CPH achieves growth in all divisions and encouraging international expansion

Peter Schaub (left) and Peter Schildknecht

Dear shareholder, dear reader,

CPH Group consistently further pursues its adopted strategy

The CPH Group marked several further milestones in 2017 in implementing its current strategy. The Group's internationalization was further pursued; the Chemistry and Packaging Divisions were both expanded; and a reduction was achieved in the Group's Swiss-franc cost base. You will find full details of our overall corporate strategy on Pages 12 and 13.

Chemistry implements strategic realignment

The Chemistry Division effected its strategic realignment as planned following the sale of its Uetikon site. The first half of the year saw the conclusion of the transfer of standard molecular sieve production to the division's Chinese facility. Work also began in spring on construction of the new manufacturing plant in Zvornik in Bosnia-Herzegovina. And after the relocation of the previous Uetikon installations and equipment, the new Zvornik facility commenced operations at the end of 2017. Of the activities previously subsumed under the CU Deutero + Agro AG banner, fertilizer production was discontinued in mid-June while the manufacture of deuterated products was integrated into Zeochem's operations. In organizational terms, both CU Deutero + Agro AG and Chemie Uetikon AG were merged into Zeochem AG. From 2018 onwards the deuterated products will be manufactured at the new Swiss Rüti site, which is also home to the Chemistry Division's management and service functions.

To expand its activities in the deuterated products segment, Zeochem will acquire the assets of Armar AG, a long-standing business partner, on 1 March 2018. The acquisition will double the division's deuterated products business in sales terms. Parallel to transferring its production to other operating locations, the Chemistry Division prepared its Uetikon site for its planned handover to Canton Zurich in spring 2018.

Packaging continues its internationalization drive

The Packaging Division also further internationalized its business and operations in 2017. The transfer of work orders for Asian customers from Switzerland to the new coatings plant in China is under way. In addition to Asia, Latin America is another emerging market with strong growth prospects. And with an eye to this sizeable business potential, Perlen Packaging acquired a majority shareholding in the Sekoya company of Brazil effective 1 January 2018. Sekoya is active in the distribution of pharmaceutical films, and also operates its own finishing plant in Anapolis. The acquisition will enable the Packaging Division to respond even faster and more flexibly to customer needs in the Latin America region.

Paper repositioning itself in the recovered paper market

The Paper Division set a new strategic course in 2017 and took over certain activities as of 1 January 2018 from the Utzenstorf paper factory, which ceased paper production at the end of 2017. In addition to Utzenstorf's existing customer contracts, Perlen Papier is assuming responsibility for all the recovered paper collected in Switzerland which Utzenstorf previously processed. As a result, the Paper Division will be able to meet most of its recovered paper needs from Swiss sources from 2018 onwards. This will have a positive impact on both carbon emissions and costs: with its longer transport distances, imported recovered paper is more expensive than recovered paper collected in Switzerland. Perlen Papier will also continue to operate the Utzenstorf waste paper sorting facility, and is subsuming all its recovered paper business activities under a new company named APS Altpapier Service Schweiz AG.

Global economy continues to grow

Global economic growth accelerated in the year under review. According to estimates from the World Bank, global gross domestic product (GDP) rose by 3.0% in 2017, compared to 2.4% the previous year. With more robust economic growth in the USA, where annual GDP rose 2.3% (compared to 1.5% the previous year), the US Federal Reserve slightly raised its key interest rates. Annual GDP growth accelerated in the Eurozone, too, from the 1.8% of 2016 to 2.4%. The European Central Bank announced a gradual reduction in its bond-buying programme for 2018; but key interest rates for Europe are likely to remain at zero. On the currency exchange front, the euro gained in strength against the Swiss franc, with average annual rates rising from the CHF 1.090 of 2016 to CHF 1.112.

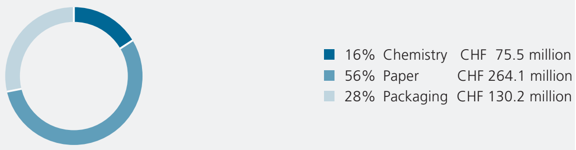
The Eurozone is CPH's most important sales region by far, accounting for some two-thirds of all the Group's sales. Given the region's modest growth dynamics, substantial sales increases could only be achieved here by gaining further market share. The emerging markets showed far more economic dynamism than the industrialized nations in 2017, with average annual growth rates of around 4%. Asia led the way here, with over 6% growth for the year.

Divisions experience differing market trends

Energy prices increased slightly over the course of the year. The oil price rose from USD 54 to over USD 60 per barrel. At pricing levels like these, the investment demand from the energy sector remained relatively modest. This in turn dampened demand for some of the products of the Chemistry Division, such as the molecular sieves used to purify ethanol and natural gas. Demand for the division's molecular sieves for industrial, chemical and pharmaceutical applications was, by contrast, robust.

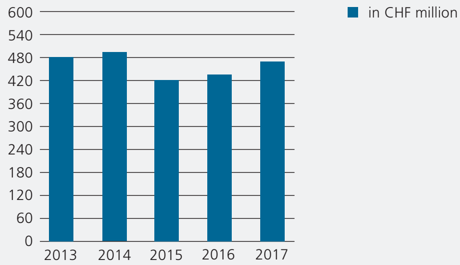
The European press paper market remained characterized by structural overcapacities. The demand for newsprint and magazine paper has been declining for some years, as readers turn increasingly to digital platforms and advertising volumes fall. This in turn is prompting consolidation, not only in the media but also among paper manufacturers. Some 1.4 million tonnes of newsprint and magazine paper production capacity were either withdrawn from the European industry in 2017 or had corresponding plans announced. This was not enough to bring greater balance to supply and demand, however, and overcapacities remained, along with the resulting pricing pressures. At

CPH Group net sales by division

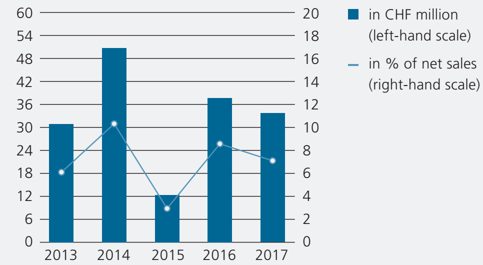


CPH Group net sales by region

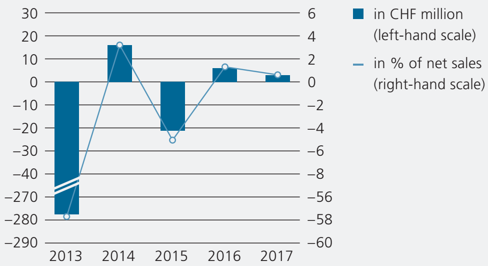
CPH Group net sales trends



CPH Group EBITDA trends



CPH Group EBIT trends



the same time, the price of recovered paper – the sector's prime raw material – was some 10% above its prior-year levels in 2017, owing to a further increase in demand from the packaging industry and sizeable exports to Asia.

The market for blister packs for medicines, in which the Packaging Division is active, is strongly influenced by the development trends within the pharmaceuticals industry. This sector saw further growth worldwide in 2017, but with substantial regional variations. While the European pharmaceuticals markets showed little dynamism, numerous emerging economies posted double-digit percentage growth.

CPH Group growing in all business divisions

The CPH Group increased its sales in all three business divisions. Net sales rose 8.0%, largely through organic growth, to CHF 469.8 million. Some CHF 6.3 million of the CHF 35.0 million net sales increase was attributable to favourable currency movements.

Realignment of Chemistry now well advanced

The Chemistry Division raised its net sales 8.8% year-on-year to CHF 75.5 million. The demand for molecular sieves for industrial applications and oxygen purification was particularly high, and capacities were fully utilized. The deuterated product segment also showed highly positive trends. The transfer of production from Uetikon to the existing plants in China and the USA and to the newly-built production facility in Bosnia-Herzegovina was completed by the end of the year. Zeochem will also move into its new Swiss site in Rüti in summer 2018. In operating terms, the division's realignment resulted in a further substantial improvement in the EBIT result. The positive effects will be felt even more strongly from 2018 onwards.

Results for Paper depressed by rising recovered paper prices

The Paper Division further increased the volume sales of its newsprint product to 380 238 tonnes. Although magazine paper volumes were also substantially up on 2016 at 173 422 tonnes, the utilization of the division's coated paper production facilities remained less than satisfactory. Overcapacities are high in the magazine paper market, and prices declined in the course of the year. Thanks to its higher sales volumes, the division raised its net sales 7.3% to CHF 264.1 million. The steep increases in the price of recovered paper and the modest increase in energy costs were only partially offset by further efficiency enhancements, and divisional EBIT was negative for the year.

Packaging shows solid growth

While Europe's pharmaceuticals markets showed little (if any) growth, the Packaging Division raised its annual net sales 9.2% to CHF 130.2 million. With its consistent focus on high-barrier films, the division also increased its market share. The production capacities at its European facilities were very well utilized. Despite higher raw materials prices for ethylene and expenditure on the new production plant in China, the EBIT result for the year exceeded the record level of 2016. The division also earned further accolades, with its new Perlamed BLISTair disposable inhaler garnering three packaging awards.

No change in sales breakdown by division

With Packaging showing the strongest divisional growth, its share of the Group's total net sales rose from 27% to 28%, while Paper's share declined accordingly from 57% to 56%. The Chemistry Division's share remained unchanged at 16%. In geographical terms, Europe remained the dominant sales region, accounting for 78% of the Group's 2017 net sales.

Continued focus on growth and efficiency improvements

The prices of certain key raw materials – recovered paper in particular, but also ethylene and energy – showed unfavourable trends in 2017. The cost of materials increased from 52% to 54% of production-generated sales, while energy costs remained unchanged at 12%. The CPH Group is making major efforts to constantly improve efficiency to offset these adverse developments. In fact, despite the higher sales levels for the year, fixed costs were further lowered, while net working capital were sustainably reduced from the 19.5% of 2016 to 14.4% at the end of 2017. The conversion of the waste incinerator in Perlen to a biomass facility has not only enhanced energy efficiency, but is further reducing carbon dioxide emissions at the Perlen site. The CPH Group is now almost carbon-neutral, producing an annual 16 664 tonnes of CO_2. The efficiency enhancements achieved were not sufficient in the Paper Division to fully offset the lower sales prices and the higher material costs. And despite encouraging operating results in Chemistry and Packaging, consolidated EBITDA for the year declined from CHF 36.9 million to CHF 33.8 million, giving an EBITDA margin of 7.2%.

Positive net result thanks to real estate disposals

After ordinary depreciation and amortization of CHF 30.9 million, consolidated EBIT for the year was positive at CHF 2.9 million (compared to CHF 5.9 million for 2016). The financial result of CHF –6.6 million was a decline on the CHF –1.5 million of the previous year, owing to losses on the currency hedging. The non-operating result improved to CHF 22.8 million as a result of real estate sales. The extraordinary result of CHF 0.0 million was a tangible improvement on the CHF –4.4 million of 2016, a result which had been negatively impacted by the sale and closure of the Uetikon site. The net result for the year improved accordingly, rising CHF 23.9 million from CHF –7.7 million to CHF 16.2 million.

Dividend of CHF 0.65 per share proposed

The Board of Directors will recommend to the Ordinary General Meeting of 14 March 2018 that an unchanged dividend of CHF 0.65 per share be distributed for the 2017 business year, further confirming the company's consistent dividend policy.

CPH Group retains a sound balance sheet

The CPH Group is in sound financial health. At the end of 2017 the Group held liquid funds of CHF 80.1 million, while the equity ratio stood at 56.8%. The Group invested CHF 32.3 million in tangible fixed assets in the course of the year, primarily in establishing the new production facilities in Zvornik, Suzhou and Rüti and in expanding its Louisville capacities. The Group generated a cash flow of CHF 14.5 million and a free cash flow of CHF 12.9 million. The CPH workforce grew from 985 to 1 019 employees. The increase is due partly to the expansion of the Packaging Division and partly to the Chemistry Division's ongoing transfer of production to its new operating locations, which is demanding additional staff.

A positive outlook for 2018

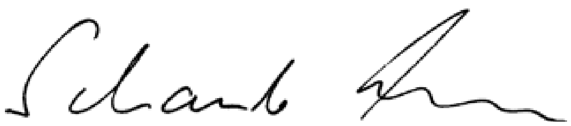
The CPH Group expects positive economic development in its target markets in 2018, though growth is likely to remain modest in its prime market of Europe. The Chemistry Division should feel the positive benefit of its business realignment. With its takeover of Papierfabrik Utzenstorf's waste paper volumes, the Paper Division should see an easing of the procurement situation on the recovered paper front. With the demand for newsprint and magazine paper still declining, future business projections are uncertain. But the division expects to see further sales increases and a positive EBIT result. The Packaging Division plans to further expand its business and intensify its cultivation of markets in the emerging economies. Actions will also be taken in all three divisions to further raise efficiency, for which the Group plans total investments in tangible fixed assets of CHF 24.0 million. Provided prices and currency rates remain broadly stable, the CPH Group expects to report higher sales and a clearly improved operating result for 2018.

200th anniversary

It was back in 1818 that the Schnorf brothers established a chemicals factory in Uetikon which laid the first foundations of today's CPH Group. And in May 2018 we will be celebrating the 200th anniversary of this landmark event at the original Uetikon location.

Sincere thanks

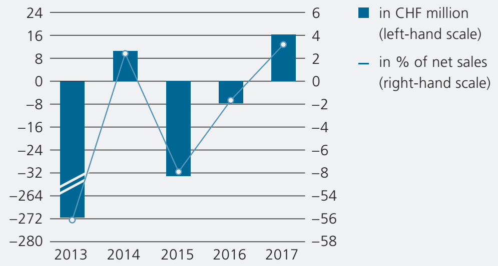
Once again, our employees devoted all their energies and commitment to the success of the CPH Group throughout the year under review. For this we offer them our deepest thanks. Our sincere thanks also go to our business partners and to you, our shareholders, for the confidence you continue to place in the CPH Group.



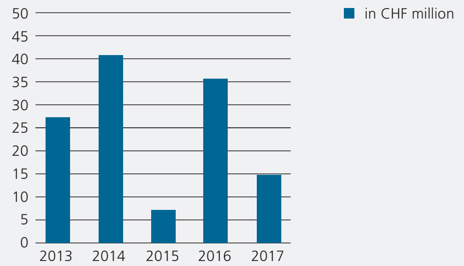
Peter Schaub
Chairman of the Board

Peter Schildknecht
Group CEO

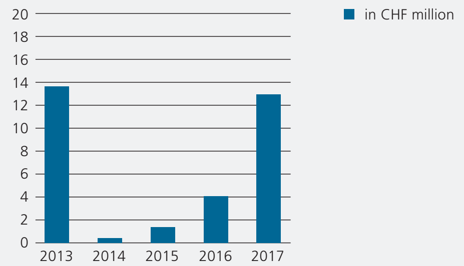
CPH Group net result trends



CPH Group cash flow trends



CPH Group free cash flow trends



Group investments in tangible assets