Half-Year Financial Report as at 30 June 2014

www.edding.com

edding®

Half-Year Financial Report as at 30 June 2014

Interim edding Group Management Report

Development of business segments

Group sales for the first half of the 2014 financial year totalled € 60.6 million. This corresponds to a rise of 5.0 % compared with the same period last year. The increase resulted from all business segments, with sales revenue in the Writing and Marking segment growing disproportionately.

Sales revenue by business segment and region can be broken down as follows:

	2014 01/01-30/06 € m	2013* 01/01-30/06 € m	Change € m	Change %
Writing and Marking				
Germany	19.0	17.5	1.5	8.6
Other European countries	20.9	19.4	1.5	7.7
Overseas	3.8	4.3	– 0.5	– 11.6
	43.7	**41.2**	**2.5**	**6.1**
Visual Communication				
Germany	5.5	5.5	0.0	0.0
Other European countries	7.7	7.2	0.5	6.9
Overseas	0.3	0.5	– 0.2	– 40.0
	13.5	**13.2**	**0.3**	**2.3**
Other Office Products	**3.4**	**3.3**	**0.1**	**3.0**
Total	**60.6**	**57.7**	**2.9**	**5.0**

*Adjustment of previous year's figures. For this, reference is made to the explanatory notes.

Writing and Marking business segment

Sales in the Writing and Marketing business segment grew by 6.1% compared to the same period in the previous year.

In the **German market** significant sales growth of 8.6% was achieved. This is the result of our consumer-based category strategy and covers all sales areas. Positive stimulus came, for example, from the edding printer cartridges, the spray paints that were launched last year and the introduction of the new solution for the so-called "point of sale" in the specialist trade (POS shop), with a corresponding effect on sales.

In the **other European markets** sales revenue was up 7.7% on the previous year. The majority of the markets were able to achieve growth. The UK and Spain in particular can be cited as the main drivers. In Spain the easing economic situation, targeted market activities and the planned inventory replenishment at our distribution partner are leading to a positive trend. Furthermore, in the UK the success of previous years is continuing, buoyed by the expansion of the school business. In Turkey sales converted into euro are at the previous year's level. Compared with 2013, the situation has thus improved considerably, as expected, since the publication of our interim notification on 19 May 2014. We have encountered the sharpest fall in sales in Russia, with the strong devaluation of the rouble and public budget cuts in connection with the Ukraine crisis having a weakening impact on our business. For this, please refer to the Opportunities and Risk Report.

The trend in the **overseas markets** is showing a strong decline. This is primarily due to lower sales in our biggest overseas market, Argentina, owing to the continuing critical political and economic situation. In January an official devaluation of the national currency by over 20% took place, which, in conjunction with the ongoing high inflation rate, is having a negative effect on consumer behaviour. In addition, the Argentine state has been partially insolvent since the end of July after negotiations with US hedge funds broke down. We are continuing to implement our restrictive credit policy accordingly, even at the price of lost sales.

As things stand at the moment, we expect sales growth in the Writing and Marking business segment to slow down somewhat in the further course of 2014 compared to last year. This is, for example, due to sales revenue brought forward that actually relate to the second half of the year and the build-up of stocks by some of our European distribution partners.

Visual Communication business segment

A slight increase in sales of 2.3% was achieved in the Visual Communication business segment versus the same period in the previous year. Compared with 2013, the situation has therefore improved slightly since the publication of our interim notification on 19 May 2014. While sales in **Germany** were at the same level as the previous year, they increased by 6.9% in the other markets in **Europe**. The Belgian, Dutch and Turkish markets in particular contributed to this. In the **overseas markets** sales were only modest and were well down on the level of the previous year due, amongst other things, to weaker sales in Argentina.

We expect the existing trend to more or less continue in the remaining course of the year, with sales in Germany likely to even improve somewhat year on year, while in the other European markets a slightly lower increase compared to 2013 is anticipated.

Other Office Products

The slight increase in the area of Other Office Products compared with the equivalent period last year is due to the positive development of a partner brand launched in France at the end of 2012. This was partially offset by the scheduled reduction of the number of partner brands sold in Turkey. Sales from the licence business with printer cartridges, reported as other revenues for the first time in 2013, grew by 5%.

Results of operations

The Group‘s profit before tax for the first half of the 2014 financial year rose compared with the same period last year to € 4.4 million (previous year: € 3.9 million) despite a very positive non-recurring effect in the previous year.

The financial result and investment earnings were balanced in the period under review and therefore well down on the equivalent period in 2013. The non-recurring effect in this case of € 2.5 million, which was included in the previous year, was due to restructuring the financing of the Argentine subsidiary.

There was an improvement in the earnings before interest and taxes (EBIT) of € 2.8 million compared with the first half of 2013. The main effect here is the € 3.0 million rise in gross profit. Both the € 2.9 million increase in sales revenue and the improvement in the gross profit ratio by 2.1 percentage points to 62.0% contributed to this. The previous year was negatively impacted by a risk provision due to changes in the product range. This was not incurred in the period under review.

Increased personnel costs in the first half of 2014 were largely offset by lower other operating expenses and higher other operating income. The rise in personnel costs of € 1.0 million is due to higher result-related provisions for profit sharing and bonuses, higher staff numbers and one-off expenses in connection with the transfer of logistics activities to an external service provider.

The decrease in other operating expenses is the result of a fall in exchange rate losses by € 0.7 million. This positive effect is reinforced by an increase of € 0.3 million in unrealised exchange rate gains in other operating income. Here, the restructuring of the financing of the Argentine subsidiary in 2013 and the associated reduction in its net foreign currency position had a positive effect in addition to the exchange rate trend that was to some extent more favourable for us.

The income tax expense rose sharply by € 0.7 million compared to the previous year‘s figure. The tax ratio in the previous year was very low, as the already mentioned non-recurring effect of € 2.5 million was not subject to tax. This led to a Group result of € 2.8 million in the first half of 2014, which was € 0.2 million down on the same period in the prior year.

Net Assets and Financial Position

Total assets of the edding Group have risen by € 0.5 million to € 82.1 million since the last reporting date, which corresponds to a slight increase of 0.6%.

This is on the one hand the result of the further scheduled build-up of inventories, which was necessary, for example, within the scope of the logistics outsourcing project of the edding Group. Moreover, an increase in the level of trade receivables due to operational factors was posted. As an opposing effect, the level of cash and cash equivalents was well down as at the half-year reporting date compared with 31 December 2013, as the build-up of inventories was largely funded from the Group’s own resources. Furthermore, other receivables and assets decreased in particular due to the sale of the last Argentine government bonds in the edding Group’s portfolio during the first half of 2014.

Equity rose slightly by € 0.7 million to € 40.0 million compared to the last balance sheet date. In this connection, the high net income for the period was in particular offset by the dividend payment in the first half of the year and the negative foreign currency translation effects recognised in equity.

In the area of liabilities an increase in current financial liabilities by € 1.8 million was posted in the first half of 2014, which stemmed from the interim financing of the inventories and the dividend payment. The scheduled repayment of long-term bank loans on the other hand reduced the amount of borrowed capital.

Other current liabilities also fell slightly by € 0.6 million, which is due to several opposing effects. In particular, the lower amounts of accrued liabilities due to the interim reporting date and the reduced negative market values arising from the recognition of currency hedging transactions are reasons for the decrease in this balance sheet item. However, in this case, the higher VAT payment charge existing as at 30 June 2014 had a compensatory effect.

The Group result adjusted for non-cash items was slightly higher than in the same period in 2013 and overall there was a much lower negative cash flow from operating activities in the period under review. This is largely due to the Argentine government bonds that were in the edding Group's portfolio as at the half-year reporting date in the previous year, which have since been sold. Moreover, a large amount of trade liabilities were paid in the same period of the previous year immediately before the balance sheet date. The much more drastic increase in trade receivables in the reporting period compared to the previous year only partially compensates for this trend.

The cash flow from investing activities of € -0.9 million continued to be negative in the reporting period and fell slightly compared to the first half of 2013 due to the higher outflow of funds for investments in property, plant and equipment in the period under review.

Cash flow from financing activities in the first half of the 2014 financial year of € -0.9 million was considerably lower than for the same period in the prior year because a reduced amount of short-term new loans were taken out, while at the same time long-term financial liabilities were repaid according to schedule. The Group was solvent at all times in the first half of financial year 2014. This continues to be the case in the second half of financial year 2014.

Employees

The edding Group had a workforce of 640 employees on average in the first half of the year. Hence, staff numbers rose by 17 compared to the same period in 2013. In particular, changes to the sales structures had an impact. Thus, the French subsidiary for example established its own sales force in the second half of last year. In Turkey some new jobs were created as part of the implementation of structural changes to strengthen sales activities and staff who had previously been part of an external workforce were also incorporated at no extra cost to ensure better management. On the other hand, the switch to freelance sales representatives as part of the reorganisation of the sales operation in Mexico involved personnel reductions.

Opportunities and Risk Report

With regard to the opportunities and risk assessment, reference is made to the Opportunities and Risk Report in the Group Annual Report as at 31 December 2013.

In the context of the risk assessment the economic and political situation in Argentina remains particularly critical. This was confirmed by the partial insolvency of the Argentine state on 30 July 2014. We also see a risk in the Ukraine crisis and in the related situation in Russia. At the end of July the first sanctions were imposed on Russia, to which it reacted with counter-sanctions. Overall, we assume that sales might go down in both countries, although this is not considered a risk to the company's continued existence.

No further opportunities or risks going above and beyond the opportunities and risks presented in the 2013 Group annual report arose in the reporting period. No further opportunities or risks are expected in the remaining months of the current financial year.

Outlook

The Management Board regards the development in the first half of 2014 as positive. Based on the current situation, a moderate increase in sales revenues in both business segments, with a somewhat higher growth rate in the Writing and Marketing segment, is expected for financial year 2014 despite a probable slight slowdown in the sales trend.

The increase in marketing expenses, especially in the Writing and Marking segment, will be lower than expected due to time lags. Nevertheless, marketing expenses in particular will increase further over the course of the year. This will be partially compensated for by a write-up taking place in July of € 0.7 million of a reutilised section of building. It should also be borne in mind that in 2013 a large part of the operating result was generated in the second half of the year. Therefore, overall we are expecting an operating result (EBIT) for 2014 in excess of the prior year figure, whereby the profit increase generated in the first half of the year will tail off over the further course of the year.

This will have a corresponding effect on the segment results; here we are expecting a moderate increase in results in both business segments. This is subject to there being no deterioration in the global economy due to the situation in Ukraine and the corresponding sanctions against Russia. The Group result is expected to decrease significantly due to the positive non-recurring effect in the previous year in connection with higher tax expenditure.

Within the scope of the outlook in the annual report for 2013 we expected only a slight increase in the operating result for financial year 2014 overall and a significant decline in the Group result with moderately increasing sales revenues in both business segments. In terms of the segment result development, we expected a more consistent result for Writing and Marking and a moderate rise in the result for Visual Communication. The profit estimate has improved slightly compared to the original predictions due to the positive trend in the first half of 2014. The new forecast in this case is based in particular on the marketing expenses and exchange rate losses, which were lower than expected.

Interim Consolidated Financial Statements of the edding Group

Consolidated statement of financial position

	30/06/2014 € m	31/12/2013 € m
ASSETS		
Property, plant and equipment and intangible assets	18.2	18.7
Deferred taxes	1.5	1.7
Income tax receivables	0.6	0.7
Other receivables and assets	3.2	3.1
Non-current assets	**23.5**	**24.2**
Inventories	30.6	27.9
Trade receivables	19.8	18.1
Cash and cash equivalents	5.7	7.9
Other receivables and assets	2.5	3.5
Current assets	**58.6**	**57.4**
	82.1	**81.6**
EQUITY AND LIABILITIES		
Equity	**40.0**	**39.3**
Provisions for pensions and similar obligations	13.7	14.0
Non-current financial liabilities	4,6	5.5
Other non-current liabilities	0.9	0,9
Non-current liabilities	**19.2**	**20.4**
Income tax liabilities	0.5	0.4
Current financial liabilities	3.9	2.1
Trade payables	5.6	5.9
Other current liabilities	12.9	13.5
Current liabilities	**22.9**	**21.9**
	82.1	**81.6**

Consolidated income statement

	2014 01/01-30/06 € m	2013* 01/01-30/06 € m
Sales revenue	60.6	57.7
Changes in inventories and own work capitalised	0.4	0.4
Total output	**61.0**	**58.1**
Raw materials and consumables used	– 23.2	– 23.3
Employee benefits expense	– 16.1	– 15.1
Depreciation expense	– 1.4	– 1.3
Other operating income	1.6	1.3
Other operating expenses	– 17.5	– 18.1
Operating result (EBIT)	**4.4**	**1.6**
Financial result and result from investments	0.0	2.3
Group result before tax	**4.4**	**3.9**
Income taxes	– 1.6	– 0.9
Group result	**2.8**	**3.0**
Of which attributable to:		
Shareholders of edding AG	2.8	3.1
Non-controlling interests	0.0	– 0.1
Earnings per share (acc. to IAS 33, for ordinary shares)	4.72 €	5.16 €

*Adjustment of previous year's figures. For this, reference is made to the explanatory notes.

Consolidated statement of comprehensive income

	2014 01/01-30/06 € m	2013 01/01-30/06 € m
Group result	**2.8**	**3.0**
Items that will subsequently not be reclassified to profit or loss		
Provisions for pensions and similar obligations:		
Actuarial gains/losses	0.0	0.0
Deferred taxes	0.0	0.0
Items that will subsequently be reclassified to profit or loss		
Difference from currency translation	– 0.7	– 0.7
Cash flow hedges:		
Fair value changes recognised in equity	0.4	– 0.2
Transferred to profit and loss	0.3	– 0.2
Deferred taxes	– 0.2	0.1
Income and expenses directly recognised in equity	**– 0.2**	**– 1.0**
Total comprehensive income	**2.6**	**2.0**
Of which attributable to:		
Shareholders of edding AG	2.6	2.1
Non-controlling interests	0.0	– 0.1

Consolidated statement of cash flows

	2014 01/01-30/06 € m	2013 01/01-30/06 € m
Group result adjusted for non-cash items	**4.0**	**3.3**
Cash flow from operating activities	– 0.5	– 3.5
Cash flow from investing activities	– 0.9	– 0.5
Cash flow from financing activities	– 0.9	3.0
Net change in cash and cash equivalents	**– 2.3**	**– 1.0**
Effect of exchange rate fluctuations	0.1	– 0.2
Cash and cash equivalents at the beginning of the period	7.9	7.2
Cash and cash equivalents at the end of the period	**5.7**	**6.0**

Statement of changes in equity for the Group

	Share capital € m	Capital reserves € m	Retained earnings and net earnings € m	Cash flow hedge reserve € m	Currency trans-lation reserve € m	Equity attrib. to share-holders of edding AG € m	Non-con-trolling interests € m	**Total € m**
01/01/2013	**5.4**	**4.2**	**26.6**	**0.2**	**– 0.9**	**35.5**	**0.4**	**35.9**
Group result	–	–	3.1	–	–	3.1	– 0.1	**3.0**
Dividend payment	–	–	– 1.9	–	–	– 1.9	–	**– 1.9**
Other changes	–	–	–	– 0.3	– 0.7	– 1.0	0.0	**– 1.0**
30/06/2013	**5.4**	**4.2**	**27.8**	**– 0.1**	**– 1.6**	**35.7**	**0.3**	**36.0**
01/01/2014	**5.4**	**4.2**	**33.0**	**– 0.7**	**– 2.9**	**39.0**	**0.3**	**39.3**
Group result	–	–	2.8	–	–	2.8	0.0	**2.8**
Dividend payment	–	–	– 1.9	–	–	– 1.9	–	**– 1.9**
Other changes	–	–	–	0.5	– 0.7	– 0.2	0.0	**– 0.2**
30/06/2014	**5.4**	**4.2**	**33.9**	**– 0.2**	**– 3.6**	**39.7**	**0.3**	**40.0**

Explanatory notes

Segment reporting

For a breakdown of sales revenue with external customers, please refer to the Interim Group Management Report. Revenues did not accrue between the segments. There has been no major change in non-current assets since the most recent annual consolidated financial statements.

The segment results and reconciliation with the Group result before tax are as follows:

	2014 01/01-30/06 € m	2013 01/01-30/06 € m
EBIT Writing and Marking	8.2	4.7
EBIT Visual Communication	0.2	– 0.1
Segment result (EBIT)	**8.4**	**4.6**
EBIT edding AG	– 4.0	– 3.1
Consolidation	0.0	0.1
EBIT edding Group	**4.4**	**1.6**
Financial result and result from investments	0.0	2.3
Group result before tax	**4.4**	**3.9**

Accounting policies

The Interim Consolidated Financial Statements of the edding Group as at 30 June 2014 were prepared in accordance with IAS 34 „Interim financial reporting". In so doing, all accounting standards that are mandatorily applicable in the EU as of 1 January 2014 have been applied.

No material effects on the presentation of the edding Group's net assets, financial position and results of operations result from the first-time application of the IFRS accounting standards that are mandatory in the European Union – including IFRS 10, 11 and 12 as well as the adjusted IAS 27, 28 and 32.

In addition, the preparation of these Interim Consolidated Financial Statements was governed by the same principles for recognition and measurement as those used for the preparation of the Consolidated Financial Statements as at 31 December 2013. These principles are explained in detail in the notes to the edding AG's Group Annual Report 2013.

Income taxes have been determined using the average annual tax rate expected for the entire financial year.

Any major changes in the net assets, financial position and results of operations are outlined in the Interim Group Management Report.

These Interim Consolidated Financial Statements have neither been audited pursuant to § 317 HGB (German Commercial Code) nor been subject to a review by an auditor.

Adjustment of previous year's figures

Adjustment through reclassification of licence income

edding International GmbH generates income from the sale of compatible printer cartridges within the scope of an existing licence model. In the Consolidated Financial Statements as at 31 December 2013 these licence revenues were reported for the first time in the area of sales revenue under Other Office Products and no longer in other operating income. The change in reporting leads from the point of view of the company to a more accurate presentation of the net assets, financial position and results of operations, as the scale of the business has increased considerably over time.

For the comparative figures from the previous year in the Interim Consolidated Financial Statements as at 30 June 2014 this approach resulted in a reclassification not affecting net profit or loss of € 0.4 million from other operating income to sales revenue. The two items for the first half of 2013 are therefore as follows:

	2013 01/01-30/06 reported € m	2013 01/01-30/06 adjusted € m
Sales revenue	57.3	57.7
Other operating income	1.7	1.3

edding®

Fair value disclosures

The following table shows book values and fair values of the financial assets and liabilities reported in the Interim Consolidated Financial Statements in accordance with the measurement categories pursuant to IAS 39. The fair value of a financial instrument corresponds to the amount for which an asset is exchanged or a liability is settled between knowledgeable, willing and mutually independent parties.

	Fair value hierarchy level	30/06/2014		31/12/2013	
		Book value € m	Fair value € m	Book value € m	Fair value € m
Financial assets					
Loans and receivables		**27.1**	**27.1**	**28.1**	**28.1**
Trade receivables	1	19.8	19.8	18.1	18.1
Other receivables and assets (excl. derivatives)	1	1.6	1.6	2.1	2.1
Cash and cash equivalents	1	5.7	5.7	7.9	7.9
Assets measured at fair value		**0.1**	**0.1**	**0.1**	**0.1**
Derivatives with positive market value	2	0.1	0.1	0.1	0.1
Financial assets available for sale		**0.1**	**0.1**	**0.1**	**0.1**
Holdings	n.a.	0.1	0.1	0.1	0.1

	Fair value hierarchy level	30/06/2014		31/12/2013	
		Book value € m	Fair value € m	Book value € m	Fair value € m
Financial liabilities					
Other financial liabilities measured at cost		**20.9**	**21.5**	**19.9**	**20.5**
Liabilities to banks	1	7.7	8.1	6.6	7.0
Other financial liabilities	1	0.8	1.0	1.0	1.2
Trade payables	1	5.6	5.6	5.9	5.9
Other liabilities (excl. derivatives)	1	6.8	6.8	6.4	6.4
Liabilities measured at fair value through profit or loss		**0.6**	**0.6**	**1.0**	**1.0**
Derivatives with negative market value[1]	2	0.6	0.6	1.0	1.0

The measurement methods and input factors for the valuation of financial assets and liabilities have not changed in comparison with the Consolidated Financial Statements as at 31 December 2013. There have also been no transfers between the levels of the fair value hierarchy since then.

[1] As at 30 June 2014 derivatives with a negative market value included derivative financial instruments designated as cash flow hedges with a market value of € 0.3 million (31 December 2013: € 0.9 million).

Scope of consolidation

No changes were made to the scope of consolidation compared to the Consolidated Financial Statements as at 31 December 2013.

Dividends

The edding AG Annual General Meeting passed a resolution on 26 June 2014 to pay the following dividends from the 2013 unappropriated retained earnings to shareholders as follows:

€ 1.75 Dividend per preference share
with a notional par value of € 5.00

€ 1.71 Dividend per ordinary share
with a notional par value of € 5.00

Related party disclosures according to IAS 24

No significant business transactions were effected with the majority shareholder Volker Detlef Ledermann or his relatives in the first half of 2014.

Furthermore, companies in the edding Group have not carried out any significant reportable transactions with members of the Supervisory Board or the Management Board as individuals in key positions or with companies on whose management or supervisory board they are represented. This also applies to close family members of this group of people.

Contingent liabilities

As at the reporting date, there were contingent liabilities arising from granted guarantees of € 0.2 million (31/12/2013: € 0.2 million).

Post balance sheet date events

In July 2014 operations were restarted in a part of the building that was previously not used. For this reason, a write-up was recorded for this space up to the amount of the amortised acquisition cost. This write-up will lead to a one-off effect of € 0.7 million on other operating income for the second half of 2014. After tax this event will have a positive impact of € 0.4 million on the net result of the edding Group.

On 30 July 2014 the Argentine state was declared partially insolvent. On this subject, reference is made to the Opportunities and Risk Report.

No further significant recognisable events or non-recognisable, but disclosable events occurred after the balance sheet date.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the condensed Interim Consolidated Financial Statements offer a true and fair view of the net assets, financial position and results of operations of the Group, and the Interim Group Management Report includes a true and fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the fiscal year.

Ahrensburg, August 2014

edding Aktiengesellschaft

The Management Board

Per Ledermann Thorsten Streppelhoff Sönke Gooss

edding Aktiengesellschaft
Bookkoppel 7
22926 Ahrensburg, Germany
Tel. +49(0)41 02/808-0
Email: investor@edding.com
www.edding.com

Members of the Management Board:
Per Ledermann, Thorsten Streppelhoff, Sönke Gooss
Chairman of the Supervisory Board:
Rüdiger Kallenberg
Registered Office: Ahrensburg
Registration Court: Lübeck HRB 2675 AH