CPH Chemie + Papier Holding AG

Semiannual report 2009

CPH GROUP

IN THE HARD GRIP OF THE ECONOMIC CRISIS

The worldwide economic crisis hit the CPH Group hard during the first half of 2009. All sections were affected, however, the Chemicals Division had to fight particularly adverse market conditions. Compared to the previous year, declining demand led to 13% lower Group sales of CHF 250.8 million. Measures taken immediately to reduce costs were only partially successful in absorbing the decrease in margins. EBIT dropped by 47% to CHF 12.2 million. The more stable stock markets led to a clearly better and positive financial result of CHF 2.4 million (2008: CHF –8.0 million). Due to the sale of a large industrial plot in Perlen, the net result improved by 48% to CHF 30.6 million. The cash flow is also higher with CHF 58.5 million (+12%). The workforce of 995 employees is slightly above last year; measures to adjust the capacities will only lead to a decline during the second half of the year.

KEY FIGURES FOR THE CPH GROUP

CHF 1,000	First half 2009	First half 2008	Change (in %)
Net sales	250,769	287,419	–13
Operating result (EBIT) in % of sales	12,155 4.8	22,844 7.9	–47
Earnings before taxes in % of sales	14,534 5.8	14,889 5.2	–2
Net earnings in % of sales	30,600 12.2	20,706 7.2	48
Earnings per share	102,0	69.0	48
Cash flow in % of sales	58,465 23.3	52,093 18.1	12
Workforce	995	989	1

The worldwide economic crisis led to declines in sales in all divisions, in some cases massively. Net sales dropped by 13% to CHF 250.8 million. Taking the shifts in currency exchange rates into consideration, sales would be about CHF 8 million higher.

Despite immediately implemented measures to adjust capacities, the margins collapsed. The operating result (EBIT) dropped by 47% to CHF 12.2 million. The EBIT margin sank to 4.8%. Adjusting for currencies, however, the decline is only 21% to CHF 17.9 million with a margin of 7.1%. The Chemistry Division is primarily responsible for this. Only the Paper Division is able to post a better result than the previous year in spite of a very difficult market environment. Paper was able to benefit from significantly declining costs for raw materials and heavy oil.

The calming down of the stock markets caused a positive financial result of CHF 2.4 million. Compared to last year, this is an improvement by CHF 10.4 million. With CHF 14.5 million, earnings before taxes, therefore, nearly attained last year's levels. Non-operating revenue due to property sales yielded CHF 22.2 million. Despite higher taxes, the net result rose by 48% to CHF 30.6 million.

The cash flow was also higher than the year before; it rose by 12% to CHF 58.5 million. The deliberate focusing on optimizing liquidity because of the economic crisis, led to a marked decline in net current assets by CHF 85.6 million. Thus, the CPH Group reports a positive free cash flow of CHF 42.3 million (2008: CHF 0.7 million) even with clearly higher investments of CHF 101.8 million.

In the consolidated balance sheet, assets have evidently increased after construction of the PM 7 was begun. Owing to reduced net current assets, the balance sheet sum increased only insignificantly. Shareholders' equity improved once again and reached a prominent 79% (2008: 74%).

Outlook 2009 – Given the present market conditions, it is not possible to appraise the future reliably. In all divisions the summer months are turning out to be more than difficult not only because of the crisis, but also due to seasonal fluctuations. Whether the slight stabilization at a low level noticeable in some segments will be confirmed during the second semester remains to be seen. It is certain, however, that the pressure on margins will continue. The capacity adjustments to be effected in the next few months and measures to reduce costs will have an alleviating effect. A definitive prognosis concerning sales and profit for 2009 cannot be made at this time. Management and all CPH Group employees will do their utmost to attain the best possible result.

Perlen, August 2009

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

CHEMISTRY

MASSIVE DECLINE IN DEMAND

CHF 1,000	First half 2009	First half 2008	Change (in %)
Net sales	**67,415**	**93,072**	**–28**
Fine Chemistry	28,184	41,460	–32
Silicate Chemistry	35,684	47,906	–26
Other Chemistry	3,547	3,706	–4
Operating result (EBIT)	**–2,160**	**10,790**	
in % of sales	–3.2	11.6	
Workforce	**327**	**337**	**–3**

During the first half of the year, the Chemistry Division was especially hard hit by the worldwide recession. Demand simply collapsed in many important market segments for Fine Chemistry as well as Silicate Chemistry. Compared to the previous year, orders on book at the beginning of the year have been cut in half in both segments. Accordingly, sales decreased by 28% during the first half to CHF 67.4 million. Measures to reduce costs were implemented immediately in order to counteract the declining margins. Even though, it was not possible to prevent the Chemistry Division from reporting a negative operating result of CHF –2.2 million (2008: CHF 10.8 million) for the first time. For this reason, further programs to improve the margins were launched with the aim of returning to the profit zone as soon as possible.

Fine Chemistry – Compared to last year, sales for Fine Chemistry decreased during the first half by 32% to CHF 28.2 million. Though sales declined for all product groups, the massive deterioration is mainly due to the collapse in demand for liquid crystals for flat-screen TVs. In February, the biggest customer cancelled the half-year contract he had placed as usual in November 2008. This led to capacity utilization problems in Lahr. The same goes for the P3 production facility expanded last year. During the first half of the year, the crisis did not allow full use of capacities. Consequently, a major part of the workforce was put on up to 25% reduced working hours.

The biotechnology segment is also suffering from the crisis. As financing for start-up companies has become scarcer, various prospective projects for BioUETIKON in Dublin were cancelled or put on hold. Therefore, sales fell far short of expectations.

Silicate Chemistry – Silicate Chemistry was hit hardest by the crisis. Zeochem's most important molecular sieves markets are for producing or generating natural gas, ethanol and industrial gasses (mainly oxygen for the steel and glass industries). In these segments, sales literally collapsed such as in the USA with –60% for ethanol, –50% for industrial gasses and –40% for natural gas. Additionally, already placed orders over several millions of dollars were cancelled. Concerning the markets in Europe, the same situation presents itself to Zeochem AG in Uetikon. The declining demand is not only to blame for this development, but also the fact that no new facilities could be built due to unavailable financing.

As a countermeasure, Zeochem intensified its marketing efforts to defend its own position in an aggravated competitive battle. It was possible to maintain—or even expand—the market share in all declining segments. With sales of CHF 35.7 million, the decrease could be limited to 26%. Zeochem was dealing with massive utilization problems at both the Uetikon and Louisville sites.

In a first step, a working hour reduction of 50% was implemented. In a second step, it became inevitable to reduce the workforce by about 22% in Louisville and Uetikon.

The only bright spot on the horizon during the first half were molecular sieves for medical oxygen generation. It was possible to expand the customer base and increase sales. Zeochem's worldwide market share is now over 70%.

Outlook 2009 – It is extremely difficult to make any kind of forecast for the current year. In Fine Chemistry, the demand for chemical agents required by the pharmaceutical industry appears to remain stable. However, it does not look like a recovery for liquid crystals, meaning that no orders can be expected for the second half. The market situation remains taut for Silicate Chemistry also. Accordingly, short working hours have been continued in the seasonally weak summer months at both plants. Positive signals are only received from the Asian markets. To increase presence in the region, Zeochem Pte. Ltd. was registered as a subsidiary in Singapore on August 1. Ultimately, it will not be possible to compensate for the lag suffered during the first half of the year. Sales figures will, therefore, be massively lower than last year's. It also will not be possible to attain a balanced result.

PAPER

IMPROVED MARGINS DUE TO LOWER COSTS

CHF 1,000	First half 2009	First half 2008	Change (in %)
Net sales	**133,195**	**136,429**	**–2**
Newsprint paper	53,639	53,689	0
Magazineprint paper	79,556	82,740	–4
Operating result (EBIT)	**12,901**	**8,683**	**49**
in % of sales	9.7	6.4	
Workforce	**387**	**379**	**2**

The paper markets collapsed massively during the first half of the year. The crisis led to clearly lower demand for nearly all types of paper. Desperately needed price increases at the beginning of the year were, therefore, only possible on a limited basis for newsprint paper. Then again, prices for the raw materials waste paper and wood dropped because of less usage. This made room for margin improvements.

Perlen Papier was able to preserve its position very well in this environment. Once again, production reached a high level, however, with 154,000 tonnes, it was slightly below last year's level (–3.6%) owing to marketing difficulties and technical problems with PM 4. Despite sinking prices for magazineprint paper and a lower euro exchange rate, sales could be maintained at approximately last year's level with CHF 133.2 million (–2%). Due to lower costs, a much better operating result (EBIT) of CHF 12.9 million (+49%) can be reported. The EBIT margin climbed back to 9.7% and is close to the target value of 10%.

Newsprint paper – Based on markedly less advertising and less want ads, consumption of newsprint paper in Europe sank by 16.7% and by 17.4% in Switzerland during the first half of the year. Even though, Perlen Papier was able to place 75,772 tonnes of newsprint paper in the market and, thus, gained in market share especially in Switzerland. Sales achieved last year's level with CHF 53.6 million.

Despite sinking raw materials prices, the earnings situation within the industry was not satisfactory. As a consequence, further capacities were shut down. Because of its optimal size and a good position in the market, Perlen Papier was able to escape this development.

Magazineprint paper – The situation presents itself differently for PM 4's magazineprint papers. In this segment consumption decreased more clearly on the European market (–27.1%). Not only was less invested in advertising, but the printers also downgraded to less expensive types of paper in order to offset pressure on margins.

Reduced demand resulted in lower sales prices even though the large conglomerates took production capacities off line in this segment also.

This affected Perlen Papier as well. Sales quantity shrank by 11.1% to 75,038 tonnes and manufactured volume also decreased by 9.5% to 77,960 tonnes. Consequently, sales are slightly below last year's figures with CHF 79.6 million (–4%). However, it was possible to increase market share in this segment too.

Outlook 2009 – Perlen Papier does not anticipate an improvement of the market situation for the second half of the year. Pressure on prices will continue relentlessly for magazineprint papers. This increasingly holds true for newsprint papers as well despite the annual contracts. Thanks to lower raw materials costs, margins should be able to be kept at present levels. Provided the euro exchange rate remains stable, the result for 2009 may well be above the previous year.

PACKAGING

MARKET POSITION SUSTAINED IN UNEASY ENVIRONMENT

CHF 1,000	First half 2009	First half 2008	Change (in %)
Net sales	**50,159**	**57,918**	**–13**
Pharmaceutical films	49,391	56,664	–13
Siliconized films	768	1,254	–39
Operating result (EBIT)	**1,641**	**3,287**	**–50**
in % of sales	3.3	5.7	
Workforce	**272**	**269**	**1**

Perlen Packaging was also confronted with plainly more difficult market conditions, even though nearly 100% of all sold films today go to the pharmaceutical industry, which was less affected by the crisis. The reason may be that due to the uncertainty about future developments, stockpiles were reduced on all levels. The decrease in Asia and South America was particularly drastic. Sales dropped by 13% to CHF 50.2 million. As a result of the aggravated competitive situation, dropping raw materials costs had to be passed on to the market in form of lower prices. Therefore, pressure on margins continued.

In comparison to the previous year, the operating result was cut in half to CHF 1.6 million. The EBIT margin dropped to 3.3%.

As utilization of production capacities for film lamination could not be guaranteed, short working hours had to be implemented at the Perlen plant for two weeks. The new facilities that went on line in Perlen (automated finishing line) and in Müllheim (third calender) during the first half year could not yet be fully utilized. However, they guarantee that Perlen Packaging will be ready to benefit from recovering markets and to further expand its market position.

Market conditions for the USA subsidiaries also worsened. However, the companies were able to increase their placed volume and sales markedly. Nevertheless, the share in total sales coming from North and Central America is still too low. For a major improvement, it is paramount to acquire not only small and medium-sized companies, but also multinational conglomerates as customers.

Outlook 2009 – It is difficult to assess the outlook for the second half of the year, however, it is guardedly optimistic. Orders on book have recovered slightly and utilization of production capacities has improved. Pressure on margins, however, continues as raw materials prices are beginning to harden. Whether the market will permit to pass on the higher costs to the prices is difficult to say. Yet, even with slightly lower sales, it should be possible to sustain the previous year's result.

CONSOLIDATED PROFIT AND LOSS STATEMENT

CHF 1,000	First half 2009	First half 2008
Gross sales	**263,616**	**305,540**
Returns and allowances	–12,847	–18,121
Net sales	**250,769**	**287,419**
Changes in inventory/other operating income	–727	10,804
Total income	**250,042**	**298,223**
Operating expenses	–207,802	–245,489
EBITDA	**42,240**	**52,734**
Depreciation/Value adjustments	–30,085	–29,890
Operating result (EBIT)	**12,155**	**22,844**
Financial result	**2,379**	**–7,955**
Earnings before taxes and extraordinary items	**14,534**	**14,889**
Other expenses/income	22,167	9,672
Earnings before taxes	**36,701**	**24,561**
Income tax and deferred taxes	–6,101	–4,078
Net earnings before deduction of minority interests	**30,600**	**20,483**
Minority interests	0	223
Net earnings after deduction of minority interests	**30,600**	**20,706**

CONSOLIDATED BALANCE SHEET

CHF 1,000	June 30, 2009	Dec. 31, 2008
Current assets	**337,494**	**394,033**
Fixed assets	**617,458**	**540,763**
Total assets	**954,952**	**934,796**
Short-term liabilities	67,863	73,738
Long-term liabilities	130,326	128,301
Shareholders' equity including minority interests	756,763	732,757
Total liabilities	**954,952**	**934,796**

CONSOLIDATED CASH FLOW STATEMENT

CHF 1,000	First half 2009	First half 2008
Net earnings	**30,600**	**20,706**
Depreciation, changes in provisions	27,865	31,387
Cash flow	**58,465**	**52,093**
Changes in net current assets	85,571	–13,446
Cash flow from operating activities	**144,036**	**38,647**
Cash flow from investment activities	**–101,706**	**–37,930**
Free cash flow	**42,330**	**717**
Dividends	–10,500	–13,500
Cash flow from financial activities	**–9,116**	**–9,875**
Currency exchange rate adjustments	59	3,302
Change in liquid funds	**33,273**	**–5,856**

CONSOLIDATED SHAREHOLDERS' EQUITY

CHF 1,000	June 30, 2009	Dec. 31, 2008
Capital stock	**30,000**	**30,000**
Capital reserves incl. premium	**14,571**	**13,342**
Retained earnings	**712,192**	**689,415**
Minority interests	**0**	**0**
Shareholders' equity	**756,763**	**732,757**

Agenda

January 2010
Letter to the shareholders on 2009

March 23, 2010
Presentation of the annual result

April 15, 2010
Ordinary General Meeting in Lucerne

August 2010
Semiannual report for the first half of 2010

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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).