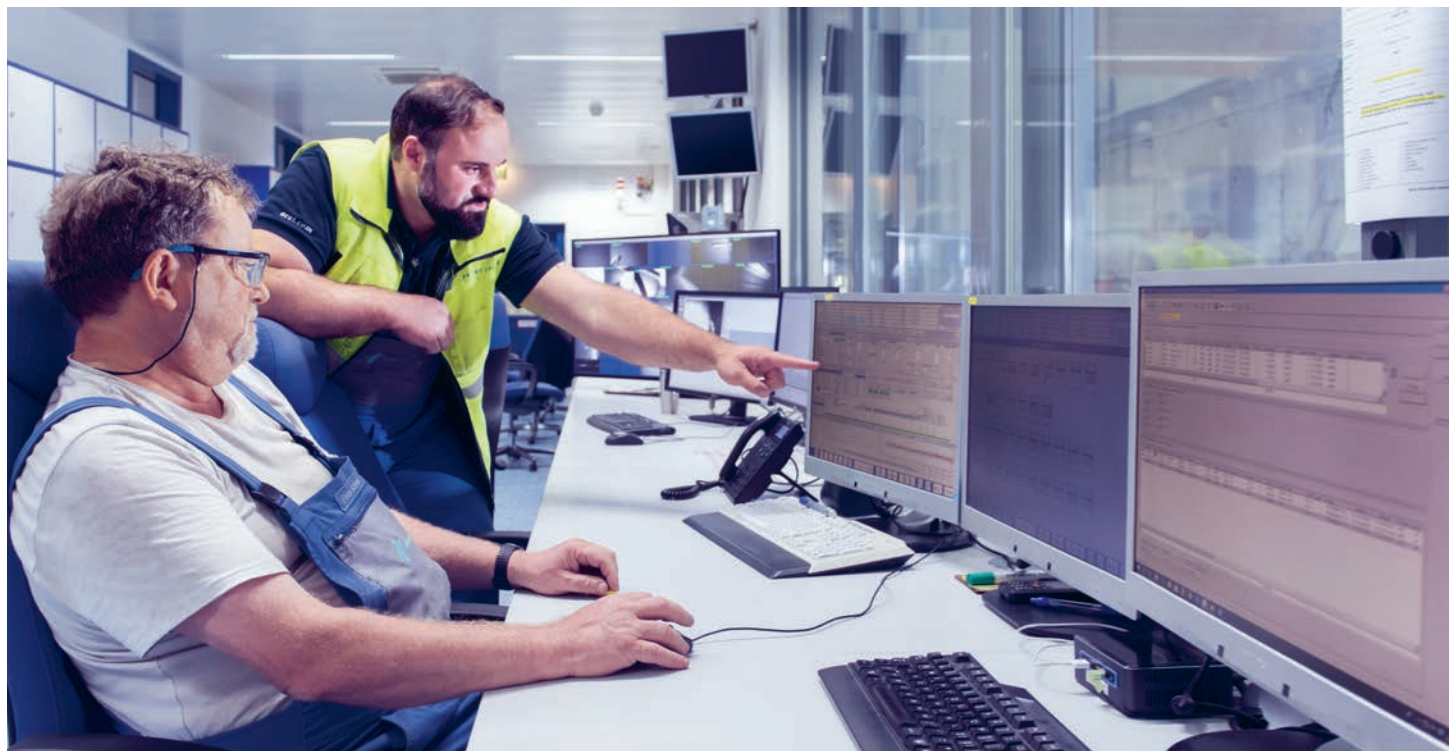


Demand and net sales substantially reduced through coronavirus impact



The demand for paper slumped as a result of the coronavirus pandemic, pressuring prices and forcing temporary production shutdowns. Net sales for the Paper Division declined 28.5% to CHF 209.6 million, and EBIT fell slightly short of a breakeven result.

Strategy

The market for graphic paper products has been shrinking for years. The reasons for this can be found in the structural changes in people's media consumption: news nowadays is consumed less and less on paper and more and more via digital channels. As a result, the demand for newsprint paper has roughly halved in Western Europe over the last ten years. With producers initially hesitant to reduce their production in response to the lower demand, overcapacities have resulted. And these in turn have put sizeable pressures on product prices, prompting predatory pricing wars in which the only survivors will be those with the lowest production costs. Perlen Papier holds a major competitive asset here in the form of its PM 7, which is one of Europe's most advanced and highest-performance newsprint manufacturing machines. The company also has a further efficient paper machine for its coated magazine paper production.

A further key differentiator for CPH's Paper Division is its positioning as a sustainable supplier. Thanks to a series of actions that the division has taken, its Perlen production site is now almost carbon-neutral. Perlen Papier also conducted an extensive campaign in autumn 2020 to sensitize both its recovered paper suppliers and its customers to

how carbon dioxide (CO₂) emissions can be reduced through shorter transport journeys, particularly since the Perlen site's CO₂ emissions are only a fraction of those of the company's European competitors. The more waste paper can be recovered and recycled within Switzerland, the less distance these items need to be transported, and the lower the corresponding strain on the environment will be. Perlen Papier is presently Switzerland's only domestic waste paper recycler.

Market environment

The general decline in demand for paper owing to the structural impact of the digitalization trend was exacerbated in 2020 by the coronavirus pandemic and its radical ramifications. Several countries imposed lockdowns in the second-quarter period. These in turn prompted a slump in advertising and corresponding reductions in newspaper sizes, while some commuter freesheets ceased publication entirely. The demand for wood-based graphic printing paper in Western Europe fell by some 40% in the months concerned. And while the situation did improve somewhat after the lockdown measures were eased in subsequent months, the demand for newsprint and coated magazine paper in 2020 was still 22% and 23% down on prior-year levels at 3.3 million and 2.6 million tonnes

respectively. With the year also bringing no major withdrawals of production capacities from the market, the further increase in the existing overcapacities put additional pressure on prices. In the face of the insufficient demand, Perlen Papier's production was temporarily shut down, and short-time working was adopted for the employees concerned. Autumn brought the announcement from a number of graphic paper producers that they planned to withdraw some two million tonnes of capacity from the market in 2021. This will not yet be enough, however, to bring supply and demand back to a satisfactory balance.

Supplies of recovered paper became scarce at times during the coronavirus crisis as collection activities were curtailed. But once the situation eased, their prices settled back to relatively low levels. Energy prices also declined as a consequence of the coronavirus restrictions.

Business development

The Paper Division sold 439 000 tonnes of printing paper in 2020, which was 78 000 tonnes or 15% less than it had the year before. Of this volume, 289 000 tonnes was in the form of newsprint and 150 000 tonnes in the form of magazine paper. The reduced sales volumes were combined with lower sales prices, and net sales for the year were down a corresponding 28.5% at CHF 209.6 million. In addition to the lower sales volumes and prices, some 2.7% of the net sales decline was attributable to currency factors.

Perlen Papier's share of the Western European paper sales market in 2020 was a further slight increase on its prior-year level in both newsprint and magazine paper terms.

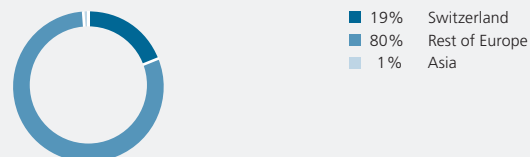
The division invested CHF 7.5 million in tangible fixed assets in the course of the year. These investments were largely in maintaining the present production machines and enhancing plant efficiency. On the cost front, the division benefited somewhat from lower recovered paper and energy costs. But annual EBITDA declined 68.1% to CHF 17.4 million, while EBIT for the year was just short of breakeven at CHF -2.2 million.

The Perlen Papier workforce consisted of 367 employees at year-end, down from 376 at the end of 2019.

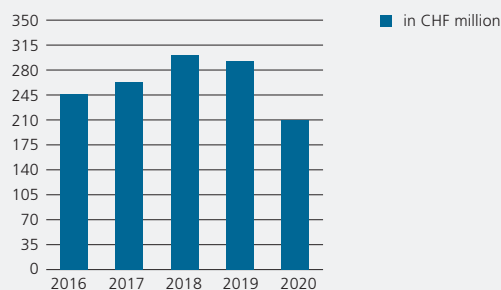
Outlook

Demand in Western Europe for wood-based graphic printing paper is likely to remain largely at its prior-year levels in 2021, according to industry association estimates. The further impact of the coronavirus pandemic is difficult to predict. What is clear already, however, is that the present market overcapacities will keep the pressures high on paper product prices. The Paper Division plans to invest CHF 11.3 million on further process enhancements in the course of 2021. Net sales for the year should be an increase on 2020; but the EBIT result is likely to remain negative, given the growing market pressures.

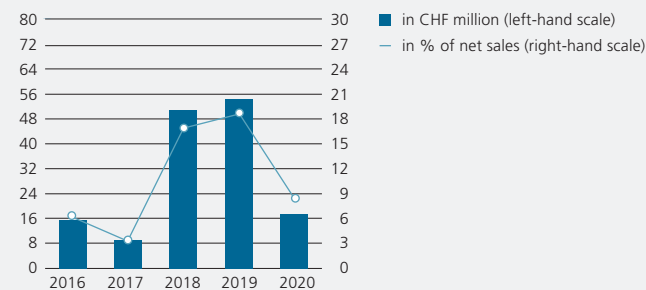
Paper net sales by region



Paper net sales trends



Paper EBITDA trends



Paper EBIT trends

