Orell Füssli
Half-year Financial Report 2012

orell füssli

Editorial
Dear shareholder,

In the first six months of the current year Orell Füssli registered a slight improvement in operating earnings (EBIT) compared with the previous year, while net income at the half-year stage remained at last year's unsatisfactory level. All three divisions – Industrial Operations, Book Retailing and Security Printing – contributed to the improvement in EBIT. Despite this initial step in the right direction, the overall outcome was unsatisfactory, and the targets we had set were not achieved.

In the first six months Atlantic Zeiser completed the previously announced reduction in personnel numbers and at the same time reported an increase of some 5% in sales revenues denominated in local currencies. Further substantial sales growth and a further significant improvement in operating efficiency will be necessary in the next 12 months in order to achieve sustained profitability. The strategic thrust focusing on core segments which was initiated at the end of last year is being pursued very vigorously.

The Book Retailing Division has been confronted with a gradually contracting market and the growing importance of Internet-based business for some years now. This situation is resulting in increased market consolidation. For two years Orell Füssli has resolutely been pursuing a strategy of adjusting its branch business in anticipation of changes in customer behaviour. Unprofitable branches are therefore being downsized, sublet or closed. The division's objective is to earn adequate returns in its difficult business environment by responding rapidly and continuously optimising retail operations. The continued decline in sales in the first six months was offset by targeted cost-cutting efforts.

The security printing business remains volatile. Both private- and public-sector printers are competitors. The latter always become active on the market when they foresee inadequate capacity utilisation, and their offerings exert corresponding pressure on price levels. Orell Füssli is seeking to counteract these fluctuations on the market by entering into long-term partnerships with customers. This strategy can be put into practice most readily in the conception of new series of banknotes. The necessary preconditions are a high standard of advisory expertise, rapid implementation in printing terms of customised problem-solving approaches and an efficient command of modern production processes. The latter compel the company to be in the front rank with regard to personnel, systems and processes. The division has been pursuing this policy for more than two years now. Its implementation entails a restructuring of its existing business activities. Significantly larger volumes of banknotes are being produced than used to be the case. Activities are focused on boosting productivity, which has not kept pace with the expansion in volumes.

The Board of Directors and the Executive Board are undertaking an intensive study of Orell Füssli's portfolio and the issue of the group's future direction. The potential in the field of security systems and unique product and personal identification are being explored here in particular. The combination of the Atlantic Zeiser and Security Printing divisions could open up interesting possibilities in this field.

Thank you for your interest and your loyalty towards our company; we will be pleased to answer any questions you may have.

Zurich, August 16, 2012

H. Fischer

Heinrich Fischer
Chairman

Michel Kunz
Chief Executive Officer

Business in the first half of 2012

Further growth at Atlantic Zeiser – decline in physical book retailing – high capacity utilisation in security printing

Orell Füssli reported sales of CHF 126.0 million in the first half of 2012 (CHF 120.3 million in the same period of the previous year). This was an increase of 4.7% compared with a year earlier. Adjusted for currency translation effects, sales amounted to CHF 127.7 million. Security printing in particular had a positive impact on the development in sales revenues, while book retailing continued to decline. The half-year outcome at EBIT level was CHF –3.2 million (CHF –5.9 million in 2011). Operating earnings improved at all three large divisions, but were far below expectations at Security Printing. The half-year loss amounted to CHF 4.2 million (loss of CHF 4.1 million in 2011). The deterioration in the outcome compared with a year earlier was mainly attributable to higher interest payments and the decision not to capitalise deferred taxes at Atlantic Zeiser. As in previous years, seasonal effects typical of the business mean that the half-year financial statements are not indicative of results for the year as a whole.

The **industrial business** of German subsidiary Atlantic Zeiser posted a 5% increase in half-year sales denominated in euros. This further increase in sales was again offset in the consolidated financial statements by the depreciation of the euro versus the Swiss franc (1st half of 2011 vs. 2012). Atlantic Zeiser reported sales of CHF 36.7 million in group currency in the first six months (CHF 36.9 million in 2011). Atlantic Zeiser completed major projects in the first six months, some of which originated in the previous year. In the process the company succeeded in establishing a firmer foothold in the important pharmaceutical industry market. Substantial projects were also completed in the field of card personalisation systems. Demand for numbering systems used in the production of security documents was stable and in line with expectations in the first six months. In the second quarter Atlantic Zeiser was present with a stand at the "DRUPA" international trade fair, where the systems solutions on show for the printing and packaging industry attracted considerable interest. In the first half of the year Atlantic Zeiser systematically completed the 15% reduction in personnel numbers which had been announced at the beginning of the year; this will improve the cost basis in the second half of the year. Following a year of interim management at Atlantic Zeiser, Manfred Minich assumed the position of CEO in May 2012.

Sales at the Orell Füssli **Security Printing** Division increased in the first six months to CHF 37.7 million (CHF 27.4 million in 2011). The utilisation of production capacity, especially with foreign orders, was encouragingly high throughout the first half of the year. Severe international price pressure and the currency situation continued to have an impact on the profit margins earned. Action initiated last year to improve cost efficiency could not yet adequately compensate for this, however. It became apparent that further and more vigorous efforts will be necessary in order to achieve this. However, the new ERP solution introduced in 2011 is increasingly enabling us to optimise material flows. Banknote concepts were developed and refined in close cooperation with major foreign customers. These involve the application of new technical processes which will demonstrate Orell Füssli's innovative capabilities. Further developments of existing Orell Füssli security features were initiated and will be presented to the public for the first time at an international trade fair in the final quarter of this year. Extensive analyses were conducted in the first six months to review the industrial production of the new Swiss banknotes. These had become necessary after the production of this new series could not be commenced last December. The results of these analyses have been made available to the Swiss National Bank, which will decide on further action.

In **book retailing**, sales revenues declined by 6.1% to CHF 47.4 million (CHF 50.5 million in the same period of the previous year). The price- and volume-related setback in store-based sales was again appreciable. The division already responded accordingly in the first quarter with adjustments to personnel numbers at the St. Gall branch, which has suffered an above-average decline in sales due to its proximity to the border. With a view to the further optimisation of the branch network structure, it has been decided in 2011 to close the Berne Westside outlet finally when the tenancy expires at the end of 2013. We are seeking to vacate the premises earlier, but have not been able to finalise this to date. An alternative site in the Berne region is not currently under consideration. Sales in Internet trading are continuing to develop positively. The two existing online shops – books.ch and storyworld.ch – have been developed further. Customers can now be offered improved search algorithms, a more extensive product range and maximum delivery flexibility. The digitisation of books and the corresponding offerings of e-books are increasingly gaining in importance. Sales figures for e-readers have increased steeply compared with the same period of the previous year. Comprehensive assistance and the ability to utilise local infrastructure facilities are offered in the branches to facilitate customers' access to this virtual world. Sales to business customers, who are offered comprehensive services relating to the purchase and provision of books, continued to develop in line with targets.

The **publishing business** performed well below expectations in the first six months. The overall sales target budgeted for the spring programme was not achieved. Titles pre-financed by customers (contract publications) were significantly lower than a year earlier.

Outlook

As in previous years, we foresee a considerable improvement in net income in the second half of the year. In book retailing we believe that the price erosion experienced in the past two years will ease. However, a further decline in store-based retailing has to be expected; this will be partially offset by the trend in Internet retailing. Capacity utilisation in security printing will continue to be high in the second six months. The effectiveness of action to improve efficiency in the individual business units in conjunction with the composition of the order portfolio will be crucial for an improvement in results.

Better overall results than in 2011 can be expected for the year as a whole.

KEY FIGURES OF THE ORELL FÜSSLI GROUP

in CHF million	First half of 2012	First half of 2011	Change in %	Annual year 2011
Total operating income	128.5	121.1	6.1%	287.8
Earnings before interest and taxes (EBIT)	–3.2	–5.9	46.6%	2.4
in % of total operating income	–2.5%	–4.9%		0.8%
Result after minority interests	–4.0	–3.6	–12.1%	0.2
in % of total operating income	–3.1%	–3.0%		0.1%
Total assets	243.4	234.0	4.0%	258.3
Total equity	163.6	166.3	–1.6%	171.9
in % of total assets	67.2%	71.1%		66.5%
Full time equivalents	950	1,004	–5.4%	1,048

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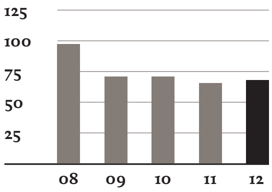
TOTAL INCOME LESS DIRECT COSTS

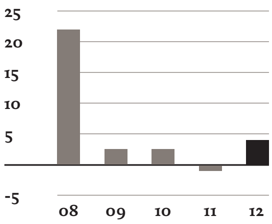
in CHF million; first half year



Development of total income less direct costs in the first half of the 2008 to 2012 financial years.

EBITDA

in CHF million; first half year



Development of ebitda in the first six months of 2008 to 2012 financial years. Based on IFRS figures up until 2009.

1 HALF-YEAR FINANCIAL REPORT

1.1 CONSOLIDATED INCOME STATEMENT

in CHF '000; January-June	2012	2011
Net revenues from sales to customers	125,972	120,268
Other operating income	1,263	1,394
Changes in inventories of semi-finished and finished products, capitalised costs	1,267	–571
Total operating income	128,502	121,091
Cost of materials	–54,835	–50,121
External production costs	–5,123	–4,683
Personnel expenditure	–42,937	–44,827
Other operating expenses	–21,593	–22,099
Depreciation and impairment on tangible assets	–6,412	–4,619
Depreciation and impairment on intangible assets	–780	–690
Earnings before interest and taxes (EBIT)	–3,178	–5,948
Financial income	483	662
Financial expenses	–1,432	–390
Financial result	–949	272
Earnings before income taxes (EBT)	–4,127	–5,676
Income tax expenses	–96	1,590
Net income for the period	–4,223	–4,086
Attributable to the shareholders of Orell Füssli Holding Ltd.	–4,021	–3,586
Attributable to minority interests	–202	–500

in CHF; January–June	2012	2011
Earnings per share	–2.05	–1.83

The disclosures from page 9 and 10 form an integrated part of the financial report.

1.2 CONSOLIDATED BALANCE SHEET

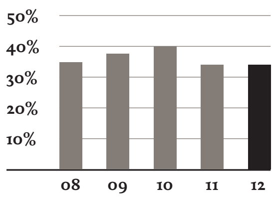
in CHF '000	30.06.2012	31.12.2011
Assets		
Cash and cash equivalents	15,257	19,986
Marketable securities & derivative financial instruments	661	670
Trade accounts receivable	27,316	24,942
Other receivables	32,395	45,648
Inventories	55,045	50,126
Current income tax receivables	4,722	4,118
Accrued income and deferred expenses	2,708	3,697
Total current assets	138,104	149,187
Tangible assets	83,989	89,503
Intangible assets	5,639	4,228
Investments	4,827	4,837
Deferred tax assets	4,892	4,655
Other non-current financial assets	5,959	5,925
Total non-current assets	105,306	109,148
Total assets	243,410	258,335

Liabilities		
Trade payables	19,437	22,082
Other current liabilities	23,062	32,813
Current income tax liabilities	2,480	2,499
Accrued expenses and deferred income	8,387	7,616
Current financial liabilities	17,231	11,145
Current provisions	3,702	3,979
Total current liabilities	74,299	80,134
Non-current financial liabilities	1,221	1,371
Pension fund liabilities	270	261
Non-current provisions	1,267	1,700
Deferred tax liabilities	2,799	2,988
Total non-current liabilities	5,557	6,320
Share capital	1,960	1,960
Capital reserves	4,160	4,160
Retained earnings	156,345	164,286
Translations differences	–13,967	–13,927
Total equity before minority interests	148,498	156,479
Minority interests	15,056	15,402
Total equity	163,554	171,881
Total liabilities	243,410	258,335

The disclosures from page 9 and 10 form an integrated part of the financial report.

TANGIBLE ASSETS

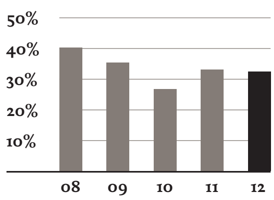
in percent



Proportion of the tangible assets in relation to total assets at 31 December for the financial years from 2008 to 2011, and 30 June in 2012.
Based on IFRS figures in 2008.

LIABILITIES

in percent



Third liabilities proportion in relation to the total capital. Prior periods refer to the balance sheet date at 31 December.
Based on IFRS figures in 2008.

1.3 CONSOLIDATED CASH FLOW STATEMENT

in CHF '000; January-June	2012	2011
Net income for the period	–4,223	–4,086
Depreciation	7,092	5,420
Impairment and amortisation	100	–111
Other non-fund related income and expenses	–65	–149
Change in net working capital	–5,052	–8,814
Change in provisions and deferred income tax	–1,121	–1,547
Cash flow from operating activities	–3,269	–9,287
Purchase of tangible assets	–2,287	–5,817
Proceeds from disposals of tangible assets	634	499
Purchase of intangible assets	–1,519	–714
Proceeds from disposals of intangible assets	–	6
Purchase of other investments	–	–66
Purchase of other non-current assets	–41	–65
Purchase of securities	–	–504
Cash flow from investing activities	–3,213	–6,661
Increase of financial liabilities	6,256	9,826
Repayment of financial liabilities	–160	–240
Dividends paid to minorities	–114	–1,045
Dividends paid	–3,920	–4,900
Cash flow from financing activities	2,062	3,641
Translation effects	–309	–640
Increase (decrease) in cash and cash equivalents	–4,729	–12,947
Cash and cash equivalents at 1 January	19,986	29,594
Cash and cash equivalents at 30 June	15,257	16,647

1.4 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in CHF '000	Share capital	Capital reserves	Retained earnings and net income	Translation differences	Equity before minority interests	Minority interests	Total equity
Equity at 1 January 2011	1,960	4,160	169,122	–13,122	162,120	17,016	179,136
Dividends paid	–	–	–4,900	–	–4,900	–1,045	–5,945
Currency translation effects	–	–	–	–2,737	–2,737	–100	–2,837
Net income for the period	–	–	–3,586	–	–3,586	–500	–4,086
Total equity at 30 June 2011	1,960	4,160	160,636	–15,859	150,897	15,371	166,268
Net income for the second half-year 2011	–	–	3,650	1,932	5,582	31	5,613
Equity at 1 January 2012	1,960	4,160	164,286	–13,927	156,479	15,402	171,881
Dividends paid	–	–	–3,920	–	–3,920	–114	–4,034
Currency translation effects	–	–	–	–40	–40	–30	–70
Net income for the period	–	–	–4,021	–	–4,021	–202	–4,223
Total equity at 30 June 2012	1,960	4,160	156,345	–13,967	148,498	15,056	163,554

The disclosures from page 9 and 10 form an integrated part of the financial report.

2 NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

2.1 BASIS OF ACCOUNTING

The accompanying consolidated financial statements comprise the unaudited interim financial statement for the six months ended 30 June 2012. Since the beginning of 2011 the consolidated financial statements are prepared in accordance with Swiss GAAP. The interim consolidated financial statements have been prepared in accordance with Swiss GAAP standard 12 "Interim reporting" and in accordance with Swiss law and the standards of the SIX Swiss Exchange. The consolidated half-year financial statements do not include all the information and disclosures presented in the annual consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements for the year ended 31 December 2011.

The interim consolidated financial statements include all companies which belonged to the Group during the reporting period and over which Orell Füssli Holding Ltd. had the power to govern their financial and operating policies so as to obtain benefits from their activities. In the Orell Füssli Group, this is the case when more than 50% of a Group company's share capital or voting rights is unconditionally owned directly by Orell Füssli Holding Ltd., domiciled in Zurich (Switzerland).

The preparation of the interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. If in future such estimates and assumptions, which are based on management's best judgment at the date of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

Operations of the Orell Füssli Group are subject to significant seasonal or cyclical variations; the second half of the year tends to be stronger than the first.

Income tax expense is calculated based on the best estimate of the average annual income tax rate expected for the full financial year.

2.2 BALANCE SHEET

Total assets were CHF 14.9 million (5.8%) lower compared to the end of 2011. Current assets were CHF 11.1 million lower. CHF 4.7 million of this figure is attributable to the decline in cash and cash equivalents and CHF 13.3 million to other receivables. This item must be viewed in conjunction with other current liabilities, which were CHF 9.8 million lower. These concern offsets of advance payments with POC contracts depending on production progress. Inventories increased by CHF 4.9 million due to purchases of material for the 9th series of banknotes; however, production of the new notes has not yet commenced. Current financial liabilities increased by CHF 6.1 million. Work performed in advance resulted in a temporary increase in credit utilisation. Shareholders' equity declined by CHF 8.3 million, due on the one hand to the payment of dividends by Orell Füssli Holding Ltd to shareholders and minority shareholders (CHF 4.0 million), and on the other to the stated loss of CHF 4.2 million and exchange losses of CHF 0.1 million, which were charged directly to shareholders' equity.

2.3 INCOME STATEMENT

On the basis of an agreement entered into by Orell Füssli Security Printing Ltd in December 2011 to settle an existing customer contract, the methodology for calculating long-term manufacturing orders for this customer was adjusted in the second half of 2011. If the new agreement had already been in effect in the first half of 2011, sales would have been CHF 10.3 million higher, and depreciation, other operating expenses and tax expenses would have been CHF 2.7 million, CHF 1.3 million and CHF 1.4 million higher, respectively, which would have improved the outcome for the first six months of 2011 by a total of CHF 4.9 million. Sales at Book Retailing were lower than in the previous year. Store-based sales are continuing to decline here, while Internet-based business grew due to storyworld.ch and pleasing results were also reported in business with large customers. Nevertheless, sales were 6.1% lower.

As a result of the reduction in personnel numbers at Atlantic Zeiser GmbH and at book retailing outlets, personnel expenses were 4.2% lower, although the full impact will not become apparent until the 2nd half of the year. Gross profit increased by CHF 2.3 million, while operating expenses declined by CHF 2.4 million. However, depreciation increased by CHF 1.9 million, reducing the loss at the EBIT level by CHF 2.8 million. The slight reduction of CHF 0.1 million in half-year net income is mainly attributable to higher exchange losses and the decision not to capitalise deferred taxes at Atlantic Zeiser GmbH..

2.4 CHANGE IN SCOPE OF CONSOLIDATION

There were no changes in the scope of consolidation in the first half of 2012.

Orell Füssli Banknote Engineering Ltd.: Orell Füssli Holding Ltd acquired the remaining 50% of Orell Füssli Banknote Engineering Ltd., Zurich, from the previous owners at the beginning of July 2011. Goodwill paid of CHF 135,000 was offset directly against shareholders' equity.

2.5 CURRENCY EXCHANGE RATES

	Closing rate		Average rate January-June	
	30.06.2012	31.12.2011	**2012**	2011
EUR at a rate of CHF	1.2016	1.2171	1.2054	1.2603
USD at a rate of CHF	0.9554	0.9399	0.9264	0.8908
GBP at a rate of CHF	1.4921	1.4526	1.4613	1.4418

2.6 SEGMENT RESULTS JANUARY–JUNE 2012

in CHF '000	Industrial Systems	Security Printing	Book Retailing	Other	Total segments	Unallocated	Total Group
Net revenues from segment sales	36,523	37,728	47,416	4,305	125,972	–	125,972
Inter-segment sales	138	–	2	4	144	–144	–
Net revenues from sales to customers	36,661	37,728	47,418	4,309	126,116	–144	125,972
Earnings before interest and taxes (EBIT)	–1,556	1,261	–1,309	–513	–2,117	–1,061	–3,178

SEGMENT RESULTS JANUARY–JUNE 2011

in CHF '000	Industrial Systems	Security Printing	Book Retailing	Other	Total segments	Unallocated	Total Group
Net revenues from segment sales	36,462	27,446	50,503	5,857	120,268	–	120,268
Inter-segment sales	448	–	3	–16	435	–435	–
Net revenues from sales to customers	36,910	27,446	50,506	5,841	120,703	–435	120,268
Earnings before interest and taxes (EBIT)	–2,469	211	–2,595	–323	–5,176	–772	–5,948

2.7 RELATED PARTY TRANSACTIONS

The Orell Füssli Group sold goods and services to related parties in the first half year of 2012 in the amount of CHF 15,614,000 (January–June 2011: CHF 5,705,000).

2.8 THEORETICAL IMPACT OF GOODWILL CAPITALISED

The goodwill arising from acquisitions is offset against consolidated shareholders' equity on the date of acquisition. With a theoretical amortisation period of five years this would have the following impact on the income statement and the balance sheet:

in CHF '000	2012	2011
Impact on income statement (previous year at 30 June 2011)	–524	–511
Impact on the balance sheet (previous year at 31 December 2011)	2,663	3,187

2.9 FINANCIAL INSTRUMENTS

Open currency futures contracts to hedge future cash flows were not yet included in the balance sheet on the closing date. Several foreign currencies with a total value of CHF 2,680,000 (at 31 December 2011: CHF 15,772,000) were hedged, resulting in a current value of CHF –92,000 (at 31 December 2011: CHF –420,000), which was not included in the balance sheet.

2.10 EVENTS AFTER BALANCE SHEET DATE

No material events are known of which would result in adjustments to the book values of Group assets and liabilities.

2.11 CORRECTION OF AN ERROR IN THE COMPARATIVE PERIOD

The "Changes in inventories of semi-finished and finished products, capitalised costs" item erroneously included all changes in inventories in the comparative January–June 2011 period, resulting in an amount which was CHF 6.743 million too high. The figure stated for "Cost of materials" was too high by the same amount. These two items have now been corrected accordingly in the income statement for January–June 2011. This reallocation did not result in any change to the EBIT or the 2011 half-year results.

AGENDA

Press release: provisional annual figures for 2012	Early February 2013
Press release: annual financial statements for 2012	April 11, 2013
Annual General Meeting of Orell Füssli Holding Ltd	May 7, 2013 (Zurich)

NOTE REGARDING FORWARD-LOOKING STATEMENTS

No statements relating to the future imply any guarantee whatsoever with regard to future performance. They are subject to risks and uncertainties including but not confined to future global economic conditions, exchange rates, legal provisions, market conditions, activities by competitors and other factors outside the company's control, which can lead to actual developments and results differing significantly from the statements made in this document. Orell Füssli is under no obligation whatsoever to adjust or amend forward-looking statements on the basis of new information, future events or for other reasons.

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