

Letter to the Shareholders

Dear Shareholder

Following a good beginning, the year 2007 developed increasingly more complex after the summer months. The prevailing positive mood in the market allowed increased sales in all divisions, and to attain a new sales record. Costs for energy and raw materials rising at an unexpectedly swift speed caused margins to cave in, especially in the Paper and Packaging divisions. Nonetheless, the CPH Group's operating result, as predicted in the Semiannual Report, is expected to be slightly above the previous year. The turbulences in the financial markets towards the end of the year, however, took a negative toll on the financial result and, correspondingly, on the net result.

New record for net sales

The CPH Group's consolidated net sales rose by 16.7% to CHF 592.5 million during last year. All divisions contributed. Perlen Packaging recorded the largest increase. Its sales practically doubled as a result of the take-over of ac-Folien GmbH completed at the beginning of the year.

Net sales	2007	2006	Change	
	CHF million	CHF million	CHF million	%
Chemicals division	202.6	184.4	18.2	9.9
Paper division	278.0	263.3	14.7	5.6
Packaging division	111.9	60.1	51.8	86.3
Consolidated net sales for CPH Group	592.5	507.8	84.7	16.7

Chemicals: Zeochem successfully on expansion course

The Chemicals division owes its increase in sales of 9.9% to CHF 202.6 million to Zeochem's molecular sieve business. Despite high energy and raw materials costs, margins could be maintained. Thus, the Chemicals division attained a good result once again.

Organo was not quite able to uphold last year's sales figures with CHF 71.2 million (-1.4%). The slight decline is owing to a random weak December (delivery schedules). The demand for active ingredients and fine chemicals remains good and production was running at capacity. Limited capacities prevented further growth. Construction of the new P3 facility to manufacture fine chemicals in Lahr will correct this. It will go online in spring of 2008. BioUETIKON, the Irish subsidiary active in biochemistry, is about to build an independent market position for itself. During the current year, first, larger orders are expected.

Zeochem experienced a jump in sales of 23.5% to CHF 92 million during last year. Especially the demand for molecular sieves to produce industrial gasses and for ethanol dehydration is growing rapidly worldwide. Accordingly, it was possible to establish some price increases in the market. Due to investments in expanding capacities in Uetikon and Louisville/USA, the demand could be met. The boom in higher-grade products also permitted a more or less complete withdrawal from low-margin products such as the insulation glass business. This also clearly helped boost Zeochem's result for last year.

The result of **Other Chemicals** is within the previous year's range. After the fertilizer trading business will have been sold to the fenaco Group on January 1, 2008 – as part of strategy and focusing on the core business – only commission orders for bulk buyers and deuterio products will remain in this segment. An independent market appearance will be omitted. Sales will decline strongly.

Paper: Rising costs lead to pressure on margins

The entire paper industry was wrestling huge problems throughout last year even though the demand for paper was, in part, clearly up in Switzerland as well as Europe. Use of magazineprint paper increased by 8.1% in Switzerland to 134'000 tonnes, in the rest of Europe by 4.2% to 7.2 million tonnes. Consumption of newsprint paper increased less: in Switzerland it was 284'000 tonnes (+4.4%), in the rest of Europe it stagnated at around 11 million tonnes. If supply clearly surpasses demand – as was the case last year, especially for magazineprint paper – price increases are only possible very selectively and not to the desired extent, despite a positive market environment. As price increases for energy and raw materials costs were in the double-digit range, margins came under massive pressure. Accordingly, the results of the large paper conglomerates were negative. Once again there is talk about another impending consolidation wave.

In such an environment Perlen Papier has been able to stand its ground well. Despite technical problems with the PM4 this summer, production volume was raised once more and is at 313'234 tonnes or 2.2% above last year. Sales volume also increased by 2% to 313'701 tonnes. Thanks to the increase in volume and slightly higher prices for newsprint paper, sales rose by 5.6% to CHF 278 million.

The Paper division's result is especially marked by the price development for raw materials and energy. Recovered paper and logs increased in price by 25% compared to the previous year. 13% more had to be paid for chips and wood pulp. Heating oil and electricity were also massively more expensive. This resulted in distinctly lower margins ending in an operating result lower than reported last year.

Packaging: Successful integration of ac-Folien GmbH

During the past year, Perlen Packaging was characterized by the integration of ac-Folien GmbH in Müllheim/GER, which was acquired at the outset of the year, and by setting up the US business by means of Perlen Converting L.L.C. in Whippany/USA. In order to meet the rising demand, Perlen expanded its lamination capacities. This required a production downtime of three weeks. This measure caused special expenditures that burden the result. However, they will have a positive effect on the current year.

The Packaging division was able to maintain its position in a difficult environment. The strategy to act in the market as a comprehensive supplier with a product pallet ranging from mono films to high-grade barrier films has been confirmed. In a slow growing market Perlen Packaging was able to increase its market share. Sales rose by 86.3% to CHF 111.9 million mainly due to the acquisition. On the other hand, significantly narrower margins had to be accepted. Reasons are the already mentioned special expenditures as well as the higher cost of raw materials, which can only be passed on to the market with a delay.

CPH Group: Good result in a difficult environment

As predicted in the Semiannual Report, the second half of 2007 was very difficult. Despite good sales, high costs did not permit a distinct improvement of the operating result **EBIT**. A result slightly above last year's is expected.

The financial result turned out worse than last year. Apart from an inadequate stock market, a low dollar exchange rate burdened the result. As less non-operating revenue was realized, the decline could not be compensated. The **net result** will, therefore, be below the previous year's figures.

Based on the expected result, the Board of Directors intends to propose to the Ordinary General Meeting a disbursement of an unchanged **dividend of CHF 40** per share. The decision on this proposal will only be taken after the final figures are available at the spring meeting.

Outlook 2008: Characterized by optimism

For the current year, we expect the markets to continue to present themselves in a positive light. A good demand for our products should enable further growth. The optimism is founded in a high level of orders on books at the beginning of the year in all divisions. There still is great uncertainty in reference to costs. We presume that they will continue to climb – not to last year's extent, however – keeping pressure up on margins. In the **Chemicals** division, all business sections are off to a good start. Facilities are well utilized and strong demand permitted price adjustments. Additionally, the new P3 for fine chemicals will go online in Lahr in spring. In summer, a new Purmol production facility in Uetikon will follow. Different from last year, the market situation in the **Paper** division made room for price increases for magazineprint paper. Contrarily, it will be difficult to hold last year's prices for newsprint paper. Pressure on margins will be countered by rigorous cost management. In the **Packaging** division, synergistic effects resulting from the integration of ac-Folien GmbH will have a positive effect on the result for the year in progress.

For the current business year 2008, we expect another **higher operating result** than for the previous year. Success will depend largely on how raw materials costs will continue to develop and on how the necessary price adjustments can be implemented. We are convinced of having introduced the necessary measures for a successful business year.

I thank management and all the CPH Group's employees for their splendid effort during the last year. They have contributed to a good result with great commitment.

You will receive detailed information about business year 2007 in March with the Annual Report and at the **Ordinary General Meeting on Thursday, April 17, 2008 in the KKL Lucerne**. The media conference will be held on March 25, 2008.

Perlen, January 2008

On behalf of the Board of Directors



Dr. Franz-Josef Albrecht
Chairman