AFG
Arbonia-Forster-Holding AG

Press release

AFG back in the profit zone

Strong Swiss franc shaves more than half off actual sales growth – Significantly greater earnings power despite more expensive raw materials and restructuring costs - Daniel Frutig appointed as AFG's new CEO

A r b o n, 8 March 2011 – **Just one year after the negative annual result caused by the financial and economic crisis, AFG Arbonia-Forster-Holding AG, one of Europe's leading construction equipment and technology groups, has increased sales significantly and returned to profit. However, sales growth was significantly compromised by the strength of the Swiss franc: if exchange rates had been the same as in 2009, consolidated revenues would have risen by 5.8%, but ultimately the year-on-year increase was one of 2.1% to CHF 1 413.6 million. Once again, the home markets of Germany and Switzerland and construction-related activities proved to be reliable props for the business. Exceptional factors, especially the sharp rise in raw materials prices towards the end of the year and restructuring costs, had a negative effect on earnings. Nevertheless, the EBITDA margin improved substantially to 8.6% of net revenues (previous year 7.7%), or CHF 121.1 million (CHF 106.0 million). If it hadn't been for one-off factors, it would have gone up to 9.2% of net revenues. There was a notable increase in EBIT to CHF 47.5 million (CHF 7.7 million) owing to much lower impairments and depreciation. The EBIT margin improved substantially from the previous year's 0.6% of net revenues to 3.4% (or from 3.1% to 4.7% excluding one-off items). After a loss of CHF 22.5 million in the previous year, the income statement for 2010 shows a profit of CHF 14.2 million. The Board of Directors is proposing to the forthcoming Annual General Meeting that dividend payments be resumed with a distribution of CHF 0.50 per share. The payment will be made from capital reserves and so will not be subject to deduction of withholding tax.**

The balance sheet has been further strengthened by the improved business performance. Total assets went up slightly because of the CHF 200 million bond issued during the year under review, which together with currency losses led to a slight fall in the equity ratio to 41.8% (44.1%). However, net indebtedness was reduced again to CHF 169.4 million (CHF 239.7 million), while the end-year cash position improved significantly by CHF 141.3 million to CHF 263.3 million thanks to continuing solid free cash flow and the bond.

The Board of Directors has elected Daniel Frutig (49) to be Edgar Oehler's successor as CEO of AFG. Daniel Frutig, who is currently working abroad for a global company, is an internationally experienced manager who is familiar with AFG's markets. He begins his new role on 1 June 2011. At the same time the Board of Directors has named Hannes Schmüser (42) as the new Head of the Surface Technology Division.

"The prompt measures that we initiated in 2008 to adjust capacities and improve the efficiency of the company as a whole have paid off," says Chairman of the Board of Directors and CEO Edgar Oehler in reaction to the rapid return to profit. "Our focus on our construction-related core competencies and home markets has undoubtedly been a decisive factor in this rapid turnaround." AFG enjoyed stronger profitability in 2010, though a series of exceptional factors influenced the final result. On the one hand there was a profit of CHF 6.3 million from the sale of non-operating real estate, but on the other there were restructuring costs and much higher procurement and transport costs in the second half-year. After adjusting for one-off items, such as those resulting from the ongoing restructuring, it turns out that personnel and other operating expenses were at more or less the same percentage level as the previous year. AFG is in control of costs.

Positive performance in all divisions

By contrast with previous years, all of AFG's divisions performed positively before currency effect adjustments. The same applies to almost all the regions in which AFG operates, the exception being the UK market, which is still weak. The growth markets of Eastern Europe performed particularly well. The greatest revenue growth came from the two technology divisions most affected by the economic downturn, Steel Technology and Surface Technology, which improved by 13.1% and 17.1% respectively and thus made up some of the fall suffered in the previous year.

Despite the continuing lack of new building in Germany, the **Heating Technology and Sanitary Equipment Division** achieved revenues of CHF 544.5 million. This is a fall of 3.9% compared with the previous year, but adjusted for currency effects the division actually posted revenue growth of 3.3%. The continuing strength of Swiss residential construction supported the division's positive performance, and the first signs of recovery were evident in Eastern Europe. The sluggish state of the UK residential construction sector pushed down revenues at UK subsidiary Aqualux. Aqualux is expected to achieve the turnaround this year. The division was able to counteract higher input prices by greater productivity and a further optimisation of the cost structure. The result was greater profitability, with an increase in EBIT to CHF 32.9 million (CHF 31.5 million).

For the first time in a long while, the **Kitchens and Refrigeration Division** saw improvements in individual sectors and posted net revenues at virtually the same level as the previous year at CHF 267.1 million (CHF 269.4 million). After adjusting for currency effects it actually posted a year-on-year rise of 0.2%. This positive development was mainly due to much higher sales of Piatti kitchens, which are the clear number 1 in the Swiss market, and which have also been sold in Germany, Austria and the Netherlands since last autumn. The new kitchen concept "Starck by Warendorf" and sales of Forster kitchens have not yet fulfilled expectations. The refrigeration business unit's performance in terms of net revenues was much the same compared with the previous year. The division made progress in most areas in terms of earnings despite an intensely competitive market environment. However, exceptional charges at Warendorf meant that EBIT fell to CHF -14.7 million (CHF -2.7 million).

The **Windows and Doors Division** once again proved a very dependable part of the AFG portfolio. In a mature market and despite overcapacities it recorded a very healthy rise in net revenues of 7.6% (or 8.8% if adjusted for currency effects) to CHF 405.2 million. Both businesses – windows and doors – contributed equally to this result. The division is reaping the rewards of its innovative development work, which has resulted in products that meet the environmental and technical security needs of today's market. Pleasingly, and thanks to strict cost management, the division's profitability has kept pace with its revenue growth. EBIT reached CHF 38.9 million (CHF 36.4 million).

The revival of the car industry also helped to push the **Steel Technology Division** back onto its accustomed growth trajectory. It achieved a 13.1% increase in net revenues to CHF 139.4 million, with sales of precision steel tubes for the car and furniture industries rising more than those of steel profiles. This division was, of course, particularly affected by the increase in steel prices, especially since these can only be hedged a quarter of a year in advance. A more rigid procurement policy on the part of car firms and the weaker euro meant that price increases could no longer be integrated fully into sales prices in every case. Nevertheless, with EBIT of CHF 9.9 million (CHF -5.2 million) and an EBIT margin of 7.1%, the division once again achieved good profitability.

Thanks to a noticeable recovery in the printing business, the **Surface Technology Division** recorded a strong rise in net revenues for the first time since 2007. Net revenues at the division increased 17.1% to CHF 59.4 million. Adjusted for currency effects the rise was slightly higher than the predicted 20%. The improved revenues were mainly a result of notably greater demand from China and other emerging markets. One of the elements in this division's strategy is to form strategic partnerships with key customers in order to tap into the huge potential for sales in China and elsewhere. By posting EBITDA of CHF 1.5 million, the division recovered from the crisis years in terms of earnings, though it will still take at least another year to return to profitability.

Balance sheet made even stronger

For obvious reasons it was not possible during the year under review to reduce total assets through a massive reduction in net working capital like last year. Free cash flow was therefore almost halved compared with 2009, but still came to CHF 59.7 million (CHF 112.5 million) thanks not least to the proceeds from the sale of non-operating real estate. With the funds made available by the bond issue, AFG's liquidity is at a comfortable CHF 263.3 million, and AFG is well financed for the medium term. Thanks to the further improvement in net indebtedness to CHF 169.4 million (CHF 239.7 million), there is no problem maintaining the leverage ratio (net indebtedness divided by EBITDA).

Further progress through organic growth

In 2011, organic growth is once again a priority, leading to a series of planned and implemented investments. For example, the Surface Technology Division, as part of its efforts to tap into promising markets more effectively, has started building a modern coatings factory for STI in Changshu, China. It will begin operations in autumn this year. Successful Swiss kitchen brand Piatti is taking a historic step by moving into foreign markets and thus internationalising its business. The Windows and Doors Division will start operating a new production facility in Pravenec, Slovakia, in order to master growing capacity problems.

The Board of Directors is confident that AFG will continue to increase its revenues and earnings this year. It is expecting revenue growth in local currency terms of approximately 3 - 5% as well as improved earnings.

Change of management and generation at the top of AFG

The Board of Directors has appointed Daniel Frutig (49) as the new Chief Executive Officer of AFG. Daniel Frutig takes over this role from Edgar Oehler who, as already communicated, will be stepping down as CEO on the date of this year's Annual General Meeting. Mr Frutig will take up his position on 1 June 2011.

Daniel Frutig graduated in 1987 as a heating, ventilation and climate technology engineer from the University of Lucerne. He earned an MBA from the University of St. Gallen in 1994 and completed the Top Management Executive Program at INSEAD in Fontainebleau in 2004/05. Since 2005 Daniel Frutig has been Group Executive Director of the Support Services Division of the globally active Compass Group of Chertsey, UK. In this position he is responsible for worldwide support services and facility management business at Compass Group, which turns over about CHF 3.5 billion a year and employs around 80 000 people. Daniel Frutig has an outstanding knowledge of the real estate industry and post-construction services, as well as many years of experience in setting up and developing associated businesses, especially in Eastern Europe, India and China.

New Head of Surface Technology Division

The Board of Directors has also appointed German national Dr. Hannes Schmüser (42) as the new Head of the Surface Technology Division and member of AFG's Group Management. Hannes Schmüser is currently Vice President Sales & Marketing and member of the Executive Board of Bühler Druckguss AG, Uzwil. He completed his studies as an industrial engineer, majoring in mechanical engineering, at Darmstadt Technical University in 1995, and then gained a doctorate at the Daimler-Benz Research College in 1998. Hannes Schmüser will start his new job in charge of AFG's Surface Technology Division on 1 September 2011.

Key dates

Publication of the 2010 annual report	8 March 2011
Results press conference	8 March 2011, 10.30 am, Rest. Metropol, Zurich
Financial analysts' conference	8 March 2011, 02.00 pm, Rest. Metropol, Zurich
Annual General Meeting	29 April 2011, 04.00 pm, Seeparksaal, Arbon
Half-year results	3 August 2011

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This press release, CVs and photos of Daniel Frutig and Hannes Schmüser, and further information on AFG Arbonia-Forster-Holding AG can also be found on our website at www.afg.ch.

You will find the Annual Report 2010 on our Website:
www.afg.ch/GB2010_en.pdf or www.afg.ch/GB2010_de.pdf

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, 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.