Financial Report 2020

1 Financial statements of the Orell Füssli Group

1.1 Consolidated income statement

in CHF thousand	Notes	2020	2019
Net revenue from sales to customers	3.1/3.2/3.3	218,556	237,423
Other operating income	3.3	2,668	4,121
Changes in inventories of semi-finished and finished products, capitalised costs	3.3	−1,483	−134
Total operating income	3.3	219,741	241,410
Cost of materials		−88,402	−94,626
External production costs		−13,544	−14,209
Personnel expenditure	3.4 / 3.5	−55,433	−61,711
Other operating expenses	3.6	−38,278	−41,692
Depreciation and impairment on tangible assets	3.15	−8,877	−10,299
Depreciation and impairment on intangible assets	3.16	−828	−708
Earnings before interest and taxes (EBIT)	3.1	14,379	18,165
Financial income		1,494	214
Financial expenses		−941	−4,880
Financial result	3.7	553	−4,666
Earnings before income taxes (EBT)		14,932	13,499
Income tax expenses	3.8	60	−2,618
Net income for the period		14,992	10,881
Attributable to the shareholders of Orell Füssli Ltd		12,945	8,479
Attributable to minority interests		2,047	2,402

in CHF	Notes	2020	2019
Earnings per share	3.9	6.61	4.33
Diluted earnings per share	3.9	6.60	4.33

The disclosures on pages 16 to 36 form an integral part of the financial report.

1.2 Consolidated balance sheet

in CHF thousand	Notes	31.12.2020	31.12.2019
Assets			
Cash and cash equivalents	3.10	76,998	102,738
Marketable securities and derivative financial instruments	3.11	407	–
Trade accounts receivable	3.12	18,721	13,309
Other receivables	3.13	22,209	26,971
Inventories	3.14	19,850	21,827
Current income tax receivables		2,932	2,596
Accrued income and deferred expenses	3.23	7,761	2,829
Total current assets		148,878	170,270
Tangible assets	3.15 / 3.17	53,476	43,252
Intangible assets	3.16	2,146	2,492
Participations and financial assets	3.18	531	150
Deferred tax assets	3.24	2,005	782
Other non-current financial assets	3.19	4,099	4,157
Total non-current assets		62,257	50,833
Total assets		211,135	221,103
Liabilities and equity			
Trade payables		11,368	11,454
Other current liabilities	3.20	27,149	41,245
Current income tax liabilities		2,688	1,884
Accrued expenses and deferred income	3.21	12,750	10,974
Current financial liabilities	3.22	338	–
Current provisions	3.23	7,749	3,074
Total current liabilities		62,042	68,631
Non-current financial liabilities	3.22	2,062	1,635
Pension fund liabilities		–	29
Non-current provisions	3.23	1,368	1,667
Deferred tax liabilities	3.24	1,168	1,367
Total non-current liabilities		4,598	4,698
Share capital		1,960	1,960
Capital reserves		4,150	4,215
Own shares	3.25	−60	−142
Retained earnings		133,932	136,096
Exchange differences		−4,482	−3,921
Total equity before minority interests		135,500	138,208
Minority interests		8,995	9,566
Total equity		144,495	147,774
Total liabilities and equity		211,135	221,103

The disclosures on pages 16 to 36 form an integral part of the financial report.

1.3 Consolidated cash flow statement

in CHF thousand	Notes	2020	2019
Net income for the period		14,992	10,881
Change in employee equity incentive plans		−65	39
Depreciation		9,626	10,888
Impairment and amortisation		79	2,906
Share of loss applicable to equity method		499	–
Other non-cash related income and expenses		−751	1,304
Change in trade accounts receivable		−5,477	9,161
Change in inventories		1,896	−739
Change in other receivables		4,421	−11,806
Change in accrued income and deferred expenses		−4,932	533
Change in trade payables		−75	4,179
Change in other liabilities		−13,157	−3,172
Change in accrued expenses and deferred income		1,786	−362
Change in provisions and deferred income tax		3,011	−3,006
Cash flow from operating activities		11,853	20,806
Purchase of tangible assets	3.15	−18,586	−4,655
Proceeds from disposals of tangible assets		87	83
Purchase of intangible assets	3.16	−520	−786
Purchase of participations		−4,232	–
Foundation of subsidiary		–	20
Proceeds from disposals of other assets		56	9
Cash flow from investing activities		−23,195	−5,329
Increase of financial liabilities		250	–
Repayment of financial liabilities		−65	–
Purchase of company's own shares	3.25	−1	–
Dividends paid to minorities		−2,589	−62
Dividends paid	3.27	−11,757	−11,753
Cash flow from financing activities		−14,162	−11,815
Exchange differences		−236	−918
Change in cash and cash equivalents		−25,740	2,744
Cash and cash equivalents at 1 January		102,738	99,994
Cash and cash equivalents at 31 December		76,998	102,738

The disclosures on pages 16 to 36 form an integral part of the financial report.

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 2019	1,960	4,176	−162	167,507	−27,932	−3,955	141,594	6,909	148,503
Change in scope of consolidation	–	–	–	−143	–	129	−14	376	362
Dividends paid	–	–	–	−11,753	–	–	−11,753	−62	−11,815
Offsetting goodwill against equity	–	–	–	–	−62	–	−62	−59	−121
Employee equity incentive plans	–	39	20	–	–	–	59	–	59
Currency translation effects	–	–	–	–	–	−95	−95	–	−95
Net income for the period	–	–	–	8,479	–		8,479	2,402	10,881
Total Equity at 31 December 2019	1,960	4,215	−142	164,090	−27,994	−3,921	138,208	9,566	147,774
Equity at 1 January 2020	1,960	4,215	−142	164,090	−27,994	−3,921	138,208	9,566	147,774
Change in scope of consolidation	–	–	–	–	–		–		–
Dividends paid	–	–	–	−11,757	–	–	−11,757	−2,589	−14,346
Offsetting goodwill against equity	–	–	–	–	−3,352	–	−3,352	–	−3,352
Disposal of foreign exchange in equity	–	–	–	–	–	211	211	203	414
Employee equity incentive plans	–	−65	82	–	–	–	17	–	17
Currency translation effects	–	–	–	–	–	−772	−772	−232	−1,004
Net income for the period	–	–	–	12,945	–	–	12,945	2,047	14,992
Total Equity at 31 December 2020	1,960	4,150	−60	165,278	−31,346	−4,482	135,500	8,995	144,495

The share capital as at 31 December 2020 and 31 December 2019 consisted of 1,960,000 registered shares with a par value of CHF 1.00 each.

The amount of accumulated non-distributable reserves decreased owing to the merger by absorption of Orell Füssli Holding AG (note 7.1) and now amounts to CHF 7,017,000 (2019: CHF 14,280,000).

The disclosures on pages 16 to 36 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 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 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 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 Ltd hold 51% of the capital of Orell Füssli Buchhandlungs Ltd, while the Hugendubel Holding Ltd holds 49%.

Participations in associated companies

Participations in associated companies in which Orell Füssli Ltd is able to exercise a significant influence are accounted for using the equity method. Influence is considered as significant if Orell Füssli 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 Ltd’s share in the associated company’s equity.

Other participations

Holdings of less than 20% of voting rights are recognised at the lower value 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 (Market rate and annual average rate) for the 2020 and 2019 financial years:

CURRENCY EXCHANGE RATES

	Market rate		Annual average rate	
	31.12.2020	**31.12.2019**	**2020**	**2019**
EUR at a rate of CHF	1.0824	1.0855	1.0703	1.1128
USD at a rate of CHF	0.8826	0.9677	0.9389	0.9938
GBP at a rate of CHF	1.2048	1.2761	1.2045	1.2690

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 3.1 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 2.13) 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 Extraordinary result
Expenses and income, in rare cases and unforeseen (e.g. in context with external transactions) and essential for the overall result are booked as “Extraordinary result” in accordance with Swiss GAAP FER 3/22.

2.9 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.

2.10 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.

2.11 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.

2.12 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.

2.13 Construction contracts PoC

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.

2.14 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.

2.15 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

in years	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.

2.17 Other assets

The valuation of other assets is at nominal value less any impairment.

2.18 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.

2.19 Trade accounts payable

Trade accounts payable are recognised at nominal value.

2.20 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.

2.21 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.

2.22 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.

2.23 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 2020 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.

2.24 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.

2.25 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.

2.26 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 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 Explanations to the consolidated financial statements

3.1 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).

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.

Industrial Systems

Construction, production, installation, sales and distribution and after sales service of equipment for the serialisation of banknotes and security documents.

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 2020 and 2019, 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 2020

in CHF thousand	Security Printing	Industrial Systems	Book Retailing	Other	Total segments	Un-allocated	Total Group
Net revenues from segment sales	87,301	24,521	96,210	10,274	218,306	250	218,556
Inter-segment sales	–	269	3	9	281	–281	–
Net revenue from sales to customers	87,301	24,790	96,213	10,283	218,587	–31	218,556
Earnings before interest and taxes (EBIT)	5,511	5,291	5,505	1,017	17,324	–2,945	14,379

SEGMENT RESULTS 2019

in CHF thousand	Security Printing	Industrial Systems	Book Retailing	Other	Total segments	Un-allocated	Total Group
Net revenues from segment sales	101,175	28,828	97,352	9,818	237,173	250	237,423
Inter-segment sales	–	358	1	27	386	–386	–
Net revenue from sales to customers	101,175	29,186	97,353	9,845	237,559	–136	237,423
Earnings before interest and taxes (EBIT)	9,209	6,416	6,508	–1,219	20,914	–2,749	18,165

3.2 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

in CHF thousand	2020	2019
Switzerland	168,057	178,928
Germany	7,075	8,944
The rest of Europe and Africa	5,429	30,099
North and South America	16,672	4,268
Asia and Oceania	21,323	15,184
Total net revenue from sales to customers by region	218,556	237,423

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

3.3 Operating income

in CHF thousand	2020	2019
Net revenue from sales to customers		
Sales of goods and products	216,724	235,141
Revenue from services rendered	920	1,185
Revenue from license fees	912	1,097
Total net revenue from sales to customers	218,556	237,423
Other operating income		
Rental income from operating leases	354	413
Gain from sales of non-current assets	29	27
Other income	2,285	3,681
Total other operating income	2,668	4,121
Changes in inventories of semi-finished and finished products, capitalised costs		
Changes in inventories of semi-finished and finished products	−1,483	−147
Capitalised costs	–	13
Total changes in inventories of semi-finished and finished products, capitalised costs	−1,483	−134
Total operating income	219,741	241,410

In the 2020 financial year, the Security Printing Division net proceeds from tradable goods and products includes income from production orders calculated using the PoC method in the amount of CHF 75,176,000 (2018: CHF 86,291,000).

3.4 Personnel expenditure

in CHF thousand	Notes	2020	2019
Wages and salaries		46,189	51,978
Social security costs		3,963	4,261
Pension costs	3.5	3,756	5,875
Other personnel expenditure		1,525	–403
Total personnel expenditure		55,433	61,711

Personnel expenditure includes charges in the amount of CHF 17,000 (2019: CHF 56,000) for employee equity incentive plans. The Book Retailing Division had varying numbers of employees on short-time work from the start of the COVID-19 lockdown in spring until the end of 2020. Compensation for short-time work of CHF 1,359,000 is recorded in the wages and salaries line item. In the prior year, the pension costs of the Security Printing Division included expenditure of CHF 1,431,000 relating to measures to increase flexibility in banknote production and the Zeiser Division reversed CHF 1,670,000 of recorded provisions through the income statement via other personnel expenditure.

3.5 Pension funds

The Orell Füssli Foundation has used the 2015 BVG (OPA) mortality table since 2016. The actuarial interest rate is 1.00% (2019: 1.00%).

EMPLOYER'S CONTRIBUTION RESERVES

in CHF thousand	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
	31.12.2020	31.12.2020	31.12.2020	2020	31.12.2020	31.12.2019	2020	2019
Pension schemes without funding surplus / deficit (Switzerland)	3,622	–	–	–	3,622	3,622	–	–1

FINANCIAL BENEFIT/LIABILITY AND PENSION COSTS

in CHF thousand	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
	31.12.2020	31.12.2020	31.12.2019	2020	31.12.2020	31.12.2020	2020	2019
Pension schemes without funding surplus / deficit (Switzerland)	–	–	–	–	–	–	3,193	5,089
Funded pension schemes (abroad)	–	–	–	–	–	–	563	786
Total	–	–	–	–	–	–	3,756	5,875

3.6 Other operating expenses

in CHF thousand	Notes	2020	2019
Marketing and distribution expenses		11,246	10,662
Operating lease expenses	3.17	8,527	9,186
Repair and maintenance		4,699	6,096
Administration expenses		4,873	5,409
Losses on bad debts		88	245
Additions / reversal provisions PoC		–	–329
Losses from sales of fixed assets		8	67
Impairment of participations and loans		–	635
Share of loss applicable to equity method		499	–
Energy		1,864	2,043
IT		2,615	2,629
Other operating expenses		3,859	5,049
Total other operating expenses		38,278	41,692

In the 2019 financial year, the Industrial Systems Division reversed provisions in the amount of CHF 1,308,000 via other operating expenses.

3.7 Financial result

in CHF thousand	Expenses	Income	Balance 2020	Expenses	Income	Balance 2019
Interest result						
Interest expense and income	−271	12	−259	−226	24	−202
Financial leasing	−8	–	−8	–	–	–
Total interest result	−279	12	−267	−226	24	−202
Other financial income and expense						
Foreign exchange result	−358	1,431	1,073	−2,328	190	−2,138
Bank charges and other financial results	−304	51	−253	−2,326	–	−2,326
Other financial results	−662	1,482	820	−4,654	190	−4,464
Total financial result	−941	1,494	553	−4,880	214	−4,666

In the prior year, the investment in Landqart Ltd of CHF 2,150,000 was written off in full via other financial income and expense.

3.8 Income tax expenses

in CHF thousand	2020	2019
Current income tax	1,350	3,361
Deferred income tax	−1,410	−743
Total income tax expenses	−60	2,618

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

in CHF thousand	2020	2019
Earnings before income taxes	14,932	13,499
Weighted average group tax rate	25.3%	26.0%
Expected income tax	3,780	3,511
Non tax-deductible expenses	11	143
Tax-exempt earnings	−199	–
Effect of tax loss carry-forwards not capitalised	26	536
Capitalisation and use of previously unrecognised loss carry forwards	−3,360	−1,685
Tax effects relating to other periods and other tax effects	−318	113
Effective income tax expense	−60	2,618

The capitalisation and use of loss carry-forwards line item mainly derives from the operating result of Zeiser GmbH and of Orell Füssli Ltd.

3.9 Earnings per share

at 31 December	2020	2019
Net income for the period in CHF thousand	12,945	8,479
Weighted average numbers of shares in issue (in thousands)	1,959	1,959
Earnings per share in CHF	6.61	4.33
Diluted earnings per share in CHF	6.60	4.33

3.10 Cash and cash equivalents

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

LIQUIDITY RESERVES AND CREDIT FACILITIES

in CHF thousand	Notes	31.12.2020	31.12.2019
Cash in bank accounts and in hand		76,998	102,738
Prepayments PoC / from customers	3.20	−25,682	−39,187
Other financial assets / liabilities	3.13 / 3.22	−2,400	−1,635
Cash and cash equivalents net		48,916	61,916
Thereof assigned to other shareholders		12,945	12,469
Disposable cash and cash equivalents		35,971	49,447
Available lines of credit		70,448	66,011
./. Secured guarantees by banks (without prepayment guarantees)		−2,210	−6,091
./. Lines of credit used		−250	–
Total disposable cash and cash equivalents and unused lines of credit		103,959	109,367

As well as the committed credit facilities in local currencies, sufficient funds should be available to conduct ordinary business activities in the future.

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.

3.11 Marketable securities and derivative financial instruments

in CHF thousand at 31 December	2020	2019
Marketable securities & bank deposits	–	–
Derivative financial instruments	407	–
Total marketable securities and derivative financial instruments	407	–

As of 31 December 2020, there are outstanding foreign exchange forwards used for currency hedging of future cash flows that have not yet been recognised in the balance sheet. Consequently, there is an off-balance-sheet item in the amount of CHF 12,000 (2019: CHF 17,000). The total notional amount of foreign currencies that are hedged is CHF 20,323,000 (2019: CHF 25,144,000).

3.12 Trade accounts receivable

in CHF thousand at 31 December	2020	2019
Trade accounts receivable gross	18,928	13,615
./. provisions for doubtful trade accounts receivable	−207	−306
Total trade accounts receivable net	18,721	13,309

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

in CHF thousand	2020	2019
At 1 January	−306	−202
Increase in provisions for doubtful trade accounts receivable	−131	−253
Utilisation of provisions	156	55
Reversal of provisions	72	89
Exchange differences	2	5
At 31 December	−207	−306

There is no forfaiting on the receivables portfolio.

3.13 Other receivables

in CHF thousand at 31 December	2020	2019
Construction contracts gross	20,522	44,730
./. deductible customer advances received	−2,646	−24,243
Total construction contracts net	17,876	20,487
Prepayments to suppliers	1,802	3,194
Other receivables	2,531	3,290
Total other receivables	22,209	26,971

3.14 Inventories

in CHF thousand at 31 December	2020	2019
Raw materials, auxiliary materials and supplies	6,739	6,566
Semi-finished and finished products	7,203	9,245
Trading goods	9,654	10,716
Work-in-progress	211	274
Total inventories gross	23,807	26,801
./. allowance on inventories	−3,957	−4,974
Total inventories net	19,850	21,827

3.15 Tangible assets

TANGIBLE ASSETS IN 2020

in CHF thousand	Developed property and buildings	Undeveloped property	Investment property	Machinery and equipment	Other tangible assets	Assets under construction	Total
Cost at 1 January	78,104	263	269	123,610	19,075	400	221,721
Additions	3,633	–	–	2,025	1,901	11,601	19,160
Disposals	–32,011	–	–	–17,205	–1,949	–	–51,165
Reclassification	166	–	–	–	69	–235	–
Exchange differences	–46	–1	–15	–50	–20	16	–116
Cost at 31 December	49,846	262	254	108,380	19,076	11,782	189,600
Accumulated depreciation and impairment at 1 January	–62,987	–	–269	–100,420	–14,793	–	–178,469
Depreciation on disposals	32,011	–	–	17,158	1,930	–	51,099
Depreciation	–2,858	–	–	–4,515	–1,425	–	–8,798
Impairment	–69	–	–	–8	–2	–	–79
Exchange differences	43	–	15	49	16	–	123
Accumulated depreciation and impairment at 31 December	–33,860	–	–254	–87,736	–14,274	–	–136,124
Net carrying amount at 1 January	15,117	263	–	23,190	4,282	400	43,252
Net carrying amount at 31 December	15,986	262	–	20,644	4,802	11,782	53,476
Net carrying amount of tangible assets under finance lease	–	–	–	515	–	–	515

TANGIBLE ASSETS IN 2019

in CHF thousand	Developed property and buildings	Undeveloped property	Investment property	Machinery and equipment	Other tangible assets	Assets under construction	Total
Cost at 1 January	78,713	273	264	133,846	19,139	29	232,264
Additions	838	–	–	2,518	935	377	4,668
Disposals	–1,279	–	–	–12,560	–839	–	–14,678
Reclassification	–	–	–	–	6	–6	–
Exchange differences	–168	–10	5	–194	–166	–	–533
Cost at 31 December	78,104	263	269	123,610	19,075	400	221,721
Accumulated depreciation and impairment at 1 January	–60,956	–	–264	–107,813	–14,117	–	–183,150
Depreciation on disposals	1,279	–	–	12,510	765	–	14,554
Depreciation	–3,432	–	–	–5,210	–1,537	–	–10,179
Impairment	–10	–	–	–123	–48	–	–181
Appreciation	–	–	–	61	–	–	61
Exchange differences	132	–	–5	155	144	–	426
Accumulated depreciation and impairment at 31 December	–62,987	–	–269	–100,420	–14,793	–	–178,469
Net carrying amount at 1 January	17,757	273	–	26,033	5,022	29	49,114
Net carrying amount at 31 December	15,117	263	–	23,190	4,282	400	43,252

For more information on tangible assets, please see note 3.17.

3.16 Intangible assets

INTANGIBLE ASSETS IN 2020

in CHF thousand	Software and developments	Rights and licenses	Other intangible assets	Total
Cost at 1 January	12,340	1,072	849	14,261
Additions	29	270	220	519
Disposals	−2,298	−70	−13	−2,381
Reclassification	110	–	−110	–
Exchange differences	−7	–	−2	−9
Cost at 31 December	10,174	1,272	944	12,390
Accumulated depreciation and impairment at 1 January	−10,133	−1,060	−576	−11,769
Depreciation on disposals	2,275	70	–	2,345
Depreciation	−784	−44	–	−828
Exchange differences	5	–	3	8
Accumulated depreciation and impairment at 31 December	−8,637	−1,034	−573	−10,244
Net carrying amount at 1 January	2,207	12	273	2,492
Net carrying amount at 31 December	1,537	238	371	2,146

INTANGIBLE ASSETS IN 2019

in CHF thousand	Software and developments	Rights and licenses	Other intangible assets	Total
Cost at 1 January	12,087	1,072	1,505	14,664
Change in scope of consolidation	260	–	–	260
Additions	648	–	138	786
Disposals	−1,329	–	–	−1,329
Reclassification	772	–	−772	–
Exchange differences	−98	–	−22	−120
Cost at 31 December	12,340	1,072	849	14,261
Accumulated depreciation and impairment at 1 January	−10,619	−1,057	−597	−12,273
Depreciation on disposals	1,102	–	–	1,102
Depreciation	−705	−3	–	−708
Exchange differences	89	–	21	110
Accumulated depreciation and impairment at 31 December	−10,133	−1,060	−576	−11,769
Net carrying amount at 1 January	1,468	15	908	2,391
Net carrying amount at 31 December	2,207	12	273	2,492

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

3.17 Further details of tangible and intangible assets

The remaining tangible fixed assets stated at cost as of 31 December 2020 in note 3.15 consist mainly of furniture and fixtures in the amount of CHF 12,140,000 (2019: CHF 10,927,000) and IT systems (hardware) in the amount of CHF 6,666,000 (2019: CHF 7,940,000). As of 31 December 2020, commitments entered into for the purchase of tangible fixed assets amount to CHF 8,242,000 (2018: CHF 834,000), mostly relating to the construction of a new production facility and an office building for the Industrial Systems Division.

In the 2020 and 2019 financial years, no bank borrowings were secured on land and buildings. Lease rentals amounted to CHF 8,252,000 (2019: CHF 8,858,000), while CHF 275,000 (2019: CHF 328,000) was related to other leased tangible assets.

3.18 Participations and Financial assets

in CHF thousand at 31 December	2020	2019
Participations in associated companies	431	50
Financial receivables	100	100
Total financial assets	531	150

In the year under review, Orell Füssli Ltd acquired a 30% interest in Procivis Ltd (IT solutions for e-government).

3.19 Other non-current financial assets

in CHF thousand at 31 December	Notes	2020	2019
Loan assets		340	340
Pension fund assets	3.5	3,622	3,622
Other non-current financial assets		137	195
Total other financial assets		4,099	4,157

3.20 Other current liabilities

in CHF thousand at 31 December	2020	2019
Prepayments from customers on construction contracts gross	18,852	55,645
./. deductible customer advances received	−2,646	−24,243
Prepayments from customers on construction contracts net	16,206	31,402
Prepayments from customers	9,476	7,785
Liabilities to employees	48	115
VAT and similar taxes payable	509	549
Dividends payable	4	3
Derivative financial instruments	–	127
Other current payables	906	1,264
Total other current Payables	27,149	41,245

3.21 Accrued expenses and deferred income

in CHF thousand at 31 December	2020	2019
Accrued expenses and deferred income for cost of materials	5,779	4,793
Accrued expenses and deferred income for personnel expenditure	4,185	3,828
Other accrued expenses and deferred income	2,786	2,353
Total accrued expenses and deferred income	12,750	10,974

The accruals relating to personnel expenditure include primarily the amounts for bonuses, vacation and overtime payments.

3.22 Financial liabilities

in CHF thousand at 31 December	From borrowings	Liabilities from finance lease	Total 2020	From borrowings	Liabilities from finance lease	Total 2019
Current financial liabilities	250	88	338	–	–	–
Non-current financial liabilities	1,635	427	2,062	1,635	–	1,635
Total financial liabilities	1,885	515	2,400	1,635	–	1,635

The financial liability in the amount of CHF 1,635,000 (2019: CHF 1,635,000) is an interest-free, non-refundable loan to a related party that will be converted into equity

3.23 Provisions

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

Personnel provisions mainly comprise entitlements to long-service awards for employees. The prior year's provisions for early retirement relating to the Security Printing Division were used in full.

In the remaining restructuring provisions, provisions for a tax charge were reversed in the Industrial Systems segment due to a building sale in the United States. Provisions were used for location optimisation within book retailing and the completion of restructuring in the Industrial Systems segment. This leaves mainly the provisions for the change of location of the Industrial Systems Division related to the restructuring.

Other provisions are largely related to the costs for the post-processing of a production order. This provision is offset by prepayments, which represent receivables from a sub-supplier. The resulting costs were recognised under cost of materials.

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.

MOVEMENT IN PROVISIONS 2020

in CHF thousand	Personnel	Provisions for restructuring	Warranty provisions	Other provisions	Total
At 1 January	1,502	2,815	90	334	4,741
Additions (charged to income statement)	135	90	71	7,449	7,745
Reversals (charged to income statement)	–15	–563	–48	–	–626
Utilisation during the year	–1,170	–1,004	–41	–483	–2,698
Exchange differences	–	–45	–	–	–45
At 31 December	452	1,293	72	7,300	9,117
Provisions maturing within 12 months	166	211	72	7,300	7,749
Provisions maturing over 1 year	286	1,082	–	–	1,368

MOVEMENT IN PROVISIONS 2019

in CHF thousand	Personnel	Provisions for restructuring	Warranty provisions	Other provisions	Total
At 1 January	470	6,086	80	373	7,009
Additions (charged to income statement)	1,135	908	92	334	2,469
Reversals (charged to income statement)	–	–2,977	–34	–329	–3,340
Utilisation during the year	–103	–1,132	–45	–44	–1,324
Exchange differences	–	–70	–3	–	–73
At 31 December	1,502	2,815	90	334	4,741
Provisions maturing within 12 months	1,206	1,444	90	334	3,074
Provisions maturing over 1 year	296	1,371	–	–	1,667

3.24 Deferred income tax

Deferred income tax assets and liabilities were as follows:

DEFERRED INCOME TAX ASSETS AND LIABILITIES

in CHF thousand	Deferred tax assets	Deferred tax liabilities	Balance 2020	Deferred tax assets	Deferred tax liabilities	Balance 2019
At 1 January	782	−1,367	−585	16	−1,326	−1,310
Charges to income statement	1,211	199	1,410	785	−41	744
Exchange differences	12	–	12	−19	–	−19
At 31 December	2,005	−1,168	837	782	−1,367	−585

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

Deferred taxes include the following capitalised losses carried forward:

DEFERRED INCOME TAX ASSETS FROM LOSSES CARRIED FORWARD:

in CHF thousand at 31 December	2020	2019
Deferred income tax assets on loss carry-forward gross	15,973	18,335
./. Allowance	−13,968	−17,553
Deferred income tax assets on loss carry-forward net	2,005	782

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 66,698,000 (2019: CHF 71,746,000). The tax loss carry-forwards mainly arise from Zeiser GmbH and Orell Füssli Ltd. The latter generated tax loss carry-forwards in the prior year due to changes in tax legislation.

3.25 Own shares

As at 31 December 2020, Orell Füssli Ltd held 508 (2019: 1,136) of its own shares. All of these own shares are reserved for use in connection with the equity participation plan of Group Management. In the year under review, 10 of the company's own shares were purchased at an average transaction price of CHF 104.00 per share (2019: none).

In the year under review, 638 of the company's own shares (2019: 165) were issued in connection with share-based compensation.

3.26 Employee equity incentive plans

In the year under review, 508 entitlements to employee shares and shares in Orell Füssli Ltd were granted to the members of the Group Management and senior management (2019: none). Personnel expenditure relating to the employee equity incentive plans amounts to CHF 17,000 (2019: CHF 58,000). The related accruals are recorded in the capital reserves.

3.27 Dividend per share

In the current financial year, a dividend for the 2019 financial year in the amount of CHF 11,757,000 (CHF 6.00 per share) was paid out. The theoretical dividend from the company's own shares of CHF 3,000 (CHF 6.00 per share) is included in the retained earnings carried forward.

At the ordinary general meeting held on 11 May 2021, a dividend of CHF 5,880,000 (CHF 3.00 per share) will be proposed, which has not yet been recorded as a liability in the consolidated financial statements.

3.28 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

in CHF thousand	2020	2019
Cost at 1 January	121	–
Inflow due to change in the scope of consolidation	3,352	121
Cost at 31 December	3,473	121
Accumulated amortisation at 1 January	−22	–
Depreciation and impairment	−527	−22
Accumulated amortisation at 31 December	−549	−22
Theoretical net book value at 1 January	99	–
Theoretical net book value at 31 December	2,924	99

A theoretical straight-line amortisation period of five years is applied.

Following the amortisation of the full theoretical amount, goodwill will no longer be listed in a theoretical statement. Retained earnings include CHF 27,932,000 (2019: CHF 27,932,000) of fully amortised theoretical goodwill.

THEORETICAL IMPACT ON NET INCOME FOR THE PERIOD

in CHF thousand	2020	2019
Earnings before interest and taxes (EBIT) according to consolidated income statement	14,379	18,165
Goodwill amortisation	−527	−22
Theoretical earnings before interest and taxes (EBIT) including goodwill amortisation	13,852	18,143
Net income for the period after minority interests	12,945	8,479
Goodwill amortisation	−527	−22
Net income for the period after minority interests including goodwill amortisation	12,418	8,457

THEORETICAL IMPACT ON SHAREHOLDERS' EQUITY

in CHF thousand at 31 December	2020	2019
Equity before minority interests according to the consolidated balance sheet	135,500	138,208
Theoretical capitalisation of goodwill (net book value)	2,924	99
Theoretical equity before minority interests including goodwill (net book value)	138,424	138,307

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

In the 2020 financial year and in the prior year, there were no contingent liabilities and no other unrecognised liabilities.

3.30 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

in CHF thousand at 31 December	2020	2019
No later than 1 year	8,087	6,810
Later than 1 year and no later than 5 years	21,075	15,607
Later than 5 years	8,559	5,578
Total future aggregate minimum lease payments	37,721	27,995

3.31 Changes in the scope of consolidation

In the 2020 financial year

Orell Füssli Ltd: Orell Füssli Holding Ltd and its 100% subsidiaries in Switzerland were merged to form Orell Füssli Ltd.
Storyworld GmbH: In the third quarter of 2020, the subsidiary of Orell Füssli Buchhandlungs Ltd was liquidated.
Procivis Ltd: In the year under review, Orell Füssli Ltd acquired a 30% interest in Procivis Ltd. Part of the purchase price was derecognised from equity as goodwill.

In the 2019 financial year

Delivros Orell Füssli Ltd: In February 2019, the B2B business of Orell Füssli Thalia Ltd was transferred to the newly founded Delivros Orell Füssli Ltd. The holding in the new company is 70%.
Atlantic Zeiser (M) SDN BHD: In the first half of 2019, Zeiser GmbH sold its subsidiary company in Malaysia.
Atlantic Zeiser SAS.: In the third quarter of 2019, the subsidiary of Zeiser GmbH in France was liquidated.

3.32 Related party transactions

All transactions with related parties are included in the consolidated annual financial statements for 2020 and 2019.

RELATED PARTY TRANSACTIONS

in CHF thousand	with associated entities and joint ventures	with shareholers	with other related parties	Total 2020	with associated entities and joint ventures	with shareholers	with other related parties	Total 2019
Net revenue from sales	252	44,360	–	44,612	266	52,558	–	52,824
Other operating income	328	–	–	328	355	–	–	355
Cost of materials	–	–	6,336	6,336	–	–	13,013	13,013
Other operating expenses	218	–	260	478	246	–	260	506
Financial expenses	–	–	50	50	–	–	2,150	2,150

in CHF thousand at 31 December	with associated entities and joint ventures	with shareholders	with other related parties	Total 2020	with associated entities and joint ventures	with shareholders	with other related parties	Total 2019
Trade accounts receivable	4	–	–	4	26	–	–	26
Other receivables	–	–	1,269	1,269	–	–	2,706	2,706
Financial receivables	431	–	–	431	50	–	–	50
Trade payables	5	–	–	5	10	–	2,504	2,514
Other liabilities	–	12,837	–	12,837	–	25,222	–	25,222
Total financial liabilities	1,635	–	–	1,635	1,635	–	–	1,635

In 2020 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 52 to 55 of this annual report), there were no other transactions with members of the Board of Directors or the Executive Board in 2020 and 2019.

3.33 COVID-19: Impact on the financial statements in the financial year under review

The COVID-19 outbreak has developed rapidly in 2020. Measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to monitor and prevent the effects of COVID-19, such as health and safety measures for our people (like physical distancing and working from home). Our application for compensation for short-time work for up to 80% of employees in the Book Retailing segment during the lockdown was approved. The short-time working compensation resulted in a credit to personnel expenditure in the year under review. Orell Füssli Thalia Ltd also applied for a for a government-backed loan of CHF 500,000, which was granted as of 31 March 2020. In addition, it has a credit limit of CHF 8,000,000, which was not used in the year under review.

3.34 Events after the balance sheet date

The consolidated financial statements were approved and released for publication by the Board of Directors on 15 March 2021. 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 15 March 2021.

4 Overview of significant participations

SIGNIFICANT PARTICIPATIONS

			Nominal capital		% of capital held [1]
	City, Country	Currency	in thousand	direct	indirect [2]
Consolidated companies					
Orell Füssli Buchhandlungs Ltd	Zurich, CH	CHF	100	51	
Zeiser GmbH	Emmingen, DE	EUR	869	100	
Zeiser Inc. [5]	West Caldwell, US	USD	0		100
Zeiser Ltd. [5]	Andover, GB	GBP	0		100
Zeiser SRL [5]	Milano, IT	EUR	100		100
Pro rata consolidated participation					
Orell Füssli Thalia Ltd [3]	Zurich, CH	CHF	9,500		50
Delivros Orell Füssli Ltd [4]	Zurich, CH	CHF	1,330		70
Equity accounted for participations					
Procivis Ltd	Zurich, CH	CHF	191	30	
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 Orell Füssli Thalia Ltd
5) Held through Zeiser Gmbh

5 Report of the statutory auditor of the consolidated financial statements

Report of the statutory auditor

to the General Meeting of Orell Füssli Ltd (former 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 Ltd and its subsidiaries (the Group), which comprise the consolidated income statement for the year ended 31 December 2020, the consolidated balance sheet as at 31 December 2020, the consolidated cash flows statement and consolidated statement of changes in equity for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 12 to 36) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 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.

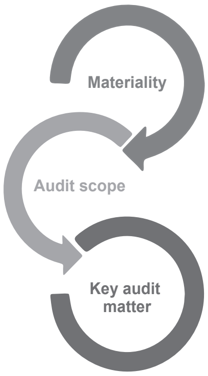
Basis for opinion

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

Overview



Overall Group materiality: CHF 1'700'000

We concluded full scope audit work and selected audit procedures at three Group companies in two countries.

Our audit scope addressed 96% of the Group's net sales to customers.

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

Revenue recognition relating to long-term production orders of Orell Füssli Ltd using the percentage-of-completion (PoC-method)

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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 Group 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.

Overall Group materiality	CHF 1'700'000
How we determined it	0.8% of net sales to customers
Rationale for the materiality benchmark applied	We chose 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.

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.

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 Ltd using the percentage-of-completion (PoC-method)

Key audit matter	How our audit addressed the key audit matter
As can be seen in note 3.3 to the consolidated financial statements, revenue from production orders accounted for using the percentage-of-completion method amounted to CHF 75.2 million in the 2020 financial year. This represents about 34.4% of net sales to customers.	In order to test the recognition of these contractual elements, we performed the following: • We gained an understanding of the process for recognizing and measuring production orders.

We consider revenue recognition in accordance with the PoC method as a key audit matter due to the size, the complexity of the underlying contracts and the significant scope for judgment 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 individual elements are not recognised in the correct period. 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.	• We selected various production orders, inspected the underlying contracts and reconciled the elements recognized in revenue. • Inspected selected Management memoranda regarding revenue recognition of specific elements in the ap-propriate period and assessed whether revenue recognition in relation to these elements complies with the requirements of Swiss GAAP FER. • Checked whether the memoranda were approved by the Audit Committee. On the basis of our audit procedures, we addressed the risk of different contractual elements of revenue not being recognised in the appropriate period and obtained ade-quate assurance.

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	Tobias Roth
Audit expert Auditor in charge	Audit expert

Zurich, 15 March 2021

6 Financial statements of Orell Füssli Ltd
(previously Orell Füssli Holding Ltd)

6.1 Income statement

in CHF thousand	Notes	2020	2019
Net revenue from sales to customers	8.1	97,570	–
Other operating income		1,916	3,617
Changes in inventories of semi-finished and finished product		–1,259	–
Total operating income		98,227	3,617
Cost of materials		–43,660	–
Personnel expenditure		–30,569	–2,836
Other operating expenses		–12,427	–2,561
Depreciation and impairment		–8,970	–40
Earnings before interest and taxes (EBIT)		2,601	–1,820
Financial income		3,839	677
Financial expenses		–162	–797
Financial result	8.2	3,677	–120
Ordinary result		6,278	–1,940
Extraordinary income		1,700	–
Extraordinary expenses		–	–2,150
Extraordinary result	8.3	1,700	–2,150
Earnings before income taxes (EBT)		7,978	–4,090
Income tax expenses		–1	–
Net income for the period		7,977	–4,090

6.2 Balance sheet

in CHF thousand	Notes	31.12.2020	31.12.2019
Assets			
Cash and cash equivalents		27,202	14,485
Trade accounts receivable		9,706	1,818
Prepayments of suppliers		1,325	–
Other receivables		987	26,260
Inventories		9,512	–
Construction contracts	8.8	17,876	–
Accrued income and deferred expenses	8.9	8,805	25
Total current assets		75,413	42,588
Loans to consolidated companies	8.4	27,992	28,692
Participations in consolidated companies	8.5	8,942	58,368
Participations in related companies	8.5	4,283	50
Tangible assets	8.6	42,762	6
Intangible assets	8.7	1,027	95
Total non-current assets		85,006	87,211
Total assets		160,419	129,799
Liabilities and equity			
Trade payables to third parties		5,114	296
Other current payables to third parties		158	117
Prepayments from customers	8.8	19,226	–
Accrued expenses and deferred income		6,733	1,197
Current provisions	8.9	7,340	–
Total current liabilities		38,571	1,610
Non-current provisions		130	130
Total non-current liabilities		130	130
Share capital		1,960	1,960
./. Own shares	8.10	−60	−141
Legal profit reserve		11,113	11,137
Retained earnings		100,728	119,193
Net income for the period		7,977	−4,090
Total equity		121,718	128,059
Total liabilities and equity		160,419	129,799

7 Accounting policies to the financial statements of the Orell Füssli Ltd

7.1 General information

The financial statements have been prepared in accordance with the provisions on commercial accounting of the Swiss Code of Obligations.

In order to simplify the Group structure and optimise operations in the administrative area, a merger by absorption was carried out in the year under review. Orell Füssli Holding Ltd absorbed all its 100% subsidiaries in Switzerland. At the same time, Orell Füssli Holding Ltd was renamed as Orell Füssli Ltd. This year's figures presented in the income statement and the balance sheet are therefore not comparable with the prior year's. As part of the optimisation measures, the structure of and specific terms used in the accompanying financial statements were revised.

Orell Füssli is a Swiss company with headquarters in Zurich. The number of full-time equivalents amounted under 10 in the prior year and over 250 in the year under review.

7.2 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 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.

7.3 Trade accounts receivable and other current accounts receivable

Trade receivables and other receivables are recognised at their nominal value. Doubtful accounts receivable are valued by applying individual value adjustments.

7.4 Inventories

Inventories comprise various substrates, dyes, varnishes and other materials as well as books and non-books. These are valued using the lower of cost or market principle (the lower of the acquisition or production cost and the net realisable value). Acquisitions are calculated based on the weighted-average acquisition cost. With regard to books and non-books, impairment charges are made for unsellable inventory or inventory with a low turnover. Books still in production are recorded at the accumulated production costs

7.5 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 of at least CHF 2,000,000, 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.

The other production orders for semi-finished and finished products comprise the direct production costs, including material costs and production costs as well as indirect costs.

7.6 Loans and paricipations

Loans and participations are recognised at the lower of acquisition cost or market value.

7.7 Tangible assets

Property, plant and equipment is recognised at cost or manufacturing cost less depreciation. The acquisition and production costs include the acquisition costs of property, plant and equipment (PP&E) as well as the directly attributable costs to get such assets into an operational state for their planned use.

Depreciation begins as soon as the fixed asset is ready for use or is operational. Land is not subject to depreciation. The operating life per asset category is as follows:

ESTIMATED USEFUL LIVE OF EACH FIXED ASSET CATEGORY

in years	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.

7.8 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.

7.9 Prepayments from Customers

In principle, advance payments are made for long-term production orders. Prepayments by customers comprise only advance payments that have not been offset against the accumulated costs of production orders.

7.10 Provisions

Provisions are recognised if the Orell Füssli Ltd has a present obligation 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.

8 Explanations to the financial statements of the Orell Füssli Ltd

8.1 Net revenue from sales to customers

In the 2020 financial year, net revenue from sales and services includes income from production orders calculated using the PoC method amounting to CHF 75,176,000.

8.2 Financial result

The financial income mainly comprises the dividend income from Orell Füssli Buchhandlungs Ltd in the amount of CHF 2,550,000, foreign exchange differences of CHF 649,000 and interest income of CHF 187,000. The expenses include bank charges and negative interest.

8.3 Extraordinary result

In setting up Orell Füssli Ltd, the impairment charge on a loan amounting to CHF 1,600,000 and the impairment charge on an investment in a company of CHF 100,000 were reversed.

8.4 Loans to group companies

Orell Füssli Ltd provides its subsidiaries with necessary financial resources in the form of loans. The loans mainly relate to Zeiser GmbH.

8.5 Participations

at 31 December		2020		2019	
		in CHF thousand	% of capital held	in CHF thousand	% of capital held
Zeiser GmbH	Emmingen, DE	8,891	100.0	8,891	100.0
Orell Füssli Security Printing Ltd	Zurich, CH	–	–	46,876	100.0
OF IP Sicherheitsdruck Ltd	Risch, CH	–	–	50	100.0
OF IP Verlag Ltd	Risch, CH	–	–	–	100.0
Orell Füssli Dienstleistungs Ltd	Zurich, CH	–	–	2,500	100.0
Orell Füssli Buchhandlungs Ltd	Zurich, CH	51	51.0	51	51.0
Total group companies		8,942		58,368	
Procivis Ltd	Zurich, CH	4,233	30.3	–	–
Orell Füssli Kartographie Ltd	Zurich, CH	50	23.8	50	23.8
KXO Ltd	Zug, CH	–	39.2	–	–
Landqart Ltd	Landquart, CH	–	3.3	–	5.0
Total related parties		4,283		50	

As part of the impairment testing, the shares in Landqart Ltd (CHF 2,150,000) and the shares in KXO Ltd (CHF 235,000) were written off in full in the prior year.

8.6 Tangible assets

in CHF thousand at 31 December	2020	2019
Property at cost	36,410	–
./. Accumulated depreciation and impairment property	−24,591	–
Machinery and equipment at cost	102,047	–
./. Accumulated depreciation and impairment machinery and equipment	−82,786	–
Furniture and fixtures at cost	1,992	105
./. Accumulated depreciation and impairment furniture and fixtures	−1,559	−99
Vehicles at cost	59	–
./. Accumulated depreciation and impairment vehicles	−53	–
IT systems (hardware) at cost	5,236	–
./. Accumulated depreciation and impairment IT systems (hardware)	−3,933	–
Assets under construction at cost	9,940	–
Total net tangible assets	42,762	6

8.7 Intangible assets

in CHF thousand at 31 December	2020	2019
Software and developments at cost	5,623	304
./. Accumulated depreciation and impairment software and developments	–4,604	–209
Rights and licenses at cost	156	–
./. Accumulated depreciation and impairment rights and licences	–148	–
Total net tangible assets	1,027	95

8.8 Prepayments from Customers

Prepayments from customers include offsets of CHF 2,646,000, which were netted with the production orders calculated using the PoC method.

8.9 Current provisions

Current provisions mainly include costs for the post-processing of a production order. This provision is offset by prepayments, which represent receivables from a sub-supplier.

8.10 Own shares

As at 31 December 2020, Orell Füssli Ltd holds 508 of its own shares (2019: 1,136 own shares). All of these own shares are reserved for use in connection with the equity participation plan of the Executive Board. In the year under review, 10 of the company's own shares were purchased at an average transaction price of CHF 104.00 per share (2019: none).

In the year under review, 638 of the company's own shares were issued in connection with share-based compensation (2019: 165 own shares).

8.11 Derivative financial instruments

As of 31 December, there are outstanding foreign exchange forwards used for currency hedging of future cash flows. This results in an off-balance-sheet item in the amount of CHF 418,000.

8.12 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 Ltd:

SHARES HELD BY MEMBERS OF THE BOARD OF DIRECTORS

Number of shares at 31 December	2020		2019	
	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	1,180	1,180	1,180	1,180
Peter Stiefenhofer (until 20.05.2020)	–	–	250	250
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 Ltd.

SHARES HELD BY MEMBERS OF THE EXECUTIVE BOARD

Number of shares at 31 December	2020		2019	
	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
Peter Crottogini (until 30.06.2020)	–	–	273	273
Dr Michael Kasch	494	494	–	–
Thorsten Tritschler	100	100	–	–

In the year under review, entitlements for employee shares in Orell Füssli Ltd. were granted to a member of the Executive Board for a pro rata value of CHF 17,000.

8.13 Major shareholders

at 31 December 2020	Total registered shares	Participation
Swiss National Bank (SNB), Berne (CH)	653,460	33.34%
Dieter Meier, Hong Kong (HK) (held by Capdem Development SA)	288,500	14.72%
Fam. Siegert, Meerbusch (DE)	180,000	9.19%
J. Safra Sarasin Investmentfonds, Basel (CH) (SaraSelect)	98,250	5.01%

8.14 Contingent liabilities

in CHF thousand at 31 December	2020	2019
Contingent liabilities	5,082	4,712

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

8.15 Obligations from operating lease contracts

Orell Füssli Ltd leases a property under fixed-term operating lease. The future minimum lease payment from this contract amounts to CHF 951,000. Payments will be made over the next three years.

8.16 Related party transactions

All transactions with related parties are included in the consolidated annual financial statements for 2020 and 2019.

RELATED PARTY TRANSACTIONS

in CHF thousand at 31 December	with group companies	with shareholders	with other related parties	Total 2020	with group companies	with shareholders	with other related parties	Total 2019
Trade accounts receivable	2	–	3	5	2	–	–	2
Prepayments to suppliers	–	–	1,269	1,269	–	–	–	–
Other receivables	–	–	–	–	26,260	–	–	26,260
Trade payables	7	–	–	7	7	–	–	7
Prepayments from customers	–	12,837	–	12,837	–	–	–	–

8.17 COVID-19: Impact on the financial statements in the financial year under review

The COVID-19 outbreak has developed rapidly in 2020. Measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to monitor and prevent the effects of COVID-19 such as health and safety measures for our people (like physical distancing and working from home). Orell Füssli Ltd did not apply for short-time working or for a COVID-19 credit.

8.18 Events after the balance sheet date

The consolidated financial statements were approved and released for publication by the Board of Directors on 15 March 2021. 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 15 March 2021.

8.19 Proposed appropriation of retained earnings and unrestricted reserves

The Board of Director's proposes to the Annual General Meeting on 11 May 2021 the payment of a dividend of CHF 3.00 per share.

PROPOSED APPROPRIATION OF RETAINED EARNINGS AND UNRESTRICTED RESERVES

in CHF thousand	**2020**
Retained earnings at the beginning of the period	103,346
Change due to merger	−2,618
Net income for the period	7,977
Retained earnings available to the annual general meeting	108,705
Dividend of CHF 3.00 per share	−5,880
Carried forward	102,825

9 Report of the statutory auditor of the financial statements

Report of the statutory auditor

to the General Meeting of Orell Füssli Ltd (former Orell Füssli Holding Ltd)

Zurich

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Orell Füssli Ltd, which comprise the income statement for the year ended 31 December 2020, balance sheet as at 31 December 2020 and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 41 to 48) as at 31 December 2020 comply with Swiss law and the company's articles of incorporation.

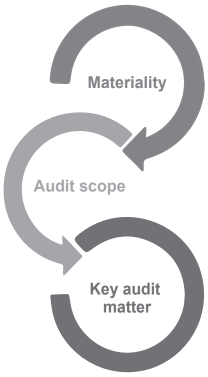
Basis for opinion

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 785'000

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:

Revenue recognition relating to long-term production orders using the percentage-of-completion (PoC-method)

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

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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.

Overall materiality	CHF 785'000
How we determined it	0.8% of net sales to customers
Rationale for the materiality benchmark applied	We chose 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.

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.

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.

Revenue recognition relating to long-term production orders using the percentage-of-completion (PoC) method

Key audit matter	How our audit addressed the key audit matter
As can be seen in note 8.1 to the financial statements, revenue from production orders accounted for using the percentage-of-completion method amounted to CHF 75.2 million in the 2020 financial year. This represents about 77.0% of net sales to customers. We consider revenue recognition in accordance with the PoC method as a key audit matter due to the size, the complexity of the underlying contracts and the significant scope for judgment 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 individual elements are not recognised in the correct period. 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.	In order to test the recognition of these contractual elements, we performed the following: • We gained an understanding of the process for recognizing and measuring production orders. • We selected various production orders, inspected the underlying contracts and reconciled the elements recognized in revenue. • Inspected selected Management memoranda regarding revenue recognition of specific elements in the appropriate period and assessed whether revenue recognition in relation to these elements complies with the requirements of Swiss GAAP FER. • Checked whether the memoranda were approved by the Audit Committee. On the basis of our audit procedures, we addressed the risk of different contractual elements of revenue not being recognised in the appropriate period and obtained adequate assurance.

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. 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 available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Thomas Wallmer	Tobias Roth
Audit expert Auditor in charge	Audit expert

Zurich, 15 March 2021