation differences through equity	–34
Sale	–170
Fair value December 31, 2011	1,313

2010 (TCHF)		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	without category	–	14	–	14
Financial assets at fair value through profit or loss	FVPL	264	–	1,517	1,781
Financial assets (equity instruments)	FVOCI	16,195	–	–	16,195
Financial liabilities measured at fair value					
Derivative financial instruments	FLPL	–	3,213	–	3,213

The financial assets measured at fair value through profit or loss are included in Level 1 and are determined by means of stock prices. The derivative financial instruments included in Level 2 are measured at the current bank rates. To determine the fair value of financial instruments in Level 2, the discounted cash flow procedure is applied. The Level 3 financial assets were acquired last year. The change in fair value is due to sales of TCHF 170 and to foreign exchange effects of TCHF –34.

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

Market risks

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

Foreign exchange risk

The Highlight Group is exposed to currency risks in its ordinary course of business. Most of these risks pertain to the euro and the US dollar. Exchange rate movements can lead to undesirable and unforeseen earnings and cash flow volatilities. Every subsidiary is subject to risks associated with exchange rate fluctuations when it performs transactions with international contractual partners and incurs future cash flows in a currency other than its functional currency. The Highlight Group does not enter into any operating activities in currencies that are otherwise considered to be especially prone to risk. In significant transactions, particularly in US dollars, the Group endeavors to minimize currency risks by using suitable derivative and non-derivative financial instruments. Derivative financial instruments are transacted with banks. The financial instruments predominantly relate to future cash flows in foreign currencies for film projects. The Group ensures that the amount of the hedge does not exceed the value of the hedged item.

The Highlight Group entered into a series of currency forwards for hedging purposes in the current fiscal year. If possible, these are recognized as fair value hedges under IAS 39. They relate to pending rights purchases in US dollars. Options connected with forward contracts were also purchased. When their repayments are due, the forward contracts allow the Highlight Group to sell them at their forward exchange rates or at the spot rate at that time. The options were acquired to secure the distribution of profit of Constantin Entertainment Polska Sp. z o.o.

As of December 31, 2011 the nominal amount of all forward contracts designated as hedging instruments in fair value hedges amounted to TCHF 25,478 (previous year: TCHF 1,557). The fair value of these forwards totals TCHF 2,081 (previous year: TCHF 14) and arises from the difference between the forward rate on the date the transaction is concluded and the market value of the forward contract on the balance sheet date. The market value changes of the forward contracts and the pending or accounted hedged items are recognized in opposite amounts in the profit and loss account. In the case of an effective hedge, the impact of the change in fair value of hedging transactions was netted in the income statement.

The loss recognized in the operating result in 2011 for carrying value adjustments made to the hedged items amounted to TCHF 2,109 (previous year's period: loss of TCHF 116). Gains arising from the change in the fair values of hedging instruments of TCHF 2,109 (previous year's period: gain of TCHF 116) were recognized in the operating result.

To hedge against currency risk, foreign exchange liabilities were also used as hedging instruments. These hedges served to hedge against fixed claims in US dollars that are still off balance sheet. The hedging relationships were presented as fair value hedges. The fair value of the foreign currency liabilities amounted to TCHF 1,575 (previous year: TCHF 0). Income was incurred in the amount of TCHF 1,596 (previous year's period: TCHF 0) from the change in the fair value of the hedged item. Expenses in the same amount were recognized in the financing result. The impact of the change in fair value of the hedged item and hedging transaction was netted in the income statement since the hedge was effective.

The notional amounts and the fair values of derivative instruments as of December 31, 2011 and 2010, which are not designated in hedge relationships, are as follows. The fair value of the PLN stated in the table is the fair value of the options.

	Dec. 31, 2011		Dec. 31, 2010	
(TCHF)	Nominal value	Fair value	Nominal value	Fair value
Foreign currency forwards (sale)				
EUR	–	–	–	–
PLN	955	22	309	–
HRK	1,276	–6	1,172	–2
CAD	–	–	5,159	–116
USD	1,793	–181	–	–
Foreign currency forwards (acquisition)				
USD	2,909	287	4,471	–35
CAD	–	–	2,146	–5

Interest rate risks

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

The risk of change in interest rates to which the Group is exposed primarily relates to financial liabilities. The 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. In contrast, for credit agreements with high flexibility, variable interest agreements take into account future fluctuations in credit utilization. For further information on financial liabilities please see note 5.17. If necessary, there is also the option to establish a fixed interest base using interest hedges.

Other price risks

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

Sensitivities

IFRS 7 requires the presentation of a sensitivity analysis showing the effects of possible changes in market interest rates on earnings or equity. Changes in market interest rates affect interest income and expenses on floating rate financial instruments. The interest rate sensitivity analysis was prepared assuming a change in the market interest rate of 100 basis points upwards and downwards. A rise would have resulted in an increase in expenses before taxes of around TCHF 559 (previous year's period: TCHF 777). A drop in interest rates of the same amount would have increased profit before taxes by TCHF 559 (previous year's period: TCHF 777).

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

The other price risks in other liabilities as at December 31, 2011 relate to an equity swap transaction with the shares of Highlight Communications AG. The fluctuation of +/–10 % of the market value of the securities are recognized in income with TCHF +/–379 (previous year's period: TCHF +/–304).

Other price risks in connection with the changes in the fair value of the financial assets at fair value through other comprehensive income exist mainly in the form of shares held in Constantin Medien AG. The fluctuation of +/–10 % of the share price affects other comprehensive income by TCHF +/-1,187 (previous year's period: TCHF +/- 1,645).

Sensitivity analysis 2011

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

Sensitivity analysis 2010

(TCHF)	Interest rate risk –1 %	+1 %
Financial assets		
Cash and cash equivalents	–1,660	1,660
Trade accounts receivable	–	–
Other financial assets (current and non-current)	–	–
Other receivables	–77	77
Financial liabilities		
Trade accounts payable (current and non-current)	–	–
Other liabilities (current and non-current)	–	–
Financial liabilities (current and non-current)	2,514	–2,514
Foreign currency forwards	–	–
Total increase/decrease in profit before taxes	**777**	**–777**

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

Exchange rate risk									
CHF/EUR		EUR/USD		EUR/CAD		Total		Other price risks	
–10 %	+10 %	–10 %	+10 %	–10 %	+10 %	–10 %	+10 %	–10 %	+10 %
–875	875	–2,083	2,545	–403	492	–3,361	3,912	-	-
–1,020	1,020	–145	177	–	–	–1,165	1,197	-	-
–	–	–	–	–148	182	–148	182	–1,645	1,645
–775	775	–1,399	1,709	–1,101	1,344	–3,275	3,828	–	–
722	–722	27	–34	–	–	749	–756	–	–
1,751	–1,751	1,098	–1,343	25	–31	2,874	–3,125	–304	304
3,616	–3,616	662	–809	17	–21	4,295	–4,446	–	–
–	–	–180	219	–	–	–180	219	–	–
3,419	**–3,419**	**–2,020**	**2,464**	**–1,610**	**1,966**	**–211**	**1,011**	**–1,949**	**1,949**

8. Segment reporting

The following segment information is based on the management approach.

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

Based on the internal management reporting system and the underlying organizational structure of internal reporting, the Group was classified unchanged into the two operative segments Film and Sports- and Event-Marketing to the end of the second quarter 2011. Escor's activities, which were included in the consolidated financial statements of the Highlight Group for the first time as of July 1, 2011 by way of full consolidation, were reported under Other Business Activities.

The activities of Constantin Film AG and its subsidiaries as well as the Highlight investments in Rainbow Home Entertainment and their subsidiaries are combined in the Film segment. Its activities comprise the making of films, the exploitation of the rights to the films it produces and acquires and the distribution of theatrical, DVD/Blu-ray and TV movies.

The Sports- and Event-Marketing segment comprises the activities of Team Holding AG, whose principal project is to market the UEFA Champions League via its subsidiaries. Further marketing projects are the UEFA Europa League, the Eurovision Song Contest, and the Vienna Philharmonic Orchestra.

At present, only the activities of Escor are reported under Other Business Activities. Following the realignment of Escor, the operations comprise mainly the performance of services in the areas of social gaming and machines for games of skill. Escor does not constitute an independent reportable segment at the level of the Highlight Communications AG, since it is below the quantitative threshold defined in IFRS 8.13.

Additionally under Others the administrative functions of the Highlight Communications AG holding company are reported.

The segment result is defined as earnings before earnings from investments in associated companies and joint ventures, before financial result, before taxes and before profit from discontinued operations.

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

Segment information by business segments 2011

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

Segment information by business segments 2010

(TCHF)	Film	Sports- and Event-Marketing	Other Business Activities	Other	Recon-ciliation	Group
External sales	333,659	100,903	–	–	–	434,562
Other segment income	134,384	351	–	–	–	134,735
Segment expenses	-448,171	-60,113	–	-4,893	–	-513,177
thereof depreciation, amortization	*-103,595*	*-1,260*	–	–	–	*-104,855*
thereof impairment	*-8,613*	–	–	–	–	*-8,613*
Segment result from continuing operations	**19,872**	**41,141**	–	**–4,893**	–	**56,120**
Non-allocable items:						
Period result of associated companies and joint ventures						-75
Financial income						14,189
Financial expenses						-17,725
Profit from continuing operations before taxes						**52,509**

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

For one-time expenses in the area of Sport- and Event-Marketing, please see note 5.16.

Segment information by regions

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

Jan. 1 to Dec. 31, 2010 (TCHF)	Switzerland	Germany	Rest of Europe	Rest of the world	Total
External sales	170,692	158,563	48,884	56,423	434,562
Non-current assets	30,198	179,953	60	–	210,211

External sales by products

(TCHF)	2011	2010
Service production	92,121	101,822
Film	199,888	231,837
Sports- and Event-Marketing	90,262	100,903
Other Business Activities	1,181	–
Total external sales	**383,452**	**434,562**

Sales by customers

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

	2011		2010	
(TCHF)	nominal	in %	nominal	in %
Customer A (Sports- and Event-Marketing segment)	87,680	23	98,467	23
Customer B (Film segment)	48,328	13	51,585	12
Customer C (Film segment)	37,085	10	46,321	11
Sales with other customers	210,359	54	238,189	54
Total	**383,452**	**100**	**434,562**	**100**

9. Judgment/estimation uncertainty

In preparing the consolidated financial statements in accordance with IFRS, the management is required to make estimates and assumptions influencing the income, expenses, assets, liabilities as well as the contingent liabilities and assets reported as of the balance sheet date. These estimates and assumptions represent management’s best estimate based on historical experience and other factors, including estimates about future events. Estimates and judgments are reviewed on an ongoing basis. Changes to estimates are required if the circumstances on which they are based change or new information and additional findings are available. Such changes are recognized in the reporting period in which the estimate is modified.

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

Impairment of non-financial assets

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

Financial assets

The fair value of financial assets which are traded on organized markets is determined on the basis of the quoted market price on the balance sheet date. 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's assumptions. On each balance sheet date and more frequently if there are indications of impairment, the Group tests if a financial asset or a group of assets has become impaired.

Service productions

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

Provisions for expected returns of merchandise

The Group's provisions for expected returns of merchandise are based on an analysis of contractual or legal obligations, historical trends and the Group's experience. On the basis of information currently available, management considers these provisions to be adequate. As they are based on management estimates, they may have to be revised upon better information becoming available. Such adjustments could have an effect on the provisions recognized and the sales in future periods.

Provisions for litigation

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

Deferred taxes

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

10. Financial commitments, contingent liabilities, other financial obligations, and contingent assets

10.1 Overview

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

(TCHF)	Contingent liabilities	Purchase commit-ments for licenses	Other financial obligations	Rental obligations (operating lease contracts)	Total
Balance: December 31, 2011					
Due within one year	10,954	26,837	1,979	5,695	45,465
Due between one and five years	–	15,921	4,096	10,418	30,435
Due after five years	–	–	–	960	960
Total	**10,954**	**42,758**	**6,075**	**17,073**	**76,860**
Balance: December 31, 2010					
Due within one year	11,221	25,781	4,875	5,313	47,190
Due between one and five years	–	–	4,265	9,071	13,336
Total	**11,221**	**25,781**	**9,140**	**14,384**	**60,526**

10.2 Contingent liabilities

As at December 31, 2011, there were guarantees to various TV stations for the completion of service productions totaling TCHF 10,954 (previous year: TCHF 11,221).

10.3 Other contingent liabilities

As in the previous year, there were no additional contingent liabilities as of December 31, 2011.

10.4 Purchase commitments for licenses

The Group secures access to future film rights by entering into license agreements. Film purchasing and production preparations result in future financial obligations of TCHF 42,758 TCHF (previous year: TCHF 25,781).

10.5 Other financial obligations

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

10.6 Rental and lease obligations

The Highlight Group rents and leases offices, warehouses, vehicles and facilities. The total rental expenses for the fiscal year 2011 amounted to TCHF 5,821 (previous year's period: TCHF 5,669).

As of December 31, 2011, the Group had the following minimum lease obligations:

(TCHF)	Building and room rental	Vehicle leases	Other rental and lease obligations	Rental and lease obligations (operating lease contracts)
Balance: December 31, 2011				
Due within one year	5,395	167	133	5,695
Due between one and five years	10,201	88	129	10,418
Due after five years	960	–	–	960
Total	**16,556**	**255**	**262**	**17,073**
Balance: December 31, 2010				
Due within one year	5,099	113	101	5,313
Due between one and five years	8,889	31	151	9,071
Total	**13,988**	**144**	**252**	**14,384**

10.7 Contingent assets

Contingent assets are not capitalized, but also disclosed as in the case of contingent liabilities if economic benefits are probable for the Group. There were no contingent assets either as of December 31, 2010 or as of December 31, 2011.

11. Related party disclosures

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

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

As of December 31, 2011, there were trade accounts receivable from Constantin Medien AG of TCHF 57 (previous year: TCHF 191). The income generated in the reporting year amounted to TCHF 71 (previous year's period: TCHF 274). The expenses incurred in the year under review with Constantin Medien AG of TCHF 396 (previous year's period: TCHF 282) essentially relate to the allocation of Group-wide functions such as the Berlin offices of the Constantin Medien Group, interest, and other internal allocations. On December 31, 2011, there were liabilities of TCHF 134 (previous year: TCHF 3,856).

Sales of TCHF 178 were generated with SPORT1 Gaming GmbH, an indirectly wholly-owned subsidiary of Constantin Medien AG, in the reporting period (previous year's period: TCHF 0). As of December 31, 2011, receivables stood at TCHF 17 (previous year: TCHF 0).

In the reporting year, expenses for the rental of server rooms in the amount of TCHF 7 (previous year's period: TCHF 18) were incurred with SPORT1 GmbH, an indirectly wholly-owned subsidiary of Constantin Medien AG. As in the previous year, there were neither liabilities nor receivables at year end. In addition, revenues of TCHF 12 were generated from service productions for SPORT1 in the reporting period (previous year's period: TCHF 0).

Expenses incurred with Plazamedia GmbH TV- & Film-Produktion, an indirectly wholly-owned subsidiary of Constantin Medien AG, were TCHF 221 during the reporting period (previous year's period: TCHF 77) in connection with TV series. As of December 31, 2011, liabilities stood at TCHF 47 (previous year: TCHF 49).

Expenses incurred with Brandsome GmbH, an indirectly wholly-owned subsidiary of Constantin Medien AG, were TCHF 0 during the reporting period (previous year's period: TCHF 3) in connection with TV series. As in the previous year, there were neither liabilities nor receivables as of December 31, 2011.

Expenses incurred with Plazamedia Swiss AG, an indirectly wholly-owned subsidiary of Constantin Medien AG, were TCHF 49 during the reporting period (previous year's period: TCHF 100). As of December 31, 2011, liabilities stood at TCHF 4 (previous year: TCHF 0).

The revenues and other income of TCHF 971 generated by the Highlight Group in fiscal year 2011 (previous year's period: TCHF 1,343) with PolyScreen Produktionsgesellschaft für Film und Fernsehen mbH essentially related to the service production "Dahoam is Dahoam". As of December 31, 2011, there were receivables of TCHF 5 (previous year: TCHF 0). Liabilities of TCHF 1,430 were incurred as of December 31, 2011 (previous year: TCHF 2,982).

Sales of TCHF 3,012 (previous year's period: TCHF 0) as well as expenses of TCHF 93 (previous year's period: TCHF 0) were generated with NEF-Production (Société par Action Simplifiée) during the reporting period. The outstanding receivables of TCHF 1,941 (previous year: TCHF 11,537) from the "The Three Musketeers" co-production were recognized and deducted from production costs.

Related parties include the members of the Board of Directors and the Group management as well as their relatives.

Highlight Communications AG did not perform material services for companies controlled by related parties in fiscal year 2011 or fiscal year 2010. There is a consulting agreement with Fred Kogel GmbH. This agreement was extended by one year and runs until December 31, 2012 and covers license trading, TV service production and film distribution. Expenses of TCHF 370 (previous year's period: TCHF 418) were incurred in fiscal year 2011. As of December 31, 2011, liabilities stood at TCHF 30 (previous year: TCHF 31). Mr. Kogel also receives Supervisory Board remuneration of TCHF 28 (previous year's period: TCHF 50).

All transactions with related parties are carried out at arm's length conditions.

As of December 31, 2011, there were further liabilities to various members of the Board of Directors and Managing Directors of TCHF 43 (previous year: TCHF 63).

12. Disclosures on events after the balance sheet date

On January 22, 2012, Rainbow Home Entertainment AG acquired 22.0 % of the shares in Kuuluu Interactive Entertainment AG, Pratteln at a purchase price of TCHF 22.

At its meeting on March 20, 2012, the Board of Directors of Highlight Communications AG, Pratteln, resolved to sell the 100 % interest of Team Holding AG in Highlight Event AG, Lucerne, to Escor Casinos & Entertainment SA. The new company founded for this transaction at the start of 2012, Highlight Event AG, holds the exclusive rights to marketing the Eurovision Song Contest and the Vienna Philharmonic Orchestra. As a result of this disposal, the music business will be hived off from the Team Group and transferred to Escor, in which Highlight also has a majority interest. The transaction is expected to be completed on April 1, 2012.

REPORT OF THE STATUTORY AUDITOR

to the General Meeting of Highlight Communications AG, Pratteln

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Highlight Communications AG, which comprise the balance sheet, income statement, statement of comprehensive income/loss, statement of changes in equity, statement of cash flows and notes (pages 72 to 151), for the year ended December 31, 2011.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728 a 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	Josef Stadelmann
Audit expert	*Audit expert*
Auditor in charge	

Lucerne, March 20, 2012

FINANCIAL STATEMENTS

as of December 31, 2011 of Highlight Communications AG, Pratteln

BALANCE SHEET AS OF DECEMBER 31, 2011

Highlight Communications AG, Pratteln

ASSETS (TCHF)	Dec. 31, 2011	Dec. 31, 2010
Current assets		
Cash and cash equivalents	11,721	11,774
Securities	15,351	20,862
Other receivables		
from third parties	738	110
from Group entities	338	298
Prepaid expenses/accrued income	7	17
	28,155	**33,061**
Non-current assets		
Financial assets		
Investments	254,847	315,005
	254,847	**315,005**
Total assets	**283,002**	**348,066**

EQUITY AND LIABILITIES (TCHF)	Dec. 31, 2011	Dec. 31, 2010
Liabilities		
Trade accounts payable		
to third parties	32	12
to Group entities	2,028	7,870
Current bank liabilities	71,000	91,157
Other current liabilities		
to third parties	3,873	3,186
to related parties	134	3,884
to Group entities	18,174	60,199
Deferred income/accrued expenses	555	826
Provisions	500	500
Other non-current liabilities	12,919	11,859
	109,215	**179,493**
Equity		
Subscribed capital	47,250	47,250
Legal reserves		
Legal reserves from capital contributions	49,743	58,008
Reserves for treasury stock from capital contributions	8,665	8,611
Other general legal reserves	331	–
Retained earnings		
Profit carried forward	54,704	16,507
Profit for year	13,094	38,197
	173,787	**168,573**
Total equity and liabilities	**283,002**	**348,066**

INCOME STATEMENT 2011

Highlight Communications AG, Pratteln

(TCHF)	2011	2010
License income	577	502
Other revenues	508	188
Financial income		
Interest income	244	35
Income from securities	–	874
Income from investments	36,840	61,290
Currency exchange rate gains	7,738	5,226
Total income	**45,907**	**68,115**
License expense	–238	–294
Personnel expense	–4,275	–4,374
Office and administrative expense	–3,101	–2,433
Depreciation on investments	–13,258	–11,499
Financial expense		
Interest expense	–2,487	–2,997
Expense on securities	–6,314	–6,865
Currency exchange rate losses	–3,140	–1,456
Total expense	**–32,813**	**–29,918**
Profit before taxes	**13,094**	**38,197**
Income taxes	–	–
Net profit for the year	**13,094**	**38,197**

NOTES TO THE FINANCIAL STATEMENTS 2011

Highlight Communications AG, Pratteln

1. Pledged assets as collateral for own obligations

	Dec. 31, 2011	Dec. 31, 2010
Shares in Constantin Medien AG		
Number	6,012,749	7,422,331
TCHF	9,367	16,195
Shares in Constantin Film AG		
Number	12,742,600	12,742,600
TCHF	149,681	155,524
Shares in Highlight Communications AG		
Number	313,000	303,000
TCHF	1,312	1,583
Credit facility utilized		
TCHF	71,000	91,157

As of December 31, 2011, there was a restriction of the disposal of cash and cash equivalents in the amount of TCHF 7,558 (previous year: TCHF 7,743).

2. Contingent liabilities

Joint liability exists in respect to Group value-added taxation under Section 22 of the Swiss Value-Added Tax Act (Mehrwertsteuerverordnung).

3. Notes on main investments

Company, domicile, purpose	Shareholding in %	Share capital
Team Holding AG, Lucerne *Investments in sports- and event-marketing companies*	100.00%	TCHF 250
Rainbow Home Entertainment AG, Pratteln *Distribution*	100.00%	TCHF 200
Highlight Communications (Deutschland) GmbH, Munich *Marketing*	100.00%	TEUR 256
Constantin Film AG, Munich *Production and distribution of films and holding company*	100.00%	TEUR 12,743
Rainbow Home Entertainment GmbH, Vienna *Distribution*	100.00%	TEUR 363
Escor Casinos & Entertainment SA, Düdingen *Gaming machine manufacturer and holding company*	56.95% (previous year: 24.97%	TCHF 11,138

The wholly-owned KJP Holding AG, Lucerne, was merged with Highlight Communications AG on July 1, 2011.

4. Share capital/authorized capital

On May 28, 2010 the Annual General Meeting established authorized share capital of CHF 12,750,000 and empowered the Board of Directors to execute a capital increase by issuing 12,750,000 bearer shares at CHF 1.00 each within a period of two years. A partial increase is permitted. No such capital increase has been implemented to date.

5. Shareholder structure

Shareholders with holdings of over 5 %	Dec. 31, 2011	Dec. 31, 2010
Constantin Medien AG	47.31 %	47.31 %
DWS Investment GmbH	8.25 %	8.25 %

For the stakes held by members of the Board of Directors and the Group management as well as their related parties, refer to note 7.

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

6. Treasury stock (held directly or indirectly via subsidiaries)

	Number of shares	Average transaction price CHF	Transaction value TCHF	Reserve for treasury stock TCHF
Balance on January 1, 2011	1,146,567			8,611
Sales	–	–	–	–
Acquisitions	10,000	5,40	54	54
Balance on December 31, 2011	**1,156,567**			**8,665**

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

Remuneration 2011

(TCHF)	Basis remuneration	Variable remuneration	Remuneration as member of the Board of Directors	Social security/ pension liabilities	Total
Bernhard Burgener, Chairman and Delegate, executive member (highest remuneration)	1,141	291	208	197	1,837
Martin Wagner, Vice Chairman, executive member	1,000	167	172	144	1,483
Dr. Ingo Mantzke, executive member	417	135	10	98	660
Antonio Arrigoni, non-executive member	–	–	10	1	11
René Camenzind, non-executive member	–	–	50	3	53
Dr. Erwin V. Conradi, non-executive member	–	–	50	2	52
Dr. Dieter Hahn, non-executive member	–	–	50	3	53
Martin Hellstern, non-executive member	–	–	50	2	52
Total Board of Directors	**2,558**	**593**	**600**	**450**	**4,201**
Group management (consisting of two Managing Directors)	837	196	20	190	1,243
Total Group management	**837**	**196**	**20**	**190**	**1,243**

Remuneration 2010

(TCHF)	Basis remuneration	Variable remuneration	Remuneration as member of the Board of Directors	Social security/ pension liabilities	Total
Werner E. Klatten, Chairman, non-executive member	416	–	50	3	469
Bernhard Burgener, Delegate, executive member (highest remuneration)	1,177	376	186	214	1,953
Martin Wagner, Vice Chairman, executive member	907	222	129	218	1,476
Dr. Ingo Mantzke, executive member	417	178	10	113	718
Antonio Arrigoni, non-executive member	–	–	10	1	11
René Camenzind, non-executive member	–	–	50	3	53
Dr. Erwin V. Conradi, non-executive member	–	–	50	2	52
Martin Hellstern, non-executive member	–	–	50	2	52
Total Board of Directors	**2,917**	**776**	**535**	**556**	**4,784**
Group management (consisting of two Managing Directors)	816	280	21	212	1,329
Total Group management	**816**	**280**	**21**	**212**	**1,329**

The basis remuneration also includes flat-rate expenses. The executive members of the Board of Directors and the two members of Group management receive part of the variable remuneration in line with the stock price of Highlight Communications AG.

The date for calculating the variable remuneration is determined by the Board of Directors. The variable remuneration was paid out in the fourth quarter of 2011.

In fiscal year 2011, Martin Wagner received compensation for consultancy in his operating function at Escor in the amount of TCHF 100, which is shown under basis remuneration.

Certain members of the Board of Directors receive additional remuneration for their activities in various Boards of Directors of subsidiaries. These are disclosed under remuneration as member of the Board of Directors.

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

In fiscal years 2011 and 2010, no remuneration was granted to former members of the Board of Directors or Group management members. Also no remunerations not in line with the market were granted to actual or former members of the Board of Directors or related parties of Group management members.

Loans and credits

As of December 31, 2011 and December 31, 2010, no loans and credits had been granted or were outstanding to members of the Board of Directors, the Group management members or related parties of the members of the Board of Directors and the Group management.

Shareholdings

As of December 31, 2011, the individual members of the Board of Directors and the Group management (including related parties) held the following number of shares in the company:

	2011	2010
Bernhard Burgener, Chairman and Delegate, executive member	1,800,000	1,616,153
René Camenzind, non-executive member	628,715	628,715
Martin Hellstern, non-executive member	200,000	200,000
Dr. Ingo Mantzke, executive member	100,000	100,000
Antonio Arrigoni, non-executive member	–	–
Dr. Erwin V. Conradi, non-executive member	–	–
Dr. Dieter Hahn, non-executive member	–	–
Martin Wagner, Vice Chairman, executive member	–	–
Dr. Paul Graf, Managing Director	–	–
Peter von Büren, Managing Director	–	–

8. Risk assessment

As part of its risk assessment, the Group's management compiles a risk report divided into quantifiable and non-quantifiable risks. In so doing, risks identified in prior periods are analyzed, deleted if no longer relevant and newly identified risks are added. The risk tracking process focuses on risks to which the Group as a whole is exposed; company-specific risks affecting the Group's subsidiaries are reported by their management to the Group's risk manager and included in the consolidated risk report.

In risk assessment, quantifiable risks are rated with a probability and a monetary value. Non-quantifiable risks are classified according to qualitative features.

The Group's management initiates and monitors corresponding measures in order to reduce risks to a level acceptable to the company. The results of risk assessment including steering and monitoring (the action plan) are discussed with the Board of Directors and approved by it.

The Group's management carried out the annual risk assessment on September 13, 2011 and it was approved by the Board of Directors on September 22, 2011.

PROPOSAL FOR THE APPROPRIATION OF RETAINED EARNINGS AND THE LEGAL RESERVES FROM CAPITAL CONTRIBUTIONS

Highlight Communications AG, Pratteln

Appropriation of available retained earnings

(TCHF)	2011
Profit carried forward	54,704
Net profit for the year	13,094
Withdrawal from the legal reserves from capital contributions	8,033
Available retained earnings	**75,831**

The Board of Directors recommends to the Annual General Meeting the following resolution for the appropriation of retained earnings:

Addition to the free reserves	67,798

Distribution of a dividend from legal reserves from capital contributions

(TCHF)	2011
Payment of a dividend of CHF 0.17 per share	8,033

The dividend amount of TCHF 8,033 is entirely distributed from “capital contributions” and corresponds to a dividend (not subject to withholding tax) of CHF 0.17 per share entitled to a dividend.

The dividend proposal applies to all shares issued. The treasury shares as of the date of payment of the dividend are not dividend-entitled. Accordingly, the amount of the dividend as well as the withdrawal from the legal reserves from capital contributions depends on the number of shares held as treasury stock as of the date on which the dividend is paid.

REPORT OF THE STATUTORY AUDITOR

to the General Meeting of Highlight Communications AG, Pratteln

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Highlight Communications AG, which comprise the balance sheet, income statement and notes (pages 156 to 163), for the year ended December 31, 2011.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2011 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728 a 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	Josef Stadelmann
Audit expert	*Audit expert*
Auditor in charge	

Lucerne, March 20, 2012

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Events 2012

Film	
Cannes Film Festival	May 16 – 27
Locarno Film Festival	August 1 – 11
Venice Film Festival	August 29 – September 8
Toronto Film Festival	September 6 – 16

Sports- and Event-Marketing	
UEFA Europa League final	May 9
UEFA Champions League final	May 19
Eurovision Song Contest, semifinals	May 22 and 24
Eurovision Song Contest, final	May 26
Vienna Philharmonic's Summer Night Concert	June 7

Investor Relations	
Interim reports	May/August/November
Annual General Meeting	June 1
German Equity Forum	November 12 – 14

Highlight Communications AG
Annual Report 2011

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