Your Family Entertainment AG

Annual Business and Financial Report 2017

Key figures in €k	2017	2016
Turnover[1]	5,087	3,700
EBITDA[2]	1,499	627
EBIT[3]	1,164	-2,559
Annual net profit (previous year annual loss)	881	-2,859
Balance sheet total	26,941	24,306
Film assets	21,487	22,074
Shareholders' equity	14,609	13,728

[1] Figures after reclassification under German Accounting Directive Implementation Act (€764.16 of the other operating income flow into the sales revenue)
[2] EBITDA = Annual net profit + Taxes on income and earnings + Interest and similar expenses ./. Other interest and similar income + Depreciation & amortisation ./. Write-ups
[3] EBIT = EBITDA + Write-ups ./. Depreciation & amortisation

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1. Opening comments of the Board of Management

Dear Shareholders,

It is my great pleasure to report one of Your Family Entertainment AG's most successful financial years. Not only the licence business, but also the free TV and pay TV sectors have all shown equally positive results; we are working on developing all these fronts.

I would now like to elaborate on the individual results of 2017:

In February, the German premiere of the second season of "The magical tooth fairies", an animated series aimed at encouraging children's oral hygiene, aired for the first time on "Fix&Foxi" TV.

Our cooperation with Amazon, finalised in May, was another milestone in the further development of the "Fix&Foxi" brand. At the launch of the Amazon Channels in Germany, Austria and Great Britain, the "Fix&Foxi" programmes were added to the German-language product range that allows Amazon Prime customers to choose an individualised programme from the available premium channels. All films and series that are included in an Amazon Channel subscription are available On Demand on all compatible devices.

We are particularly pleased to be able to report, in turn, a strong increase in sales revenue and the EBITDA for the 2017 financial year.

In September, special postage stamps from the 2017 "Tag der Briefmarke" ["Stamp Day"] series with the "Fix&Foxi" theme were presented in the Great Council Chamber of the Old Town Hall in Wittenberg. This motif was chosen in honour of Rolf Kauka, who would have been one hundred years old in 2017.

The "Tag der Briefmarke" is one of the annual highlights for philatelists. The special postage stamp issued annually in this series is usually in honour of a specific event or a special anniversary, in this case Rolf Kauka's birthday. In tribute to him, the famous foxes Fix&Foxi – Rolf Kauka's greatest success story – are featured on this year's special stamp. As the licence holder, Your Family Entertainment AG granted the rights for the image that was later created by Prof. Wilfried Korfmacher.

"RiC" TV also celebrated its fifth anniversary in September. Due to the continuous development of the TV channel, "RiC" was able to position itself as a reliable partner for advertisers. The educational and non-violent programmes were particularly highlighted as high-quality advertising environments, and these continue to play an increasingly important role in the advertisers' TV mix.

In its anniversary year, on 20 September, World Children's Day, "RiC" TV also aired new, emotional short features on the lives of the children in SOS Children's Villages. The films provide fascinating insights into the lives of the children and also showcase the dedicated work performed by the SOS Children's Villages throughout the world. This support means that those children, who haven't had an easy start in life, can grow up and become well-rounded people.

A further highlight was the signing of a strategic agreement with the Telekom Austria Group in October. "Fix&Foxi" TV is available to local pay TV providers in Central and Eastern Europe (CEE) through the satellite network. This expansion of the geographical scope reflects "Fix&Foxi" TV's growth.

With the approval of the Supervisory Board, the Board of Management decided in November to issue a convertible bond (2018 / 2020) with a total nominal value of up to EUR 4,375,460 divided into 2,573,800 equal partial bearer bonds.

The signing of a cooperative partnership with VUBIQUITY, one of the world's leading premium content providers, marked a further step towards the internationalisation of the "Fix&Foxi" brand. The TV channel will run on "Black", the South African company Cell C's entertainment platform, primarily for the purposes of entertainment in the mobile TV sector.

Finally, I would like to take this opportunity to thank you, our shareholders, for your trust in our company, as well as the members of the Supervisory Board for their ongoing active support.

Special thanks go to my team, whose extraordinary efforts, as in the last few years, have contributed to our ongoing development and who have made it possible for us to continue building up and expanding the company.

I look forward to continuing the successful management of Your Family Entertainment AG in future, as well as expanding the business and working on developing the company's immense potential, together with such motivated and ambitious employees.

Munich, April 2018

Dr. Stefan Piëch
Board of Management

2. About us

The name Your Family Entertainment AG (YFE) stands for innovation and tradition. For more than 35 years, we have been licencing and producing high-quality and educational TV series for children, young people and families.

Behind Your Family Entertainment AG is a young and dynamic team of highly motivated employees who share a common goal: we wish to pass on our enthusiasm and our passion for high-quality children's TV programmes to children, families and customers all over the world.

In international licencing, we are in the possession of one of the largest European independent libraries for children and family entertainment. We have an inventory of some 3,500 half-hour programmes at our disposal. It contains a large number of series, all created lovingly and with great effort; this is what enables us to offer such a varied range.

The library is continuously being maintained and new programmes are constantly being added. Recent years have also seen further long-term improvements in our excellent film stock. We have owned all the rights to Rolf Kauka's "Fix&Foxi" since May 2014. We have also acquired full rights to the series "Albert fragt" and "Albert sagt" since July 2014. In 2015, three new world-class series were added to the distribution in the form of "Toot the Tiny Tugboat", "Eena Meena Deeka" and "Badanamu".

Since 2007, we have been successfully operating the award-winning pay TV channel "yourfamily", which won the prestigious HOT BIRD TV Award in 2010. In 2011, 2013, 2014 and 2015, it was again nominated for the final round of the best three children's channels worldwide. In December 2014, the pay TV channel "yourfamily" acquired two new station characters and has since been called "Fix&Foxi". In 2016, "Fix&Foxi" won the Eutelsat TV Award in the "children's channels" category. The integration of the Fix&Foxi brand into pay TV – which has built up a large fan base over the past 60 years, and not only in Germany – merges the popularity of these two foxes with high-quality television programming for families. With their 24-hour 16:9 high-definition programme, our beloved foxes offer an ideal mix of challenging entertainment and educational content as well as monthly highlights. With this broadened concept, the channel has adopted a clear, distinct position in the German-language kids' pay TV market, even on the AmazonFire TV app "Fix&Foxi TV" since as early as 2015. In addition, our optional channel has been available under the name of "Fix&Foxi" on Amazon Prime Video in the children's entertainment sector since 2017. Thanks to this successful concept, the channel is now represented in many countries.

YFE has been represented on free TV with the children's channel "RiC" since 2012 and celebrated its fifth birthday in September 2017 (see Annual Report cover). We are very pleased that, due to its high-quality, popular European programmes, "RiC" has been able to firmly establish itself in the German-speaking region as a private channel aimed at children and families. Our children's channel is aimed at children aged between 3 and 13 and responsible adults in the household. Due to its extensive know-how and a carefully chosen range of high-quality content, "RiC" is positioning itself as the third private channel aimed at children and families in the German-speaking region. Both the child-friendly presentation of the channel and the decelerated content make "RiC" a contrast to the predominantly American and Asian programmes on offer. "RiC" is broadcast via satellite (Astra) and many cable networks, and as a live stream on the internet in German-speaking countries as well as on iOS and Android mobile platforms.

Since November 2014, "RiC" has been available via M-net in the Munich area as well as in parts of Augsburg, Nuremberg, Erlangen and Würzburg. Since February 2015, the trademark raven has been making the rounds in Baden-Württemberg, Hessen and North Rhine-Westphalia via Unitymedia and Kabel BW. To date, "RiC" has increased its reach to around 34 million households in the German-speaking region. The range on cable networks is continuously being expanded.

Your Family Entertainment AG was able to introduce yet another innovation at the end of 2014 in conjunction with "RiC". At the beginning of 2015, the world's first Slovak-language channel aimed at children and families, "RiK", was launched by a partner of Your Family Entertainment AG in Slovakia.

3. Report of the Supervisory Board

Dear Shareholders,

The Supervisory Board regularly monitored, controlled and advised on the work of the Board of Management during the 2017 financial year. The Board of Management kept the Supervisory Board comprehensively and punctually informed by means of both verbal and written reports. The Supervisory Board and the Board of Management were also in constant contact between meetings. Telephone conferences were held and e-mails were exchanged. Thus, the Supervisory Board was kept informed at all times of the intended business policy and the company's planning, including financial, investment and human resources, as well as the development of business and the company's current situation.

A total of four meetings were held by the Supervisory Board in the 2017 financial year. All members of the Supervisory Board participated in at least half of its meetings during their term of office in the 2017 financial year: During these meetings, all major matters of business policy, especially those relating to the company's commercial and financial development, its strategy and planning, important business events, legal developments and matters requiring approval were subjected to detailed and empirical analysis, deliberated upon and discussed with the Board of Management on the basis of comprehensive reports prepared by the Board of Management. In addition, the Supervisory Board also held discussions by means of telephone conferences. Also during the 2017 financial year, the Supervisory Board exercised its right to inspect the books and records as well as the company's assets. The Board of Management was available at all times to answer questions and to give explanations.

Key subjects discussed by the Supervisory Board

The focus of the deliberations and control activities of the Supervisory Board during the 2017 financial year was on the ongoing monitoring of the effects of the measures already adopted to reduce costs as well as an analysis of whether further steps in this regard are necessary. In addition, the turnover and profit performance, as in the previous years, was the subject of the consultations between the Supervisory Board and the Board of Management, particularly in view of the DCF method for evaluating films, which was applied for the first time in the previous year. While the annual result for 2016 was still negative due to the effects of this, a positive result of €881k was recorded for the 2017 financial year. In addition to this, turnover performance was particularly positive. At €5,087k, this was significantly higher (by approx. 37%) than the previous year's turnover of €3,700k. Earnings before depreciation, write-ups, interest and taxes (EBITDA) rose significantly, to €1,499k, over the previous year's figure of €627k.

To further strengthen the financial resources of the company, the Supervisory Board agreed to issue a 2018/2020 convertible bond. As a result of this, the company made €4,375k. Even after retirement of the expiring 2014 / 2018 convertible bond, the company still has a net inflow of €881k.

The company still faces considerable challenges in the future. The continually changing market environment, new technologies and distribution channels and the demand for new programmes require ongoing investment. In the opinion of the Supervisory Board, continuing to focus on the "Fix&Foxi" theme and successfully adding new programmes to the library are steps in the right direction.

Committees of the Supervisory Board

The Supervisory Board did not form any committees in the year under review.

Report on the results of the audit of the Annual Financial Statement

The Annual Financial Statement and the Management Report of Your Family Entertainment AG were prepared in accordance with the provisions of the German Commercial Code (HGB).

On behalf of the Supervisory Board, the Düsseldorf-based audit firm Baker Tilly AG (formerly Baker Tilly GmbH & Co. KG) audited the company's accounts, Annual Financial Statement and Management Report for the 2017 financial year. The auditor issued an unrestricted audit opinion based on the audit. The company's Annual Financial Statement, the company's Management Report and the auditor's reports were submitted to the Supervisory Board for examination. The Supervisory Board discussed these documents in detail at its meeting held on 16 April 2018 in the presence of the auditor. All the Supervisory Board's questions were answered in detail. The Supervisory Board took note of and approved the findings of the audit. Even with the conclusive results of the Supervisory Board's own review, no objections were raised to the company's Annual Financial Statement and Management Report for the 2017 financial year. The Supervisory Board approved the Annual Financial Statement of Your Family Entertainment AG presented by the Board of Management. The annual financial statement of Your Family Entertainment AG is thus established. The Board of Management has prepared its report on the company's relationships with affiliated companies and submitted this report, together with the report submitted by the auditor on this subject, to the Supervisory Board. The auditor issued an unrestricted opinion.

The auditor reported on relationships with affiliated companies and on the principal findings of the audit. The Supervisory Board's examination of the Board of Management's report and the audit report gave no cause for objections; the Supervisory Board agrees with the findings of the auditor's report.

Pursuant to Section 317 (4) HGB, the auditor also examined and concluded that the Board of Management has installed a monitoring system, that the legal requirements for the early detection of risks to the existence of the company are fulfilled, and that the Board of Management has taken appropriate measures to detect developments at an early stage and to avoid risks.

The auditor submitted the declaration of independence required by the Corporate Governance Code to the Supervisory Board and disclosed the audit and consultancy fees incurred in the relevant financial year to the Supervisory Board.

Corporate Governance and Declaration of Conformity

The subject of Corporate Governance is of high priority for the Supervisory Board. The Supervisory Board has dealt with the further development of the Corporate Government principles in the company. The declaration made by the Board of Management and the Supervisory Board pursuant to Section 161 AktG [German Stock Corporation Act] is reproduced in the Corporate

Governance section of the Annual Report and is also available on the company's website (www.yfe.tv) under Investor Relations.

Further information on Corporate Governance can be found on pages 12-15 of the Annual Report (Corporate Governance report).

The Supervisory Board would like to thank the Board of Management and all employees for their dedicated services during the 2017 financial year.

Munich, April 2018

Dr. Hans-Sebastian Graf von Wallwitz
Chairman of the Supervisory Board

4. Shares

4.1 Overview

Your Family Entertainment AG is listed under WKN A161N1/ISIN: DE000A161N14 under the ticker symbol "RTV" on the regulated market of the Frankfurt Stock Exchange (General Standard).

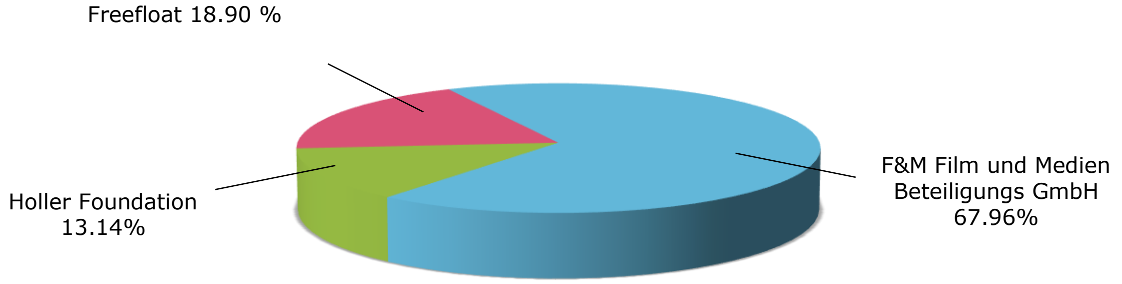
• Number of shares:	10,295,459 units
• Subscribed capital:	€10,295,459
• Initial listing:	8 June 1999
• Business sectors:	Movies+Entertainment

4.2 Development of the share price in 2017

During the period from January to December 2017, the share price of Your Family Entertainment AG on the Frankfurt Stock Exchange developed as follows:

Source: www.ariva.de

4.3 Shareholding structure (as at 31 December 2017)



5. Corporate Governance Report

Your Family Entertainment AG continued to develop its Corporate Governance activities in 2017 and follows to the greatest possible extent the recommendations and suggestions of the German Corporate Governance Code in the version of 7 February 2017.

The Supervisory Board of Your Family Entertainment AG does not form committees due to its size, as it consists of only three members, but has at its disposal an independent financial expert who meets the required criteria. This financial expert is independent and was not a member of the management (recommendations in Section 5.3.2). In its current composition, the Supervisory Board of Your Family Entertainment AG has very broad expert knowledge, which also takes into account the international orientation of the company (Section 5.4.1). YFE will also follow these objectives when making suggestions for new elections in the Supervisory Board. If Your Family Entertainment AG makes use of the exemptions in Section 5.4.4 of the Code when a member of the Board of Management is transferred to the Supervisory Board, it will report this at the shareholders' meeting.

The remuneration of the Board of Management and the Supervisory Board is shown in the Notes to the Annual Financial Statement for 2017. As the remuneration was not assessed due to ongoing contracts, an internal vertical comparison was not carried out (Section 4.2.2 / 4.2.3). In 2017, no conflicts of interest arose either in the Board of Management or in the Supervisory Board. A possible conflict of interest in connection with the Supervisory Board member Dr. Sebastian Graf von Wallwitz was avoided in that a resolution sought by the company on cooperation with the legal firm of Schwarz Kelwing Wicke Westphal, in which Graf von Wallwitz is a partner, was submitted to the 2007 shareholders' meeting for adoption of a resolution and an appropriate approval was given.

In 2017, the Board of Management also held a supervisory board mandate for SOS Children's Villages worldwide and one for at Seat, S.A.. The Supervisory Board monitors the efficiency of its own activities annually. It is the Supervisory Board's opinion that it has a sufficient number of independent members.

A comparison of the previous declaration of conformity with the Corporate Governance Code, which was actually implemented in the 2017 financial year, did not reveal any discrepancies. Your Family Entertainment AG largely complies with the recommendations of the Government Commission on the German Corporate Governance Code, departing from the Code only in areas where this appears justified due to the company's size, the adequacy of purpose of such measures and also the financial framework of a medium-sized company.

The rules of business procedure under which the Board of Management and the Supervisory Board operate remained unchanged in 2017. Approximately 51 shareholders and guests, representing 85.57% of the voting share capital, took part in the 2017 shareholders' meeting. All items proposed for resolution were accepted.

Munich, April 2018

Dr. Hans-Sebastian Graf von Wallwitz

(Chairman of the Supervisory Board)

Dr. Stefan Piëch

(Board of Management)

Declaration of conformity of the Board of Management and the Supervisory Board of Your Family Entertainment AG regarding the German Corporate Governance Code pursuant to Section 161 AktG

Section 161 AktG requires that the Board of Management and the Supervisory Board of a listed company declare annually that the recommendations made by the "Government Commission on the German Corporate Governance Code", published by the Federal Ministry of Justice in the official part of the Federal Gazette, have been and will be complied with, or which recommendations were not and will not be applied, stating the reasons.

The company's Board of Management and Supervisory Board welcome the German Corporate Governance Code and declare the following:

1. Your Family Entertainment AG will comply with the recommendations of the German Corporate Governance Code in the version of 7 February 2017, with the following exceptions:

D&O Insurance for the Supervisory Board (Section 3.8 (3))

For the members of the Supervisory Board, there is a D&O insurance which does not provide for an excess. The company does not consider the agreement of an excess to be suitable for improving the work ethic and sense of responsibility with which Supervisory Board members carry out the tasks and functions assigned to them. The legal requirements are met for the Board of Management.

Composition of the Management Board (Section 4.2.1 sentence 1)

Owing to the scope of business operations and the size of the company, the Board of Management currently consists of one person only. It therefore has no chair or spokesperson.

Establishing and disclosing the main features of a Compliance Management System (Section 4.1.3, sentences 2&3)

The Board of Management ensures compliance with legal requirements and company policy. In Section 4.1.3, sentence 2, the Code recommends that the Board of Management institute appropriate measures reflecting the company's risk situation (Compliance Management System) and disclose the main features of such. Due to the size of the company, no separate Compliance Management System was established as, according to the Board of Management and the Supervisory Board, the costs of setting up such a Compliance Management System would be disproportionate to the benefits of such. Thus the recommendation of Section 4.1.3, sentence 2, will not be implemented.

Nor was any specially protected option for employees to report suspected breaches of the law within the company, as recommended by Section 4.1.3 sentence 3, established within the company. In this case too, both the Board of Management and the Supervisory Board are of the opinion that, due to the size of the company and the culture of trust within the company, any breaches of the law are communicated directly.

Management Board remuneration (Section 4.2.2 (2) sentence 3, Section 4.2.3 (2) sentence 6)

Insofar as Section 4.2.2 (2) sentence 3 of the Code recommends taking into account the ratio of Management Board remuneration to the remuneration paid to the senior management and the entire workforce, including its development over time, a deviation is declared. In its vertical comparison, the Supervisory Board did not distinguish between the comparison groups as recommended in the Code, nor did it obtain data on the changes over time in wages and salaries. However, on concluding the current management contract, the Supervisory Board has, in compliance with the requirements of the German Stock Corporation Act, ensured that the total remuneration is proportionate to the tasks and services of the Board of Management and does not exceed the usual remuneration. The Supervisory Board nevertheless intends to review the vertical appropriateness of the remuneration of the Board of Management in the event of a future revision of a management contract on the basis of the content and timescale criteria stipulated by the aforementioned Code recommendations.

The recommendation in Section 4.2.3 (2) sentence 6 of the Code to set an upper limit to both the total remuneration and the variable elements for members of the Board of Management is not complied with. The current management contract, which was concluded before the aforementioned recommendation came into effect, does not set upper limits either for total remuneration or for the variable elements. However, variable remuneration is exclusively performance-related and the Supervisory Board believes that this ensures the reasonable and appropriate nature of the remuneration.

Diversity in the Board of Management (Section 5.1.2 (1) sentence 2)

As the company has one sole director, the Supervisory Board cannot be mindful of diversity within the Board of Management. Furthermore, as the Board of Management is comprised of one member only, which is currently deemed adequate for the company and whose position is filled for the foreseeable future, the governmental commission's recommendation for diversity in the composition of the Board of Management would appear unfeasible in the near future.

Formation of committees (Sections 5.3.1, 5.3.2, 5.3.3)

Due to the limited size of the Supervisory Board (three members), the formation of committees is not deemed necessary.

Definition of specific objectives for the composition of the Supervisory Board and the creation of a qualification profile (Section 5.4.1 (2) and (3))

The Supervisory Board of Your Family Entertainment AG does not state any specific objectives for its composition. A qualification profile for the entire board will not be created. In its proposal of suitable Supervisory Board candidates, the Supervisory Board has always aimed to put together a Supervisory Board exclusively made up of members who possess the proper knowledge, skills and professional experience to perform their duties properly. In the opinion of the Supervisory Board, this approach has proven successful. It is therefore considered unnecessary to change this practice. Consequently, the recommendations based on this pursuant to Section 5.4.1 (3) cannot be complied with.

Accounting date (Section 7.1.2, sentence 4)

The Annual Financial Statement will not be made publicly available within 90 days of the end of the financial year; the semi-annual financial statement will not be made publicly available within 45 days of the end of the reporting period.

The workload required for a timely release of said information would involve unjustifiably high costs. In the opinion of the Board of Management and the Supervisory Board, the legal requirements for promptly providing information to shareholders and the capital market are sufficient.

2. Since the last declaration of conformity of December 2016, Your Family Entertainment AG has basically complied with the recommendations of the German Corporate Governance Code in the version of 7 February 2017. The recommendations of Section 3.8 (3), Section 4.2.1, sentence 1, Section 4.2.2 (2) sentence 3, Section 4.2.3 (2) sentence 6, Section 5.1.2 (1) sentence 2, Section 5.3.1, Section 5.3.2, Section 5.3.3, Section 5.4.1 (2) and (3), and Section 7.1.2, sentence 4, were not applied.

For the reasons for deviating from the above-mentioned sections, see explanations under no. 1.

Munich, December 2017

Dr. Hans-Sebastian Graf von Wallwitz
(Chairman of the Supervisory Board)

Dr. Stefan Piëch
(Board of Management)

6. Annual Financial Statements and Management Report

6.1 Balance sheet as at 31 December 2017

ASSETS		31.12.2017		31.12.2016
	EUR	EUR	EUR	EUR
A. Fixed assets				
I. Intangible assets				
1. Franchises and similar rights aquired for a consideration	64.855,21			103.331,21
2. Film assets and other rights aquired for a consideration	21.487.145,44			22.073.554,36
3. Deposits paid	0,00			5.000,00
		21.552.000,65		22.181.885,57
II. Tangible assets				
Other equipment, operational and office equipment		60.270,00		68.287,00
			21.612.270,65	22.250.172,57
B. Current assets				
I. Accounts receivable and other assets				
1. Accounts receivable, trade	1.131.975,37			980.117,02
2. Other assets	38.653,79			97.658,35
		1.170.629,16		1.077.775,37
II. Cash on hand and bank balances		4.104.907,10		829.184,46
			5.275.536,26	1.906.959,83
C. Accruals and deferrals			53.561,14	148.386,97
Total assets			**26.941.368,05**	**24.305.519,37**

LIABILITIES					
			31.12.2017		31.12.2016
		EUR	EUR	EUR	EUR
A.	**Shareholders' equity**				
I.	**Subscribed capital**	10.295.459,00			10.295.459,00
	Less nominal value of treasury shares	-9.208,00			-8.758,00
	Issued capital		10.286.251,00		10.286.701,00
II.	**Capital reserve**		2.787.971,79		2.788.264,29
III.	**Accumulated profit**		1.534.682,98		653.189,94
				14.608.905,77	13.728.155,23
B.	**Accruals**				
	1. Provisions for pensions and similar obligations		314.707,00		314.502,00
	2. Other accruals		553.118,05		538.775,64
				867.825,05	853.277,64
C.	**Liabilities**				
	1. Bonds thereof convertible: €3,494,760.00 (previous year €3,494,760.00)		3.494.760,00		3.494.760,00
	2. Loans from credit institutions		3.107.545,44		3.406.026,84
	3. Advance payments received on account of orders		28.140,26		1.893.417,92
	4. Accounts payable, trade		753.182,15		839.849,56
	5. Other liabilities thereof taxes: €18,011.88 (previous year €18,956.36) thereof social security: €0.00 (previous year €0.00)		4.073.553,17	11.457.181,02	29.187,36 9.663.241,68
D.	**Accruals and deferrals**			7.456,21	60.844,82
Total liabilities				**26.941.368,05**	**24.305.519,37**

6.2 Profit and loss account for 2017

	2017		2016
	EUR	EUR	EUR
1. Revenues	5.087.245,00		3.700.227,81
2. Other operating income	4.066.164,70		3.491.829,11
		9.153.409,70	7.192.056,92
3. Cost of materials			
a) Cost of licences, commissions and materials	164.496,30		215.867,10
b) Cost of purchased services	857.425,03		848.768,80
		1.021.921,33	1.064.635,90
		8.131.488,37	6.127.421,02
4. Personnel expenses			
a) Salaries	993.560,28		1.017.093,44
b) Social security expenses and expenses for pension schemes and support thereof pensions EUR 7,958.91 (previous year EUR 2,464.64)	155.663,40		153.540,01
		1.149.223,68	1.170.633,45
5. Depreciation on intangible assets and property, plant and equipment		4.276.716,02	6.363.698,25
6. Other operating expenses		1.541.641,63	1.151.585,08
7. Interest and similar expenses		273.202,50	284.724,34
8. Taxes on income and earnings		8.903,50	15.503,49
9. Income after taxes		881.801,04	-2.858.723,59
10. Other taxes		308,00	308,00
11. Annual net profit (previous year annual loss)		881.493,04	-2.859.031,59
12. Profit brought forward		653.189,94	3.512.221,53
13. Accumulated profit		1.534.682,98	653.189,94

6.3 Cash flow statement for 2017

		2017 TEUR	2016 TEUR
A. Ongoing business activities			
1.	Annual result	881	-2.859
2.	Depreciation on value of film assets and other rights	4.236	6.264
3.	Depreciation on remaining items of fixed assets	41	100
4.	Write-ups on value of film assets and other rights	-3.942	-3.178
5.	Losses incurred by the disposal of items from the fixed assets	361	0
6.	Change in long-term accruals	0	-7
7.	Other non-cash expenses and income	-90	-158
8.	Interest payable	273	285
9.	Tax expenses	9	3
10.	Increase in trade receivables	-182	-383
11.	Increase in other assets	154	-55
12.	Decrease in trade liabilities	-87	-135
13.	Decrease in other liabilities	-1.936	-366
14.	Taxes paid	-9	-3
	Cash inflow from ongoing business activities	**-291**	**-492**
B. Investment activities			
1.	Investments in property, plant and equipment	-32	-11
2.	Investments in other intangible fixed assets	-1	-29
3.	Investments in the value of film assets and in other rights	-25	-21
	Cash outflow from investment activities	**-58**	**-61**
C. Financing activities			
1.	Cash outflows for the acquisition of treasury shares	-1	-7
2.	Proceeds from capital increase	0	886
3.	Proceeds from borrowing via financial loans and bonds	4.845	592
4.	Repayments of financial loans	-1.087	-217 *1)
5.	Interest paid	-121	-133
	Cash inflow from investment activities	**3.636**	**1.121**
D.	**Net changes in cash and cash equivalents**	**3.287**	**568**
E.	**Cash and cash equivalents at the beginning of the period**	**811**	**243**
F.	**Cash and cash equivalents at the end of the period**	**4.098**	**811**

Composition of cash and cash equivalents	31.12.2017 TEUR	31.12.2016 TEUR
Cash on hand, bank balances	4.105	829
Liabilities to banks with a remaining term of up to three months	-7	-18 *1)
Cash and cash equivalents	**4.098**	**811**

*1) As of reporting year 2017, amounts owed to credit institutions that are payable on demand will be declared in the cash and cash equivalents and the previous year's figures will be adjusted accordingly

6.4 Equity analysis 2017

	Subscribed capital	Less nominal value of treasury shares	Issued capital	Capital reserve	Accumulated profit	**Shareholders' equity**
	EUR	EUR	EUR	EUR	EUR	EUR
1.1.2015	9.662.999,00	-82.000,00	9.580.999,00	2.518.740,42	3.131.364,64	15.231.104,06
Acquisition of treasury shares	0,00	-31.834,00	-31.834,00	-9.236,69	0,00	-41.070,69
Sale of treasury shares	0,00	110.000,00	110.000,00	27.500,00	0,00	137.500,00
Annual net profit	0,00	0,00	0,00	0,00	380.856,89	380.856,89
31.12.2015	9.662.999,00	-3.834,00	9.659.165,00	2.537.003,73	3.512.221,53	15.708.390,26
1.1.2016	9.662.999,00	-3.834,00	9.659.165,00	2.537.003,73	3.512.221,53	15.708.390,26
Acquisition of treasury shares	0,00	-4.924,00	-4.924,00	-1.723,44	0,00	-6.647,44
Sale of treasury shares	0,00	0,00	0,00	0,00	0,00	0,00
Capital increase	632.460,00	0,00	632.460,00	252.984,00	0,00	885.444,00
Annual net loss	0,00	0,00	0,00	0,00	-2.859.031,59	-2.859.031,59
31.12.2016	10.295.459,00	-8.758,00	10.286.701,00	2.788.264,29	653.189,94	13.728.155,23
1.1.2017	10.295.459,00	-8.758,00	10.286.701,00	2.788.264,29	653.189,94	13.728.155,23
Acquisition of treasury shares	0,00	-450,00	-450,00	-292,50	0,00	-742,50
Sale of treasury shares	0,00	0,00	0,00	0,00	0,00	0,00
Capital increase	0,00	0,00	0,00	0,00	0,00	0,00
Annual net profit	0,00	0,00	0,00	0,00	881.493,04	881.493,04
31.12.2017	10.295.459,00	-9.208,00	10.286.251,00	2.787.971,79	1.534.682,98	14.608.905,77

6.5 Notes to the Annual Financial Statement 2017

I. General Information

The Annual Financial Statement of Your Family Entertainment AG (YFE), (Munich District Court, HRB 164922) for the 2017 financial year was prepared in accordance with Sections 242 et seqq., Section 264 et seqq. of the German Commercial Code (HGB) as well as the relevant provisions of the German Stock Corporation Act (AktG). The rules for large limited companies apply, as it is a publicly quoted company oriented towards the capital market within the definition of Section 264d HGB.

Your Family Entertainment AG has its offices in Munich, Nordendstraße 64, Germany.

Scope of business:

The creation, editing and production of films, video and sound carriers and merchandising products, the purchase and sale of rights, investment in radio and television broadcasting companies, trade of films, image/sound carriers, merchandising products and national and international rights as well as event marketing. The company is also a full-service provider in that it acts as an agency for the marketing of its own and third-party merchandising rights at home and abroad. In addition, the operation of a music-publishing house and all related business promoting the purpose of the company, including the production of music, especially film music, either in its own capacity or through third parties is the subject of the company.

The company’s business activities are divided into the segments “Production” and “Licence Sales”.

II. Accounting and valuation methods

Accounting and valuation are carried out according to the following principles:

1. Balance sheet

Purchased film assets and other rights are shown at their amortised cost. Scheduled amortisation depends on the utilisation of the film rights. The periodic proportionate utilisation-related amortisations are implemented according to the proportionate sales attributed to the financial year in relation to the overall planned distribution of the individual film rights, including the turnover achieved in the financial year.

In the course of reviewing the procedure for determining the fair value of the individual film rights and due to the stronger focus on the TV channel business, it was decided to change the procedure for determining the fair value of the individual film rights as of the 2016 financial year.

According to the method used for the 2017 financial year, the individual film rights are assessed on the basis of the immediate cash flow forecast method. The starting point in this case is the financial surpluses that are to be isolated accordingly for each film right. Specific cash flows are determined separately for each individual film right on the basis of the various areas of licencing revenues, television revenues (pay TV and free TV separately), utilisation proceeds, merchandising proceeds and other revenues. When determining the planning period for these cash flows, the useful economic life or, respectively, the remaining useful life is taken into account separately for each individual film right.

The cash flows that are generated in this manner and which could be achieved in the future are discounted using a risk-adjusted capitalisation rate to determine the corresponding present value on the valuation date. The calculation of the capitalization rate or the company's weighted average cost of capital (WACC) is based in particular on the corresponding parameter values of a group of listed peer companies (peer group), which are used to calculate shareholders' equity costs, borrowing costs and capital structure. These asset-specific equity costs are composed of a risk-free base interest rate and a market risk premium, based on the Capital Asset Pricing Model (CAPM).

The fair current market values, which are compared against the respective book values of each film right in the impairment test, are identified on the basis of the procedure for assessing the value of each film right.

If a lower value is determined for fair value compared to the book value of the individual film right on the valuation date, an extraordinary write-down is carried out. In the 2017 financial year, extraordinary write-downs of €2,361k (previous year €5,728k) were recorded on the basis of the valuation method applied and on the basis of this comparison.

Similarly, with respect to a fair value that, on the valuation date, is higher than the book value, but below the amortised costs of the respective film right, the impairment is reversed if an impairment no longer exists or has been reduced. This means that an increase or decrease in the value of an asset is recognised only to the extent that it does not exceed the book value that would have resulted, taking into account amortisation effects, if no impairment loss had been recognized in previous years (amortised cost). In the 2017 financial year, extraordinary write-ups of €3,942k (previous year €3,178k) were recorded on the basis of the valuation method applied and on the basis of the corresponding calculation. This is shown in the item "other operating income".

The purchased IT software as well as the property, plant and equipment are valued at acquisition cost minus scheduled depreciation. The amortisation of IT software is carried out in accordance with the straight-line method pro rata temporis. Movable assets are also amortised on the basis of a straight-line method pro rata temporis. The period of amortisation and depreciation corresponds to the useful lives of the assets customary in the industry. This is three years for IT software and two to ten years for the other operational and office equipment.

Receivables and other assets are shown at their nominal value. All items which present a risk are accounted for by forming reasonable specific value adjustments. In addition, there is also a general provision of 1% for the general credit risk.

Pension provisions are calculated in accordance with the Project Unit Credit Method, using Dr. Klaus Heubeck's "2005 G Reference Tables". The average market interest rate for the past 10 years (previous year 10 years) with a remaining term of 15 years of 3.68% (previous year 4.01%) was taken as a basis for the discount rate according to the provisions of German Regulation on the Discounting of Provisions of 18 November 2009. Expected salary and pension increases were not to be taken into account. The difference pursuant to Section 253 (6) HGB resulting from the comparison of the 10-year average with the 7-year average is to be set at €25k.

The other provisions cover all identifiable risks and contingent liabilities. These are valued according to the required settlement amount (i.e. including future cost and price increases). Other provisions with a maturity of more than one year are discounted at an interest rate adequate for the remaining time to maturity pursuant to the German Regulation on the Discounting of Provisions.

The liabilities are valued according to the settlement amount.

Amounts in foreign currency are valued at the spot exchange rate on the balance sheet cut-off date. For a term of more than one year, the realisation and acquisition cost principle is taken into account.

Economic hedging relationships are accounted for by the creation of valuation units. When applying the "net hedge presentation method", compensatory changes from the hedged risk are not accounted for on the balance sheet. The positive and negative changes in the value of both the hedged item and the hedging instrument are recorded without affecting the profit and loss account.

For the determination of deferred tax due to temporary or quasi-permanent differences between the commercial values of assets, liabilities and deferred revenue items and their tax values or tax loss carry-forwards, the amounts of the resulting tax burden and relief are assessed at the company-specific tax rates (32.98%) at the time of reducing the differences and are not discounted.

Deferred tax assets on the balance sheet cut-off date mainly result from tax loss carry-forwards, pension provisions, other provisions and foreign currency profits.

The option to activate deferred taxes is not exercised.

2. Profit and loss account

The profit and loss account is structured according to the total cost method.

Turnover is recognised depending on the respective licence agreement, especially if the following criteria are met:

- a licence contract signed by both parties is available;
- the contractual obligations regarding the delivery/supply of the material have been met;
- the licencing period has begun;
- the contractual fee can be determined, e.g. also by means of periodic reports from the video-on-demand (VoD) platforms.

Whether the licensee uses the rights only at a later point in time is not relevant for the time of recognition of the sale.

As regards merchandising sales ("Licence Sales" segment), the guaranteed income is recorded at the time of conclusion of the contract and/or at the start of the respective licence period. In the case of income that is solely dependent on sales, the income is recognised as soon as the licensee records the sales.

Sales in the "Production" segment are recognised after completion and acceptance.

III. Explanatory notes on the balance sheet

1. Fixed assets

The development of the individual items of the fixed assets is illustrated in the asset analysis, including the depreciation and amortisation for the financial year.

2. Receivables and other assets

Items with a maturity of more than one year exist in the amount of €0k (previous year €7k) for receivables from trade and in the amount of €7k (previous year €7k) for the other assets.

3. Equity

Share capital

The share capital of Your Family Entertainment AG as of the balance sheet cut-off date is divided into 10,295,459 no-par-value shares, each with a pro-rata amount in the share capital of €1.00. As of 31 December 2017, the share capital thus amounts to €10,295,459.00. The shares are issued in the bearer's name and are fully paid up.

As of 31 December 2017, F&M Film und Medien Beteiligungs GmbH, Vienna, Austria, holds 67.96% of the share capital.

Capital reserve

To offset the purchase price for 450 treasury shares above the nominal value, €292.50 was taken from the freely available capital reserve in 2017.

Authorised capital 2016

The shareholders' meeting of 22 June 2016 decided to cancel the 2012 authorised capital and simultaneously approved a new authorised capital (authorised capital 2016).

In this respect, the following resolution was adopted:

a) The authorisation of the Board of Management, with the approval of the Supervisory Board, to increase the company's share capital on one or more occasions by a total of up to €4,831,499 (authorised capital 2012) by 26 June 2017 is, as far as such has not yet been utilised and in view of the creation of a new authorised capital under b) to d) below, herewith nullified with effect from the date of entry of the new authorised capital in the commercial register.

b) With the approval of the Supervisory Board, the Board of Management is authorised to increase the company's share capital on one or more occasions by a total of up to €4,831,499 by 21 June 2021 at the latest by issuing up to 4,831,499 new no-par-value registered share certificates with dividend entitlement in return for cash and/or contributions in kind (authorised capital 2016) from the beginning of the financial year in which the shares were issued. As a matter of principle, shareholders will be granted a subscription right. The statutory subscription right may also be granted in such a way that the new shares can be purchased by a bank or an equivalent institution under Section 186 (5) sentence 1 AktG with the obligation to offer these to shareholders of Your Family Entertainment AG for subscription. The Board of Management is nevertheless authorised, with the approval of the Supervisory Board, to exclude the shareholders' statutory subscription rights

- if a capital increase against cash contributions does not exceed 10% of the share capital and the issue price of the new shares does not fall significantly below the stock market price (Section 186 (3) sentence 4 AktG); in exercising this authorisation to exclude the subscription right pursuant to Section 186 (3) sentence 4 AktG, the exclusion of the subscription right due to other authorisations pursuant to Section 186 (3) sentence 4 AktG is to be taken into account;

- if the shares are issued against a contribution in kind for the purpose of acquiring companies or interests in companies or parts of companies or for the purpose of acquiring outstanding debts against the company;

- to the extent necessary to compensate for peak amounts.

c) With the approval of the Supervisory Board, the Board of Management is authorised to determine further details of the capital increase and its implementation.

The Supervisory Board is authorised to adjust the version of the articles of association in accordance with the utilisation of the authorised capital 2016.

d) § 4 (3) of the articles of association will be amended in accordance with the aforementioned resolutions as follows:

“(3) With the approval of the Supervisory Board, the Board of Management is authorised to increase the company’s share capital on one or more occasions by a total of up to €4,831,499 by 21 June 2021 at the latest by issuing up to 4,831,499 new no-par-value registered share certificates with dividend entitlement in return for cash and/or contributions in kind (authorised capital 2016) from the beginning of the financial year in which the shares were issued. As a matter of principle, shareholders will be granted a subscription right. The statutory subscription right may also be granted in such a way that the new shares can be purchased by a bank or an equivalent institution under Section 186 (5) sentence 1 AktG with the obligation to offer these to shareholders of Your Family Entertainment AG for subscription. The Board of Management is nevertheless authorised, with the approval of the Supervisory Board, to exclude the shareholders' statutory subscription rights

- if a capital increase against cash contributions does not exceed 10% of the share capital and the issue price of the new shares does not fall significantly below the stock market price (Section 186 (3) sentence 4 AktG); in exercising this authorisation to exclude the subscription right pursuant to Section 186 (3) sentence 4 AktG, the exclusion of the subscription right due to other authorisations pursuant to Section 186 (3) sentence 4 AktG is to be taken into account;

- if the shares are issued against a contribution in kind for the purpose of acquiring companies or interests in companies or parts of companies or for the purpose of acquiring outstanding debts against the company;

- to the extent necessary to compensate for peak amounts.

With the approval of the Supervisory Board, the Board of Management is authorised to determine further details of the capital increase and its implementation. The Supervisory Board is authorised to adjust the version of the articles of association in accordance with the utilisation of the authorised capital 2016.”

Conditional capital 2013

The extraordinary shareholders’ meeting held on 7 November 2013 approved conditional capital (conditional capital 2013).

In this respect, the following resolution was adopted:

a) With the approval of the Supervisory Board, the Board of Management is authorised to issue by 6 November 2018, on one or more occasions, bearer convertible bonds with a total nominal value of up to €10,000,000.00 and a term of no longer than 20 years and to grant the bearers of said convertible bonds conversion rights to new shares in the company up to a total equivalent value of €2,300,000.00 of the share capital in accordance with the detailed terms of the convertible bonds. The convertible bonds may be issued on one or more occasions, in whole or in partial bonds, and in separate tranches.

The shareholders have a fundamental subscription right to the convertible bonds. The statutory subscription right may also be granted by one or more credit institutions purchasing the convertible bonds with an obligation to offer the bonds to shareholders for acquisition. With the approval of the Supervisory Board, the Board of Management is nevertheless entitled to completely or partially exclude the subscription right of the company's shareholders to the convertible bonds with conversion rights to shares in the company in order to exclude rights to fractional amounts as a result of the shareholders' subscription rights.

The holders of any convertible bonds which may be issued are entitled to trade in their convertible bonds for shares in Your Family Entertainment Aktiengesellschaft in accordance with the detailed terms of the convertible bonds. The amount of share capital represented by the shares to be issued upon conversion must not exceed the nominal value of the convertible bonds. The conversion ratio shall be equal to the nominal value of a convertible bond divided by the nominal value of a share in Your Family Entertainment Aktiengesellschaft. The bond terms may allow for a variable conversion ratio and for the conversion price to be set depending on the movement of the share price during the term or over a set period within the term. The conversion ratio may be rounded up or down to a whole number; a part payment in cash may also be specified. The terms may also allow for fractional amounts to be combined and/or settled in cash.

The terms of the convertible bond may also entitle the company to pay the equivalent value in cash instead of granting shares in the company to those exercising their conversion option. The terms of the convertible bond may also allow the company to issue its treasury shares to bondholders exercising their conversion option.

The conversion price to be set for a share must be at least 80 % of the average closing price of the company shares in floor trading on the Frankfurt Stock Exchange or, if the shares are traded on the XETRA, in XETRA trading or in an equivalent, subsequent system, for the last ten trading days before the day of the Board of Management's decision to issue convertible bonds. This does not affect Section 9 (1) or Section 199 (2) AktG.

With the approval of the Supervisory Board, the Board of Management is authorised to specify further details of the issue and terms of the convertible bonds, in particular the interest rate, issue price, term and denomination, and the conversion price and conversion period.

b) The share capital will be conditionally increased by up to € 2,300,000.00 with the issue of up to 2,300,000 new no-par-value bearer share certificates (conditional capital 2013). The conditional capital increase will be used to grant shares to the holders of convertible bonds that are issued in accordance with the above authorisation. The conditional capital increase will only be carried out to the extent that the holders of convertible bonds issued by the company up to 6 November 2018 as authorised by the shareholders' meeting held on 7 November 2013 exercise their conversion rights and to the extent that other forms of fulfilment are not used to settle these rights. The new shares will entitle the shareholder to participate in profits from the beginning of the financial year in which they are acquired by exercising conversion rights. With the approval of the Supervisory Board, the Board of Management is authorised to specify further details on the implementation of the conditional increase in capital. The Supervisory Board is authorised to amend the wording of the articles of association in accordance with the use of the conditional capital.” Section 4 of the articles of association will be amended to include the aforementioned resolutions.

Under agenda point 6 of the ordinary shareholders’ meeting held on 15 September 2017, the following resolution on extending the authorisation to issue convertible bonds, increasing the existing conditional capital 2013 and changing the articles of association accordingly was adopted:

a) The resolution adopted by the extraordinary shareholders’ meeting held on 7 November 2013 under agenda point 1 on the authorisation to issue convertible bonds will be extended to authorise the Board of Management, with the approval of the Supervisory Board, to issue bearer convertible bonds with a total nominal value of up to €15,000,000.00 and a term of no longer than 20 years on one or more occasions by 6 November 2018, and to grant the bearers of said convertible bonds conversion rights to new shares in the company up to a total equivalent value of €5,147,729.00 of the share capital in accordance with the detailed terms of the convertible bonds.

The other provisions of the authorisation to issue convertible bonds under agenda point 1 of the extraordinary shareholders’ meeting held on 7 November 2013 remain unaltered.

b) The existing conditional capital 2013 will be changed as follows:

The share capital will be conditionally increased by up to €5,147,729.00 with the issue of up to 5,147,729 new no-par-value registered share certificates (conditional capital 2013/2017). The purpose of the conditional capital increase is to grant shares to the holders of convertible bonds that are issued as authorised by the shareholders’ meeting held on 7 November 2013 in the version amended due to the resolution adopted by the shareholders’ meeting of 15 September 2017. The conditional capital increase will only be carried out to the extent that the holders of convertible bonds, which are issued by the company by 6 November 2018 as authorised by the shareholders’ meeting held on 7 November 2013 in the version amended by the resolution of the shareholders’ meeting on 15 September 2017, exercise their conversion rights and to the extent that other forms of fulfilment are not used to settle these rights. The new shares will entitle the shareholder to participate in profits from the beginning of the financial year in which they are acquired by exercising conversion rights. With the approval of the Supervisory Board, the Board of Management is authorised to specify further details on the implementation of the conditional increase in capital. The Supervisory Board is authorised to adjust the version of the articles of association in accordance with the utilisation of the conditional capital.

c) § 4 para. 4 of the articles of association will be amended as follows:

"(4) The share capital has been conditionally increased by up to €5,147,729.00 with the issue of up to 5,147,729 new no-par-value registered share certificates (conditional capital 2013/2017). The purpose of the conditional capital increase is to grant shares to the holders of convertible bonds that are issued as authorised by the shareholders' meeting held on 7 November 2013 in the version amended due to the resolution adopted by the shareholders' meeting of 15 September 2017. The conditional capital increase will only be carried out to the extent that the holders of convertible bonds, which are issued by the company by 6 November 2018 as authorised by the shareholders' meeting held on 7 November 2013 in the version amended by the resolution of the shareholders' meeting on 15 September 2017, exercise their conversion rights and to the extent that other forms of fulfilment are not used to settle these rights. The new shares will entitle the shareholder to participate in profits from the beginning of the financial year in which they are acquired by exercising conversion rights. With the approval of the Supervisory Board, the Board of Management is authorised to specify further details on the implementation of the conditional increase in capital. The Supervisory Board is authorised to adjust the version of the articles of association in accordance with the utilisation of the conditional capital."

Decision on the conversion of bearer shares to registered shares and the associated amendments to the articles of association and adaptation of authorisations

The extraordinary shareholders' meeting held on 24 June 2015 decided the following:

a) The no-par-value bearer share certificates issued when the articles of association amendment decided under b) comes into effect will be converted into registered shares.

b) § 5 (1) and (2) of the company's articles of association will be amended and rephrased as follows:

"(1) All shares are registered by name (registered shares).

(2) If, in the event of a capital increase, the resolution to implement the capital increase makes no provision as to whether the new shares should be bearer shares or registered shares, then such new shares shall also be registered shares."

c) § 4 (3) sentence 1 of the company's articles of association will be amended and rephrased as follows:

"With the approval of the Supervisory Board, the Board of Management is authorised to increase the company's share capital on one or more occasions by a total of up to €4,831,499 by 26 June 2017 by issuing up to 4,831,499 new no-par-value registered share certificates with dividend entitlement in return for cash and/or contributions in kind (authorised capital 2012) from the beginning of the financial year in which the shares were issued."

d) aa) The authorisation to issue no-par-value bearer shares decided at the extraordinary shareholder's meeting held on 7 November 2013 under agenda point 1 is amended in that the authorisation permits the granting of convertible bonds for no-par-value registered share certificates instead of the granting of convertible bonds for no-par-value bearer share certificates.

bb) The conditional capital increase for the service of convertible bonds decided at the extraordinary shareholder's meeting held on 7 November 2013 under agenda point 1 is amended in that the conditional capital is increased by issuing no-par-value registered share certificates instead of no-par-value bearer share certificates.

cc) With regard to convertible bonds already issued, the bearers of conversion rights now have subscription rights for no-par-value registered share certificates instead of subscription rights for no-par-value bearer share certificates. The terms of the convertible bonds remain otherwise unaffected.

dd) § 4 (4) sentence 1 of the company's articles of association will be amended and rephrased as follows:

"The share capital has been conditionally increased by up to €2,300,000.00 with the issue of up to 2,300,000 new no-par-value registered share certificates (conditional capital 2013)."

Share repurchase

In 2017, due to the favourable share price on 5 December 2017, the authorisation to purchase treasury shares, which was renewed at the 27 June 2012 shareholder's meeting and at the 22 June 2016 shareholders' meeting, was exercised and a total of 450 (0.004 % of the share capital) treasury shares with a nominal value of a total of €450 at an overall price of €742.50 incl. €17.40 in additional costs were purchased on the stock exchange.

Thus, the treasury shares as of the balance sheet cut-off date amount to 9,208 shares. This is equivalent to 0.09% of the share capital.

4. Accruals

The other accruals in the amount of €553k (previous year €539k) mainly relate to human resources costs €88k (previous year €81k), accruals for outstanding invoices €127k (previous year €123k) as well as accruals for the Annual Financial Statement and audit costs €53k (previous year €47k) and Supervisory Board salaries €54k (previous year €49k). In addition, a provision for impending losses from derivative financial instruments in the amount of €25k (previous year €42k) has been made.

5. Convertible bonds

In 2014, convertible bonds (2014/2018) with a total nominal value of €3,494,760.00 were issued. The holders of the convertible bonds were granted conversion rights for new shares in the company with a pro-rata amount of the share capital of €1,456,150.00.

On 23 November 2017, the Board of Management and the Supervisory Board of Your Family Entertainment will issue a further convertible bond (2018/2020) with a total nominal value of up to €4,375,460, divided into 2,573,800 equal partial bearer bonds with a nominal value of €1.70 each.

The term of the convertible bond commences on 1 January 2018 and ends at close of business on 9 February 2020. The issue price per partial bond is 100% of the nominal value, i.e. €1.70. Each partial bond will bear interest at a rate of 3% p.a. on its nominal value.

Under their subscription rights, the shareholders were entitled to subscribe for a new partial bond for four shares each on the basis of the subscription ratio of 4:1. Provisions were made for the option of subscribing for additional partial bonds. The subscription period ran from 29 November 2017 to 13 December 2017 (inclusively), while no provisions were made for trading subscription rights. The corresponding subscription offer was published on 24 November 2017 in the Bundesanzeiger [Federal Gazette].

6. Liabilities

Liabilities as of 31.12.2017 in €k	Up to 1 year	1 – 5 years	> 5 years	Total
Convertible bonds	3,495	0	0	3,495
Loans from credit institutions	3,108	0	0	3,108
Advance payments received on account of orders	28	0	0	28
Accounts payable, trade	574	179	0	753
Other liabilities • - thereof taxes	28 (18)	4,045 (0)	0 (0)	4,073 (18)
Total liabilities	**7,233**	**4,224**	**0**	**11,457**

Liabilities as of 31.12.2016 in €k	Up to 1 year	1 – 5 years	> 5 years	Total
Convertible bonds	0	3,495	0	3,495
Loans from credit institutions	3,406	0	0	3,406
Advance payments received on account of orders	1,893	0	0	1,893
Accounts payable, trade	549	291	0	840
Other liabilities • - thereof taxes	29 (19)	0 (0)	0 (0)	29 (19)
Total liabilities	**5,877**	**3,786**	**0**	**9,663**

In order to secure amounts owed to credit institutions, collaterals in the form of rights and claims under film licencing agreements were granted. In addition, amounts owed to credit institutions are supported by bill designations and blank bills.

7. Other financial obligations

Other financial commitments due within one year amount to €708k and are primarily divided into rental (€61k), leasing (€11k), and consultancy and service obligations (€636k).

Within a period of 2 to 5 years, a total of €632k will become due, primarily for service expenses.

8. Derivative financial instruments

To hedge interest rate risk, the company concluded interest rate hedging instruments. These financial instruments are effective as of 1 June, 2012.

Type/category in €k	Nominal amount	Fair value Current market value	Book value
Interest swap	500	-31	n/a
Interest swap	300	-18	n/a
Cap	700	-15	-14
Cap	500	-11	-11
Total	**2,000**	**-75**	**-25**

Where the underlying transactions are closed items, there was no need for any provisions.

For the caps, other accruals amounting to €25k (previous year €42k) were formed.

The following valuation methods were applied:

The values stated are cash values (present value). Possible past cash flows (e.g. interest or premium payments) are not taken into account. Future cash flows from variable payments as well as discount rates are determined based on generally accepted actuarial models. For the valuation, average inter-bank rates are used

9. Valuation units

The following valuation units were formed:

Underlying transaction / hedging tool	Risk / type of valuation unit	Amount involved (€k)	Hedged risk (€k)
Floating-interest loan liabilities / interest swaps	Interest rate risk / microhedge	800	-49

The underlying transaction is a floating-interest credit line, which will very likely be utilised during the hedging period (1 June 2012 to 3 June 2019) at least to the amount of the hedging volume. The opposed cash flows of underlying and hedging transactions presumably will be almost completely balanced in the hedging period because the payments from interest swaps are offset by an underlying transaction in the same amount. The effectiveness of the hedging relationships is determined on the basis of the "hypothetical derivative method". As of the balance sheet cut-off date, this did not require any provision.

IV. Explanatory notes on the profit and loss account

1. Sales revenue

A sales revenue of €1,380k (previous year €1,724k) was achieved in Germany and €3,707k (previous year €1,976k) abroad.

In 2017, the sales revenue of €5,087k was achieved entirely in the "Licence Sales" segment (previous year €3,700k).

2. Other operating income

This item primarily includes income from write-ups on film assets amounting to €3,942k (previous year €3,178k).

Furthermore, income from currency conversion account for €34k (previous year €16k).

3. Cost of materials

This position relates to sales-related costs for licences, commission, materials and purchased services. These are primarily the cost of purchased services amounting to €857k (previous year €849k), for licences (authors' shares) of €127k (previous year €128k) and commissions €38k (previous year €86k).

4. Personnel expenses

On average throughout the year, 17 employees (previous year 18), including apprentices and trainees but excluding the Board of Management, were employed, of which 1 (previous year 2) was employed on a part-time basis.

5. Depreciation & amortisation

As a result of the so-called impairment test for financial stability, extraordinary write-downs on the value of film assets in the amount of €2,361k (previous year €5,728k) were required. In addition, distribution-dependent amortisations of €1,736k (previous year €441k) on the film assets and straight-line amortisations of €101k (previous year €95k) were made on the value of film assets.

6. Other operating expenses

This collective item mainly includes the costs of repairs and administration (especially investor relations, legal, court, audit and consultancy costs), rental and leasing costs, and press, advertising and trade show costs.

Furthermore, currency conversion accounted for €25k (previous year €24k) in expenses.

7. Interest and similar expenses

Expenses from the discounting of provisions amounted to €12k (previous year €12k).

8. Taxes on income and earnings

This item amounting to €9k relates exclusively to foreign withholding tax.

V. Significant transactions with affiliated persons and/or companies

Within the framework of a credit agreement for €1.1 million with UniCredit Bank Austria AG, Vienna, the scope of validity of the letter of guarantee for the credit agreement detailed above was expanded to €1.1 million by F&M Film und Medien Beteiligungs GmbH, Vienna. This credit agreement matured in March 2017 and was repaid in full.

To increase its liquidity base, F & M Film und Medien Beteiligungs GmbH, Vienna, offered Your Family Entertainment AG a credit line of up to € 1.0 million until 31 December 2018 in its loan agreement of 26 April 2017. This offer, if accepted, bears interest at a rate of 4% p.a.; common business securities in the form of assigning rights and obligations from an implementation contract for the sale of rights to materials, characters and brands were agreed. The assignment is legally effective if, despite a written reminder and a reasonable period of at least 30 days, Your Family Entertainment AG fails to meet its obligation to repay the loan by 31 December 2018. As of the balance sheet cut-off date, Your Family Entertainment AG had not taken advantage of this loan or a part of this framework agreement.

No information was available on any transactions not conducted under normal business terms and conditions.

VI. Information on the company's statutory bodies

1. Supervisory Board

The members of the Supervisory Board are:

- Dr. Hans-Sebastian Graf von Wallwitz, Munich, Germany
  Lawyer
  (Chairman)
- Dr. Andreas Aufschnaiter, Munich, Germany
  Business consultant, Executive Board of MS Industrie AG
  (Deputy Chairman)
- Johannes Thun-Hohenstein, MA, Vienna, Austria
  Media consultant, Coach and Civil Law Mediator

The total remuneration (excluding expenses) of the Supervisory Board in the 2017 financial year amounted to €45k. Pursuant to § 16 of the company's articles of association, €20k of this amount are due to the Chairman, €15k to the Deputy Chairman and €10k to the other members. The members of the Supervisory Board held 100 shares as of 31 December 2017.

The members of the Supervisory Board hold the following positions on other supervisory boards and control bodies within the definition of Section 125 (1) sentence 3 AktG:

- Dr. Hans-Sebastian Graf von Wallwitz:
  Member of the Board of Administration at Fenix Outdoor International AG, Zug, Switzerland

- Dr. Andreas Aufschnaiter:
  Full member of the Supervisory Board of

  - MEA AG, Aichach

  - STEMAS AG, Munich
  (until 31 December 2017)

  - Beno Holding AG, Starnberg

  -Wolftank-Adisa Holding AG, Innsbruck

  -Genomatix AG, Munich

2. Board of Management

The sole member of Your Family Entertainment AG's Board of Management is:

- Dr. Stefan Piëch, Vienna, Austria,
  Film Distributor

The Board of Management holds the following positions on other supervisory boards and control bodies within the definition of Section 125 (1) sentence 3 AktG as a full member of the Supervisory Board at

- SOS Children's Villages worldwide, Munich

- SEAT, S.A., Martorell

The Board of Management's total remuneration for the 2017 financial year amounted to €202k and includes fixed remuneration and insurance contributions. Because of a shortfall against agreed objectives, no variable remuneration was paid.

As of the balance sheet cut-off date, the Board of Management held 121,251 shares.

The total remuneration for former members of the Board of Management amounted to €18k. The pension provisions for former members of the Board of Management and their surviving dependants are fully formed and as of 31 December 2017 amount to €284k.

3. Audit and consultancy fees

The auditor’s total fee for the auditing of the Annual Financial Statement for the financial year was €27k, of which €27k was incurred for auditing services.

4. Appropriation of profits

It is proposed that the annual net income should be carried forward.

VII. Report on post-balance sheet date events

Your Family Entertainment AG successfully placed a convertible bond with a total volume of €4,375,460 with a validity period from January 2018 until February 2020 and an interest rate of 3% p.a. on the capital market.

The amount of €4,045k already collected in the 2017 financial year for the subscription of the convertible bond will be declared under the balance sheet item ‘Other liabilities’ as of 31 December 2017.

The convertible bond (WKN: A2GSN8, ISIN: DE000A2GSN82) is divided into 2,573,800 equal partial bearer bonds with a nominal value of €1.70 each and has been listed on the over-the-counter market of the Munich Stock Exchange since 3 January 2018.

Within the scope of the subscription and oversubscription offering, approx. €1.1 million were subscribed for by existing shareholders, and the remaining approx. €3.3 million were placed with institutional investors on a private placement basis, whereby the high demand lead to an oversubscription.

The proceeds from the issue of the convertible bond were used, on the one hand, to repay the 4% convertible bond 2014/2018 (ISIN DE000A1YC0J3 / WKN A1YC0J) that matured on 9 February 2018; on the other hand, they are intended to be used to further expand the national and international broadcasting activities of "Fix&Foxi" (pay TV) and "RiC" (free TV).

VIII. Declaration in accordance with Section 161 AktG (German Companies Act) relating to on the Corporate Governance Code

Your Family Entertainment AG, Munich, submitted the declaration for 2017 as required under Section 161 AktG and made it permanently available to the shareholders in December 2016 on the company’s website (www.yfe.tv) under the heading "Investor Relations".

Munich, 16 March 2018

The Board of Management
Dr. Stefan Piëch

IX. Development of the fixed assets 2017

Development of the fixed assets 2017

	Acquisition costs					Cumulative depreciation & amortisation					Book values	
	1.1.2017 EUR	Acquisitions EUR	Transfers EUR	Disposals EUR	31.12.2017 EUR	1.1.2017 EUR	Acquisitions EUR	Write-ups EUR	Disposals EUR	31.12.2017 EUR	31.12.2017 EUR	31.12.2016 EUR
I. Intangible assets												
1. Franchises and similar rights aquired for a consideration	276.733,48	180,00	0,00	0,00	276.913,48	173.402,27	38.656,00	0,00	0,00	212.058,27	64.855,21	103.331,21
2. Film assets and other rights aquired for a consideration	124.028.436,25	24.865,71	5.000,00	1.399.842,89	122.658.459,07	101.954.881,89	4.197.335,42 [1]	3.941.800,42	1.039.103,26	101.171.313,63	21.487.145,44	22.073.554,36
3. Deposits paid	5.000,00	0,00	-5.000,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	5.000,00
	124.310.169,73	25.045,71	0,00	1.399.842,89	122.935.372,55	102.128.284,16	4.235.991,42	3.941.800,42	1.039.103,26	101.383.371,90	21.552.000,65	22.181.885,57
II. Tangible assets												
Other equipment, operational and office equipment	449.154,36 [2]	32.707,60	0,00	0,00	481.861,96	380.867,36 [3]	40.724,60	0,00	0,00	421.591,96	60.270,00	68.287,00
	124.759.324,09	57.753,31	0,00	1.399.842,89	123.417.234,51	102.509.151,52	4.276.716,02	3.941.800,42	1.039.103,26	101.804.963,86	21.612.270,65	22.250.172,57

[1] Of which are extraordinary write-downs totalling EUR 2,360,583.15

[2] Historical acquisition costs/Cost of Goods Sold as per 1.1.2017 compared to the previous year adjusted upwards by the amount of low-value assets not declared in the previous year (+ EUR 39,784.99)

[3] Cumulative depreciation & amortisation as per 1.1.2017 compared to the previous year adjusted upwards by the amount of low-value assets not declared to date in the previous year (+ EUR 40,765.58)

6.6 Management report for 2017

A. General

Your Family Entertainment AG (YFE), Munich, is one of Germany's longest-established companies involved in the production and licencing of entertainment programmes for children, young people and families.

YFE, which previously traded as RTV Family Entertainment AG (RTV) and which has its origins in Ravensburger AG, focuses its activities on educational, non-violent programmes for the whole family.

The company's high-quality library of programmes currently comprises more than 3,500 half-hour programmes and, by our own estimation, is therefore one of the largest of its kind in Europe. The construction of the library was started by Ravensburger Group over 35 years ago and is being continued by YFE with the same traditional values.

At present, the company's business segments are divided into "Licence Sales" and "Productions".

The company's extensive film library and content, which is subject to manifold distribution rights, is extensively commercially exploited on a regional level. One type of exploitation is the international licencing of individual series or characters on free and pay TV channels, home entertainment companies, Video on Demand platforms (VoD) and suppliers in the field of "new media" such as mobile TV channels as well as the entire value creation chain of ancillary rights marketing. The Licence Sales segment also includes the production and the direct or third-party sale of DVD and audio products for home entertainment. The products are sold directly by the company under the DVD label "yourfamilyentertainment".

Since the end of 2007, YFE has also been successfully operating in the market with its pay TV channel "yourfamily", where its own series are also part of the programme line-up. The channel broadcasts programmes 24 hours a day via satellite, cable and DSL (IPTV). In 2010 and 2016, "yourfamily" or "Fix&Foxi" won the Hot Bird™ TV Award for best channel in the children's category. In 2011, 2013 and 2014, it was once again nominated for the final round for the world's best three children's channels. In May 2014, the pay TV station increased its reach by broadcasting and marketing the "yourfamily" channel in the sub-Saharan region of Africa. In December 2014, "yourfamily" was replaced by the "Fix&Foxi" channel. The reach of "Fix&Foxi" has been continuously expanded ever since. "Fix&Foxi" can currently be received via eight satellites on the following four continents: South and North America, Europe and Africa.

Since 2012, the YFE has also been operating on free TV with the children's channel "RiC". "RiC" can be received via satellite (Astra) throughout Europe, and via cable networks and live-streaming in the German-speaking region. "RiC" contributes commercially by marketing advertising slots on the channel or by selling airtime.

As a co-producer, the company also develops and produces TV series in cooperation with international partners.

B. Economic Review

1. Economic framework conditions

1.1 General economic climate

"The German economy is experiencing a substantial upturn. The German Council of Economic Experts (GCEE) is expecting the gross domestic product (GDP) to increase by 2.0% in 2017 and 2.2% in 2018. As such, the growth rate is higher than the potential growth rate of 1.4%. The German economy is experiencing a period of capacity overutilisation. In the euro zone, the GCEE forecasts GDP growth of 2.3% in 2017 and 2.1% in 2018.

"The healthy economic situation offers the best opportunities to readjust economic policies in order to prepare Germany for future challenges", says Christoph M. Schmidt, Chairman of the GCEE. The significant budget surplus opens up space for growth-friendly reforms. A reform of the income tax should be used to return the increase in tax revenue from bracket creep, to be coordinated with a gradual abolition of the solidarity surcharge. Unemployment insurance contributions can be cut by up to 0.5 percentage points. The consolidation of public budgets to ensure sustainability should remain a top priority.

To increase workforce potential and work towards preventing a shortage of skilled workers, a better balance should be struck between family life and work and the labour migration opportunities for specialists with an occupational training background should be improved. Education and training should be available to employees to make it easier for them to adapt to the digital world and structural changes. A Digitalisation Commission should be formed to scrutinise regulations hindering innovation and identify need for reform.

In order to effectively reduce greenhouse gas emissions, a uniform CO2 price would ensure that the electricity, transport and heating sectors jointly contribute towards avoiding emissions. The Federal Government should work towards expanding the EU Emissions Trading System (EU ETS) by including all emitters and sectors of final energy consumption.

The recent extension of the ECB bond purchase programme will increase the degree of expansion of the monetary policy even further. In view of the higher growth and inflation rates with increased risks to financial stability, the ECB should communicate a comprehensive normalisation strategy for its monetary policy and end the bond purchases earlier. Moreover, the Governing Council of the ECB should expand its forward guidance communication, which would make it easier for market participants to form expectations and may enhance the effectiveness of monetary policy.

In order to strengthen the architecture of the European Monetary union, the complex set of fiscal rules could be reduced to two: an expenditure rule as an annual operational target and a structural deficit rule as a medium-term target. Further development of the European Stability Mechanism should under no circumstances turn it into a transfer mechanism. Instead, it should assume a monitoring role within the scope of a crisis prevention mandate. The creation of a fiscal capacity in the euro area or a European unemployment insurance scheme is not deemed necessary.

Moreover, completion of the Banking and Capital Markets Unions is essential. Further risk-sharing should only be considered following risk reduction. In this respect, it is essential that efforts to swiftly reduce non-performing bank loans continue. Gaps in the European resolution regime must be closed to ensure that subordinated and senior creditor bail-ins cannot be circumvented.

Globalisation has brought about major increases in efficiency and welfare throughout the world. The new Federal Government should therefore firmly reject calls for protectionist measures. To this end, the multilateral trading system should be strengthened and further free trade agreements negotiated."

The German Council of Economic Experts is an independent body focusing on economic policy consulting. Its five members are currently Prof. Dr. Christoph M. Schmidt (Chairman), Prof. Dr. Peter Bofinger, Prof. Dr. Lars P. Feld, Prof. Dr. Isabel Schnabel, Prof. Volker Wieland, Ph.D.

(Source: German Council of Economic Experts at the German Federal Statistical Office (Statistisches Bundesamt), Wiesbaden, Executive Summary of the Annual Expert Report 2017/18 in November 2017; https://www.sachverstaendigenrat-wirtschaft.de/presse-jahresgutachten-2017-18.html)

Wirtschaftliche Eckdaten für Deutschland

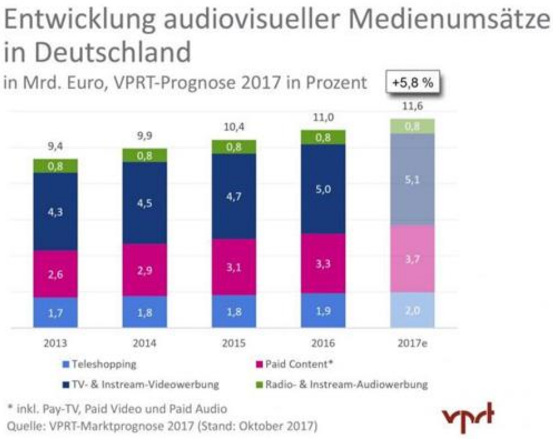
	Einheit	2015	2016	2017[1]	2018[1]
Bruttoinlandsprodukt[2,3]	%	1,7	1,9	2,0	2,2
Bruttoinlandsprodukt je Einwohner[2,3,4]	%	0,9	1,0	1,4	1,8
Leistungsbilanzsaldo[5]	%	8,5	8,3	7,7	7,6
Erwerbstätige	Tausend	43 069	43 638	44 298	44 810
Sozialversicherungspflichtig Beschäftigte[6]	Tausend	30 822	31 485	32 183	32 732
Registriert Arbeitslose[6]	Tausend	2 795	2 691	2 561	2 473
Arbeitslosenquote[6,7]	%	6,4	6,1	5,8	5,5
Verbraucherpreise[3]	%	0,3	0,5	1,7	1,8
Finanzierungssaldo des Staates[8]	%	0,6	0,8	1,0	1,1

1 – Prognose des Sachverständigenrates. 2 – Preisbereinigt. 3 – Veränderung zum Vorjahr. 4 – Eigene Berechnungen. 5 – In Relation zum nominalen BIP. 6 – Quelle für die Jahre 2015 und 2016: Bundesagentur für Arbeit (BA). 7 – Registriert Arbeitslose in Relation zu allen zivilen Erwerbspersonen. 8 – Gebietskörperschaften und Sozialversicherung in der Abgrenzung der Volkswirtschaftlichen Gesamtrechnungen; in Relation zum nominalen BIP.

1.2 Entertainment and media industry

The 2017 forecast for the media market by the Verband Privater Rundfunk und Telemedien (VPRT) (German Association of Commercial Broadcasters and Audiovisual Services) of 25 October 2017 announced continuing growth in the audiovisual media sector in Germany, which results in turnover increasing by €637 million to €11.6 billion for all segments.

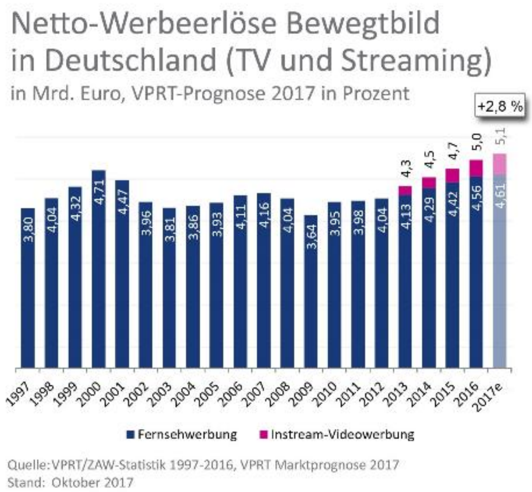
Frank Giersberg, Member of the Management Board responsible for Market and Business Development at VPRT, says: "For 2017, we are forecasting an increase in turnover of more than half a billion euros for the German market, with growth in every individual segment of the audiovisual media sector. We expect this market growth to continue over the next few years."



TV and online video advertising 2017

For TV advertising, the VPRT predicts a growth in net sales of approx. 1.1 % to €4.61 billion overall in 2017. This would be equivalent to an increase of approximately 49 million euros over the previous year's figures. Television thus remains by far the strongest performer in terms of turnover in the German advertising market.

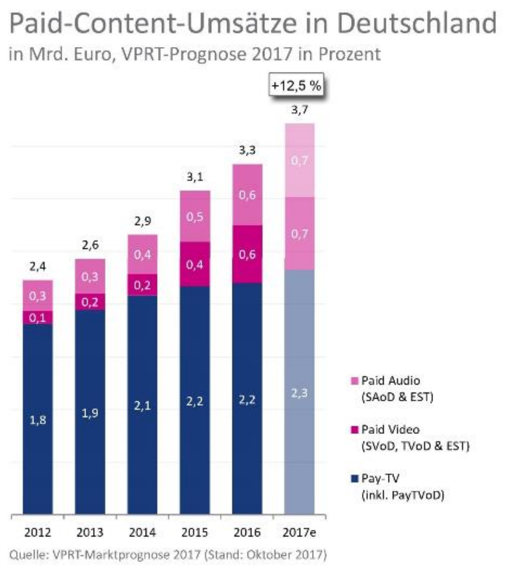
For the streaming sector of online video advertising (instream video advertising) the VPRT is predicting an increase of approximately 23% or 92 million euros to a total of 488 million euros. The overall turnover from online video advertising (both linear and non-linear) is expected to increase by approx. 2.8% to around €5.1 billion.



Paid Content 2017

For turnover from paid content in the audiovisual media sector, the VPRT is predicting an increase of 12.5% by €413 million to approx. €3.7 billion overall in 2017. The pay TV segment, the segment with the highest turnover, is expecting a growth in turnover of €156 million (+ 7.2 %) taking it up to €2.3 billion. In the paid video segment, an increase of approx. €141 million

(+26%) to approx. €691 million is expected; the paid audio segment is expected to rise from €116 million (+20%) to approx. €696 million.



VPRT trend forecast 2018 - 2022

"For the period from 2018 to 2022, the experts anticipate that the market outlook for the audiovisual media sector in Germany will continue its positive trend. We still see our greatest challenge in establishing fair competitive conditions, in particular with regard to global players and public-service competition.

The demand for audiovisual media content (radio and audio, TV and video) will most likely continue to grow over the next few years. On this basis, the market players see growth potential in all segments of audiovisual media, not only in the classic linear range, but also – with particularly strong momentum – in the non-linear range.

Continuing growth in competitive pressure created by increasingly international players, along with rapid advances in media convergence, is expected over the next few years. The experts consulted for the forecast see the growing and often unfair competition with global players, while under persistent competitive pressure from the financially strongest (in global comparison) public service broadcasters, as one of the greatest challenges facing the German market.

The market players will continue to make substantial investments in programmes, various types of offerings and technology. This is primarily attributed to the overall positive development in demand and progressive convergence and the growing relevance of automated and data-driven types of offerings and business models. The further expansion of nonlinear offerings, increasing investment in various types of interactive offerings (e.g. Smart TV, Smart Radio and voice control), the introduction of new types of offerings (e.g. virtual reality, 360-degree videos) and further advances in digitisation and automation on an increasing number of levels (e.g. addressable TV, intelligent user interfaces, voice-controlled platforms, recommendation engines, metadata, automated booking systems and programmatic buying) are particularly anticipated.

To what extent the expected value creation potential can be realised in Germany depends above all on the establishment of fair competitive conditions for domestic market players in the international competitive environment. In light of this, there is a need for political action, particularly in the following main fields:

- Creating a convergent regulatory framework
- Enforcing fair competitive conditions in dealings with “global giants” and partners with significant market power
- Restricting the progressive expansion of public-service offerings
- Improving flexibility of advertising requirements and waiving advertising bans
- Establishing innovation-friendly data protection regulations
- Ensuring access to networks, devices and platforms
- Ability to find offerings on platforms
- Effective protection of content

Audiovisual media is the driving force of the creative industry and is, as such, one of the major promoters of growth and innovation in Germany’s overall economic structure. The relevance of the audiovisual media industry far exceeds the core segment examined in this publication. Audiovisual media thus stimulate additional turnover and added value effects in a number of upstream and downstream stages, including:

- Film industry
- Music industry
- Sports industry
- Software/multimedia
- Hardware/consumer electronics
- Infrastructure/networks
- Platforms/aggregates
- EPGs/TV guides
- Advertising industry and trade

According to the study entitled “The Macroeconomic Importance of Audio and Audiovisual Media in Germany”, the entire industry accounts for 830,000 employees in Germany, whereby almost one in fifty jobs is attributed to audiovisual media and the business sectors associated with it. With a contribution to the gross value added of approx. 2.5% or €67 billion, this makes the sector one of the largest in Germany.”

(Source: VPRT Forecast for the German Media Market 2017, 25 October 2017; https://www.vprt.de/pressemitteilungen/content/vprt-prognose-medienmarkt-2017)

2. Key events during the 2017 financial year

2.1 Change in the method for assessing the value of film assets in the preparation of the 2016 Annual Financial Statement

On the basis of a short-term recommendation by the auditing firm, the company’s Board of Management decided on 19 April 2017 to change the method for assessing the value of film assets, in line with the framework conditions of the IDW S5. The new assessment method was already applied in the Annual Financial Statement as per 31 December 2016. The assessment method that had previously been applied consistently and on a long-term basis was based on the industry-specific US standard FASB ASC 926 (Entertainment - Films).

2.2 Decision on the issue of a convertible bond with a total value of up to €4,375,460

On 23 November, the Board of Management of Your Family Entertainment Aktiengesellschaft specified the details of the convertible bond announced on 15 November 2017 by way of an ad-hoc statement pursuant to Art. 17 MAR and decided, with the approval of the Supervisory Board, to issue a convertible bond with a total nominal value of up to € 4,375,460, divided into 2,573,800 equal partial bearer bonds with a nominal value of €1.70 each.

The term of the convertible bond commences on 1 January 2018 and ends at close of business on 9 February 2020. The issue price per partial bond is 100% of the nominal value i.e. €1.70. Each partial bond will bear interest at a rate of 3% p.a. on its nominal value.

Under their subscription rights, the shareholders are entitled to subscribe for a new partial bond for four shares each on the basis of the subscription ratio of 4:1. Provisions have been made for subscribing for additional partial bonds. The subscription period ran from 29 November 2017 to 13 December 2017 (inclusively), although no provisions were made for trading subscription rights. The corresponding subscription offer was published on 24 November 2017 in the Bundesanzeiger [Federal Gazette].

At the end of the two-week subscription period, all partial bonds not purchased beforehand on the basis of the subscription right were offered for purchase by the company to interested investors on a private-placement basis.

The plan is to use the proceeds from the issue of the convertible bond, on the one hand, to repay the 4% convertible bond 2014/2018 (ISIN DE000A1YC0J3 / WKN A1YC0J) that matured on 9 February 2018 and, on the other hand, to further expand the national and international broadcasting activities of "Fix&Foxi" (pay TV) and "RiC" (free TV).

3. Business performance

The Board of Management manages the company using monthly reporting, among other methods. Key data used in the management of the business relates particularly to the turnover, EBITDA and liquidity status.

In the 2017 financial year, a significant growth in turnover, above the market average, was recorded in both the licencing trade and the free and pay TV sector.

3.1 Sales trend

For the past financial year (2017), the sales revenue in the licencing business, including the TV channels, of €5,087k was approx. 37% above the previous year's figure of €3,700k. The increase relates to the "Licence Sales" segment.

On principle, fluctuations in the sales trend may be caused by project transactions and/or so-called "package" deals. In the 2017 financial year, approx. 35% of the sales revenue was generated through a "package" deal, for instance. Furthermore, sales revenue is deferred due to the rules of accounting, as sales are not recognised until the beginning of the licence period. This effect may lead to revenue being deferred to future periods.

3.2 Turnover by region

The company's turnover by region during the reporting period was:

Region	2017		2016	
	in €k	in %	in €k	in %
Domestic	1,380	27	1,724	47
Overseas	3,707	73	1,976	53
Total	**5,087**	**100**	**3,700**	**100**

3.3 EBITDA

The increase in sales revenue essentially resulted in earnings before depreciation, write-ups (€3,942k, previous year €3,178k), interest and taxes (EBITDA) of €1,499k (previous year €627k).

3.4 Liquidity

Cash and cash equivalents on the balance sheet cut-off date, consisting predominantly of bank balances, came to €4,098k (previous year €811k) and resulted primarily from cash inflows already received for the convertible bond 2018 / 2020.

3.5 Summary

The Board of Management expected the 2017 turnover and earnings to be significantly above the levels achieved in the previous year (2016).

With an increase in turnover of 37% and an EBITDA increase of €872k, this was indeed the case, and the expectations of the Board of Management were fully met.

4. Earnings situation

The annual net profit for 2017 amounts to €881k compared to an annual deficit of €2,859k in the previous year.

Earnings before depreciation, write-ups, interest, taxes and extraordinary items (EBITDA) amounted to €1,499k (previous year €627k).

The other operating income in the year under review amounts to a total of €4,066k (previous year €3,492k). This mainly consists of write-ups on film assets of €3,942k (previous year €3,178k).

Compared with the previous year, depreciation & amortisation decreased from €6,364k to €4,277k. In addition to the straight-line amortisations of €101k (previous year €95k) on the value of film assets and the distribution-dependent amortisations of €1,736k (previous year €441k), these items include extraordinary write-downs on the value of film rights to an amount of €2,361k (previous year €5,728k) made on grounds of the impairment test carried out on the balance sheet cut-off date.

In the course of reviewing the procedure for determining the fair value of the individual film rights and due to the stronger focus on the broadcasting business, it was decided to change the procedure for determining the fair value of the individual film rights from the beginning of the 2016 financial year.

According to the method used for the 2017 financial year, the individual film rights are assessed on the basis of the immediate cash flow forecast method. The starting point in this case is the financial surpluses that are to be isolated accordingly for each film right. Specific cash flows are determined separately for each individual film right on the basis of the various areas of licencing revenues, television revenues (pay TV and free TV separately), utilisation proceeds, merchandising proceeds and other revenues. When determining the planning period for these cash flows, the useful economic life or, respectively, the remaining useful life is taken into account separately for each individual film right.

The cash flows that are generated in this manner and which could be achieved in the future are discounted using a risk-adjusted capitalisation rate to determine the corresponding present value on the valuation date. The calculation of the capitalization rate or the company’s weighted average cost of capital (WACC) is based in particular on the corresponding parameter values of a group of listed peer companies (peer group), which are used to calculate shareholders’ equity costs, borrowing costs and capital structure. These asset-specific equity costs are composed of a risk-free base interest rate and a market risk premium, based on the Capital Asset Pricing Model (CAPM).

The fair current market values, which are compared against the respective book values of each film right in the impairment test, are identified on the basis of the procedure for assessing the value of each film right.

Film rights that have been fully depreciated due to the extent of their distribution will no longer be taken into account in the value of the film assets.

Write-ups on the value of film assets only concern film rights that had been previously depreciated by way of extraordinary write-downs, mainly during the restructuring of the company which was operating at the time as Ravensburger TV Family AG between 1999 and 2006.

Costs of material relate to licences, commissions and material. They are directly connected with recognised sales revenues. These are mainly sales-dependent royalties that are to be paid to the licensors of the company. The increase is primarily in the broadcasting sector.

5. Assets and financial situation

The total balance sheet amount increased by €2,635k to €26,941k (previous year €24,306k).

The value of film assets was reduced by €586k. This reduction was mainly due to the aforementioned amortisations. This reduction was not compensated for by write-ups of €3,942k and investments of €25k in the value of the film assets.

The receivables and other assets increased by €93k to €1,171k (previous year €1,078k).

Equity increased by €881k from €13,728k to €14,609k. The equity ratio as per 31 December 2017 is therefore approx. 54% (previous year 56%). The reduction of the equity ratio is primarily the result of a cash inflow of €4,045k for the convertible bond 2018 / 2020, shown in the balance sheet ASSETS under "Bank balances" and in the balance sheet LIABILITIES under "Other liabilities". This position increases the total balance sheet amount and, as such, has a negative effect on the equity ratio.

As of 31 December 2017, the company records subscribed capital amounting to €10,295k, a capital reserve of €2,788k and accumulated profit amounting to €1,535k.

The other accruals increased to €553k (previous year €539k).

Cash and cash equivalents on the balance sheet cut-off date, consisting predominantly of bank balances, came to €4,098k (previous year €811k) and resulted primarily from cash inflows already received for the convertible bond 2018 / 2020.

UniCredit Bank Austria AG, Vienna, Austria, granted a credit line of €3,600k with no fixed term, €3.07 million of which have been claimed; a loan, not yet claimed, of €1 million from F&M Film und Medien Beteiligungs GmbH is also available.

To hedge interest rate risk, the company concluded interest rate hedging instruments, which secure the credit line to the amount of the expected average drawdown.

A credit line of €1,100k with a term running until 31 March 2017 was granted by Bank Austria in September 2013 to finance the purchase of a larger film package. The purpose of this credit line is to hedge the transaction and to finance the payment instalments. On 31 December 2016, the balance was €1,087k. The loan was repaid, as per schedule, in March 2017.

Due to the convertible bonds that were placed in 2014, the company accrued €3.5 million in cash in 2014. These bonds, which are interest-bearing at 4%, can be converted by the company until 9 February 2018 into one share per bond, as long as the share quotation has remained at over €2.40 per share for longer than 20 stock exchange trading days. If, at the end of the term, the share price is not higher than €2.40 per share, the nominal value must be repaid.

In the agreement of 11 July 2012, UniCredit Bank Austria AG, Vienna, granted the company a separate line for sureties / guarantees in the amount of €140k. This line is available until further notice.

As of the balance sheet cut-off date, the company records amounts owed to credit institutions of €3,108k (previous year €3,406k) with an unused credit line of €530k. The company's liquidity was sufficient at all times.

The company's liquidity requirements are monitored using rolling financial planning. The main instruments besides the global credit line are short-term money investments. Further targets of the financial management include the optimisation of interest expenses and interest income as well as securing required foreign currency. The company has a USD account.

The risk of increasing loan interest is counteracted with derivative financial instruments.

6. Investments

In the reporting period, investments amounting to €58k were made (previous year €60k). €25k of this amount was invested in film assets.

7. Key figures

Key figures in €k	2017	2016
Turnover[1]	5,087	3,700
EBITDA[2]	1,499	627
EBIT[3]	1,164	-2,559
Annual net profit (previous year annual loss)	881	-2,859
Balance sheet total	26,941	24,306
Film assets	21,487	22,074
Shareholders' equity	14,609	13,728

[1] Figures after reclassification under German Accounting Directive Implementation Act (€764.16 of the other operating income flow into the sales revenue)

[2]EBITDA = Annual net profit + Taxes on income and earnings + Interest and similar expenses ./. Other interest and similar income + Depreciation & amortisation ./. Write-ups

[3]EBIT = EBITDA + Write-ups ./. Depreciation & amortisation

8. Employees

Personnel expenses of €1,149k for the 2017 financial year were slightly below the previous year's figure of €1,171k.

On average throughout the year, 17 employees (previous year 18), including apprentices and trainees but excluding the Board of Management, were employed, of which 1 (previous year 2) was employed on a part-time basis.

As of the balance sheet cut-off date, a total of 18 people were working for the company, including the single Board of Management member, two apprentices and one part-time employee.

C. Risk Management

At regular intervals, all general and operational risks are recorded and assessed, and measures for minimising the risks are defined.

We see risk management as a core responsibility of the Board of Management, the managers and all employees.

The risk management policy of Your Family Entertainment AG is divided into the following four steps:

1. Risk identification
2. Risk assessment
3. Risk management
4. Risk monitoring

For each of these steps, we have developed suitable strategies, adapted to the size of the company, which have time horizons of less than one year up to several years, depending on the content.

Central to the risk management of Your Family Entertainment AG are the regular discussions between the Board of Management and the second management tier. These discussions serve to recognise, assess and, if necessary, counteract risks in time and to monitor the measures taken. Moreover, the second management tier informs the Board of Management about risks which may unexpectedly occur outside these regular meetings.

Particular facts are discussed promptly by the Board of Management and the Supervisory Board.

We use the following three instruments for continuous risk monitoring: liquidity management, sales controlling and balance sheet controlling. By ensuring regular and systematic control of these areas, all major operational and structural risks of the company's business activities are monitored. The overall responsibility for the monitoring of these risks lies with the company's Board of Management.

The purpose of liquidity management is to continuously monitor and ensure the company's liquidity. The liquidity management is based on three reports, namely the annual liquidity plan as part of preparation of the budget, the rolling liquidity forecast and the daily liquidity status.

The purpose of sales controlling is to recognise, quantify and develop the sales potential of the company by planning and coordinating the sales activities. This ensures that realisable medium-term sales potential is recognised, expenses and investments are covered by realisable income and realistic cash flow plans can be drawn up. Furthermore, the sales activities of the company are scheduled based on the turnover plans. In addition, these figures are checked for plausibility using a rights-based approach.

The purpose of balance sheet controlling is to monitor the balance sheet items in order to recognise necessary corrective measures in time, in particular an equity deficiency. Balance sheet controlling comprises three pillars: the audited Annual Financial Statement, the semi-annual interim financial report and the continuous balance sheet controlling.

In addition, a monthly report featuring a break-even analysis is prepared. The development of the particular market and business is also updated in an internal rolling forecast. Short-term budgeting is therefore used both as an important early warning system and as the basis for variance analyses and budget control.

The basic purpose of the risk management system is to avoid risks. As some of the risks lie outside the Board of Management's sphere of influence, even a functioning risk management system is unable to guarantee that all risks are eliminated. As such, developments may occur that deviate from the Board of Management's plans.

D. Internal control and risk management system with respect to the accounting system

As a publicly quoted company oriented towards the capital market within the meaning of Section 264d HGB, we are obligated in accordance with Section 289 (4) HGB to provide a description of the main features of the internal control and risk management system with respect to the accounting system.

The internal control and management system with regard to the accounting process is not legally defined.

We understand the term internal control system to mean the basic principles, procedure and measures introduced within the company by the Board of Management and the managers aimed at the organisational implementation of decisions made by management

to ensure the validity and profitability of the company's business activities (this includes the protection of its assets and the prevention and disclosure of damage to assets), proper and reliable internal and external accounting, and compliance with the legal requirements applicable to the company.

The risk management system encompasses the totality of all organisational rules and measures for the purposes of identifying risk and in dealing with the risks of entrepreneurial activity.

Your Family Entertainment AG has implemented the following structures and processes with respect to the accounting system:

The Board of Management bears the overall responsibility for the internal control and risk management system with regard to the accounting process. Due to the company's size, the financial and sales managers are directly involved in the process of preparing the Annual Financial Statement.

With regard to the accounting process, we consider such characteristics of the internal control and management system, which may significantly influence the accounting process and the overall message conveyed by the Annual Financial Statement and the Management Report, to be material. These are the following elements in particular:

- the identification of major areas of risk and control of relevance for the accounting system;
- continuous balance sheet controlling in order to monitor the accounting system and its results;
- preventive control measures in finance and accounting as well as in the operative company processes that generate essential information for the preparation of the Annual Financial Statement and the Management Report, as well as a separation of functions and approval processes in relevant areas;
- measures to ensure IT support for the proper processing of accounting-related facts and data;
- measures to monitor the accounting-related internal control and risk management system

E. Forecast, opportunities and risk report

The following risks are likewise taken into account in the company's deliberations and in the risk management system. The aim is to avoid these risks or to take appropriate measures to counteract them.

1. General business risk

Fluctuations of future business results

During a financial year and from year to year, fluctuations of the sales and the operating profit of YFE may occur – as is generally the case for any film and TV production company. These fluctuations have a variety of causes, such as for example the scope and timing of completion of new productions, the scope and timing of the sales of films and television rights, as well as market- and competition-related influences on the demand for products and, consequently, on sales prices.

2. External risks/market risk

Competition-related risks

Even though the first signs of an increase in demand are discernible, the film and television market in which YFE operates is still characterised by the influence of a process of consolidation and concentration, among producers and customers alike. These developments can have implications on the demand for programmes. The target group of TV channels or groups of channels, in particular, perform a break-even analysis on the programmes they broadcast to a much greater extent than in the past. This, together with the repeated utilisation of individual productions that is becoming increasingly popular within the industry, leads to a more efficient use of companies' own programme resources and accordingly to reduced investment in new projects. This procedure has more of an impact on children's programmes in particular. Moreover, external factors such as current consumer and leisure behaviour and basic shifts in the advertising market influence the channels' programme planning and purchasing policy.

3. Business performance risks/litigation risk

3.1 Risks in the production of programmes

The production of programmes – both produced by the company itself and co-productions – holds a range of operational risks. On principle, the development and production of formats and/or TV shows usually involves very high costs and accordingly entails a high financial risk. If, for example, delays in completion occur despite the careful selection of co-production partners and/or service providers, this may mean that sales and profit planned by the company must be postponed to a later accounting period. Moreover, it cannot be excluded that YFE will not have sufficient financial resources available for the development of programmes and their production, which is a basic condition for the economic activity of the company.

Co-production

YFE ensures the completion of its co-productions with the careful selection of established and reliable co-production partners and service-providers as well as hedging instruments, where necessary, such as insurance policies or completion bonds. YFE also carries out regular checks on finances and content during the production. Nevertheless, delays in completion may occur on individual projects, which may lead to the postponement of turnover and profit from one accounting period to the next.

Production to order

If the company, as the producer of a made-to-order production, is responsible for carrying out the production according to contract, the company will usually receive a fixed price for this from the client. The producer therefore bears the risk of possible budget overruns should it have wrongly estimated the costs of production or should unscheduled costs arise. In the event of a licence production, the producer bears the full financing risk until the completed product is delivered. The costs of production and profit, if any, are covered by the licence revenues if the production is delivered in accordance with the contract. If the budget is not covered or not fully covered by licence sales, however, the producer bears the risk of the resulting loss.

3.2 Risks in the purchasing and marketing of programmes

YFE tries to recognise trends in the programme sector and in channel requirements as early as possible to tailor its own product range accordingly. In so doing, the company must take account of the channels' current restrictive purchasing policy and its own limitations as regards investment possibilities and the provision of security for its productions. The company has concluded a variety of contracts with licensors for the licencing of programs. On the one hand, the company carries the general contractual risks, such as the risk of (non-)fulfilment. Moreover, a variety of copyrights and ancillary copyrights have to be transferred to the relevant customers as part of the contracts. The company must therefore ensure, within the framework of its contracts with those involved in the production of the particular programme, that the necessary copyrights and ancillary copyrights are transferred to the company in order to avoid infringements of industrial property rights (e.g. copyrights, licence rights and personal rights). Even though the company receives internal and external legal advice, the possibility cannot be ruled out that third parties will assert claims regarding the above-mentioned rights, which might have significant negative implications for the company’s asset, financial and earnings situation.

The amortisation of film assets (i.e. the rights of use and exploitation referred to above) and the other rights depend on the exploitation of the film rights. The distribution-dependent amortisation is performed in accordance with the ratio of the actual sales in the financial year to the total expected revenue from the exploitation of film rights including the actual sales in that financial year. Moreover, an impairment test is carried out on each balance sheet cut-off date. It cannot be completely ruled out that impairment tests carried out in the future will considerably change the value of the film library. Two thirds of the company’s catalogue of film rights, which currently comprises approximately 170 titles, derive from licences from third parties, whereby only one third of the titles are in-house productions or co-productions. The licences from third parties in YFE's possession have not been granted indefinitely, but generally for a limited period of time. YFE may no longer use these licences should it not be possible to renew a large part of them on expiry. Consequently, an essential part of the library and thus the basis of the company would cease to exist. This may have negative implications for the company’s asset, financial and earnings situation.

There is an inherent risk that receivables from the exploitation of programmes will remain unpaid. The Board of Management assumes that the default risks in total are sufficiently covered.

4. Financial risks

4.1 Access to external financing, interest risks, interest hedging transactions

As part of a credit line agreement with Bank Austria AG, Vienna, Austria, YFE transferred securities in form of titles and claims from film licence contracts to the bank. YFE may find it significantly more difficult to take up further loans if valuable securities are not released. If the company is unable to acquire additional loans should they be required, this may have considerable negative implications for the company's asset, financial and earnings situation.

Risks are also posed by variable interest agreements. These risks have been counteracted by the conclusion of contracts on derivative financial instruments. In spite of an existing financial hedging relationship, no valuation unit was formed for the caps, because not all criteria for this have been completely fulfilled. For the caps, other accruals amounting to €25k (previous year €42k) were formed. As the underlying transactions are closed items, there was no need for any provisions for the interest swap (cf. "Derivative financial instruments" in the Notes to the Annual Financial Statement 2017).

4.2 Exchange rate fluctuations, exchange rate hedging transactions

The company's current and future activities outside the area of the European Monetary Union are partly transacted in currencies other than the euro, either by YFE or by its distribution partners. The applicable exchange rates are subject to fluctuations which cannot be foreseen and which may possibly prevent the company from generating a stable income. There is an inherent risk of losses from such exchange rate fluctuations.

Unfavourable exchange rate fluctuations or costs incurred in the future for currency hedging could therefore have negative effects on the development of sales and, consequently, on the asset, financial and earnings situation of the company.

At present, the company has not concluded any currency hedging transactions.

4.3 Other financial instruments

Attempts are being made to counteract bad debt by concluding contractual agreements on a pre-payment basis and / or by protecting against them with performance guarantees from major European banks. Receivables will be regularly inspected as part of the process for determining the specific provisions for bad debt.

5. Opportunities

In addition to its high-quality and extensive library of approximately 3,500 half-hour programs, Your Family Entertainment AG's many years of experience in the production of TV programmes and the extensive network of cooperation with purchasing broadcasters can be considered its strengths.

Significant potential for the development of the company is offered by the consistent expansion of the pay TV channel "Fix&Foxi", by gaining further subscribers, and the free TV channel "RiC", through the possibilities of marketing advertising time.

Furthermore, the company's opportunities lie in an even better exploitation of its stock of rights via new distribution channels, supported by the development of exploitation and production concepts. The value-oriented approach pursued in this respect as regards content clearly distinguishes the company from its competitors.

The progressive digitisation and the changing possibilities and/or habits in media consumption are conducive to a positive business environment.

The aforementioned opportunities provide a balanced basis on which to continue developing the company.

Overall view of the risk and opportunities situation

The outlined individual risks and opportunities from all categories of risk and opportunity present a complete picture of the company's risk and opportunities situation.

Apart from the stated risk categories, there are unforeseen events that could disrupt business operations.

The opportunities and risks have not changed significantly from the previous year. There is no evidence of any risks that, by themselves or in combination with other risks, could jeopardise the company's continued existence either on the balance sheet cut-off date or at the time of preparing the Annual Financial Statement.The established risk and opportunity management system will be constantly monitored and improved to enable risks and opportunities to be identified on time and the challenges posed by the current risk and opportunity situation to be mastered.

6. Forecast

The focus of the company will increasingly be on expanding international and national channel activities. The aim is to further tap into the markets, both in the free TV sector with "RiC" and in the pay TV sector with "Fix&Foxi".

In the free TV segment, it is particularly expected that the intensification of the marketing of advertising time and the distribution of the channel concept will have a positive effect on turnover and income.

For 2018, the Board of Management predicted that the costs of a project transaction in the "Licence Sales" sector realised in 2017 would not be compensated in full and, consequently, that the sales and earnings performance (EBITDA) could be moderately lower than the previous year's figures.

Although the sales and earnings performance will continue to be subject to natural fluctuations in future as a result of dependency on projects and "package deals"; however, with the stronger focus on the channels – besides the stabilising element of revenue continuity – further impulses for significantly increasing turnover should be set.

By marketing the free TV channel "RiC" and the pay TV channel "Fix&Foxi", the Board of Management continues to expect further growth and, consequently, a sustainable increase in turnover and earnings.

The company accrued €4,375k in December 2017 and January 2018 from the convertible bond 2018 / 2020. After the convertible bond 2014 / 2018 was retired in February 2018, the company was still left with €881k in liquid funds for the further expansion of the business sectors.

F. Declaration of the company's management pursuant to Section 289f HGB (German Commercial Code)

The declaration of the company's management
(Section 289f HGB) includes the declaration of conformity, information on the company management practices, and a description of the work methods of the Board of Management and the Supervisory Board, as well as details on the diversity concept. Our goal is to describe the management of the company in a manner that is clear and to the point.

1. Declaration of conformity of the Board of Management and the Supervisory Board of Your Family Entertainment AG regarding the German Corporate Governance Code pursuant to Section 161 AktG

Section 161 AktG requires that the Board of Management and the Supervisory Board of a listed company declare annually that the recommendations made by the "Government Commission on the German Corporate Governance Code", published by the Federal Ministry of Justice in the official part of the electronic Federal Gazette, have been and will be complied with or which recommendations were not and will not be applied, stating the reasons.

The full text of the declaration is published on the company's website (www.yfe.com) under "Investor relations".

2. Information on the company's management practices and the work methods of the Board of Management and the Supervisory Board

The corporate governance of Your Family Entertainment AG is structured as follows:

2.1 Shareholders and shareholders' meeting

Our shareholders exercise their rights in the shareholders' meeting. The shareholders' meeting is convened in the legally required manner and within the required time limit, stating the agenda.

The chairman of the Supervisory Board takes the chair at the shareholders' meeting.

The shareholders' meeting decides on all the functions allocated to it by law (including election of the members of the Supervisory Board, amendments to the articles of association, appropriation of profits, capital measures).

2.2 Supervisory Board

The main function of the Supervisory Board is to advise and monitor the Board of Management.

The Supervisory Board of Your Family Entertainment AG currently consists of three full members and one substitute member. The Supervisory Board of Your

Family Entertainment Aktiengesellschaft is currently also fully manned with three members, all of whom are male. The current members of the Supervisory Board are elected until the end of the ordinary shareholder's meeting, which decides whether or not to discharge them for the 2018 fiscal year. It would thus not be possible to appoint a quota of women to the Supervisory Board before this time without increasing the number of Supervisory Board members. The Supervisory Board does not consider it appropriate to increase the number of members to six, especially taking into account the size of the company. The Supervisory Board will, however, pay particular attention to considering women for future Supervisory Board vacancies as part of its candidate nominations.

In addition to the reimbursement of their expenses to which the value added tax due on their remuneration must be added, the members of the Supervisory Board receive a fixed fee payable at the end of the financial year amounting to €10,000.00 for each individual member, twice that amount for the chairman, and 1.5 times that amount for the deputy chairman.

2.3 Board of Management

As the public company's management body, the Board of Management manages the company's affairs and is, under the provisions of the German Stock Corporation Act, bound by the interests and the business principles of the company. It reports to the Supervisory Board regularly, promptly and comprehensively on all essential matters of the development of the business, the company's strategy as well as on possible risks.

The remuneration of the Board of Management is partly performance-related and partly fixed.

The members of the Board of Management are appointed by the Supervisory Board.

The Board of Management of Your Family Entertainment AG currently consists of one male member. With regard to the determination of target figures for the proportion of women on the Board of Management, it should be taken into consideration in the view of the Supervisory Board that the Board of Management is sufficiently manned with one member at the current time, especially also taking into account the size of the company. With regard to the term of office of the current sole CEO, no personnel change is planned in the Board of Management. It would not be possible to appoint a quota of women to the Board of Management at present without increasing the number of members on the Board of Management.

However, with its decision of 29 September 2015, the Board of Management determined that the target ratio for the proportion of women at the management level below the Board of Management should be 20%. As the proportion of women at this management level is currently greater than 20% and thus meets the target ratio, it is not necessary to set deadlines for the fulfilment of the aforementioned target ratio. If the proportion of women at the management level should fall below 20%, the Board of Management will review the matter and, in particular, also set a deadline for the fulfilment of this target ratio. The Board of Management will also review the matter if and as soon as a further management level is established.

2.4 Shares held by the Board of Management and the Supervisory Board

Members of the Board of Management and the Supervisory Board hold shares in Your Family Entertainment AG.

2.5 Transparency

Your Family Entertainment AG places high priority on uniform, comprehensive and prompt information. The business situation and the results of Your Family Entertainment AG are reported in the Annual Financial Statement and in the semi-annual interim report.

Information is also published by means of press releases and ad-hoc announcements. All announcements and releases are available on the Internet.

Your Family Entertainment AG has prepared the list of insiders required by Section 18 of the Market Abuse Regulation (MAR). The persons concerned have been informed of their legal obligations and sanctions.

2.6 Accounting and auditing of the Annual Financial Statement

Since the 2006 financial year, the Annual Financial Statement has been prepared solely in accordance with the provisions of the German Commercial Code (HGB). After preparation by the Board of Management, the Annual Financial Statement is reviewed by the auditor and the Supervisory Board and then adopted by the Supervisory Board.

The Annual Financial Statement is published within four months of the end of the financial year.

It has been agreed with the auditor that the chairman of the Supervisory Board will be notified immediately about the reasons for exclusions or exemptions and/or errors in the declaration of conformity revealed in the course of the audit. The auditor immediately reports to the chairman of the Supervisory Board on any major issues and events that emerge during the audit which are pertinent to the role of the Supervisory Board.

2.7 Risk management

The business sectors of Your Family Entertainment AG are subject to a large number of risks that are inseparably linked to global entrepreneurial action.

We see risk management as a core responsibility of the Board of Management, the managers and all employees. Through active risk management, it should be possible to detect risks earlier and limit them and, at the same time, make use of entrepreneurial opportunities.

The risk management of Your Family Entertainment AG is divided into the following four steps:

1. Risk identification
2. Risk assessment
3. Risk management
4. Risk monitoring

We have developed suitable strategies, adapted to the size of the company, for each of these steps.

Central to the risk management of Your Family Entertainment AG are the regular discussions between the Board of Management and the second management tier for the purpose of promptly recognising and assessing risks and, where appropriate, taking counter-measures and monitoring the measures taken.

Moreover, the second management tier informs the Board of Management about risks which may unexpectedly occur outside these regular meetings.

Particular facts are discussed promptly by the Board of Management and the Supervisory Board.

The controlling and the internal control systems are material components of a consistent and effective risk management system.

As some of the risks lie outside the Board of Management's sphere of influence, even a functioning risk management system is unable to guarantee that all risks are eliminated. As such, developments may occur that deviate from the Board of Management's plans.

2.8 Details of the diversity concept

On 1 May 2015, the "Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector" of 24 April 2015 (Federal Law Gazette I p. 642) entered into force. For listed companies, Section 111 (5) AktG now stipulates that the Supervisory Board shall determine target ratios for the percentage of women on the Supervisory Board and the Board of Management and, at the same time, set deadlines for attaining these ratios.

The Supervisory Board has addressed this issue and has decided as follows:

<u>Target ratio for the percentage of women on the Supervisory Board</u>

Pursuant to § 9 (1) of the company's articles of association in connection with Sections 95 sentence 1, 96 (1) alternative 6, and 101 (1) AktG, the Supervisory Board of Your Family Entertainment Aktiengesellschaft is comprised solely of three shareholder representatives to be elected by the shareholders' meeting.

The Supervisory Board of Your Family Entertainment Aktiengesellschaft is currently also fully manned with three members, all of whom are male.

From the viewpoint of the Supervisory Board, the availability of suitable candidates qualified to accept supervisory board mandates and with the necessary experience in executive positions, besides the company and industry-specific characteristics, shall be considered when determining the target ratio for the percentage of women on the Supervisory Board.

The current members of the Supervisory Board are elected until the end of the ordinary shareholder's meeting, which decides whether or not to discharge them for the 2018 fiscal year. It would thus not be possible to appoint a female quota of more than 0% to the Supervisory Board before this time without increasing the number of members on the Supervisory Board. The Supervisory Board does not consider it appropriate to increase the number of members to six, especially taking into account the size of the company.

Without limiting the target ratio for the percentage of women on the Supervisory Board stipulated below, the Supervisory Board will, however, pay particular attention to considering women for future Supervisory Board vacancies as part of its candidate nominations.

This being the case, the Supervisory Board has decided as follows:

The target ratio for the percentage of women to be appointed to the Supervisory Board is set at 0%. It is thus not necessary to set deadlines for achieving the aforementioned target ratio.

Target ratio for the percentage of women on the Board of Management

The Board of Management of Your Family Entertainment AG currently consists of one male member.

From the viewpoint of the Supervisory Board, when determining the target ratio for the percentage of women on the Board of Management, it should be considered that the company's Board of Management is sufficiently manned with one member at the present time, especially taking into account the size of the company. With regard to the term of office of the current sole CEO, no personnel change is planned in the Board of Management until at least 31 December 2022. It would thus not be possible to appoint a female quota of more than 0% to the Board of Management before this date without increasing the number of members on the Board of Management. In its proposal of suitable Board of Management candidates, the Supervisory Board of Your Family Entertainment Aktiengesellschaft has, in the interests of the company, always aimed to put together a Board of Management exclusively made up of members who possess the proper knowledge, skills and professional experience to perform their duties properly. These should remain the decisive criteria in future even if particular attention is to be paid to actively considering qualified female candidates to fill any Board of Management vacancies. For a Board of Management consisting of just one member, setting a target ratio of more than 0% would, however, from the viewpoint of the Supervisory Board, result in a disproportionate limitation of the choice of candidates. From the viewpoint of the Supervisory Board, the availability of suitable candidates qualified to accept management board mandates and with the necessary experience in executive positions, besides the company- and industry-specific characteristics, must likewise be considered when determining the target ratio for the percentage of women on the Board of Management.

This being the case, the Supervisory Board has decided as follows:

The target ratio for the percentage of women to be appointed to the Board of Management is set at 0%. As no women are currently on the company's Board of Management, it is thus not necessary to set deadlines for achieving the aforementioned target ratio.

G. Principles of the company's remuneration system in accordance with Section 285 sentence 1 no. 9 HGB

The remuneration of the Board of Management complies with the legal requirements of the German Stock Corporation Act. The Board of Management receives a fixed remuneration, which also includes benefits in kind, particularly insurance premiums. These fixed elements ensure a basic remuneration enabling the Board of Management member to exercise his office in the well-understood interest of the company and to fulfil the obligations of a prudent businessman, without falling prey to the pursuit of purely short-term performance goals. The contract of employment also contains a variable special remuneration, which depends on the commercial results achieved by the company, particularly on an increase in the annual result.

H. Reporting pursuant to Section 289a HGB

1. Composition of the subscribed capital

The share capital as of the balance sheet cut-off date is divided into 10,295,459 no-par value shares, each with a pro rata amount in the share capital of €1.00. As of 31 December 2017, the share capital thus amounts to € 10,295,459. The shares are registered by name. They are fully paid up.

2. Restrictions that affect voting rights or the transfer of shares

Due to limitations on disposal, 93,000 shares were subject to a holding period until 30 June 2013 and could not be sold either on- or off-exchange. After expiry of this holding period, the sale of more than 10,000 shares from the stock of 93,000 had to be agreed with the company in advance.

3. Direct or indirect participation in the capital

As of 31 December 2017, F&M Film und Medien Beteiligungs GmbH, Vienna, Austria, holds 67.96% of the share capital.

As of 31 December 2017, the Holler Foundation, Munich, holds 13.14% of the share capital. Moreover, Dr. Stefan Piëch, Vienna, has a direct stake of 1.18% in the capital of Your Family Entertainment AG and an indirect stake of 67.96% through the aforementioned F&M Film und Medien Beteiligungs GmbH, so that in total 69.14% of the share capital is attributable to Dr. Piëch directly and indirectly.

4. Owners of shares with special rights

As of 31 December 2017, there are no shares with special rights.

5. Type of controls on voting rights in the event of employee participation

There are no controls on voting rights as of 31 December 2017.

6. Legal requirements and provisions of the articles of association on the appointment and dismissal of members of the Board of Management and on amendments to the articles of association

Members of the Board of Management are appointed and dismissed pursuant to Sections 84 and 85 AktG. Amendments to the articles of association are made pursuant to Sections 133 and 179 AktG.

7. Rights of the Board of Management to issue and buy back shares

Authorised capital 2016

The shareholders' meeting of 22 June 2016 decided to cancel the 2012 authorised capital and simultaneously approved a new authorised capital (authorised capital 2016).

In this respect, the following resolution was adopted:

a) The authorisation of the Board of Management, with the approval of the Supervisory Board, to increase the company's share capital on one or more occasions by a total of up to €4,831,499 (authorised capital 2012) by 26 June 2017 is, as far as such has not yet been utilised and in view of the creation of a new authorised capital under b) to d) below, herewith nullified with effect from the date of entry of the new authorised capital in the commercial register.

b) With the approval of the Supervisory Board, the Board of Management is authorised to increase the company's share capital on one or more occasions by a total of up to €4,831,499 by 21 June 2021 at the latest by issuing up to 4,831,499 new no-par-value registered share certificates with dividend entitlement in return for cash and/or contributions in kind (authorised capital 2016) from the beginning of the financial year in which the shares were issued. As a matter of principle, shareholders will be granted a subscription right. The statutory subscription right may also be granted in such a way that the new shares can be purchased by a bank or an equivalent institution under Section 186 (5) sentence 1 AktG with the obligation to offer these to shareholders of Your Family Entertainment AG for subscription. The Board of Management is nevertheless authorised, with the approval of the Supervisory Board, to exclude the shareholders' statutory subscription rights

- if a capital increase against cash contributions does not exceed 10% of the share capital and the issue price of the new shares does not fall significantly below the stock market price (Section 186 (3) sentence 4 AktG); in exercising this authorisation to exclude the subscription right pursuant to Section 186 (3) sentence 4 AktG, the exclusion of the subscription right due to other authorisations pursuant to Section 186 (3) sentence 4 AktG is to be taken into account;

- if the shares are issued against a contribution in kind for the purpose of acquiring companies or interests in companies or parts of companies or for the purpose of acquiring outstanding debts against the company;

- to the extent necessary to compensate for peak amounts.

c) With the approval of the Supervisory Board, the Board of Management is authorised to determine further details of the capital increase and its implementation.

The Supervisory Board is authorised to adjust the version of the articles of association in accordance with the utilisation of the authorised capital 2016.

d) § 4 para. 3 of the articles of association will be rewritten in accordance with the aforementioned resolutions, as follows:

"(3) With the approval of the Supervisory Board, the Board of Management is authorised to increase the company's share capital on one or more occasions by a total of up to €4,831,499 by 21 June 2021 at the latest by issuing up to 4,831,499 new no-par-value registered share certificates with dividend entitlement in return for cash and/or contributions in kind (authorised capital 2016) from the beginning of the financial year in which the shares were issued. As a matter of principle, shareholders will be granted a subscription right. The statutory subscription right may also be granted in such a way that the new shares can be purchased by a bank or an equivalent institution under Section 186 (5) sentence 1 AktG with the obligation to offer these to shareholders of Your Family Entertainment AG for subscription. The Board of Management is nevertheless authorised, with the approval of the Supervisory Board, to exclude the shareholders' statutory subscription rights

- if a capital increase against cash contributions does not exceed 10% of the share capital and the issue price of the new shares does not fall significantly below the stock market price (Section 186 (3) sentence 4 AktG); in exercising this authorisation to exclude the subscription right pursuant to Section 186 (3) sentence 4 AktG, the exclusion of the subscription right due to other authorisations pursuant to Section 186 (3) sentence 4 AktG is to be taken into account;

- if the shares are issued against a contribution in kind for the purpose of acquiring companies or interests in companies or parts of companies or for the purpose of acquiring outstanding debts against the company;

- to the extent necessary to compensate for peak amounts.

With the approval of the Supervisory Board, the Board of Management is authorised to determine further details of the capital increase and its implementation. The Supervisory Board is authorised to adjust the version of the articles of association in accordance with the utilisation of the authorised capital 2016."

Acquisition of the company's treasury shares

The shareholders' meeting held on 22 June 2016 authorised the company to acquire treasury shares.

In this respect, the following resolution was adopted:

a) The authority granted to the company by the shareholders' meeting held on 27 June 2012 to acquire treasury shares by 26 June 2017 will be nullified as soon as the new authorisation resolution under b) to d) becomes valid.

b) The company is authorised to purchase treasury shares. This authorisation is, however, restricted to the acquisition of an arithmetic portion of up to 10% of the company's share capital. The authorisation may be exercised wholly or in partial amounts, once or on several occasions, by the company itself or on its account by third parties. The authorisation is valid until 21 June 2021.

c) The acquisition will take place either via the stock exchange or by means of a public offer to buy, addressed to all shareholders of the company.

aa) Should the acquisition take place via the stock exchange, the value per share paid by the company (excluding the ancillary costs of acquiring the shares) may not be higher or lower by more than 20% of the average closing price of shares of a similar nature on the Frankfurt Stock Exchange during the last ten stock exchange trading days prior to the acquisition of the shares.

bb) Should the acquisition take place by way of a public offer to buy addressed to all shareholders, the purchase price per share offered (excluding the ancillary costs of acquiring the shares) may not be higher or lower by more than 20% of the average closing price on the Frankfurt Stock Exchange during the last ten stock exchange trading days prior to the date the offer was published. The offer to buy may stipulate other conditions. Acceptance must be made by quota should the offer to buy be oversubscribed. The privileged acceptance of a limited number of shares per shareholder of the company of up to 100 units of the shares offered for sale may be provided for.

d) The Board of Management is authorised, with the consent of the Supervisory Board, to dispose of the shares in Your Family Entertainment AG acquired on the basis of this authorisation in other ways than through sale by way of an offer to all shareholders or sale on the stock exchange, namely

aa) by offering shares to third parties as part of a company merger, the acquisition of companies, investments in companies or parts of companies and as payment for the acquisition of receivables due from the company;

bb) by selling shares to third parties. The price at which the company's shares are issued to third parties may not be materially lower than the stock exchange price of the shares at the time of the sale. The exclusion of a subscription right due to other authorisations pursuant to Section 186 (3) sentence 4 AktG is to be taken into account when exercising the authorisation;

cc) by redeeming the shares without the redemption or its execution requiring the approval of an additional resolution by the shareholders' meeting. The redemption leads to reduction of capital. The shares may also be redeemed in a simple procedure without reducing the capital, by adjusting the arithmetical pro rata amount of the other no-par-value shares in the share capital. The redemption may also be limited to a part of the shares acquired. The authorisation of the redemption may be exercised several times. If the shares are redeemed using the simple procedure, the Board of Management shall be authorised to adjust the number of no-par-value shares in the articles of association.

The above authorisations relating to the use of the treasury shares acquired may be exercised once or on several occasions, completely or in parts, individually or jointly. The shareholders' subscription right regarding purchased treasury shares is excluded insofar as these shares are used pursuant to the above-mentioned authorisations under aa) and bb). At the shareholders' meeting, the Board of Management will inform the shareholders of the reasons for and the purpose of the acquisition of the company's treasury shares, the number of shares acquired and the amount of share capital that they represent as well as the amount that was paid for the shares.

Information pursuant to Section 160 I no. 2 AktG on treasury shares is provided in the Notes to this Annual Financial Statement.

Conditional capital 2013

At an extraordinary general meeting held on 7 November 2013, the shareholders decided to authorise the Board of Management, with the approval of the Supervisory Board, to issue on one or more occasions by 6 November 2018 bearer convertible bonds with a total nominal value of up to €10,000,000.00 and a term of no longer than 20 years and to grant the bearers of said convertible bonds conversion rights to new shares in the company up to a total equivalent value of €2,300,000.00 of the share capital in accordance with the detailed terms of the convertible bonds.

The share capital will be conditionally increased by up to €2,300,000.00 with the issue of up to 2,300,000 new no-par-value bearer share certificates (conditional capital 2013). The purpose of the conditional capital increase is to grant shares to the holders of convertible bonds.

On the basis of the above authorisation and with the approval of the Supervisory Board, the Board of Management decided on 14 January 2014 to issue a convertible bond with a total nominal value of up to € 4,999,200.00, divided into 2,083,000 equal partial bearer bonds with a nominal value of € 2.40 EUR each. The issue price per partial bond is 100% of the nominal value i.e. €2.40. The partial bonds are interest-bearing at a rate of 4% p.a. The term of the convertible bond is four years. This commences on 10 February 2014 and ends at close of business on 9 February 2018.

Decision on the conversion of bearer shares to registered shares and the associated amendments to the articles of association and adaptation of authorisations

The ordinary shareholders' meeting held on 24 June 2015 decided the following:

a) The no-par-value bearer share certificates issued when the articles of association amendment decided under b) comes into effect will be converted into registered shares.

b) § 5 (1) and (2) of the company's articles of association will be amended and rephrased as follows:

"(1) All shares are registered by name (registered shares).

(2) If, in the event of a capital increase, the resolution to implement the capital increase makes no provision as to whether the new shares should be bearer shares or registered shares, then such new shares shall also be registered shares."

c) § 4 (3) sentence 1 of the company's articles of association will be amended and rephrased as follows:

"With the approval of the Supervisory Board, the Board of Management is authorised to increase the company's share capital on one or more occasions by a total of up to €4,831,499 by 26 June 2017 by issuing up to 4,831,499 new no-par-value registered share certificates with dividend entitlement in return for cash and/or contributions in kind (authorised capital 2012) from the beginning of the financial year in which the shares were issued."

d) aa) The authorisation to issue no-par-value bearer shares decided at the extraordinary shareholder's meeting held on 7 November 2013 under agenda point 1 is amended in that the authorisation permits the granting of convertible bonds for no-par-value registered share certificates instead of the granting of convertible bonds for no-par-value bearer share certificates.

bb) The conditional capital increase for the service of convertible bonds decided at the extraordinary shareholder's meeting held on 7 November 2013 under agenda point 1 is amended in that the conditional capital is increased by issuing no-par-value registered share certificates instead of no-par-value bearer share certificates.

cc) With regard to convertible bonds already issued, the bearers of conversion rights now have subscription rights for no-par-value registered share certificates instead of subscription rights for no-par-value bearer share certificates. The terms of the convertible bonds remain otherwise unaffected.

dd) § 4 (4) sentence 1 of the company's articles of association will be amended and rephrased as follows:

"The share capital has been conditionally increased by up to €2,300,000.00 with the issue of up to 2,300,000 new no-par-value registered share certificates (conditional capital 2013)."

8. Material agreements that are conditional upon a change of control as a consequence of a takeover offer

There are no such agreements as of the balance sheet cut-off date.

9. Compensation agreements

On the balance sheet cut-off date, there were no compensation agreements with the members of the Board of Management or employees in the event of a take-over bid.

I. Dependent company report

The Board of Management has prepared and submitted to the auditors a report on the relationships of Your Family Entertainment AG with associated companies (dependent company report) for the 2017 financial year.

The Board of Management declares that the company received an appropriate consideration for each of the transactions listed in its report on relationships with associated companies given the circumstances that were known to it at the time the transactions were carried out. No other measures were taken or refrained from at the instigation of or in the interest of these companies.

Munich, 16 March 2018

The Board of Management

Dr. Stefan Piëch

7. Auditor's Certificate Baker Tilly GmbH & Co. KG

REPORT OF THE INDEPENDENT AUDITOR

To Your Family Entertainment AG, Munich

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENT AND THE MANAGEMENT REPORT

Opinions

"We have audited the Annual Financial Statement of Your Family Entertainment AG, Munich, consisting of the balance sheet as at 31 December 2017 and the profit and loss statement for the financial year from 1 January 2017 to 31 December 2017, the cash flow statement, the shareholders' equity analysisfor the financial year from 1 January 2017 to 31 December 2017 and the Notes to this Annual Financial Statement, including the accounting and valuation methods. We have also audited the Management Report of Your Family Entertainment AG for the financial year from 1 January 2017 to 31 December 2017. In accordance with the statutory provisions, we did not audit the content of the various sections of the Management Report specified in the Notes to the Annual Financial Statement 2017.

In our opinion, based on the knowledge we acquired during the course of the audit,

- the attached Annual Financial Statement complies in all essential aspects with the German commercial law requirements applicable for limited companies and give a true and fair picture of the company's asset and financial situation as per 31 December 2017, as well as its earnings situation for the financial year from 1 January 2017 to 31 December 2017, in accordance with generally accepted German accounting principles, and

- the attached Management Report gives a true and fair picture of the company's overall situation. The Management Report is consistent in all essential aspects with the Annual Financial Statement, complies with German legal requirements, and accurately presents the opportunities and risks of future developments.

Pursuant to Section 322 (3) sentence 1 HGB, we hereby declare that our audit did not establish any grounds for objecting to the correctness of the Annual Financial Statement and the Management Report.

Basis for the opinions

We conducted our audit of the Annual Financial Statement in accordance with Section 317 HGB and the EU Regulation on Specific Requirements regarding Statutory Audit of Public-Interest Entities (No. 537/2014; hereinafter referred to as the "EU Audit Regulation") in conformity with the generally accepted auditing standards laid down by the German Institute of Auditors (IDW). Our responsibility pursuant to these regulations and standards is described in greater detail in the "Responsibility of the auditor for the auditing of the Annual Financial Statement and the Management Report" section of our audit report. We have complied with the regulations of European and German commercial and professional law, independent of the company, and have fulfilled our other German professional duties in compliance with these requirements. In addition, we hereby declare pursuant to Art. 10 (2) f) of the EU Audit Regulation that we have not performed any illegal non-audit services according to Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our opinions on the Annual Financial Statement and the Management Report.

Particularly key facts in the audit of the Annual Financial Statement

Particularly key facts are facts that, according to our best judgement, were most significant in our audit of the Annual Financial Statement for the financial year from 1 January 2017 to 31 December 2017. These facts were taken into account in the context of our audit of the Annual Financial Statement as a whole and in forming our opinions thereon; we will not be submitting a separate opinion on these facts.

We have structured our account of these particularly key facts as follows:

1. Fact and problem posed
2. Audit procedure and findings
3. Reference to further information

Intrinsic value of the film assets

1. In the Annual Financial Statement of Your Family Entertainment AG, the balance sheet item "Intangible assets" shows €21.5 million worth of purchased film assets and other rights, which represents approx. 80% of the total balance sheet amount. An impairment test is carried out by the company on the purchased film assets rights and other rights either annually on the balance sheet cut-off date or as occasion demands. The basis for these assessments is routinely the present value of future cash flows for the respective film right. The budget figures for the individual film rights that are calculated according to the budgets approved by management form the basis for the assessments. The cash flows are discounted on the basis of the weighted average cost of capital of the respective company. The result of this assessment is largely dependent on the expectancy of the company's legal representatives in respect of future cash inflows and the discount rate applied and therefore has a considerable degree of uncertainty, which makes this fact of particular importance for our audit.

2. In order to address this risk, we analysed management's assumptions and estimations, conducting the following auditing activities, among others, in the process:

   - We retraced the methodical procedure used to perform the impairment test and assessed the manner in which the weighted average cost of capital was determined.

   - We are convinced that, altogether, the future cash inflows, which are based on the assessments, and the discount rate applied form an appropriate basis for the impairment tests for the individual film rights.

   - Among other things, we based our estimation on a comparison of general and industry-specific market expectations as well as detailed comments from management on the major value drivers for the budget planning and a comparison of this information with the current budget from the plans approved by the Supervisory Board.

- With the knowledge that even the smallest fluctuation in the discount rate can have a major impact on the value determined in this manner, we focused on the parameters used to determine the applied discount rate, including the weighted average cost of capital, and traced the calculation formula used by the company.

- In addition, we carried out our own sensitivity analyses on random film rights to be able to calculate a possible impairment risk in the event of a potential change in a key assumption on which the evaluation is based. The random film rights were selected on the basis of qualitative aspects and the amount to which the respective book value exceeded the value in use. We established that the respective film rights and the overall book values of the purchased film assets and other rights are covered by the discounted future cash flows on the balance sheet cut-off date.

3. Information on the film assets is provided in section "II. Accounting and valuation methods, 1. Balance sheet" of the Notes to this Annual Financial Statement.

Further information

The legal representatives are responsible for the further information:

- "Declaration of the company's management pursuant to Section 289f HGB" in the Management Report,
- "Assurance of the legal representatives" in the Annual Report,
- "Corporate Governance report" in the Annual Report,
- "Opening comments of the Board of Management" in the Annual Report,
- "Shares" in the Annual Report.

The Supervisory Board is responsible for the following further information:

- Report of the Supervisory Board in the Annual Report.

Our opinions on the Annual Financial Statement and the Management Report do not include the further information and, accordingly, we will not be submitting an opinion or any other form of conclusion on these.

Within the context of our audit, it is our duty to read the further information and to recognise if the further information

- differs significantly from the Annual Financial Statement, the Management Report or the findings of our audit or
- otherwise appears to be fundamentally misrepresented.

Responsibility of the legal representatives and the Supervisory Board for the Annual Financial Statement and the Management Report

The legal representatives are responsible for preparing the Annual Financial Statement, which complies in all essential aspects with the German commercial law requirements applicable for limited companies and for ensuring that the Annual Financial Statement gives a true and fair picture of the company's asset, financial and earnings situation in accordance with generally accepted German accounting principles. Further, the legal representatives are responsible for the internal controls deemed necessary by them in accordance with generally accepted German accounting principles to enable the preparation of an Annual Financial Statement without any major misrepresentations, either intentional or unintentional.

When preparing the Annual Financial Statement, the legal representatives are responsible for assessing the company's ability to continue the business activities. Additionally, they are responsible for stating any facts, if relevant, in connection with the continuation of the business activities. They are also responsible for drawing up the balance sheet on the basis of the accounting principle regarding the continuation of the business activities, provided there are no factual or legal circumstances that would oppose this.

Further, the legal representatives are responsible for preparing the Management Report, which gives a true and fair picture of the company's situation, is consistent in all essential aspects with the Annual Financial Statement, complies with German statutory requirements and accurately presents the opportunities and risks of future developments. The legal representatives are also responsible for adopting the precautions and measures (systems) deemed necessary by them to enable the Management Report to be prepared in compliance with the applicable German statutory requirements and to enable the provision of sufficient evidence to substantiate the statements made in the Management Report.

The Supervisory Board is responsible for the governance of the company's accounting methods used for preparing the Annual Financial Statement and the Management Report.

Responsibility of the auditor for the auditing of the Annual Financial Statement and the Management Report

Our aim is to obtain reasonable assurance with regard to whether or not the Annual Financial Statement, in its entirety, contains any major misrepresentations, either intentionally or unintentionally, and if the Management Report, in its entirety, gives a true and fair picture of the company's situation, is consistent in all essential aspects with the Annual Financial Statement and with the audit findings, complies with German statutory requirements and accurately presents the opportunities and risks of future developments, and to issue an audit report that includes our opinions on the Annual Financial Statement and the Management Report.

Although reasonable assurance is a high level of assurance, it is, however, no guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation, applying the generally accepted auditing standards laid down by the German Institute of Auditors (IDW), will be able to detect any major misrepresentation. Misrepresentations can be due to infringements or errors and are deemed material if they, either individually or in total, might reasonably be expected to influence the economic decisions of users made on the basis of this Annual Financial Statement and Management Report.

In the course of the audit we apply our professional judgement and take a critical stance. In addition,

- we identify and assess the risks posed, either intentionally or unintentionally, by major misrepresentations in the Annual Financial Statement and the Management Report, plan and conduct auditing activities as a reaction to these risks and obtain evidence that is sufficient and appropriate to serve as a basis for our opinions. The risk of failing to detect major misrepresentations is higher in the case of infringements than in the case of errors, as infringements can involve fraudulent collaboration, falsification, intentional incompleteness, misleading representations or the suspension of internal controls.

- we gain an understanding of the internal control system relevant for auditing the Annual Financial Statement and of the precautions and measures relevant for auditing the Management Report in order to plan auditing activities that are appropriate under the circumstances, the objective of which is, however, not to submit an opinion on the effectiveness of these systems used by the company.
- we assess the appropriateness of the accounting methods applied by the legal representatives and the prudent nature of the estimated values presented by the legal representatives and statements associated with these.
- we draw conclusions about the appropriateness of the accounting principle regarding the continuation of the business activities applied by the legal representatives and, on the basis of the audit-relevant evidence obtained, if a significant degree of uncertainty exists due to events or circumstances that could raise serious doubts as to the company's ability to continue its business activities. If we come to the conclusion that a significant degree of uncertainty exists, we are obligated to call attention to the corresponding information in the Annual Financial Statement and the Management Report in our audit report or, if this information is inappropriate, to modify our opinion accordingly. We draw our conclusions on the basis of the audit-relevant evidence obtained by the date of our audit report. Future events or circumstances can, however, result in the company's inability to continue its business activities.
- we assess the overall representation, the structure and the content of the Annual Financial Statement, including the details, and judge if the Annual Financial Statement presents the business transactions on which it is based in such as way as to give a true and fair picture of the company's asset, financial and earnings situation in accordance with generally accepted German accounting principles.
- we assess if the Management Report is consistent with the Annual Financial Statement, its compliance with statutory requirements and the picture it presents of the company's situation.
- we conduct auditing activities on the future-oriented statements made by the legal representatives in the Management Report. On the basis of sufficient and appropriate evidence, we trace, in particular, the key assumptions on which the future-oriented statements made by the legal representatives are based and assess the manner in which the future-oriented statements are derived from

these assumptions. We do not present an independent opinion on the future-oriented statements or on the assumptions on which these are based. There is a considerable unavoidable risk that future events will deviate considerably from the future-oriented statements.

Among other things, we discuss with those charged with governance the intended scope and schedule of the audit as well as important audit findings, including possible deficiencies in the internal control system identified by us in the course of the audit.

We issue a statement to those charged with governance that we have complied with the relevant independence requirements, and discuss with them all relationships and other facts that might reasonably be considered to affect our independence and the protective measures adopted in this regard.

From the facts discussed with those charged with governance, we identify those facts that, in the auditing of the Annual Financial Statement, were the most significant for the current reporting period and which therefore constitute particularly important facts. We mention these facts in the audit report unless publication of these facts is prohibited by law or other legal provisions.

OTHER STATUTORY AND LEGAL REQUIREMENTS

Additional information pursuant to Art. 10 of the EU Audit Regulation

We were selected to act as auditor by the shareholders' meeting held on 15 September 2017. We were commissioned on 29 September 2017 by the Supervisory Board. The 2017 financial year is the first year in which we are acting as auditor for Your Family Entertainment AG, Munich.

We declare that the opinions contained in this audit report are consistent with the content of the additional report to the audit committee pursuant to Art. 11 of the U Audit Regulation.

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Joachim Weilandt.

Munich, 10 April 2018

Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft
(Düsseldorf)
(formerly Baker Tilly Roelfs AG Wirtschaftsprüfungsgesellschaft)

Stahl	Weilandt
Auditor	Auditor

8. Assurance of the legal representative / Responsibility Statement

"I certify that, to the best of my knowledge and in accordance with the applicable accounting principles, the Annual Financial Statement conveys a true and fair picture of Your Family Entertainment AG's asset, financial and earnings situation and that the Management Report presents the development of the business and its results and the company's current situation in such a way that a true and fair picture is conveyed and that major risks and opportunities of the company's expected development are described."

Munich, April 2018

Dr. Stefan Piëch
Board of Management

9. Financial calendar

• 26.04.2018	Release of the Annual Financial Statement for 2017
• 21.06.2018	Shareholders' meeting
• 23.08.2018	Release of the Annual Financial Statement for 2018

10. Legal notice / contact

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