

Encouraging progress made



The Paper Division achieved net sales of CHF 314.4 million for 2014, a year-on-year increase of 2.9%. The year also saw the PM 4 machine used solely to manufacture magazine paper throughout the year. And divisional EBIT returned clearly to the black at CHF 12.5 million.

Market environment

On the European markets 2014 saw declines in demand for newsprint and magazine paper of 6.3% and 3.2% respectively. These compare with declines of 6% and 8% respectively for the previous year. The falls remain connected with structural changes in the media sector, which is moving from printed newspapers and magazines to online alternatives, in response to changed reader habits.

The paper industry's capacities showed no major changes in the course of the year. While several newsprint machines had been mothballed in 2013, leading to a rapprochement of supply and demand, the discrepancy between the two increased again in the reporting period. By year-end, the overcapacities amounted to some 0.7 million tonnes in the newsprint segment and 1 million tonnes for magazine paper production. One of Europe's largest paper producers did announce in November, however, that it would be mothballing a total of 800 000 tonnes of printing paper capacity spread over four production sites.

The modest price increases that had been permitted in the second half of 2013 as supply had drawn closer to demand still impacted positively on producers' revenues in the first half-year. But the second six months brought renewed pressure on prices which returned them to 2013 first-half levels, and manufacturers' revenues fell correspondingly short of their budgeted projections.

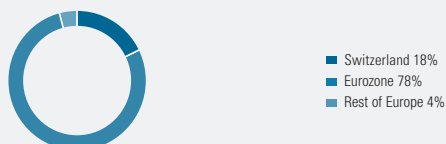
Paper production in Switzerland is additionally burdened by the overvaluation of the Swiss franc. With 82% of its production exported (compared to 81% in 2013), Perlen Papier is greatly affected by currency movements, and by the franc/euro exchange rate in particular. Perlen Papier is the sole manufacturer of magazine paper in Switzerland, and one of only two Swiss newsprint producers. Its main competitors outside Switzerland are the large Nordic paper manufacturers.

Business development

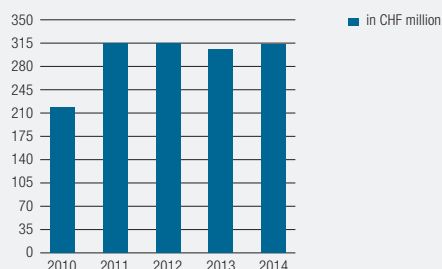
The Paper Division sold 347 677 tonnes of newsprint in 2014, 6.8% less than the previous year. This was essentially the production volume of the PM 7 machine, which, in its fourth full operating year, was almost at full annual capacity. The higher prior-year volume is attributable largely to the fact that, with less demand for magazine paper, the PM 4 machine was also used at times in 2013 for newsprint production.

In 2014, for the first time since its installation, the PM 4 was used solely to produce higher-margin magazine paper. And the larger volume of magazine paper sold – 186 625 tonnes, 32.0% up on 2013 – is due partly to the PM 4's higher utilization (and partly to the fact that the machine was out of use for some two months in 2013 following a wind-fire, with a production loss of over 30 000 tonnes).

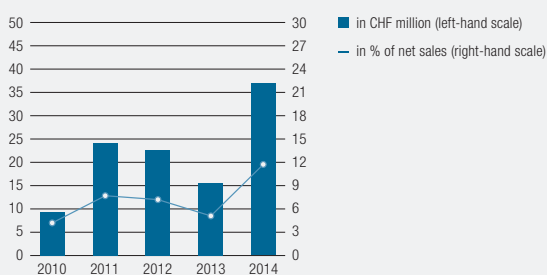
Paper net sales by region



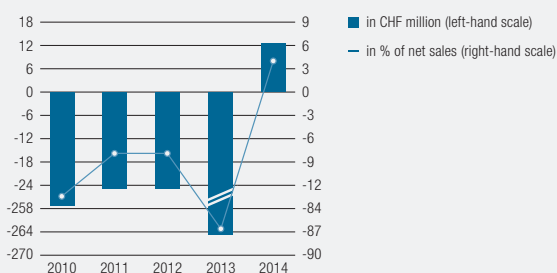
Paper net sales trends



Paper EBITDA trends



Paper EBIT trends



With prices slightly higher than in 2013 and the additional volumes sold, the division raised its net annual sales 2.9% to CHF 314.4 million. Perlen Papier thus enjoyed a 31.8% share of the Swiss newsprint market and a 35.5% share of its magazine paper market; for Europe as a whole, the corresponding figures were 4.8% and 6.0%.

Being unable to influence either paper prices or exchange rate trends, the division puts a consistent focus on further enhancing its efficiency. Some CHF 10.5 million was invested in tangible fixed assets to this end. A switch to the free electricity market also reduced energy costs, despite the higher production volumes. Efforts to procure more recovered paper from within Switzerland also bore fruit, and more than 50% of such paper now comes from Swiss sources. The higher production volumes were also achieved with a workforce that was unchanged at 364 personnel, including 30 apprentices.

Divisional EBITDA was raised 136.7% to CHF 37.0 million. EBITDA margin was more than doubled to 11.8%. EBIT for the year amounted to CHF 12.5 million, the division's first black-ink EBIT result since 2009. Some CHF 4 million of this is attributable to non-recurring items relating to the release of provisions for the PM 4 winder fire and its ramifications, and to the sale of carbon credits.

Strategy

Perlen Papier strives to be the cost leader in its prime sales market, within a radius of some 500 kilometres of its Swiss production site. In view of the "commodity" nature of its paper products, the division puts a clear and constant focus on raising its efficiency and its productivity to enhance its competitive position.

The new Renergia waste incinerator facility next to the Perlen site will commence operations in 2015. And Perlen Papier will procure the low-pressure steam required to dry its paper webs from the new facility from the second quarter onwards, further improving its energy and carbon credentials.

Outlook

With demand for newsprint and magazine paper likely to decline further and the present European overcapacities set to increase accordingly, unchanged paper prices are the best that can be hoped for in 2015. The capacity reductions at four European production plants announced by a competitor at the end of 2014 are unlikely to bring any relief here before the second half of the year. So revenues will remain under pressure, and the current market consolidation looks set to continue.

The abolition of the minimum euro exchange rate will depress the division's sales and earnings in Swiss-franc terms. The actions to raise profitability will be further pursued. But with the strength of the Swiss franc and further paper price declines, lower net sales and a negative EBIT result must be expected for 2015.