AFG
Arbonia-Forster-Holding AG

Media release

Major changes at AFG Arbonia-Forster-Holding AG

Strong Swiss franc and capacity problems put brakes on revenue – Earnings meet expectations – Extensive impairments lead to loss for the year – Thorough review of business portfolio produces first successes

A r b o n, 24 January 2012 – **AFG Arbonia-Forster-Holding AG, one of Europe's leading construction suppliers, suffered during the last financial year as a result of the unfavourable exchange rate situation as well as capacity utilization problems. After adjusting for currency movements and acquisitions, group revenues stagnated, but before adjustment they fell 4.7% to CHF 1.347 billion. Earnings growth, measured as EBIT before impairements, will be within the target range of 3% to 4%. Certain fixed assets were revalued at a lower level, leading to impairments of CHF 70 to 75 million. As a result of these, the 2011 annual accounts will show a substantial, non-cash-effective loss. At the operational level the company expects to post slight sales growth in 2012 as corrective measures take effect and earnings continue to rise.**

Once again, the home markets of Germany and Switzerland were the linchpins of AFG's business. The construction market remained robust in both countries. Nevertheless, revenues were hurt by the discontinuation of investment support in Germany and by a more cautious attitude to investment in both markets in the wake of uncertainties on the financial markets. Across the divisions, procurement costs and price pressure continued to rise. In Switzerland, the divisions' ability to compete was also hampered by the growth in imports of products made abroad under euro conditions.

Review of business portfolio creates strain but shows first successes

The company-wide review of the business portfolio's strategic focus, launched in the summer, created an additional workload for all divisions. It also took up substantial management capacity in an environment that was already challenging. However, the company is beginning to see the initial positive results of this review. The Kitchens and Refrigeration Division has been split, with each now under its own dedicated management. Marketing of the three kitchen brands in Switzerland was integrated into the new AFG Kitchens platform, which should create additional sales momentum. Production capacity for doors in Switzerland is being significantly expanded with an investment of approximately CHF 30 million in order to remove bottlenecks and fully exploit market potential. Following the sale of Asta AG Arbon's European transport capacities, its Swiss activities are now also being sold as planned following completion of the statutory consultation process.

Mainly because of lower demand from outside Germany – i.e. the UK (especially Aqualux) and in other Western European countries - the biggest **division, Heating Technology and Sanitary Equipment,** experienced a downturn in revenues. In Germany the end of investment support had a negative effect on sales. The realisation of already in 2011 communicated extensive production optimizations also caused a temporary reduction in delivery capacity. In this difficult environment, the division's net revenues fell 11.4% to CHF 482.3 million, though after currency adjustment the fall was only 1.7%.

Net revenues at the **Kitchen and Refrigeration Division** were only slightly down on the previous year despite the organizational and financial impact of ongoing restructuring measures. The CHF 257.5 million figure for net revenues represented a decrease of 3.6%, or of 2.4% after currency adjustment. The kitchens business suffered particularly in Switzerland's border regions from increased imports of competing foreign products that are profiting from the exchange rate situation. Production problems at Forster Kitchens and insufficient utilization of production capacity in Warendorf (Germany) placed further constraints on the division's performance.

Stable construction activity, a strong focus on the Swiss home market, and a high level of innovation allowed the **Windows and Doors Division** to increase net revenues slightly by 0.2% to CHF 406.1 million. The increase in net revenues in Switzerland came to around 3%, though this could have been even better if capacity problems – now resolved – had not held back production. In addition, the expanded factory in Slovakia did not start producing windows until later than planned. It could not therefore contribute as expected to net revenues, though it has since started operating at full capacity.

The **Steel Technology Division** posted a slight increase in net revenues of 0.8% to CHF 140.5 million. The strong market position enjoyed by Forster Profile Systems in Switzerland and Germany compensated for the exchange-rate driven fall in demand from other European markets and the USA. Because of exchange rate factors, however, the automotive business's net revenues were significantly below the previous year's.

The **Surface Technology Division** increased net revenues again from a relatively low level. With an 8.5% rise in currency and acquisition-adjusted terms, the actual increase was 7.1%, giving an annual net revenues figure for the division of CHF 63.6 million. The new production facility in Changshu (China) begins operations in the second quarter of 2012 and will contribute to net revenues for the first time in 2012.

The **Logistics Department's** 27.2% decline in net revenues to CHF 18.0 million was largely a result of the relocation of heating technology production and of the sale of Asta AG Arbon's European activities. Once the sale of Swiss activities has been completed, this department will no longer be reported separately; instead it will be managed as the Transport Logistics Competence Centre.

The **Asia Pacific Market Region** concentrated more strongly on core construction supplies and developed higher local added value in selected areas led by locally based general managers. Company-wide responsibility for accelerated development of international markets has been transferred to a new unit. The former head of the Market Region, Felix Aepli, has decided to leave the company as at 31 March 2012.

Earning development better than revenue development

Right across the group, AFG responded to sluggish net revenues, further increases in raw material and procurement costs, and increasing price pressure by taking decisive action on the costs front. This has already had a positive impact on earnings. EBIT before impairments will be at the lower end of the expected target range of 3% to 4% despite the decline in net revenues.

Substantial impairments required

A comprehensive review of the relevant balance sheet positions revealed a need for substantial impairments, mostly focused on the Surface Technology Division. These will amount to between CHF 70 million and CHF 75 million, which will be charged through the income statement. The annual accounts for 2011 will show operating profit at the expected level, but because of the adjustments they will also record a significant overall, though non-cash-effective, loss. The exact size of the impairments required and their precise effect on the 2011 results will be announced with the publication of the 2011 annual report on 6 March 2012.

Cautious outlook

In general, demand this year will once again be influenced by uncertainties caused by the international debt crisis. We will see a continuation of the tendency to delay projects, even if ready for execution, until the outlook becomes clearer. AFG assumes that the exchange rate between the Swiss franc and the euro will remain unchanged, thus continuing to hamper its business performance. The first half of this year is therefore likely to be difficult compared with the strong first half of 2011. By contrast, construction activity in Switzerland and Germany will remain robust and continue to generate good business for AFG.

Net revenues should benefit from the removal of capacity and delivery bottlenecks and from the continued improvements made as a result of the organizational review. Consequently, provided there are no unforeseen events, AFG expects to see net revenues increase slightly this year, with a further rise in earnings too. Earnings should also benefit from the fact that depreciation will be lower following last year's impairments.

Net revenues

Net revenues in CHF million	2011 [1) 2)]	2010	Change	Change after adjusting for currency and acquisitions
AFG Arbonia-Forster-Group	**1'347.1**	**1'413.5**	**-4.7%**	**0.0%**
- Heating Techn. and Sanitary Equipment Division	482.3	544.5	-11.4%	-1.7%
- Kitchens and Refrigeration Division	257.5	267.1	-3.6%	-2.4%
- Windows and Doors Division	406.1	405.2	0.2%	2.6%
- Steel Technology Division	140.5	139.4	0.8%	0.8%
- Surface Technology Division	63.6	59.4	7.1%	8.5%
- Corporate Services	19.9	26.8	-25.7%	-25.7%
./. Group consolidation	-22.8	-28.9		

1) Provisional, unaudited figures under IFRS

2) Avia Peintures Sarl for 8.5 month since 14.04.2011 (Surface Technology Division)

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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.

AFG

AFG is a leading technology-driven, internationally active construction materials and machinery group which is renowned for its innovative solutions and services. The company has its head office in Arbon, in the canton of Thurgau (Switzerland), and is quoted on the Swiss Stock Exchange (SIX). It has about 50 production and distribution companies and is active worldwide, with offices and partners in over 70 countries.

The five divisions making up AFG reflect the Group's activities: Heating Technology and Sanitary Equipment, Kitchens and Refrigeration, Windows and Doors, Steel Technology and Surface Technology. Production facilities are located in Switzerland, Germany, England, France, the Czech Republic, Slovakia, the USA and the China. In its domestic markets, Switzerland and Germany, AFG holds a leading market position. The Group is aiming at opening up new markets and expanding its international activities.