Overall business development shows highly positive trends

Peter Schaub (left) and Peter Schildknecht

Dear shareholder, dear reader,

200 years in business: an achievement and a commitment

The CPH Group celebrated the 200th anniversary of its foundation in 2018. And we look back with pride on our long and successful history. It is a story that would be inconceivable without the founding Schnorf family and their descendants. Because over the intervening decades, it is these descendants, all the way through to the present seventh generation, who have given us such a stable shareholder base. Well into the 20th Century, these descendants were also actively involved in the company's operations. And today, as our anchor shareholders, they are our guarantee of the sustainable long-term alignment of the CPH Group. As early as the second and third generations, the founding family were seeking to diversify from their original chemistry business, expanding at the end of the 19th Century into the paper manufacturing sector and later into further industrial areas (an overview of the key companies and products in these first 200 years will be found on Pages 10 to 13). And in the 1950s the Paper Division began coating paper products with plastics, an activity that then evolved into the Packaging Division. The basic structure of the present-day CPH Group with its Chemistry, Paper and Packaging divisions had thus been early laid.

Corporate strategy successfully pursued

The overall group strategy has been realigned time and again over the years in response to new market conditions. Some ten years ago the three divisions began to focus increasingly on their most promising business areas. The Chemistry Division concentrated on silicate chemistry and disposed of its organic chemistry operations, the Paper Division restricted itself to the production of newsprint and magazine paper and the Packaging Division focused its energies solely on pharmaceutical applications. The trends were parallelled by an increasing export orientation throughout the CPH Group.

The present corporate strategy, which was adopted five years ago, has three prime thrusts: to bring greater balance to the shares of total net sales contributed by the three constituent divisions in order to reduce the Group's exposure to the volatilities of the paper market; to increase the net sales outside Europe of the Chemistry and Packaging divisions and thus take advantage of the emerging markets' higher growth rates; and to lower the proportion of overall costs that are incurred in Swiss francs, and thereby ensure that more costs and revenues are in the same currencies. A raft of actions taken to these ends has yielded its results: over the last five years, Chemistry and Packaging have raised their combined share of total net sales from 36% to 44%; net sales outside Europe have been increased from 16% to 22% and the share of total costs incurred in Swiss francs has declined from 70% to 40%.

Chemistry newly internationally aligned

Of the Group's three divisions, Chemistry has undergone the greatest change. Just five years ago, the division's production was limited to its two operating locations in Switzerland and the USA. The Swiss Uetikon site was the venue for the CPH Group's 200th anniversary celebrations, which included a formal bicentenary event and a large public party, in spring 2018. The event was also a farewell to the site where the CPH story began two centuries ago. In the past two years the Chemistry Division has transferred most of its Uetikon production to the location in China which it acquired in 2016 and the new plant it built in Bosnia and Herzegovina in 2017. The final act here, in summer 2018, saw the division's deuterated compound manufacturing moved from Uetikon to the new Swiss base in Rüti (near Zurich), where production resumed in the fourth-quarter period. The Chemistry Division today is active in its target markets all over the globe, with production facilities in China, the USA, Bosnia and Herzegovina and Switzerland.

Packaging expands to Latin America

The Packaging Division is also pursuing an international expansion strategy. This includes the new coatings plant that opened in China in 2016, to which further work orders were transferred from the division's European operations in 2018. Perlen Packaging has also had its own finishing operation in Brazil since 2018, which moved into new premises in Anápolis in autumn. Like Asia, Latin America is one of the so-called pharmerging markets with double-digit annual percentage growth. In addition to continuing to develop its blister pack film business worldwide, the division sees further expansion potential in tapping new markets with such innovative products as its BLISTair single-use powder inhaler.

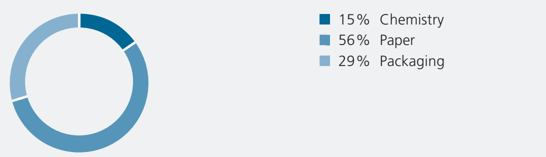
Switzerland's biggest recovered paper recycler

In contrast to Chemistry and Packaging, which use a differentiation strategy to achieve their market positions, the Paper Division is active in a predatory market environment. The division supplies a customer base within some 800 kilometres from its Perlen production facility with high-quality newsprint and magazine paper products – commodities whose prices are predominantly determined by developments in Europe's paper markets. In view of this, constant drives to further enhance efficiency and optimize costs are crucial to the Paper Division's success. One major step towards achieving cost leadership in the division's sales markets was taken by acquiring the waste paper recovery activities of Papierfabrik Utzenstorf AG: these were assumed on 1 January 2018 by APS Altpapier Service Schweiz AG, making the new CPH Group company Switzerland's biggest recovered paper recycler. Since its supply entails shorter transport routes, Swiss recovered paper is less expensive than imported alternatives. The shorter journeys involved also substantially enhance CPH's carbon emissions credentials.

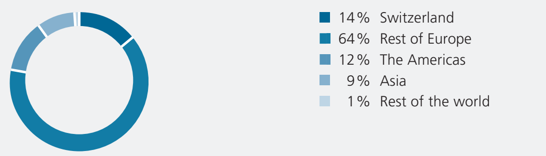
Global economy still growing

With global gross domestic product rising by some 3.7%, the world's economy continued to grow in 2018 at rates only just below the previous year's, according to International Monetary Fund estimates. While growth in the emerging markets stood at 4.6%, Eurozone growth weakened to 1.8%. The Eurozone remains the CPH Group's most important sales market, accounting for over 60% of its total net sales. On the currency front, the average euro exchange rate against the Swiss franc rose from CHF 1.112 to CHF 1.155. Economic risks increased in

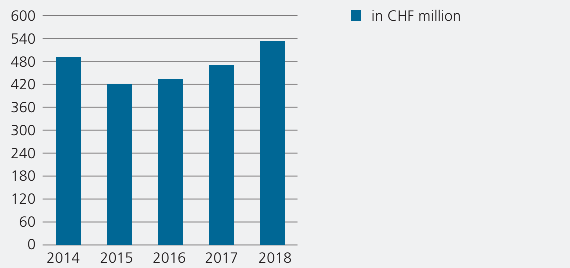
CPH Group net sales by division



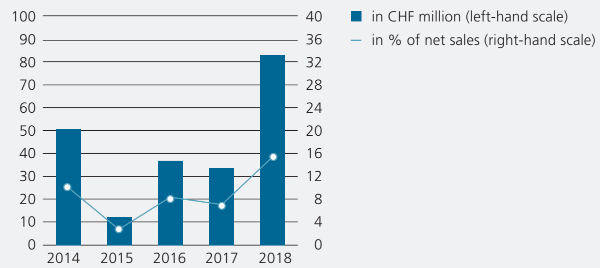
CPH Group net sales by region



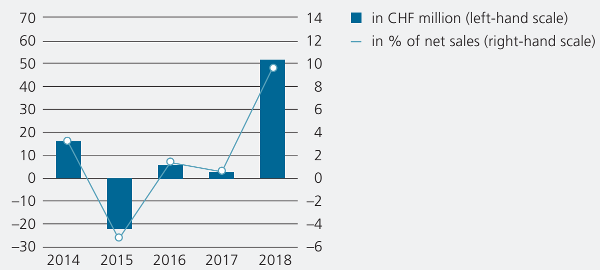
CPH Group net sales trends



CPH Group EBITDA trends



CPH Group EBIT trends



the second half of 2018, however, with the escalation of the USA's conflicts with its trading partners, and with China in particular.

CPH Group reports broad-based business growth

All three business divisions of the CPH Group raised their revenues in 2018, and the net group sales of CHF 533.5 million were 13.6% up on the previous year. Of the total increase of CHF 63.8 million, CHF 46.3 million (or 9.9%) was attributable to organic growth, CHF 14.1 million to the net favourable impact of currency movements and CHF 3.4 million to the net impact of acquisition and divestiture activities.

Results at the Chemistry Division were dampened by the cessation of its fertilizer business and the transfer of plant and equipment to the new Rüti and Zvornik locations. As a result, Chemistry posted slower growth than its sister divisions, and its share of total net sales slipped from 16% to 15%. The Packaging Division's share rose from 28% to 29%, while Paper's contribution remained constant at 56%. In geographical terms, Europe remained the dominant region, accounting for 78% of the Group's total net sales.

Chemistry: growth course confirmed

Net sales for the Chemistry Division amounted to CHF 79.4 million in 2018, a 5.3% increase on the previous year. The division felt the beneficial effects of high investment activity in the energy sector and a rising demand for molecular sieves, which are used to purify ethanol and natural gas. At the same time, demand for molecular sieves for oxygen purification purposes remained high for both industrial and medical applications. As a result, the division's production facilities in China and the USA were fully utilized all year. Production was also ramped up at the new manufacturing plants in Zvornik (Bosnia and Herzegovina) and Rüti (Switzerland) in 2018, in the first and fourth quarters respectively, and with a corresponding impact on utilization levels. The successful realignment of the Chemistry Division is already reaping lasting rewards in profitability terms: the division posted a positive annual EBIT result for the third year in succession, with each such result a tangible improvement on the last. The division also reported an EBIT margin for 2018 of 7.7%.

Paper: supply and demand well balanced

The Paper Division raised its annual production of print and publication paper by 1.3% to 543 554 tonnes, and sold 540 439 tonnes of newsprint and magazine paper in the course of the year. With supply and demand for both types of paper broadly balanced for the period, paper prices also increased from their 2017 levels. This in turn had a positive impact on divisional net sales, which were improved 14.0% to CHF 301.1 million. On the expenditure front, the costs of recovered paper were reduced despite rising waste paper prices: since the beginning of 2018, most of the division's recovered paper can be sourced in Switzerland, with correspondingly lower transport costs. Energy costs increased, while the relative weakness of the Swiss franc against the euro had a positive earnings effect. The favourable business trends were reflected in the division's EBIT margin for the year, which stood at 10.0%.

Packaging: EBIT substantially improved

Demand for medicinal products continued to rise in 2018. With it grew the demand for the films required to manufacture medicine blister packs. The trends showed regional variations, however, with the highest growth seen in the booming Asian and Latin American markets. The Group's Packaging Division raised its net sales for the year by 17.5% to CHF 153.0 million and substantially improved its EBIT margin to 10.1%. To handle the larger order volumes, the division further invested in the productivity of its European manufacturing facilities and increased the utilization of its China plant. To date, the Chinese facility has been used to supply the Asian markets outside China. But the second half of the year saw it obtain the first licences to distribute its products in the Chinese market, too. The new Perlamed BLISTair single-use inhaler won further innovation honours in 2018, including the packaging industry's most prestigious distinction of all, the World Packaging Award.

Efficiency further enhanced

The prices of key raw materials such as recovered paper, energy and ethylene rose in 2018, though the increases could at least partly be passed on to the market. That the ratio of cost of materials to production-generated group sales declined from 54% to 49% is attributable primarily to the greater procurement of recovered paper from Swiss domestic sources. The beneficial impact here more than offset the higher overall waste paper prices. While year-end group workforce numbers rose from 1 019 to 1 081, the share of personnel cost in the Group's total expense declined from 18% to 17%. The new employees were recruited mainly in the Packaging Division, whose global payroll now exceeds 400 personnel. The higher demand and equipment utilizations here required additional shiftwork production. With efficiency further enhanced in all three divisions, group EBITDA for the year was raised 146% to CHF 83.1 million and EBITDA margin rose to 15.6%.

Net result more than doubled

After ordinary depreciation and amortization of CHF 31.5 million, consolidated EBIT for the year amounted to CHF 51.6 million, which compares to CHF 2.9 million for 2017. The financial result of CHF –6.0 million was slightly below its prior-year level. Unlike the previous year, no major real estate disposals were effected in 2018. The non-operating result declined accordingly, from the CHF 22.8 million of 2017 to CHF 0.1 million. Despite this, however, the net result for the year improved from CHF 16.2 million to CHF 42.3 million.

Dividend of CHF 1.80 per share proposed

The Board of Directors will recommend to the Ordinary General Meeting of 19 March 2019 that an increased dividend of CHF 1.30 per share be distributed for the 2018 business year, together with a special dividend of CHF 0.50 per share on the occasion of the 200th anniversary of the CPH Group. The Ordinary General Meeting of 14 March 2018 resolved to reduce share capital by CHF 18 million and appropriate this amount to the capital contribution reserve.

CHF bond refinanced

The CPH Group held liquid funds of CHF 89.0 million at the end of 2018, while its year-end balance sheet equity ratio stood at 50.9%. With a view to securing its external financing in the longer term, the CPH Group issued a five-year CHF 100 million 2% Swiss-franc bond in autumn 2018. The funds raised are intended to refinance the CHF 120 million 2.75% bond that is due to mature in July 2019.

The Group invested CHF 22.3 million in tangible fixed assets in 2018. The funds were spent on further efficiency enhancements and on developing the new Rüti and Anápolis operations. The Group generated a cash flow for the year of CHF 69.0 million and a free cash flow of CHF 18.3 million.

A favourable outlook for 2019

According to International Monetary Fund projections, the global economy is likely to grow by 3.5% in 2019, slightly less than in 2018. Concerns over the impact on global commerce of the US's trade disputes and political and economic uncertainties in Europe also pose risks. In view of its current order book health, the CPH Group is confident of seeing a continuation of its favourable business performance in the first half-year. Provided prices and currency exchange rates remain stable, the Group also expects to post a slight further increase in annual net sales. Maintaining the EBIT margin at its 2018 level may, however, prove a challenge. Thanks to higher non-operating income, the net result for the year excluding extraordinary influences is likely to be broadly at its 2018 level. The Group also plans to invest another CHF 29.9 million in tangible fixed assets in 2019, to further enhance efficiency and increase production capacities.

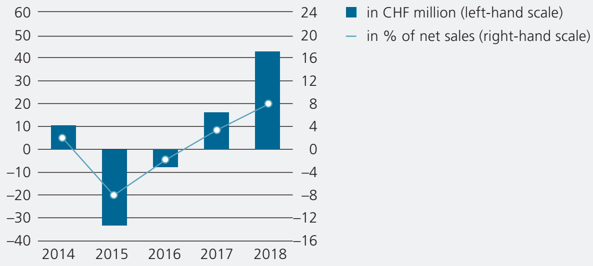
Sincere thanks

Once again, our employees delivered an exceptional performance in 2018, for which we offer them our deepest thanks. We thank our business partners, too, for their long-standing loyalty; and we thank you, our shareholders, for the confidence you continue to place in the Board of Directors, the Executive Management and all the personnel of the CPH Group.

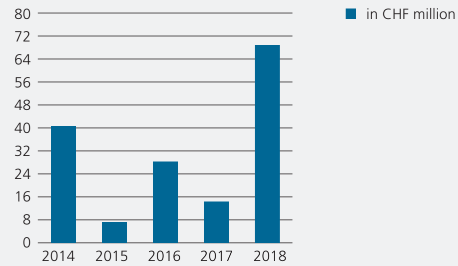
Peter Schaub
Chairman of the Board

Peter Schildknecht
Group CEO

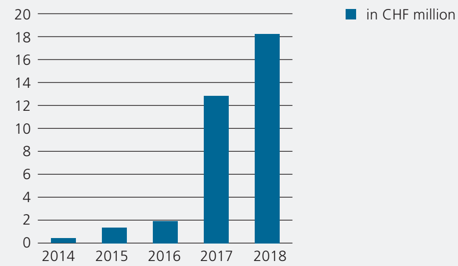
CPH Group net result trends



CPH Group cash flow trends



CPH Group free cash flow trends



CPH Group investments in tangible assets