



## PRESS RELEASE

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### Business Performance of the Franke Artemis Group – Good Organic Growth and Strongly Improved Earnings

**The Franke Artemis Group achieved net sales of CHF 2,419.6 million in 2010. Its organic growth was +4.1%, while net profit doubled compared to the previous year.**

Overall, the Franke Artemis Group benefited from the generally improved economic situation compared to 2009. The situation regarding currencies and fluctuating, but generally rising raw material prices proved difficult, however. Equally challenging was the situation in some markets still deep in the crisis, such as Greece, Romania, Spain, and the USA.

In 2010, the Franke Artemis Group's net sales were CHF 2,419.6 million, stable at -0.2% from the previous year. Its organic growth, however, which represents actual performance, was +4.1%. The Franke Artemis Group's net profit more than doubled compared to the previous year. In its balance sheet, the Franke Artemis Group increased its equity capital ratio from 50.5% to 53.0%.

The Franke Artemis Group's investments ran to a total of about CHF 200 million. Employee numbers remained stable, with 10,552 persons at the end of the year. Both sales and value added per head increased compared to the previous year.

### Franke Industrial Groups Business Performance

**Franke Kitchen Systems Group** increased its sales by CHF +31.2 million, or +2.1% compared to the previous year. Organic growth was +5.4%. This growth in sales, together with measures to increase efficiency and capacity adaptations, led to improved EBITDA and cash flow margins.

**Franke Commercial Systems Group** had to overcome a challenging year and was forced to report a drop in sales of CHF 42.3 million or -4.5%. Its organic growth only declined by -1.1%, however.

The most important strategic and operational measures in the year 2010 were as follows:

- The Group's new organisational structure was successfully implemented in 2010. Divisional headquarters were established in Aarburg and subsidiary companies around the world legally assigned to them.
- **Franke Kitchen Systems Group** continued its restructuring. Sink production in St. Petersburg, Russia, was discontinued and capacities in the second factory in Ekaterinburg successfully expanded. Stainless steel sink production in Scotland was integrated in production sites in Poland and Italy. Construction of the new extractor hood factory in India began. Operational integration of Franke Werkzeugbau into the Franke Kitchen Systems Group was completed. All remaining minority shares of Franke Kitchen Systems Egypt were purchased. Within the Franke Kitchen Systems Group, the SAP roll-out continued and additional locations connected to the system, especially in Germany and Poland.

The Flow program (Franke Lean Operating Way), intended to increase efficiency in processes and concentrating primarily on employee proficiency and the establishment of lean tools and technologies, contributed significantly to the improved performance of the Franke Kitchen Systems Group. In 2010, Flow Metrics were defined, 22 Flow Camps with 266 Flow Certifications carried out in a large number of countries, and further programs were initiated.

Not least, the focus of the Franke Kitchen Systems Group's geographical expansion fell on the BRIC states, where handsome sales growth was reported. The largest investments within the Franke Kitchen Systems Group were carried out at Faber S.p.A., Italy, Franke Küchentechnik AG, Switzerland, and Franke S.p.A., Italy.

- **Franke Foodservice Systems** recorded a successful roll-out of the "Blended Ice Program," the final part of an important contract with McDonald's USA (increasing beverage sales is a strategic goal of McDonald's). TSI Technologies LLC in Wichita, KS, USA, was also taken over at 50%. Franke has been working together with ConGusto Deutschland in the "Smallwares" area of the McDonald's coffee concept. In 2010, the take-over of this coffee accessories business was completed and Franke's coffee competency strengthened. Another successful project of Franke Foodservice Systems was the development of the "Expandable Energy Management System," which is intended to help McDonald's restaurants conserve energy by means of controlled heating, cooling, and ventilation. This new system was successfully implemented for the first time in a McDonald's restaurant in Riverside, California, USA. Another highlight of Franke Foodservice Systems was its cooperation in the development of the new pan-Asian restaurant concept "Ginyuu" and the corresponding kitchen installation by Franke. The first restaurant was recently opened in Frankfurt, Germany.
- New division chief Bruno Perucchi joined **Franke Washroom Systems** on 1 November 2010. Franke Washroom Systems focused on major projects like the equipping of all the football stadiums in South Africa for the Football World Cup. "Mobile business" also progressed successfully - the equipping of e.g. the Airbus aeroplane fleet with specially manufactured washroom installations.

- New options unfolded for **Franke Coffee Systems** with the introduction into the market of "Pura" and the "Spectra Foam Master," both very promising additions to the product portfolio, developed by investments of over CHF 20 million. Logistical centralisation throughout Europe was another focus of the year 2010. Franke Coffee Systems also successfully and exclusively supplied McDonald's Canada with over 1,000 coffee machines; Franke Coffee Systems had already manufactured over 7,400 coffee machines for McDonald's USA in the years 2008/2009.
- Far-reaching restructuring at **Franke Beverage Systems**, including the closure of production sites in Germany and the USA, successfully brought about a turnaround. We expect very good results in this area.

## Franke Artemis Real Estate Group Business Performance 2010 – On the Path to Success

The **Franke Artemis Real Estate Group** holds and manages its own (non-operational) real estate portfolio of about CHF 300 million. The main company is Franke Immobilien AG, Aarburg, active in long-term ownership and development of primarily residential properties at central locations in Switzerland. With a share of 15%, Franke Immobilien AG is also the largest shareholder of Espace Real Estate AG, Bienne. It also holds a 30% share of Evostate AG, Zurich, which realizes large real estate development projects in Switzerland. Major properties in Romania and Poland round off the Group's portfolio. These investments in real estate generate a steady cash flow and capital growth, acting as an ideal addition to the Franke Artemis Group's investment portfolio.

Major projects under way are located in Villmergen (45 rental flats with shop space), Oftringen (70 rental flats with a service concept), and Zofingen (54 rental flats with commercial space). All three projects will be completed in the course of 2011.

## Franke Artemis Asset Management Group – Positive Developments in 2010

The **Franke Artemis Asset Management Group** primarily holds cash positions and interests in internationally active companies listed on the Swiss Exchange, such as Forbo Holding AG with > 25%, Feintool International Holding AG with >81%, Rieter Holding AG with >11.5%, Autoneum Holding AG with >11.5%, AdvalTech Holding AG with >21% and Precious Woods Holding AG with >10%.

The Franke Artemis Asset Management Group was able to more than triple its earnings. All important participations recorded positive development. Investments were made in Rieter; the participation rose steadily from 5.3% to 11.5%. In the course of 2010, the participation in Feintool was increased from 29% to 33%. A successful takeover bid increased the participation to over 81% in 2011.

## Franke Artemis Group Performance

EBITDA rose by 10.8% compared to the previous year, from CHF 266.3 million to CHF 295.0 million. EBIT increased from CHF 136.3 million to CHF 184.5 million (+35.4%). This increase was primarily effected by the Franke Kitchen

Systems Group. In addition, lower impairments of tangible assets of another CHF 2.8 million, compared to a clearly higher value of CHF 16.0 million in the previous year due to restructuring measures carried out at the time, also contributed to the improved result on EBIT level. The industrial segment alone succeeded in increasing its EBITDA margin from 10.8% to 11.9% and its EBIT margin even from 5.5% to 7.5%.

Profit after tax more than doubled compared to the previous year. It grew from CHF 92.1 million to CHF 187.6 million (+103.6%). All subgroups contributed to this marked growth; the Franke Kitchen Systems Group with an increase in earnings of CHF 29.1 million and Asset Management with an increase of CHF 50.1 million. The cause of the latter was capital profit from the sale of a 6% equity component to Forbo as well as clearly increased profit shares of the participations consolidated by the equity method. Here it was the 25% share of Forbo that primarily contributed to the increase.

### **Investments**

In 2010, the Group invested CHF 199.3 million. Of this, CHF 75.5 million consisted of direct operational investments. The industrial segment invested CHF 55.0 million in tangible and intangible assets and the real estate operations invested CHF 18.8 million in expanding their portfolio by new buildings. A total of CHF 7.1 million was expended on acquisitions. CHF 104.0 million was invested in securities, the greatest part of which went to further strengthening our position in Rieter to 11.5%. Minority interests (that are equity consolidated) were bulked up by CHF 12.7 million, particularly focusing on strengthening the Feintool participation up to the threshold of 33%.

### **Employees**

The Franke Artemis Group's average number of staff dropped from 11,151 employees to 10,628 in 2010, due still to the restructuring measures carried out in 2009. Development in 2010, however, points to more stability; compared to the 31/12/2009 figure of 10,454 employees, the end of 2010 saw a slight increase of 98 employees up to 10,553 employees.

### **Balance Sheet Development**

The consolidated balance sheet total dropped by -1.1% compared to the previous year, from CHF 2,721.9 million to CHF 2,690.7 million as of 31/12/2010. Currency conversion effects alone led to a decrease of CHF 153.9 million (-5.6%).

The value reported in the balance sheet for securities and associated companies (collected by equity method) amounts to a total of CHF 465.3 million, falling clearly below the fair market value. At closing prices on 31/12/2010, the participations, mostly listed on the exchange, had a value of CHF 711.6 million.

The net debt of the Franke Artemis Group was reduced by an additional CHF 92.6 million, from CHF 389.5 million to CHF 296.9 million, which corresponds to a debt factor (net debt/EBITA) of 1.0 (previous year: 1.3). It is significant, however, that the industrial segment is debt-free and was able to turn its interest-bearing net debt of CHF 105.8 million from the previous year into a positive net balance of CHF 48.2 million. The liquidity of the overall group also

improved by CHF 63.0 million compared to the previous year. The cash on hand listed on the balance sheet date increased from CHF 253.4 million to CHF 284.5 million.

Equity capital increased from CHF 1,373.6 million to CHF 1,427.2 million in the reporting period. The increase in equity capital of CHF 53.6 million was modest compared to the reported net profit of CHF 187.6 million due to currency conversion losses from the equity capital of subsidiary companies (translation losses) amounting to a total of CHF 140.9 million. The degree of equity financing improved from 50.5% to 53.0%.

### **First Quarter of 2011**

Sales in the first quarter fell 5.6% below sales in the first quarter of the previous year. Organic growth of 4.6% was achieved, but negative currency effects of -10.2% and negative investments of -0.1% more than offset it. Sales of the Franke Kitchen Systems Group decreased compared to the same period in the previous year by -6.2% (organic +3.3%), those of the Franke Commercial Systems Group by -4.8% (organic +7.3%).

There were 10,609 employees as of 31/03/2011, an increase of +57 persons compared to 31/12/2010. CHF 18.6 million was invested in the first quarter - primarily in operational plants and smaller acquisitions (Congusto) - not including financial investments. Orders on hand have improved by 17.4% since the beginning of the year.

### **Outlook for 2011**

In the industrial segment, the Franke Kitchen Systems Group in particular saw a decrease in demand, especially in the Mediterranean area. We do, however, assume continuing stability, if not improvement, in demand for the activities of the Franke Commercial Systems Group. Overall, we are counting on a persistently strong Swiss franc with declining nominal sales. We believe we can continue organic growth at the current level, however. We expect increased profitability from our industrial activities and real estate operations.

The outlook for individual Franke Artemis areas for the year 2010 is as follows:

### **Franke Artemis Group**

The improved and stabilised economic situation in several markets, together with additional internal restructuring measures to increase efficiency, should bring about an increase in earnings from industrial activities. There is significant uncertainty, however, since we will have to count on major challenges due to strongly fluctuating currencies, increasing commodities prices, and political instability.

The outlook for individual areas of the Franke Artemis Group for the year 2011 is as follows:

### **Franke Kitchen Systems Group**

At **Franke Kitchen Systems Group**, the focus is on improvements in service levels. We are also looking into additional consolidation in production. The very important SAP roll-out will be continued in additional companies. A number of acquisition projects are currently under review and further expansion at BRIC locations is being pushed.



Many innovative products will be introduced into the market in 2011. The new market image of Franke Kitchen Systems seeks to reach more end customers through the involvement of model Heidi Klum as a Franke brand messenger. A global advertising campaign is in preparation.

## Franke Commercial Systems Group

At **Franke Foodservice Systems**, the focus is on further development of services in the areas of energy and technology management, as well as market cultivation in Asia and Latin America and the expansion of manufacturing of own products for long-term increases in sales and earnings. A major investment programme by a key account is expected.

At **Franke Washroom Systems**, the outlook for 2011 is positive thanks to a stronger product portfolio, increases in efficiency, and an expanded market presence. We are investing in complete washroom systems together with third party suppliers as part of a new plan. We are emphatically pursuing the "mobile systems" business with key accounts.

At **Franke Coffee Systems**, we expect double-digit growth and a corresponding increase in profitability due to our expanded and very attractive product portfolio. Franke Coffee Systems is also in the final phases of completing a new roll-out for a large key account.

At **Franke Beverage Systems**, we expect a similar market environment in 2011 as in 2010. Focus continues to fall on cost efficiency and increasing earnings. The outlook continues to be good.

## Franke Artemis Real Estate Group

We assume that current real estate projects will be successfully concluded and earnings will continue to develop positively.

## Franke Artemis Asset Management Group

We expect positive developments for all of our participations, which should be reflected in rising share prices. Cultivation of the portfolio will be further systematised and optimised. We envision further investments in Asia, especially in China and India, as well as in Brazil and Russia. Services, health care, renewable energies, and real estate are at the fore.

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*The industrial activities of **Franke Artemis Group** include Franke Kitchen Systems Group and Franke Commercial Systems Group. **Franke Kitchen Systems Group** is the world-leading provider of kitchen systems (sinks, extractor hoods, fittings, hobs, ovens etc.). **Franke Commercial Systems Group** includes Franke Foodservice Systems (kitchen systems and services for quick-service restaurants), Franke Washroom Systems (washroom and sanitary systems in the public and semi-public sectors), Franke Coffee Systems with a wide range of superautomatic, professional and semi-professional coffee machines, Franke Beverage Systems (beverage containers) and industrial engineering. Furthermore, the Franke Artemis Group manages an extensive real estate portfolio (**Franke Artemis***



**Real Estate Group**) in Switzerland and holds various strategic participations in Swiss listed companies (**Franke Artemis Asset Management Group**). The Franke Artemis Group employs around 10,500 staff worldwide and is established in over 40 countries with about 70 subsidiaries. The Franke Artemis Group generated consolidated sales of CHF 2.4 billion in 2010.

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