

Franke Holding AG, Aarburg
Press conference on May 21, 2002 in Zurich

PRESS RELEASE

Positive business trend despite difficult market conditions

Franke is a global provider of products, services and custom solutions for a wide range of applications in the household food preparation and catering sectors. The company has approximately 5,300 employees, and is firmly established on five continents with 66 subsidiaries in 33 countries. It exports to over 100 countries. The Group has 36 production sites and 70 marketing organizations.

Against a background of difficult market conditions over the reporting year, the liquidity situation and financial structure of the Franke Group was again satisfactory. However, sales in Swiss francs and the earnings position were slightly down on last year, both in percentage terms and as absolute figures.

Consolidated sales in 2001 were CHF 1546.7 million. This corresponds to a decrease of CHF -12.6 million or -0.8% compared to the previous year (CHF 1559.3 million). In local currency, however, an increase in sales was recorded of CHF +21.3 million or +1.4%. In Euro, the consolidated net sales were EUR 1025.8 million (previous year EUR 1006.0 million). This corresponds to a growth of +2.0%. Excluding acquisitions, volume sales (currency neutral) rose by +1.0%. EBITDA, at CHF 186.3 million (12.0%), was CHF -9.7 million

or -5.0% below that of the previous year (CHF 196.0 million or 12.6%). Consolidated cashflow (net profit + depreciation), at CHF 160.3 million (10.4%), fell short of last year's level (CHF 172.3 million or 11.1%) by CHF -12.0 million or -7.0%. Total investment was CHF 103.1 million (previous year CHF 117.9 million). Of this, CHF 27.9 million was invested in land and buildings, and CHF 70.3 million in fixed assets, including IT. A total of CHF 4.8 million (previous year CHF 11.4 million) was spent on acquisitions and investments. All investment activity was fully financed from cashflow.

Franke, the world market leader in its core sectors, is strengthened through its new organizational structure

Strategic developments within the Group

The last major reorganization of the Franke Group was back in 1988, when the divisional organization model replaced the traditional regional one. Since then, there have been healthy trends in terms of turnover and revenue, market leadership has been achieved, and the company has had the benefit of sound and responsive management, backed up by strategically intelligent acquisitions, all of which have steadily consolidated the Group's long-term strength. Franke can look back on a period of major success, but this very success began to tell on the organizational structure of the Group. In the spring of last year, and in consultation with the Administrative Board, management therefore commissioned an external consultancy firm to carry out an analysis aimed at a realignment of the Franke Group's corporate strategy and organizational structure.

The move is designed to ensure that Franke is able to build on its record of success to date and pursue a path of solid growth. As a medium-term target, the plan is to grow sales to CHF 3.0 billion, in conjunction with achieving a substantial improvement in the earnings situation in percentage terms. Almost one year after the decision, on May 1, 2002, the new organizational structure was officially introduced in the form of a revised matrix organization.

The implementation of the new organizational structure will give greater responsibility in future to the divisions. These now have specific divisional functions: Finance & Controlling, Marketing, Production & Technology, Logistics, Supply Management and Information Services. Another new feature is the regional composition and the responsibilities in the divisions. Kitchen Systems has been divided into five different Business Units: North America, Northern Europe, Southern Europe, Rest of the World, and Washroom and Sanitary Equipment (WSE). The new WSE positioning gives this operation an important strategic role as a subdivision of Kitchen Systems. Contract Group has also been divided into five Business Units: Kitchen Equipment Supply (KES) Americas, KES Europe, KES Asia, KES New Business Development, and KES spare parts and accessories. The Beverage Containers operation is no longer an independent division. Despite the fact that it is a world market leader, it is no longer of sufficient size to warrant the infrastructure required for a separate division. There will also be modifications to the Diversified Products operation, which comprises Industrial Engineering, Metal Construction and Tool Manufacture, Medical Equipment, Food Service Equipment, Coffee Machines, Bathroom Furniture and Automotive Subcontracting. Strategies have been clearly

defined to reorganize and expand Industrial Engineering, Metal Construction and Tool Manufacture, Medical Equipment and Coffee Machines. This will be achieved either through new acquisitions or through strong internal growth. An improved position in a more favorable market environment will be sought for Bathroom Furniture. Franke intends to find a business partner for the Food Service Equipment operation from within the right market sector. The Automotive Subcontracting operation will be closely analyzed to find ways of integrating the activity more fully into the relevant industrial sector. To put it simply, while engaging in fewer activities Franke intends to achieve greater and more rapid success.

Two new functions have been created at Group level as part of the strategic adjustment. These are Business Development and Integration Management.

Strategic development of the Kitchen Systems Division

The key measures taken were as follows:

- In February 2001, the Germany subsidiary, Franke GmbH in Bad Säckingen opened a new sales office in Kiev in the Ukraine.
- The enlargement of the manufacturing area by 100% at Franke (Heshan) Kitchen Equipment Co. Ltd. in Heshan City, China was completed on schedule in March 2001. Total investment was USD 6.0 million.
- Franke Kitchen System SARL in Casablanca, Morocco was established in March 2001, and commenced operations immediately. Since then, the new company has been very successful in developing a sales network for sinks and accessories.

- In June 2001, Franke France SAS in Chambly, France, commenced construction of a logistics center.
- In June 2001, Franke Gesellschaft mbH in Hard, Austria also started construction of a new logistics center.
- In July 2001, Franke Kitchen Systems Manufacturing and Trade Ltd. in Istanbul, Turkey, began the production of drop-on sink units.
- In September 2001, Franke Kitchen Systems (Pty) Ltd., Mobeni/Durban, South Africa, closed its production facility in Cape Town and integrated the operation into its main plant in Durban. Its new logistics organization was launched at the same time. In Cape Town and Johannesburg, spacious, modern sales premises were opened with display and training facilities.
- In November 2001, Carron Phoenix Ltd., Falkirk, Scotland, commissioned their new office, display and training center. Investment in the buildings came to CHF 5.3 million.
- In November 2001, Franke Deutschland Holding GmbH acquired the Danish company A/S Panda Stal, in Brabrand. A/S Panda Stal is the second largest manufacturer of sinks in Denmark, with a current market share of 30%.
- The Federal Home Products Division, Ruston, LA/USA, invested USD 20.2 million in 2000/01 in a new sink production facility. In the year under review, approximately USD 10.0 million was invested to complete the project. This investment allowed the workforce to be reduced by almost half, with a substantial increase in production output.

Strategic development of the Contract Group Division

The following key measures were implemented as part of the divisional strategy:

- The enlargement of the manufacturing area by 100% at Franke (Heshan) Kitchen Equipment Co. Ltd. in Heshan City, China was completed on schedule in March 2001. Total investment was USD 6.0 million.
- In March 2001, the Franke Contract Group Philippines Inc. held the official opening of its new office, display and manufacturing plant in Calamba, the Philippines. Total investment was USD 3.7 million.
- In May 2001, Franke CG Kitchen Equipment GmbH in Bad Säckingen, Germany began construction of a new office and warehouse building. This represented the first stage in centralizing administrative processes in Europe, and establishing an automated warehouse management system for accessories and spare parts.
- In August 2001, Niggemann Foodservice Technik GmbH & Co. KG in Bochum, Germany acquired the Ezra Hatton operation from the Gamble Group. This company enjoys a prominent market position throughout the UK in the quick service restaurant sector.

Strategic development of the Beverages Containers Division

The closure of the Italian production plant, Safer S.p.A., was the last stage in a process of strategic relocation of production operations, which involved integrating operations from four locations in Switzerland, Italy, Finland and Germany into one central location for the production of kegs. As a result, Blefa GmbH & Co. KG is now the only supplier of kegs in the Franke Group.

As was already mentioned and explained above, the Beverages Containers Division will be continued as a business operation in the current business year, but will not be a separate division. In future, Franke Deutschland Holding GmbH will be responsible for this activity.

Strategic development of the Diversified Products operation

The following measures were implemented to assist strategic development under the new Group strategy:

- In August 2001, the Industrial Engineering division of Franke AG in Aarburg, Switzerland commissioned its new two-story building. The cost of the new plant, which has an area of 1,350 sq m, was CHF 3.7 million.
- In November 2001, Franke AG in Aarburg, Switzerland acquired a 100% shareholding in Kama Kaffeemaschinen & Service AG. The new company is a sales and service company for coffee machines in central and western Switzerland.
- In December 2001, Franke AG, Aarburg, Switzerland divested itself of two activities by setting up Franke Kaffeemaschinen AG for its coffee machines operation and Franke Verpflegungstechnik AG for food service equipment. Industrial Engineering, Tool Manufacturing and Metal Construction will remain part of Franke AG. However, Franke AG will in future operate under the name Franke Industrie AG.

Prospects for 2002

The new Group strategy gives Franke excellent future prospects. The above changes have been made from a position of strength and therefore hold great promise for the

future. The many advantages that the Franke Group enjoys, such as its corporate strength, dedicated staff, established market positions, healthy financial condition, highly respected brand name and loyal, long-term shareholders, are the guarantees of the Group's continued success. In the future, Franke intends to focus firmly on a strategy of healthy growth in its core fields, including WSE, and in the Coffee Machines, Medical Equipment and Industrial Engineering operations. The new organizational structure will pave the way to achieving new levels of sales and earnings. Franke will be able to continue to grow and make new acquisitions without any need for modifications to its structure over the next few years.

Provided the assumptions regarding general trading conditions do not alter drastically, Franke anticipates improved earnings for 2002 in conjunction with an increase in sales and a slight drop in investment.

Trends so far in the first four months of the current business year have been better than in the same period last year. Sales and earnings are up and are on track to match the budget forecast.

Information

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