

**PRESS RELEASE****Franke posts good 2003 results despite difficult operating conditions**

**Aarburg, Switzerland, 25 May 2004 – The Franke Group recorded good results, with sales totalling CHF 1,470.3 million and EBITDA of CHF 189.0 million, in spite of difficult conditions and problems affecting specific divisions.**

**Sales**

Consolidated sales in the year 2003 reached CHF 1,470.3 million. Relative to the previous year's sales performance of CHF 1,591.2 million, this represented a notional decrease of CHF -120.9 million or -7.6%. Against unchanged exchange rates (currency neutral), sales declined 5.4% to reach CHF 1,504.9 million. The difference relative to the previous year is attributable to the decline in sales of approx. CHF -180 million at Franke Foodservice Systems and an increase of about CHF 100 million reported by all other activities. Moreover, the negative currency influence amounted to a decrease of CHF -34.6 million or -2.2%.

Operating results (EBITDA) of CHF 189.0 million (12.9%) fell below those recorded in the previous year (14.0%) by CHF -33.1 million or -14.9%. Consolidated cash flow (net profit + depreciation) of CHF 158.2 million (10.8%) declined relative to the figure recorded in the previous year (11.1%). This means that despite the problems at Franke Foodservice Systems cash flow was only 0.3 percentage points lower than in 2002.

**Investments**

Total investments came to CHF 113.9 million (previous year CHF 149.6 million), corresponding to 72.0% of generated cash flow.

**Strategic Group development**

All of the Franke Group's activities, with the exception of the Franke Foodservice Systems improved compared to the previous year. Once again, balance sheet parameters developed favourably: the financial structure improved further, and liquidity increased. Notwithstanding declines in sales and earnings during the year under report, the Franke Group enjoys a strong financial situation and market position in all key markets and sectors. Furthermore, it has a streamlined and highly flexible organisation able to respond to changing conditions, and has a strong management at all levels.

**Strategic development Franke Kitchen Systems**

2003 was a good year for Franke Kitchen Systems, despite the difficult conditions – the weak economic environment in certain European countries (Germany) as well as in South America, currency problems and higher raw material prices. As a consequence, sales were 9.3% higher than in the previous year. This is attributable more to the expansion of existing business activities than to the results generated by new companies. The number of units sold increased substantially relative to the previous year, as well as the global market share. The divisional structure which was introduced in the previous year saw further adjustments with the foundation of the Business Unit Asia Pacific.

Important developments on this side last year included an acquisition and the foundation of a new company. On 9 September 2003 the company Blinox SAS in Chaponost, France, was acquired and integrated into the Franke Wash-room and Sanitary Systems Business Unit (sanitary equipment for public/semi-public applications). In addition, in September 2003 a new sales company was founded in Kiev, Ukraine.

### **Strategic development Franke Foodservice Systems**

The year 2003 was an enormously difficult period for the Division. The weak state of the economy, signs of market saturation, a shift in consumer behaviour and SARS, compounded by new strategic objectives pursued by major customers were the main factors here. These had a significant impact on the number of new restaurants opened by restaurant operators. The figures for sales generated with the Division's largest customers declined by between 40 to over 70%, depending upon the particular region.

Franke Foodservice Systems responded early to this situation by pushing through massive adjustments in capacity. Yet even this was not entirely sufficient to offset the market developments. In the USA two Franke works were closed in the year 2003, in Deerfield Beach, FL, and Sparks, NV. At the same time, there were substantial personnel reductions in the fields of procurement, sales and administration in LaVergne, TN. Europe saw the closure of the works in Bochum, Germany, as well as across-the-board staff reductions. Employee levels were also cut at the two works in China and on the Philippines.

Following these rapid and rigorous adjustments, the Division's focus within the KES sector (kitchen equipment supplier specialising in the provision of kitchen packages including project management) lies on the one hand on deepening customer relationships and widening the product range in order to create more added value for customers, and on the other hand on the worldwide expansion of the customer base. Furthermore, the proportion of own manufactured products is to be increased.

Unlike the KES side, the Division's resupply activities (small wares and spare parts) saw continued strong growth. We will continue to develop these activities at the international level – in particular in Europe, but also in Asia.

The third strategic focus is the building up of the so-called Total Service Concept. Franke Foodservice Systems aims to further support its key customers. With all encompassing services - from project management to kitchen delivery, spare parts up to maintenance – Franke will distinguish itself as the chosen supplier for restaurant chains.

In spite of the negative performance of the Division in the year 2003 in the field of new kitchens, Franke Foodservice Systems proved able to bring its capacity into line with the changed conditions within an impressively short timeframe by means of restructuring. While losses were recorded during the first quarter of 2003, the Division was back in the black from the third quarter of 2003 onwards. Due to our prompt response to shifting market conditions, the prospects for the future are positive.

**Strategic development of Franke Coffee Systems**

In terms of sales, Franke Coffee Systems performed well in the year 2003 – unit sales actually rose, in spite of the lasting economic recession in what is currently the largest and most important market – Germany.

An important event for Franke Coffee Systems was the acquisition of the distribution partner Ko-KS/Les Amis in Holland. Further acquisitions will be considered over the course of the current year.

The market situation is expected to improve in 2004 in the domestic markets of Switzerland and Germany. A particular focus lies on markets with the greatest growth potential, such as North America, Asia and Europe in general. Additional attention will be directed towards the key accounts, such as fast-food restaurants, service stations, bakery chains, hotel chains etc. Investments in Switzerland will involve the construction of a new coffee machine factory as well as the introduction of new IT solutions.

**Strategic development of Other Activities**

As was the case in 2002, the composition of the activities brought together under the heading of Other Activities again changed. Following the sale of the company Franke Romont SA, Romont, the planned sale of Lanz Industrietechnik AG, Wolfwil, the new foundation of Franke Werkzeugbau AG, Aarburg (formerly a profit centre of Franke Industrie AG) and the closure/sale of the metal construction activities, Other Activities now only comprises Franke Beverage Containers (Blefa GmbH & Co. KG, Kreuztal, Germany), Franke Industrie AG, Aarburg, Franke Werkzeugbau AG, Aarburg and frifri aro sa, La Neuveville.

In overall terms, the remaining Other Activities, in particular Franke Industrie AG (high-grade components for industrial applications) and the tool manufacturing side both performed well. The company Lanz Industrietechnik AG also saw a rise in growth and earnings.

#### **First quarter of 2004 and outlook for the year 2004**

In Swiss franc terms, consolidated sales recorded during the first quarter of 2004 were 15.2% higher year-on-year. However, the above-budget sales figures need to be put into proper relation against the anticipated massive rise in raw material prices.

Both EBITDA and cash flow were higher than in the previous year. This is due to higher sales figures with percentage-wise reduced personnel and other operating costs. Material costs were higher than in the year before.

We will continue to focus on expanding still further our market shares in our core businesses. For this purpose, the Kitchen Systems Division will continue, as was also the case in the previous year, on building up and expanding the appliance strategy as well as the expansion of the Franke Washroom and Sanitary Systems Division at the global level. The Franke Foodservice Systems Division will continue to concentrate in particular on the Total Service Concept, whereby the profitability of the Division will remain at the forefront of attention. Franke Coffee Systems will focus on the further establishment and expansion of the sales and service organisation at the global level.

Scope for improvement at the Franke Group lies primarily in higher productivity and efficiency, in further product and service innovations, in a harmonisation of the IT systems as well as in additional acquisitions designed to strengthen the company's position. Such acquisitions are subjected to continual review. A further measure is the steady expansion of the company's business activities in the regions Middle East, Africa and South America.

The economic outlook for the current year has brightened relative to the previous year. This means the Franke Group is in a strong position to achieve the sales and earnings figures budgeted for the year 2004, and should be able to report further substantial growth. For the Franke Group, potential problems could lie in the rising cost of raw materials, further shifts in exchange rates and interest rate hikes.

*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 Franke Group, whose holding company is domiciled in Aarburg, Switzerland, has some 5,600 employees around the world, and is firmly established with 72 subsidiaries in 36 countries. The two divisions **Franke Kitchen Systems** (sinks, taps, cooking hobs, ovens, hoods etc. and washroom and sanitary systems) and **Franke Foodservice Systems** (products and services for quick service restaurants) are the global market leaders in their business sectors, exporting to over 100 countries. The activities of the Franke Group also include **Franke Coffee Systems** with a broad product programme of fully-automatic, professional and semi-professional coffee machines as well as the technology field and Beverage Containers. In fiscal year 2003 the Franke Group generated consolidated sales of CHF 1,470.3 million.*

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