

Orell Füssli Half-year Financial Report 2016

Editorial

Dear shareholder,

The Orell Füssli Group closed the first half of 2016 in line with expectations. Net revenue of CHF 139.5 million was slightly below the previous year's level and operating earnings of CHF 7.9 million were marginally higher than in 2015.

Business at Atlantic Zeiser developed positively in the first half of 2016. In particular, a revival in its traditional markets for banknote serialisation and card production machines, together with increased income from service offerings, contributed to this outcome. Despite relevant legislative requirements in Europe, the development of the Packaging business unit was characterised by lengthy decision-making cycles and customers' continued wait-and-see attitude towards new investments. The expansion of the sales and marketing organisation and optimisation of the group's market positioning continued unabated. An interesting new machine concept was presented at «drupa», the world's largest printing machinery trade fair, in the shape of DIGILINE VERSA.

Security Printing further enhanced its operating performance in the first half of 2016. A significant milestone was achieved with the launch of the new 50-franc banknote by the Swiss National Bank in April, which further reinforced Orell Füssli's reputation as a leading address for high-quality, secure banknotes. Our activities aimed at acquiring new key customers in order to utilise printing capacity over the medium term have been intensified on the basis of this. Production proceeded as planned and in-house work on improving productivity and enhancing efficiency was pursued systematically. The production of further denominations for our principal customers is in full swing and will be a dominant feature of capacity utilisation in the second half of 2016.

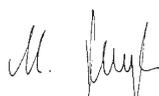
The development of Orell Füssli Thalia Ltd in the first half of 2016 was influenced by two factors. On the one hand the market trend in the first six months of the year was slightly negative, with purchases in neighbouring countries becoming a more established feature of consumer behaviour due to the persistent weakness of the euro. At the same time efforts to put into practice the transformation programme initiated in the previous year were continued, and the results are developing within the planned framework. Customer service has been improved further and various cost economies have been implemented. In May 2016 the national brand was unified as «Orell Füssli» and www.orellfussli.ch in the online business. The English Bookshop has found a new home in our flagship branch at Kramhof in Zurich.

In the second half of 2016 the focus at Atlantic Zeiser is on achieving measurable progress in the Packaging business unit and maintaining the positive momentum in the other business units. Security Printing will continue to concentrate on the ongoing enhancement of operational excellence and press ahead with activities to acquire new customers. In book retailing the initial steps taken with a view to the sustainable structuring of the business are being pursued systematically. In the second half of 2016 the Board of Directors and management will continue to focus on the implementation of the strategic and operating measures already initiated.

Zurich, August 2016



Heinrich Fischer
Chairman of the Board of Directors



Martin Buyle
Chief Executive Officer

Business in the first half of 2016

Net revenue of CHF 139.5 million reported by Orell Füssli in the first half of 2016 was slightly below the previous year's level (CHF 141.5 million). The mid-year outcome at operating earnings (EBIT) level was CHF 7.9 million, marginally higher than the previous year's figure of CHF 7.5 million.

Net revenue at the **Atlantic Zeiser** Division in the first six months amounted to CHF 38.2 million (CHF 27.1 million in 2015). Operating earnings (EBIT) were CHF 1.8 million, an increase on the previous year's figure of CHF 1.1 million. Operating earnings included a special charge of CHF 1.5 million. In preparation for consolidating the sales subsidiary in China for the first time, valuation adjustments were made in relation to expenditure previously incurred in establishing the business. There was a striking increase in net revenue compared to the previous year in the Banknote Serialisation and Card Personalisation Systems business units in particular. Sales successes were achieved with the PERSONMASTER production system for financial cards which was launched on the market in 2015. The development of the Packaging business unit did not come up to expectations in the first half of 2016, despite an increase in orders in hand compared to the previous year. Customers remain reluctant to make investment decisions in the context of the EU Falsified Medicines Directive which came into effect in February 2016. Activities to reinforce the international sales organisation were continued as planned and further specialist personnel with experience in the pharmaceutical supply industry were recruited. A novel machine system for the combined serialisation and flexible colour printing of packaging in the shape of DIGILINE VERSA was exhibited at the «drupa» trade fair in June 2016. In the second half of the year the focus of activity is on increasing net revenue in the Packaging business unit in particular.

Net revenue at **Security Printing** in the first half of 2016 amounted to CHF 55.0 million (CHF 67.2 million in 2015). Operating earnings (EBIT) amounted to CHF 8.5 million (CHF 9.3 million in 2015). The main reason for the decline in net revenue compared to the previous year was the absence of additional printing orders performed in association with selected partners, which resulted in substantial additional profits in 2015. The EBIT margin improved from 13.8% to 15.5% due to a significant increase in productivity. Banknote production in the first half of 2016 proceeded as planned. Production of further denominations for two key customers in the context of issuing new series of banknotes is in full swing. The efficient implementation of the high standards demanded of the product in terms of security and quality remains a challenge throughout the duration of these new issues. Efforts to acquire new key customers were intensified in the first half of 2016 and additional sales personnel were recruited accordingly. The issue of the new series of Swiss banknotes in April 2016 underlines even more categorically our position as a supplier of secure, high-quality banknotes. Market-related activities will be further expanded in the second half of the year. Complementary modifications and expansions of processes and equipment were made in the first half of 2016, thus creating the preconditions for the further enhancement of quality and productivity. Investments in infrastructure are planned for the second half of 2016 in order to ensure the continued long-term availability of the systems.

Net revenue at the **Book Retailing** Division declined slightly in the first half of 2016, amounting to CHF 41.7 million (CHF 43.0 million in 2015). Operating earnings (EBIT) in the first six months of the year amounted to CHF -0.7 Mio. (CHF -1.9 million in 2015). Extraordinary income of CHF 1.1 million arising from the restructuring of the branch network (CHF 1.7 million, less expenditure of CHF 0.6 million on the transformation programme) had a positive impact on the overall half-year results. The Swiss book market as a whole contracted in the first six months of 2016 across all sales channels combined (bricks-and-mortar retailing, online distribution and e-books) by some 4% compared to the same period of the previous year. The main reason for this decline continues to be the migration of purchases to the Eurozone due to the Swiss franc/euro exchange rate situation. As well as consumers, corporate customers are also increasingly responding to this situation with economy measures. The e-book market segment is continuing to grow, although growth momentum has eased compared to earlier years and a certain degree of saturation has occurred. Complementary product lines partially offset the downtrend in book retailing compared to the previous year. The transformation programme launched at the end of 2015 was implemented in accordance with expectations in the first half of 2016. In addition to cost-cutting, various steps were successfully implemented to improve customer approach and customer service. This programme will continue to be pursued systematically in the second half of the year. In the context of unifying brand identity, the former «Thalia» branches were renamed «Orell Füssli» and www.orellfussli.ch was launched as the online shop in May 2016. In June 2016 the English Bookshop was moved and successfully integrated in the Kramhof outlet on Füsslistrasse in Zurich. The branch at Fribourg railway station was closed at the end of March 2016 and selling space in the Franz Carl Weber toy store in Zurich was vacated at the end of June 2016.

Net revenue at **Orell Füssli Publishing** in the first half of 2016 was some 11% higher than a year earlier. This increase resulted from the good performance of the «Children's Books» programme sector, in which both the classic series such as «Globi» and «Schellen-Ursli» as well as the newly developed sector recorded growth. The other three programme sectors (non-fiction, legal media and educational media) were all more or less at the previous year's level. Expansion of sales and marketing activities in the direction of Germany and Austria proceeded successfully in the children's books programme sector in particular. Efforts in the non-fiction programme sector have had limited success to date in a generally difficult market environment. The legal media and educational media programme sectors are continuing to focus exclusively on the Swiss market and are characterised by stable long-term development. Building on this basis, these two sectors are being further developed through systematic expansion of the programme in conjunction with the development of digital offerings.

BUSINESS IN THE FIRST HALF-YEAR

Outlook for 2016

We expect a slightly better overall result for the Orell Füssli Group compared to last year. At Security Printing the target remains an outcome at much the same level as last year, despite the absence of exceptional orders in association with printing partners. Atlantic Zeiser's objective is to continue the positive trend in net revenue in the second half of 2016. In Book Retailing we expect to be able to repeat the previous year's outcome on the basis of the steps initiated in the transformation project. However, as is the case every year, the success of the Christmas season business will be decisive for the overall outcome.

KEY FIGURES FOR THE ORELL FÜSSLIGROUP

<i>in CHF million</i>	First half of 2016	First half of 2015	Annual year 2015
Net revenue from sales to customers	139.5	141.5	279.4
Total operating income	143.8	146.2	289.2
Operating earnings (EBIT)	7.9	7.5	17.6
Net income for the period	5.0	4.0	12.8
Total equity	153.1	148.2	159.1
Net income for the period before minority interests	4.8	4.5	11.0
Equity before minority interests	140.6	135.5	143.9
Full time equivalents	873	900	893

Half-year Financial Report 2016

1 HALF-YEAR FINANCIAL STATEMENTS

1.1 CONSOLIDATED INCOME STATEMENT

in CHF thousand; January-June

	2016	2015
Net revenue from sales to customers	139,539	141,520
Other operating income	3,276	2,159
Changes in inventories of semi-finished and finished products, capitalised costs	1,000	2,569
Total operating income	143,815	146,248
Cost of materials	-57,767	-49,876
External production costs	-4,594	-16,236
Personnel expenditure	-41,060	-40,684
Other operating expenses	-25,355	-21,970
Depreciation and impairment on tangible assets	-6,848	-8,804
Depreciation and impairment on intangible assets	-284	-1,177
Earnings before interest and taxes (EBIT)	7,907	7,501
Financial income	327	100
Financial expenses	-164	-1,619
Financial result	163	-1,519
Earnings before income taxes (EBT)	8,070	5,982
Income tax expenses	-3,097	-1,974
Net income for the period	4,973	4,008
Attributable to the shareholders of Orell Füssli Holding Ltd	4,799	4,498
Attributable to minority interests	174	-490
<i>in CHF, January - June</i>	2016	2015
Earnings per share	2.45	2.29

The disclosures from pages 11 to 13 form an integrated part of the financial report.

FINANCIAL REPORT

1.2 CONSOLIDATED BALANCE SHEET

<i>in CHF thousand</i>	30.06.2016	31.12.2015
Assets		
Cash and cash equivalents	36,201	73,119
Marketable securities	331	330
Trade accounts receivable	25,035	20,199
Other receivables	33,320	18,003
Inventories	44,762	37,215
Current income tax receivables	1,080	1,057
Accrued income and deferred expenses	4,008	3,244
Total current assets	144,737	153,167
Tangible assets	68,939	73,589
Intangible assets	1,278	1,374
Participations	537	1,098
Deferred tax assets	3,069	5,269
Other non-current financial assets	5,601	5,577
Total non-current assets	79,424	86,907
Total assets	224,161	240,074
Liabilities and equity		
Trade payables	16,154	10,242
Other current liabilities	28,958	45,889
Current income tax liabilities	1,316	1,022
Accrued expenses and deferred income	12,801	15,917
Current financial liabilities	5,715	1,107
Current provisions	1,527	2,181
Total current liabilities	66,471	76,358
Non-current financial liabilities	2,562	2,537
Pension fund liabilities	332	306
Non-current provisions	256	256
Deferred tax liabilities	1,415	1,476
Total non-current liabilities	4,565	4,575
Share capital	1,960	1,960
Capital reserves	4,160	4,160
Retained earnings	152,284	155,325
Translation differences	-17,794	-17,512
Total equity before minority interests	140,610	143,933
Minority interests	12,515	15,208
Total equity	153,125	159,141
Total liabilities and equity	224,161	240,074

The disclosures from pages 11 to 13 form an integrated part of the financial report.

1.3 CONSOLIDATED CASH FLOW STATEMENT

<i>in CHF thousand; January-June</i>	2016	2015
Net income for the period	4,973	4,008
Depreciation	7,099	7,911
Impairment and amortisation	601	2,070
Other non-cash related income and expenses	-152	1,256
Change in net working capital	-42,202	-40,603
Change in provisions	-629	-2,488
Change in deferred income tax	2,137	1,742
Cash flow from operating activities	-28,173	-26,104
Purchase of tangible assets	-2,230	-7,741
Proceeds from disposals of tangible assets	12	43
Purchase of intangible assets	-186	-392
Proceeds from disposal of SOFHA GmbH	-	3,493
Proceeds from disposals of associated participations	-	520
Proceeds from disposals of other participations	-	1
Purchase of other non-current assets	-26	-33
Proceeds from disposals of other non-current assets	-	7
Cash flow from investing activities	-2,430	-4,102
Increase of financial liabilities	4,629	21
Repayment of financial liabilities	-	-6,743
Dividends paid to minorities	-2,887	-
Dividends paid	-7,840	-
Cash flow from financing activities	-6,098	-6,722
Translation effects	-217	-1,114
Decrease in cash and cash equivalents	-36,918	-38,042
Cash and cash equivalents at 1 January	73,119	60,377
Cash and cash equivalents at 30 June	36,201	22,335

The disclosures from pages 11 to 13 form an integrated part of the financial report.

FINANCIAL REPORT

1.4 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in CHF thousand

	Share capital	Capital reserves	Retained earnings and net income	Translation differences	Equity before minority interests	Minority interests	Total equity
Equity at 1 January 2015	1,960	4,160	139,190	-13,587	131,723	14,123	145,846
Disposal of SOFHA GmbH	-	-	-	11	11	-303	-292
Consideration of goodwill offset at an earlier date	-	-	5,110	-	5,110	-	5,110
Currency translation effects	-	-	-	-5,858	-5,858	-597	-6,455
Net income for the period	-	-	4,498	-	4,498	-490	4,008
Total equity at 30 June 2015	1,960	4,160	148,798	-19,434	135,484	12,733	148,217
Net income for the second half-year 2015	-	-	6,527	1,922	8,449	2,475	10,924
Equity at 1 January 2016	1,960	4,160	155,325	-17,512	143,933	15,208	159,141
Dividends paid	-	-	-7,840	-	-7,840	-2,887	-10,727
Currency translation effects	-	-	-	-282	-282	20	-262
Net income for the period	-	-	4,799	-	4,799	174	4,973
Total equity at 30 June 2016	1,960	4,160	152,284	-17,794	140,610	12,515	153,125

The disclosures from pages 11 to 13 form an integrated part of the financial report.

2 NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

2.1 BASIS OF ACCOUNTING

These semi-annual financial statements comprise the unaudited interim report for the reporting period ending on 30 June 2016. The consolidated financial statements have been prepared in conformity with the existing Swiss GAAP FER 31 “Additional recommendations for listed companies”, 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 interim financial statements do not include all the data contained in the consolidated annual financial statements and must therefore be read in conjunction with the consolidated annual financial statements prepared for the financial year ending 31 December 2015.

The consolidated financial statements include all domestic and foreign entities directly or indirectly controlled by Orell Füssli Holding Ltd, either by holding at least 50% of the voting rights or by otherwise exercising a significant influence on the business management and business policy. Joint ventures under joint management, but not controlled by one of the parties, are consolidated on a pro rata basis.

The preparation of the consolidated half-year 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, as made by management as of the balance sheet date 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.

The business in the Orell Füssli group is subject to significant seasonal and cyclical fluctuations.

The taxes on revenues are calculated on the basis of the best estimate of the average tax rate expected for the entire financial year.

2.2 INCOME STATEMENT

At CHF 139.5 million, net revenue from sales to customers is slightly below the prior year level. Net revenue generated by Industrial Systems increased by CHF 11.0 million due to a gratifying surge in orders towards the end of 2015, which continued into the first half of 2016. By contrast, Security Printing posted a decrease of CHF 12.2 million. The main reason for the decline was the absence of additional printing orders performed in association with selected partners, which resulted in substantial additional profits in 2015. Orell Füssli Thalia Ltd recorded a slight decline, which can be attributed to the general environment in which book retailers are operating.

The cost of materials increased by CHF 7.9 million while external production costs (primarily production within Security Printing) decreased by CHF 11.6 million. As a result, the cost of materials/external costs under operating income decreased from 45.2% to 43.4%. The decrease is primarily attributable to Security Printing because of the particular mix of products and the increase in internal as opposed to external production costs.

Personnel expenditure increased slightly by CHF 0.4 million, due to the growth in Industrial Systems. Other operating expenses rose by CHF 3.4 million due to restructuring within Book Retailing and special items (in preparation for consolidating the sales subsidiary in China for the first time, valuation adjustments in relation to expenditure previously incurred in establishing the business) pertaining to Industrial Systems. Depreciation was down CHF 2.8 million, resulting from the higher level of depreciation in 2015, due to adjustments in relation to the production of new banknotes in Security Printing and the consolidation of the Winterthur branches within the Book Retailing division.

There was a reduction in interest income in the financial result due to the low interest rates. The financial income generated was minimal due to foreign exchange movements. Financial expenses mainly comprised bank charges. A positive financial result of CHF 0.2 million was therefore achieved.

Tax expenses were impacted by CHF 0.9 million in non-capitalized deferred tax loss carry-forwards or impairment of deferred tax loss carry-forwards.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

2.3 BALANCE SHEET

The balance sheet total fell by CHF 15.9 million or around 6.6% compared to the end of 2015. Total current assets decreased by CHF 8.4 million. Cash and cash equivalents fell by CHF 36.9 million, mainly due to the processing of manufacturing orders in Security Printing (material and operating costs) combined with utilisations of advance payments. The item "Other receivables", which includes percentage of completion of CHF 18.6 million (31.12.2015: CHF 4.7 million), once again showed an increase in value as at the reporting date. Non-current assets decreased by CHF 7.5 million on a net basis, mainly because of the higher level of depreciation and impairments (CHF 7.1 million) compared to investments (CHF 2.4 million). The percentage of completion total on the assets side is offset on the liabilities side under the item "Other short-term liabilities" by prepayments by customers of CHF 25.0 million (31.12.2015: CHF 39.5 million).

Equity decreased by CHF 6.0 million. This change is based on the semi-annual profit of CHF 5.0 million, currency conversions of CHF -0.3 million and dividend distributions of CHF -10.7 million.

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

LIQUIDITY RESERVES AND CREDIT FACILITIES

<i>in CHF thousand</i>	30.06.2016	31.12.2015
Cash and cash equivalents	36,201	73,119
Prepayments from customers	-24,991	-39,451
Other financial assets / liabilities	-5,762	-3,552
Cash and cash equivalents net	5,448	30,116
Thereof assigned to other shareholders	10,166	18,563
Disposable cash and cash equivalents	-4,718	11,553
Available lines of credit	81,536	81,032
./. Secured guarantees by banks (without prepayment guarantees)	-5,794	-2,361
./. Lines of credit used	-5,715	-1,107
Total disposable cash and cash equivalents and unused lines of credit	65,309	89,117

2.4 CHANGE IN THE SCOPE OF CONSOLIDATION

IN THE FIRST HALFYEAR OF 2016

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

Atlantic Zeiser SA: Atlantic Zeiser SA in Spain was wound up in January 2016. Spanish operations will be conducted through Atlantic Zeiser GmbH in Germany commencing in the 2016 financial year.

IN THE FIRST HALFYEAR OF 2015

SOFHA GmbH: in April 2015, the 75% majority stake held by Atlantic Zeiser GmbH was sold.

2.5 CURRENCY EXCHANGE RATES

	Market rate		Average rate January-June	
	30.06.2016	31.12.2015	2016	2015
EUR at a rate of CHF	1.0866	1.0828	1.0962	1.0588
USD at a rate of CHF	0.9785	0.9928	0.9823	0.9479
GBP at a rate of CHF	1.3105	1.4697	1.4084	1.4440

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

2.6 SEGMENT RESULTS JANUARY-JUNE 2016

<i>in CHF thousand</i>	Industrial Systems	Security Printing	Book Retailing	Other	Total segments	Unallocated	Total Group
Net revenue from segment sales	38,105	55,026	41,739	4,544	139,414	125	139,539
Inter-segment sales	139	–	–	18	157	–157	–
Net revenue from sales to customers	38,244	55,026	41,739	4,562	139,571	–32	139,539
Earnings before interest and taxes (EBIT)	1,822	8,529	–709	–662	8,980	–1,073	7,907

SEGMENT RESULTS JANUARY-JUNE 2015

<i>in CHF thousand</i>	Industrial Systems	Security Printing	Book Retailing	Other	Total segments	Unallocated	Total Group
Net revenue from segment sales	27,111	67,186	42,980	4,118	141,395	125	141,520
Inter-segment sales	23	–	5	7	35	–35	–
Net revenue from sales to customers	27,134	67,186	42,985	4,125	141,430	90	141,520
Earnings before interest and taxes (EBIT)	1,061	9,287	–1,903	–853	7,592	–91	7,501

2.7 RELATED PARTY TRANSACTIONS

In the first half of 2016, the Orell Füssli group effected sales and accruals of goods and services to associated companies of CHF 30,050,000 (January–June 2015: CHF 14,360,000).

2.8 THEORETICAL IMPACT OF GOODWILL CAPITALISATIONS

The goodwill resulting from acquisitions is offset against consolidated equity at the time of acquisition. With a theoretical amortisation period of five years, this would have the following effects on the income statement and the balance sheet:

<i>in CHF thousand</i>	2016	2015
Impact on income statement (previous year at 30 June 2015)	–154	–154
Impact on balance sheet (previous year at 31 December 2015)	423	577

2.9 FINANCIAL INSTRUMENTS

As at the balance sheet date, there are outstanding forward exchange contracts for the hedging of future cash flows that have not yet been entered in the balance sheet. Euros were hedged up to a total value of CHF 5,454,000 (at 31.12.2015: CHF 9,122,000), resulting in an unrecorded current value of CHF 191,000 (at 31.12.2015: CHF 291,000).

2.10 EVENTS AFTER BALANCE SHEET DATE

There were no significant events that would have resulted in an adjustment of the book values of the group's assets and liabilities.

AGENDA, IMPRINT, CONTACT

AGENDA

Publication Annual Report 2016 (press release, conference call, analysts' conference)	March 2017
Annual General Meeting of Orell Füssli Holding Ltd	May 12, 2017 (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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