

Orell Füssli Short Annual Report 2010

Editorial

Dear shareholder,

In terms of the overall economy, developments in 2010 were favourable compared with the preceding years, in particular also in Switzerland. Due to the impact of specific factors, the Orell Füssli Group did not benefit from this as much as was hoped for. There were both external and internal reasons for this. The Board of Directors and the Executive Board are not satisfied with the results achieved, even if external factors had a significant impact on the disappointing course of business in the individual divisions. We shall spare no effort to exploit opportunities effectively and eliminate weaknesses. In the context of a SWOT analysis launched by Michel Kunz, who took office as CEO in mid-year, weaknesses were identified and process and cost improvements initiated. A start has been made on refining strategic plans to focus on realistic market opportunities while exploiting our own strengths, but this process is not yet complete.

Orell Füssli's very sound balance sheet structure enables it to pursue growth through acquisition. In addition to active management of the portfolio of business units, this also includes tactical acquisitions, such as the purchase of software company SOFHA GmbH or the acquisition of the assets of Böwe Cardtec in the past year. The Board of Directors aims to retain its financial targets, i.e. 10% annual sales growth and 15% overall return on capital (RONA). After adjustment for changes in the scope of consolidation and taking exchange rate movements into account, sales growth in the year under review was 9%, while RONA was well below target at 7.1%. The 41% increase in cash flow from operations based on internal assessment criteria reflects the operational improvements achieved in the past year. The Board of Directors is sure that the steps initiated in 2010 will lead the way back to our customary earnings performance.

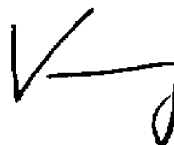
The Board of Directors has decided to change from IFRS to Swiss GAAP FER reporting standards for presenting its accounts with effect from 2011. The decisive factor behind this move is the continuous growth in the number of new regulations, which increase the effort involved for the company without bringing any additional benefits for the shareholders or the company. The outcome of this change will be the transfer of the share listing from the Main Standard section of the SIX Swiss Exchange to the Domestic Standard (local caps) section. In our estimation this will have no influence on the share price and the company's access to the capital market.

In line with the dividend policy pursued to date, the Board of Directors will propose to the annual general meeting that an unchanged dividend of CHF 2.50 per share should be paid. The Board members Dr. Rudolf W. Hug and Dr. Rudolf Rentsch will retire in compliance with term limits. We wish to thank them for their valuable support and cooperative participation over many years. Dewet Moser, Gonpo Tsering, Andreas S. Wetter and Dieter Widmer will be proposed to succeed them at the annual general meeting on 10 May 2011. The number of directors is being increased with a view to ensuring continuity and also in response to the wishes of major shareholders that this body should be strengthened.

Zurich, April 2011



Dr. Klaus Oesch
Chairman of the Board of Directors



Michel Kunz
CEO

Business in 2010

Orell Füssli reported slightly higher sales and – despite significant progress at the operating level – lower profits in the year under review. Sales expectations were not fulfilled, mainly due to the hesitant recovery in Atlantic Zeiser's industrial business, an interim year in security printing and a slowdown in the book retailing business. The decline in profits is a reflection of the extraordinary income which boosted the previous year's profit figure. In 2011 the company is focusing on making operating improvements and expects to achieve higher sales and earnings.

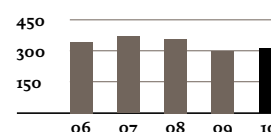
Orell Füssli reported sales of CHF 317.7 million in the 2010 financial year. This corresponds to an increase of 4% compared to the previous year. After adjustment for exchange rate movements and changes in the scope of consolidation, sales by the ongoing businesses were 9% higher. Operating earnings of the Orell Füssli Group declined to CHF 14.1 million (CHF 23.1 million, including CHF 8.5 million of extraordinary income, in 2009). However, Orell Füssli made significant progress at the operating level compared to the previous year: EBITDA improved from CHF 24.3 million to CHF 31.3 million and cash flow from operations rose by 41% according to internal assessment criteria. Net income was CHF 10.6 million (CHF 14.7 million in 2009).

Orell Füssli's balance sheet is still in robust shape, not least due to a lasting reduction of CHF 40 million in the size of balance sheet, achieved mainly by trimming working capital. Free cash flow amounted to CHF 14.0 million. The net cash position increased from CHF 13.0 million in the previous year to CHF 21.4 million. With an equity ratio (including minority interests) of 70.0% (61.6% in 2009), the company is prepared to undertake expansion projects.

German subsidiary Atlantic Zeiser is largely financed via equity loans. The exchange rate fluctuations affecting the loans are posted to shareholders' equity in the consolidated financial statements and thus have no impact on income. These exchange rate fluctuations on balance sheet date amounted to CHF 5.2 million. In the unaudited half-year financial statements these exchange rate fluctuations were erroneously posted as a charge of CHF 3.5 million to income.

INCOME

Total income in CHF million



SEGMENTAL RESULTS

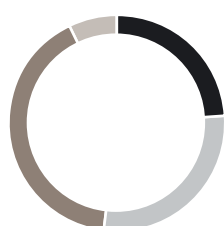
in CHF '000	2010	2009	2008	2007
Division Atlantic Zeiser				
Sales	79,151	72,536	104,984	111,507
Earnings before interest and taxes (EBIT)	-903	-4,427	7,275	13,568
Division Security Printing				
Sales	100,556	85,323	102,980	97,503
Earnings before interest and taxes (EBIT)	13,993	16,704	23,983	18,206
Division Book Retailing				
Sales	119,861	123,629	122,747	121,509
Earnings before interest and taxes (EBIT)	2,153	6,308	3,423	4,779

Atlantic Zeiser Division

In 2010 Atlantic Zeiser reported an 18% increase in sales revenues expressed in euros (9% in CHF) compared with the previous year. Uncertainty continued to be a dominant feature of the capital goods markets, especially for card systems and digital printing solutions. The operating loss was reduced to CHF 0.9 million (CHF 4.4 million in 2009). Excluding extraordinary expenses, positive operating earnings of CHF 1.0 million would have been posted. However, progress at the operating level and in the marketing of new products was slower than expected. Atlantic Zeiser reduced costs through selective short-time working and did not need to make any further cuts in its core workforce.

SALES

in percent



- 25%** Division Atlantic Zeiser
- 32%** Division Security Printing
- 38%** Division Book Retailing
- 5%** Other

Total Income CHF 317.7 Mio.

The business trend in the banknote and security printing systems sector was positive throughout the year. Good levels of orders in hand and greater demand for numbering system solutions resulted in higher sales revenues at Atlantic Zeiser in this sector compared with the previous year.

The card systems business suffered from a declining market trend. Atlantic Zeiser continues to face challenges in this sector, since core markets are likely to recover only slowly and new market segments will have to be developed.

In the sector of digital printing systems for industrial applications the expansion of the distribution and dealer network contributed to an increase in new orders and sales. Overall growth in sales of modules and of integrated systems for marking with industrial digital printing continued. The growth potential of this sector is promising.

Orell Füssli Security Printing Division

In 2010 Orell Füssli Security Printing devoted particular effort to the international banknote printing market. Orell Füssli succeeded in broadening its customer base and also securing follow-up orders from existing customers. Record numbers of banknotes were produced. Sales revenues at Orell Füssli Security Printing in the 2010 financial year rose by 18% to CHF 100.6 million (CHF 85.3 million in 2009).

As announced at the beginning of 2010, printing of the 9th issue had to be postponed by some two years due to delays in furnishing new security features. This resulted in shortfalls in capacity utilisation. Excess capacity in the market for banknote production and fluctuations in the euro and dollar exchange rates depressed prices, and this had a negative impact on operating earnings, which were 16% lower at CHF 14.0 million (CHF 16.7 million in 2009). The banknote printing market revived in the second half of the financial year.

Orell Füssli Book Retailing Division

Changes in reading habits and increasing pressure on selling prices as a result of the declining euro exchange rate caused a 3% reduction in sales revenues to CHF 119.9 million at Orell Füssli Book Retailing in the year under review (123.6 million in 2009). A shift towards Internet sales and downloads from the steadily growing stock of digital books is apparent in book retailing. A further strong increase in business with large customers was encouraging. Excluding the book gain realised in 2009 from the sale of premises no longer required for business, the division's operating earnings increased by 23% compared with the previous year, to a figure of CHF 2.2 million.

Orell Füssli Publishing

The majority shareholding in Photoglob AG was sold to its General Manager in spring 2010. This reduced sales revenues from companies consolidated in Orell Füssli publishing operations. The sales revenues of the businesses consolidated in the year under review rose by 2%. Operating earnings remained slightly negative. In addition to handing over responsibility for the Photoglob business, other cost-relevant steps were initiated which will have an impact in the course of 2011.

Outlook for the divisions and the group

Orell Füssli is expecting a revival in demand for new digital printing solutions in 2011. Despite a revival in the market, a subdued financial year is expected in security printing, due to keen international competition and the fact that production of the new Swiss banknotes is not planned until the fourth quarter. In the book retailing business further changes in the market environment representing both risks and opportunities are imminent. All in all the Orell Füssli Group foresees further operating progress and increases in sales and earnings in 2011, which as yet are difficult to quantify.

Condensed financial statements 2010

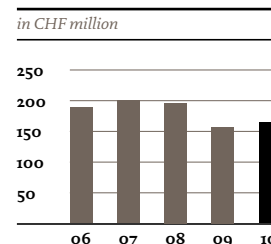
CONSOLIDATED INCOME STATEMENT

<i>in CHF '000</i>	2010	2009
Sales to customers	313,932	302,377
Other operating income	3,778	3,909
Total income	317,710	306,286
Cost of materials	-126,273	-134,455
Direct production costs	-17,005	-13,083
Changes in inventories of finished products and work-in-progress	-8,755	-749
Capitalised costs	33	224
Total direct costs	-152,000	-148,063
Personnel expenditure	-87,132	-88,669
Other operating expenses	-47,304	-44,686
Depreciation and impairment	-17,474	-10,297
Gain on sales of non-current assets	298	4,557
Profit from disposal of subsidiaries	-2	4,000
Total operating expenses	-151,614	-135,095
Earnings before interest and taxes (EBIT)	14,096	23,128
Financial income	2,829	1,686
Financial expenses	-2,904	-3,689
Share of profit from associates	-	-
Financial result	-75	-2,003
Earnings before income taxes	14,021	21,125
Income tax expenses	-1,916	-2,993
Net income for the period	12,105	18,132
Attributable to the shareholders of Orell Füssli Holding Ltd	10,593	14,699
Attributable to minority interests	1,512	3,433

CONSOLIDATED STATEMENT OF THE COMPREHENSIVE INCOME

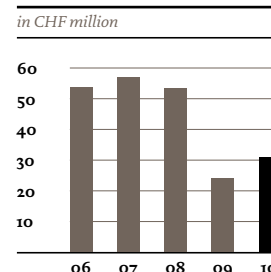
<i>in CHF '000</i>	2010	2009
Net income for the period	12,105	18,132
Currency translation effects	-3,642	353
Foreign exchange effects on equity loans	-5,165	-
Total comprehensive income for the period	3,298	18,485
Attributable to the shareholders of Orell Füssli Holding Ltd	2,200	15,066
Attributable to minority interests	1,098	3,419

TOTAL INCOME LESS DIRECT COSTS



Development of total income less direct costs in the 2006 to 2010 financial years. The total income less direct costs diminished by an annual portion of about CHF 20 million due to the disposal of two subsidiaries in 2008.

EBITDA

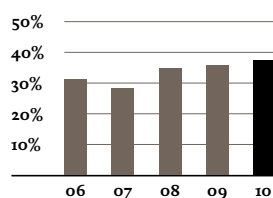


Development of EBITDA in the 2006 to 2010 financial years.

CONDENSED FINANCIAL STATEMENTS

TANGIBLE ASSETS

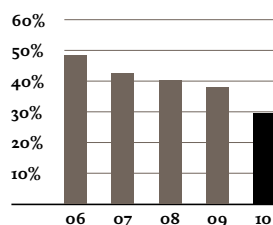
in percent



Proportion of the tangible assets in relation to total assets at the balance sheet date from 2006 to 2010.

LIABILITIES

in percent



From 2006 to 2010, third liabilities' proportion in relation to the total capital was reduced continuously to 30 %.

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

in CHF '000

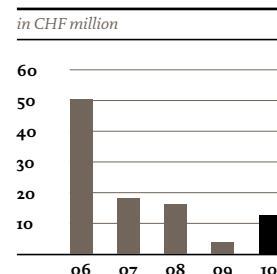
	2010	2009
Assets		
Cash and cash equivalents	29,594	26,936
Marketable securities & derivative financial instruments	1,102	87
Receivables	44,737	42,801
Receivables from PoC	21,219	40,210
Inventories	39,520	51,914
Current financial assets	228	4,537
Current income tax receivables	2,869	2,807
Total current assets	139,269	169,292
Tangible assets	99,725	110,835
Intangible assets	9,217	1,984
Leasehold property	55	80
Investments	4,753	2,479
Non-current financial assets	755	12,207
Pension fund assets	5,362	4,805
Deferred tax assets	4,216	2,902
Other non-current assets	1,063	979
Total non-current assets	125,146	136,271
Total assets	264,415	305,563
Liabilities		
Trade payables	22,538	30,711
Prepayments from customers	26,204	50,062
Current financial liabilities	6,625	10,868
Current income tax liabilities	1,268	1,529
Other current liabilities	14,258	15,490
Current provisions	730	454
Total current liabilities	71,623	109,114
Non-current financial liabilities	2,680	3,108
Pension fund liabilities	392	457
Non-current provisions	395	414
Deferred tax liabilities	4,273	4,226
Total non-current liabilities	7,740	8,205
Share capital	1,960	1,960
Capital reserves	4,160	4,160
Retained earnings	160,396	164,106
Total equity before minority interests	166,516	170,226
Minority interests	18,536	18,018
Total equity	185,052	188,244
Total liabilities	264,415	305,563

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED CASH FLOW STATEMENT

<i>in CHF '000</i>	2010	2009
Net income for the period	12,105	18,132
Depreciation	16,077	10,508
Impairment and amortisation	973	754
Profit from disposal of subsidiaries	-748	-4,000
Other non-fund related income and expenses	-1,415	-4,107
Change in net working capital	-6,250	-3,972
Income tax paid	-4,781	-9,228
Interest paid	-873	-798
Change in provisions and deferred income tax	-2,938	-1,765
Cash flow from operating activities	12,150	5,524
Purchase of tangible assets	-6,828	-13,185
Proceeds from disposals of tangible assets	516	7,349
Purchase of intangible assets	-2,525	-277
Proceeds from disposals of intangible assets	-	-
Purchase of other non-current assets	-169	-77
Proceeds from disposals of other non-current assets	17,356	-
Acquisitions of investments	-6,544	-
Proceeds from disposals of investments	277	4,388
Purchase of securities	-208	-
Proceeds from disposals of marketable securities	-	2
Cash flow from investing activities	1,875	-1,800
Change in financial liabilities	-3,142	4,944
Dividends paid to minorities	-1,960	-980
Dividends paid	-4,900	-15,680
Cash flow from financing activities	-10,002	-11,716
Translation differences on cash	266	33
Increase (decrease) in cash and cash equivalents	4,289	-7,959
Cash and cash equivalents at 1 January	26,936	34,867
Effects of exchange rate adjustments on the opening balance	-1,631	28
Cash and cash equivalents at 1 January after effects of currency exchange rate	25,305	34,895
Cash and cash equivalents at 31 December	29,594	26,936

FREE CASH FLOW



Development of the free cash flow from 2006 to 2010. In the 2008 and 2009 financial years, expenditure for conversions and investments in fixed assets had strong impact on the free cash flow

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>in CHF '000</i>	Share capital	Capital reserves	Retained earnings and net income	Equity before minority interests	Minority interests	Total equity
Total equity at 1 January 2010	1,960	4,160	164,106	170,226	18,018	188,244
Dividends paid	-	-	-4,900	-4,900	-1,960	-6,860
Decrease of minority interests by sale	-	-	-	-	-291	-291
Increase of minority interests by purchase	-	-	-	-	1,671	1,671
Liability for purchase of minority interests	-	-	-1,010	-1,010	-	-1,010
Total comprehensive income for the period	-	-	2,200	2,200	1,098	3,298
Total equity at 31 December 2010	1,960	4,160	160,396	166,516	18,536	185,052
Total equity at 1 January 2009	1,960	4,160	164,720	170,840	15,579	186,419
Dividends paid	-	-	-15,680	-15,680	-980	-16,660
Total comprehensive income for the period	-	-	15,066	15,066	3,419	18,485
Total equity at 31 December 2009	1,960	4,160	164,106	170,226	18,018	188,244

A dividend of CHF 2.50 per share is proposed on the occasion of the AGM on 10 May 2011.

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