



Press Release

AFG Arbonia-Forster-Holding AG continues double-digit growth

Rising procurement and energy costs combined with greater downward pressures on prices strain earnings – 2008 profit expected to be slightly above last year

Arbon (Schweiz), 5 August 2008. – **During the first half of 2008, AFG Arbonia-Forster-Holding AG again recorded double-digit growth, in spite of the more difficult business climate. An increase in net sales of 10.3%, to CHF 749.5 million (compared to CHF 679.7 million last year), is a very satisfactory achievement. Most of the increase is attributable to the Heating Technology and Sanitary Equipment Division as well as Windows and Doors Division, AFG's largest and most rapidly growing businesses, which once again grew their market shares. Organic growth in Swiss francs amounted to 2.2%, and in local currencies to 3.2%.**

The higher procurement and energy costs, however, slowed down earnings growth in proportion to the increase in net sales: our EBITDA improved by 6.5%, to CHF 69.5 million (65.2 million), while our EBIT, at CHF 37.8 million (37.7 million), remained practically unchanged. This corresponds to an EBIT margin of 5.0% (5.6%). Due to higher financing costs for this year's extensive capital investment program, additional amortisations on intangible assets and less favourable exchange rates than last year, net profit dropped to CHF 19.1 million (25.8 million). AFG's Board is nevertheless confident that profit can be slightly increased in 2008, especially since the second semester traditionally accounts for approximately 55% of AFG's total annual sales while at the same time earnings tend to be disproportionately high due to better capacity utilisation.

Demanding business climate

As mentioned by majority shareholder and Chairman of the Board of Directors Edgar Oehler in the First Semester Financial Report, the negative effects of the bad decisions in the financial sector on the cost and availability of capital can now also be felt in the real estate sector. "We have noticed that the willingness of institutional and private developers to invest is weakening because of the uncertainty in the capital markets," he stated. Rising interest rates and unpredictable capital market developments are causing project managers to delay the completion of projects,



resulting in the slowdown or delay of many projects. When a project does reach the stage of execution, price competition is all the fiercer, obviously at the expense of profit margins. This development affects all Divisions, but especially the products of the Heating Technology and Sanitary Equipment Division, the Steel Technology Division and the Steel Kitchens business unit, which are the most affected by the 40% increase in the price of steel since the beginning of the year. "We anticipated this development," says Edgar Oehler, "and countered it with cost improvement programs, the centralisation of procurement and other appropriate measures." Their effects will only begin to be felt in the second half of the year, however.

Developments in Divisions vary

In the light of these developments, most of AFG Arbonia-Forster-Holding AG's divisions were quite successful. Although the **Heating Technology and Sanitary Equipment Division** is heavily dependent on the developments in the construction sector, the acquisition of Aqualux last year gave it a significant foothold in the British sanitary market, so that it again managed to increase its net sales, by 10.5%, to CHF 320.0 million (289.5 million), in spite of the slowdown in demand. As the largest division, however, it suffered from the continuing weak market developments in Germany and an actual drop in demand in Great Britain. With an EBIT of CHF 21.2 million, this Division's earnings are below those of last year (23.2 million), but its EBIT margin of 6.6% is still satisfactory.

The performance of the **Kitchens and Refrigeration Division** was disappointing during the first six months of the year. Sales fell slightly, from CHF 134.6 million to CHF 130.6 million (-3.0%). This is in the first place due to conversion problems during the implementation of SAP at Forster Kitchens and to the detrimental rise in the price of steel, which particularly affected Forster Steel Kitchens. In spite of the ongoing pleasing performance of Bruno Piatti AG and Miele Kitchens on the international market, the companies fell short of achieving their full potential in their domestic markets of Switzerland and Germany respectively. The Refrigeration business unit, on the other hand, continues to deliver a satisfactory performance. It has started to convert its entire product range to innovative, energy-saving models, which due to their financial and environmental benefits are somewhat less exposed to the intense downward pressure on prices. Tight cost control made it possible to increase the EBITDA to CHF 6.1 million (4.5 million) and the EBIT to CHF 0.8 million (-0.5 million). Nevertheless, the need for action is clear, in spite of the slight improvement. Hansgeorg Derks, who is familiar with the kitchen business globally, was placed at Head of the Kitchens and Refrigeration Division on 1 June 2008, and he intends to turn things around for the long term in the next 12 months.



The **Windows and Doors Division** recorded a revenue increase of 31.3%, to CHF 162.1 million (123.5 million), mainly attributable to the acquisition of Slovaktual sro in Pravenec, Slovakia. Net of the acquisition, the Division improved its performance by 8.0%. As a result of the acquisition of Slovaktual, the Division's share of Group sales increased to 21.6% (from 18.0%), raising it to the position of second largest division after Heating Technology and Sanitary Equipment. A decisive contribution to this came from the Doors business unit, which grew considerably last year thanks to the takeover of RWD Schlatter AG. With its high-quality, innovative products it can assert itself in the market without significant price concessions. In spite of fierce competition, especially in the windows sector, the Division was able to improve its EBIT by 40.4% over last year, to CHF 9.0 million (6.4 million). This resulted in a further improvement of the EBIT margin from 5.2% to 5.5%.

The **Steel Technology Division** increased its net sales in the first half of 2008 by 0.7%, to CHF 89.9 million (89.3 million), but grew its EBIT disproportionately to CHF 10.2 million (9.8 million). This corresponds to a remarkably high EBIT margin of 11.3% (11.0%). To improve its production capacity even further, the Division is planning to replace one of its welding assembly lines in the second half of 2008, at a cost of around CHF 15 million. To ensure that it can continue to meet demand, sufficient stocks were built up during the first half of the year.

With the exception of the printing business of Hartchrom AG, which is one of its main profit centers, the **Surface Technology Division** performed to expectation. A sluggish demand in the printing sector, due to spending uncertainty in the international printing industry, negatively impacted sales, which remained at last year's level of CHF 49.2 million. The Division did, however, succeed in increasing its EBIT from CHF 3.8 million to CHF 4.2 million, thanks to stringent cost controls, resulting in an EBIT margin increase from 7.8% to 8.6%.

Balance sheet reflects growth

AFG's growth through acquisitions and increasingly its organic growth – the 2008 capital expenditures budget is approximately CHF 130 million – are reflected in the balance sheet. The increase of 10.0%, to CHF 1,505.1 million, of total assets, compared with 31 December 2007, is mainly attributable to the acquisition of Slovaktual and the usual seasonal effects. The additional amortisations resulting from the increase in intangible assets encumbered the income statement for the first semester 2008 by CHF 1.3 million. The acquisition of Slovaktual and ongoing capital investment are the main reasons for the increase in long-term financial debts. Net indebtedness rose to CHF 491.4 million (363.3 million as per 31 December 2007). As a result our equity ratio



dropped to 34.9% (38.0% as per 31 December 2007). This is only a slight decrease, however, when compared year-over-year, when it stood at 36.9%.

Confident outlook

The present developments on capital markets, the expected increases in interest rates, the speculation-driven rise in the price of oil and the downward revised growth forecasts of financial and research institutes constitute a challenge for AFG. With cost reduction/earnings improvement programs, innovative product developments, the expansion of the Executive Management Group through the appointment of a new Head for the Kitchens and Refrigeration Division as well as the creation of an Asia/Pacific Market Region, the stage has been set for achieving AFG's goals in spite of the difficult economic climate. "All the measures we introduced as well as the current order list give me the confidence to believe that we will be able to reach our sales and profit objectives, barring any unforeseeable events," concludes Chairman of the Board and CEO, Edgar Oehler.



Key figures of AFG Arbonia-Forster-Group

	First semester 2008		First semester 2007 ¹		Variance 07/08	
	in TCHF	%		%		%
Income statement						
Net revenues	749'467	100.0	679'659	100.0	69'808	10.3
EBITDA	69'455	9.3	65'214	9.6	4'241	6.5
EBIT	37'776	5.0	37'729	5.6	47	0.1
Profit for the period	19'069	2.5	25'763	3.8	-6'694	-26.0
Balance sheet						
Current assets	598'673	39.8	575'618	42.9	23'055	4.0
Non-current assets	906'433	60.2	765'473	57.1	140'960	18.4
Total assets	1'505'106	100.0	1'341'091	100.0	164'015	12.2
Current liabilities	307'621	20.4	295'887	22.1	11'734	4.0
Non-current liabilities	671'952	44.7	549'679	41.0	122'273	22.2
Shareholders' equity	525'533	34.9	495'525	36.9	30'008	6.1
Net indebtedness	491'411		328'816		162'595	49.4
Cash flow statement						
Net cash used in operating activities	-16'047		-6'957			
Net cash used in investing activities	-92'917		-126'356			
Net cash generated from financing activities	79'202		78'792			
Average number of employees						
	6'134		5'583			
Segment information						
Net revenues						
Division Heating & Sanitary	319'988	42.6	289'496	42.2		
Division Kitchens & Refrigeration	130'599	17.4	134'639	19.6		
Division Windows & Doors	162'134	21.6	123'451	18.0		
Division Steel Technology	89'866	11.9	89'278	13.0		
Division Surface Technology	49'150	6.5	49'179	7.2		
		100.0		100.0		
EBIT						
Division Heating & Sanitary	21'161	46.7	23'157	54.2		
<i>in % of net revenues</i>	<i>6.6</i>		<i>8.0</i>			
Division Kitchens & Refrigeration	767	1.8	-475	-1.1		
<i>in % of net revenues</i>	<i>0.6</i>		<i>-0.4</i>			
Division Windows & Doors	8'968	19.8	6'388	15.0		
<i>in % of net revenues</i>	<i>5.5</i>		<i>5.2</i>			
Division Steel Technology	10'190	22.5	9'799	23.0		
<i>in % of net revenues</i>	<i>11.3</i>		<i>11.0</i>			
Division Surface Technology	4'205	9.2	3'828	8.9		
<i>in % of net revenues</i>	<i>8.6</i>		<i>7.8</i>			
		100.0		100.0		
Earnings per share						
Earnings per bearer share in CHF	9.67		13.99		-4.32	-30.9
Earnings per registered share in CHF	1.93		2.80		-0.87	-31.1

¹ Previous year figures in the balance sheet have been restated in accordance with IFRIC 14.

in TCHF means in thousands of CHF



Calendar:

First semester 2008 media conference	5 August 2008, 11 a.m., Corporate Center, Arbon
Publication of 2008 revenues	27 January 2009
Media conference on 2008 financial year	17 March 2009, 10:30 a.m., Park Hyatt Hotel, Zurich
Financial analyst conference on 2008 financial year	17 March 2009, 2 p.m., Park Hyatt Hotel, Zurich
Annual Shareholders Meeting	17 April 2009, 4 p.m., Seeparksaal, Arbon

AFG Arbonia-Forster-Holding AG – Leading integrated supplier to the construction industry

AFG Arbonia-Forster-Holding AG, based in Arbon, Switzerland, is a leading integrated supplier to the construction industry. The company is listed on the SWX 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. With its suite of brands - Arbonia, Kermi, Prolux, Asco Swiss, Aqualux, Forster Kitchen, Forster Refrigeration, Piatti, Miele Kitchens, EgoKiefer, RWD Schlatter, Slovaktual, Forster Precision Steel Tubes, Forster Profile Systems and STI | Hartchrom - AFG Arbonia-Forster-Holding AG has built up strong positions in its home markets of Germany and Switzerland. It is also engaged in intensive efforts to build new markets, primarily in Eastern Europe, Russia, and the Middle and Far East. AFG Arbonia-Forster-Holding AG with some 6000 employees generated sales of CHF 1471.5 million and an EBIT of CHF 95.5 million during the 2007 financial year. Today, AFG Arbonia-Forster-Holding employs 6,441 members of staff.

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This press release and other information about AFG Arbonia-Forster-Holding AG can be found on our Website at www.afg.ch.