AFG
Arbonia-Forster-Holding AG

Media release

AFG Arbonia-Forster-Holding AG performs well in 2009

Net revenues only slightly down in crisis year 2009 thanks to stability of traditional construction supplies business and of the two home markets Switzerland and Germany – Healthy operating profits (EBIT) before one-off charges caused by macroeconomic factors and restructuring measures – Balance sheet significantly strengthened – Free cash flow at record levels

Arbon, 16 March 2010 – **Leading European construction industry supplier AFG Arbonia-Forster-Holding AG performed well in 2009 despite the very challenging environment. The group's revenues totalled CHF 1,384.2 million (previous year: CHF 1,570.6 million), down 11.9% (or 9.1% after adjusting for currency factors). The Swiss and German home markets and construction-related core activities proved to be reliable props for the business. The decrease in net revenues was largely a result of shrinkage in five markets: Russia, Poland, Slovakia, the UK and Italy. After adjustment for one-off special factors, namely impairment of goodwill and intangible assets at British Aqualux and Swiss STI I Hartchrom, operating profit (EBIT) came in at a satisfactory CHF 43 million (CHF 86.6 million), giving an EBIT margin of 3.1% (5.5%). Once special factors are included, the operating profit was CHF 7.7 million. These exceptional items also had an impact on group profits: excluding these factors, the income statement shows a profit of CHF 13.5 million (CHF 48.1 million), whereas the bottom line after inclusion of one-off items is a group loss of CHF 22.5 million. Thanks to the reductions in net working capital and capital expenditures, free cash flow saw a huge improvement to CHF 112.5 million (CHF –63.5 million).**

AFG's balance sheet was likewise strengthened. Owing to the substantial reduction in net working capital and the capital increase carried out last spring, which attracted a net total of CHF 105.8 million in fresh capital, the company was able to make a massive reduction in its financial debts. With goodwill at CHF 65 million (CHF 117.7 million), the value stated for these intangible assets at AFG is well below the industry average. Net indebtedness showed a sharp improvement to CHF 239.7 million (CHF 441.3

million). As at the balance sheet date, the equity ratio stood at 44.1% (36.9%), its highest for ten years.

Thanks to cost-cutting measures introduced in late 2008, further significant improvements were made in the 2009 financial year. For instance, material expenses fell disproportionately to 44.1% of net revenues (46.0%), mainly as a result of falling raw material prices worldwide, but also partly because of measures to centralise procurement. In spite of expansion in the Asia Pacific market region, average headcount was scaled back to 5,792 (6,131). Personnel expenses rose to 33.5% (31.7%), due primarily to one-off restructuring and downsizing costs. The downsizing measures introduced in 2009 will have a positive effect on personnel expenses in the current financial year.

Divisions present mixed picture

Performances once again varied from one division to the next, though the construction-related divisions generally fared much better than the technology divisions, which were hit harder by the slump in demand. In geographical terms, the two home markets did much to keep the group's business on an even keel during the upheavals of 2009, whereas other markets, most notably those in Eastern Europe and the UK, were badly hit by the economic crisis. Accordingly, the proportion of sales accounted for by the Swiss and German home markets in 2009 increased to the 2007 figure of 76% (71%). Despite the setback in the 2009 financial year, AFG will persevere with its strategy of internationalisation.

Last year's difficult market conditions are reflected in the performance of the **Heating Technology and Sanitary Equipment Division**, whose net revenues fell 12.3% year-on-year to CHF 566.8 million. Although demand from the German and Swiss construction industries remained steady, as anticipated, all the Eastern European markets, and most notably Russia (a traditional export market for the division), were hit by a scarcity of funding options for new construction in the wake of the financial crisis. In addition, Aqualux (a major player in the British sanitary equipment market) was still struggling to overcome the effects of the previous year's economic downturn. In view of the company's unsatisfactory results and uncertain prospects, virtually the entire CHF 15.5 million of goodwill at Aqualux had to be written off, causing EBIT for the division to sink to CHF 31.5 million. However, in operational terms, i.e. not including

this impairment charge, operating profits stood at CHF 47 million, only slightly down on the previous year (CHF 51 million).

The **Kitchens and Refrigeration Division** continued to suffer from an oversupply of providers, especially at international level, and from the resultant ongoing price wars in the kitchens segment and projects business. Because the division has clearly positioned brands and does not wish to give in to these competitive pressures at any cost, the result was a considerable reduction in its previously substantial export business ex Germany. The division's total net revenues decreased from CHF 290.5 million to CHF 269.4 million. Although the division has not yet reaped the full benefits of the cost-cutting and restructuring measures it has implemented, these are beginning to take effect, enabling its EBIT to be maintained virtually unchanged at CHF -2.7 million (CHF -2.4 million) despite the drop in sales.

The **Windows and Doors Division** once again proved very dependable, generating results that were nearly on a par with the previous year: net revenues totalling CHF 376.7 million (CHF 382.4 million) and EBIT at CHF 36.4 million (CHF 38.1 million). Whereas sales improved slightly in Switzerland, in the division's additional home market of Slovakia they shrank by approximately 40%, or CHF 18 million. Overall, the division's results were gratifying given the persistently heavy competitive pressures and tight squeeze on margins in both the Swiss and international markets.

By contrast with the Surface Technology Division, the **Steel Technology Division** unsurprisingly suffered from the difficulties that plagued the worldwide automotive and mechanical engineering industries. In the precision steel tubes segment, the decline in demand attained record dimensions (between 40% and 70%), having spread in the second half of the year to affect the furniture industry, another important market for the division's products. In the construction-related profile systems segment, demand decreased by around 10% – typical for the industry, but much less than the decline witnessed in precision steel tubes. However, because precision steel tubes make up more than 50% of the division's sales, this unfortunate decline in demand ultimately resulted in unpalatable year-on-year figures, with net revenues dropping from CHF 166.8 million to CHF 123.3 million and earnings from CHF 14.4 million to CHF -5.2 million.

In the core print cylinder coatings segment the **Surface Technology Division** suffered seriously from the global media crisis. The slump in order volumes from printing press manufacturers came as an especially hard blow for STI, the world market leader in print cylinder coatings. Equally recession-hit were the film & foil manufacture and hydraulics & conveyor segments, whereas the food and aeronautics segments recorded satisfactory performances, and the results generated by the production of sheet metal forming tools for the automotive industry were very good. Overall, the division saw a significant year-on-year decline in its net revenues to CHF 50.8 million (CHF 88.8 million). Because of these unsatisfactory results and the uncertain outlook for the current year, this division was likewise obliged to write down the value of goodwill and intangible assets by CHF 18.2 million. This resulted in a negative EBIT of CHF -36.4 million (CHF 1.8 million).

Balance sheet much stronger, free cash flow at record level

Energetic measures to reduce net working capital, combined with last spring's capital increase, produced a substantial decrease in financial debts. Net debt improved to CHF 239.7 million (CHF 441.3 million). The capital increase made a positive impact on equity, lifting the equity ratio to 44.1% (36.9%) at the balance sheet date, its highest since 2001.

The cash flow statement shows free cash flow at CHF 112.5 million (CHF -63.5 million), a record level achieved (in spite of the consolidated loss) thanks to the success in reducing net working capital, as well as to the decrease in capital expenditures. As a result, AFG is now in a much stronger position in terms of its liquidity which, as at 31 December 2009, was up CHF 63.4 million at CHF 122 million. This, together with the undrawn portions of AFG's credit lines, means that redemption of the remaining bond maturing in June 2010 will pose no problem.

Cautiously optimistic outlook

Barring unforeseeable events on the international manufacturing and capital markets, AFG can view the current financial year with cautious optimism. "With our wide-ranging cost-cutting measures, intensive recruitment for market development, numerous product innovations in all divisions, and the valuation adjustments we have made, we have created favourable conditions for sustained improvements in sales and profitability," explained Chairman of the Board of Directors and CEO Edgar Oehler in support of this assessment of the short-term outlook. "But we will strive unceasingly to maintain our competitiveness and will forge ahead with the AVANTI

programme of cost-cutting measures." While persistently muted demand means that sales will rise only slightly, Edgar Oehler expects to see a disproportionate year-on-year increase in earnings.

Introduction of new organisational structure

With a view to optimising the efficiency of the company as a whole, the Board of Directors also conducted a review of the group's organisation. It came to the conclusion that a structure that fosters an entrepreneurial approach to managing the divisions will provide a more effective means of realising AFG's portfolio strategy. It therefore resolved to reorganise AFG as an industrial holding company. Details of how this fundamental decision is to be implemented will be finalised by the end of the current financial year.

Introduction of unitary registered share at AGM

As previously announced, the Board of Directors will propose to the Annual General Meeting scheduled for 16 April 2010 that it abolish the previous share structure, consisting of both registered and bearer shares, and introduce instead a unitary registered share with a standard nominal value for all shareholders. The Board of Directors will simultaneously propose a number of amendments to the Articles of Association, primarily with a view to creating authorised and conditional capital equal to 20% of the share capital, introducing a 5% restriction on voting rights, and cancelling the opting out clause resulting in an obligation to make an offer should an equity participation exceed 33.33%. In addition, the Board of Directors recommends the election of Georg Früh (49), Austrian citizen, member of the Executive Board and CFO of Alpla Group, A-Hard, into the Board of Directors. Finally, as already announced in connection with the presentation of the half-yearly financial report, the Board of Directors proposes that no dividend be distributed for the 2009 financial year.

Key dates

Publication of 2009 annual report	16 March 2010
Results press conference	16 March 2010, 10.30 a.m., Hotel Widder, Zurich
Financial analysts' conference	16 March 2010, 2 p.m., Hotel Widder, Zurich
Annual General Meeting	16 April 2010, 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

AFG Arbonia-Forster-Holding AG, based in Arbon, Switzerland, is a leading integrated construction industry supplier and technology group. 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 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 Küchen, Forster Kühlen, Miele Kitchens, Warendorf, Piatti, EgoKiefer, RWD Schlatter, Slovaktual, Forster Präzisionsstahlrohre, Forster Profilsysteme, STI | Hartchrom and Asta – are at the heart of its business. With these brands, AFG Arbonia-Forster-Holding AG has built up leading 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, though always with a close eye on the general economic situation. A separate Asia Pacific regional branch was set up in 2008. AFG's focus is on segments that reward outstanding innovation and responsiveness with robust margins and exceptional long-term growth potential.