

ANNUAL REPORT 2016

Highlight Event and Entertainment AG, 4133 Pratteln, Switzerland

CONTENTS	
Key figures	5
Management report	6
Financial report	9
Remuneration report	53
Corporate governance	59

CONSOLIDATED FINANCIAL STATEMENTS

KEY FIGURES

in CHF thousand		2016	2015
Consolidated total assets	as of December 31	44,971	20,232
Consolidated equity	as of December 31	24,733	18,969
Market capitalization	as of December 31	25,301	28,067
Consolidated net income		-3,004	-709
Consolidated net income attributable to shareholders		-3,004	-709
Shares in circulation at beginning of fiscal year	Number	1,732,500	1,732,500
Shares in circulation at end of fiscal year	Number	1,681,123	1,732,500
Treasury shares at beginning of reporting period	Number	-	-
Treasury shares at end of reporting period	Number	51,377	-
Weighted average number of shares in circulation	Number	1,700,086	1,732,500
Earnings per share in circulation	CHF	-1.77	-0.41
Share price of bearer shares each with a nominal value of CHF 9.00 as of December 31	CHF	15.05	16.20
Dividend per bearer share each with a nominal value of CHF 9.00 (proposal by the Board of Directors)	CHF	-	-
Number of employees (FTEs)	as of December 31	9.0	6.7
Number of employees (FTEs)	Average for the year	9.8	7.1

MANAGEMENT REPORT BY THE BOARD OF DIRECTORS

Dear shareholders

In February 2016, Bernhard Burgener acquired an interest of 75.4% in Highlight Event and Entertainment AG (HLEE) from Highlight Communications AG. Operating activities as part of our partnerships with the Vienna Philharmonic Orchestra, for marketing the New Year's Day Concert and Summer Night Concert, and with the European Broadcasting Union, for marketing the Eurovision Song Contest, were intensified in the reporting year 2016. Targets were achieved and even exceeded in some areas. As a result of this convincing performance, the company succeeded in extending and securing its collaboration with the Vienna Philharmonic Orchestra and also the European Broadcasting Union for the years to come.

The core business of the HLEE Group companies involves brand positioning and development. In the year under review, HLEE acquired a majority interest of 51% in Comosa AG. Comosa AG developed the "World Boxing Super Series", a sports and event format in which the best boxers in two weight categories will fight to win the "Muhammad Ali Trophy" during 14 boxing events.

In the year under review, HLEE acquired an equity investment of 13.65% in Constantin Medien AG, which in turn has an interest of 60.53% in Highlight Communications AG.

Course of business and earnings

In fiscal 2016, HLEE again achieved stable results in its operating activities. The calculation of the fair value of the equity investment in Constantin Medien AG led to an impairment loss as of the end of the reporting period. Operating expenses were affected by extraordinary legal expenses related to the controversial General Meetings of Constantin Medien AG on July 6, 2016 or November 9/10, 2016 and corresponding legal consequences. Both EBIT and consolidated net income were negative as a result. A dividend will therefore not be distributed.

"Event Marketing" business areas

Vienna Philharmonic Orchestra

Both of the orchestra's major events – the New Year's Day Concert and the Summer Night Concert – were a success in every respect; the New Year's Day Concert was broadcast in over 90 countries and the Summer Night Concert in around 80 countries.

Good cooperation with the host broadcaster (ORF), the European Broadcasting Union (EBU) and major TV broadcasters has allowed the orchestra to reach a wider global audience with classical music year after year.

Sponsoring agreements were fulfilled and the main sponsoring agreement was extended until 2022. In particular, over 100,000 people attended the Summer Night Concert which was successfully held at the Schönbrunn Palace, like every year.

In addition to these events in Vienna, other special events were also co-organized by Highlight Event AG. This includes a spring concert at the Sala São Paulo that was broadcast on Brazilian TV (TV Cultura) and a summer concert at the Théâtre des Champs-Élysées in Paris followed by a concert in Tokyo at the Suntory Hall (produced by NHK Japan and broadcast in 30 countries).

MANAGEMENT REPORT BY THE BOARD OF DIRECTORS

Eurovision Song Contest

The Eurovision Song Contest 2016 in Stockholm was also a major success. Once again, over 100 million viewers followed the semi-final and final on TV and over 70,000 fans attended the events live in the arena. The contest was broadcast in 43 countries, including China, New Zealand, Australia and the USA.

The collaboration with Swedish public broadcaster SVT went extremely well and attractive sponsorship contracts with VISA, Osram, Tele2, Schwarzkopf and Alcon/Dailies were signed. The Eurovision Village, a fan zone, was again a highlight where sponsors carried out various promotional activities.

The Eurovision Song Contest merchandising project – which is also supported by Highlight Event AG – turned out to be a success as well. Merchandising has been optimally complementing services for the EBU since 2013.

“Other” business area

This segment encompasses the administrative functions of HLEE as holding company, net income from the investment property held by Escor Automaten AG until its sale in the fourth quarter of 2016, and other minor business areas.

As stated in the report for fiscal year 2014, the gaming machine segment is no longer shown separately and is included in the “Other” segment.

Personnel

HLEE and its subsidiaries had an average of around 10 employees (FTEs) in fiscal year 2016. Concretely, Escor Automaten AG had an average of two employees (FTEs), Highlight Event AG had an average of five employees (FTEs), HLEE had an average of one employee (FTE) while Comosa AG had an average of two employees (FTEs).

Order situation

The long-term agreements with the Vienna Philharmonic Orchestra (until 2027) and the EBU (up to and including 2018) mean that the order situation can be described as stable. The first TV revenue contracts for the North American, Scandinavian and European markets were negotiated for the World Boxing Super Series, for which a total of eight matches in 2017 are planned as part of the 2017/18 season.

Risk assessment

HLEE and its subsidiaries have a risk management system with defined risk control processes. The Board of Directors resolves risk management guidelines and monitors their implementation in addition to compliance with these guidelines (further information can be found on page 35 of the notes to the consolidated financial statements).

Exceptional events

The voting shares of HLEE were suspended by the Chairman at the Annual General Meetings of Constantin Medien AG on July 6, 2016 or November 9/10, 2016. Corresponding legal action was taken.

MANAGEMENT REPORT BY THE BOARD OF DIRECTORS

Outlook and acknowledgments

Regarding the Vienna Philharmonic Orchestra project, activities in the current year will focus on successfully operating the great events of the orchestra and selling TV, streaming and radio rights for the new contract cycle until 2027. At the moment, over 70 TV broadcasters have been secured until 2022, which constitutes a highly solid basis for negotiations with sponsors. Around 10-20 agreements for small- to medium-sized markets are yet to be concluded.

Like every year, the sale of Eurovision Song Contest sponsorship rights is a core element of Highlight Event AG's activities. In this respect, sales activities are generally successfully underway despite extremely difficult political conditions in the Ukraine. Contracts with three renowned sponsors, VISA, Osram and Jacobs, were already signed.

By launching the 2017/18 season of the "World Boxing Super Series", HLEE is investing in a new event format. We are confident that this new format will be a success and that the best athletes will fight to win the "Muhammad Ali Trophy". On the basis of current planning, we expect to make a positive contribution to earnings for the first time in 2019 after a two-year start-up and investment phase.

On April 10, 2017, the Board of Directors invited shareholders to an Extraordinary General Meeting to be held on May 2, 2017, and proposed an ordinary capital increase as well as an extension of the authorized capital until May 2, 2019, and an increase in the authorized capital of a maximum of CHF 22,845,834 by issuing a maximum of 2,538,426 bearer shares with a nominal value of CHF 9 each that are to be paid in full under subscription (see also the invitation published in the Swiss Official Gazette of Commerce on April 10, 2017). In the proposed ordinary capital increase, the share capital of HLEE is to be increased by up to CHF 46,777,500 from CHF 15,592,500 to a maximum of CHF 62,370,000 by issuing up to 5,197,500 bearer shares in the company with a nominal value of CHF 9 each that are to be paid in full under subscription (New Shares). The ordinary capital increase is to be implemented by way of a subscription rights offer in order to provide HLEE with cash funds, which it requires mainly to finance the "World Boxing Super Series" project. Some of the new shares to be issued in the planned capital increase are to be paid under subscription through the non-cash contribution of a total of 15,076,308 shares in Constantin Medien AG in exchange for the issue of a total of 2,473,521 new shares in HLEE. Another 1,070,000 new shares are to be paid under subscription through the settlement of an offsettable loan receivable of approximately CHF 16 million. As a result of this non-cash contribution, HLEE would become the biggest shareholder (29.7%) of Constantin Medien AG.

The Board of Directors would like to thank all shareholders for their tremendous support and trust.

On behalf of the Board of Directors:

Bernhard Burgener

FINANCIAL REPORT

CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS

	Page
Highlight Event and Entertainment Group	
Consolidated statement of financial position	11
Consolidated statement of comprehensive income	12
Consolidated cash flow statement	13
Consolidated statement of changes in equity	14
Notes to the consolidated financial statements	15
<i>Accounting policies</i>	15
<i>Notes to the statement of financial position</i>	21
1 Cash and cash equivalents	21
2 Receivables	21
3 Inventories	21
4 Property, plant and equipment	22
5 Investment property	24
6 Financial instruments	24
7 Current liabilities	26
8 Deferred income	26
9 Employee benefit obligations	26
10 Current tax liabilities	29
11 Deferred taxes	29
12 Capital structure	30
13 Treasury shares	30
14 Reserves	30
<i>Per share data</i>	31
15 Data per share each with a nominal value of CHF 9.00	31
<i>Notes to the statement of comprehensive income</i>	31
16 Gross profit	31
17 Personnel expenses	31
18 Other operating expenses	31
19 Amortization, depreciation and impairment	32
20 Net finance cost	32
21 Taxes	32
<i>Other disclosures and information</i>	32
22 Related party transactions	32
23 Segment information	33
24 Contingent liabilities	35
25 Residual amount of liabilities	35
26 Events after the balance sheet date	35
27 Risk analysis and internal control system	35
28 Group companies	36
Report of the statutory auditor on the consolidated financial statements	37

FINANCIAL REPORT

CONTENTS

FINANCIAL STATEMENTS

Highlight Event and Entertainment AG		Page
Statement of financial position		41
Statement of comprehensive income		42
Notes to the financial statements		43
1	General information on the company	43
2	Number of treasury shares each with a nominal value of CHF 9.00	43
3	Principal shareholders	44
4	Shares held by the management team and the Board of Directors	44
5	Significant accounting policies	44
6	Disclosures on items of the statement of financial position	46
7	Disclosures on items of the statement of comprehensive income	48
8	Other disclosures required by law (Article 959c OR)	49
Report of the statutory auditor on the financial statements		50

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in CHF thousand	Note	Dec. 31, 2016	Dec. 31, 2015
Cash and cash equivalents	1	3,721	12,620
Receivables	2, 10	979	4,099
Prepaid expenses		233	157
Current assets		4,933	16,876
Property, plant and equipment	4	16	24
Intangible assets	4	600	0
Investment property	5	0	3,300
Other financial assets	6	9,368	0
Financial assets	6	28,354	0
Non-current receivables	6	1,600	0
Deferred tax assets	11	100	32
Non-current assets		40,038	3,356
ASSETS		44,971	20,232
Current liabilities	7	1,626	75
Financial liabilities	7	16,500	0
Current tax liabilities	10	0	0
Deferred income	8	607	97
Current liabilities		18,733	172
Non-current liabilities		340	0
Benefit plan liabilities	9	1,165	1,091
Non-current liabilities		1,505	1,091
Liabilities		20,238	1,263
Share capital	12	15,593	15,593
Treasury shares	13	-786	0
Advance payment share capital	12	16,399	0
Reserves	14	-6,489	3,376
Equity attributable to the shareholders of HLEE		24,717	18,969
Non-controlling interests		16	0
Equity		24,733	18,969
EQUITY AND LIABILITIES		44,971	20,232

The disclosures contained in the notes form part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in CHF thousand	Note	2016	2015
Net income	16	2,809	3,253
Cost of products and services sold	16	-386	-824
Other income	16	373	160
Gross profit		2,796	2,589
Personnel expenses	17	-1,445	-1,503
Other operating expenses	18	-3,485	-894
Amortization, depreciation and impairment	19	-12	-12
Loss from market value adjustment of investment property	5	-200	-600
Profit from operations		-2,346	-420
Interest income and other financial income	20	4	11
Interest expense and other finance cost	20	-603	-270
Profit before taxes		-2,945	-679
Taxes	21	-59	-30
Consolidated net income		-3,004	-709
<i>Other income not reclassified through profit or loss</i>			
Gains/losses from financial assets at fair value	6	-6,858	0
Pension plan remeasurement	9, 11	-3	144
Other comprehensive income including taxes		-6,861	144
Total comprehensive income		-9,865	-565
<i>Consolidated net income is attributable to:</i>			
Shareholders of Highlight Event and Entertainment AG		-3,004	-709
<i>Total comprehensive income is attributable to:</i>			
Shareholders of Highlight Event and Entertainment AG		-9,865	-565
Diluted and basic earnings per share (CHF)	15	-1.77	-0.41

The disclosures contained in the notes form part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED CASH FLOW STATEMENT

in CHF thousand	Note	2016	2015
Consolidated net income		-3,004	-709
Deferred taxes	11	-1	-4
Income taxes	10	60	34
Net finance cost	20	595	259
Depreciation, amortization, and write-downs	19	12	12
Market value adjustment of investment property	5	200	600
Other non-cash income and expenses		-242	53
Gain on disposal of property, plant and equipment		-4	0
Interest paid and other finance cost	20	-461	0
Interest received and other financial income	20	4	11
Taxes paid	10	-71	-123
Increase in assets attributable to operating activities		-4,139	-4
Increase in liabilities attributable to operating activities		2,061	-74
Cash flow from operating activities		-4,990	55
Acquisition of property, plant and equipment	4	-19	0
Disposal of property, plant and equipment		20	0
Change in cash and cash equivalents via acquisitions	4	7	0
Sale of investment property	5	1,500	0
Acquisition of financial assets	6	-37,387	0
Cash flow from investing activities		-35,879	0
Acquisition of treasury shares	15	-786	0
Increase in current financial liabilities	7	16,500	0
Convertible loans taken out		16,398	0
Cash flow from financing activities		32,112	0
Net change in cash and cash equivalents		-8,757	55
Cash and cash equivalents as of January 1		12,620	12,700
Effect of exchange rate differences		-142	-135
Cash and cash equivalents as of December 31		3,721	12,620

The disclosures contained in the notes form part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Changes in equity 2016 in CHF thousand	Advance payments for		Reserves	Treasury stock	Equity attributable to shareholders of HLEE	Non-controlling interests	Total equity
	Share capital	share capital					
January 1, 2016	15,593	0	3,376	0	18,969	0	18,969
Consolidated net income 2016			-3,004		-3,004		-3,004
Other comprehensive income 2016			-6,861		-6,861		-6,861
Total comprehensive income			-9,865	0	-9,865	0	-9,865
Purchase of treasury stock				-786	-786		-786
Non-controlling interests			0		0	16	16
Convertible loan		16,399	0		16,399		16,399
December 31, 2016	15,593	16,399	-6,489	-786	24,717	16	24,733

Changes in equity 2015 in CHF thousand	Advance payments for		Reserves	Treasury stock	Equity attributable to shareholders of HLEE	Non-controlling interests	Total equity
	Share capital	share capital					
January 1, 2015	15,593	0	3,941		19,534		19,534
Consolidated net income 2015			-709		-709		-709
Other comprehensive income 2015			144		144		144
Total comprehensive income			-565		-565		-565
Other changes in equity					0		0
December 31, 2015	15,593	0	3,376		18,969		18,969

The disclosures contained in the notes form part of the consolidated financial statements.

ACCOUNTING POLICIES

General information on the Group

Highlight Event and Entertainment AG (HLEE) is a stock corporation that is listed on the SIX Swiss Exchange and has been domiciled at Netzibodenstr. 23b, 4133 Pratteln, Switzerland, since June 13, 2016.

Accounting

The financial statements are prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and the supplementary provisions of the Listing Rules of the SIX Swiss Exchange.

The Board of Directors adopted the consolidated financial statements at its meeting on April 28, 2017. The approval of the consolidated financial statements by the Annual General Meeting of HLEE is on the agenda for June 2017. The consolidated financial statements were prepared on a historical cost basis. Only certain financial instruments and the investment property are carried at fair value. The standards and interpretations endorsed in the year under review did not have a significant impact on the consolidated financial statements. The following standards and interpretations were endorsed:

- IAS 19 (revised) Employee Benefits – Amendments to Defined Benefit Plans: Employee Contributions
- Amendments due to the annual improvements project 2010-2012
- Amendments due to the Annual Improvements project 2011-2013

In fiscal 2016, the following standards and interpretations were adopted for the first time:

- IFRS 14 – Regulatory Deferral Accounts
- IFRS 11 (revised) – Accounting for Acquisitions of Interests in Joint Operations
- IAS 16 and IAS 38 (revised) – Clarification of Acceptable Methods of Depreciation and Amortisation
- IAS 27 (revised) – Equity Method in Separate Financial Statements
- Annual Improvements – 2012-2014 IFRS cycle
- IFRS 10, IFRS 12 and IAS 28 (revised)
- IAS 1 (revised) – Amendments due to the disclosure initiative

The following standards were adopted early in fiscal 2016:

IFRS 9 - Financial Instruments

This standard was voluntarily adopted early in the past fiscal year. This standard has no significant impact on the previous year, which is why the adjustment of prior-period disclosures is not required.

On July 24, 2014, the IASB published the final version of IFRS 9 – Financial Instruments. This version combines the results of the classification and measurement phases of financial assets (2009), financial liabilities (2010), impairment (2014) and hedge accounting (2013), in which the project to replace IAS 39, Financial Instruments: Recognition and Measurement was executed.

Existing provisions for financial liabilities were largely adopted. The only significant change relates to financial liabilities in the fair value option. In this case, fair value fluctuations due to changes in the company’s default risk are recognized in other comprehensive income.

The new impairment model for financial assets shifts the focus to a more forward-looking provisioning model. IFRS 9 outlines three stages to determine the amount of expected losses to be recognized and interest revenue in the future.

- Stage 1: 12-month expected losses are recognized at initial recognition.
- Stage 2: If there is a significant increase in credit risk, lifetime expected credit losses are recognized.
- Stage 3: If there is objective evidence of impairment, interest revenue is calculated on the basis of the net carrying amount.

IFRS 9 extends the scope of relevant items for hedge accounting. Another fundamental difference with the hedge accounting model in IAS 39 is the elimination of the 80–125% interval for effective hedges and the requirement to quantitatively assess hedge effectiveness.

ACCOUNTING POLICIES

The following standards and interpretations were adopted early in fiscal 2017:

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 is aimed at providing information to users of financial statements on the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

Its core principle is implemented with a five-step model framework:

- Identifying the contract with the customer
- Allocating the transaction price to performance obligations in the contract
- Identifying performance obligations in the contract
- Determining the transaction price
- Recognizing revenue when the entity satisfies a performance obligation

IFRS 15 is effective for annual financial statements prepared by an entity for reporting periods beginning on or after January 1, 2018. Early adoption is permitted.

The following IFRS standards and interpretations have been endorsed but have not yet come into force:

- IFRS 10 and IAS 28 (revised) - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRS 16 – Leases
- IAS 12 (revised) - Recognition of Deferred Tax Assets for Unrealized Losses
- IAS 7 (revised) – Amendments due to the disclosure initiative
- IFRS 2 (revised) – Classification and Measurement of Share-Based Payment Transactions
- Annual Improvements – 2014-2016 IFRS cycle
- IAS 40 (revised) - Transfers of Investment Property
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The management does not expect the application of these standards and interpretations in future periods to have a significant influence on the future consolidated financial statements.

Consolidation and consolidated group

All companies over which HLEE exercises direct or indirect control are included in consolidation. Control is generally considered to exist if HLEE holds the majority of the voting rights. Minority interests in equity and consolidated net income are reported as separate components of consolidated equity. Associates in which HLEE holds a direct or indirect equity interest of between 20% and 50% and over which it does not exercise control are recognized using the equity method. Equity investments of less than 20% are carried at fair value or, if this cannot be reliably determined, at cost. Impairment losses are recognized in profit or loss. Consolidation is performed on the basis of the financial statements of the companies included in consolidation as prepared in accordance with uniform accounting policies as of December 31. Intragroup transactions and intercompany profits are eliminated. The companies included in consolidation are listed in note 28.

On February 29, 2016, Highlight Event and Entertainment AG acquired an interest of 33.30% or CHF 67 thousand in Holotrack AG, Pratteln, and an interest of 24.50% or CHF 123 thousand in Paperflakes AG, Pratteln, on March 18, 2016. These companies are managed as associates and included in the consolidated financial statements using the equity method. These investments were measured at carrying amount as the companies have no operating activities yet and the pro rata equity largely corresponds to their carrying amounts. On February 29, 2016, the equity investment (CHF 1,728 thousand) in Pulse Evolution Corporation, Port St. Lucie, was also acquired. This investment is recognized as a financial asset and is not included in the consolidated financial statements as no significant influence exists. The purchase price for the acquisition of shares in Holotrack AG, Paperflakes AG and Pulse Evolution Corporation was settled with the loan receivable from Rainbow Home Entertainment AG. This was a non-cash transaction.

Rainbow Home Entertainment AG is a related party. On April 18, 2016, the equity investment in Pulse Evolution Corporation was increased to CHF 6,585 thousand. This did not result in significant influence.

ACCOUNTING POLICIES

On March 31, 2016, the associate Kuuloo Interactive Entertainment AG (share of 41.50%) was acquired by Rainbow Home Entertainment AG for CHF 1.

On September 30, 2016, the minority interests in Kuuloo Interactive Entertainment AG, Holotrack AG, Paperflakes AG and Pulse Evolution Corp. were sold to Highlight Ventures Corp. at carrying amount together with granted loans.

In the fourth quarter of 2016, a financial investment of 20% in Highlight Finance Corp. was acquired. No material influence over this company exists.

An equity investment of 3.36% in Constantin Medien AG was acquired on June 15, 2016. On June 16, 2016, this investment was increased to 10.29%. On July 15, 2016, a share of 0.48% was acquired, while another share of 2.88% was acquired in the fourth quarter of 2016. The investment was recognized as a financial asset and is not included in the consolidated financial statements as no significant influence currently exists. The share in Constantin Medien AG totaled 13.65% as of December 31, 2016.

As of December 31, 2016, an equity investment of 51% in Comosa AG was acquired for CHF 1. The first-time consolidation of Comosa AG had no significant impact on the operating results of the HLEE Group. The purchase agreement stipulates the obligation of Highlight Event and Entertainment AG to provide the necessary funds of CHF 1.5 million for the further business development of Comosa AG. The payment of an additional purchase price of up to CHF 561,000 was also agreed in the purchase agreement under certain circumstances. This is based on the condition that Comosa AG signs the necessary agreements to ensure sustainable operating activities until the end of 2017 and can expect to achieve positive results on the basis of these agreements.

Currency translation

In preparing the financial statements of the individual Group companies, transactions in currencies other than the functional currency of the respective Group currency (foreign-currency transactions) are translated using the exchange rate on the transaction date. At each balance sheet date, monetary items denominated in foreign currency are translated using the closing exchange rate. Non-monetary items denominated in foreign currency and carried at fair value are translated using the exchange rate at the date on which their fair value was calculated. Non-monetary items carried at cost are translated using the exchange rate at the date of initial recognition.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, postal check and bank balances, and call and demand deposits with an original term of no more than 90 days.

Financial assets

Financial assets are carried at fair value plus transaction costs on initial recognition. Financial assets that cannot be recognized at amortized cost are recognized at fair value. Fair value corresponds to the market price as of the end of the reporting period. If the market price is unavailable, fair value is determined using similar market transactions or accepted measurement methods. If the fair value of an active financial instrument cannot be determined reliably, acquisition costs may be used as the best possible estimate.

Financial assets are classified as follows:

- Financial assets at amortized cost

Loans and receivables are carried at amortized cost less identified impairment.

- Financial assets at fair value

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

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

ACCOUNTING POLICIES

Equity instruments are – without exception – measured at fair value. Entities may irrevocably elect at initial recognition to recognize realized and unrealized gains and losses in other comprehensive income (OCI) instead of profit or loss if the equity instrument is not held for trading purposes. Amounts recognized in other comprehensive income may not be reclassified to the income statement at a later date. Fair value corresponds to the market price as of the end of the reporting period. If the market price is unavailable, the fair value is determined using similar market transactions or accepted measurement methods. If the fair value of an active financial instrument cannot be determined reliably, acquisition costs may be used to reach a best possible estimate.

The currency translation effects of monetary items are recognized in profit or loss. However, the currency translation effects of non-monetary items are recognized in other comprehensive income (OCI) together with the change in fair value.

Property, plant and equipment

Property, plant and equipment is carried at cost less impairment and, where its useful life is finite, less necessary depreciation.

The estimated useful life of movable assets and equipment is between four and five years. IT systems and integrated software are depreciated over a useful life of four years. Useful lives are reviewed annually in accordance with IAS 16. Depreciation is recognized on a straight-line basis.

Assets are tested for impairment in accordance with IAS 36 whenever events or changes in circumstances suggest that the carrying amount of an asset may be too high.

Other intangible assets

Internally generated intangible assets are measured at amortized cost. Capitalized production costs are written down over their useful lives, as soon as the development phase is complete and the asset can be used. Development costs for individual projects are capitalized as internally generated intangible assets.

Impairment of property, plant and equipment and intangible assets with the exception of goodwill

At each balance sheet date, the Group reviews the carrying amounts of property, plant and equipment and intangible assets in order to establish whether there is any evidence of impairment. If such evidence is identified, the recoverable amount of the asset is estimated in order to establish the amount of the potential impairment loss. If the recoverable amount for an individual asset cannot be estimated, the recoverable amount of the cash-generating unit (CGU) to which the asset belongs is estimated. When a reasonable and consistent basis of allocation can be identified, corporate assets are allocated to the individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent basis of allocation can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In determining the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

ACCOUNTING POLICIES

Financial liabilities

Financial liabilities, including borrowings, are carried at their fair value less transaction costs on initial recognition. They are subsequently measured at amortized cost using the effective interest method.

Interest-bearing liabilities are recognized as current or non-current financial liabilities.

All liabilities due within one year are classified as current liabilities. This includes the current portion of non-current financial liabilities.

All liabilities with a remaining term of more than one year are reported in non-current liabilities.

In the case of combined financial instruments, such as convertible loans, debt and equity components contained therein are to be separated and recognized/measured separately.

Provisions

Provisions are only recognized when the company has an obligation to a third party as a result of a past event, it is probable that the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

Deferred taxes

Deferred taxes are recognized in full for current income taxes. If temporary differences arise between the carrying amounts in the consolidated financial statements and those in the tax accounts, the expected deferred taxes are recognized in profit or loss or in other comprehensive income.

Deferred tax assets for temporary differences and tax loss carryforwards are only recognized to the extent that it is probable that taxable income will be available against which they can be utilized.

Employee benefit obligations

The companies of the HLEE Group do not have their own pension schemes. Employees of the HLEE Group are insured under group insurance contracts with two different collective foundations in accordance with the Swiss Occupational Pensions Act operated by major Swiss insurance companies. Membership of the pension fund is mandatory for all HLEE Group employees.

Entitlements arise in respect of old age, occupational incapacity, death, and other benefits. Pensions are funded through employer and employee contributions. Contributions by the HLEE Group are recognized in profit or loss in the period in which they arise. Due to the legally prescribed minimum interest and fixed pension conversion rate in Switzerland, these are classified as defined benefit plans in accordance with IAS 19. Accordingly, the pension plans were calculated by an external expert as of the end of the year.

Pension provisions are calculated using the projected unit credit method. Actuarial gains and losses are recognized directly in other comprehensive income. The provision corresponds to the present value of the defined benefit obligation and similar post-employment benefits less the fair value of the plan assets.

ACCOUNTING POLICIES

Sales recognition

Sales in the “Event Marketing” segment at Highlight Event AG (HEV) are recognized in line with the contracts for the respective projects. Most project contracts, including all key projects, provide for HEV to receive a share of the earnings depending on the status of the project. The share of earnings is calculated on the basis of the proceeds of the project invoiced by third parties. Sales recognition is subject to management estimates in connection with the evaluation of income development. 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 sales are recognized net of invoiced value added tax, trade discounts and volume rebates. Trade accounts receivable are recognized if the significant risks and rewards of ownership of the goods and services sold are transferred to the buyer. Appropriate provisions are recognized for additional expenses in connection with such transactions, including expenses for returned products. Dividends are recognized at the due date. Interest income is recognized on a pro rata basis using the effective interest method if it can be determined that the Group will receive the corresponding income.

Assumptions and estimates

Financial reporting requires the management team to make estimates and assumptions affecting the reported assets, liabilities, contingent liabilities and contingent assets at the preparation date and income and expenses in the period under review. The actual results may differ from these estimates.

Assumptions and estimates are applied in measuring receivables and investment property, income taxes and sales, as well as in calculations relating to the pension plans.

In the case of *receivables*, valuation allowances are recognized for identified risks. Certain assumptions are applied in assessing counterparty creditworthiness.

The *investment property* is measured at fair value by the management team with the assistance of a third party.

The measurement of *tax liabilities* is subject to the interpretation of tax legislation and the final assessment by the tax authorities. This can lead to adjustments to tax expense. Furthermore, the assessment of the extent to which tax loss carryforwards are eligible for recognition requires a critical appraisal of the probability of future profits against which they can be utilized. This appraisal is dependent on a wide range of influences and developments.

Sales recognition in the Event Marketing segment is based on the assumptions described in the “Sales recognition” section.

HLEE employees are insured under two different *staff pension schemes*. The calculations in accordance with IAS 19 are based on statistical and actuarial assumptions by the relevant experts. Differences compared with the assumptions defined by the management team may have an influence on the deferrals and benefit obligations reported in future periods.

Continued existence of the company

Based on the financial foundations and business outlook, the Board of Directors considers the continued existence of the company to be secure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Cash and cash equivalents

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Cash and cash equivalents in Swiss francs	2,703	12,422
Cash and cash equivalents in euro	1,018	198
Total	3,721	12,620

Cash and cash equivalents earned interest at an average interest rate of 0.000% (previous year: 0.007%).

2 Receivables

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Trade accounts receivable	497	0
Short-term loans to related companies	0	3,987
Income tax receivables	107	97
Other current receivables	375	15
Total	979	4,099

As in the previous year, no valuation allowances were recognized in profit or loss and no items were derecognized in the year under review.

Maturity of current receivables

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Neither impaired nor overdue	979	4,099
Total current receivables (net)	979	4,099

Payment terms of 30 days are generally granted for trade accounts receivable. No interest is charged. Specific valuation allowances are recognized for overdue receivables as required. The carrying amount of receivables that are not impaired but that are overdue by between one and six months was CHF 0 thousand at the balance sheet date (previous year: CHF 0 thousand).

Loans of CHF 2,774 thousand and EUR 1,120 thousand to a related company were repaid in the year under review.

3 Inventories

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Finished goods (merchandise)	0	0
Spare parts and semi-finished goods	0	0
Total	0	0

Changes in write-downs on inventories

in CHF thousand	2016	2015
Opening balance	0	0
Recognition of write-downs	0	4
Depreciation and scrapping	0	-4
Closing balance	0	0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Property, plant and equipment and intangible assets

4.1 Property, plant and equipment (year under review) in CHF thousand	Movable assets	Total
Cost on January 1, 2016	48	48
Additions	19	19
Disposals	-15	-15
Cost on December 31, 2016	52	52
Cumulative depreciation as of January 1, 2016	24	24
Additions	12	12
Disposals		0
Cumulative depreciation as December 31, 2016	36	36
Net carrying amount on December 31, 2016	16	16
Leased assets		none
Property, plant and equipment pledged as security for own liabilities		none

4.2 Property, plant and equipment (previous year) in CHF thousand	Movable assets	Total
Cost on January 1, 2015	48	48
Additions		0
Disposals		0
Cost on December 31, 2015	48	48
Cumulative depreciation as of January 1, 2015	12	12
Additions	12	12
Disposals		0
Cumulative depreciation as of December 31, 2015	24	24
Net carrying amount on December 31, 2015	24	24
Leased assets		none
Property, plant and equipment pledged as security for own liabilities		none

4.3 Acquisition of equity investments

As of December 31, 2016, an equity investment of 51% in Comosa AG in Zurich was acquired for CHF 1 from the related company Rainbow Home Entertainment AG. With this acquisition, Highlight Event and Entertainment AG undertakes to provide the necessary funds of CHF 1.5 million for further business development. The purchase agreement also provides for an additional purchase price of up to CHF 561,000 that would have to be paid under certain conditions. This is based on the condition that Comosa AG signs the necessary agreements to ensure sustainable operating activities until the end of 2017 and can expect to achieve positive results on the basis of these agreements. Since it is difficult to assess this condition, the earn-out provision was not recognized as part of acquisition costs. A pooling agreement exists. The HLEE Group exerts control as a result of the casting vote of the President of the Board of Directors.

The acquisition cost of the equity investment of 51% in Comosa AG is CHF 1 in accordance with IFRS. The transaction costs associated with the acquisition were insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The assets and liabilities identified as of December 31, 2016 are as follows:

in CHF:	
Cash and cash equivalents	7,088
Other receivables	26,979
Intangible assets	600,000
Deferred tax assets	64,725
Trade accounts payable	-52,047
Other current liabilities	-24,366
Deferred income	-55,572
Loans granted to third parties	-490,000
Benefit plan liabilities	-45,000
Identified assets and liabilities (net)	31,806
Negative goodwill	-16,220
Non-controlling interests	-15,585
Acquisition costs	1
Cash and cash equivalents acquired	7,088
Total cash inflows	7,087

Negative goodwill exists when the proportionate fair value of the assets and liabilities acquired is higher than the purchase price. If negative goodwill exceeds the actual value of the assets acquired, this is immediately recognized in profit or loss. Negative goodwill was recognized as other income in profit or loss.

Since an equity investment of 51% in Comosa AG was acquired only as of December 31, 2016, and has not undertaken operating activities yet, information on the impact of this transaction on consolidated net income was not disclosed on the basis of materiality.

In the previous year, there were no corporate acquisitions or similar transactions.

4.4 Intangible assets (year under review)

in CHF thousand	Intangible assets	Total
Cost on January 1, 2016	0	0
Additions	0	0
Disposals	0	0
Additions from the acquisition of subsidiaries	600	600
Cost on December 31, 2016	600	600

There were no intangible assets in the previous year. Intangible fixed assets were acquired due to the acquisition of an equity investment of 51% in Comosa AG.

Intangible assets include brands and sports rights related to the World Boxing Super Series. Every year, an impairment test is performed if any evidence of impairment can be identified. For instance, indications of impairment include a considerable decrease in the asset's fair value, significant changes in the business environment or substantial evidence of obsolescence.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Investment property

in CHF thousand	2016	2015
Opening balance	3,300	3,900
Retrospective impairment	-200	0
Disposals	-3,100	0
Fair value adjustment	0	-600
Total	0	3,300
Rental income generated	110	147
Direct operating costs (including repairs and maintenance)	124	76

The investment property is a business property of Escor Automaten AG in Düringen. As a result of the discontinued sale of certain gaming machines for casinos in late 2013 and the relocation of the head office of Highlight Event and Entertainment AG from Düringen to Lucerne in May 2014, the self-used portion is insignificant and the property was practically held only for rental purposes.

The fair value of CHF 3,300 thousand as of December 31, 2015 was calculated by the management team with the assistance of an independent valuation specialist using the discounted cash flow method.

The market value of the property is a level 3 market value in accordance with IFRS 13. The property was sold at the carrying amount of CHF 3,100 thousand in the fourth quarter of 2016. CHF 1,500 thousand of this amount was transferred by the buyer and a loan was granted for the remaining amount of CHF 1,600 thousand (see note 6.5 for more information).

6 Financial instruments

6.1 Risk management

The Group has defined guidelines for the management of cash and cash equivalents. Management is centralized for optimization purposes. HLEE pursues an extremely cautious liquidity policy with rolling liquidity planning at Group level.

The international activity of certain subsidiaries means that the HLEE Group is exposed to exchange rate risk. The foreign-currency risk resulting from the translation of items of the statement of comprehensive income and the statement of financial position relate solely to the euro and are not hedged.

The sensitivity analysis illustrates the effects of possible changes in market interest rates on earnings or equity. Changes in market interest rates affect the interest income and expenses of financial instruments with floating interest rates.

If the euro had been 10% weaker against the Swiss franc as of December 31, 2016 and all other variables had remained unchanged, the HLEE Group's pre-tax net income would have been CHF 53 thousand lower (previous year: CHF 130 thousand). By contrast, if the euro had been 10% stronger against the Swiss franc as of December 31, 2016 and all other variables had remained unchanged, the HLEE Group's pre-tax net income would have been CHF 53 thousand higher (previous year: CHF 130 thousand). A parallel 10% shift in the Swiss Franc/euro exchange rate would have led to a change in consolidated equity of CHF 47 thousand (previous year: CHF 129 thousand).

In the year under review, a strategic investment in Constantin Medien AG was acquired: This financial asset is subject to foreign currency and share price risk. The management team regularly monitors market developments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Trade accounts receivable are subject to default risk. Receivables are permanently monitored and valuation allowances are recognized as part of financial reporting. At the moment, the HLEE Group has current financial liabilities bearing fixed interest rates. Overall, this risk remains unchanged and is considered to be minor. The management team is of the opinion that there are no specific risks requiring disclosure. The fair values of financial assets and financial liabilities are largely consistent with their carrying amounts.

6.2 Financial assets and financial liabilities

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Cash and cash equivalents	3,721	12,620
Loans and receivables at amortized cost	8,172	4,099
Financial liabilities at amortized cost	18,466	159

Valuation allowances for loans and receivables amounted to CHF 0 thousand in the year under review (previous year: CHF 0 thousand).

6.3 Other financial assets

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Loans granted to Highlight Ventures Corp.	7,158	0
Loans granted to third parties	35	0
Equity investment in Highlight Finance Corp.	2,175	0
Total	9,368	0

The loan receivable from Highlight Ventures Corp. will be repaid in installments within a five-year period. This receivable relates to the sale of minority interests acquired together with granted loans.

The investment in Highlight Finance Corp. is a financial investment. A convertible loan was granted in the year under review, which was converted into a financial investment of 20% at the end of the year under review. There is the option of forming a board of directors. This option has not yet been exercised and no significant influence exists in accordance with IAS 28.6. Equity instruments are measured at fair value in accordance with IFRS 9 (B5.2.3). Since this is a newly established company that has not yet undertaken activities, its acquisition value currently corresponds to the best possible estimate.

6.4 Financial assets

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Equity investment in Constantin Medien AG	28,354	0
Total	28,354	0

Financial assets and liabilities measured at fair value are allocated to the following hierarchy levels for measurement purposes:

- › Level 1: Quoted prices for identical assets and liabilities on active markets
- › Level 2: Measurement methods for which all input parameters that have a significant impact on fair value are based on directly or indirectly observable market data
- › Level 3: Measurement methods for which all input parameters that have a significant impact on fair value are not based on observable market data

	Dec. 31, 2016			Dec. 31, 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial assets measured at fair value						
Financial assets	28.354	0	28.354	0	0	0
Total measured financial assets	28.354	0	28.354	0	0	0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Non-current financial assets included Level 1 shares in Constantin Medien AG as of December 31, 2016. The costs for the acquisition of shares in Constantin Medien AG amounted to CHF 35,212 thousand in the year under review. These shares are not held for trading purposes. At the end of the year, there was a value adjustment of CHF 6,858 thousand to measure fair value through other comprehensive income (OCI)

6.5 Non-current receivables

This includes the remaining receivable linked to the sale of investment property.

At least CHF 100 thousand of this receivable is repaid every year. The receivable is secured with mortgage notes (second to fourth rank) in the amount of CHF 1,185 thousand.

7 Current liabilities

7.1 Current liabilities

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Trade accounts payable	188	59
Liabilities to involved parties and corporate bodies	35	0
Other non-interest-bearing liabilities	54	16
Liabilities to related parties	1,349	0
Total	1,626	75

Payment terms of 30 days are generally agreed for trade accounts payable.

As a rule, other non-interest bearing liabilities are due within 60 days and the carrying amount corresponds to the fair value.

7.2 Financial liabilities

A loan of CHF 16,500 thousand was taken out on June 7, 2016. The interest rate is 2.5% per year. The loan is to be repaid as of June 6, 2017. 7.73 million shares in Constantin Medien AG were pledged as security for the liability.

8 Deferred income

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Year-end closing and auditing costs	43	86
Other deferred income	564	11
Total	607	97

Other deferred income includes outstanding invoices for reporting periods.

9 Employee benefit obligations

Employees of the HLEE Group are insured under group insurance contracts with two different collective foundations in accordance with the Swiss Occupational Pensions Act operated by major Swiss insurance companies. These are genuine full contracts with matching risk reinsurance. In each case, the risk rate is fixed for a one-year period and may be adjusted to reflect the contract-specific claim pattern (five-year average). The purpose of the collective foundations is to provide retirement and invalidity pensions for employees and their surviving dependents after their death. The pension plans grant more than the individual benefits demanded by law in the event of invalidity, death, old age and resignation. The employee contributions are defined as a percentage of the respective annual salary. The retirement pension is calculated on the basis of the assumed interest-bearing savings and a conversion rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The top body of the foundation is the board of trustees. Among other things, the board of trustees resolves the pension benefits and their funding. It heads the respective collective foundations and monitors and oversees their management. It consists of equal numbers of employer and employee representatives from the enterprises involved.

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

The Swiss occupational pension scheme stipulates the annual minimum pension benefits. Legislation prescribes minimum annual contributions. However, an employer can also pay higher contributions than those prescribed by law. These contributions are set out in the pension plan/regulations. In addition, an employer can also pay non-recurring contributions or advances to the scheme. However, these contributions cannot be paid back to the employer. But, they are available to the employer in order to settle future employer contributions (employer contribution reserve).

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

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

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

The plan assets consist of a receivable from the insurance company.

Employer contributions of CHF 125 thousand are expected for 2017.

The actuarial report gives rise to the following figures (in CHF thousand):

Change in obligation	2016	2015
Present value of obligation at beginning of year	5,967	6,010
Change in the consolidated group	96	0
Current service cost, less employee contributions and administrative expenses	106	129
Employee contributions	57	42
Past service cost	0	0
Interest cost	44	60
Curtailments and settlements	0	-17
Benefits paid	-411	-170
Actuarial losses (gains) from experience adjustments	-2	-77
Actuarial losses/(gains) from changes in financial assumptions	104	-10
Actuarial losses/(gains) from changes in demographic assumptions	-29	0
Present value of obligation at end of year	5,932	5,967
thereof actively insured persons	1,576	1,443
thereof pensioners	4,356	4,524

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Change in assets	2016	2015
Fair value of assets at beginning of year	4,876	4,826
Change in the consolidated group	51	0
Interest income from plan assets	39	47
Employee contributions	57	42
Employer contributions	96	77
Administrative expenses of the foundation	-5	-5
Benefits paid	-411	-170
Return on plan assets (excluding amounts contained in net interest cost)	64	59
Fair value of assets at end of year	4,767	4,876

Derivation of financial position in the statement of financial position	Dec. 31, 2016	Dec. 31, 2015
Present value of obligation	5,932	5,967
Fair value of assets	4,767	4,876
Net defined benefit obligation	1,165	1,091

Components of pension cost	2016	2015
Current service cost, less employee contributions and administrative expenses	106	129
Administrative expenses of the foundation	5	5
Effects from curtailments and settlements	0	-17
Net interest cost	5	13
Expense recognized in profit or loss	116	130
Actuarial losses (gains) from experience adjustments (DBO)	-2	-77
Actuarial losses/(gains) from changes in financial assumptions (DBO)	104	-10
Actuarial losses/(gains) from changes in demographic assumptions (DBO)	-29	0
Actuarial losses (gains) from experience adjustments (plan assets)	-64	-59
Total OCI	9	-146
<i>(Income)/Expense recognized in other comprehensive income</i>	9	-146
Change in the consolidated group (OCI)	45	0

Maturity profile of defined benefit obligation	2016	2015
Less than 1 year	267	269
Weighted average maturity of defined benefit obligation	12.5	12.4

Actuarial assumptions	2016	2015
Discount rate	0.50%	0.75%
Expected salary increase	1.50%	1.50%
Future pension increase	0.00%	0.10%
Average life expectancy after pension (men)	22.38	21.53
Average life expectancy after pension (women)	25.42	24.98

Sensitivity analysis

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

	Discount rate		Pension trend		Salary trend		Life expectancy +1 year
	+25 BP	-25 BP	+25 BP	-25 BP	+25 BP	-25 BP	
Year under review	-159	168	146	0	21	-20	227
Previous year	-160	169	149	139	17	-16	237

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Current tax liabilities

in CHF thousand	2016	2015
Opening balance	0	0
Current income taxes	59	34
Income taxes paid	-71	-123
Reclassification of balances with the Swiss Federal Tax Administration (income tax receivable)	12	89
Total	0	0

11 Deferred taxes

Deferred taxes relate to the following items of the statement of financial position and were recognized as follows:

11.1 Deferred taxes (year under review) in CHF thousand	Balance Jan. 1, 2016	reported in on consolidated net income	reported in other com- prehensive income Dec. 31, 2016	Balance on Dec. 31, 2016
Benefit plan liabilities	32	1	2	35
Additions from the acquisition of subsidiaries	0	0	0	65
Total deferred tax assets	32	1	2	100
Total deferred tax liabilities	0	0	0	0
Deferred tax assets (net)	32	1	2	100

11.2 Deferred taxes (previous year) in CHF thousand	Balance Jan. 1, 2015	reported in on consolidated net income	reported in other com- prehensive income Dec. 31, 2015	Balance on Dec. 31, 2015
Benefit plan liabilities	30	4	-2	32
Tax loss carryforwards	90	-90		0
Investment property	25	-25		0
Total deferred tax assets	145	-111	-2	32
Investment property	115	-115		0
Total deferred tax liabilities	115	-115	0	0
Deferred tax assets (net)	30	4	-2	32

Maturity of non-capitalized, unused tax loss carryforwards (in CHF thousand)	2016	2015
Expiring in 2017 (gross amounts)	448	448
Expiring in 2018 (gross amounts)	7,496	7,496
Expiring in 2019 (gross amounts)	193	193
Expiring in 2022 (gross amounts)	277	277
Expiring in 2023 (gross amounts)	13,137	0
Total non-capitalized tax loss carryforwards	21,551	8,414
of which at a tax rate of 8%	20,000	7,339
of which at a tax rate of 20%	1,103	1,075

Tax loss carryforwards are capitalized when it is probable that future taxable income will be available against which they can be utilized. The definitive tax assessments did not require the restatement of prior-period amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Capital structure

There were no changes to the ordinary share capital of Highlight Event and Entertainment AG in the year under review. It amounted to CHF 15,592,500.00 and is divided into 1,732,500 bearer shares each with a notional interest in the share capital of CHF 9.00. All of the shares are fully paid up.

The Annual General Meeting on June 13, 2016 approved the creation of authorized capital. The Board of Directors is authorized to increase the capital by a maximum of CHF 7,796,250.00 up until June 12, 2018 by issuing a maximum of 866,250 fully paid-up bearer shares each with a notional interest in the share capital of CHF 9.00.

As in the previous year, there were no preferential rights or participation certificates. A convertible loan of CHF 16.399 million was taken out on June 7, 2016. The main shareholders are listed in the notes (page 44) to the financial statements of Highlight Event and Entertainment AG.

<i>Issued share capital</i>	Number of shares	in CHF thousand
Issued bearer shares each with a nominal value of CHF 9.00 as of December 31, 2015	1,732,500	
Issued share capital as of December 31, 2015		15,593
Issued bearer shares each with a nominal value of CHF 9.00 as of December 31, 2016	1,732,500	
Issued share capital as of December 31, 2016		15,593

13 Treasury shares

	Number	2016	2015
Treasury shares at beginning of year	Number	0	0
Treasury shares at end of year	Number	51,377	0

There are still 214 treasury shares in the custody account from fiscal 2012 that have not yet been converted.

Individual transactions for acquisitions in the year under review were as follows:

Date	Number of shares	Currency	Value
Feb. 29, 2016	32,070	CHF	448,980
Jul. 1, 2016	7,400	EUR	115,840
Sep. 19, 2016	2,407	EUR	39,829
Nov. 4, 2016	3,500	EUR	57,330
Nov. 25, 2016	6,000	CHF	102,200

The average price as of December 31, 2016 is CHF 15.29.

14 Reserves

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Legal reserves from capital contributions	10,196	10,196
Other capital reserves	-2,395	-2,395
Valuation reserves	-6,857	0
Retained earnings	-7,433	-4,425
Total	-6,489	3,376

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Data per bearer share each with a nominal value of CHF 9.00		2016	2015
Shares in circulation at beginning of fiscal year	Number	1,732,500	1,732,500
Shares in circulation as average for the year	Number	1,700,086	1,732,500
Treasury shares at beginning of fiscal year	Number	0	0
Treasury shares at end of fiscal year	Number	51,377	0
Weighted average number of shares in circulation (diluted and basic)	Number	1,700,086	1,732,500
<hr/>			
Consolidated net income attributable to HLEE shareholders	CHF thousand	-3,004	-709
Earnings per share in circulation from continuing operations	CHF	-1.77	-0.41
Earnings per share in circulation (diluted and basic)	CHF	-1.77	-0.41
<hr/>			
Dividend per share (proposal by the Board of Directors for 2016)	CHF	-	-

16 Gross profit		2016	2015
in CHF thousand			
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Provision of services		2,809	3,253
Cost of materials and goods for the products sold		0	-4
Direct cost of services provided		-386	-820
Rental income		110	147
Other operating income		263	13
Gross profit from continuing operations		2,796	2,589

17 Personnel expenses		2016	2015
in CHF thousand			
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Wages, salaries and fees paid to members of the Board of Directors		1,217	1,247
Social security contributions		95	117
Employee benefit obligations		92	77
Pension cost recognized in accordance with IAS 19		23	53
Other personnel expenses		19	8
Total personnel expenses from continuing operations		1,445	1,503

18 Other operating expenses		2016	2015
in CHF thousand			
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Consulting, legal, year-end closing and administrative costs		2,433	247
Advertising and travel expenses		452	361
Other operating costs		600	286
Total other operating expenses (net) from continuing operations		3,485	894

Legal, consulting and year-end closing costs include auditing costs for the consolidated and separate financial statements, tax consulting fees and the costs for legal advice. Higher legal and consulting costs were incurred in the period under review due to new strategic and structural changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 Amortization, depreciation and impairment

in CHF thousand	2016	2015
Impairment of movable assets	12	12
Retrospective property impairment		
Total amortization, depreciation and impairment from continuing operations	12	12

20 Net finance cost

in CHF thousand	2016	2015
Interest income from cash and cash equivalents	1	1
Interest income from receivables	2	10
Financial expenses loan	-461	0
Exchange rate losses on EUR-denominated cash and cash equivalents	0	-135
Exchange rate losses on EUR-denominated loans	-141	-135
Total net finance cost from continuing operations	-599	-259

The increase in financial expenses is mainly due to interest payments for the financial loan.

21 Taxes

in CHF thousand	2016	2015
Current income taxes	60	34
Deferred taxes (net)	-1	-4
Total taxes from continuing operations	59	30
Net income from continuing operations before taxes	-2,945	-679
Taxes at a net tax rate of 8.0% (8.0%)	-234	-54
Effect of recognition of tax loss carryforwards	0	0
Effect of utilization of unrecognized tax loss carryforwards	221	-39
Effect of non-recognition of tax loss carryforwards	95	145
Effect of expenses that are not deductible for tax purposes	29	63
Effect of different tax rates at subsidiaries	-52	-85
Total tax expense (income)	59	30

Deferred taxes result from differences between the uniform Group accounting treatment of assets and liabilities (consolidated financial statements) and their tax treatment (local GAAP financial statements). Deferred taxes are calculated on the basis of these valuation differences. The net tax rate was calculated as 8.0% as of December 31, 2016 (previous year: 8.0%).

22 Related party transactions

in CHF thousand	2016	2015
Related party expenses	149	194
Related party income	2	220
Loans to related parties	0	3,987
Liabilities to related parties	1,399	0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The company maintains relationships with entities controlled by members of the Board of Directors in the course of ordinary business activities.

Remuneration paid to the members of the Board of Directors and the management team

in CHF thousand	2016	2015
Salaries, bonuses, remuneration in kind and fringe benefits	0	51
Fees paid to members of the Board of Directors	0	30
Employer post-employment pension benefits	0	11
Total remuneration and benefits	0	92
Remuneration paid to non-executive members of the Board of Directors	0	21
Highest individual remuneration	0	60

The employer post-employment pension benefits include all pension and risk insurance contributions and contributions to AHV/IV/EO and ALV. Further information on the remuneration can be found in the notes to the annual financial statements of Highlight Event and Entertainment AG and the remuneration report. In the year under review, no remuneration was paid to members of the Board of Directors or the management team.

23 Segment information

The activities of the Highlight Event and Entertainment (HLEE) Group are not subject to significant seasonal fluctuations. The HLEE Group is made up of two reportable segments: "Event Marketing" and "Other Business Activities". In the financial statements for the period ended December 31, 2015, the "Music Events" and "Sport Events" segments were still reported separately. Due to the insignificant sales now generated in the "Sports" segment, the management team no longer considers it to be a reportable segment and now includes this segment in the "Other Business Activities" segment. The "Music Events" segment is now reported under "Event Marketing".

23.1 Products, services and key customers

"Event Marketing" segment

This segment includes services in the areas of event marketing and entertainment. The segment primarily consists of the exclusive marketing rights for the Vienna Philharmonic Orchestra and the Eurovision Song Contest. HLEE possesses specialist expertise in the global market in this segment thanks to the employees of its subsidiary Highlight Event AG. The Vienna Philharmonic Orchestra (VPO) and the European Broadcasting Union (EBU) were the key customers of Highlight Event AG in 2016, each accounting for more than 10% of total sales.

"Other Business Activities" segment

This segment encompasses the administrative functions of Highlight Event and Entertainment AG as the holding company, net income from the investment property, and other minor business areas.

23.2 Sales and earnings in 2016 in CHF thousand	Event Marketing	Other Business Activities	TOTAL
Net income	2,721	88	2,809
Other segment income	+2	371	373
Segment expenses	-2,017	-3,511	-5,528
<i>of which scheduled depreciation</i>		12	12
<i>of which retrospective impairment</i>		200	200
<i>of which write-downs</i>		0	0
Profit from operations	706	-3,052	-2,346
Financial result			-599
Profit before taxes			-2,945

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23.3 Sales and earnings in 2015 (restated)

in CHF thousand	Event Marketing	Other Busi- ness Activi- ties	TOTAL
Net income	2,337	915	3,253
Other segment income		160	160
Segment expenses	-1,854	-1,979	-3,833
<i>of which scheduled depreciation</i>		12	12
<i>of which retrospective impairment</i>		0	0
<i>of which write-downs</i>		600	600
Profit from operations	483	-903	-420
Financial result			-259
Profit before taxes			-679

The net segment income presented above relates to sales with external customers.

There were no sales between the segments. The accounting policies for the reportable segments are the same as the accounting policies described in these notes.

23.4 Segment assets

in CHF thousand	Event Marketing	Other Business Activities	TOTAL
Segment assets as of December 31, 2015	1,076	19,027	20,103
Segment assets as of December 31, 2016	1,875	43,096	44,971

All assets are allocated to the reportable segments with the exception of shares in associates, other financial assets, and current and deferred taxes. The other financial assets and liabilities of the holding company are reported under "Other".

Assets used by more than one segment are allocated on the basis of the sales generated by the individual reportable segments.

23.5 Segment liabilities

in CHF thousand	Event Mar- keting	Other Business Activities	TOTAL
Segment liabilities as of December 31, 2015	424	839	1,263
Segment liabilities as of December 31, 2016	445	19,793	20,238

All liabilities are allocated to the reportable segments with the exception of loans and other financial liabilities and current and deferred taxes. Liabilities that the reportable segments are jointly responsible for settling are allocated in the same way as for segment assets.

23.6 Other segment information

in CHF thousand	Event Mar- keting	Other Business Activities	TOTAL
Disposal of non-current assets in 2015	0	0	0
Disposals of non-current assets in 2016	0	3,100	3,100
Services provided in 2015	2,337	915	3,253
Services provided in 2016	2,721	88	2,809

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23.8 Geographical information

The Group is primarily active in the two geographical regions of Switzerland and the EU.

The Group's net sales from continuing operations with external customers based on the geographical location of the respective customers' business operations and information on segment assets based on the geographical location of the respective assets are broken down as follows:

in CHF thousand	European Union	Switzerland	Rest of the world	TOTAL
External net sales in 2015	2,195	624	434	3,253
External net sales in 2016	2,236	573	0	2,809
Non-current assets in 2015		3,324		3,324
Non-current assets in 2016		39,938		39,938

24 Contingent liabilities

Highlight Event and Entertainment AG and Escor Automaten AG are members of the HLEE value added tax group and hence are jointly and severally liable for this group's value added tax liabilities to the Swiss Federal Tax Administration.

25 Residual amount of liabilities from leases with the characteristics of purchase agreements and other lease commitments not expiring or terminable within twelve months from the balance sheet date.

There are rental obligations (operating leases) for offices. The lease has a one-year notice period. Overall, rental expenses amounted to CHF 112 thousand for fiscal 2016 (previous year: CHF 65 thousand).

26 Events after the balance sheet date

On May 2, 2017, an extraordinary Annual General Meeting of Highlight Event and Entertainment AG will take place, which has to decide on the two agenda items "increase in ordinary share capital" and "extension and increase in authorized capital".

An equity investment of 51% in Comosa AG was acquired on December 31, 2016. The purpose of Comosa AG is to create a global boxing platform under the "World Boxing Super Series" brand and to cooperate internationally with top boxers and their promoters as well as leading boxing associations around the world. The trophy, which is named after the greatest boxer of all time, Muhammad Ali, is awarded to the winner of the "World Boxing Super Series". After the end of the reporting period, Highlight Event and Entertainment AG committed itself vis-à-vis the minority shareholders of Comosa AG to subscribe to 30,000 new shares at a total price of EUR 16 million.

27 Risk analysis and internal control system

The companies of the HLEE Group have implemented a risk management system that is currently documented. The Board of Directors conducted periodic risk assessments to an adequate extent and, where applicable, derived the resulting measures in order to ensure that the risk of material misstatements affecting the present consolidated financial statements is low.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 Group companies

Group companies and equity investments as of December 31, 2016	Capital	Currency	Equity interest	Area of activity
Highlight Event and Entertainment AG, Pratteln, Switzerland	15,592,500	CHF	100%	Holding company
Highlight Event AG, Emmen, Switzerland	500,000	CHF	100%	Event marketing
Escor Automaten AG, Pratteln, Switzerland	3,000,000	CHF	100%	Gaming machines
Comosa AG, Zurich, Switzerland	150,000	CHF	51%	Sport marketing

Group companies and equity investments as of December 31, 2015	Capital	Currency	Equity interest	Area of activity
Highlight Event and Entertainment AG, Lucerne, Switzerland	15,592,500	CHF	100%	Holding company
Highlight Event AG, Lucerne, Switzerland	500,000	CHF	100%	Event marketing
Escor Automaten AG, Düringen, Switzerland	3,000,000	CHF	100%	Gaming machines



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REPORT OF THE STATUTORY AUDITOR

To the Annual General Meeting of Highlight Event and Entertainment AG, Pratteln

Report on the audit of the consolidated financial statements

Audit opinion

We have audited the consolidated financial statements of Highlight Event and Entertainment AG and its subsidiaries (the Group) - comprising the consolidated statement of financial position as of December 31, 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and the the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 11 to 36) give a true and fair view of the net assets and financial position of the Group as of December 31, 2016 and its results of operations and cash flows for the year than ended in accordance with International Financial Reporting Standards (IFRS) and Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISA) and Swiss Auditing Standards. Our responsibilities under these provisions and standards are described in more detail in the "Responsibilities of the statutory auditor for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and professional regulations in addition to the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code), and have fulfilled other rules of professional conduct in accordance with these requirements.

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

Key audit matters

Key audit matters are matters that, based on our judgment, were most significant for our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.



Key audit matters	How key audit matters were addressed in our audit
<p>Sales recognition</p> <p>Customer sales that are significant for the consolidated financial statements are generated at Highlight Event AG. Sales are recognized in accordance with the contracts for the respective projects, as explained in the “Accounting policies: sales recognition” section in the notes to the consolidated financial statements.</p> <p>We have focused on this area as the recognition of sales is associated with management’s judgment and estimates.</p>	<p>We essentially performed the following audit procedures:</p> <ul style="list-style-type: none"> • Evaluation of internal controls in connection with the booking of sales commission, merchandising income from the online shop and merchandising income on site. • Verification of accrual accounting and the matching principle for recognized sales. • Tests regarding manual journal entries shortly before or after the end of the reporting period, also with regard to the recognition of sales in particular. • Verifying contracts with the most significant customers to ensure that sales were recognized only after the contractual consideration has taken place.
<p>Recognition and disclosure of the acquisition and disposal of equity investments</p> <p>In the year under review, the company acquired equity investments in Holotrack AG, Pratteln; Paperflakes AG, Pratteln; Pulse Evolution Corporation, Port St. Lucie and Kuuluu Interactive Entertainment AG, Basel. All of these equity investments were resold in the year under review. We consider these matters to be particularly significant for our audit as they relate to transactions outside the ordinary course of business.</p> <p>For more information, please refer to the “Consolidation and consolidated group” section in the notes to the consolidated financial statements.</p>	<p>We implemented the following audit procedures to check whether these transactions were recognized and reported appropriately:</p> <ul style="list-style-type: none"> • Verifying purchase agreements to check whether risks and rewards were indeed transferred to the company on the recognition date of the investment. • Verifying whether the purchase price in the contract corresponds to the bank’s relevant debit notes and other documentation. • Verifying sale agreements to check whether risks and rewards were indeed transferred to the company on the derecognition date of the investment. • Verifying whether the selling price in the contract corresponds to the bank’s relevant credit notes and other documentation. • Checking whether any gains or losses from these transactions were recognized appropriately in profit or loss. • Checking whether any effects due to changes in the exchange rate of relevant currencies were recognized appropriately in profit or loss.



Key audit matters	How key audit matters were addressed in our audit
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Acquisition of 51% in Comosa AG

An equity investment of 51% in Comosa AG, Zurich, was acquired on December 31, 2016. The purchase price was CHF 1, with an additional purchase price of up to CHF 561,000 that would need to be paid under certain conditions. The purchase price allocation resulted in negative goodwill of CHF 16,220 which was recognized in profit or loss.

We consider these matters to be particularly significant for our audit as they relate to a transaction outside the ordinary course of business and the recognition of this transaction is associated with discretionary decisions.

Further information on this transaction can be found in note 4.3 in the notes to the consolidated financial statements.

Measurement of pension obligations

As of December 31, 2016, (net) liabilities of CHF 1,165 million were recognized in connection with pension plan obligations that qualify as defined benefit plans in accordance with IAS 19. The discount rate applied for the calculation has a significant impact on the obligation amount. Significant discretion exists when determining the applicable discount rate. The company consults experts when calculating obligations.

For more information, please refer to note 9 in the notes to the consolidated financial statements.

Other matters

The consolidated financial statements of Highlight Event and Entertainment AG for the fiscal year ended as of December 31, 2015 were audited by another statutory auditor who issued an unqualified opinion on these consolidated financial statements on February 19, 2016.

Other information in the Annual Report

The Board of Directors is responsible for other information in the Annual Report. Other information includes all of the information included in the Annual Report, with the exception of the consolidated financial statements, annual financial statements, of the remuneration report and our reports thereon.

In order to deal with this transaction appropriately, we performed the following audit procedures in particular:

- We assessed whether this transaction is a business combination as defined in IFRS 3.
- We determined the acquiring company.
- We determined the acquisition date.
- We assessed whether the company gained control over Comosa AG.
- We assessed whether any adjustments to the purchase price were recognized appropriately.
- We assessed whether the transaction was disclosed appropriately in the notes to the consolidated financial statements.

In order to assess the measurement of pension obligations, we performed the following audit procedures in particular:

- We have assessed the expertise and the independence of the relevant service provider.
- We critically scrutinized the actuarial parameters proposed by the expert and compared these with externally available information.
- We took spot checks on the basic information used by pension fund experts against the information provided in the system of the two companies.



Our opinion on the consolidated financial statements does not cover other information in the Annual Report and we do not make any statements on this information within the context of our audit.

In the context of our audit of the consolidated financial statements, our responsibility is to read other information and consider whether there are material inconsistencies with the consolidated financial statements or the knowledge obtained during our audit, or whether the information otherwise appears to be materially misstated. If, based on our work, we conclude that other information has been materially misstated, we are required to report on this. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS and Swiss law, and for internal controls which the Board of Directors deems necessary in order to allow for the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

When preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, where applicable, matters related to going concern and the application of the going concern basis of accounting, unless the Board of Directors intends to either liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the statutory auditor for the audit of the consolidated financial statements

Our aim is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable assurance is a high level of assurance, but provides no guarantee that an audit conducted in accordance with Swiss law, the ISA and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or as a whole, they could reasonably be expected to influence the economic decisions of users on the basis of these consolidated financial statements.

A more detailed account of our responsibilities for the audit of these consolidated financial statements can be found on EXPERTSuisse's website: <http://expertsuisse.ch/wirtschaftspruefung-revisionsbericht>. This description forms part of our report.

Report on other legal and regulatory requirements

In accordance with Article 728a (1) Item 3 of the Swiss Code of Obligations (*Obligationenrecht* - OR) and Swiss Auditing Standard 890, we confirm that an internal control system designed for the preparation of consolidated financial statements exists in accordance with the guidelines of the Board of Directors

We recommend the approval of these consolidated financial statements.

Aarau, April 28, 2017

BDO AG

Thomas Schmid

Philipp Mathys

Head auditor

Licensed audit expert

Licensed audit expert

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

in CHF thousand	Note	Dec. 31, 2016	Dec. 31, 2015
Cash and cash equivalents	6.1	1,136	10,072
Short-term loans to related companies	6.2	0	3,986
Other current receivables	6.3	833	8
Prepaid expenses		66	3
Current assets		2,035	14,069
Financial receivables from equity investments	6.4	2,000	2,000
Equity investments	6.5	7,001	10,000
Other financial assets	6.8	9,368	0
Financial assets	6.8	28,354	0
Property, plant and equipment		1	24
Non-current assets		46,724	12,024
ASSETS		48,759	26,093
Trade accounts payable		56	2
Liabilities to corporate bodies		35	0
Current interest-bearing liabilities to equity investments		1,308	0
Other current liabilities	6.10	1,356	7
Financial liabilities	6.9	16,500	0
Deferred income	6.11	538	71
Current liabilities		19,793	80
Financial liabilities	6.9	16,399	0
Non-current liabilities		16,399	0
Share capital	1	15,593	15,593
Statutory capital reserves	6.6	10,196	10,196
Statutory retained earnings		3,067	3,067
Accumulated losses	6.7	-15,503	-2,843
Treasury stock	2	-786	0
Equity		12,567	26,013
EQUITY AND LIABILITIES		48,759	26,093

FINANCIAL STATEMENTS

STATEMENTS OF COMPREHENSIVE INCOME

in CHF thousand	Note	2016	2015
Net sales from goods and services	7.1	327	914
Direct expenses for goods and services	7.1	0	-513
Personnel expenses		-69	0
Administrative expenses and selling costs	7.2	-2,802	-536
Depreciation, amortization and write-downs of current assets		-9	-12
Profit from operations		-2,553	-147
Currency translation differences	7.3	-132	-152
Interest income from cash and cash equivalents		0	1
Interest income from related companies		2	10
Other financial income		1	13
Other financial expenses	6.9	-461	0
Dividend income	7.5	340	760
Security expenses	7.6	-6,858	0
Impairment of equity investments	7.7	-3,000	0
Financial result		-10,108	632
Profit before taxes		-12,661	485
Direct taxes	7.4	0	0
Gain/loss for the year		-12,661	485

NOTES TO THE FINANCIAL STATEMENTS

1 General information on the company

Legal form and domicile

Highlight Event and Entertainment AG is a stock corporation that is listed on the SIX Swiss Exchange and has been domiciled at Netzibodenstrasse 23b, 4133 Pratteln, Switzerland, since June 13, 2016.

Approval of the financial statements

The financial statements approved by the Annual General Meeting are legally binding.

The Board of Directors approved the present financial statements on April 28, 2017.

Capital structure

There were no changes to the ordinary share capital of Highlight Event and Entertainment AG in the year under review.

It amounted to CHF 15,592,500.00 and is divided into 1,732,500 bearer shares each with a notional interest in the share capital of CHF 9.00. All of the shares are fully paid up.

The Annual General Meeting on June 13, 2016 approved the creation of authorized capital. The Board of Directors is authorized to increase the capital by a maximum of CHF 7,796,250.00 up until June 12, 2018 by issuing a maximum of 866,250 fully paid-up bearer shares each with a notional interest in the share capital of CHF 9.00.

As in the previous year, there were no preferential rights or participation certificates. No options were granted.

In the year under review, a convertible loan was taken out (more information can be found under "Financial liabilities" in note 6.9).

Transactions with equity investments

Highlight Event and Entertainment AG acquired an interest of 33.30% or CHF 67 thousand in Holotrack AG, Pratteln, on February 29, 2016, and an interest of 24.50% or CHF 123 thousand in Paperflakes AG, Pratteln, on March 18, 2016. These companies are managed as associates and were included in the consolidated financial statements using the equity method. These investments were measured at carrying amount since the companies have no operating activities yet and pro rata equity largely corresponds to the carrying amounts. In addition, the equity investment (CHF 1,728 thousand) in Pulse Evolution Corporation, Port St. Lucie, was acquired on February 29, 2016. This equity investment is recognized as a financial asset and is not included in the consolidated financial statements as no significant influence exists. The purchase price for the acquisition of shares in Holotrack AG, Paperflakes AG and Pulse Evolution Corporation was settled with the loan receivable from Rainbow Home Entertainment AG. This was a non-cash transaction.

On March 31, 2016, the associate Kuuluu Interactive Entertainment AG (share of 41.50%) was acquired by Rainbow Home Entertainment AG for CHF 1. On April 18, 2016, the equity investment in Pulse Evolution Corporation was increased to CHF 6,585 thousand. On September 30, 2016, the minority interests in Kuuluu Interactive Entertainment AG, Holotrack AG, Paperflakes AG and Pulse Evolution Corp. were sold to Highlight Ventures Corp. at carrying amount together with granted loans.

Shares in circulation		Dec. 31, 2016	Dec. 31, 2015
Bearer shares in circulation each with a nominal value of CHF 9.00	Number	1,681,123	1,732,500
Share price as of December 31	CHF	15.05	16.20
Market capitalization as of December 31	CHF thousand	25,301	28,067

2 Number of treasury shares each with a nominal value of CHF 9.00	2016	2015
Shares at beginning of year	0	0
Acquisition of treasury shares	51,377	0
Shares at end of year	51,377	0

NOTES TO THE FINANCIAL STATEMENTS

There are still 214 treasury shares in the custody account from fiscal 2012 that have not yet been converted.

Individual transactions for acquisitions in the year under review were as follows:

Date	Number of shares	Currency	Value
Feb. 29, 2016	32,070	CHF	448,980
Jul. 1, 2016	7,400	EUR	115,840
Sep. 19, 2016	2,407	EUR	39,829
Nov. 4, 2016	3,500	EUR	57,330
Nov. 25, 2016	6,000	CHF	102,200

The average price was CHF 15.29 as of December 31, 2016

3 Principal shareholders	Dec. 31, 2016	Dec. 31, 2015
Bernhard Burgener	52.17%	5.48%
Martin Hellstern	12.37%	0.00%
Miralco Holding AG	10.00%	0.00%
Scherzer & Co. AG	3.00%	0.00%
Integral Stiftung für berufliche Vorsorge	n/a	5.31%
Highlight Communications AG (HLC)	n/a	75.37%

4 Bearer shares each with a nominal value of CHF 9.00 held by members of the management team and the Board of Directors	Dec. 31, 2016	Dec. 31, 2015
Number of shares held personally (Highlight Event and Entertainment AG CH0003583256)		
Bernhard Burgener, President of the Board of Directors	903,804	95,000
Martin Wagner, Board of Directors	10,000	10,000
Peter von Büren, Board of Directors	none	none
Related parties (HLC)	0	1,305,860
Number of shares (total)	913,804	1,410,860
Shares as a percentage of total share capital	52.74%	81.43%

The members of the management team and the Board of Directors hold no (previous year: no) conversion or option rights. Bernhard Burgener is the President of the Board of Directors of Highlight Communications AG (HLC).

5 Significant accounting policies

The present financial statements were prepared in accordance with the provisions of Swiss law, and in particular, the articles on commercial accounting and financial reporting (Articles 957 to 962 OR). The following key principles were applied in preparing the financial statements of Highlight Event and Entertainment AG (HLEE):

Cash and cash equivalents

Cash and cash equivalents include cash in hand, postal check and bank balances, and call and demand deposits with an original term of no more than 90 days.

Currency translation

The functional currency of HLEE is the Swiss franc (CHF). Transactions in foreign currencies are translated into the functional currency (CHF) at the exchange rate as of the transaction date.

Monetary assets and liabilities in foreign currency are translated into CHF at the closing rate as of the end of the reporting period. The resulting exchange rate gains or losses are recognized in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Property, plant and equipment

Items of property, plant and equipment are capitalized if they have a value of CHF 5,000 or greater. Smaller items and investments that do not exceed this threshold are expensed. Vehicles are depreciated on a straight-line basis over a useful life of four years.

Sales recognition

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

New marketing projects are continually examined, developed and realized. As soon as the projects are found to be sustainable, they are assigned to a subsidiary and allocated to the corresponding business segment. The income generated by the holding company is reported in EBIT as "net income from goods and services".

Dividend income is reported in the financial result.

NOTES TO THE FINANCIAL STATEMENTS

6 Disclosures on items of the statement of financial position

6.1 Cash and cash equivalents

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Cash and cash equivalents in CHF	706	9,999
Cash and cash equivalents in EUR at the closing exchange rate of 1.07197 (1.0826)	430	73
Total	1,136	10,072

6.2 Short-term loans to related companies

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Short-term loans in CHF	0	2,774
Short-term loans in EUR at the closing exchange rate of 1.07197 (1.0826)	0	1,212
Total	0	3,986

The loan to a related party was repaid in the year under review.

6.3 Other current receivables

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Receivables from Group companies	548	0
Receivables from third parties	0	8
Receivables from Highlight Finance Corp.	285	0
Total	833	8

6.4 Financial receivables from equity investments

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Financial receivable from Escor Automaten AG *	16,500	16,500
Impairment	-14,500	-14,500
Total	2,000	2,000
* of which subordinated	16,500	16,500

6.5 Equity investments

in CHF thousand	Share capital	Shareholding	Share of voting rights	Share capital	Shareholding	Share of voting rights
	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2015	Dec. 31, 2015
Highlight Event AG, Emmen, Switzerland	500	100%	100%	500	100%	100%
Escor Automaten AG, Pratteln, Switzerland	3,000	100%	100%	3,000	100%	100%
Comosa AG, Zurich, Switzerland	150	51%	51%	150	0%	0%
Highlight Finance Corp., British Virgin Islands	51	20%	20%	0	0%	0%

6.6 Statutory capital reserves

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Statutory reserves from capital contributions confirmed by the Swiss Federal Tax Administration	10,196	10,196
Other capital reserves	0	0
Total	10,196	10,196

6.7 Accumulated losses

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Losses carried forward	-2,843	-3,328
Loss for the year	-12,660	485
Total	-15,503	-2,843

NOTES TO THE FINANCIAL STATEMENTS

6.8.1 Other financial assets

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Loans granted to Highlight Ventures Corp.	7,158	0
Loans granted to third parties	35	0
Equity investment in Highlight Finance Corp.	2,175	0
Total	9,368	0

The loan receivable from Highlight Ventures Corp. will be repaid in installments within a five-year period.

The equity investment in Highlight Finance Corp. is a financial investment. A convertible loan was granted in the year under review, which was converted into a financial investment of 20% at the end of the year. There is the option of forming a board of directors. This option has not yet been exercised and no significant influence exists. Other financial assets are measured at amortized cost.

6.8.2 Financial assets

Financial assets include shares in Constantin Medien AG as of December 31, 2016. The costs for the acquisition of shares in Constantin Medien AG amounted to CHF 35,212 thousand in the year under review. At the end of the year, there was an impairment loss of CHF 6,858 thousand due to the exchange rate of the euro and the share price.

6.9 Financial liabilities

A loan of CHF 32,899 thousand was taken out on June 7, 2016. The interest rate is 2.5% per year. The loan is to be repaid in two tranches. One tranche is due as of June 6, 2017 (CHF 16,500 thousand) and the second tranche (CHF 16,399 thousand) can be converted into new shares to be issued.

6.10 Other current liabilities

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Other current liabilities	7	7
Liabilities to related parties	1,349	0
Total	1,356	7

6.11 Deferred income

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Year-end closing and auditing costs	32	39
Other deferred income	506	32
Total	538	71

NOTES TO THE FINANCIAL STATEMENTS

7 Disclosures on items of the statement of comprehensive income

7.1 Gross profit

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Net sales from goods and services for third parties	23	704
Gains from foreign currency adjustments	304	0
Net sales from goods and services for related companies	0	210
Direct expenses for goods and services	0	-513
Total	327	401

7.2 Administrative expenses and selling costs

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Administrative and consulting expenses for the holding company, stock exchange listing, internal audit	2,756	267
Goods and services of equity investments	20	233
Goods and services of related companies	26	36
Total	2,802	536

Higher legal and consulting costs were incurred in the period under review due to new strategic and structural changes.

7.3 Exchange rate differences

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Exchange rate differences on cash and cash equivalents	132	17
Exchange rate differences on short-term loans to related companies	0	135
Total	132	152

7.4 Tax loss carryforwards

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Expiring in 2018 (gross amounts)	7,146	7,146
Expiring in 2019 (gross amounts)	193	193
Expiring in 2023 (gross amounts)	12,661	0
Total	20,000	7,339

7.5 Investment income

in CHF thousand	Dec. 31, 2016	Dec. 31, 2015
Dividends from subsidiaries	340	760
Other investment income		
Total	340	760

7.6 Security expenses

At the end of the year, there was an impairment of CHF 6,858 thousand on the investment in Constantin Medien AG as the shares are measured at fair value.

7.7 Impairment of equity investments

Since the investment property of Escor Automaten AG was sold in the fourth quarter of 2016, the company no longer conducts operating activities. As a result, this equity investment was written off.

NOTES TO THE FINANCIAL STATEMENTS

8 Other disclosures required by law and not already disclosed (Article 959c OR)

8.1 Average number of FTEs for the year up to 10 FTEs	Dec. 31, 2016 yes	Dec. 31, 2015 yes
8.2 Residual amount of liabilities from leases with the characteristics of purchase agreements and other lease commitments not expiring or terminable within twelve months from the balance sheet date	Dec. 31, 2016 none	Dec. 31, 2015 none
8.3 Liabilities to pension schemes	Dec. 31, 2016 none	Dec. 31, 2015 none
8.4 Security pledged for third-party liabilities	Dec. 31, 2016 none	Dec. 31, 2015 none
8.5 Assets pledged as security for own liabilities and assets subject to retention of title 7.73 million shares in Constantin Medien AG were pledged as security for own liabilities. There was no retention of title in the previous year.		
8.6 Contingent liabilities The company is a member of the HLEE value added tax group and hence is jointly and severally liable for this group's value added tax liabilities to the Swiss Federal Tax Administration. No other contingent liabilities	Dec. 31, 2016 yes	Dec. 31, 2015 yes
8.7 Extraordinary, non-recurring or prior-period items of the statement of comprehensive income	Dec. 31, 2016 none	Dec. 31, 2015 none

8.8 Acquisition of equity investments

As of December 31, 2016, an equity investment of 51% in Comosa AG in Zurich was acquired for CHF 1. With this acquisition, Highlight Event and Entertainment AG undertakes to provide the necessary funds of CHF 1.5 million for further business development. The purchase agreement also provides for an additional purchase price of up to CHF 561,000 that would have to be paid under certain conditions. This is based on the condition that Comosa AG signs the necessary agreements to ensure sustainable operating activities until the end of 2017 and can expect to achieve positive results on the basis of these agreements. Since it is difficult to assess this condition, the earn-out provision was not recognized as part of acquisition costs. A pooling agreement exists. The HLEE Group experts control as a result of the casting vote of the President of the Board of Directors.

8.9 Additional disclosures, cash flow statement and management report

There are no additional disclosures on the cash flow statement and management report in accordance with Article 961d Abs. 1 OR as the HLEE Group prepares its consolidated financial statements in accordance with accepted accounting standards.

8.10 Significant events after the balance sheet date

The extraordinary Annual General Meeting for the increase in ordinary share capital and the extension and increase in authorized capital will take place on May 2, 2017.

Comosa AG was acquired on December 31, 2016. The purpose of Comosa AG is to create a global boxing platform under the World Boxing Super Series (WBSS) brand and to cooperate internationally with top boxers and their promoters as well as leading boxing associations around the world. The trophy, which is named after the greatest boxer of all time, Muhammad Ali, is awarded to the winner of the World Boxing Super Series. After the end of the reporting period, Highlight Event and Entertainment AG committed itself vis-à-vis the minority shareholders of Comosa AG to subscribe to 30,000 new shares at a total price of EUR 16 million.

8.11 Statutory auditor

In the past fiscal year, Deloitte AG was replaced by BDO AG as the statutory auditor at the Annual General Meeting. This is because Deloitte AG wants to focus on large mandates.



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REPORT OF THE STATUTORY AUDITOR

To the Annual General Meeting of Highlight Event and Entertainment AG, Pratteln

Report on the audit of the financial statements

Audit opinion

We have audited the financial statements of Highlight Event and Entertainment AG - which comprise the statement of financial position as of December 31, 2016 and the statement of comprehensive income for the year then ended in addition to the notes, including a summary of significant accounting policies.

In our opinion, the financial statements for the period ended December 31, 2016 (pages 41 to 49) comply with Swiss law and the articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under these provisions and standards are described in more detail in the "Responsibilities of the statutory auditor for the audit of the annual financial statements" section of our report.

We are independent of the company in accordance with Swiss law and professional regulations, and we have fulfilled other rules of professional conduct in accordance with these requirements.

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

Reporting on key audit matters as a result of Circular 1/2015 of the Swiss Audit Oversight Authority

Key audit matters are matters that, based on our judgment, were most significant for our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.



Key audit matters	How key audit matters were addressed in our audit
-------------------	---

Recognition and disclosure of the acquisition and disposal of equity investments

In the year under review, the company acquired equity investments in Holotrack AG, Pratteln; Paperflakes AG, Pratteln, Pulse Evolution Corporation, Port St. Lucie, and Kuuluu Interactive Entertainment AG, Basel. All of these equity investments were resold in the year under review. We consider these matters to be particularly significant for our audit as they relate to transactions outside the ordinary course of business.

For more information, please refer to the general information on the company in the notes to the financial statements.

We carried out the following audit procedures to assess whether these transactions were recognized and reported appropriately:

- Verifying purchase agreements to check whether risks and rewards were indeed transferred to the company on the recognition date of the investment.
- Verifying whether the purchase price in the contract corresponds to the bank's relevant debit notes.
- Verifying sale agreements to check whether risks and rewards were indeed transferred to the company on the derecognition date of the investment.
- Verifying whether the selling price in the contract corresponds to the bank's relevant credit notes.
- Checking whether any gains or losses from these transactions were recognized in profit or loss appropriately.

Other matters

The financial statements of Highlight Event and Entertainment AG for the fiscal year ended as of December 31, 2015 were audited by another statutory auditor who issued an unqualified opinion on these financial statements on February 19, 2016.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with Swiss law and the articles of incorporation, and is also responsible for internal controls that the Board of Directors deems necessary in order to allow for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

When preparing the financial statements, the Board of Directors is responsible for assessing the company's ability to continue as a going concern, disclosing, where applicable, matters related to going concern and the application of the going concern basis of accounting, unless the Board of Directors intends to either liquidate the company or to cease operations, or has no realistic alternative but to do so.



Responsibilities of the statutory auditor for the audit of the annual financial statements

Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable assurance is a high level of assurance, but provides no guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or as a whole, they could reasonably be expected to influence the economic decisions of users on the basis of these financial statements.

A more detailed account of our responsibilities for the audit of these consolidated financial statements can be found on EXPERTSuisse's website: <http://expertsuisse.ch/wirtschaftspruefung-revisionsbericht>. This description forms part of our report.

Report on other legal and regulatory requirements

In accordance with Article 728a (1) Item 3 of the Swiss Code of Obligations (*Obligationenrecht* - OR) and Swiss Auditing Standard 890, we confirm that an internal control system designed for the preparation of financial statements exists in accordance with the guidelines of the Board of Directors

We recommend the approval of these financial statements.

We would also like to note that half of the share capital and legal reserves are no longer covered (Article 725 (1) OR)

Aarau, April 28, 2017

BDO AG

Thomas Schmid

Philipp Mathys

Head auditor
Licensed audit expert

Licensed audit expert

REMUNERATION REPORT

REMUNERATION REPORT

This remuneration report for fiscal 2016 illustrates the remuneration system and remuneration paid to members of the Board of Directors and the management team of Highlight Event and Entertainment AG. The content and scope of these disclosures comply with the provisions of the Swiss Ordinance against Excessive Compensation in Listed Stock Corporations (*Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften – VegüV*), enacted by the Swiss Bundesrat and effective from January 1, 2014, and the Corporate Governance Directive (*Richtlinie Corporate Governance – RCGL*) of SIX Swiss Exchange.

1 Remuneration responsibilities and authority

The Board of Directors as a whole is responsible for ensuring that the remuneration process is fair, transparent and monitored effectively. The remuneration process that has been adopted is aimed at providing adequate remuneration for the services provided in addition to suitable incentives for individual members of the Board of Directors and management team while taking into account the longer-term interests of shareholders.

In particular, the Board of Directors as a whole performs the following tasks:

- a. Determining the principles of the remuneration strategy
- b. Determining the amount and composition of total remuneration for the President and other members of the Board of Directors
- c. Determining the amount and composition of total and individual remuneration for committee members.
- d. Determining the amount and composition of total remuneration and individual remuneration for individual members of the management team

As part of the implementation of the Swiss Ordinance against Excessive Compensation in Listed Stock Corporations, the Compensation Committee has proposed the total amount of remuneration for members of the Board of Directors, the President of the Board of Directors and individual members of the Board of Directors in addition to the total amount of remuneration for the management team, individual members of management and committee members since fiscal 2015. The Compensation Committee submits the corresponding proposals to the Board of Directors as a whole for approval.

2 Remuneration paid to members of the Board of Directors

2.1 Principles

The amount of remuneration paid to members of the Board of Directors is determined in accordance with Article 31 of the articles of incorporation and Item 2.6 of the company's organizational and operational rules (www.hlee.ch in the "Corporate Governance" section).

Total remuneration paid to the Board of Directors comprises the following elements:

- Fixed fees paid to members of the Board of Directors (settled in cash)
- Pension benefits

At the request of the Compensation Committee, the Board of Directors as a whole generally decides at its discretion on the amount of fixed fees to be paid to board and committee members every year. There are no stock, option or similar investment programs. Two meetings were held on May 16 and September 30, 2016; see Corporate Governance on page 65.

2.1.1 Fixed fees paid to members of the Board of Directors

Members of the Board of Directors receive fixed remuneration. At the request of the Compensation Committee, the Board of Directors as a whole determines the amount of fixed remuneration, taking into account the role, level of responsibility and the actual amount of time involved, while comparing this amount with compensation at other companies. Companies that operate abroad, adjust for burdens and assess and implement acquisitions, have multiple subsidiaries, and operate in the event and entertainment industry were taken into account in this context. Individual factors are weighted at the Board of Directors' discretion. Remuneration was paid only in cash, i.e. not in shares or options. Attendance fees were not paid to members of the Board of Directors.

REMUNERATION REPORT

Members of the Board of Directors were not paid membership honoraria for fiscal 2016 (as board or committee members).

	2016 in CHF	2015 in CHF
President of the Board of Directors, Bernhard Burgener	0	10'000
Member of the Board of Directors, Martin Wagner	0	10'000
Member of the Board of Directors, Peter von Büren	0	10'000
Member of the Board of Directors, René Eichenberger (from June 13, 2016 to September 30, 2016)	0	0

2.1.2 Variable remuneration

No variable remuneration was paid in the current fiscal year.

2.1.3 Pension benefits

Post-employment pension benefits include all pension and risk insurance contributions made by the employer in addition to contributions to AHV/IV/EO and ALV.

2.1.4 Remuneration for executive or advisory roles

In addition to his role as a member of the Compensation Committee, Vice President and CEO (until June 13, 2016), one member of the Board of Directors (Martin Wagner) had an executive role at Highlight Event and Entertainment AG. Remuneration for this role is included in his remuneration for work as a member of the management team; cf. section 3.2 below.

2.2 Remuneration paid to individual members of the Board of Directors

Fiscal 2016

In fiscal 2016, four members of the Board of Directors received no remuneration (previous year CHF 31,875).

<i>verified</i> ¹	Compensation committee	Period	Fixed fees paid to members of the Board of Directors	Variable remuneration	Pension benefits	Total
Bernhard Burgener, President	X	Jan. 1, 2016 – Dec. 31, 2016	0	0	0	0
Martin Wagner, Member	X	Jan. 1, 2016 – Dec. 31, 2016	0	0	0	0
Peter von Büren, Member	--	Jan. 1, 2016 – Dec. 31, 2016	0	0	0	0
René Eichenberger, Member	--	Jun. 13, 2016 – Sep. 30, 2016	0	0	0	0

No variable remuneration, loans or borrowings were granted, and no shares, option rights or similar participation rights were allocated in the year under review or in the previous year.

¹ Forms part of the statutory auditor's report on the remuneration report in accordance with Articles 14-16 VegüV.

REMUNERATION REPORT

Fiscal 2015

Each member of the Board of Directors received the following remuneration in fiscal 2015:

<i>verified</i> ¹	Compensation committee	Period	Fixed fees paid to members of the Board of Directors	Variable remuneration	Pension benefits	Total
Bernhard Burgener, President	X	Jan. 1, 2015 – Dec. 31, 2015	10,000	0	625	10,625
Martin Wagner, Vice President	X	Jan. 1, 2015 – Dec. 31, 2015	10,000	0	625	10,625
Peter von Büren, Member	--	Jan. 1, 2015 – Dec. 31, 2015	10,000	0	625	10,625

3 Remuneration paid to members of the management team

3.1 Principles

The remuneration of management team members is based on the range of tasks and role of the individual member and comprises the following elements:

- Fixed remuneration (settled in cash)
- Variable remuneration (paid in cash)
- Pension benefits
- Use of a company car for personal or professional use

3.1.1 Basic remuneration

At the request of the Compensation Committee, the Board of Directors as a whole determines the amount of fixed basic remuneration for members of the management team while taking into account the role, level of responsibility and amount of time involved in addition to a comparison with remuneration at other companies. The fixed remuneration of the Board of Directors/Compensation Committee is evaluated every year. When determining fixed remuneration, the Board of Directors as a whole considered, in particular, the actual amount of time involved in addition to the business volume while comparing with remuneration at other companies (similar to the determination of remuneration paid to the Board of Directors). Individual factors are weighted at the Board of Directors' discretion. Remuneration was paid in cash only, i.e. not in shares or options.

3.1.2 Variable remuneration

Members of the management team are paid bonuses at the discretion of the Board of Directors as a whole. Bonuses that are arranged must be determined in line with personal and/or company-specific targets. The weighting of targets is determined by the Board of Directors as a whole at the Compensation Committee's request.

In addition, there are no established bonus or investment programs for active and/or former members of the management team. No variable remuneration was paid in the current fiscal year (previous year: none).

3.1.3 Pension benefits

Post-employment pension benefits include all pension and risk insurance contributions made by the employer in addition to contributions to AHV/IV/EO and ALV.

¹ Forms part of the statutory auditor's report on the remuneration report in accordance with Articles 14-16 VegüV.

REMUNERATION REPORT

3.2 Remuneration paid to individual members of the management team

Fiscal 2016

No remuneration was paid to members of the management team in fiscal 2016.

<i>verified</i> ¹	Period	Fixed remuneration (gross)	Variable remuneration	Pension benefits	Total CHF
Martin Wagner, CEO	Jan. 1, 2016 – Jun. 13, 2016	0	0	0	0
Jan Werner, CFO	Jan. 1, 2016 – Jun. 13, 2016	0	0	0	0
Bernhard Burgener, CEO	Jun. 14, 2016 – Dec. 31, 2016	0	0	0	0
Peter von Büren, CFO	Jun. 14, 2016 – Dec. 31, 2016	0	0	0	0

No variable remuneration, loans or borrowings were granted, and no shares, option rights or similar participation rights were allocated in the year under review or in the previous year. Mr. Martin Wagner was the CEO and Mr. Jan Werner was the CFO until the Annual General Meeting on June 13, 2016. At this Annual General Meeting, Mr. Bernhard Burgener was elected as the CEO and Mr. Peter von Büren was elected as the CFO.

Fiscal 2015

Members of the management team received the following remuneration for fiscal 2015:

<i>verified</i> ¹	Period	Fixed remuneration (gross)	Variable remuneration	Pension benefits	Total CHF
Martin Wagner, CEO	Jan. 1, 2015 – Dec. 31, 2015	0	0	0	0
Jan Werner, CFO	Jan. 1, 2015 – Dec. 31, 2015	51'000	0	9'274	60'274

4 Advisory board

Highlight Event and Entertainment AG had no advisory board in the year under review or in the previous year. As a result, no remuneration was paid to advisory board members.

5 Contract terms and benefits payable to departing employees at Highlight Event and Entertainment AG

No members of the Board of Directors or the management team have a contract with Highlight Event and Entertainment AG which grants them severance pay if they leave Highlight Event and Entertainment AG.

Statutory notice periods apply to members of the management team.

Non-compete clauses were not agreed with any members of the Board of Directors or the management team.

¹ Forms part of the statutory auditor's report on the remuneration report in accordance with Articles 14-16 VegÜV.

REMUNERATION REPORT

6 Loans and borrowings to corporate bodies¹

As of December 31, 2016 and December 31, 2015 respectively, there were no outstanding loans or borrowings granted by Highlight Event and Entertainment AG to current or former members of the Board of Directors or the management team.

7 Related-party transactions¹

7.1 Loans and borrowings granted to related parties

All loans and borrowings are concluded on an arm's length basis.

7.2 Other related-party transactions not at arm's length

As of December 31, 2016 and December 31, 2015 respectively, the company was not involved in any related-party transactions that were not at arm's length.

8 Remuneration paid to former members of corporate bodies¹

In fiscal 2016 and in the previous year, no compensation was paid to former members of corporate bodies.

9 Management contracts

There are no management contracts.

10 Equity investments in Highlight Event and Entertainment AG

As of December 31, 2016, the members of the Board of Directors and the management team (including related parties) held a total of 52.74% of outstanding bearer shares in Highlight Event and Entertainment AG (previous year: 81.43%).

The individual members of the Board of Directors and the management team (including related parties) held the following equity investments:

- a. Bernhard Burgener: 903,804 or 52.17%
- b. Martin Wagner: 10,000 or 0.58%
- c. Peter von Büren: none
- d. Related parties: none

¹ Forms part of the statutory auditor's report on the remuneration report in accordance with Articles 14-16 VegÜV.



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REPORT OF THE STATUTORY AUDITOR

To the Annual General Meeting of

Highlight Event and Entertainment AG, Pratteln

We have audited the remuneration report presented on pages 53 to 57 of Highlight Event and Entertainment AG for the fiscal year ended December 31, 2016

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Swiss Ordinance Against Excessive Compensation in Listed Stock Corporations (VegüV). The Board of Directors is also in charge of structuring the remuneration system and defining individual remuneration amounts.

Responsibility of the auditor

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

The audit involves the execution of audit procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to remuneration, loans and borrowings in accordance with Articles 14-16 VegüV. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the remuneration report, whether due to fraud or error. This audit also includes an evaluation of the appropriateness of the methods applied to measure remuneration components and an evaluation of the overall presentation of the remuneration report.

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

Audit opinion

In our opinion, the remuneration report of Highlight Event and Entertainment AG for the fiscal year ended December 31, 2016 complies with Swiss law and Articles 14-16 VegüV.

Other matters

The remuneration report of Highlight Event and Entertainment AG for the fiscal year ended as of December 31, 2015 was audited by another statutory auditor who issued an unqualified opinion on this remuneration report on February 19, 2016.

Aarau, April 28, 2017

BDO AG

Thomas Schmid

Philipp Mathys

Head auditor
Licensed audit expert

Licensed audit expert

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Highlight Event and Entertainment AG strives for transparency at all times and pursues an open communication policy. Pursuing these efforts is important to us.

Highlight Event and Entertainment AG aligns its activities with the general guidelines contained in the Swiss Code of Best Practice of *economiesuisse* and complies with the Corporate Governance Directive (RLCG) of SIX Swiss Exchange. The corporate governance rules of Highlight Event and Entertainment AG are determined by law and set forth in the company's articles of incorporation and organizational and operational rules.

The articles of incorporation and organizational and operational rules of Highlight Event and Entertainment AG can be found on the company's website: www.hlee.ch in the "Corporate Governance" section.

The disclosures in this Corporate Governance report relates to the company's organization, regulations and articles of incorporation effective as of December 31, 2016. The ordinance enacted by the Swiss Bundesrat in light of the *Minder Initiative* (Swiss Ordinance Against Excessive Compensation in Listed Stock Corporations – VegüV of November 20, 2013) resulted in various changes (also with regard to the authority of the Annual General Meeting, articles of incorporation and regulations) which will lead to adjustments within the transitional periods prescribed. An overview of issues related to VegüV and their adoption dates at Highlight Event and Entertainment AG can be found in chapter 9 "Changes resulting from the new Swiss ordinance on compensation at listed stock corporations".

1 GROUP STRUCTURE AND SHAREHOLDERS

1.1 Group structure

1.1.1 Operating Group structure

Highlight Event and Entertainment AG, hereinafter referred to as "the company" or "HLEE", is a holding company based in Pratteln.

The company owns 100% of the share capital of Highlight Event AG, Emmen, with share capital of CHF 500,000 divided into 500 registered shares each with a nominal value of CHF 1,000. Highlight Event AG handles its operating business in the Event Marketing segment.

In addition, the company holds 100% of the share capital of Escor Automaten AG, Pratteln, with share capital of CHF 3,000,000, divided into 3,000 bearer shares each with a nominal value of CHF 1,000.

As of December 31, 2016, 51% of the share capital of Comosa AG, Zurich, was acquired. Its share capital of CHF 150,000 is divided into 15,000 registered shares and 135,000 preference shares (registered shares) each with a nominal value of CHF 1.

Information on segment reporting can be found on page 33.

1.1.2 Listed companies

Highlight Event and Entertainment AG's shares (bearer shares) are quoted on the SIX Swiss Exchange (ticker symbol: HLEE; securities number 358 325; ISIN no.: CH0003583256). Its nominal share capital is CHF 15,592,500. The company is based in Pratteln. For information on market capitalization, please refer to the figures on page 5.

1.1.3 Non-listed companies

The following non-listed companies are included in the group of consolidated companies of Highlight Event and Entertainment AG: Highlight Event AG, Emmen, Escor Automaten AG, Pratteln, and Comosa AG, Zurich.

CORPORATE GOVERNANCE

1.2 Principal shareholders

The company is aware of the following shareholders with a share of voting rights of more than 3% of the share capital entered into the Commercial Register as of December 31, 2016 in accordance with Article 120 FinfraG.

<u>Shareholder</u>	<u>Share of voting rights as disclosed</u>
Bernhard Burgener, Zeiningen	52.17%
Martin Hellstern, Comano	12.37%
Miralco Holding AG, Muttenz	10.00%
Scherzer & Co. AG, Cologne	3.00%

In fiscal 2016, the following disclosures were made:

- Bernhard Burgener, increase in share to 52.17% (previous year: 5.48%)
- Martin Hellstern, acquisition of a share of 12.37% (previous year: 0.00%)
- Miralco Holding AG, acquisition of a share of 10.00% (previous year: 0.00%)
- Scherzer & Co. AG, acquisition of a share of 3.00% (previous year: 0.00%)
- Integral Stiftung für berufliche Vorsorge, decrease in share to less than 3% (previous year: 5.98%)

1.3 Cross holdings

The company does not hold any cross-holdings with capital or voting rights at or with other companies.

2 CAPITAL STRUCTURE

2.1 Capital (ordinary, authorized and contingent capital)

Please see page 43 of the notes to the financial statements of Highlight Event and Entertainment AG.

2.2 Ordinary capital as of December 31, 2016

Ordinary share capital: HLEE has share capital of CHF 15,592,500, divided into 1,732,500 bearer shares each with a nominal value of CHF 9.

2.3 Authorized and contingent capital in particular

At the Annual General Meeting on June 13, 2016, authorized capital was created together with the introduction of Article 3a of the articles of incorporation with the following wording (cf. Art 3a of the company's articles of incorporation at www.hlee.ch in the "Corporate Governance" section):

Article 3a: Authorized capital

The Board of Directors is authorized to increase the company's capital by a maximum of CHF 7,796,250.00 up until June 12, 2018 by issuing a maximum of 866,250 fully paid-up bearer shares each with a notional interest in the share capital of CHF 9.00.

The Board of Directors is authorized to limit or suspend the subscription rights of shareholders and allocate these to third parties if the new shares are to be used (1) for the acquisition of companies in part or in full, equity investments or new investment plans or if shares are issued in order to finance or refinance such transactions, (2) for the purpose of investing in a strategic partner or investor or (3) in order to rapidly and flexibly obtain equity by issuing shares, which would be difficult without subscription rights.

Increases via firm acceptance and/or partial increases are permitted. The Board of Directors is authorized to determine the issue price of the shares, the type of contribution and the date of dividend entitlement.

The company has no contingent capital.

CORPORATE GOVERNANCE

2.4 Changes in capital over the past three reporting periods

Information in CHF as of Dec. 31	2014	2015	2016
Share capital	15,592,500	15,592,500	15,592,500
General reserves	3,066,685	3,066,685	3,066,685
Legal reserves from capital contributions	10,196,500	10,196,500	10,196,500
Treasury shares	0	0	-785,545
Net accumulated losses	-3,327,374	-2,842,338	-15,503,058
Equity	25,528,311	26,013,347	12,567,082

Changes in equity in 2016

There were no changes in ordinary share capital in 2016. Authorized capital under Article 3a of the articles of incorporation was resolved at the Annual General Meeting on June 13, 2016.

Changes in equity in 2015

There were no changes in ordinary share capital in 2015.

Changes in equity in 2014

There were no changes in ordinary share capital in 2014. Authorized capital under Article 3a of the articles of incorporation was resolved at the Annual General Meeting on May 20, 2014.

2.5 Shares and participation certificates

A total of 1,732,500 bearer shares each with a nominal value of CHF 9.00 are issued. All of the shares are fully paid up. Each share entitles the holder to one vote. All shares entitle the holder to dividends.

There are no preferential rights or participation certificates.

2.6 Profit-sharing certificates

No profit-sharing certificates were issued.

2.7 Restrictions on transferability and nominee registrations

The company has issued bearer shares. There are no registered shares, which is why there are also no restrictions regarding transferability or nominee registrations.

The conversion of bearer shares into registered shares and the introduction of restrictions on transferability and registrations are permitted in accordance with statutory quorum requirements.

2.8 Convertible bonds and options

There are no outstanding convertible bonds and no options have been granted.

3 BOARD OF DIRECTORS

3.1 Members of the Board of Directors

Bernhard Burgener, President of the Board of Directors and CEO, Executive Member of the Board of Directors / CEO

- Swiss citizen from Mund (VS), born in 1957. Businessman. 1976: Graduated from the Kaufmännischer Verein Basel. Bernhard Burgener has been working as an entrepreneur in the film industry and the area of sports and event management for 33 years. He has been a member of the Board of Directors of Highlight Communications AG, Pratteln, since 1994 and has been the President of the Board of Directors and CEO since 2011.
- Bernhard Burgener was elected as the President of the Board of Directors of HLEE by the Annual General Meeting on May 11, 2012. Mr. Burgener was elected as the CEO at the Annual General Meeting on June 13, 2016.

CORPORATE GOVERNANCE

Martin Wagner, non-executive member of the Board of Directors

- Swiss citizen from Basel (BS), born in 1960. He was admitted to the bar in 1988 and has been practicing law as an independent attorney ever since. He has been a member of the Board of Directors since 2000 and was Vice President of the Board of Directors of Highlight Communications AG from 2003 to 2015.
- Martin Wagner was the President of the Board of Directors of HLEE from February 1, 2011 to May 11, 2012. Mr. Wagner was CEO and Vice President of the Board of Directors from May 11, 2012 to June 12, 2016. He has been a member of the Board of Directors since the Annual General Meeting on June 13, 2016. He has not been a member of the management team of HLEE or one of its subsidiaries in the three years preceding the period under review. There are no significant business relations between HLEE or one of its subsidiaries and Board Member Martin Wagner.

Peter von Büren, Executive Member of the Board of Directors and CFO

- Swiss citizen from Stansstad (NW), born in 1955. Businessman. He has been performing various management activities at Highlight Communications AG since 1994. He has been a member of Highlight Communications AG's Group management since 1999. In addition to his role as Head of IT and Human Resources, he has been Highlight Communications AG's CFO since 2008 and a member of the Board of Directors of Highlight Communications AG since 2015.
- Peter von Büren has been a member of the Board of Directors of HLEE since May 11, 2012. He has not been a member of the management team of HLEE or one of its subsidiaries in the four years preceding the period under review. There are no significant business relations between HLEE or one of its subsidiaries and Board Member Peter von Büren. He has been in charge of Finance since the Annual General Meeting on June 13, 2016.

René Eichenberger, non-executive member of the Board of Directors (until September 30, 2016)

- Swiss citizen from Birr (AG), born in 1960. Entrepreneur. He has been a member of the Board of Directors of (Alternative)2 Holding AG since 2005 and a member of the Board of Directors of Pulse Evolution Corporation since 2013.
- Mr. René Eichenberger was elected as a member of the Board of Directors at the Annual General Meeting on June 13, 2016. On September 30, 2016, Mr. René Eichenberger announced his resignation from the Board of Directors. He has not been a member of the management team of HLEE or one of its subsidiaries in the three years preceding the period under review. There are no significant business relations between HLEE or one of its subsidiaries and Board Member René Eichenberger.

3.2 Other activities and interests

Bernhard Burgener

Highlight Communications AG, Pratteln	President and CEO
Constantin Film AG, Munich, Germany	Chairman of the Supervisory Board
Constantin Film und Entertainment AG, Zurich	President
Team Holding AG, Lucerne	Member
Team Football Marketing AG, Lucerne	Member
T.E.A.M. Television Event And Media Marketing AG, Lucerne	Member
T.E.A.M. Pension fund, Lucerne	President of the Foundation
Rainbow Home Entertainment AG, Pratteln	President
Highlight Event AG, Emmen	President
Lechner Marmor AG, Laas, Italy	President
Club de Bâle SA, Basel	President
Comosa AG, Zurich	President
Paperflakes AG, Pratteln	CEO
PLAZAMEDIA AG, Pratteln	President
Holotrack AG, Pratteln	President
Pulse Evolution Corporation, Port St. Lucie, USA	Member of the Board of Directors
EurAsia Heart – A Swiss Medical Foundation, Zurich	Member of the board of trustees

CORPORATE GOVERNANCE

Board Member Bernhard Burgener does not act in an official or political capacity.

Martin Wagner

Escor Automaten AG, Pratteln	President
Team Holding AG, Lucerne	President
Team Football Marketing AG, Lucerne	President
T.E.A.M. Television Event And Media Marketing AG, Lucerne	President
Highlight Event AG, Emmen	Vice President
Axel Springer Schweiz AG, Zurich	Member
Jean Frey AG, Zurich	Member
Lechner Marmor S.p.A., Laas, Italy	Member
CBE Marmor & Handels AG, Ibach	Member
T.E.A.M. Pension fund, Lucerne	Member
Battegay Dürr Wagner AG	Member
gregandgrey AG	Member
LMF Stiftung für liberale Medienförderung	Member of the board of trustees

Board Member Martin Wagner does not act in an official or political capacity.

Peter von Büren

Highlight Communications AG, Pratteln	Member
Constantin Film AG, Munich, Germany	Supervisory Board
Escor Automaten AG, Pratteln	Member
Constantin Film und Entertainment AG, Zurich	Member
Highlight Event AG, Emmen	Member
CBE Marmor & Handels AG, Ibach	President
Comosa AG, Zurich	Member
Rainbow Home Entertainment AG, Pratteln	Vice President
T.E.A.M. Pension fund, Lucerne	Member

Board Member Peter von Büren does not act in an official or political capacity.

3.3 Number of activities permitted outside the Highlight Event and Entertainment Group

In accordance with Article 29 of the articles of incorporation, members of the Board of Directors and the management team may not perform more than the following number of additional activities in senior management or administrative bodies at other legal entities that must be entered into the Commercial Register or a similar register abroad and that are not controlled by the company or that do not control, own or influence the company:

- Five mandates (members of the Board of Directors and the management team) at listed companies, with multiple mandates at various companies within the same Group counting as one mandate, and
- 15 remunerated mandates (members of the Board of Directors and the management team) at other legal entities, with multiple mandates at different companies within the same Group counting as one mandate, and
- Ten (members of the Board of Directors and the management team) unpaid mandates, with the reimbursement of expenses not considered remuneration and multiple mandates at different companies within the same Group counting as one mandate.

CORPORATE GOVERNANCE

This restriction does not apply to mandates that members of the Board of Directors or the management team have on behalf of the company (such as joint ventures or pension schemes of this legal entity or in companies where the legal entity holds a significant investment that is not included in consolidation).

No members of the Board of Directors have exceeded the defined limits on additional activities.

3.4 Election and term of office

3.4.1 General information

In accordance with Article 19 of the articles of incorporation, the Board of Directors is made up of one or multiple members. Every year, the Annual General Meeting elects:

- the members and President of the Board of Directors;
- the members of the Compensation Committee who must be members of the Board of Directors.

Members are elected individually and for the period until the next Annual General Meeting. Re-election is permitted. If a member of the Board of Directors leaves before the end of their term of office, the following Annual General Meeting shall elect a successor for the remainder of the current term of office. If all members of the Compensation Committee have not been determined, the Board of Directors shall appoint the number of members required for the remaining term of office.

All incumbent members of the Board of Directors were re-elected at the Annual General Meeting on June 13, 2016. Bernhard Burgener was re-elected as the President of the Board of Directors. Bernhard Burgener and Martin Wagner were elected as members of the Compensation Committee.

3.4.2 First and last election of each member of the Board of Directors

Members of the Board of Directors	Member since	the last election/elected until
Bernhard Burgener	1995	AGM 2016/AGM 2017
Martin Wagner	2004	AGM 2016/AGM 2017
Peter von Büren	2012	AGM 2016/AGM 2017

Mr. René Eichenberger was elected as a member of the Board of Directors at the Annual General Meeting in 2016. On September 30, 2016, Mr. René Eichenberger announced his resignation from the Board of Directors.

3.5 Internal organization

3.5.1 Division of responsibilities of the Board of Directors

The Board of Directors is organized in line with the company's organizational and operational rules of June 14, 2011, which were enacted on the basis of Article 22 of the articles of incorporation and Article 716b of the Swiss Code of Obligations (*Obligationenrecht* – OR). Both the articles of incorporation and the company's organizational and operational rules can be viewed at www.hlee.ch in the "Organization" section.

The Board of Directors holds meetings as a whole. Bernhard Burgener is the President of the Board of Directors. He manages and informs the Board of Directors. The Compensation Committee assists the Board of Directors, in particular, with remuneration matters and the selection and succession planning of senior management.

3.5.2 Composition and responsibilities of the Compensation Committee

The Compensation Committee is made up of at least two members of the Board of Directors. At the Annual General Meeting of June 13, 2016, Bernhard Burgener and Martin Wagner were elected as members of the Compensation Committee. For more information about the tasks of the Compensation Committee, please refer to Article 23 of the articles of incorporation (which can be accessed at www.hlee.ch in the "Organization" section) and the remuneration report (pages 53-57).

3.5.3 Working methods of the Board of Directors and its committees

The Board of Directors meets as a whole. The Board of Directors holds board meetings at least twice a year. Otherwise, the Board meets as often as necessary. Board meetings last an average of two hours, although the duration of individual meetings may differ from this average depending on the respective agenda or workload. Two board meetings took place in fiscal 2016. The individual items on the agenda can be found in the table below:

Board meetings in 2016

May 16, 2016
September 30, 2016

The Compensation Committee holds meetings at least twice a year. Incidentally, the Board meets as often as necessary. The duration of the meetings of the Compensation Committee depends on the issues discussed in each case. In fiscal 2016, the Compensation Committee held two meetings during the Board meetings on May 16 and September 30, 2016.

3.6 Allocation of duties

The Board of Directors manages the company in accordance with Article 22 of the articles of incorporation, the company's organizational and operational rules and Swiss law. Both the articles of incorporation and the company's organizational and operational rules can be viewed at www.hlee.ch in the "Corporate Governance" section. The Board of Directors is part of the company's senior management. It has the corresponding powers to establish the company's organization and targets, determine accounting principles, approve the business, financial and investment budget, recruit and dismiss members of the management team and approve their terms of employment. The Board of Directors prepares the Annual Report and is in charge of the preparation of the Annual General Meeting and resolutions passed within this context.

In accordance with Items 2.1 and 4.1 of the company's organizational and operational rules (cf. www.hlee.ch in the "Corporate Governance" section), the Board of Directors has delegated overall management to the CEO and management team since the Annual General Meeting on May 11, 2012. Operational management is the responsibility of the CEO appointed by the Board of Directors in accordance with the company's organizational and operational rules, which includes a wide range of management responsibilities and duties, including in particular:

- Periodically determining the market strategy and policies.
- Performing management tasks vis-à-vis subordinate managers with examples, motivation, support and periodic evaluations;
- Complying with the internal control system and taking all the necessary steps to ensure and improve operating activities.
- Providing key figures and documents required for management and monitoring activities;
- Managing accounting, ensuring liquidity and budgeting, and preparing annual accounts for the Board of Directors;
- Determining HR policies and planning, recruiting, promoting and dismissing middle managers (authorized signatories and representatives);
- Representing the overall interests of the company and Group vis-à-vis third parties;
- Recruiting and dismissing staff while considering the responsibilities of the Board of Directors;
- Other allocated activities outside their area of responsibility.

CORPORATE GOVERNANCE

In addition, the company's organizational and operational rules include a list of business activities that require the prior consent of the Board of Directors, including in particular:

- Determining and changing business policies, the Group's organization and other matters of fundamental importance;
- Releasing approved investments in the budget of more than CHF 50,000 and investments exceeding the specified investment amount over the entire duration of the annual budget;
- One-off expenses that are not included in the budget if the amount of CHF 50,000 per transaction and case per year is exceeded;
- Fulfilling obligations for recurring expenses, particularly rental and lease agreements and contracts by which the company is bound for more than two years;
- The acquisition and disposal of all types of companies in part or in full (equity investments) and no sales of assets over CHF 100,000 on a case-by-case basis;
- Establishing and closing branch offices;
- Acquiring, mortgaging or disposing of land and similar land rights;
- Determining standards and guidelines for terms of employment and determining principles for annual salary adjustments;
- Legal transactions and legal action outside normal business operations and litigations of great significance or worth more than CHF 50,000.
- Taking out and terminating loans and other borrowings or changing credit limits if this is not established in the approved financial plan or outside normal business activities;
- Granting loans of more than CHF 10,000 on a case-by-case basis
- Acquiring sureties, guarantees, letters of comfort and similar obligations.

3.7 Management information and monitoring tools

The CEO must provide the Board of Directors with a report on the company's operational and business development, at least on a quarterly basis, in accordance with the company's organizational and operational rules (cf. Item 5.2 OGR at www.hlee.ch in the "Corporate Governance" section). The CEO attended all board meetings, ensuring direct contact between the Board of Directors and management team and adequate monitoring as a result. In addition, he presented current key figures, statements of comprehensive income and disclosures on the statement of financial position and cash flows on a quarterly basis.

The statutory auditor receives information on a regular basis. This also allows the statutory auditor to obtain information on business development during the year and to intervene immediately if there are any ambiguities or inconsistencies. Subject to ordinary audit activities and the publication of the semi-annual report, there are no other monitoring tools within the context of the audit.

Furthermore, the CEO informed the Board of Directors of news within the management team in writing at least four times. At board meetings, he provided written and oral information on the respective quarterly reports with the statement of financial position, statement of comprehensive income, cash flow statement and statement of changes in equity. The Board of Directors conducted periodic risk assessments to an adequate extent and, where applicable, derived the resulting measures in order to ensure that the risk of material misstatements affecting the consolidated financial statements in the Annual Report is low.

Based on an extensive risk assessment and a corresponding strategy, the Board of Directors implemented an internal control system (ICS) for financial reporting in fiscal 2008. In this context, business procedures and controls are assessed on a quarterly basis. The Board of Directors as a whole reassesses risks at least once a year and receives information from the management team on the functionality and effectiveness of the internal control system. Every year, the statutory auditor checks whether an internal control system exists and provides a written report on the findings of the audit to the Board of Directors.

CORPORATE GOVERNANCE

4 MANAGEMENT TEAM

4.1 Members of the management team

Martin Wagner, Vice-President and CEO until June 12, 2016

Detailed information about Martin Wagner can be found in section 3.1 “Members of the Board of Directors” in this Annual Report. Mr. Burgener was elected as the CEO at the Annual General Meeting on June 13, 2016.

Bernhard Burgener, President of the Board of Directors and CEO since June 13, 2016

Detailed information about Bernhard Burgener can be found in section 3.1 “Members of the Board of Directors” in this Annual Report.

Peter von Büren, Member of the Board of Directors since June 13, 2016

Detailed information about Peter von Büren, CFO, can be found in section 3.1 “Members of the Board of Directors” in this Annual Report.

4.2 Other activities and interests

Bernhard Burgener

Detailed information about Bernhard Burgener can be found in section 3.2. A description of his other activities and interests can be found on page 62 of the Annual Report.

4.3 Number of activities permitted outside the Highlight Event and Entertainment Group

The wording of Article 29 of the articles of incorporation regarding the number of activities permitted outside the Highlight Event and Entertainment Group can be found in the information concerning the Board of Directors on page 63.

4.4 Management contracts

There are no management contracts between HLEE or one of its subsidiaries and third parties.

5 COMPENSATION, EQUITY INVESTMENTS AND LOANS

Detailed information on compensation, equity investments and loans granted to current and former members of the Board of Directors and the management team in addition to responsibilities and procedures can be found in the remuneration report (pages 53-57).

Statutory provisions regarding remuneration principles and additional amounts, loans, borrowings and retirement benefits are specified in Articles 31 to 34 of the articles of incorporation. Rules regarding votes on remuneration at the Annual General Meeting can be found in Article 18 of the articles of incorporation. The articles of incorporation are available at: www.hlee.ch in the “Corporate Governance” section.

5.1 Contract terms and benefits payable to departing employees at the company

Members of the Board of Directors and the management team do not have contracts with special severance pay clauses or contracts with unusually long terms.

CORPORATE GOVERNANCE

6 PARTICIPATION RIGHTS OF SHAREHOLDERS

6.1 Restriction on voting rights and proxy voting

6.1.1 Restrictions on voting rights

There are no restrictions on voting rights. Each share entitles the holder to one vote.

6.1.2 Proxy voting

Shareholders may be represented at the Annual General Meeting by a person authorized in writing (who does not have to be a shareholder) or by the independent proxy.

The Annual General Meeting elects an independent proxy. Natural persons, legal persons and partnerships are eligible. Their mandate ends at the end of the following Annual General Meeting. Re-election is permitted.

The Annual General Meeting on June 13, 2016 elected Ms. Silvia Margraf, attorney and notary, as the independent proxy until the end of the Annual General Meeting in 2017. Ms. Margraf is independent and has no other mandates for the company.

Statutory provisions regarding independent proxies are specified in Article 14 of the articles of incorporation. The articles of incorporation are available at: www.hlee.ch in the "Corporate Governance" section.

6.2 Statutory quorums

The Annual General Meeting passes resolutions and hold elections with the absolute majority of voting shares represented. At least two thirds of the voting shares represented and the absolute majority of the nominal share capital value represented are also required for resolutions in accordance with Article 704 (1) and (2) OR. All provisions in the articles of incorporation comply with statutory provisions.

6.3 Convening the Annual General Meeting

Invitations to the Annual General Meeting are published in the Swiss Official Gazette of Commerce at least 20 days before the meeting. Invitations must include the items on the agenda and proposals of the Board of Directors and shareholders that have requested certain items to be added to the agenda.

6.4 Items on the agenda

Shareholders who represent shares with a nominal value of CHF 1 million or 10% of share capital may request the addition of an item to the agenda at the Annual General Meeting. In this case, items to be added to the agenda must be submitted in writing up to 45 days before the Annual General Meeting, specifying the items and proposals to be submitted to the Board of Directors.

Requests for items that have not been duly announced may be approved for discussion by resolution of the Annual General Meeting. However, resolutions on such matters may not be passed before the following Annual General Meeting. This does not apply to requests for calls for an extraordinary Annual General Meeting, the execution of a special audit, or the appointment of a statutory auditor at a shareholder's request.

6.5 Stock ledger entries/authentication

There are no registered shares and thus no stock ledger.

Owners of stock certificates or relevant custody accounts are considered to be shareholders by the company. The company recognizes only one beneficiary per share.

CORPORATE GOVERNANCE

7 CHANGE OF CONTROL AND PROTECTIVE MEASURES

7.1 Duty to make an offer

At the Annual General Meeting on May 11, 2012, the company introduced an opting-out clause, i.e. an acquirer of shares in the company is not required to make a public purchase offer in accordance with Article 125 ff. FinfraG.

7.2 Change-of-control clauses

No change-of-control clauses were agreed with members of the Board of Directors and/or management team or with other members the company's management.

8 AUDITORS

8.1 Mandate term of the head auditor

8.1.1 Appointment date of the current auditor

BDO AG, Aarau, has been the statutory auditor of Highlight Event and Entertainment AG since fiscal 2016 (previous year: Deloitte AG, Basel).

8.1.2 Appointment of the head auditor

As head auditor, Mr. Thomas Schmid at BDO AG is in charge of the audit mandate. As head auditor, Mr. Thomas Schmid can and will remain in office for a maximum term of seven years.

8.2 Auditor's fees

In the year under review, the auditor (BDO AG) invoiced a total amount of CHF 71,000 for the audit of the financial statements of Highlight Event and Entertainment AG and Group companies and the consolidated financial statements of the HLEE Group.

8.3 Additional fees

In the year under review, an additional CHF 33,220 was paid to the statutory auditor. These relate to special contracts.

8.4 Information tools of external auditors

The Board of Directors communicates directly with the external statutory auditor to discuss the audit work on the annual and semi-annual financial statements. After completing the audit, the statutory auditor reports on their findings to the Board of Directors and prepares an extensive report for the Board of Directors. The Board of Directors supervises and monitors external auditors and held a meeting with these auditors for fiscal 2016. The Board of Directors periodically assesses the ability, independence, work and invoicing of external statutory auditors.

CORPORATE GOVERNANCE

9 Changes resulting from the Swiss Ordinance on Compensation in Listed Stock Corporations

Overview of issues related to the Swiss Ordinance Against Excessive Compensation in Listed Stock Corporations (VegüV) of November 20, 2013 enacted by the Swiss Bundesrat and their adoption dates at Highlight Event & Entertainment AG:

Provisions	Implementation status
The right to transfer voting rights to the Board of Directors and the right of banks to vote shares held in custody accounts have been abolished	Jan. 1, 2014
Preparation of a remuneration report	Fiscal 2014
Individual election of Board members by the AGM for a one-year term	Annual General Meeting in 2015
Election of the President of the Board of Directors by the AGM for a one-year term	since the Annual General Meeting in 2014
Individual election of Compensation Committee members by the AGM for a one-year term	since the Annual General Meeting in 2014
Election of the independent proxy by the AGM for a one-year term	since the Annual General Meeting in 2014
Adjustment of existing employment contracts to VegüV requirements	performed in fiscal 2015
Electronic instructions to the independent proxy are permitted	from the Annual General Meeting in 2015
Approval of remuneration paid to the Board of Directors and management team by the AGM	from the Annual General Meeting in 2015
Adjustment/supplement to the articles of incorporation	since the Annual General Meeting in 2014
Adjustment/supplement to internal regulations	until the Annual General Meeting in 2015

Other provisions that do not require adjustments at HLEE are not included in the table above:

- Bans on termination pay, advance payments, provisions for the acquisition or transfer of companies and parts thereof (adopted as of January 1, 2014).
- Transfer of management to natural persons only (applied as of January 1, 2014). HLEE has allocated operational management to the CEO and management team (natural persons) in the past.
- Obligation for pension funds to exercise their voting rights (adopted as of January 1, 2015). These provisions relate to pension funds and pension schemes that are subject to the Swiss Vested Benefits Act (*Freizügigkeitsgesetz*) of December 17, 1993.

10 INFORMATION POLICIES

The company discloses information in accordance with Article 42 of the articles of incorporation (cf. www.hlee.ch in the “Corporate Governance” section) in individual publications in the Swiss Official Gazette of Commerce and other means of publication specified by the Board of Directors.

Information issued to shareholders is mainly included in this publication and the publication of annual and semi-annual reports. In addition, the Annual Report and semi-annual report can be viewed online at www.hlee.ch in the “Investor Relations” section.

These reports are prepared in accordance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and comply with Swiss law and the Directive on Financial Reporting of SIX Swiss Exchange.

CORPORATE GOVERNANCE

The website (www.hlee.ch) is also updated on an ongoing basis. HLEE has a push and pull system (cf. www.hlee.ch "AD HOC" section). These websites contain all of the important information on media reports and ad-hoc disclosures which registered investors are directly informed of via newsletter (www.hlee.ch see "AD HOC" section). In addition, all key information can be requested by e-mail (via www.hlee.ch in the "CONTACT" section), fax or phone:

Highlight Event and Entertainment AG

Netzibodenstrasse 23b

4133 Pratteln, Switzerland

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Users can subscribe or unsubscribe to the newsletter at www.hlee.ch in the "AD HOC" section.

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.