

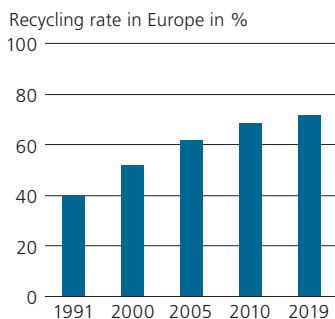
A recycler through and through

The Paper Division of the CPH Group manufactures newsprint and magazine paper from components consisting almost 85% of recovered paper which may be recycled up to seven times. Woodchips from forest thinning and sawmill waste provide the fresh fibres required. The papers produced consist of wood, an organic material, and are biodegradable. Perlen Papier holds the ISO 14000 environmental certification, and makes constant and extensive efforts to economize on resources, further lower its carbon emissions and bring even greater sustainability to its production activities.



Higher recycling rates for Europe's waste paper

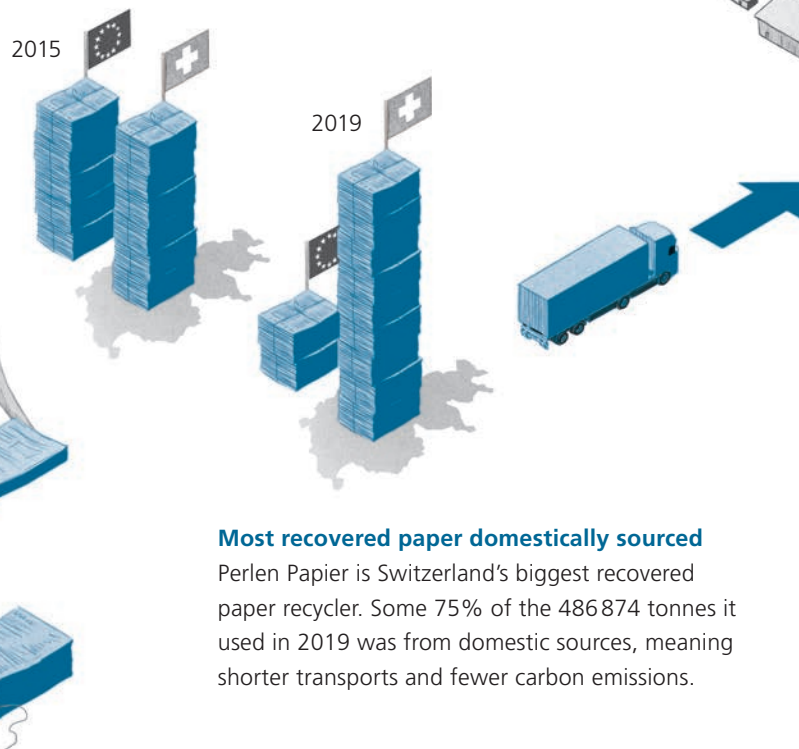
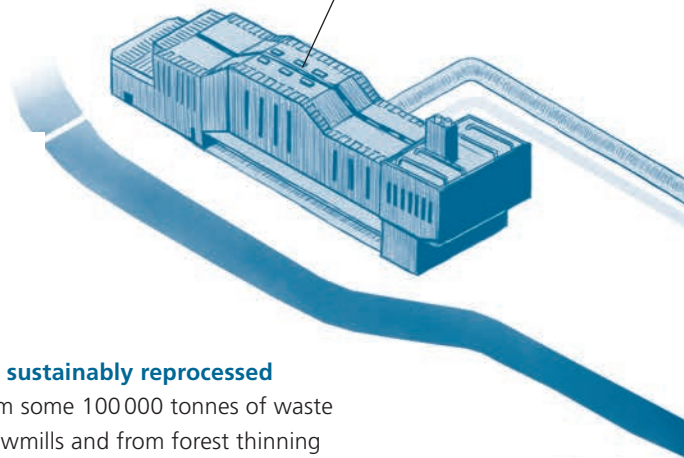
The proportion of waste paper which is recycled in Europe has risen from 40% to over 70% in the last 30 years. Perlen Papier plays a major role in the recycling of recovered paper in Switzerland.



Waste wood sustainably reprocessed

The fibres from some 100 000 tonnes of waste wood from sawmills and from forest thinning activities are processed in Perlen into new paper products. The majority of this wood is from certifiably sustainable Swiss forestry operations.

The Renergia waste incinerator



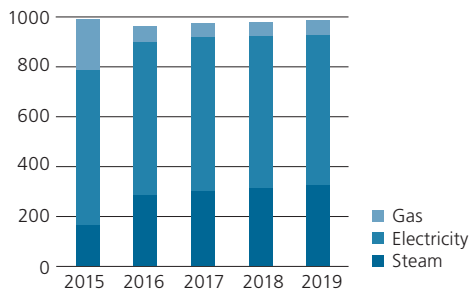
Most recovered paper domestically sourced

Perlen Papier is Switzerland's biggest recovered paper recycler. Some 75% of the 486 874 tonnes it used in 2019 was from domestic sources, meaning shorter transports and fewer carbon emissions.

Steam from ecofriendly sources

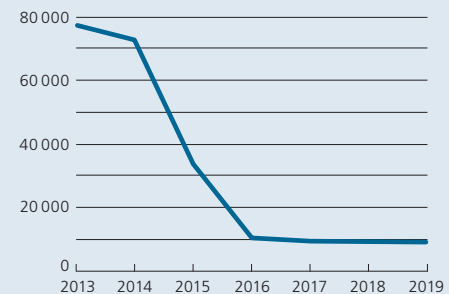
Perlen Papier has been obtaining the steam it requires to dry its paper webs from the adjacent Renergia waste incinerator since 2015. It has also been producing steam from paper product waste in its own biomass facility since 2017.

Energy consumption Perlen Papier in GWh



CO₂ emissions substantially reduced

The paper production in Perlen generated eight times less carbon dioxide in 2019 than it had in the peak year of 2013.

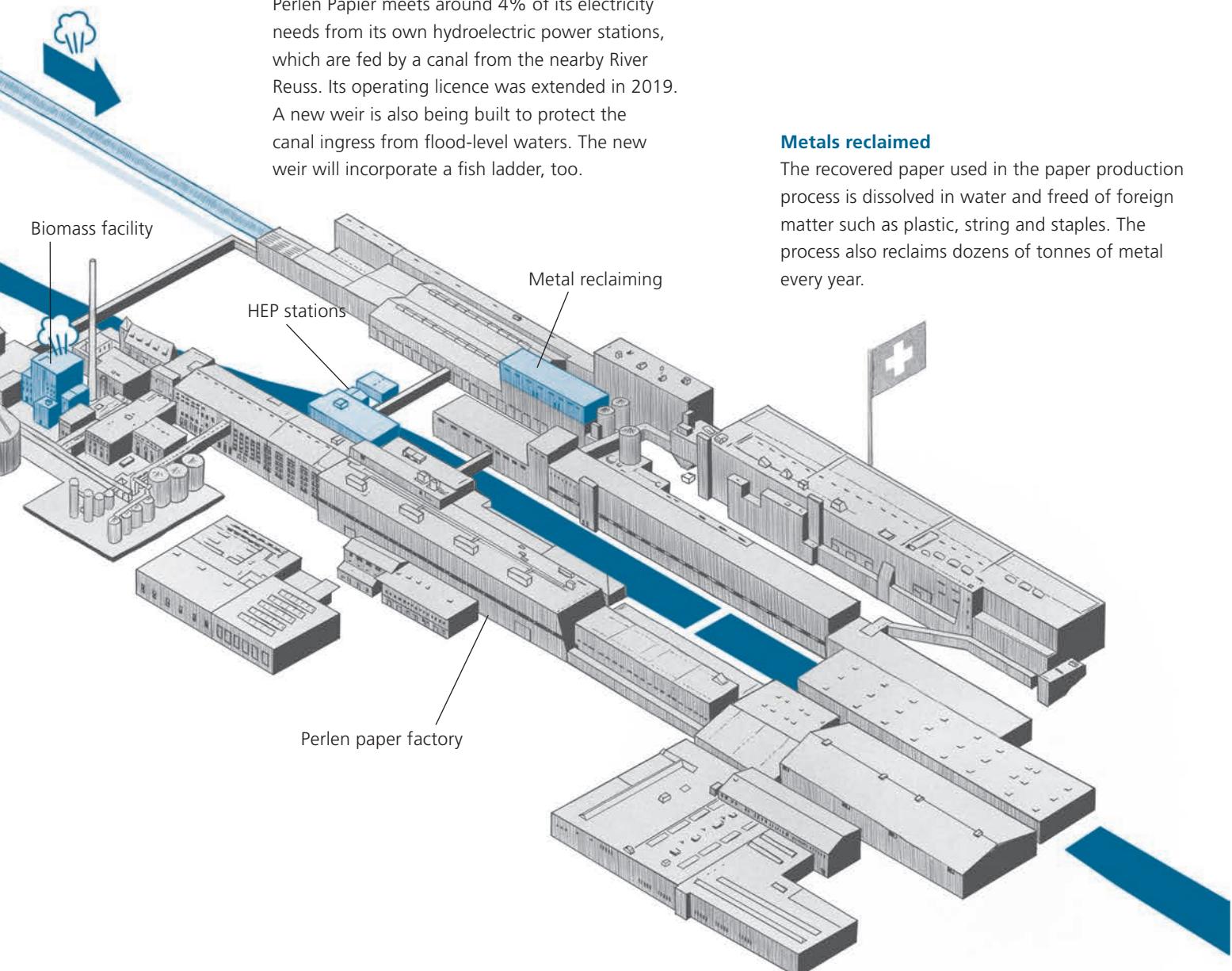


Energy from hydro power

Perlen Papier meets around 4% of its electricity needs from its own hydroelectric power stations, which are fed by a canal from the nearby River Reuss. Its operating licence was extended in 2019. A new weir is also being built to protect the canal ingress from flood-level waters. The new weir will incorporate a fish ladder, too.

Metals reclaimed

The recovered paper used in the paper production process is dissolved in water and freed of foreign matter such as plastic, string and staples. The process also reclaims dozens of tonnes of metal every year.



A solid EBIT margin despite rising pricing pressures



Growing overcapacities depressed the sales volumes of the Paper Division, whose net sales for the year of CHF 293.2 million were a 2.6% decline on their 2018 level. On a brighter note, EBIT margin was raised to a new high of 11.8%.

Strategy

The Paper Division operates in a predatory market of falling product demand. This creates overcapacities which are only later modified to meet the lower market needs. In the newsprint segment alone, demand in Western Europe has declined by 45% over the past ten years. Newsprint is a commodity, and the competition in its market is largely based on price. The Paper Division of the CPH Group must achieve and maintain cost leadership if it is to effectively compete – particularly since 80% of its sales market lies outside Switzerland, where its competitors are free of any currency movement distortion. With its PM 7, the division continues to operate Europe's most advanced paper machine, which outstrips its older counterparts in both its higher productivity and its lower running costs. The division operates two machines at its Perlen production site: the PM 7 is used to manufacture newsprint and the PM 4 produces magazine paper. The majority of the recovered paper used in the division's production has been obtained from within Switzerland since 2018, with the shorter transport journeys involved both reducing costs and easing environmental strain.

Sustainability is a cornerstone of business and operating strategy at the division's Perlen site, which, thanks to various actions taken in the last few years, is now almost carbon-neutral in its production activities. Perlen Papier recycles the majority of the waste paper that is recovered in Switzerland and, in doing so, plays a major role in minimizing the use of natural resources. It also operates its own paper sorting facility through its APS subsidiary, which ensures both operational flexibility and the consistently high quality of the waste paper used.

The division is also making major efforts to digitalize its core processes, to help customers and suppliers optimize their order handling.

Market environment

The European media market has been undergoing radical change for years. The volumes of printed newspapers have been steadily declining as both information and advertising have been increasingly offered and consumed via digital channels. The demand for wood-based graphic printing papers has fallen accordingly. Despite these trends, however, after 2017 had seen relatively large production capacities withdrawn from the market, some price increases were effected in the last two years.

The demand for newsprint declined a further 7.5% in 2019 to 4.3 million tonnes. The demand for wood-based coated magazine paper saw an even steeper fall of 11.7%, down to 3.4 million tonnes. No newsprint capacities were withdrawn from the market in 2019, and the magazine paper capacity reductions either effected or announced were effectively offset by the decline in demand. As a result, the pressures on prices substantially increased. Various suppliers, Perlen Papier included, responded by temporarily halting their production.

Recovered paper prices declined in the course of the year, as the volumes of waste paper available exceeded the paper factories' needs and Asian countries also substantially reduced their importing activities.

Business development

The Paper Division sold 517 165 tonnes of print paper in 2019, a decline of 4.3% from its prior-year volume. Of this total, 346 778 tonnes were of newsprint and 170 387 tonnes were of magazine paper. The division felt the benefit of higher paper prices in the first half of the year. These came under pressure in the second-half period, though, and the CHF 293.2 million net sales for 2019 as a whole were a 2.6% year-on-year decline. However, 1.5 percentage points of this were attributable to currency factors.

The division saw slight increases in its market share in Western Europe for both newsprint and magazine paper sales.

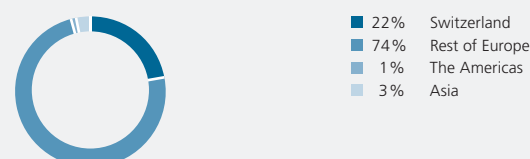
The efficiency of the division's production facilities was further improved thanks to total investments of some CHF 11.5 million over the course of the year. On the expenditure front, lower recovered paper and energy costs had a positive impact on the EBITDA result, which, at CHF 54.5 million, was 7.2% above its prior-year level. EBIT for the year amounted to CHF 34.7 million, giving the division a new record EBIT margin of 11.8%.

Year-end personnel numbers increased slightly, from 369 to 376.

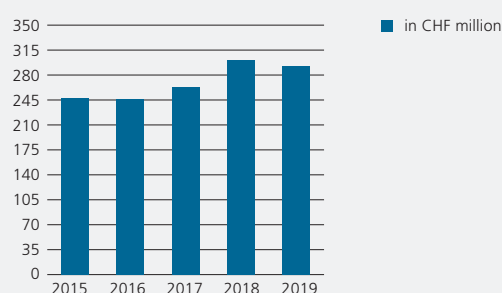
Outlook

According to industry associations' projections, 2020 is likely to see further declines of 6-8% in the demand for wood-based graphic papers in the Western European market. Given the existing market overcapacities, paper prices remain under sizeable pressure, and another wave of industry consolidation is to be expected. The Paper Division plans to make investments of CHF 9.9 million in the course of the year to further enhance its production processes. Net annual sales are likely to fall short of their 2019 level, though the division should still achieve another positive EBIT result.

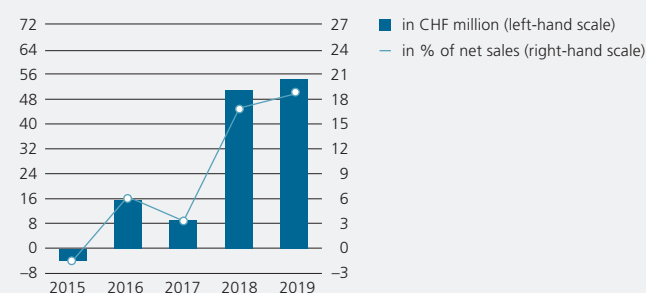
Paper net sales by region



Paper net sales trends



Paper EBITDA trends



Paper EBIT trends

