

Schwanhäußer Industrial Group

> **SCHWAN-STABILO: DOUBLE STRATEGY HELPS TO SUCCESSFULLY WEATHER THE STORM**

> **INNOVATIVENESS AND ACTIVITIES ON FOREIGN MARKETS ENSURE THE FUTURE**

Heroldsberg. The Schwanhäußer Industrie Konzern was able to successfully weather the storm in the 2001/2002 financial year in what was generally a bleak economic climate. The terrorist attacks of 11th September 2001 in particular had led initially to a dramatic slump in business. In contrast, the second half of the financial year saw sharp increases in turnover. Record investment (€ 23 m) resulted in both areas of activity in massive increases in turnover with new products. As of the balance sheet date (30th June) group turnover exceeded expectations by touching the 280 m euros mark, thus only just failing to reach the previous year's very high level of 285 m euros. High pre-production costs and investment in new factories abroad as well as poor global economic conditions meant that the group's annual earnings after taxation fell to 10 m euros.

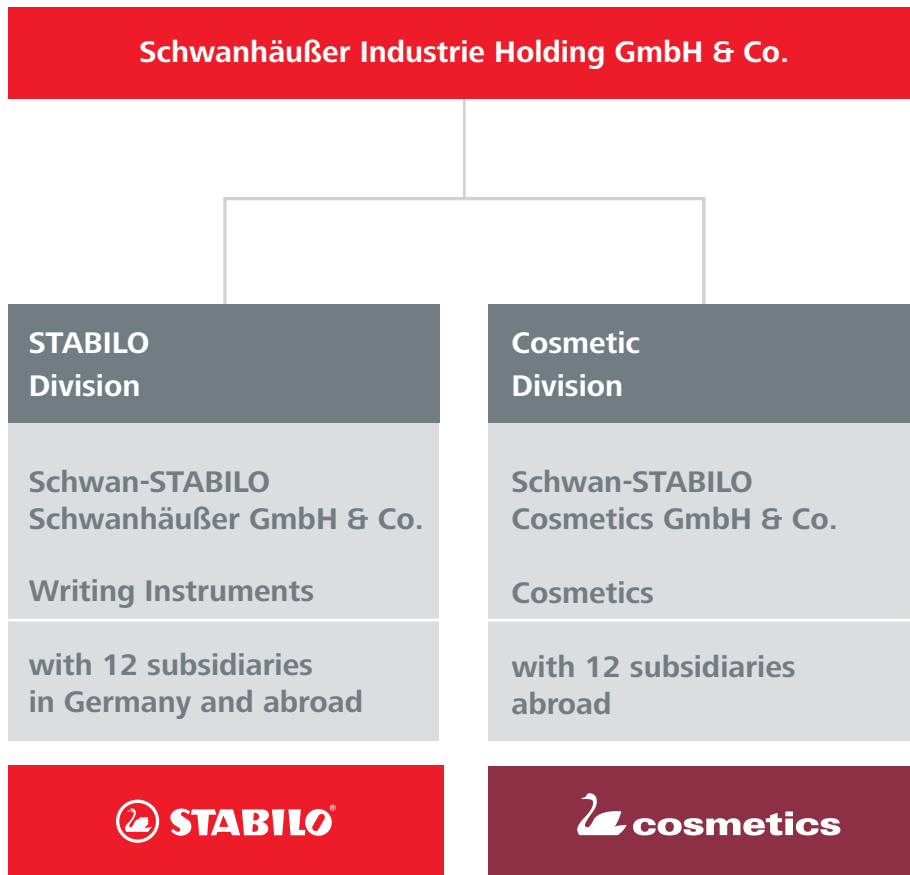
On a market that was generally in decline the Cosmetics subgroup was confronted for the first time with clear trends towards consolidation, a dramatic increase in competition and greater pressure on prices and earnings. As a result, a drop in sales was recorded particularly as far as traditional products were concerned. This drop, however, was offset by very successful new product designs. Sales of 173 m euros meant that the previous year's very high level (of 175 m euros) was almost reached.

As it has done now for years, the STABILO subgroup once again faced very difficult conditions on a keenly competitive world market. Sales of 108 m euros were recorded (compared to 110 m euros in the previous year). In the group's attempt to become market leader in the three core activity areas (Highlighting, Coloring, Writing) important successes were achieved with the introduction of new products and with regard to the brand image: STABILO is a modern, brightly-coloured and very 'in' brand for more and more young people throughout the whole of Europe.

> **SCOPE FOR FUTURE-ORIENTATED INVESTMENT**

It is planned to continue to meet the challenges posed by the even tougher market situation with the help of the proven and tested strategy of innovation regarding products and technology as well as activities on foreign markets. As group executive Ulrich Griebel says: "We cannot expect that the overall economic situation is going to change dramatically. Our sound liquidity position will enable us to make progress in both core activities." A key role is obviously going to be played by the group's 2800 employees throughout the world. Co-group executive Wolfgang Handt is sure that: "With them the group has the experience necessary to deal with challenging situations and rapid changes in the market situation."

	2001/2002	Deviation	2000/2001
	Mio EUR	%	Mio EUR
Turnover	281	-2	285
thereof Writing instruments	108	-2	110
thereof Cosmetics	173	-1	175
thereof EU	131	0	131
thereof outside EU	150	-3	154
Employees (as of end of June)	2,840	4	2,732
thereof domestic	1,930	0	1,933
thereof abroad	910	14	799
After-tax profit	10	-23	13
Investments	23	0	23
Depreciation	16	0	16
Shareholders' equity	58	5	55
thereof share capital	43	20	36
Equity capital base in %	31.8		28.7



> COSMETICS SUBGROUP

> WORLDWIDE ACTIVITIES

For several decades which were characterised by cyclical downswings and economic crises the cosmetics industry had been able to buck the trend by recording growth, but now, stagnating or declining sales figures are typical in this sector. Against the background of a greatly subdued mood among consumers throughout the world and the above-average growth recorded last year, Schwan-STABILO Cosmetics maintained its position as world market leader in the Private Label field and was basically able to record stability at a high level (sales of 173 m euros). On the US market, too, where the US subsidiary set up in 1996 had suffered a sharp fall in sales, there are clear signs of a recovery. Similarly positive trends are clear in other foreign subsidiaries as well. The company set up last year in the Czech Republic with the task of producing standard products more cheaply is now working at full capacity. The successful start on the Chinese market was followed in summer by the new factory in Brazil, "Schwan Cosmetics do Brasil". This means that local access to this market without the burden of import barriers has now been gained.

> HIGH-TECH INSTEAD OF SHARPENERS

Last year the effects of low demand were particularly felt above all in the field of traditional products and especially cosmetic pencils that can be sharpened. In contrast to that, almost all the new products which went on to the market for the first time in 2001 met with great interest on the part of the customers. New products seen by consumers to be of additional use are typical of this new "High-Tech cosmetics generation". But, at the same time, technical expertise is a must for the production. All in all, this is a result of the intensive work done by the own in-house research and development team "Tomorrow Cosmetics". In Heroldsberg there are now over 100 highly qualified employees working in interdisciplinary areas on the research and development of new products and technical processes.

Schwan-STABILO was able to increase its market share throughout the world. This is due both to worldwide activities which enable the company to play a decisive role in mass products and to investment in products which can be located in the higher price ranges.

> STABILO SUBGROUP

> STABILO DEFIES THE PRESSURE

In a general atmosphere which is characterised by economic and political turbulence, the fluctuations in the spending patterns in the general public and in industry and commerce have left their mark on the writing instruments sector as well. On this market which has been suffering from stagnation for a long time now, increasing integration is putting pressure on manufacturers and traders as are stronger competition and the price war. Tougher conditions are typical of this sector and these are having a direct effect on earnings and on manufacturers' ability to invest. The increasing trend to dealer brands and discounters is another typical feature of this sector.

By moving in the other direction, namely by intensive promotion of a strong brand name and by high investment in new products, Schwan-STABILO Schwanhäußer GmbH & Co. was able to buck the general trend in the past financial year. Sales of 108 m euros were achieved. Pleasing growth - which put an end to the negative results of the last few years - was recorded on most European markets. There was, in contrast to this, a slight decline on the German market. The effects of the temporary insolvency experienced by Herlitz AG, partner in the self-service business for many years, were felt here. The introduction of SAP computer systems in Heroldsberg and Weißenburg, which was carried out smoothly in November 2001 after a project phase of 18 months, led to increased costs as well.

> STABILO: WHERE TODAY'S YOUNG PEOPLE ARE

It is necessary to offer new products all the time in order to keep STABILO's 12-29 year-old target group who constantly need new buying incentives happy. Consumer surveys have shown that this strategy which requires a feeling for trends and for product design is popular among consumers: trendsetters identify with the name and with STABILO products. Only when this degree of acceptance had been achieved, was it possible to move into more lucrative price ranges. At the same time, the group continues to stake its claim to the market leadership in the three core areas of Highlighting, Writing und Coloring.

With the help of substantial investments in communications and advertising it is intended to make STABILO even more popular among young people in Europe.

So in 19 different countries a style competition has started up which should establish itself as a platform for young people in the years to come. So the trendy product series "STABILO 's move" is to be advertised on TV during programmes for young people in France, Italy, Switzerland and Germany.