

First half year result for the Franke Group

Despite a slight reduction in sales, Franke holds its own under difficult economic conditions

Since the start of the 2001 business year, the global economy has increasingly slowed. The downturn in economic development has also had repercussions for the Franke Group's operations. The company has not been able to maintain the same level of growth in its Kitchen Systems, Contract Group, and Beverage Containers divisions, or in its Diversified Products operations. The slowdown in the economy, which was already apparent last year, first had an impact on Contract Group business, which was additionally affected by the BSE crisis and the foot-and-mouth epidemic. In the course of the last six months, there has also been a slowdown in growth in the other two divisions. Despite the trying economic conditions, Franke was just able to maintain the previous year's sales, posting sales of CHF 789.5 million for the first half of 2001. This represents a reduction of 0.8% compared to the previous year. In contrast, the budget was exceeded by a small margin. The profit figure (EBITDA), which includes restructuring costs and special expenses, also showed less development than the first half of the year 2000: This fell by 12.8% against the level of the previous year, and budget targets were also below those of the previous year. Profits were particularly affected at the Franke companies in South and North America, and in Europe, particularly in Germany.

Performance of the Divisions

All four divisions managed to realize or implement further important phases due to the Group strategy in the first half of 2001 in order to improve customer orientation, and increase the level of efficiency. In the Kitchen Systems division (sinks, fittings, ovens, cooking hobs, extractor hoods, etc.), sales were only slightly above the previous year's. In contrast, sales in the Contract Group division (manufacturer/service provider for quick-service restaurants) was well down on the previous year. The Contract Group plants in North America and Europe, in particular, were operating in a markedly depressed business climate. Facilities in Asia were the only ones able to perform positively. Sales were healthier in the third division, Beverage Containers (producing beverage containers for the beer and soft drinks industry, and containers for the chemical and pharmaceutical industries). This sector succeeded in improving not only sales, but also profit. The Diversified Products operation (Industrial Engineering, Metal Construction, Tool Manufacturing, Automotive, Food Service Equipment, Coffee Machines and Washroom and Sanitary Equipment) achieved good sales figures for the first quarter of 2001. These, however, fell during the second quarter of the year. The Industrial Engineering and Coffee Machines profit center continued to perform well.

Volume of Orders

The downturn in the global economy had a negative effect on the volume of orders in the Group, with a drop in the number of orders of 12% compared to the same period in the previous year.

New Establishments, Acquisitions and Expansion Projects

Three important new companies were established in the first half of 2001:

- In February 2001, the German subsidiary Franke GmbH, Bad Säckingen, opened its own sales subsidiary for sinks in Kiev, Ukraine.
- In March 2001, the newly constructed office, exhibition and production facility of the Franke Contract Group Philippines Inc. was commissioned in Carmelray/Laguna. The new company manufactures kitchens for quick-service restaurants, principally for the markets in the ASEAN trade zone.
- In March 2001, Franke Kitchen System SARL was founded in Casablanca. It will supply the entire Moroccan market with sinks and accessories.

One important expansion project was completed according to plan, while other projects are currently being realized:

- In March 2001, the opening ceremony was held for the doubling in size of the Franke (Heshan) Kitchen Equipment Co. Ltd. plant in Heshan City, China. The plant produces and markets products for the Kitchen Systems division and for the Contract Group division. The total investment sum amounted to CHF 10 million.
- The French sales company for sinks, Franke France SAS in Chambly, is presently renovating its entire office

building and setting up a new logistics center. The entire project should be completed by the spring of 2002.

- Only recently, Franke Gesellschaft mbH in Hard, in Austria, also began the construction of a logistics center for the Kitchen Systems division. The completion of the construction project is scheduled for the end of May 2002.
- In the summer of this year, the Franke Contract Group Europe began work on a new logistics center in Bad Säckingen, in Germany. In the future, it will supply quick-service restaurants throughout Europe with spare parts and accessories. The new building should be commissioned in December 2001.
- The construction of a completely new sink factory is almost complete at Federal Home Products Division in Ruston (LA), USA. This represents an investment of over CHF 38 million.
- Construction work is progressing well on a new office and production facility for the Industrial Engineering profit center of Franke AG in Aarburg. This means that the premises can be occupied as scheduled in September 2001. The level of investment here was over CHF 6 million.

Despite a large number of negotiations for the purchase of various companies, only one acquisition was successfully completed:

- In July 2001 Franke acquired the business interests of Ezra Hatton from the Gamble Manufacturing Group Ltd. Ezra Hatton is strongly positioned in the quick-service restaurant sector in the United Kingdom.

As the result of reorganization measures within the Beverage Containers division, the Italian production plant for

containers, Safer S.p.A. in Valmedrera, had to be closed. A strategically important operation was relocated to Blefa GmbH & Co. KG in Kreuztal in Germany.

Investment

In the first half of the year, the Group invested a total of CHF 51.8 million.

Employees

As at June 30, 2001, the number of staff employed by Franke was 5,246, which is 235 fewer than in the previous year (30.6.2000).

Outlook for 2001

The present general conditions allow little hope of an improvement in business operations. Franke anticipates that the US economy will continue to weaken, and that there will, therefore, be an increasing global fall in current market activity in the second half of the year. The Group has accordingly decided on extensive measures to reduce costs, some of which have already been successfully implemented. For the year as a whole, Franke expects that the percentages for sales and profit will be in the order of the budget projection. However, given the uncertain outlook, a repeat or an improvement on the good result of last year appears unlikely. With regard to long-term development, however, the company remains confident. As at 30.06.2001, the Group had once again a very healthy balance sheet. There has even been a small improvement in the balance sheet structure, while the liquidity situation remains good.

Half-year performance in CHF million			
	I/2000	I/2001	Change in %
Sales	796.0	789.5	-0.8
Investment	42.2	51.8	+22.7
Employees	5,481	5,246	-4.3