CPH Chemie + Papier Holding AG

Semiannual report 2008

CPH GROUP

A considerably more Difficult Market Environment

The CPH Group looks back on a difficult first half of 2008. Following a good start in the first quarter, the market environment deteriorated distinctly, especially in the areas of paper and zeolites. However, despite the discontinuation of the fertilizer business, sales nearly reached last year's level with CHF 287.4 million (–1%). The continuously and strongly rising energy and raw materials costs resulted in a decline in the operating result (EBIT) by 19% to CHF 22.8 million. The downturn in the financial result was largely compensated with non-operational income finishing in a net result of CHF 20.7 million (–5%). The cash flow increased by 10% to CHF 52.1 million. The workforce rose from 977 to 989 employees.

KEY FIGURES FOR THE CPH GROUP

CHF 1,000	First half 2008	First half 2007	Change (in %)
Net sales	287,419	289,753	–1
Operating result (EBIT)	22,844	28,323	–19
in % of sales	7.9	9.8	
Earnings before taxes	14,889	29,397	–49
in % of sales	5.2	10.1	
Net result	20,706	21,785	–5
in % of sales	7.2	7.5	
Earnings per share	69,0	72,6	–5
Cash flow	52,093	47,515	10
in % of sales	18.1	16.4	
Workforce	989	977	1

Pursuant to the worldwide financial crisis, the market situation became more difficult in all areas. Nevertheless, the CPH Group was able to maintain sales at the previous year's level. Net sales for the CPH Group attained CHF 287.4 million. The decline of 1% is due to last year's selling of the fertilizer business. Compared to last year and based on the retained business areas only, a growth in sales of about 2.5% resulted.

The operating result experienced a marked decline to CHF 22.8 million (–19%). The Paper division was mainly responsible for this. Due to weakening demand, it was not possible to pass on the massively increased energy and raw materials cost to the market. Therefore, the EBIT margin dropped to 7.9% for the entire Group. For an industrial enterprise, this remains a good value but is below the targeted level of at least 10%. As a result of the turbulences on the financial markets, the financial result caved in and ended up being negative with CHF –8 million (2007: CHF +1 million).

This decline of CHF 9 million is largely due to developments in currency exchange rates and stock markets. The strong Swiss franc required valuation corrections of CHF –2.5 million (2007: CHF +0.5 million). The weak stock markets led to capital losses on equities of CHF 4.5 million. During the previous year, capital gains of about CHF 1.2 million were reported.

Fortunately, these negative developments could be absorbed for the most part by a net non-operational revenue of CHF 9.7 million. They came out of the sale of the fertilizer trading business to the fenaco Group and property sales in Perlen. With taxes being approximately CHF 1.6 million less than in the previous year, this yielded a net result of CHF 20.7 million (–5%).

Despite a slightly worse result, the cash flow increased due to higher depreciation by 10% to CHF 52.1 million. As more was depreciated and less invested in current and fixed assets and interest investments during the first half of the year, a moderately positive free cash flow of CHF 0.7 million (2007: CHF –37.1 million) resulted.

The consolidated balance sheet does not show any substantial structural changes. The increase in other current assets and in short-term liabilities is due to the Swiss GAAP ARR. They require that forward transactions be reported as financial claims or liabilities respectively. The capital-to-asset ratio continues to remain at a high level with 75%.

Outlook 2008 – An assessment of the expectations for the second semester is difficult. In principal, all facilities on all sites are well utilized. However, the pressure on margins continues. In isolated cases, it was possible to adjust prices for magazineprint papers slightly at midyear. To what extent, and in which areas, further price increases will be viable within the next few months is unsure. On account of these uncertainties, measures to improve the result were launched in all divisions. Provided the environment does not deteriorate drastically once more and currency exchange rates remain stable, we expect an operating result for 2008 within the scope of last year.

Perlen, August 2008

On behalf of the Board of Directors
Dr. Franz-Josef Albrecht, Chairman

CHEMICALS

Prominent Expansion in Capacity

CHF 1,000	First half 2008	First half 2007	Change (in %)
Net sales	**93,072**	**97,089**	**–4**
Fine Chemicals	41,460	37,588	10
Zeolite Chemicals	47,906	47,165	2
Other Chemicals	3,706	12,336	–70
Operating result (EBIT)	**10,790**	**11,071**	**–3**
in % of sales	11.6	11.4	
Workforce	**334**	**337**	**–1**

The figures for the Chemicals division are not directly comparable to the previous year's numbers. As of January 1, 2008, the interest in the fertilizer trading company Agroline was sold to the fenaco Group. That is the reason for Chemicals' sales declining by 4% to CHF 93.1 million. The areas of Fine Chemicals and Zeolites were able to increase their sales owing to sound demand and full utilization of capacities. Considering only the business remaining, this results in a growth in sales of about 5%. The operating result decreased slightly to CHF 10.8 million (–3%). However, the EBIT margin improved to 11.6%.

Fine Chemicals – During the first half of the year, Fine Chemicals was able to benefit from continuously good demand for chemical agents for the pharmaceuticals industry as well as for intermediary products for liquid crystals. Accordingly, capacities were fully utilized. Sales rose by 10% to CHF 41.5 million. Once more, significantly higher raw materials and energy costs proved to be a strain. Thanks to the favorable market situation, margins were maintained.

In the field of biotechnology, the first phase of setting up the infrastructure was completed and first projects have been acquired. However, developing the market will take some time.

The problems of capacity shortages at the Lahr plant could be resolved by bringing the new P3 facility on-line designed to produce chemical agents according to the highest GMP standards.

Zeolite Chemicals – The market environment for molecular sieves and gels presented itself less positively. While the demand for products used in ethanol dehydration remained on a high level in the US, increasing doubts about bio-fuels in Europe led to a clear drop in deliveries. The insecurity concerning further economic development also resulted in a weakening of demand for gels and high-margin, special products. However, zeolites used to generate oxygen for medical and industrial applications show good growth rates. Overall, sales increased by 2% to CHF 47.9 million compared to last year. While rising costs were absorbed by price increases enabled by the strong demand, production difficulties at Uetikon impact the margins. Measures to remedy the situation have been taken.

Capacity shortages are being met with investments on both sites. In Louisville, the remodeled and expanded Plant A has reached full capacity. In Uetikon, a new facility to produce molecular sieves for the polyurethane industry is to start up in September as well as a pilot plant for high-grade special zeolites.

Outlook 2008 – The Chemicals division anticipates little changes in the market situation for the second half of the year. The outlook for fine chemicals is especially positive. Thanks to a steady demand, a high level of orders and a corresponding good utilization of capacities, it should be possible to surpass last year's result. The situation for Zeolites is somewhat different. Because of a high order volume for the plant in the USA, a good result is expected for the North American Market. It will be more difficult to use the Uetikon facility to capacity. On the whole, a slightly higher result than last year is expected.

PAPER

Unbridled Increase in Costs

CHF 1,000	First half 2008	First half 2007	Change (in %)
Net sales	**136,429**	**135,199**	**1**
Newsprint paper	53,689	56,696	–5
Magazineprint paper	82,740	78,503	5
Operating result (EBIT)	**8,683**	**13,878**	**–37**
in % of sales	6.4	10.3	
Workforce	**379**	**381**	**–1**

During the first semester 2008, the paper markets worldwide were subject to strong turbulences. On the one hand, an economy cooling down led to stagnating or, in some cases sinking, demands. In such an environment, price increases were only possible in a very limited way. On the other hand, prices for raw materials increased – especially for waste paper – and massively for energy once more. Furthermore, the distinctly unfavorable euro exchange rates in comparison to last year also had a negative impact. As a consequence, the margins caved in.

Paper was unable to elude this development. Thanks to smooth running of the paper machines and, compared to last year, an increase of 2.5% in sales volume to 155,700 tonnes, sales increased slightly to CHF 136.4 million (+1%). However, due to the significantly higher costs, the operating result of CHF 8.7 million was very much below last year's figures (–37%). Thus, the EBIT margin was reduced to 6.4%. In the current situation, this is a good value, however, it does not correspond to expectations.

Newsprint papers – In principle, demand for newsprint paper was good. Increased spending for media advertisement, especially in print, resulted in higher consumption primarily in Switzerland. Deliveries of 71,300 tonnes by Perlen Paper were slightly less; sales were 5% below last year with CHF 53.7 million. This is due to seasonal shifts and will be offset during the second semester.

In order to correct the unsatisfactory revenue situation, the large conglomerates took approximately 1 million tonnes of capacity out of the market. This will not have any effect until next year as annual contracts for newsprint paper are signed with publishing houses, and short-term price adjustments are, therefore, not possible.

Magazineprint papers – The market situation for magazineprint papers presents a similar picture. In Switzerland, along with Europe, sales increased slightly. However, demand lessened during the second quarter, so that capacities were removed from this segment as well. As a consequence, it was possible to raise prices by 4% for the second quarter.

Perlen Paper was able to stand its ground in this environment. With 84,400 tonnes sold, volume is 8.8% above the previous year. This results in sales of CHF 82.7 million (+5%). It is nice to report that, owing to new customers, the market share in Switzerland was expanded from 22% to 33%.

Outlook 2008 – The Paper division anticipates fully utilized capacities for the second half of the year as well. However, the market circumstances will not improve. The profit situation remains unsatisfactory despite the price adjustments for magazineprint papers. To counteract the deterioration of margins, cost-saving programs were launched. Even so, during the next months it will not be possible to make up completely for the shortfall from the first semester. The result for 2008 will, therefore, be below last year's result.

PACKAGING

Market Position Solidified

CHF 1,000	First half 2008	First half 2007	Changes (in %)
Net sales	**57,918**	**57,465**	**1**
Pharmaceutical films	56,664	55,975	1
Siliconized films	1,254	1,490	–16
Operating result (EBIT)	**3,287**	**3,060**	**7**
in % of sales	5.7	5.3	
Workforce	**269**	**249**	**8**

Due to the acquisition of ac-Folien GmbH last year, the Packaging division was able to expand its market position considerably. As provider of an entire product pallet ranging from mono to high-barrier films, the division has become a capable partner in solving packaging problems for the pharmaceuticals industry. Merging of the two organizations is concluded, and the synergies should reach their full potential within the current year. The share of siliconized films in total sales has declined further and is only at about 2%.

Demand was good in all market segments during the first half of the year. Perlen Packaging was able to take advantage of this. Sales rose by 1% to CHF 57.9 million. The operating result improved disproportionately to CHF 3.3 million (+7%). The EBIT margin increased slightly to 5.7%.

An even better result was prevented by strongly increased prices for raw films and by higher transportation costs. Passing on the costs to the market was only partially possible. Furthermore, the weak dollar exchange rate had a negative impact as a substantial part of sales is transacted in this currency.

The subsidiary company in the US continued to expand its market position. Qualification as a supplier was attained for a first multinational company. However, it will require more time in order for the market developing effort to bear fruit.

To meet the needs of a continuously growing market in the future, investment projects have been implemented on all sites. In Müllheim, a third film-manufacturing calender is being installed. It will go on-line in mid 2009. In Perlen, finishing of films (slitting, packaging) will be fully automated. The project is to be completed shortly leading to a clear increase in capacity.

Outlook 2008 – In principle, the outlook for the second half of the year is good. Demand is stable at a high level, orders on books are good, and the facilities are running at capacity. However, there continues to be some insecurity as to the development of raw materials prices and the currency exchange rates. To improve the profit situation, further price adjustments were made half way through the year. Overall, the Packaging division anticipates surpassing last year's result.

CONSOLIDATED PROFIT AND LOSS STATEMENT

CHF 1,000	First half 2008	First half 2007
Gross sales	**305,540**	**308,451**
Returns and allowances	–18,121	–18,698
Net sales	**287,419**	**289,753**
Changes in inventory / other operating income	10,804	9,999
Total income	**298,223**	**299,752**
Operating expenses	–245,489	–242,852
EBITDA	**52,734**	**56,900**
Depreciation / Value adjustments	–29,890	–28,577
Operating result (EBIT)	**22,844**	**28,323**
Financial result	**–7,955**	**1,074**
Earnings before taxes and extraordinary items	**14,889**	**29,397**
Other expenses / income	9,672	–2,297
Earnings before taxes	**24,561**	**27,100**
Income tax and deferred taxes	–4,078	–5,678
Net earnings before deduction of minority interests	**20,483**	**21,422**
Minority interests	223	363
Net earnings after deduction of minority interests	**20,706**	**21,785**

CONSOLIDATED BALANCE SHEET

CHF 1,000	June 30, 2008	Dec. 31, 2007
Current assets	**428,156**	**397,832**
Fixed assets	**550,598**	**553,450**
TOTAL ASSETS	**978,754**	**951,282**
Short-term liabilities	123,118	102,367
Long-term liabilities	126,200	123,632
Shareholders' equity including minority interests	729,436	725,283
TOTAL LIABILITIES	**978,754**	**951,282**

CONSOLIDATED CASH FLOW STATEMENT

CHF 1,000	First half 2008	First half 2007
Net earnings	**20,706**	**21,785**
Depreciation, changes in provisions	31,387	25,730
Cash flow	**52,093**	**47,515**
Changes in net current assets	–13,446	–18,691
Cash flow from operating activities	**38,647**	**28,824**
Cash flow from investment activities	**–37,930**	**–65,965**
Free cash flow	**717**	**–37,141**
Dividends	–13,500	–12,000
Cash flow from financial activities	**–9,875**	**45,075**
Currency exchange rate adjustments	3,302	–670
Change in liquid funds	**–5,856**	**–4,736**

CONSOLIDATED SHAREHOLDERS' EQUITY

CHF 1,000	June 30, 2008	Dec. 31, 2007
Capital stock	**30,000**	**30,000**
Capital reserves incl. premium	**13,650**	**13,342**
Retained earnings	**685,716**	**681,671**
Minority interests	**70**	**270**
Shareholders, equity	**729,436**	**725,283**

Agenda

January 2009
Letter to the shareholders on 2008

March 31, 2009
Presentation of the annual result

April 23, 2009
Ordinary General Meeting in Lucerne

August 2009
Semiannual report for the first half of 2009

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On January 5, 2007, 100% of the shares of ac-Folien GmbH, Müllheim/GER, were acquired. In accordance with the Swiss GAAP ARR, the corresponding goodwill in the amount of CHF 25.7 million was charged directly to shareholders' equity. The goodwill's capitalization and depreciation over five years in the profit and loss statement would have led to a deterioration of the semiannual report by CHF 2.6 million.

The consolidated semiannual report was compiled according to Swiss GAAP ARR guidelines, especially GAAP ARR 12 (interim reporting).

The structure of the profit and loss statement was adjusted to the Annual Report 2007. For purposes of comparison, the previous year's figures were adjusted accordingly. As of January 1, 2008, the entire majority interest (70%) in Agroline AG, Basle, was sold to the fenaco Group, Berne.