

Financial Report 2017

1 Financial statements of the Orell Füssli Group

1.1 Consolidated income statement

<i>in CHF thousand</i>	Notes	2017	2016
Net revenue from sales to customers	4.1 / 4.3 / 4.4	288,502	298,877
Other operating income	4.4	4,599	5,126
Changes in inventories of semi-finished and finished products, capitalised costs	4.4	-2,071	-4,565
Total operating income	4.4	291,030	299,438
Cost of materials		-119,792	-121,120
External production costs		-10,065	-12,765
Personnel expenditure	4.5 / 4.6	-83,189	-81,623
Other operating expenses	4.7	-49,478	-50,799
Depreciation and impairment on tangible assets	4.16	-15,086	-13,824
Depreciation and impairment on intangible assets	4.17	-777	-777
Earnings before interest and taxes (EBIT)	4.1	12,643	18,530
Financial income		1,764	1,432
Financial expenses		-1,022	-705
Financial result	4.8	742	727
Earnings before income taxes (EBT)		13,385	19,257
Income tax expenses	4.9	-6,989	-6,926
Net income for the period		6,396	12,331
Attributable to the shareholders of Orell Füssli Holding Ltd		4,771	10,806
Attributable to minority interests		1,625	1,525
<i>in CHF</i>	Notes	2017	2016
Earnings per share	4.10	2.44	5.51
Diluted earnings per share	4.10	2.43	5.51

The disclosures on pages 14 to 35 form an integral part of the financial report.

1.2 Consolidated balance sheet

<i>in CHF thousand</i>	Notes	31.12.2017	31.12.2016
Assets			
Cash and cash equivalents	4.11	85,961	69,957
Marketable securities	4.12	358	328
Trade accounts receivable	4.13	19,843	25,416
Other receivables	4.14	11,329	22,236
Inventories	4.15	32,250	37,553
Current income tax receivables		1,530	427
Accrued income and deferred expenses		3,032	2,971
Total current assets		154,303	158,888
Tangible assets	4.16 / 4.18	64,560	67,003
Intangible assets	4.17	2,199	1,441
Financial assets	4.19	2,535	385
Deferred tax assets	4.25	5	2,696
Other non-current financial assets	4.20	5,869	5,465
Total non-current assets		75,168	76,990
Total assets		229,471	235,878
Liabilities and equity			
Trade payables		9,282	18,535
Other current liabilities	4.21	36,346	33,489
Current income tax liabilities		4,423	3,617
Accrued expenses and deferred income	4.22	16,171	12,469
Current financial liabilities	4.23	1,170	1,073
Current provisions	4.24	1,025	1,239
Total current liabilities		68,417	70,422
Non-current financial liabilities	4.23	2,455	2,577
Pension fund liabilities		316	326
Non-current provisions	4.24	305	243
Deferred tax liabilities	4.25	1,780	1,954
Total non-current liabilities		4,856	5,100
Share capital		1,960	1,960
Capital reserves		4,212	4,250
Own shares	4.26	-124	-56
Retained earnings		155,226	158,291
Translation differences		-15,842	-17,903
Total equity before minority interests		145,432	146,542
Minority interests		10,766	13,814
Total equity		156,198	160,356
Total liabilities and equity		229,471	235,878

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1.3 Consolidated cash flow statement

<i>in CHF thousand</i>	Notes	2017	2016
Net income for the period		6,396	12,331
Change in employee equity incentive plans		-38	90
Depreciation	4.16 / 4.17	14,930	14,389
Impairment and amortisation	4.16 / 4.17	933	213
Other non-cash related income and expenses		-1,546	1,380
Change in trade accounts receivable		6,332	-6,146
Change in inventories		6,238	-403
Change in other receivables		10,024	-3,644
Change in trade payables		-9,413	8,324
Change in other liabilities		3,163	-9,754
Change in accrued income and deferred expenses		-30	272
Change in accrued expenses and deferred income		36	-3,410
Change in provisions and deferred income tax		2,373	2,094
Cash flow from operating activities		39,398	15,736
Purchase of tangible assets	4.16	-8,246	-7,385
Proceeds from disposals of tangible assets		323	23
Purchase of intangible assets	4.17	-1,187	-723
Purchase of other financial assets		-2,150	-
Proceeds from other financial assets		-	12
Purchase of other non-current assets		-56	-51
Proceeds from disposals of other non-current assets		9	151
Consolidation of insignificant subsidiaries (Cash and cash equivalents)		-	109
Cash flow from investing activities		-11,307	-7,864
Increase of financial liabilities		47	47
Repayment of financial liabilities		-	-25
Purchase of company's own shares	4.26	-125	-56
Reduction of share capital (Orell Füssli Buchhandlungs Ltd, minority interest)		-2,401	-
Dividends paid to minorities (Orell Füssli Buchhandlungs Ltd, Tritron GmbH)		-2,679	-2,881
Dividends paid	4.28	-7,836	-7,840
Cash flow from financing activities		-12,994	-10,755
Translation effects		907	-279
Increase in cash and cash equivalents		16,004	-3,162
Cash and cash equivalents at 1 January		69,957	73,119
Cash and cash equivalents at 31 December		85,961	69,957

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1.4 Consolidated statement of changes in equity*in CHF thousand*

	Share capital	Capital reserves	Own shares	Retained earnings and net income	Goodwill offset with equity	Translation differences	Equity before minority interests	Minority interests	Total equity
Equity at 1 January 2016	1,960	4,160	–	225,508	–70,183	–17,512	143,933	15,208	159,141
Dividends paid	–	–	–	–7,840	–	–	–7,840	–2,881	–10,721
Employee equity incentive plans	–	90	–56	–	–	–	34	–	34
Currency translation effects	–	–	–	–	–	–391	–391	–38	–429
Net income for the period	–	–	–	10,806	–	–	10,806	1,525	12,331
Total equity at 31 December 2016	1,960	4,250	–56	228,474	–70,183	–17,903	146,542	13,814	160,356
Equity at 1 January 2017	1,960	4,250	–56	228,474	–70,183	–17,903	146,542	13,814	160,356
Dividends paid	–	–	–	–7,836	–	–	–7,836	–2,679	–10,515
Reduction of share capital	–	–	–	–	–	–	–	–2,401	–2,401
Employee equity incentive plans	–	–38	–68	–	–	–	–106	–	–106
Currency translation effects	–	–	–	–	–	2,061	2,061	407	2,468
Net income for the period	–	–	–	4,771	–	–	4,771	1,625	6,396
Total Equity at 31 December 2017	1,960	4,212	–124	225,409	–70,183	–15,842	145,432	10,766	156,198

The share capital as at 31 December 2017 and 31 December 2016 consisted of 1,960,000 registered shares with a par value of CHF 1.00 each.

The amount of accumulated non-distributable reserves stands at CHF 13,743,000 (2016: CHF 12,167,000).

In the event of the disposal or partial disposal of entities or in the event of the full or partial reimbursement of loans with equity character granted to consolidated companies, goodwill and currency translation differences have to be fully or partially written down via the consolidated income statement in accordance with Swiss GAAP FER 30 (17). This has no impact on the consolidated shareholders' equity as such a write-down would lead, on the one hand, to an increase in the consolidated shareholders' equity, but the related loss would then represent a decrease of the same amount ('recycling of goodwill and currency translation differences').

In contrast, a reorganisation of the business (even if significant) that does not involve the disposal or partial disposal of entities would have no impact on these two items of the consolidated shareholders' equity.

Of the total amount of goodwill and currency translation differences, CHF 84,511,000 (2016: CHF 86,573,000) relates to the Industrial Systems business unit, where the potential for write-downs in the event of (partial) disposals (possibly accompanied by a decrease in loans to group companies) is consequently significant.

The disclosures on pages 14 to 35 form an integral part of the financial report.

2 Accounting policies

2.1 Basis of accounting

The consolidated financial statements have been prepared in conformity with the existing Swiss GAAP FER standards in their entirety, as well as the provisions of the Listing Rules of SIX Swiss Exchange and the Swiss law on companies limited by shares ("company law").

The new rules for revenue recognition under Swiss GAAP FER did not require any adjustments to be made in the balance sheet or in the income statement.

The consolidated financial statements are based on the principle of historical costs and are prepared assuming that the company is a going concern.

2.2 Consolidation

Subsidiaries

Subsidiaries comprise all domestic and foreign entities directly or indirectly controlled by Orell Füssli Holding Ltd, either by holding at least 50% of the voting rights or by otherwise exercising a significant influence on the business management and business policy.

Subsidiaries are consolidated as of the date on which direct or indirect control passes to Orell Füssli Holding Ltd. They are deconsolidated as of the date that such control ceases. All identifiable assets and liabilities of a subsidiary are measured at fair value as of the acquisition date. The excess of a cost of acquisition over the fair value of the Group's share of the net assets of an acquired subsidiary is recognised in the equity as goodwill.

The impact of inter-company transactions is eliminated in the consolidated financial statements.

Participations in joint ventures

Joint ventures under joint management, but not controlled by one of the parties, are consolidated on a pro rata basis.

As of 1 October 2013 Orell Füssli Thalia Ltd was created by the merger of the book retailing activities of Thalia Bücher Ltd and Orell Füssli Buchhandlungs Ltd. Each parent company holds a 50% interest and the Board of Directors consists of two representatives of each parent company. For the purposes of reporting consistency, this joint venture is consolidated on a pro rata basis. Orell Füssli Holding Ltd continues to hold 51% of the capital of Orell Füssli Buchhandlungs Ltd, as before, while the Hugendubel Holding Ltd holds 49%.

Participations in associated companies

Participations in associated companies in which Orell Füssli Holding Ltd is able to exercise a significant influence are accounted for using the equity method. Influence is considered as significant if Orell Füssli Holding Ltd directly or indirectly holds between 20% and 50% of the voting rights or if it can otherwise exercise a significant influence on the business management and business policy.

Using the equity method, participations in associated companies are recognised initially at cost. Cost may include goodwill. The carrying amount of the participation is adjusted subsequently depending on the development of Orell Füssli Holding Ltd's share in the associated company's equity.

Other participations

Holdings of less than 20% of voting rights are recognised at the lower of cost or market value.

2.3 Currency translation

The items included in the financial statements of each group entity are valued using the currency of the primary economic environment in which the group operates (the “functional currency”). Transactions in a foreign currency are translated into the functional currency using the exchange rate prevailing on the date of the transaction.

The consolidated financial statements are presented in Swiss francs. To prepare the consolidated financial statements, the assets and liabilities of foreign subsidiaries are converted into Swiss francs at the market rate as of the corresponding balance sheet date. Revenues and expenses are converted at the average currency exchange rate for the financial year. Translation differences and foreign currency gains on equity-like long-term loans are booked neutrally for profit purposes under currency differences in the shareholders’ equity. In the event of the disposal of a foreign subsidiary, the related accumulated translation differences booked on the income statement are de-recognised and disclosed as part of the profit or loss from the disposal.

The Orell Füssli Group used the following currency exchange rates for the 2017 and 2016 financial years:

CURRENCY EXCHANGE RATES

	Market rate		Annual average rate	
	31.12.2017	31.12.2016	2017	2016
EUR at a rate of CHF	1.1696	1.0725	1.1116	1.0903
USD at a rate of CHF	0.9763	1.0195	0.9849	0.9853
GBP at a rate of CHF	1.3174	1.2586	1.2684	1.3359
HKD at a rate of CHF	0.1249	0.1315	0.1264	0.1270
CNY at a rate of CHF	0.1501	0.1468	0.1458	0.1484

2.4 Critical accounting estimates and judgements

The preparation of the annual financial statements requires management to estimate values and make assumptions affecting the disclosures of income, expenses, assets, liabilities and contingent liabilities as of the balance sheet date. If such estimates and assumptions made by management as of the balance sheet date and to the best of its knowledge, differ from the actual conditions at a later date, the original estimates and assumptions are amended in the reporting period in which the conditions have changed.

2.5 Segment reporting

A business segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns that differ from those of other business segments.

The Group’s business activities are categorised in three segments: Industrial Systems, Security Printing and Book Retailing. Other business activities include publishing as well as infrastructure services, which are not material in terms of their size. Information about the products and services of each business segment is provided in section 4.1 Notes to the consolidated financial statements.

2.6 Revenue recognition

Net revenue from sales to customers of tradable, manufactured and printed products is recorded as income after their delivery to the client. Revenue is recorded net of value-added tax and any rebates.

Revenue from construction contracts (see note 2.12) is recognised using the percentage of completion method (PoC) in order to record the portion of total sales for the reporting period.

Revenue from services rendered and objects leased over a certain period and which are invoiced to clients periodically is recorded in the period in which the service is rendered or the right of use is exercised. Revenue from the processing of transaction-related services is recorded at the time the service is rendered in full.

Dividend income is recorded in the reporting period in which a right to payment arises.

2.7 Impairment

Tangible and intangible assets are tested for impairment if events or changes of circumstances indicate that the value of an asset may be impaired. If such indications exist, the recoverable amount is determined. An impairment loss results if the carrying amount exceeds the recoverable amount. The recoverable amount is the higher value of either the fair value less selling costs or the present value of expected future cash flows. The impairment is recorded in the income statement. For the purpose of impairment testing, assets are grouped at the lowest level for which separate cash flows can be identified.

2.8 Income taxes

Income taxes are recorded based on the applicable tax rate of the individual countries and expensed in the period in which they occur. Tax effects resulting from tax losses carried forward are recognised as deferred tax assets if future taxable profits are likely against which the tax losses could be offset.

Deferred tax assets and liabilities are recognised for temporary differences between the values of assets and liabilities disclosed in the balance sheet and their corresponding tax accounting value provided they result in future taxable expenditures or profits, respectively. Further, deferred tax assets are recognised only if future taxable profits are likely against which they may be offset.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply in the period when the asset will be realised or the liability will be settled.

Current tax assets and liabilities can be offset against each other provided they concern the same taxable unit, the same tax authority and there is a legally enforceable right to offset them. Deferred tax assets and liabilities can be offset against each other in the same circumstances.

2.9 Cash and cash equivalents

Cash and cash equivalents include petty cash, cash in bank and postal giro accounts and short-term fixed deposits with a contractual maturity period of three months or less.

2.10 Marketable securities and derivative financial instruments

Marketable securities are initially valued at cost plus transaction costs. All purchases and sales are recognised at the daily market price. Subsequently, marketable securities are included in current assets and marked to market in the income statement.

Derivative financial instruments to hedge transactions with future cash flows are recognised at fair value in the same item where the underlying transaction is recorded in the balance sheet. Otherwise, they are disclosed in the notes to the financial statements. The Orell Füssli Group does not buy or sell any derivative financial instruments without underlying transactions.

2.11 Trade accounts receivable and other current accounts receivable

Trade accounts receivable and other current accounts receivable are valued at the amortised acquisition cost less any impairments. The valuation of doubtful accounts receivable is done by means of individual impairment charges and in light of the expected losses based on empirical values.

Any loss due to a change in the provision for doubtful accounts receivable is recognised in the income statement as other operating expense, while the reversal of any such provision accordingly results in a decrease of the operational expense.

2.12 Construction contracts poc (included in other receivables)

Manufacturing contracts are long-term orders with a timeframe of at least three months and representing a significant volume, which are usually governed by a contract for work and services. Manufacturing contracts are recognised using the percentage of completion method (PoC). The PoC method measures the stage of completion of the contractual activity in percentage terms in order to determine the share of the overall revenue for the reporting period and to recognise this share as other receivable. The degree of completion is determined based on the completed quantity of a production lot and/or on the portion of the production stages carried out. Expected losses on construction contracts are recognised immediately in the income statement as an expense.

Advance payments for manufacturing contracts are recognised without any impact on income. If there is no repayment claim, advance payments are offset against the accrued costs of the production contract to which these payments relate.

2.13 Inventories

Inventories include raw materials, auxiliary material and supplies, semi-finished products, finished products, work-in-progress and trading goods. Inventories are stated at the lower of cost or net realisable value. The acquisition or production costs are determined based on the weighted average acquisition costs. The production costs of semi-finished and finished products comprise the directly attributable production costs, including materials and manufacturing costs, as well as overhead costs. The net realisable value is the estimated selling price in the ordinary course of business less the production and distribution costs. To this end, coverage analyses are consulted for the products, while the date of acquisition is consulted for the book trade. Discounts are treated as reductions in the acquisition cost.

2.14 Other non-current financial assets

This item includes long-term loans, amounts due from pension funds, fixed-term deposits with a residual term to maturity of over one year as well as security deposits. They are valued at face value less any impairment.

2.15 Tangible assets

Tangible assets comprise machinery, technical installations, moveable property, leasehold improvements, vehicles, IT systems (hardware), property, buildings, investment property and fixed equipment.

Tangible assets are valued initially at their acquisition or production cost. This includes the purchase price of the tangible asset plus costs directly related to getting the asset ready to operate for its intended purpose.

Tangible assets are subsequently depreciated using the straight-line method over the period of their useful lives. This also applies to tangible assets generated internally. Land is not depreciated. The period of depreciation may be adjusted if there is a business necessity. Depreciation begins once the tangible asset is ready for use. The estimated useful lives of each tangible asset category are as follows:

ESTIMATED USEFUL LIVE OF EACH FIXED ASSET CATEGORY

<i>in years</i>	Estimated useful lives
Machinery and technical installations	5 – 10
Buildings	28 – 50
Fixed facilities and renovations	10 – 28
Movable properties, leasehold improvements, vehicles	4 – 10
IT systems (hardware)	3 – 5

Buildings under construction are fixed assets that are not yet finished or not yet operational. They are valued at accumulated acquisition or production costs and are not depreciated.

Investments in the replacement and improvement of tangible assets are recognised in the balance sheet when an additional economic benefit is likely.

Expenditures for the repair and maintenance of buildings and equipment are recorded as expenses in the income statement when they occur.

2.16 Intangible assets

Intangible assets comprise rights, licences and software. They are valued at acquisition or production cost less accumulated depreciation and impairment. The acquisition cost of rights, licences and software comprises the purchase price plus directly attributable costs. Rights, licences and software are amortised using the straight-line method over the contractually agreed duration. Software developed in-house is amortised using the straight-line method over a maximum period of three years.

2.17 Goodwill

Goodwill represents the excess of the purchase price over the fair value on the date of acquisition of the identifiable net assets of a company acquired by the Orell Füssli Group. Goodwill arising from acquisitions is offset against consolidated shareholders' equity on the date of acquisition. The impact of theoretical capitalisation and amortisation of goodwill is disclosed in the notes to the consolidated financial statements. Negative goodwill is recognised directly in shareholders' equity as a capital reserve. In the event of disposal, the goodwill offset with equity at an earlier date shall be charged at its original cost to the result of the period.

2.18 Trade accounts payable

Trade accounts payable are recognised at face value.

2.19 Dividend distribution

Shareholders' claims to dividend payments are recorded as a liability in the period in which the dividends are approved by the company's shareholders.

2.20 Financial liabilities

Financial liabilities comprise borrowings, finance lease liabilities and other financial liabilities. Financial liabilities are valued at their nominal value. Financial liabilities are classified as current if they will mature in whole or in part within the following 12 months. If a contractual agreement to prolong the maturity of a loan exists as of the balance sheet date, the new duration will be taken into account for its classification.

2.21 Leases

The leasing of assets involving the transfer of essentially all the risk and rewards incidental to ownership to the lessee is designated as a finance lease. Finance leases are recognised initially in the balance sheet at the lower of the fair value of the leased asset or the present value of the minimum lease payments. The leased asset is depreciated over its useful life or the lease term, whichever is shorter. The corresponding financial obligations are recorded as liabilities.

Leases of assets for which, essentially, the lessor effectively has and benefits from all of the risks and rewards incidental to ownership are classified as operating leases. The costs under an operating lease are recorded in the income statement.

2.22 Employee equity incentive plans

Under an equity participation plan, the Board of Directors can grant entitlements for employee shares to members of the Group Management. If the employee remains with the company for the duration of the three-year vesting period, the participants in the plan are entitled to receive one employee share per entitlement. If the employee leaves the firm before the end of the vesting period, any entitlement for employee shares is usually extinguished. When the entitlements for employee shares are allocated, they are valued on the basis of the share price and taking into account the likelihood that the employee remains with the company until the end of the vesting period. The personnel expenditure is distributed linearly over the vesting period and an accrual is recognized directly in equity. Changes in the estimates of employees granted entitlements remaining at the company are included, in aggregate form, in the calculation of the expenditure to be recorded.

As part of the equity bonus plan, the members of the Group Management and the senior management can elect, on a voluntary basis, to receive a portion of their annual bonus in the form of restricted shares at a preferential price set by the Board of Directors. The Board of Directors determines each year the portion of the bonus that can be awarded in shares, the duration of the vesting period and the preferential price. This share-based compensation is valued at the average share price for the month of December and charged to personnel expenditure. The voting rights and dividend rights are transferred with the transfer of the shares to the beneficiary. With regard to the 2017 equity bonus plan, the Board of Directors has determined that the members of the Group Management and the senior management may receive 1/3 of their bonus in the form of shares with a vesting period of 3 years and at an equivalent price of +20% of that part of the bonus they are entitled to receive in shares.

2.23 Employee retirement benefit schemes

Group companies' retirement benefit schemes are included in the consolidated financial statements according to the legal provisions in effect in the corresponding country. The actual financial impact of pension plans on the Group is calculated as of the balance sheet date. Any financial benefit is carried as an asset if it is used for the company's future pension expenses. A financial commitment is carried as a liability if the requirements for the creation of a provision are met. Any freely available employer's contribution reserves are recognised as an asset.

The Group's Swiss subsidiaries have legally independent retirement benefit schemes funded by the employer's and the employees' contributions. The financial consequences for the Group of pension fund surpluses and deficits as well as changes in any employer's contribution reserves are recorded in the income statement as personnel expenditure alongside deferred contributions for the period. Any surpluses or deficits are calculated based on the pension fund's provisional annual financial statements prepared according to Swiss GAAP FER 26.

The foreign pension funds have either become independent or they are not significant. Certain foreign subsidiaries have pension plans without independent assets and include the corresponding pension provision directly in the balance sheet. Pension provisions are calculated according to nationally recognised methods and changes are recorded in the income statement as personnel expenditure.

2.24 Provisions

Provisions are recognised if the Group has a present obligation (legal or constructive) as a result of a past event. It is probable that a cash outflow will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. No provisions are recorded for future operational losses.

If the effect of the time value of money is significant, provisions are determined by discounting future cash flows.

2.25 Share capital

Ordinary shares are classified as part of the shareholders' equity. Transactions with minority interests are treated as transactions with own shares. Therefore, payments for purchases of minority interests as well as any consideration received from the sales of minority interests are recorded in equity. Any differences between the consideration received/paid and the minority interests as presented in the balance sheet are recorded in equity.

Purchases of own shares are deducted from equity. The sale or purchase of own shares is not recognised in the income statement. If resold at a later date, any increase or decrease in value is recorded as an addition or a reduction to the capital reserves.

The earnings per share is calculated on the basis of the portion of the group's results allocated to Orell Füssli Holding Ltd's shareholders, divided by the weighted average number of outstanding shares during the reporting period. The diluted earnings per share includes all of the shares that could be issued as part of the equity participation plan.

3 Risk management

3.1 Risk assessment

As part of its supervisory duties of the Orell Füssli Group, the Board of Directors of Orell Füssli Holding Ltd conducts a systematic risk assessment at least once a year. At its meeting on 20 March 2017, the Board of Directors took note of management's report on group-wide risk management and approved the steps proposed.

3.2 Financial risk management

The Orell Füssli Group is active worldwide and therefore exposed to various financial risks, such as currency, interest rate and credit risks.

In addition to risk management in general, financial risk management at the Orell Füssli Group focuses on the unpredictability of financial market trends and seeks to minimise potential adverse effects on the group's financial performance. This can also include the occasional use of derivative financial instruments for economic hedging of financial risks.

Currency risk

The Orell Füssli Group engages in business transactions in currencies that demonstrate a certain degree of volatility. In the case of large orders with a lead time of more than three months, the risk of currency fluctuations is assessed by the Finance Department and, if necessary, hedged by means of financial instruments.

Interest rate risk

As the Orell Füssli Group has no significant interest-bearing assets, both income and operating cash flow are largely unaffected by changes in market interest rates.

Correspondingly, there is no interest-rate hedging.

Credit risk

Credit risks can arise from cash and cash equivalents, credit balances with financial institutions and receivables from customers. Risks are minimised by utilising various financial service providers rather than a single banking institution.

In light of the different customer structure of the divisions, no general credit limits are applied throughout the group. Instead, customers' credit-worthiness is systematically assessed by each division, taking into account the financial situation, past experience and/or other factors. Significant international business activities are usually secured by bank guarantees or letters of credit.

Management does not expect any material losses on its portfolio of receivables.

3.3 Liquidity risk

The Orell Füssli Group monitors its liquidity risk through prudent liquidity management by pursuing the principle of its maintaining a liquidity reserve in excess of daily and monthly needs for operating funds. This includes holding sufficient reserves of cash and cash equivalents, funding possibilities by maintaining an adequate amount of credit facilities and the ability to issue shares or bonds on the market. Rolling liquidity planning is therefore conducted based on expected cash flows and is regularly updated. It has to be borne in mind that the book Retailing divisions customarily hold higher liquidity reserves at year-end due to the seasonal nature of their businesses and these are reduced again in the following quarter. Average liquidity reserves are usually much lower than those held at year-end are.

Available liquidity as of the balance sheet date was as follows:

LIQUIDITY RESERVES AND CREDIT FACILITIES

<i>in CHF thousand</i>	Notes	31.12.2017	31.12.2016
Cash and cash equivalents	4.11	85,961	69,957
Prepayments PoC / from customers	4.21	-31,628	-29,433
Other financial assets / liabilities	4.14 / 4.23	-3,625	-1,086
Cash and cash equivalents net		50,708	39,438
Thereof assigned to other shareholders		11,315	19,560
Disposable cash and cash equivalents		39,393	19,878
Available lines of credit		83,200	80,620
./ Secured guarantees by banks (without prepayment guarantees)		-3,258	-2,625
./ Lines of credit used		-1,170	-1,073
Total disposable cash and cash equivalents and unused lines of credit		118,165	96,800

As well as the committed credit facilities in local currencies, sufficient funds should also be available to conduct ordinary business activities in the future. In 2017, the credit facilities in the local currencies are unchanged compared with the prior year; however, they slightly increase in the reporting currency due to the changes in the EUR/CHF exchange rate.

If additional liquidity is required for significant investments in non-current assets and expenditure on future acquisitions, an adjustment of the credit facilities may be considered. However, a mortgage could also be taken out on the unencumbered property at Dietzingerstrasse in Zurich.

4 Explanations to the consolidated financial statements

4.1 Segment reporting by business units

The business activities of the Orell Füssli Group are organised in three main segments, which provide the basis for regular internal segment reporting. Segment reporting provides information on sales revenues and the operating result (EBIT).

Industrial Systems

Production and marketing of machinery, installations and systems for encoding and personalising printed products as well as providing related services.

Security Printing

Production and marketing of banknotes, security documents, identity cards and other documents with high security requirements. The net revenue of this segment includes revenues from production orders calculated using the percentage of completion method.

Book Retailing

Sale of books and similar products in numerous bookstores in German-speaking Switzerland and on the internet. In particular, this segment includes the 50% of the income statement and the balance sheet of the Orell Füssli Thalia Ltd joint venture company.

Other business activities

In 2016 and 2015, this segment consisted primarily of the publishing business.

Unallocated

Infrastructure services as well as the costs and revenues of the holding are not allocated as these are managed at group level and not attributed to individual segments. Further, consolidation effects arising from inter-segment revenue in this category are eliminated.

SEGMENT RESULTS 2017

<i>in CHF thousand</i>	Industrial Systems	Security Printing	Book Retailing	Other	Total segments	Un-allocated	Total Group
Net revenues from segment sales	55,715	129,845	91,673	11,019	288,252	250	288,502
Inter-segment sales	135	–	–	58	193	–193	–
Net revenue from sales to customers	55,850	129,845	91,673	11,077	288,445	57	288,502
Earnings before interest and taxes (EBIT)	–6,723	20,145	1,587	–126	14,883	–2,240	12,643

SEGMENT RESULTS 2016

<i>in CHF thousand</i>	Industrial Systems	Security Printing	Book Retailing	Other	Total segments	Un-allocated	Total Group
Net revenues from segment sales	71,947	121,183	94,776	10,721	298,627	250	298,877
Inter-segment sales	251	–	–	79	330	–330	–
Net revenue from sales to customers	72,198	121,183	94,776	10,800	298,957	–80	298,877
Earnings before interest and taxes (EBIT)	1,958	17,432	2,022	–867	20,545	–2,015	18,530

4.2 Impairment recorded by Industrial Systems segment

After conducting an assessment of the business development for Atlantic Zeiser, a need to recognise an impairment of net assets was identified. The impairment of the book value was allocated to the following items of the consolidated income statement and balance sheet:

IMPAIRMENT RECORDED BY INDUSTRIAL SYSTEMS SEGMENT

<i>in CHF thousand at 31 December</i>	<i>in EUR thousand</i>	<i>Income statement in CHF thousand</i>	<i>Balance sheet in CHF thousand</i>
Impairment of semi-finishes and finished products	2,390	2,657	2,795
Impairment of inventories	1,134	1,261	1,327
Impairment of tangible assets	667	742	781
Impairment affecting the operating result	4,191	4,660	–
Impairment of deferred tax assets	2,484	2,761	2,905
Total impairment	6,675	7,421	7,808
Exchange differences in equity			–387

4.3 Net revenue from sales and services by country and region

The Industrial Systems and Security Printing segments market their offerings worldwide and do not focus on a specific geographical market. The Book Retailing and Other business activities segments focus mainly on the domestic market in Switzerland and the neighbouring countries.

Net revenue from sales and services are generated in the following regions:

NET REVENUE FROM SALES AND SERVICES BY REGION

<i>in CHF thousand</i>	2017	2016
Switzerland	190,527	194,137
Germany	14,506	13,464
The rest of Europe and Africa	22,839	29,480
North and South America	13,118	18,623
Asia and Oceania	47,512	43,173
Total net revenue from sales to customers by region	288,502	298,877

Total sales are allocated based on the country in which the customer is located. This usually corresponds to the delivery location.

4.4 Operating income

<i>in CHF thousand</i>	2017	2016
Net revenue from sales to customers		
Sales of goods and products	268,610	278,506
Revenue from services rendered	18,963	19,524
Revenue from license fees	929	847
Total net revenue from sales to customers	288,502	298,877
Other operating income		
Rental income from operating leases	683	663
Gain from sales of non-current assets	207	8
Other income	3,709	4,455
Total operating income	4,599	5,126
Changes in inventories of semi-finished and finished products, capitalised costs		
Changes in inventories of semi-finished and finished products	-2,657	-4,661
Capitalised costs	586	96
Total changes in inventories of semi-finished and finished products, capitalised costs	-2,071	-4,565
Total operating income	291,030	299,438

In the 2017 financial year, the net proceeds from tradable goods and products includes income from production orders calculated using the PoC method in the amount of CHF 117,953,000 (2016: CHF 105,642,000). The changes in inventories of semi-finished and finished products include write-downs amounting to CHF 2,657,000 relating to the Industrial Systems segment. See also note 4.2.

4.5 Personnel expenditure

<i>in CHF thousand</i>	Notes	2017	2016
Wages and salaries		69,752	68,462
Social security costs		5,935	5,965
Pension costs	4.6	5,089	4,777
Other personnel expenditure		2,413	2,419
Total personnel expenditure		83,189	81,623

'Personnel expenditure' includes charges in the amount of CHF 33,000 (2016: CHF 90,000) relating to the employee equity incentive plans.

4.6 Pension funds

The Orell Füssli Foundation has used the 2015 BVG (OPA) mortality table since 2016. The actuarial interest rate is 1.50% (2016: 1.50%).

EMPLOYER'S CONTRIBUTION RESERVES

<i>in CHF thousand</i>	Nominal value ECR	Waiver of usage	Adjustments	Additions/ Reversals	Balance sheet	Balance sheet	Result from ECR in personnel expenditure	Result from ECR in personnel expenditure
	31.12.2017	31.12.2017	31.12.2017	2016	31.12.2017	31.12.2016	2017	2016
Pension schemes without funding surplus / deficit (Switzerland)	3,623	–	–	–	3,623	3,623	–	–

FINANCIAL BENEFIT/LIABILITY AND PENSION COSTS

<i>in CHF thousand</i>	Funding surplus/deficit according to Swiss GAAP FER 26	Economic benefit / liability Group	Economic benefit / liability Group	Translation differences with no impact on the income statement	Change to prior year or charged to income statement	Contributions limited to the period	Pension costs in personnel expenditure	Pension costs in personnel expenditure
	31.12.2017	31.12.2017	31.12.2016	2016	31.12.2017	31.12.2017	2017	2016
Pension schemes without funding surplus / deficit (Switzerland)	–	–	–	–	–	–	3,435	3,154
Unfunded pension schemes (abroad)	–	–	–	–	–	–	1,654	1,623
Total	–	–	–	–	–	–	5,089	4,777

4.7 Other operating expenses

<i>in CHF thousand</i>	Notes	2017	2016
Marketing and distribution expenses		12,157	13,473
Operating lease expenses	4.18	10,739	10,960
Repairs and maintenance		8,101	6,585
Administration expenses		6,295	6,766
Losses on bad debts		70	2,158
Losses from sales of fixed assets		29	–
Impairment of provisions and loans		–	776
Energy		2,603	2,525
IT		3,159	2,964
Other operating expenses		6,325	4,592
Total other operating expenses		49,478	50,799

Other operating expenses include CHF 650,000 relating to the restructuring of the Book Retailing division's branch network. In the prior year, losses on bad debts included losses from the operational business as well as provisions in conjunction with the first-time consolidation of insignificant subsidiaries of the Atlantic Zeiser division.

4.8 Financial result

<i>in CHF thousand</i>	Expenses	Income	Balance 2017	Expenses	Income	Balance 2016
Interest result						
Interest expense and income	–34	664	630	–54	83	29
Total interest result	–34	664	630	–54	83	29
Other financial income and expense						
Dividend income	–	–	–	–	938	938
Foreign exchange result	–474	970	496	–436	390	–46
Bank charges and other finance results	–514	130	–384	–215	21	–194
Total other financial income and expense	–988	1,100	112	–651	1,349	698
Total financial result	–1,022	1,764	742	–705	1,432	727

4.9 Income tax expenses

<i>in CHF thousand</i>	2017	2016
Current income tax	4,401	3,903
Deferred income tax	2,588	3,023
Total income tax expenses	6,989	6,926

The income tax expense on the Group's earnings before tax according to the profit and loss statement differs from the theoretical amount calculated by applying the weighted average interest rate of the Group to the Group's earnings before tax as follows:

CALCULATION OF INCOME TAX

<i>in CHF thousand</i>	2017	2016
Earnings before income taxes	13,385	19,257
Weighted average group tax rate	16.7%	21.7%
Expected income tax	2,231	4,170
Effect of change in local income tax rates	–	60
Non tax-deductible expenses	266	163
Tax-exempt income	–	–149
Use of tax losses carried forward	–679	–
Effect of tax loss carry-forwards not capitalized	2,533	1,056
Capitalization of previously not recognized tax loss carry-forwards	–5	–
Impairment of capitalized tax loss carry-forwards	2,761	84
Tax effects relating to other periods and other tax effects	–118	1,542
Effective income tax expense	6,989	6,926

Non-capitalized tax loss carry-forwards and impairment of tax loss carry-forwards primarily concern the Industrial Systems segment. See also note 4.2.

4.10 Earnings per share

<i>at 31 December</i>	2017	2016
Net income for the period in CHF thousand	4,771	10,806
Weighted average numbers of shares in issue (in thousands)	1,959	1,960
Earnings per share in CHF	2.44	5.51

In the year under review, there was a minimal dilution of profit of CHF 0.01 per share, resulting in a diluted profit of CHF 2.43 per share.

4.11 Cash and cash equivalents

<i>in CHF thousand at 31 December</i>	2017	2016
Cash in bank accounts and in hand	83,826	66,627
Short-term bank deposits	2,135	3,330
Total cash and cash equivalents	85,961	69,957

4.12 Marketable securities and derivative financial instruments

As of 31 December 2017, there are open foreign exchange forward contracts, which are used to hedge against currency fluctuations affecting future cash flows that have not yet been recorded in the balance sheet. Consequently, there is an unrecognised amount of CHF 48,000 (2016: CHF -69,000). Foreign currencies in the notional amount of total CHF 3,028,000 (2016: CHF 7,222,000) have been hedged.

4.13 Trade accounts receivable

<i>in CHF thousand at 31 December</i>	2017	2016
Trade accounts receivable gross	20,290	28,652
./. provisions for doubtful trade accounts receivable	-447	-3,236
Total trade accounts receivable net	19,843	25,416

Provisions for doubtful trade accounts receivable are based on the different customer structure in each division according to an individual estimate as well as current empirical information. Adjustments are recorded in other operating expenses in the income statement.

PROVISIONS FOR DOUBTFUL TRADE ACCOUNTS RECEIVABLE

<i>in CHF thousand</i>	2017	2016
At 1 January	-3,236	-1,443
Change in scope of consolidation	-	5
Increase in provisions for doubtful trade accounts receivable	-289	-2,033
Utilisation of provisions	2,994	192
Reversal of provisions	208	2
Exchange differences	-124	41
At 31 December	-447	-3,236

There is no forfeiting on the receivables portfolio.

4.14 Other receivables

<i>in CHF thousand at 31 December</i>	2017	2016
Construction contracts gross	48,635	63,991
./. deductible customer advances received	-45,389	-52,160
Total construction contracts net	3,246	11,831
Prepayments to suppliers	3,948	3,659
Current financial assets	-	2,564
Other receivables	4,135	4,182
Total other receivables	11,329	22,236

4.15 Inventories

<i>in CHF thousand at 31 December</i>	2017	2016
Raw materials, auxiliary materials and supplies	15,262	16,550
Semi-finished and finished products	15,914	14,246
Trading goods	14,595	16,216
Work-in-progress	418	496
Total inventories gross	46,189	47,508
./. allowance on inventories	-13,939	-9,955
Total inventories net	32,250	37,553

The allowance on inventories includes additional write-downs amounting to CHF 4,122,000 relating to the Industrial Systems segment. See also note 4.2.

4.16 Tangible assets

TANGIBLE ASSETS IN 2017

<i>in CHF thousand</i>	Developed property and buildings	Undeveloped property	Investment property	Machinery and equipment	Other tangible assets	Assets under construction	Total
Cost at 1 January	85,686	322	265	128,870	28,690	3,014	246,847
Additions	1,005	–	–	1,318	2,331	7,678	12,332
Disposals	–91	–	–	–2,193	–295	–73	–2,652
Reclassification	1,723	–	–	214	417	–2,673	–319
Exchange differences	922	29	13	695	1,240	7	2,906
Cost at 31 December	89,245	351	278	128,904	32,383	7,953	259,114
Accumulated depreciation and impairment at 1 January	–60,946	–	–265	–95,817	–22,816	–	–179,844
Depreciation on disposals	91	–	–	2,150	266	–	2,507
Depreciation	–3,880	–	–	–8,154	–2,152	–	–14,186
Impairment	–52	–	–	–65	–783	–	–900
Exchange differences	–502	–	–13	–511	–1,105	–	–2,131
Accumulated depreciation and impairment at 31 December	–65,289	–	–278	–102,397	–26,590	–	–194,554
Net carrying amount at 1 January	24,740	322	–	33,053	5,874	3,014	67,003
Net carrying amount at 31 December	23,956	351	–	26,507	5,793	7,953	64,560
Net carrying amount of tangible assets under finance lease	2,112	–	–	–	–	–	2,112

TANGIBLE ASSETS IN 2016

<i>in CHF thousand</i>	Developed property and buildings	Undeveloped property	Investment property	Machinery and equipment	Other tangible assets	Assets under construction	Total
Cost at 1 January	85,020	325	310	128,190	28,002	220	242,067
Change in scope of consolidation	–	–	–	–	–	–	–
Additions	831	–	–	1,752	1,924	2,974	7,481
Disposals	–100	–	–	–866	–1,114	–3	–2,083
Reclassification	50	–	–	–	–	–176	–126
Exchange differences	–115	–3	–45	–206	–122	–1	–492
Cost at 31 December	85,686	322	265	128,870	28,690	3,014	246,847
Accumulated depreciation and impairment at 1 January	–57,618	–	–310	–88,743	–21,807	–	–168,478
Change in scope of consolidation	–	–	–	–	–	–	–
Depreciation on disposals	100	–	–	860	1,108	–	2,068
Depreciation	–3,493	–	–	–8,075	–2,078	–	–13,646
Impairment	–11	–	–	–23	–144	–	–178
Exchange differences	76	–	45	164	105	–	390
Accumulated depreciation and impairment at 31 December	–60,946	–	–265	–95,817	–22,816	–	–179,844
Net carrying amount at 1 January	27,402	325	–	39,447	6,195	220	73,589
Net carrying amount at 31 December	24,740	322	–	33,053	5,874	3,014	67,003
Net carrying amount of tangible assets under finance lease	2,026	–	–	–	–	–	2,026

Additions to tangible assets in the 2017 financial year include CHF 3,500,000 of not yet invoiced fixed assets relating to the Security Printing division. The remaining difference compared with the cash flow statement is due to capitalised internal services. For more information on tangible assets, please see note 4.18.

4.17 Intangible assets

INTANGIBLE ASSETS IN 2017

<i>in CHF thousand</i>	Software and developments	Rights and licenses	Other intangible assets	Total
Cost at 1 January	11,203	1,094	600	12,897
Additions	426	–	761	1,187
Reclassification	705	–22	–364	319
Exchange differences	293	–	54	347
Cost at 31 December	12,627	1,072	1,051	14,750
Accumulated depreciation and impairment at 1 January	–9,762	–1,094	–600	–11,456
Depreciation	–741	–3	–	–744
Impairment	–33	–	–	–33
Reclassification	–43	43	–	–
Exchange differences	–263	–	–55	–318
Accumulated depreciation and impairment at 31 December	–10,842	–1,054	–655	–12,551
Net carrying amount at 1 January	1,441	–	–	1,441
Net carrying amount at 31 December	1,785	18	396	2,199

INTANGIBLE ASSETS IN 2016

<i>in CHF thousand</i>	Software and developments	Rights and licenses	Other intangible assets	Total
Cost at 1 January	10,898	1,094	624	12,616
Additions	721	–	2	723
Disposals	–529	–	–	–529
Reclassification	146	–	–20	126
Exchange differences	–33	–	–6	–39
Cost at 31 December	11,203	1,094	600	12,897
Accumulated depreciation and impairment at 1 January	–9,747	–889	–606	–11,242
Depreciation on disposals	529	–	–	529
Depreciation	–537	–205	–	–742
Impairment	–35	–	–	–35
Reclassification	–	–	–	–
Exchange differences	28	–	6	34
Accumulated depreciation and impairment at 31 December	–9,762	–1,094	–600	–11,456
Net carrying amount at 1 January	1,151	205	18	1,374
Net carrying amount at 31 December	1,441	–	–	1,441

The 'software and developments' item consists solely of bought-in products.

4.18 Further details of tangible and intangible assets

The remaining tangible fixed assets stated at cost as of 31 December 2017 in note 4.16 consist mainly of furniture and fixtures in the amount of CHF 19,475,000 (2016: CHF 17,185,000) and IT systems (hardware) in the amount of CHF 12,299,000 (2016: CHF 10,960,000).

As at 31 December 2017, there were no commitments to purchase property, plant and equipment (2016: CHF 4,627,000). The commitment in the prior year concerned the replacement of a production machine in the Security Printing division.

Other tangible fixed assets include a write-down of CHF 781,000 as part of the impairment made for the Atlantic Zeiser Group. See also note 4.2.

In the 2017 and 2016 financial years, no bank borrowings were secured on land and buildings. Lease rentals amounted to CHF 10,056,000 (2016: CHF 10,254,000), while CHF 683,000 (2016: CHF 706,000) was related to other leased tangible assets.

4.19 Financial assets

<i>in CHF thousand at 31 December</i>		2017	2016
Participation in associated entities		50	50
Other financial assets		2,485	335
Total financial assets		2,535	385

Other financial assets include the 10% shareholding in Landqart AG and the 10% shareholding in landqart management and services acquired by Orell Füssli Holding on 21 December 2017. The transaction was executed in collaboration with the Swiss National Bank, which acquired 90% of the shares.

4.20 Other non-current financial assets

<i>in CHF thousand at 31 December</i>	Notes	2017	2016
Loan assets		1,111	836
Pension fund assets	4.6	3,623	3,623
Other non-current financial assets		1,135	1,006
Total other non-current financial assets		5,869	5,465

4.21 Other current liabilities

<i>in CHF thousand at 31 December</i>		2017	2016
Prepayments from customers on construction contracts gross		67,286	59,952
./. deductible customer advances received		-45,389	-52,160
Prepayments from customers on construction contracts net		21,897	7,792
Prepayments from customers		9,731	21,641
Liabilities to employees		512	320
VAT and similar taxes payable		1,918	762
Dividends payable		4	3
Other current payables		2,284	2,971
Total other current liabilities		36,346	33,489

4.22 Accrued expenses and deferred income

<i>in CHF thousand at 31 December</i>		2017	2016
Accrued expenses and deferred income for cost of materials		4,208	4,385
Accrued expenses and deferred income for personnel expenditure		5,811	5,700
Other accrued expenses and deferred income		6,152	2,384
Total accrued expenses and deferred income		16,171	12,469

The accruals relating to personnel expenditure include primarily the amounts for bonuses, vacation and overtime payments. Other accrued expenses and deferred income include CHF 3,500,000 for not yet invoiced asset acquisitions by the Security Printing division.

4.23 Financial liabilities

The carrying amounts of financial liabilities have the following maturity profile:

MATURITIES OF FINANCIAL LIABILITIES

<i>in CHF thousand at 31 December</i>	From borrowings	Liabilities from finance lease	Total 2017	From borrowings	Liabilities from finance lease	Total 2016
Current financial liabilities	1,170	–	1,170	1,073	–	1,073
Non-current financial liabilities	1,635	820	2,455	1,875	702	2,577
Total financial liabilities	2,805	820	3,625	2,948	702	3,650

The interest-bearing liabilities do not include any collateralised financial liabilities. Leases are effectively collateralised as the rights to the leased assets revert to the lessor in the event of a breach of contract.

4.24 Provisions

Provisions are included for personnel, restructuring, warranties, commissions, unfinished projects and for the loss-free valuation of orders.

In the 2016 financial year, the provisions relating to personnel could be adjusted and released. The remaining provisions for personnel primarily concern employees' entitlements to long-service awards.

The Book Retailing division created restructuring provisions relating to the relocation of three branches. The changes of location will be completed by the middle of 2018.

Warranty provisions are created in connection with the services rendered and they are based on local legislation or contractual agreements. The provisions are calculated on the basis of empirical figures.

The other provisions concern primarily production orders relating to Security Printing.

MOVEMENT IN PROVISIONS 2017

<i>in CHF thousand</i>	Personnel	Provisions for restructuring	Warranty provisions	Other provisions	Total
At 1 January	491	28	307	656	1,482
Additions (charged to income statement)	77	650	284	545	1,556
Reversals (charged to income statement)	–107	–28	–49	–835	–1,019
Utilisation during the year	–79	–176	–270	–191	–716
Exchange differences	–	–	27	–	27
At 31 December	382	474	299	175	1,330
Provisions maturing within 12 months	77	474	299	175	1,025
Provisions maturing over 1 year	305	–	–	–	305

MOVEMENT IN PROVISIONS 2016

<i>in CHF thousand</i>	Personnel	Provisions for restructuring	Warranty provisions	Other provisions	Total
At 1 January	1,163	205	340	729	2,437
Additions (charged to income statement)	146	68	312	623	1,149
Reversals (charged to income statement)	–426	–245	–172	–696	–1,539
Utilisation during the year	–392	–	–170	–	–562
Exchange differences	–	–	–3	–	–3
At 31 December	491	28	307	656	1,482
Provisions maturing within 12 months	248	28	307	656	1,239
Provisions maturing over 1 year	243	–	–	–	243

4.25 Deferred income tax

Deferred income tax assets and liabilities were as follows:

DEFERRED INCOME TAX ASSETS AND LIABILITIES

<i>in CHF thousand</i>	Deferred tax assets	Deferred tax liabilities	Balance 2017	Deferred tax assets	Deferred tax liabilities	Balance 2016
At 1 January	2,696	-1,954	742	5,269	-1,476	3,793
Charges to income statement	-2,779	191	-2,588	-2,547	-477	-3,024
Exchange differences	88	-17	71	-26	-1	-27
At 31 December	5	-1,780	-1,775	2,696	-1,954	742

Deferred taxes are calculated at the effective applicable rate for each company.

The net expense of the changing of deferred income taxes recognised in the income statement in 2017 primarily concerns the Industrial Systems segment. See also note 4.2.

Deferred taxes include the following capitalised losses carried forward:

DEFERRED INCOME TAX ASSETS FROM LOSSES CARRIED FORWARD:

<i>in CHF thousand at 31 December</i>	2017	2016
Deferred income tax assets on loss carry-forward gross	11,643	8,664
./. Allowance	-11,641	-6,343
Deferred income tax assets on loss carry-forward net	2	2,321

Deferred income tax assets arising from tax loss carry forward are recognised in as far as the related tax benefits are likely to be realised through future taxable profits. Deferred tax assets on tax loss carry-forwards correspond to accumulated taxable losses in the amount of CHF 41,240,000 (2016: CHF 31,745,000), thereof are CHF 41,218,000 (2016: CHF 23,450,000) impaired. Tax loss carry-forwards primarily concern the Atlantic Zeiser GmbH.

4.26 Own shares

As at 31 December 2017, Orell Füssli Holding Ltd held 964 (2016: 448) of its own shares at a nominal value of CHF 1.00 per share. All of these own shares are reserved for use in connection with the equity participation plan of Group Management. During the reporting period, 972 (2016: 448) own shares were purchased at an average transaction price of CHF 128.37 (2016: CHF 123.95) per share.

In the year under review, 456 of the company's own shares were issued in connection with the equity participation plan.

4.27 Employee equity incentive plans

In the year under review, the members of the Group Management and the senior management were allocated 407 (2016: 738) entitlements to employee shares and shares in Orell Füssli Holding Ltd. Personnel expenditure relating to the employee equity incentive plans amounts to CHF 33,000 (2016: CHF 90,000). The related accruals are recorded in the capital reserves.

4.28 Dividend per share

In the current financial year, a dividend for the 2016 financial year in the amount of CHF 7,836,000 (CHF 4.00 per share) was paid out. The theoretical dividend from the company's own shares of CHF 4,000 (CHF 4.00 per share) is included in the retained earnings carried forward.

At the ordinary general meeting held on 8 May 2018, a dividend of CHF 7,840,000 (CHF 4.00 per share) will be proposed, which has not yet been recorded as a liability in the consolidated financial statements.

4.29 Goodwill from acquisitions

The goodwill arising from acquisitions is offset against the group shareholders' equity as of the date of acquisition. A theoretical capitalisation of the goodwill would have the following impact on the annual financial statements:

THEORETICAL STATEMENT OF GOODWILL

<i>in CHF thousand</i>	2017	2016
Cost at 1 January	1,544	1,544
De-recognition of fully amortised goodwill	-135	-
Cost at 31 December	1,409	1,544
Accumulated amortisation at 1 January	-1,262	-967
Depreciation and impairment	-282	-295
De-recognition of fully amortised goodwill	135	-
Accumulated amortisation at 31 December	-1,409	-1,262
	-	-
Theoretical net book value at 1 January	282	577
Theoretical net book value at 31 December	-	282

A theoretical straight-line amortisation period of five years is applied. In the above theoretical statement of assets, goodwill items are converted to Swiss francs at the exchange rate on the date of acquisition. Such an approach requires no currency adjustments in the statement.

Following the amortisation of the full theoretical amount, goodwill will no longer be listed in a theoretical statement. Retained earnings include CHF 68,774,000 (2106: CHF 68,639,000) of fully amortised theoretical goodwill.

THEORETICAL IMPACT ON NET INCOME FOR THE PERIOD

<i>in CHF thousand</i>	2017	2016
Earnings before interest and taxes (EBIT) according to consolidated income statement	12,643	18,530
Goodwill amortisation	-282	-295
Theoretical earnings before interest and taxes (EBIT) including goodwill amortisation	12,361	18,235
Net income for the period after minority interests	4,771	10,806
Goodwill amortisation	-282	-295
Net income for the period after minority interests including goodwill amortisation	4,489	10,511

THEORETICAL IMPACT ON SHAREHOLDERS' EQUITY

<i>in CHF thousand at 31 December</i>	2017	2016
Equity before minority interests according to the consolidated balance sheet	145,432	146,542
Theoretical capitalisation of goodwill (net book value)	-	282
Theoretical equity before minority interests including goodwill (net book value)	145,432	146,824

4.30 Contingent liabilities and other commitments not included in the balance sheet

In the 2017 financial year and in the prior year, there were no contingent liabilities and no other unrecognised liabilities.

4.31 Obligations from operating lease contracts

The Orell Füssli Group rents property, machinery, plant and equipment by means of operational leases. Some lease contracts are non-cancellable; others have an option for cancellation of usually less than one year.

The future aggregate minimum lease payments under non-cancellable operating leases (mainly minority interests) are as follows:

MATURITIES OF FUTURE AGGREGATE MINIMUM LEASE PAYMENTS

<i>in CHF thousand at 31 December</i>	2017	2016
No later than 1 year	8,690	10,363
Later than 1 year and no later than 5 years	19,924	26,008
Later than 5 years	8,306	6,542
Total future aggregate minimum lease payments	36,920	42,913

4.32 Changes in the scope of consolidation in the 2016 financial year

Orell Füssli Verlag Ltd: With retroactive effect as of 31 December 2016, Orell Füssli Verlag Ltd was merged with Orell Füssli Security Printing Ltd.

OFIP Sicherheitsdruck Ltd: In January, Orell Füssli Technology Ltd was renamed OF IP Sicherheitsdruck Ltd.

In the 2016 financial year

Orell Füssli Banknote Engineering Ltd: Effective 1 January 2016, Orell Füssli Banknote Engineering Ltd merged with Orell Füssli Security Printing Ltd.

Atlantic Zeiser SA: Atlantic Zeiser SA in Spain was liquidated in January 2016. As of the 2016 financial year, the Spanish business is handled by Atlantic Zeiser GmbH in Germany.

OFIP Verlag Ltd: At the end of December, OF IP Verlag Ltd was founded. The firm is a 100%-owned subsidiary of Orell Füssli Holding Ltd. Its business purpose is to manage and market licences.

Consolidation of insignificant subsidiaries

As of the end of 2016, all of the subsidiaries were consolidated. This concerns the following companies:

Atlantic Zeiser Ltd, Hong Kong

Atlantic Zeiser Beijing Technology Co. Ltd, Beijing

Tritron ASIA Ltd., Hong Kong

The subsidiaries that were consolidated for the first time made a negative contribution to earnings before income taxes in the amount of CHF 1,501,000 in 2016.

4.33 Related party transactions

All transactions with related parties are included in the consolidated annual financial statements for 2016 and 2015.

RELATED PARTY TRANSACTIONS

<i>in CHF thousand</i>	with associated entities and joint ventures	with shareholders	with other related parties	Total 2017	with associated entities and joint ventures	with shareholders	with other related parties	Total 2016
Net revenue from sales	258	79,248	–	79,506	251	72,589	–	72,840
Other operating income	323	–	–	323	407	–	–	407
Financial income	1	–	–	1	938	–	19	957
Other operating expenses	14	–	260	274	24	–	260	284

<i>in CHF thousand at 31 December</i>	with associated entities and joint ventures	with shareholders	with other related parties	Total 2017	with associated entities and joint ventures	with shareholders	with other related parties	Total 2016
Trade accounts receivable	3	221	–	224	5	1,225	–	1,230
Other receivables	–	340	–	340	–	9,679	–	9,679
Financial receivables	50	–	–	50	50	–	–	50
Financial assets	–	–	–	–	50	–	2,487	2,537
Trade payables	2	–	–	2	16	–	–	16
Other liabilities	–	–	–	–	–	20,908	–	20,908
Financial liabilities	–	–	–	–	1,875	–	–	1,875

In 2017 as in prior years, the Orell Füssli Group continued to sell books and publishing products to related parties and to employees at favourable rates.

Except for the compensation disclosed in the compensation report (see pages 50 to 53 of this annual report), there were no other transactions with members of the Board of Directors or the Executive Board in 2017 and 2016.

4.34 Events after the balance sheet date

The consolidated financial statements were approved and released for publication by the Board of Directors on 19 March 2018. They are subject to approval by the general meeting.

No further events that provide additional information on the items in the consolidated financial statements or cast doubt on the assumption that the company is a going concern or that would be otherwise material occurred between the balance sheet date and 19 March 2018.

5 Overview of significant participations

SIGNIFICANT PARTICIPATIONS

	City, Country	Currency	Nominal capital		% of capital held ¹⁾	
			in 1000		direct	indirect ²⁾
Consolidated companies						
Orell Füssli Security Printing Ltd	Zurich, CH	CHF	10,000		100	
OF IP Sicherheitsdruck Ltd	Risch, CH	CHF	50		100	
Orell Füssli Buchhandlungs Ltd	Zurich, CH	CHF	100		51	
OF IP Verlag Ltd	Risch, CH	CHF	100		100	
Orell Füssli Dienstleistungs Ltd	Zurich, CH	CHF	500		100	
Atlantic Zeiser GmbH	Emmingen, DE	EUR	869		100	
Atlantic Zeiser Inc. ⁴⁾	West Caldwell, US	USD	0			100
Atlantic Zeiser (M) SDN BHD ⁴⁾	Kuala Lumpur, MY	EUR	102			100
Atlantic Zeiser Ltd ⁴⁾	Andover, GB	GBP	0			100
Atlantic Zeiser SAS ⁴⁾	Créteil Cedex, FR	EUR	38			100
Atlantic Zeiser SRL ⁴⁾	Milano, IT	EUR	100			100
Atlantic Zeiser Ltd ⁴⁾	Hong Kong, HK	HKD	10			100
Atlantic Zeiser Beijing Technology Co. Ltd. ⁵⁾	Beijing, CN	CYN	5,000			100
Tritron GmbH ⁴⁾	Battenberg, DE	EUR	200			51
Tritron USA inc. ⁶⁾	Chester VA, US	USD	0			51
Tritron ASIA Ltd. ⁶⁾	Hong Kong, HK	EUR	50			51
Pro rata consolidated participation						
Orell Füssli Thalia Ltd ³⁾	Zurich, CH	CHF	9,500			50
Equity accounted for participations						
Orell Füssli Kartographie Ltd	Zurich, CH	CHF	210		24	

¹⁾ Capital held and voting rights in % are identical

²⁾ Capital share of the respective parent company

³⁾ Held through Orell Füssli Buchhandlungs Ltd

⁴⁾ Held through Atlantic Zeiser GmbH

⁵⁾ Held through Atlantic Zeiser Ltd, Hong Kong

⁶⁾ Held through Tritron GmbH

6 Report of the statutory auditor of the consolidated financial statements



Report of the statutory auditor to the General Meeting of Orell Füssli Holding Ltd Zurich

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Orell Füssli Holding Ltd and its subsidiaries (the Group) which comprise the consolidated income statement, the consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements, including a summary of significant accounting policies

In our opinion, the accompanying consolidated financial statements (pages 10 to 35) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

<p>Overview</p>	<p>Overall Group materiality: CHF 2,300,000</p> <p>We concluded full scope audit work and selected audit procedures at four Group companies in two countries.</p> <p>These Group companies contributed 90% of the Group's net sales to customers.</p> <p>As key audit matters, the following areas of focus were identified:</p> <ul style="list-style-type: none"> • Revenue recognition relating to long-term production orders of Orell Füssli Security Printing Ltd (percentage-of-completion method) • Impairments of Atlantic Zeiser
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PricewaterhouseCoopers AG, Birchstrasse 160, Postfach, 8050 Zürich
 Telefon: +41 58 792 44 00, Telefax: +41 58 792 44 10, www.pwc.ch

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Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We tailored the scope of our audit in order to cover the significant subsidiaries with a full scope audit or selected audit procedures. Where audits were performed by component auditors, we ensured that, as Group auditor, we were adequately involved in the audit in order to assess whether sufficient appropriate audit evidence was obtained from the work of the component auditors to provide a basis for our opinion. Our involvement included, for example, meetings and telephone conferences during the audit planning stage and after completion of the local audits. For the remaining companies, we referred to the results of the completed statutory audits and analyses of significant changes.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

<i>Overall Group materiality</i>	CHF 2,300,000
<i>How we determined it</i>	0.8% of net sales to customers
<i>Rationale for the materiality benchmark applied</i>	We chose the net sales to customers as the benchmark because, in our view, it is a key benchmark against which the main business activities can be assessed.

We agreed with the Audit Committee that we would report to them misstatements above CHF 230,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

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



Revenue recognition relating to long-term production orders of Orell Füssli Security Printing Ltd (percentage-of-completion method)

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>As can be seen in note 4.4 to the consolidated financial statements, income from production orders accounted for using the percentage-of-completion (PoC) method amounted to CHF 117.95 million. This represents about 40% of net sales to customers.</p> <p>We consider revenue recognition as a key audit matter due to the size of the net sales to customers accounted for using the PoC method, the complexity of the underlying contracts and the significant scope for judgement by Management involved in recognising revenue from the individual elements of a contract in the appropriate period. We identified the following risk relating to proper revenue recognition: the contractually defined payments comprise different elements depending on the contract with the customer. There is a risk that some elements are not recognised in the appropriate period.</p> <p>Management has defined the principles for recording revenue from different contractual elements. For significant customer orders, Management specifies in memoranda how revenue is to be recognised for the individual contractual elements. The memoranda are submitted to the Audit Committee for approval.</p>	<p>In order to test the recognition of these contractual elements, we performed the following:</p> <ul style="list-style-type: none"> • Inspected a sample of the underlying contracts. • Reconciled a sample of the elements recognised in revenue to the underlying contracts. • Inspected the Management memoranda regarding revenue recognition of specific elements in the appropriate period and assessed whether revenue recognition in relation to these elements was done in accordance with Swiss GAAP FER. • Checked whether the memoranda were approved by the Audit Committee. <p>On the basis of our audit procedures, we addressed the risk relating to revenue recognition in the appropriate period of the various contractual elements and obtained adequate assurance.</p>



Impairments of Atlantic Zeiser

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>After conducting an assessment of the business development for Atlantic Zeiser, impairments amounting to CHF 7,808k were recorded.</p> <p>The impairments were deemed necessary on the basis of Management's comparison of the recoverable amount (which corresponds to the higher of net selling price and value in use) with the net assets of the Atlantic Zeiser Group. Detailed information regarding the impairments can be found in note 4.2 of the notes to the consolidated financial statements.</p> <p>We consider this to be a key audit matter because of the scope for judgement in making estimates used to determine the fair value and the value in use and because of the amount of the recorded impairments. The following risks exist:</p> <ul style="list-style-type: none"> • The identification of the smallest group of assets for which the recoverable amount has to be determined is not performed correctly. In this case, the impairments might be determined at the wrong level with the resulting impairments being too high or too low. • Assumptions used to determine the net selling price and/or the value in use; particularly the discount rates applied, expected future results, estimated sales prices and the related costs of disposal, are not appropriate and could result in significantly different valuations. <p>Management and the Audit Committee have discussed and conducted a critical examination of the determination of the impairments. The approach, the calculations and the deliberations have been documented in a memorandum. The memorandum has been approved by the Board of Directors.</p>	<p>In order to test the recorded impairments, we performed the following:</p> <ul style="list-style-type: none"> • Held discussions with Management and the Audit Committee. • Reviewed and assessed the memorandum on the impairments in terms of compliance with the requirements of Swiss GAAP FER 20 (Impairments); in particular, whether the identification of the smallest group of assets used in the calculation was performed correctly. • Tested the mathematical correctness of the calculation. <p>We tested the key assumptions used as follows:</p> <ul style="list-style-type: none"> • Checked the plausibility of the assumptions concerning the applied discount rates. • Compared the expected sustainable results with the company's own documents and analyses. • Checked the estimated sale prices and the related costs of disposal on the basis of the documents provided to us. <p>Our audit results support the assumptions used by Management with regard to the recorded impairments.</p>



Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Thomas Wallmer
Audit expert
Auditor in charge

Martin Bettinaglio
Audit expert

Zurich, 19 March 2018

7 Financial statements of Orell Füssli Holding Ltd

7.1 Income statement

<i>in CHF thousand</i>	Notes	2017	2016
Income from participations	8.3	12,938	12,887
Other operating income		3,298	3,295
Total operating income		16,236	16,182
Personnel expenditure	8.4	-2,182	-2,376
Operating lease expenses		-69	-66
Administration expenses	8.5	-2,353	-1,834
Other operating expenses		-54	-53
Depreciation and impairment		-81	-86
Earnings before interest and taxes		11,497	11,767
Financial income		1,254	1,186
Financial expenses		-141	-415
Financial result	8.6	1,113	771
Net operating income before extraordinary income and expenses		12,610	12,538
Extraordinary expenses	8.7	-7,634	-148
Earnings before taxes (EBT)		4,976	12,390
Income tax expenses		-	-
Net income for the period		4,976	12,390

7.2 Balance sheet

<i>in CHF thousand</i>	Notes	31.12.2017	31.12.2016
Assets			
Cash and cash equivalents		15,612	20,198
Trade receivables from consolidated companies		1,220	1,424
Other current receivables from third parties		10	5
Other current receivables from consolidated companies	8.8	37,945	32,863
Accrued income and deferred expenses		24	25
Total current assets		54,811	54,515
Loans to consolidated companies	8.9	30,292	28,791
Other financial assets	8.10	2,150	–
Participations in related companies		50	50
Participations in consolidated companies	8.11	58,468	68,450
Tangible assets		51	69
Intangible assets		–	58
Total non-current assets		91,011	97,418
Total assets		145,822	151,933
Liabilities and equity			
Trade payables to third parties		273	164
Trade payables to consolidated companies		15	183
Short term interest-bearing liabilities to consolidated companies	8.12	805	4,056
Other current liabilities		122	74
Accrued expenses and deferred income		1,125	1,047
Total current liabilities		2,340	5,524
Provisions for restructuring		130	130
Total non-current liabilities		130	130
Share capital		1,960	1,960
./. Own shares	8.16	–124	–56
Legal profit reserve		11,142	11,140
Retained earnings		125,398	120,845
Net income for the period		4,976	12,390
Total equity		143,352	146,279
Total liabilities and equity		145,822	151,933

8 Notes to the financial statements of the Orell Füssli Holding Ltd

8.1 General information

The financial statements have been prepared in accordance with the provisions on commercial accounting of the Swiss Code of Obligations. With the introduction of the new Swiss accounting law, the structure of the balance sheet and the income statement have been completely revised. In light of this, the prior-year presentation was also revised.

Orell Füssli Holding Ltd is a Swiss company with headquarters in Zurich. The number of full-time equivalents (FTEs) did not exceed 10 as an annual average.

8.2 Key accounting policies

Receivables

Trade accounts receivable and other current receivables are valued at the amortised acquisition cost minus any value adjustments. Doubtful accounts receivable are valued by applying individual value adjustments

Participations in consolidated and related companies

Long-term holdings of equity in other companies that confer over 50% of the voting rights are classified as a participation in a group subsidiary. The 'Overview of significant participations' can be found under 'Notes to the consolidated financial statements', note 5.

Initial recognition is at acquisition cost. If there are actual indicators that the value of a participation is impaired, a value adjustment is recorded. The participations are valued individually.

8.3 Income from participations

The income from equity participations comprises dividend payments from subsidiaries during the year and from the retained earnings as of 31 December 2017. These dividend payments have already been approved by the general meetings of the subsidiaries.

8.4 Personnel expenditure

This item comprises primarily the personnel expenditure relating to the Board of Directors and the Executive Board and the Head of Internal Audit.

8.5 Administration expenses

The increase of CHF 519,000 in administration expenses compared with the 2016 financial year is largely due to higher expenditure on external research relating to strategic projects.

8.6 Financial result

The financial result is primarily due to the interest earned on loans to group companies and on current accounts.

8.7 Extraordinary expenses

Extraordinary expenses in 2017 mainly comprise the impairment of the investment in Atlantic Zeiser GmbH in the amount of CHF 7,483,000. In addition, in the 2017 financial year as in the prior year, payments of over CHF 151,000 (2016: CHF 148,000) were made to the pension fund of the Orell Füssli Group.

8.8 Other short-term receivables with group companies

Orell Füssli Holding Ltd provides its subsidiaries and other related parties with necessary financial resources in the form of loans or short-term current account credit facilities. Per 31 December 2017, this also includes the dividend receivable with Orell Füssli Security Printing Ltd of CHF 11,000,000 (2016: CHF 11,000,000).

8.9 Loans to group companies

As part of cash management, a further loan was granted to Atlantic Zeiser GmbH. This loan allowed external bank loans to be reduced to the minimum.

8.10 Other financial assets

In December 2017, Orell Füssli Holding AG acquired 10% of Landqart AG and 10% of landqart management and services for CHF 2,150,000.

8.11 Participations in group companies

In the 2017 financial year, a share capital reduction in the amount of CHF 2,499,000 was undertaken in relation to the shareholding in Orell Füssli Buchhandlungs Ltd. Owing to the current results of the Industrial Systems segment, the investment in Atlantic Zeiser GmbH was impaired in the amount of CHF 7,483,000.

8.12 Short-term interest-bearing liabilities with group companies

Generally, the excess liquidity of the subsidiaries is made available to the holding company for its use. For cash management purposes, the money is allocated interest-free to the accounts of the group companies, within the limits at which negative interest has to be paid.

8.13 Shares held by members of the board of directors and the executive board

As of the balance sheet date, the Board of Directors and the members of the Executive Board held the following shares in Orell Füssli Holding Ltd:

SHARES HELD BY MEMBERS OF THE BOARD OF DIRECTORS

<i>Number of shares at 31 December</i>	2017		2016	
	Number of own shares	Total number of shares including shares of related parties	Number of own shares	Total number of shares including shares of related parties
Dr. Anton Bleikolm	1,000	1,000	1,000	1,000
Heinrich Fischer	–	–	2,017	2,017
Peter Stiefenhofer	1,000	1,000	1,000	1,000
Dieter Widmer	800	800	800	800

Dr. Thomas Moser, member of the Board of Directors, is an Alternate Member of the Governing Board of the Swiss National Bank (SNB), which owns 653,460 shares in Orell Füssli Holding Ltd.

SHARES HELD BY MEMBERS OF THE EXECUTIVE BOARD

<i>Number of shares at 31 December</i>	2017		2016	
	Number of own shares	Total number of shares including shares of related parties	Number of own shares	Total number of shares including shares of related parties
Martin Buyle	250	250	250	250
Peter Crottogini	108	108	–	–

In the current financial year, 407 (2016: 448) entitlements for employee shares in Orell Füssli Holding Ltd. were allocated to the Group Management for a total amount of CHF 50,672 (2016: CHF 51,072).

8.14 Major shareholders

<i>at 31 December 2017</i>	Total registered shares	Participation
Swiss National Bank (SNB), Berne (CH)	653,460	33.34%
Dieter Meier, Hong Kong (HK) (held by Capdem Development SA)	301,565	15.39%
Fam. Siegert, Meerbusch (DE)	182,988	9.34%
Veraison SICAV, Zurich (CH)	174,009	8.88%
J. Safra Sarasin Investmentfonds, Basel (CH) (SaraSelect)	98,250	5.01%

8.15 Contingent liabilities*in CHF thousand at 31 December*

	2017	2016
Contingent liabilities in favour of consolidated companies	34,869	9,859

The increase in contingent liabilities arises from the hedging of advance payments by the Security Printing division.

8.16 Own shares

As at 31 December 2017, Orell Füssli Holding AG held 964 of its own shares (2016: 448 own shares), which were acquired in connection with the equity participation plan of Group Management. In the 2017 financial year, 972 (2016: 448) of the company's own shares were acquired at an average transaction price of CHF 128.37 (2016: CHF 123.95) and 456 were sold at an average transaction price of CHF 124.08 per share.

8.17 Proposed appropriation of retained earnings and unrestricted reserves

The Board of Director's proposes to the Annual General Meeting on 8 May 2018 the payment of a dividend of CHF 4.00 per share. The company's own shares do not entitle to a dividend.

PROPOSED APPROPRIATION OF RETAINED EARNINGS AND UNRESTRICTED RESERVES*in CHF thousand*

	2017
Retained earnings at the beginning of the period	125,398
Net income for the period 2017	4,976
Retained earnings available to the annual general meeting	130,374
Dividend of CHF 4.00 per share	-7,840
Carried forward	122,534

9 Report of the statutory auditor of the financial statements



Report of the statutory auditor to the General Meeting of Orell Füssli Holding Ltd Zurich

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Orell Füssli Holding Ltd which comprise the income statement, the balance sheet as at 31 December 2017 and the notes, including a summary of significant accounting policies

In our opinion, the accompanying financial statements (pages 41 to 45) as at 31 December 2017 comply with Swiss law and the articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality: CHF 1,450,000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

Impairment of equity investments

PricewaterhouseCoopers AG, Birchstrasse 160, Postfach, 8050 Zürich
Telefon: +41 58 792 44 00, Telefax: +41 58 792 44 10, www.pwc.ch

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Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

<i>Overall materiality</i>	CHF 1,450,000
<i>How we determined it</i>	1% of total assets
<i>Rationale for the materiality benchmark applied</i>	We chose total assets as the benchmark because, in our view, it is a relevant benchmark against which the performance of the entity can be assessed.

We agreed with the Audit Committee that we would report to them misstatements above CHF 145,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

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



Impairment of equity investments

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>As at 31 December 2017, the investments in Group companies ('participations') amount to CHF 49,577k. We consider the valuation of investments in Group companies to be a key audit matter owing to their size. Investments in Group companies are recorded individually at the lower of acquisition cost and net asset value or the value of capitalised earnings.</p> <p>There is a risk that investments are not recoverable.</p> <p>Further details about the investments in Group companies can be found in notes 8.2 and 8.11 in the notes to the financial statements.</p>	<p>In order to test the valuation of investments in Group companies, we performed the following:</p> <ul style="list-style-type: none"> • Compared the book value of the investments with their net asset values. • Checked the calculation of the value of capitalised earnings including used assumptions. • Checked that impairments were booked correctly. <p>On the basis of the audit procedures we performed, we addressed the risk that investments in Group companies might be significantly over-valued and obtained adequate assurance.</p>

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. <http://www.expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.



Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of retained earnings and of the statutory capital reserves complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

A handwritten signature in black ink, appearing to be 'TW', written over a light grey rectangular background.

Thomas Wallmer
Audit expert
Auditor in charge

A handwritten signature in black ink, appearing to be 'M. Bettinaglio', written over a light grey rectangular background.

Martin Bettinaglio
Audit expert

Zurich, 19 March 2018