

Media release

The 2010 business year

A negative EBIT result, but still-positive operating cash flow

The CPH Group saw its net sales decline 13.3% in 2010 to CHF 417.4 million. A strong Swiss franc, higher raw materials costs and lower prices in the paper segment combined to depress earnings before interest and taxes (EBIT) for the year to CHF -30.7 million and the net result to CHF -20.0 million. The EBITDA margin remained positive at 6.9%. The Board of Directors will recommend to shareholders that no dividend be paid for 2010.

Perlen, 25 March 2011 – The CPH Group struggled with the repercussions of the global economic crisis in 2010. Despite higher production volumes, the CHF 417.4 million net sales for the year were 13.3% down on 2009. The decline is attributable primarily to the strength of the Swiss franc and to lower prices within the paper segment.

The CPH Group was also faced with steep increases in the cost of raw materials and energy, which could only be partially offset through the substantial economies effected in other expenditure items. As in 2009, all the Group's divisions were subjected to radical cost-reduction and productivity-enhancement programmes. All in all, fixed costs were reduced by a further CHF 14.6 million or more than 7% from their prior-year levels.

As a result of these endeavours, Group EBITDA for the year remained positive at CHF 28.9 million (2009: CHF 70.5 million). The EBITDA margin declined from the 14.6% of 2009 to 6.9%.

Strong franc depresses results

After depreciation and amortisation of CHF 59.5 million, the Group posted a less-than-satisfactory EBIT of CHF -30.7 million for the year (2009: CHF 8.5 million). The EBIT margin slipped accordingly, from 1.8% to -7.3%. Almost two-thirds of the EBIT decline are attributable to currency movements. The CPH Group incurs most of its costs in Swiss francs, while the majority of its sales are generated outside Switzerland, primarily in the euro zone and secondarily in US dollars. Exchange-rate movements thus have a major impact on the Group's operating results. All in all, the strength of the Swiss franc eroded CHF 24.7 million from Group EBIT for the year.

The 2010 Group financial result was also negative, partly because income was no longer earned on the securities sold to finance the new PM 7 paper machine, and partly because the year-end exchange rates for the euro and the US dollar against the Swiss franc were substantially lower than they had been at the end of 2009. The year also saw income from the sale of properties not required for business operations halved to CHF 17.1 million. Thanks to income from non-operating sources and lower deferred taxes, however, the net result declined by less than the EBIT for the year, and stood at CHF -20.0 million (2009: CHF 29.5 million).

No dividend payment

In view of the earnings declines sustained for 2010, the Board of Directors of CPH Chemie + Papier Holding AG will recommend to the Ordinary General Meeting of 14 April 2011 that no dividend be distributed for the 2010 financial year.

Substantial investments in the PM 7

The new PM 7 paper machine is the most important investment ever effected in CPH's corporate history. After one-and-a-half years of installation, the new facility entered operation in autumn 2010. Net investments in tangible assets for the year, which were almost exclusively in the PM 7, amounted to CHF 196.0 million. The euro's current weakness worked in CPH's favour here, as the majority of the spending on the PM 7 is in this currency. The combination of a low euro exchange rate and the anticyclical nature of this major investment has reduced total spending on the PM 7 by a triple-digit million-franc amount. This will have a positive impact on the depreciation required – and thus on bottom-line results – in the years ahead.

Just under 40% of the financing for the PM 7 has been effected via bank loans. The balance sheet equity ratio declined from 76% to 64% in 2010 in view of the higher debt levels. But even after drawing on the final loan tranche in 2011, the equity ratio will still stand at around 60%, a testament to the Group's proven investment policy.

The Group workforce further declined in 2010, from 968 to 941 employees. While personnel numbers had to be reduced once again in the Chemistry Division, the installation of the PM 7 prompted new recruitments within the Paper Division. The Packaging Division kept its personnel numbers at prior-year levels, but still managed to increase its production volume by around 14%.

Chemistry: operating progress despite a fall in sales

The slow economic recovery is yet to have any positive impact on the Group's Chemistry Division, whose sales declined 20.9% to CHF 97.2 million.

Within the fine chemistry segment, the slump was felt particularly strongly in the customer synthesis sector: sales of the unit's own fine chemicals were broadly maintained at prior-year levels. Sales beyond the pharmaceuticals industry, and especially in the electronics field, again remained below the high levels seen before the financial crisis. Sales to the pharmaceuticals industry also fell short of their prior-year equivalents, as several customers unexpectedly cancelled projects previously incorporated into CPH's business planning, or deferred these to 2011.

Sales also suffered further sizeable declines in the silicate chemistry segment. Overcapacities kept prices low in the desulphurisation and dehydration of natural and cracked gas process business. Customers, in response, put corresponding pressure on manufacturers to seek more cost-effective alternatives, and also deferred their investments in new facilities. With existing equipment far from fully utilised, the need to exchange molecular sieves suffered an associated decline. In view of these developments, the Group's silicate chemistry operations were compelled to further resize their workforce in autumn in response to the lower demand levels.

Thanks to its comprehensive ongoing measures to lower costs and enhance efficiency, and despite the substantial decline in its net sales for the year, the Chemistry Division improved its annual EBIT result from the CHF -6.6 million of 2009 to CHF -3.2 million.

Paper: record volumes, but lower prices and higher procurement costs

Not least through the service entry of its new PM 7 newsprint machine, the Group's Paper Division produced over 331,000 tonnes of paper in 2010, a new operating record. While demand recovered slowly in some markets, overcapacities remained, with corresponding pricing pressures: 2010 European newsprint contract prices were some 20% below their prior-year levels. The division's sales declined accordingly: the CHF 218.5 million net sales achieved were 16.3% down on the previous year.

The high prices of recovered paper, pulp and energy further depressed earnings results, and could not be fully offset by the actions taken to raise efficiency. Given the high proportion of the division's exports that go to EU markets and its relatively low volumes of euro-denominated procurement costs, the historically low euro rates seen also had a highly adverse impact on divisional EBIT for the year, which declined from CHF 13.7 million to CHF -29.3 million.

Packaging: operating result improved

The Group's Packaging Division felt the benefit of growing demand from the pharmaceuticals industry in 2010. The CHF 101.7 million net sales for the year were a 3.9% improvement on 2009, and were achieved on a 14% increase in production volumes.

The recovery on the revenue side was partly thwarted by the turbulence on the currency and raw materials markets. In response to the economic crisis, the polymer manufacturers had temporarily mothballed some of their facilities. The sudden steep recovery in demand led to shortages in the supplies of some intermediate products and standard plastics and to higher raw materials prices, with a correspondingly negative impact on margin levels. Results for Packaging were also adversely affected by unfavourable currency movements. Despite these developments, however, the division raised its EBIT (which had been slightly above breakeven for 2009) to CHF 0.9 million.

Outlook somewhat brighter

The actions taken in the Chemistry and Packaging divisions to raise earnings and productivity form a sound foundation for these operations in what is still a challenging market and currency environment. While the Group's silicate chemistry operations remain confronted with stagnating markets, its fine chemistry business is seeing a recovery in order volumes. The Packaging Division, too, expects to further raise its sales and profitability in 2011.

In the Paper Division, the prices of magazine paper have recovered somewhat, while 2011's annual newsprint contracts with European customers could be concluded at higher rates. In view of the euro's current weakness, however, newsprint prices in Switzerland remain at the levels seen in 2010. The market overcapacity persists, and with it the pressure for market consolidation. The costs of raw materials and energy remain high, though; and the euro exchange rate, too, shows no sign of offering any relief in the shorter term. As a result, and despite the greater production efficiencies provided by the new PM 7, the Paper Division is unlikely to return to profitable operation in 2011.

Board member Dr. Urs Widmer stepping down

Dr. Urs Widmer will step down from the Board of Directors of CPH Chemie + Papier Holding AG on the date of the 2011 Ordinary General Meeting. Dr. Widmer has been contributing his extensive expertise in the paper sector to the CPH Group since 1986, and has been instrumental in the strategic development of the Group's Paper Division. Since the division's strategic course has now been set for several years ahead, the Board of Directors has opted not to nominate a successor. The remaining Board members will all be standing for re-election by the 2011 Ordinary General Meeting for a further term of office.

Further information:

Media conference on 2010 annual results

Today Friday, 25 March 2011, 10:00, Perlen

For additional information please contact:

Peter Schaub, Chairman of the Board of CPH Chemie + Papier Holding AG,
phone +41 41 455 8760

Dr. Peter Schildknecht, CEO of CPH Chemie + Papier Holding AG,
phone +41 41 455 8757

Dr. Max Michel, CFO of CPH Chemie + Papier Holding AG,
phone +41 41 455 8752

Key figures

in CHF million	2010	2009	Change
The CPH Group			
Net sales	417.4	481.7	-13.3%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	28.9	70.5	
in % of sales	6.9%	14.6%	
Earnings before interest and taxes (EBIT)	-30.7	8.5	
in % of sales	-7.3%	1.8%	
Financial result	-9.4	1.9	
Earnings before taxes and extraordinary items	-40.0	10.4	
Net result for the year	-20.0	29.5	
in % of sales	-4.8%	6.1%	
in % of equity	-2.8%	3.9%	
in % of total capital	-1.8%	3.0%	
Cash flow	22.0	86.5	-74.5%
excluding real-estate sales	8.7	60.0	-85.5%
Net investments in tangible assets	196.0	265.2	-26.1%
Free cash flow	-116.7	-56.5	
Balance sheet total	1,106.5	994.6	+11.2%
Fixed assets	883.9	743.3	+18.9%
in % of balance sheet total	80%	75%	
Equity	710.2	751.5	-5.5%
in % of balance sheet total	64%	76%	
Net financial balance	-164.7	-26.4	
Number of employees at year-end	941	968	-2.2%

By division

Chemistry

Net sales	97.2	122.9	-20.9%
Earnings before interest and taxes (EBIT)	-3.2	-6.6	

Paper

Net sales	218.5	260.9	-16.3%
Earnings before interest and taxes (EBIT)	-29.3	13.7	

Packaging

Net sales	101.7	97.9	+3.9%
Earnings before interest and taxes (EBIT)	0.9	0.0	

CPH Chemie + Papier Holding AG

Net result for the year	34.9	57.0	-38.8%
Equity	640.4	614.6	+4.2%

Per share statistics

Consolidated equity in CHF	2,366	2,506	
Consolidated net result in CHF	-67	97	
Consolidated cash flow in CHF	20	200	
Dividend in CHF	0*	30	

* Board's recommendation to the 2011 Ordinary General Meeting