

Business in 2018

The Orell Füssli Group posted a decline in net revenue in 2018. This was attributable to lower net revenue at the Security Printing and Zeiser divisions. Operating earnings (EBIT) were unchanged at the previous year's level. After adjustments for special items operating earnings (EBIT) were higher than in the previous year.

Orell Füssli reported net revenue of CHF 264.9 million in the 2018 financial year, equivalent to a decline of some 8% compared to the previous year (CHF 288.5 million). This was mainly attributable to lower outcomes at the Security Printing and Zeiser divisions. Operating earnings (EBIT) before special items amounted to CHF 20.1 million in 2018, representing an increase of some 12% compared to the previous year (CHF 17.9 million). Operating earnings (EBIT) were CHF 12.0 million (CHF 12.6 million in 2017). This figure includes special items amounting to CHF -8.1 million, which originate mainly from expenditure in connection with the restructuring of Zeiser. Net income at Orell Füssli was depressed mainly by non-recurring, non-cash expenditure in the amount of CHF 54.0 million relating to the sale of parts of Atlantic Zeiser's business and amounted to CHF -47.2 million.

Shareholders' equity including minority interests declined from CHF 156.2 million to CHF 148.5 million. The equity ratio was 66.5% (68.1% in 2017).

SEGMENTAL RESULTS

<i>in CHF thousand</i>	2018	2017	2016	2015	2014
Division Zeiser (until 2017 Atlantic Zeiser)					
Net revenue from sales to customers	50,708	55,850	72,198	52,670	73,929
Operating earnings before special items	-1,162	-2,062	3,892	3,369	2,234
Operating earnings (EBIT)	-8,524	-6,723	1,958	369	2,598
Division Security Printing					
Net revenue from sales to customers	112,318	129,845	121,183	117,446	92,689
Operating earnings before special items	18,767	20,145	17,432	18,427	-992
Operating earnings (EBIT)	18,020	20,145	17,432	17,514	-643
Division Book Retailing					
Net revenue from sales to customers	92,171	91,673	94,776	98,832	110,366
Operating earnings before special items	4,970	1,971	1,550	1,820	2,384
Operating earnings (EBIT)	4,970	1,587	2,022	1,820	3,080

Zeiser Division

The Zeiser Division reported net revenue of EUR 43.9 million in the 2018 financial year. The decline of some 12% compared to the previous year (EUR 50.2 million) was due to the absence of the business segments sold in the final quarter of the year under review. Operating earnings (EBIT) before special items amounted to EUR -1.0 million, an improvement on the previous year's outcome (EUR -1.8 million). Operating earnings (EBIT) in 2018 amounted to EUR -7.4 million (EUR -6.0 million in 2017) due to special charges following the sale of parts of Atlantic Zeiser's business.

NET REVENUE ZEISER

in EUR million

43.9

When comparing the financial statistics for 2018 with the equivalent historical figures it should be borne in mind that the Zeiser Division's business activities underwent fundamental changes in the year under review. Until September 30, 2018, these comprised the business segments of banknote serialisation, card personalisation systems and packaging. Since the sale of activities in the business segments of card personalisation systems and packaging together with the holding in Tritron GmbH to the Italian Coesia Group the division has focused exclusively on the former banknote serialisation business segment since October 1, 2018.

The parts of Atlantic Zeiser's business sold to Coesia generated net revenue of approx. EUR 26 million up to September 30, 2018, with negative operating earnings.

With effect from October 1, 2018, the Zeiser Division has been focused on the core activity of serialising banknotes and security documents and has adjusted all business processes accordingly. By taking this step, Zeiser is concentrating on the company's profitable core with a strong position on international markets and a long-standing tradition. In the case of the core product of numbering systems Zeiser controls the entire value chain from design through manufacture, assembly, marketing and sales, to after sales services. The serialisation of passports and security documents forms a further field of operations, where laser and chip programming as well as digital inkjet printing are utilised in addition to the above-mentioned technologies. Zeiser cooperates with technology partners for these applications.

In the context of its reoriented business activities the company succeeded in acquiring several large projects in the course of 2018. In particular, new projects in the field of passport personalisation were secured in the second half of 2018 after prolonged reluctance to invest on the part of customers. This resulted in a large order backlog at year-end, which ensures a firm workload for the initial months of 2019. Breakeven operating results were already generated in the final quarter of 2018. Segregating Zeiser's field of operations from overall business activity in 2018 results in isolated net revenue of EUR 17.9 million, equivalent to approx. 41% of total net revenue for 2018. Future sales potential for the company is foreseen at some EUR 20 million with clearly positive earnings.

Following the clear strategic reorientation of the Zeiser Division in the year under review, the focus in 2019 will be on the sustained implementation of the new business processes and the organisation. Alongside maintaining and expanding the company's dominant market position, cost structures are to be optimised and business opportunities offering synergies pursued.

Security Printing Division

The Security Printing Division posted net revenue of CHF 112.3 million in 2018, a reduction of some 13% compared to the previous year (CHF 129.8 million). The decline in net revenue was attributable to changes in the product mix and lower order intake. Operating earnings (EBIT) before special items amounted to CHF 18.8 million (CHF 20.1 million in 2017). Further operating improvements in terms of productivity and waste levels, as well as a reduction in fixed costs compared to the previous year, were unable to offset in full the decline in gross income due to changes in the product mix. Operating earnings (EBIT) of CHF 18.0 million were some 11% lower than in the previous year (CHF 20.1 million). This figure includes exceptional expenditure in connection with optimisation and strategy analyses (CHF -0.8 million).

In 2018 the Security Printing Division reported a workload-related reduction in output of some 5% compared to the previous year. Production volumes for its two anchor customers were lower for the first time since 2014. This was mainly attributable to the fact that the issue of new series of banknotes was either already complete or approaching its conclusion and thus order volumes were gradually adjusting again to a normal level. This effect was partially offset by the acquisition of new orders from third-party customers for production in 2018 and subsequent years. Overall, several third-party customers with attractive volumes of banknotes were won over by the company's qualities in the year under review. In addition, market-related cooperation with Landqart Ltd commenced and is to be further intensified in the years to come. However, successfully positioning ourselves as a supplier of high-quality and at the same time economically attractive banknotes remains a challenging task in the medium term in a keenly competitive market environment.

The high-quality series of banknotes featuring unique security technology are proving their worth in circulation. The Swiss National Bank issued a further new denomination in the shape of the 200-Swiss franc note in the summer of 2018. The issue of Switzerland's new series of banknotes will conclude in 2019 with the 1000- and 100-Swiss franc notes. The progressive issue process significantly reduces development expenditure for the new series of banknotes. Resources that are released will in future be applied to the

NET REVENUE SECURITY PRINTING

in CHF million

112.3

formation of strategic partnerships and the acquisition of new customers. The experience gained since the initial issue of the new series of banknotes has enabled the manufacturing process to be further optimised continuously and quality to be significantly enhanced. Alongside the stabilisation of the manufacturing process, machine speeds have been increased. These steps resulted in a year-on-year improvement in productivity of some 5% overall. Further potential exists in the optimisation of setup processes and the reduction of downtimes. No major investments in production machines were made in the year under review. Attention was focused on the selective updating and implementation of improvements in security – on systems, on the infrastructure and in the building.

For the Security Printing Division 2019 will be dominated by a further significant increase in the volume of third-party orders acquired as well as the economically optimal alignment of the company to the expected shift in the product mix.

Book Retailing Division

The Book Retailing Division posted pro rata consolidated net revenue of CHF 92.2 million in the 2018 financial year, slightly higher than a year earlier (CHF 91.7 million). Operating earnings (EBIT) were not depressed by special items in 2018 and increased sharply in the year under review compared to the previous year to CHF 5.0 million (CHF 1.6 million in 2017). This positive trend was attributable mainly to a further improvement in the cost structure compared to the previous year.

NET REVENUE BOOK RETAILING

in CHF million

92.2

In the year under review the Book Retailing Division reported a slight increase in net revenue compared to the previous year for the first time in 10 years. This was despite continued adverse market conditions in the Swiss book trade, which again suffered a 1.0% decline in sales on a comparable basis in 2018 (-2.9% in 2017). The Book Retailing Division resisted this general trend with numerous measures in the past year and increased its market share. On the basis of comparable selling space, growth in net revenue amounted to 2.1% (-2.0% in 2017). Growth in the digital and online mail order business continued in 2018.

The pleasing trend in net revenue and operating earnings shows that the transformation programme launched in 2015 and resolutely implemented since then is bearing fruit. Steps such as ongoing work on the bricks-and-mortar product range and the expansion of customer loyalty programmes such as the “Young Circle”, a community for a younger readership, made a considerable contribution to the continuing positive trend relative to the market environment. In addition, the unification of the online brands at www.orellfussli.ch, completed in 2017, also had a favourable impact. With regard to expenditure the main focus of attention remained on increasing productivity per unit of space and optimising indirect costs. The merger of the activities of Orell Füssli with Delivros in the business customer segment agreed in the 2018 financial year boosted our presence in this important market segment. This transaction was completed in January 2019.

The bricks-and-mortar branch portfolio was reinforced in several places by relocations and new openings. New sites offering improved profitability were occupied in the inner cities of Basle and St. Gall. Orell Füssli was also able to secure new branch premises in attractive locations on Europaallee in Zurich and in the Seedamm Center in Pfäffikon. These moves will be implemented in the current financial year.

The emphasis for the Book Retailing Division in 2019 will be on the profitable expansion of market share across all sales channels. The continuing resolute pursuit of transformation activities will provide the basis for this.

Publishing

Net revenue at Orell Füssli Publishing in 2018 was 9% lower than the previous year’s figure. While total sales of legal media and educational media remained stable, there was a steep decline in the non-fiction and children’s book segments. In non-fiction, lower sales figures had been expected as a result of focusing the

programme on fewer titles. In children's books the "atlantis" and "OF Children's Book" segments delivered satisfactory figures. Unfortunately, Globi Publishing posted lower sales for the first time after years of steady growth.

Important new publications in the non-fiction segment were "Erbsünde", a Vatican exposé by Gianluigi Nuzzi, and "Eure Gesetze interessieren uns nicht" by Shams Ul-Haq, a reportage on Muslim radicalisation. Among the numerous new children's book titles, the sales figures of "Globi und die Demokratie" and "Papa Moll zieht um" in autumn were outstanding, as well as "Richtig giftig" by Lorenz Pauli and Claudia de Weck. The programme range in educational media was expanded especially in the subject field of mathematics, by the follow-up volumes on "Algebra" and by the new "Stochastik" teaching aid. Legal media supplemented and updated their "Repetitorien", "Übungsbücher" and "Kommentare" series, and the house website "navigator.ch" was also rewritten.

Personnel

Frank Egholm, CEO of Orell Füssli Thalia Ltd, left the company on January 12, 2018.

Pascal Schneebeil, previously CFO of Orell Füssli Thalia Ltd, was appointed as his successor.

Dr Dieter Sauter, Co-Head of the Security Printing Division, left the company on October 1, 2018.

NET REVENUE PUBLISHING

in CHF million

10.1