AFG
Arbonia-Forster-Holding AG

Media release

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AFG Arbonia-Forster-Holding AG does well in difficult conditions

Record sales despite a significant decline in demand in the final quarter – Company prepares for difficult times with a comprehensive package of measures and an increase in share capital

Arbon, 16 March 2009 – **International building products supplier AFG Arbonia-Forster-Holding AG, based in Arbon (Canton Thurgau), achieved record sales and a good operating result for the last financial year despite the ongoing deterioration of the economic environment in the second half of the year. Total revenues increased by 6.7% to CHF 1570.6 million (previous year CHF 1471.5 million). This is the first time the revenue figure has exceeded one and a half billion francs, despite the fact that demand was clearly in decline, especially in the 4th quarter. After adjusting for acquisition and negative currency effects, like-for-like growth came to 2.1%. Operating earnings (EBIT) reached CHF 86.6 million (CHF 95.5 million), giving an EBIT margin of 5.5% (6.5%). This fall is mainly due to impairment of goodwill and intangible assets. Cash flow from business operations went up to CHF 96.1 million (CHF 72.1 million), while group profit fell to CHF 48.1 million (CHF 55.6 million) despite the lower tax bill resulting from lower EBIT, unfavorable exchange rate movements and higher, but planned, interest costs.**

Even though the recession meant that earnings were not as high as expected, AFG's balance sheet remains solid. The group's equity ratio of 36.9% (38.1%) is still higher than the industry average. The slight decline in the ratio can be attributed partly to the financing required to acquire the Slovakian window manufacturer Slovaktual, which led to an increase in net indebtedness. On the other hand also the negative effect of exchange rates on the translation of subsidiaries' functional currencies into the group's reporting currency had a substantial impact. As part of a comprehensive package of

measures to strengthen the group's earnings power and balance sheet, the Board of Directors will ask the forthcoming Annual General Meeting to approve payment of a 50% lower dividend of CHF 5 per bearer share and CHF 1 per registered share, as well as a capital increase of around CHF 125 million.

"In an increasingly difficult economic environment, we avoided a collapse in revenues and earnings by introducing corrective measures early on," said Chairman and Delegate of the Board Edgar Oehler when presenting the 2008 financial statements. "However, we are not satisfied with the results, and as the overall economic situation continues to deteriorate, we have launched a far-reaching package of measure to improve the situation." Several of the five divisions did in fact feel the full effects of the crisis already in the final quarter of 2008 as problems spread from the financial world to the rest of the economy. The Steel Technology Division, which focuses in part on the automotive industry, and the Surface Technology Division, which generates around 50% of revenues from sales to the printing machine and paper industry, were particularly exposed. By contrast, last year's economic downturn did not have a significant impact on the group's construction-oriented divisions.

Increasing internationalisation

Overall, AFG has taken a large step closer to its goal of reducing dependence on its two home markets of Switzerland and Germany. The group still generates 71% (76%) of revenues in these two markets, but it has significantly improved its presence in the rest of the world, especially the UK and Slovakia, mainly through acquisitions.

Varied performance by the divisions

The individual divisions performed more or less well depending on their markets and the industries they cater for, and their contributions to overall results varied accordingly. The largest division, **Heating Technology and Sanitary Equipment**, which generates around 40% of group revenues, increased net revenues by 4.2% to CHF 646.2 million (CHF 620.3 million). It would have performed even better were it not for the sudden collapse in demand from the UK that resulted from the British real estate crisis and the dramatic fall in the value of sterling against the Euro and Swiss franc. EBIT reached CHF 51.0 million (CHF 59.6 million), giving an EBIT margin of 7.9% (9.6%).

The **Kitchens and Refrigeration Division** performed satisfactorily and maintained revenues at practically the same level as in the previous year – CHF 290.5 million (CHF 295.5 million). Revenues and earnings were, however, adversely affected by problems with the implementation of new SAP software. These problems were resolved, but they still compromised the division's results and led together with an impairment at the Warendorfer entities to EBIT of CHF -2.4 million (CHF 3.9 million). From the end of 2009 onwards the division should receive a boost from the sale of kitchens currently being developed by star French designer Philippe Starck. These will come to the market in autumn. AFG has signed an exclusive agreement with Philippe Starck.

The **Windows and Doors Division** moved up a level during the year under review with revenue growth of 28.3% to CHF 382.4 million (CHF 298.1 million), fuelled mainly by the acquisition of Slovakian window manufacturer, Slovaktual. However, it also gained further market share in Switzerland, where it occupies a leading position in the market. The division's EBIT of CHF 38.1 million (CHF 25.4 million) and EBIT margin of 10.0% (8.5%) represented significant improvements on the previous year.

As expected, the **Steel Technology Division**, which with its innovative products has positioned itself successfully in recent years as a supplier to the automotive industry, was unable to avoid the effects of the steep decline in demand from carmakers. Demand for profile systems for buildings remained strong, but this was not enough to compensate for the decline in automotive business. Nevertheless, the division managed to achieve revenues of CHF 166.8 million, which is not far behind the previous year's level of CHF 173.4 million. EBIT fell to CHF 14.4 million (CHF 17.5 million), giving a still respectable EBIT margin of 8.6% (10.1%).

The **Surface Technology Division**, with its strong focus on the printing machine and paper industry, suffered from the same kind of problems as the Steel Technology Division had with the car industry. A deterioration in demand led to much lower revenues than in 2007. The relatively good performance of the Division's other products did offset the collapse in the printing machine sector to a certain extent. Revenues fell from CHF 95.2 million in the previous year to CHF 88.8 million during the year under review, and EBIT from CHF 4.3 million to CHF 1.8 million.

Current year will be more demanding than the preceding one

The Swiss construction industry's order books are full, but construction activity in Germany, AFG's second home market, never really took off even in past years of economic boom, and it is now looking distinctly weak. It is unlikely that the automotive and printing machine industry will recover much if at all this year. AFG believes, therefore, that 2009 will be even more challenging than 2008, especially since the group, for the first time in a long time, is not planning any acquisitions this year.

Comprehensive package of measures to ensure a successful future

AFG has decided on a comprehensive package of measures designed to counter the deteriorating operating environment. This package includes further measures to reduce costs across all divisions – including the continuation of the Avanti program introduced last summer. This will see a further 200-250 jobs cut within the group, mainly through natural fluctuation and early retirements. The short-time work already introduced in the Surface Technology and Steel Technology Divisions may have to be extended to other divisions. In addition, Group Management has decided to reduce investment compared with the high levels of recent years. Construction of the planned new Chinese factory for coating printer cylinders is being put back by a year, for example. AFG believes that by rigorously implementing these measures as well as by taking further financial measures, the company will be able to navigate its way safely though current and approaching storms. The group will therefore be well prepared for the upturn when it eventually comes.

Ensuring financial flexibility

In addition to the proposed reduction in the dividend and further measures to ensure high liquidity and optimize net working capital, the Board of Directors has decided to ask the Annual General Meeting to approve an ordinary capital increase of around CHF 125 million. This is intended to reduce AFG's net indebtedness, to ensure the covenants on outstanding loans are met, to repay the loans that fall due in June 2010, and to push the group's equity ratio above the targeted 40% threshold. Credit Suisse and UBS are advising AFG on the capital increase. Edgar Oehler, AFG's main shareholder, Chairman and Delegate of the Board of Directors, will participate in the capital increase in proportion to his shareholding. Further details of this transaction will be communicated at the end of March 2009 when the invitation to the General Meeting is published.

All of the existing members of the Board of Directors, with the exception of Ernst Buob, who is stepping down after six years on AFG's Board, will be making themselves available for re-election for further three-year terms of office. The Board will recommend to the General Meeting that Christian Stambach, a lawyer and partner at Bratschi Wiederkehr & Buob in St. Gallen, is elected to replace Ernst Buob.

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Key dates:

Publication of 2008 annual report	16 March 2009
Results press conference	16 March 2009, 10.30 a.m., Park Hyatt Hotel, Zurich
Financial analysts' conference	16 March 2009, 2 p.m., Park Hyatt Hotel, Zurich
General Meeting of Shareholders	17 April 2009, 4 p.m., Seeparksaal, Arbon

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This press release and further information on AFG Arbonia-Forster-Holding AG can also be found on our website at www.afg.ch.

About AFG Arbonia-Forster-Holding AG

AFG Arbonia-Forster-Holding AG, based in Arbon, Switzerland, is a leading integrated supplier to the construction industry. The company is listed on the SIX Swiss Exchange and operates through five Divisions: Heating Technology and Sanitary Equipment, Kitchens and Refrigeration, Windows and Doors, Steel Technology and Surface Technology. Its production sites are in Switzerland, Germany, France, the USA, the Czech Republic, the UK, China and Slovakia.

AFG has about 50 production and distribution companies around the world, as well as several representative offices and partners. It is active in more than 70 countries in total. Its brands – Kermi, Arbonia, Prolux, Asco Swiss, Aqualux, Forster Kitchens, Forster Refrigeration, Miele Kitchens, Piatti, EgoKiefer, RWD Schlatter, Slovaktual, Forster Precision Steel Tubes, Forster Profile systems and STI | Hartchrom – are at the heart of its business. With these brands, AFG Arbonia-Forster-Holding AG has built up strong positions in its home markets of Switzerland and Germany. It is also engaged in intensive efforts to develop new markets in Eastern Europe, Russia, and the Middle and Far East. In the 2008 financial year, AFG Arbonia-Forster-Holding AG and its 6100 employees generated sales of CHF 1571 million and an operating profit before interest and tax (EBIT) of CHF 86.6 million.

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