



## Media and Analyst Conference

Speech presented by Dr. Edgar Oehler  
CEO and Chairman of the Board of Directors  
AFG Arbonia-Forster-Holding AG, Arbon

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**The spoken text is considered definitive.**

Ladies and gentlemen

Welcome to this year's annual results press conference. It's a great pleasure for me to be here today, for this is the fifth consecutive time I am presenting AFG's annual financial statements.

I will first present to you my assessment of last year's results, and then our chief financial officer Felix Bodmer will take you through the 2007 consolidated profit statement and balance sheet. Following this, we will be more than happy to take any questions you may have.

I'd like to begin by making five basic observations about AFG's performance last year. These observations relate to the two opposing evolutions that marked our activities in 2007 and that are also discussed in our annual report.

**1. AFG fulfilled its sales goals**

We had set ourselves the goal of achieving CHF 1.4 billion in sales in 2007, including the sales registered by the three business units we acquired during that year, namely STI Hartchrom, RWD Schlatter and Aqualux. The CHF 1.5 billion we did in fact achieve represents an all time record for us, and is particularly satisfying in that back in 2003, we had planned to achieve sales of CHF 1 billion for 2008.

In so doing, we grew our market share in nearly all of our areas of activity.

**2. Profitability in 2007 did not grow as much as we had hoped**

We are I think justifiably proud of the fact that the vast majority of our activities are realised in markets, and via business units, that achieve above average growth rates. But despite these achievements, we have not been able to counteract the effects of slow growth, declining sales revenue, and a slowdown in orders in both the German and British markets.

For these reasons, last year's net earnings at the group level did not keep pace with our sales revenues. And looking at the annual financial statements, one gets the impression that we have taken one or two steps backwards on the path to profitability. The Ebit in percent rose less than in the past years, namely from CHF 93.9 million to CHF 95.5 million or by 1.7 percent. The Ebitda moved from CHF 140.7 million to CHF 153.3 million.

The fact that the 2007 extraordinary expenses, which Mr. Bodmer will explain in more detail, result in an additional tax burden and depreciations on the net profit is a logical consequence. However, this has nothing to do with the company's actual performance.

### **3. Appreciably higher tax rate**

The increasingly higher tax rate to which we were subject last year is mainly attributable to one-time charges. The German tax office finally finished auditing our accounts from 2000 through 2003 last year. This old liability, which is not in any way ascribable to the current management team, resulted in an additional charge amounting to CHF 3.9 million.

### **4. Purchase price allocation**

Our acquisition of STI Hartchrom, RWD Schlatter and Aqualux Ltd. resulted in CHF 5 million in additional writedowns, which were reported under the Purchase Price Allocation – PPA – rubric

### **5. Internationalisation characterised by strategic investments and unnecessary tax burdens**

Last year saw the continuation of our commitment to sustained investments in internationalisation. The expansion of our business activities via the three acquisitions I mentioned a moment ago prompted us to establish standalone companies abroad, under whose roof we plan to gradually consolidate our foreign activities in markets such as the Netherlands, Great Britain, the US, the Middle East, Russia, China and so on. The takeover of the Slovak window and door market leader earlier this year also entailed legal, consulting and other costs.

If you include the costs of these investments, our additional expenditures last year amounted to CHF 10 million. However, even though we regard internationalisation as an investment expense, the additional tax burden associated with it are expenditures no matter how you look at it, and these costs engender nothing but expenditures – unless of course you count the German tax office leaving us alone about our 2003 taxes as a benefit.

However, be this as it may, I freely admit that I'm not overjoyed at AFG's profit performance last year. But we have now taken measures aimed at optimising our profitability sustainably.

### **Internationalisation as a basis for AFG's growth**

I am extremely pleased at the outstanding success we've achieved in implementing our strategy of creating new divisions for, and expanding the international scope of, our activities. This evolution, which is so vital to AFG's future development, constitutes a bit of consolation for the unsatisfactory profitability picture I mentioned a moment ago. I am confident that this move toward greater internationalisation of our activities will provide a robust basis for outstanding future performance.

## **Comments on the takeover of STI Hartchrom, RWD Schlatter and Aqualux**

Our integration of the STI Group represents the resolution of a key issue which – as the former owner of STI and a current majority shareholder of AFG – was one of my major preoccupations. I'm pleased at the solution that has been put into action, and I'm confident that STI will experience robust growth as part of AFG. This will also enable us to gradually establish a technology arm that is not construction industry oriented.

In conjunction with the acquisition of Aqualux and the successful takeover of Slovaktual earlier this year, STI will make a key contribution to the further internationalisation of AFG. As you know, our strategic goals include expansion of our product portfolio and expanding the territorial reach of our organisation as a whole.

## **Positive and negative factors over the course of last year**

Needless to say, AFG does not do business in a vacuum, and thus its performance is inextricably bound up with economic trends, and to some extent regulatory evolutions in the various markets in which we do business.

The monetary influences, amounting to 2 percent, engendered by the strength of the euro, played a disproportionately large role in 2007. However, inasmuch as our activities focus on the European market, and purchases we pay for here cannot be "hedged" by ramping up our purchases on the US market, the aforementioned monetary influences had only a minor impact on last year's results.

The overall economic climate was good last year, particularly in Switzerland. Although the positive effects of the boom in the construction industry were somewhat undermined by rising procurement costs, as a leading industry vendor we benefited from the investor confidence that has characterised the market for a number of years now.

In Germany, where we earn 34 percent of our sale revenue, the economic boom engine sputtered somewhat in 2007 after a relatively good 2006 – although the latter was attributable to a series of unusual factors rather than an actual economic boom. And sales performance was affected accordingly, of course. Conditions in most of the other markets we're active in were as favourable as in Switzerland. Inasmuch as our two home markets, Germany and Switzerland, account for 70 percent of group sales, trends in these markets always have a major influence on the Group's overall performance.

Despite the aforementioned dip in profitability and the, to some extent, difficult market conditions we faced, we became a more robust and high profile organisation last year. This assessment also includes factors that entail a series of long term tasks for company management, the most noteworthy of which were the following last year:

- **Strengthening of the organisation and its management team**

Thomas Reifler was named head of the Surface Technology division, and more recently Hans Georg Derks took over as head of the Kitchens and Refrigeration division, thus rounding out the management team for our new technology division.

Earlier this year, we moved into our new Corporate Center in Arbon, thus cutting costs by consolidating group management and Holding company personnel into a single location. This has also noticeably optimised the efficiency and speed of our daily business processes, and will also enable us to streamline our governance structures.

By purchasing a large piece of land in an agricultural zone and having it rezoned as an industrial property, we have ensured that AFG will have sufficient construction land for the next two generations. Moreover, at today's property prices, this rezoning has created a reserve amounting to at least CHF 15 million. However, owing to IFRS regulations, this reserve could not be included in this year's annual financial statements, although, owing to the relocation to the Corporate Center, over the course of this year we will probably be able to transfer some no longer needed construction land to a housing development.

- **IT architecture streamlining**

The upcoming SAP rollout in the Kitchens and Refrigeration division – initially at Forster Küchen und Kühlen and later at Bruno Piatti – which is slated for realisation within the next few months, will represent a major step toward our goal of simplifying our IT architecture. We are also in the process of integrating our kitchen and refrigeration planning processes with SAP, which will create an extremely high level of transparency in this domain. What's far more important, however, is that we will be able to use these tools to serve our customers better, reduce error rates, and ensure that we're always producing on a just in time basis.

Last year we also successfully laid the groundwork for the rollout of SAP in the Steel Technology division.

- **Strengthened organic growth**

Acquisitions have been a major driver of AFG growth in recent years. This will continue to be the case for the foreseeable future, since this is the only way we can achieve our internationalisation goals within a reasonable period of time.

However, our capacity for organic growth increasingly stems from our two home markets, where in the final analysis, our performance is the metric of our competitiveness. Our Steel Technology division exemplifies this evolution, in that last year the unit registered an 11 percent organic growth rate in a sector that is extremely competitive.

- **Product portfolio optimisation**

Until we took over RWD Schlatter, our Windows and Doors division was unable to offer a comprehensive range of doors, as has long been the case in the window industry in general. This deficiency was a tremendous drag on our competitiveness and needed to

be remedied, and we had been searching for a solution ever since 2004. Integrating RWD Schlatter into our Windows and Doors division will enable us to offer a full range of windows and doors, as well as complete solutions for all doors and windows in a specific building.

- **Bolstering our balance sheet**

Although our acquisitions in recent years have been partially financed with outside capital – an evolution reflected by increased indebtedness and financing costs in the balance sheet – our equity ratio has also improved, and now stands at a robust 38.2 percent. This has brought us very close to achieving our goal of achieving a 40 percent equity ratio vis-à-vis the balance sheet total.

## **Detailed description of the status of the various divisions**

### **Heating Technology and Sanitary Equipment**

Despite daunting market conditions in Germany and other markets, our Heating Technology and Sanitary Equipment division and its 2850 employees grew the unit's sales by six percent last year, to CHF 620.3 million. The division's Ebit of CHF 59.6 million was just a hair below that of last year, resulting in a slightly lower Ebit margin of 9.6 percent.

This evolution was mainly attributable to the elimination of special factors, such as the pre-emptive effect of the VAT increase in Germany, which had a positive impact on the division's 2006 results. The division's 2007 Ebit was negatively impacted by higher costs for energy, freight, steel, aluminium, and to some extent human resources.

The sterling performance turned in by the Heating Technology and Sanitary Equipment division last year – particularly from a comparative and benchmarking standpoint – is attributable to stronger positioning of the division's brands on the European market, an appealing product portfolio, greater productivity, and durable cost optimisation measures – plus of course the outstanding commitment of our personnel to our organisation's success.

The division's strengthened internationalisation activities are reflected by the increase in its export quota last year from 30 to 35 percent. This evolution was also driven by exceptional organic sales growth in the Eastern European market, and above all in Russia. But our takeover of Aqualux Products Holding Limited in September was also a contributing factor to the division's success in the export domain. Aqualux, which is headquartered in Wednesbury near Birmingham is a sales leader in its home market. The acquisition of Aqualux is a key strategic move for us since the company has a strategic partnership with a similarly oriented vendor in Huizhou in the southern Chinese province of Guangdong. This alliance will strengthen our efforts to position ourselves and establish a robust presence on the extremely promising Chinese market.

## **Kitchens and Refrigeration division**

Kitchens and Refrigeration division sales increased last year by 4.8 percent to CHF 295.5 million in a market environment that continued to be extremely competitive; the division also grew its share of some hotly contested markets. The unit's Ebit amounting to CHF 3.9 million was down slightly relative to the prior year, and its Ebit margin was 1.3 percent.

Continued robust demand in the Swiss construction industry last year also spurred demand in the kitchen sector, with construction investment up 1.4 percent, although new housing starts declined 2 percent. Thanks to the 133,000 kitchens sold in Switzerland last year, our Kitchens and Refrigeration division's market volume was on a par with that of the prior year.

The division was subject to greater competitive pressure last year owing to the stronger presence, on the Swiss market, of kitchen vendors from neighbouring countries, particularly Germany, whose kitchen vendors are increasingly seeking business abroad owing to the weakness of the economy in the northern part of the country. As in the prior year, in 2007 this evolution translated into a price freefall in the hotly contested kitchen sales market. We met this challenge by, among other things, restructuring the installation arms of Bruno Piatti and Forster Küchen- und Kühltechnik. This has resulted in measurable efficiency optimisation that is bound to pay off in both the short and medium term. On the other hand, customers now regard kitchens as a lifestyle and design entity to a greater extent than in the past, and accordingly exhibit less price sensitivity than was once the case in this domain.

Demand was soft in Germany last year, as had been the case in the prior year, with the result that the kitchen industry felt the effects of the decline in new housing starts in Germany, as well as higher procurement costs and the VAT increase. However, the division's exports from Germany were up 25 percent over 2007. This rise was mainly attributable to European markets such as the Netherlands, but also Russia, Hongkong and others.

Our Refrigeration business unit, Forster Kuehlen, which makes high quality built in refrigerators in varying sizes, mainly focuses on the Swiss market, where it registered a 4 percent sales increase last year. As Switzerland's only vendor in this segment and the undisputed market leader in the built in refrigerator sector, the unit sells its products via an extensive marketing and distribution network comprising highly competent partners. The unit's innovative refrigerators are launched incrementally in response to new and emerging design trends, and, thanks to their outstanding energy performance, bear the "A plus plus" energy label.

## **Windows and Doors division**

Our 1020 employee-strong Windows and Doors division, which is also the Swiss market leader in this segment, achieved a whopping 28 percent sales increase, to CHF 298.1 million, last year, and registered market share gains in all sales regions. The unit's Ebit was CHF 25.4 million, which translated into an Ebit margin of 8.5 percent.

As in 2006, our Windows and Doors division rode on the coattails of robust demand in the Swiss construction industry, where construction investment amounting to some EUR 40 billion was the highest since the early 1990s. The takeover of RWD Schlatter in early 2007 enabled the division to expand appreciably its leading market position, and as mentioned earlier, beef up its door portfolio. The Windows and Doors division relocated the entirety of its interior door activities to the RWD plant in Roggwil, thus consolidating all interior door competencies at this one location.

This move has optimised production and marketing efficiency, while at the same time allowing RWD Schlatter's Doors division to focus on ramping up its window production at the EgoKiefer plants in Altstätten and Villeneuve. These new and transparent organisational structures are easing the task of expanding the division's activities and optimising its processes across the board. The space freed up at EgoKiefer's Altstätten head office by the production relocation to Roggwil is being used for urgently needed production capacity expansion in the wood and wood-aluminum window domain, and is also generating further efficiency gains. The division is currently in the process of ramping up its production of wood and wood-aluminum windows, for which EgoKiefer now has an additional 11,000 square meters of manufacturing space at its disposal. Now in its 75th year of existence, EgoKiefer, together with the restructured Windows and Doors division, is extremely well positioned at present to acquire additional market share on the highly competitive Swiss market.

Our Windows and Doors division achieved a significant milestone early this year when it acquired Slovaktual, which is the leading window vendor on the Slovak market. With this acquisition, our Windows and Doors unit becomes the last of the five AFG divisions to take the first and long sought after step toward internationalisation.

Our press release concerning the Slovaktual takeover deliberately omitted any mention of the purchase price for two reasons. First, the deal is subject to approval by Slovak cartel authorities, and this process is still ongoing. Second, for strategic reasons we are unable to reveal the purchase price at this time. This decision works to the advantage of both parties to the transaction, particularly since we want to avoid burning our bridges to other regions by revealing the purchase price.

## **Steel Technology division**

Our Steel Technology division turned in an impressive performance last year in terms of both sales and profits, thanks to robust demand. The division's steady optimisation of its product portfolio, and its focus on high quality systems and customer solutions, resulted in an 11 percent sales increase to CHF 173.4 million and a 14 percent Ebit amounting to CHF 17.5 million.

Increases in personnel, raw materials and energy were successfully absorbed thanks to the rigorous and across the board cost cutting measures implemented by the division. Moreover, our Steel Technology division's outstanding market position enabled it to integrate these cost increases into its prices with minimum lag time. All of this translated into an impressive Ebit margin of 10.1 percent.

Our Steel Technology unit, Forster, employs 350 at its Arbon production facility (its only plant), which exports nearly 80 percent of its output. The division's strong suit has traditionally been its outstanding production process expertise, as well as its capacity to optimise its production processes, particularly when it comes to welding.

The division's achieved its strongest growth in its cold-drawn precision steel tubes for furniture and store construction applications. Sales growth for our automotive products was limited to some extent on account of capacity shortfalls, which will be eliminated by the end of 2008. Forster's recent market launch of our unique thermally insulated "Forster unico" profile system (as it is called), which is used for insulated steel and stainless steel doors, was highly successful. This product has fulfilled a definite market demand, with the result that our ambitious first-year sales goals for this innovative solution have been fully met.

## **Surface Technology division**

The STI Group – which was established as the Surface Technology division within AFG last year when AFG Arbonia-Forster-Holding acquired the STI Group – registered 6.1 percent sales increase in 2007, to CHF 95.2 million. The unit's CHF 4.3 million Ebit and 4.5 percent Ebit margin were affected by a one-time cost, as well as by amortisation of the Purchase Price Allocation. This translated into a total expenditure of CHF 3.4 million.

The annual results of STI Hartchrom aren't particularly impressive at first glance. However, as has been previously pointed out in connection with the acquisition of STI Hartchrom and its integration into AFG, certain tasks remain to be accomplished in collaboration with STI's German parent in Sternenfels-Diefenbach. As you know, we acquired Gebr. Schoch GmbH in Stuttgart-Feuerbach for strategic reasons. The company was at one time the largest vendor in the industry, but ran into substantial environmental regulatory problems, lost its competitive edge from a technical standpoint, and got into trouble financially. In view of these circumstances, we decided to establish a new plant in Sternenfels-Diefenbach rather than taking over the company's existing plant in Stuttgart-Feuerbach. But we were also aware of the fact that we would also be taking on Schoch's existing financial liabilities.

If we had made a decision aimed at reaping short term gains, we could have registered exceedingly high 2007 results for Hartchrom AG Steinach, including a high Ebitda – which also would have made a substantial, two-digit contribution to the AFG Ebit. However, we eschewed this course of action for the simple reason that, when it comes to investments and customer benefits, we think in terms of the big, long-term picture – and act accordingly.

One of the most important cornerstones of STI's success is the company's ability to anticipate market trends in consumer sector industries. Over the years, this ability has been the driver of impressive organic and economic growth, as well as outstanding willingness on the part of customers in the company's main markets to invest in its products and services. The unit has also benefited from robust market demand, favourable currency exchange rates, and expansion of its production capacities at the Sternenfels-Diefenbach plant near Stuttgart.

### **Outlook for this year**

The demand for construction products is likely to decline somewhat this year compared with last year's level. This prognosis is based on the relevant industry data, as well as a certain reluctance to place new orders that we sense in our customers now and again. It's difficult to predict how much of an impact the international credit crisis will have on customers' readiness to make capital investments. But we definitely sense a certain unease among our customers when it comes to moving forward with new projects. It's even more difficult to predict the effect the financial industry's current plight will have on customer investment behaviour this year. All that being said, we are still figuring on organic growth of at least 5 percent for the current year. We plan to achieve this goal by steadfastly maintaining our position in and share of current markets, and steadily growing our share, and optimising our position, in new ones.

In November of last year, the cornerstone was laid for construction of the STI Westside Center at Hartchrom's headquarters in Steinach. This project will enable Hartchrom AG Steinach to double its production capacity by adding 6000 square meters of space to the existing 4000, thus resulting in 10,000 square meters of new space by the end of the project. This expansion project is necessitated by the fact that the plant at the company's headquarters in Steinach reached the limits of its production capacity last year. The new plant space will also enable Hartchrom to expand its technological competencies by rolling out thermal spray processes, which are vital above all for pressure cylinder coating, and will also allow for the use of new combinations of materials; and this in turn will provide the technological basis for further dynamic growth.

Although we're feeling upbeat about the prospects for the current year, we have also instituted safeguards so that we're prepared should the unexpected occur. These safeguards mainly comprise an optimisation program we call Avanti Uno that's aimed at further strengthening AFG's profitability, and includes measures that will ramp up resource use efficiency, including our use of human resources – although we are not planning any substantial job cuts. I feel that we could improve our procurement

processes substantially by centralising them. The Group as a whole currently effects purchase to the tune of some CHF 700 million annually. The success we've achieved by consolidating the various structures in two of our divisions – Windows and Doors on one hand, and Kitchens and Refrigeration on the other – will be used as a template and benchmark for an upcoming review of the operational structures in all other divisions.

Assuming that there's no dramatic change in the economic climate, it seems to me that we'll be able to carry over last year's level of organic growth to the current year, while at the same time substantially improving our bottom line. Hence 2008 will be a year of consolidation – a year in which, for the first time in a long time, organic growth will appreciably outpace external growth.

The cautiously optimistic view also prompted the board to approve dividends that are on a par with last year's. In taking this action, the board is expressing its confidence in the future of AFG and will be submitting a request for the aforementioned dividends at this year's shareholders meeting.