AFG
Arbonia-Forster-Holding AG

Press release

AFG increases revenues in a difficult environment – Strong Swiss franc and rising raw material prices pull down half-year result

New management puts all areas of the company under scrutiny

Arbon, 3 August 2011 – **Despite a significant 6.4% rise in currency-adjusted revenues (+1.0% unadjusted), AFG Arbonia-Forster-Holding AG has posted a lower EBIT of CHF 10.9 million (previous year CHF 15.2 million) and a weaker overall result of CHF -1.4 million (CHF 1.3 million) for the first half of 2011. These figures, which the company itself describes as disappointing, are the result of the strong Swiss franc and a noticeable rise in raw material prices. The new management of AFG – led by new CEO Daniel Frutig, who has been in post since 1 June 2011, and new Chairman of the Board of Directors Paul Witschi – has conducted an initial analysis. It has come to the conclusion that despite the current foreign exchange situation and its competition-distorting effects, and despite the unsatisfactory Group results, the company still has very good foundations and a great deal of untapped potential in all its divisions. Management is confident that despite the weak start, the company will match last year's results for the year as a whole. Owing to the unsatisfactory earnings performance in the first six months of the year, it has decided to put everything at AFG under scrutiny over the coming months.**

The Heating Technology and Sanitary Equipment Division was naturally the division affected most by the higher cost of many raw materials, especially steel. The Steel Technology Division also suffered from the fact that steel prices can only be hedged through the use of appropriate contracts for a quarter at a time, while its main customers demand fixed prices six months in advance.

With exchange rates moving drastically to the detriment of Swiss production sites, the AFG divisions that operate mainly from Switzerland (Steel Technology and to some extent Surface Technology Divisions) saw their margins eroded. Larger projects produced by the Kitchens and Refrigeration Division also saw greater competition in the Swiss home market from foreign providers.

Varied performance by the individual divisions

Owing to unfavourable changes in exchange rates (euro) and raw materials (steel) the biggest division, **Heating Technology and Sanitary Equipment,** which accounts for around 40% of revenues, performed below expectations. The division did much better than a year ago in its core German market and in its main segment, heating technology, but UK company Aqualux once again struggled to increase revenues and earnings. Overall, the division's revenues increased 3.5% from previous year after adjusting for currency effects, but fell 7.2% in absolute terms. The difficult price situation was also reflected by a narrowing of margins, leading to lower EBIT of CHF 16.2 million (CHF 19.2 million).

In the **Kitchens and Refrigeration Division** both Forster Kitchens and Warendorf Kitchens (formerly Miele Kitchens) failed to match the previous year's figures. During the first half-year, the manufacturing of Forster's new steel kitchens caused significant technical problems, and Warendorf had to cope with production capacity issues. By contrast, Piatti has easily exceeded previous year's revenue figures in all segments. Nevertheless, the currency situation requires the company to make substantial price concessions on larger items in order to stay in the market. Given the enormous competitive pressure, the increase in revenues from CHF 113.7 million to CHF 118.2 million is a good achievement. With an unchanged EBIT of CHF -5.8 million (CHF -5.8 million), the division has not yet managed the turnaround.

The **Windows and Doors Division** once again proved a very dependable and secure part of the AFG portfolio. The large increase in revenues from CHF 159.4 million to CHF 170.3 million (+6.8%) reflects the strong market position that the division has built on the basis of high quality work in all segments. The division's earnings performance, as measured by EBIT, outstripped its revenue growth with a jump of 14.0% to CHF 8.9 million (CHF 7.8 million).

The **Steel Technology Division** increased net revenues by a respectable 9.3% to CHF 73.9 million. Once again, the division's Swiss home market provided reliable support, while sales in foreign markets suffered from the difficult currency environment. The Steel Technology Division, more than any other division, felt the effects of the strong Swiss franc, the rising steel price and the incredibly fierce competition among suppliers to the international automotive industry. With EBIT of CHF 1.3 million, the division only managed to achieve a fraction of the previous year's CHF 5.2 million.

Starting from a low level of revenues and earnings compared with the boom years, the **Surface Technology Division** once again posted positive growth in the first half of 2011. Revenues rose by 14.1% to CHF 32.0 million. Though still negative, EBIT improved by 15.7% to CHF -3.7 million. The division's business performance is characterised by large differences between individual product segments. The most important segment by some distance, the print segment, enjoyed a significant rise in revenues.

Balance sheet remains strong

The balance sheet, which has been actively managed and, as a result, condensed in recent years, has not changed significantly from a year ago. Net indebtedness has fallen slightly to CHF 246.3 million (CHF 254.5 million). The ratio of net indebtedness to EBITDA is -2.14, which is roughly the same as the previous year's figure of -2.15, and the equity ratio is also more or less unchanged at 40.9% (compared with 40.5% a year ago). The seasonal increase in net working capital, as well as the investments in new buildings and equipment, the new radiator plant in Stribro, window and door production at Slovaktual and the new plant built by the Surface Technology Division in China, have reduced free cash flow to CHF -69.9 million (CHF -23.4 million).

Tackling the problems decisively

The current high level of competitive pressure, triggered by negative foreign exchange trends and rising raw materials prices, is exposing strategic weaknesses, structural deficiencies and organisational issues. The Board of Directors and Group Management led by the new CEO have therefore made a joint decision to put everything at AFG under scrutiny over coming months. All divisions will be screened for possible improvements, especially on the costs side, but a high priority will also be given to accelerating growth through innovation. The Board of Directors is willing to make any investments that might be required to do this. Neither have selective acquisitions been ruled out.

In order to reduce the group's dependency on the Swiss franc and to use the Asian bridgeheads that AFG already has, or is building up for all divisions, the aim is to raise the proportion of revenues earned outside the home markets from the current 23 percent to around 40 percent within the next years. These measures should create the conditions that will allow AFG to generate sustainable value once again. The initial results of these measures should already become evident this year, though most will not take effect before 2012.

Higher production costs can still not be integrated in full to sale prices, so the earnings position will remain stretched for at least the rest of this year. However, experience shows that seasonal factors make the second half of the year stronger than the first. The company is confident, therefore, that the various immediate measures it is taking, will allow to match last year's results despite the weak start into 2011 financial year. These immediate measures include the planned, and already announced, downsizing of the European fleet of vehicles managed by AFG's subsidiary Asta AG in Arbon/CH. Owing to high personnel costs and the negative currency trend, especially with regard to the Euro, this part of Asta's business is no longer competitive. Subject to the statutory codetermination rights of the employees concerned, the 17 jobs associated with the European fleet will be terminated. Asta's Swiss-focused logistics activities are not affected by this plan.

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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.

At www.afg.ch/HJB2011_de.pdf or www.afg.ch/HJB2011_en.pdf on our website the First Semester Financial Report 2011 can be found.

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 Kitchens, Forster Refrigeration, Warendorf, Piatti, EgoKiefer, RWD Schlatter, Slovaktual, Forster Precision Steel Tubes, Forster Profile Systems, 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.