

Letter to the Shareholders

Dear Shareholders

The global economic crisis hit the CPH Group with full force in 2009. Based on collapsed demand, all divisions reported reduced sales figures, some massively lower. The Paper Division was best at keeping the decline in sales at bay. Throughout the year, increasingly deteriorating prices put additional pressure on margins. The situation was aggravated by a strong rise in energy prices and a sinking euro exchange rate at the end of the year. Despite immediately implemented cost saving measures – especially personnel cutbacks and reduced working hours – the operating result was far below the previous year. Owing to a better financial result and non-operating revenue from property sales, the decline in net profit for the year was not as intense.

Decided decline in sales

Last year, the CPH Group generated consolidated net sales of CHF 482.3 million. Compared to the previous year, that corresponds to a decline of 15.4 %. All divisions reported declining sales. The Chemistry Division was hit hardest with a 29 % reduction in sales.

Net Sales	2009	2008	Change	
	MCHF	MCHF	MCHF	%
Chemistry Division	123.4	173.2	-49.8	-28.7
Paper Division	260.9	284.6	-23.7	-8.3
Packaging Division	97.9	112.5	-14.6	-12.9
Consolidated net sales for the CPH Group	482.3	570.3	-88.0	-15.4

Chemistry: Collapsed demand in important segments

Following the boom of the last few years, the Chemistry Division experienced a strong collapse in sales. In some segments, incoming orders practically shrank to zero during the first half-year. As a consequence sales declined by 28.7 % to CHF 123.4 million. Even immediately implemented cost saving measures could not prevent a negative operating result.

Despite tightening competition, **Fine Chemistry** was able to improve sales slightly in the pharmaceutical segment. However, demand for products in the electronics and technical market segments largely collapsed. This especially concerned the liquid crystal market crucial to Lahr. Fine Chemistry's sales declined by 26.8 % to CHF 51.4 million. As facilities were no longer fully utilized, a reduction in working hours was ordered. The marked decrease in volume at continued high raw material and energy costs resulted in a clear reduction in margins for the first time.

Silicate Chemistry was confronted with an even more demanding environment. Demand for all products decreased distinctly. Market volume in the important segments of ethanol, oxygen generation and automotive catalytic converters collapsed by more than half. Due to the resulting overcapacities, prices came under great pressure. Accordingly, Zeochem also suffered a massive decline in sales of 31.7 % to CHF 65.2 million despite improving its market share. Based on insufficient utilization of production capacities a part of the facilities in Uetikon and Louisville were shut down until further notice. This led to a reduction in personnel of about 25 % on each site. As raw material prices only began to decrease after a long delay, Silicate Chemistry slipped into the red figures despite these measures.

Paper: Strong downward trend in the paper cycle

The paper markets reacted very violently to the economic downturn. Demand for newsprint paper decreased to a previously unseen degree. In the year under review, deliveries in Western Europe diminished by about 14 % on average compared to the previous year. The drops ranged from -6 % in Germany to -25 % in Ireland. With a minus of 16 %, Switzerland is somewhere in the middle. In Western Europe, an even stronger decline of approximately 20 % in demand was experienced for coated magazine paper. In Switzerland consumption suffered an above average drop by 23 %. It's not surprising that prices for both kinds of paper began to slip. Because yearly contracts are not common for magazine papers, they were affected very quickly and significantly. While the raw material prices did sink, energy costs leaped upward, and the margins came under strong pressure.

In this environment, Perlen Papier also had to accept a slight decline in volume sold. Total volume sank by 5.5 % to 307,862 tonnes. While there was a slight plus of 2.4 % for newsprint paper, sales for magazine paper lessened prominently by 12.4 %. Consequently, total sales fell by 8.3 % to CHF 260.9 million. Because the decline in sales was less for Perlen Papier than for the entire market, more market share was gained from competitors. The operating result is slightly below the previous year's figures.

Construction of the new PM 7 for newsprint papers was started in March. By the end of 2009, the buildings were completed. As early as January, the installation of the machine will get under way in order for production to begin on time on September 1, 2010.

Packaging: Pressure on margins continues

In the Packaging Division, demand also declined. Sales dropped by 12.9 % to CHF 97.9 million. Because of underused capacities at the Perlen plant, reduced working hours had to be introduced. Increased competition led to sinking prices. As raw material prices increased strongly, especially during the second half-year, the margins could not be sustained. The operating result is only barely balanced for this reason.

The third calender went online successfully at the Müllheim plant. Perlen Packaging now has a very efficient production facility at its disposal to manufacture high-grade mono films and is, therefore, no longer dependent on third party suppliers.

CPH Group: Unsatisfactory operating result

The economic crisis has left serious marks on the CPH Group's results. The operating result **EBIT** is clearly worse than in the previous year. The measures to save costs were not able to compensate for the effects of lacking volume and lower market prices during times of high raw material prices and rising energy costs.

Because the financial result was better than in comparison with the previous year and higher non-operating revenue resulted from property sales, the decline in **net sales** was less drastic.

On a positive note, the **cash flow** attained a good level once again. This is extremely important. During the current, difficult times the focus has to remain on cash flow management in order to ensure liquidity at any time and not to jeopardize the company's long-term development. For this purpose planned investments – apart from the construction of PM 7 decided on last year already – were reduced to the absolutely necessary, and current assets were continuously optimized.

Outlook 2010: No reversal of trend in sight

Unfortunately the outlook for the current business year is not promising. The **Chemistry and Packaging** Divisions are stagnating at a high level. The amount of incoming orders remains volatile and there is no trend recognizable yet. To venture a reliable prognosis is, therefore, not possible. The situation for the **Paper** Division has drastically intensified. Based on weak utilization of production capacities worldwide, prices for newsprint paper dropped massively once again at the beginning of 2010. The price decline for magazine papers has not been stopped yet due to weak demand. As the power suppliers simultaneously increased their prices by percentages in the double-digit range, margins have come under heavy pressure. In the meantime, energy has become the greatest expense in the Paper Division; it is ahead of personnel costs even. Due to the current price policy by energy conglomerates, Switzerland is about to lose a critical location advantage to foreign countries.

Despite the very difficult environment as a result of the economy, we are convinced that strategically all divisions are perfectly placed in the market. They have high-quality, innovative, and thus, competitive products. With the PM 7, the Paper Division will start up an exceptionally efficient newsprint paper production facility this year. We are certain that the investment decision was right despite the currently prevalent conditions on the markets and the unpleasant, short-term outlook. When the next economic upturn comes, we are ready to benefit.

You will receive detailed information about business year 2009 by the end of March in the Annual Report and at the **Ordinary General Meeting on Thursday, April 15, 2010 in the KKL Lucerne**. The media conference will be held on Tuesday, March 23, 2010.

I am grateful for your trust, and thank you for your continued support even during such trying times as these.

Perlen, January 2010

On behalf of the Board of Directors



Dr. Franz-Josef Albrecht
Chairman