

Press Release from Esselte AB

July 22, 1999

Esselte's CEO comments on the six months report

- "The restructuring work of Esselte must speed up."
- "The sales and cash flow targets remain".
- "Operating margin target deferred."

Those are some of the statements by Esselte's CEO Jan Kvarnström after the presentation of the six months report today.

Here follows Kvarnström's complete comment on the situation for Esselte today and in the near future:

"The first phase of the Esselte strategy presented in October 1997 is now finalized almost one year ahead of plan. Nielsen & Bainbridge has been sold, Meto spun-off and the office products activities organized into one focused company, the new Esselte.

Positioning the new Esselte

In pursuing the acquisition of Leitz we clearly took the leadership as a consolidator in our industry where globalization and consolidation are rapidly happening. During the last year our new global organization with emphasis on supply chain, efficiency and product and market development has been implemented by existing and new employees.

Supply chain efficiency includes, apart from day-to-day productivity improvements, the execution of Leitz integration as well as the rationalization program introduced in the last quarter of 1997. Slower than expected sales growth and product mix improvement will force us to implement further restructuring measures as well as the divestment of non-core businesses. I had earlier indicated that a recurring, restructuring cost of 0.5 – 1.0% of sales per year is necessary, but under the present conditions speed is essential, and a rate of 1.5 – 2.0% for the next two years will be needed to reach our financial targets.

In the marketing area new product development and focus on our core brands have been prioritized. The successful launch of Letratag took place during the spring and a large number of new products in all business areas are in the pipeline for autumn and spring 2000 launch.

Web marketing is exploding and we are building up resources to participate in this and the other developing new distribution channels. Specifically, agreements with Value America (a leading web marketer of office supplies) and Ingram Micro (the largest IT distributor in the US and worldwide) are steps we have already made forward to take advantage of new opportunities.

Results six months 1999

The results for the first half of 1999 are of course disappointing. The development of our topline growth and mix have not been strong enough to offset the costs for our

offensive activities described above. There has to be better balance going forward.



Despite the overall disappointing results, it is important to analyze the quality of our performance and I'd like to underline the following:

- Cash flow is stable and strong, SEK 341 million,
- Gross margins are improving ,+1.5 percentage point,
- Sales growth (organic) in the second quarter is the highest since Q1 1998.

Targets going forward

When Leitz was acquired we announced new targets for Esselte being annual sales growth of 10% of which half is organic growth, an operating margin of 8.0% by year 2001, return on capital employed of 20% by the same year and a cash flow from operations of SEK 1 billion in year 2000.

On analyzing our situation today, there is no doubt our targets are viable. The cash flow and sales targets remain. The targets for

operating margin and return on capital employed are also viable but over a slightly longer timeframe.

Because of the need for continuous investments in product development and marketing, including establishing web marketing channels, the targets for operating margin and return on capital employed will not be achieved by year 2001, despite the increased restructuring efforts.

Good signs

The second quarter was financially disappointing and a good deal of the second phase of the restructuring work of Esselte definitely remains. However we are seeing good signs: sales and gross margins are improving, new products are successfully launched - and there are more to come – and the coordination and restructuring of our activities including acquired units are making progress. Therefore, I am confident that we will fulfill our mission to increase the shareholder value by creating the world 's leading office supplier meeting the needs of the office of the future."

Esselte brings innovation, efficiency and style to the way people work at home and in the office. By designing and delivering innovative office products from esteemed brands; Curtis, Dymo, Leitz and Pendaflex. Esselte is the world's leading office supplies

