Faber-Castell is optimistic in difficult times

Positive development in Asia / cosmetics segment notches up strong gains / investments in worldwide locations / brand strategy confirmed

Review of the Faber-Castell Group in 2008/09

The past business year 2008/09 was overall satisfactory for Faber-Castell. The Group generated consolidated sales of EUR 427.7 million (2007/08: EUR 417.6 million). While the first two quarters were marked by stable growth, the Group had to accept declining sales in the third quarter (October to December 2008). As a result of an improvement in the fourth quarter, an increase of altogether 2.4% (currency-adjusted 5.9%) could be achieved for the business year as a whole. All competence fields apart from Premium (-11%) grew 2% to 5%. The cosmetics business recorded a 29% increase.

The operating profit before Brazilian currency effects could be increased by 8.0% to EUR 30.9 million. Like many other companies, however, Faber-Castell was affected by the currency crisis in Brazil. Surprisingly and within a very short period, the Brazilian Real depreciated by about 40% against the USD. As a consequence, currency contracts were liquidated on a large scale in order to avert incalculable risks for the Group. The expenses resulting from this and other currency effects depressed the earnings to EUR 5.5 million. Thanks to the much better balance sheet ratios achieved in recent years and the good liquidity situation in the Group, provisions for further open currency contracts could easily be absorbed, to minimize further risks from the future development of the currency. As a result of these measures, earnings before taxes of EUR -4.1 million are reported.

Sales in 2008/09

I. Writing, Drawing and Creative Design

Europe/North America

With a sales increase of +4%, the German sales company succeeded in further improving its home market position, but recorded a 6% decline in export sales, primarily due to lower exports to countries, which were particularly affected by the crisis, like Spain, USA and the Eastern European region. All in all, the German company stagnated slightly below prior year level (-1%). The sales companies in Austria and Switzerland were newly established during the year and took up their operative activities as scheduled.

Latin America

In Brazil, business in local currency was at the previous year's level. Although the sharp depreciation of the Brazilian Real against the USD improved its competitiveness in export business, weak demand in the main export markets prevented increased sales. The merger of the two production facilities in São Carlos, Brazil, progressed as planned. The other Latin American markets operated very pleasingly. Argentina (+14%), Peru (+12%) and Colombia (+14%) continued their above-average growth in local currency. Chile was able to improve in local currency by 2%. The newly established sales company in Mexico took up its activities during the past business year.

Asia/Pacific

The Asia/Pacific region as a whole proved resistant to the financial and economic crisis and continued the positive development of recent years. Despite the sharp depreciation of the Australian dollar against the USD, the Australian subsidiary was able to maintain its previous year's sales. Faber-Castell Malaysia generated a sales increase of 3%, while the sales company in Indonesia recorded a pleasing 33% improvement, currency adjusted. The companies in India and China reported similar positive developments and grew by 30% and 23% respectively.

II. Cosmetics

The **Cosmetics segment** grew over proportionally in the past business year and increased its sales by altogether 29%. Not only product innovations but also the development of new sales regions made a decisive contribution to this success.

Development of the business in the first quarter of 2009/10 and outlook

Despite difficult conditions in some markets and product segments, a differentiated picture is emerging for the Faber-Castell Group that varies by regions and competence fields. For instance, Playing & Learning and Art & Graphic grew in the first quarter by 11% and 4% respectively. Weak consumer demands for luxury articles on the other hand continue and are affecting in particular the Premium business (-18% compared to previous year). The Cosmetics business is stable at last year's level.
In addition, the financial and economic crisis does not have the same effect globally, but impacts the individual marketing regions differently.
Sales in Europe/North America are at last year's level. With a double-digit sales plus, Faber-Castell USA has made an outstanding start to the new business year. Despite stable domestic business, the German company on the other hand also has to accept losses of sales in the export business. Italy and the smaller companies are performing as expected.
The Latin American business is not affected by a fundamental crisis. Although the companies are currently reporting a 19% decline in sales, it is expected that lower sales in the traditionally weak first quarter will be made up for in the coming months.
Thanks to the continuing resistance of the Asia/Pacific region to the effects from the worldwide recession, the Faber-Castell Group is reporting sales growth (5% up on last year), as in the previous year. Most of the companies got off to a good start in the new business year, whereby Indonesia and India recorded the strongest growth.

Provided the exchange rates remain stable, the Group's target is sales growth of 1% to 2% for the business year 2009/10. Of particular importance is the recovery of the return on sales to its earlier level accompanied by a significant improvement in key balance sheet ratios.

Worldwide investment and efficiency improvement measures

Following the expenditure of about EUR 23 million each in the past two years on the development and expansion of international production facilities, Faber-Castell also intends to maintain investment in the current year at a high level. Following the merger of the factories in São Carlos, Brazil, the main focus now is on projects aimed at improving efficiency. The recently commissioned factories in Mumbai, India, und Jakarta, Indonesia, are in the meantime being further expanded. The production capacities at the location in Lima, Peru are also being extended. The sales company in Mexico that has just opened reflects the growing importance of this Central American country within the Group. The development of a worldwide uniform SAP system and global supply chain management that have already started are being pursued vigorously and have already produced first positive results.

Brand strategy confirmed

The globally successful focus of the marketing strategy on the competence fields, "Playing & Learning" and "Premium" (high quality writing instruments and accessories), continues. Early brand creation and brand loyalty at children and the important image-building radiation effects, especially from the Graf von Faber-Castell Collection, support the positioning of Faber-Castell on a sustained basis. This pincer strategy will be intensified in the business year 2009/10, especially at home, with increased investments in the market. In order to support the school business, Faber-Castell has produced a new TV advertising spot for the "Playing & Learning" competence field that will reach the target group between June and September with more than 100 million contacts.
The journey in June of the world's largest triangular pencil (12.5 meters long and weighing a ton) was particularly successful. A joint campaign in 10 cities in Germany, Denmark and Norway with local specialist retailers demonstrated how children can be inspired to show more creativity and their mental development encouraged by drawing.
The visibility of the high quality products in the retail trade is similarly being continuously expanded. New shop-in-shop presentations in London at Harrods and Selfridges, in Kuala Lumpur and a new boutique in Singapore are strengthening the brand profile.

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