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Half-Year Report 2012

Public sector cost-cutting measures plus persistently strong Swiss franc result in a slight decrease in sales

Strategic and structural adjustments partly compensate for decline in earnings

Extraordinary income from the sale of Industrial Adhesives lifts Group profit

flooring. bonding. movement.

The Forbo Group – a leading manufacturer of floor coverings, building and construction adhesives, as well as power transmission and conveyor belt solutions – reported net sales of CHF 603.1 million in the first half of 2012, which equates to a slight decline of 0.9% in local currencies (–2.7% in the corporate currency) versus the prior-year period. Negative exchange rates again had an impact on the Forbo Group's results in this reporting period. The EBIT margin stood at 9.2% (prior-year period: 10.9%). Operating profit (EBIT) came to CHF 55.2 million (prior-year period: CHF 67.5 million), corresponding to a decline of 18.2%. Net income from operations from continuing operations amounted to CHF 40.3 million (prior-year period: CHF 44.7 million), equivalent to a decrease of 9.8%. In addition, the Group posted extraordinary net income of CHF 73.1 million in connection with the sale of the industrial adhesives activity, bringing Group profit up to CHF 113.4 million.

Dear shareholders,

The first half of 2012 was impacted by difficult market conditions, a persistently strong Swiss franc, and the effects of cost-cutting measures in the public sector.

The Flooring Systems division was particularly hard hit by public-sector cost-cutting, since the bulk of its sales to schools, hospitals, old-age homes, and public buildings depend, either directly or indirectly, on public spending. Whereas in the past Forbo was able to increase its margins and benefit from government stimulus programs by focusing on the commercial market segment and the public sector, now spending is being significantly curtailed not only for new buildings but also for renovations. However, the Group has been able to offset the impact to some extent through moves it took in the past to fine-tune its strategy and also to focus on new market segments outside the public sector.

The sale of the industrial adhesives activity, including synthetic polymers, was successfully closed and resulted in an extraordinary income. The building and construction adhesives activity, the bulk of whose sales are in the Benelux countries, reported a slight downturn in sales and earnings owing to the weakening of the building and construction industry in this region. After reviewing all strategic options, we decided to continue to develop this business within Flooring Systems in order to best maximize the potential of this activity.

The Movement Systems division reported a slight increase in sales. However, earnings fell marginally in the wake of the ongoing projects and investments in growth markets that we continue despite the difficult economic conditions.

Three factors helped the Group to largely offset the impact of the difficult economic situation in the first half of 2012: the innovative product portfolio, the strategic, sustainable investments in growth markets as well as in non-public-sector market segments made in the past, and systematic structural adjustments.

Moderate sales performance

In the first half of 2012, Forbo generated net sales of CHF 603.1 million (prior-year period: CHF 619.9 million). In local currencies this was just 0.9% lower than in the same period the previous year. However, the strong Swiss franc reduced sales by a further 1.8%, so that the decline in the corporate currency was 2.7%. The moderate sales trend, which began to take shape in the second half of 2011, intensified further. Movement Systems reported modest growth of 1.3% in local currencies, while Flooring Systems and the building and construction adhesives activity posted a slight decline in sales of 1.7% and 0.5% respectively.

Profitability impacted by difficult economic conditions

The minimal downturn in sales, combined with the strategic investments made in growth markets and in an innovative product portfolio, resulted in lower earnings in all divisions than in the first half of 2011. Operating profit before depreciations and amortizations (EBITDA) came to CHF 78.9 million (prior-year period: CHF 88.3 million), corresponding to a decline of 10.6%. Operating profit (EBIT), which includes an impairment of CHF 4.0 million at Flooring Systems, came to CHF 55.2 million, compared to CHF 67.5 million in the same period the previous year. This equates to a decline of 18.2%. The different divisions reported mixed trends. Movement Systems posted only a small decline in earnings, whereas Flooring Systems and the building and construction adhesives activity recorded a stronger decline in operating profit (EBIT). The main reason was the decline in sales stemming from the massive cuts in public spending and the downturn in the building and construction industry in many of Forbo's key markets.

Margins slightly eroded by the decline in sales

The minimal decline in sales plus the persistently strong Swiss franc had the effect of slightly eroding operating margins in the first half of 2012. The EBITDA margin decreased from 14.2% in the prior-year period to 13.1%, while the EBIT margin declined from 10.9% to 9.2%. Whereas margin erosion at Movement Systems was moderate, the decline at Flooring Systems and building and construction adhesives was around two percentage points in both cases.

Net income from operations declined

Due to a significantly lower tax rate of 18.0% (prior-year period: 24.9%), net income from operations from continuing operations came to CHF 40.3 million, a decrease of 9.8% versus the prior-year period, when it had stood at CHF 44.7 million. In addition, the Group posted extraordinary net income of CHF 73.1 million stemming from the sale of the industrial adhesives activity. Overall, Group profit in the period under review amounted to CHF 113.4 million. In the prior-year period, Forbo posted Group profit of CHF 74.6 million, a figure that included extraordinary financial income of CHF 22.4 million after tax from the sale of Rieter shares. A year-on-year comparison of Group profit is therefore not meaningful.

Strong balance sheet drives value growth

Forbo will continue to systematically implement its strategy by intensifying its activities in growth markets, strengthening its innovative product portfolio, and offering customer-specific services. With its market positions, strong balance sheet, and well-proven strategy, Forbo is able to step up expansion in growth markets and take advantage of external opportunities for growth in order to reinforce its position. However, we will not make acquisitions unless they can create added value for our shareholders. Forbo will for the time being keep its liquidity as a strategic reserve.

Performance of the divisions

Forbo Flooring Systems reported net sales of CHF 401.9 million in the first half of 2012 (prior-year period: CHF 418.3 million), equivalent to a slight decrease of 1.7% in local currencies versus the same period the previous year (however, in Swiss franc terms, sales declined by 3.9%). Since Flooring Systems' main customer segments are schools, hospitals, old-age homes, and public buildings, the division is highly dependent on public sector spending. Given the massive cuts to public spending in many of Forbo's key markets, investment in new buildings as well as in renovations are being postponed or even shelved completely. This restrictive spending policy is likely to intensify. Forbo has adjusted to this changed environment by strengthening its distribution structures and entering new customer segments such as shopfitting, offices, hotels, and gastronomy. These measures, however, will only bear fruit in the medium term. Operating profit (EBIT), which contains an impairment of CHF 4.0 million, declined by 19.3% to CHF 40.5 million compared with CHF 50.2 million in the same period the previous year. The EBIT margin declined from 12.0% in the prior-year period to 10.1%. The focus in the coming months will be on targeted marketing and distribution activities, developing new customer segments outside the public sector, and intensified efforts to expand in growth markets.

Given the ongoing downturn in construction activity in the Benelux countries, net sales of the **building and construction adhesives** activity (the continuing operation of Forbo Bonding Systems) declined from CHF 41.9 million in the first half of 2011 to CHF 39.5 million in the first half of 2012. In local currencies, this comes to a minimal decline of 0.5% versus the prior year (in Swiss francs, the decline was 5.7%). The sales downturn in the Benelux countries was offset in part by strong growth in the Russian market, where Forbo tapped the private residential market. Operating profit (EBIT) fell by 14.7% to CHF 8.1 million (prior-year period: CHF 9.5 million). The EBIT margin contracted from 22.7% to 20.5%. In the second half of 2012, the building and construction adhesives activity will focus its efforts on further developing the Russian market and its business in Eastern Europe.

Forbo Movement Systems reported net sales of CHF 161.7 million in the first half of 2012 (prior-year period: CHF 159.7 million), equivalent to an increase of 1.3% in both local currencies and Swiss francs versus the same period the previous year. The demand trend in the second half of 2011 continued into the first half of 2012. While demand in Europe remained very muted, some countries in the Asia-Pacific region reported double-digit growth rates. In China and Japan, Forbo's largest markets, however, demand weakened slightly. The positive sales uptrend continued in North America. Operating profit (EBIT) declined slightly by 3.3% to CHF 14.7 million compared with CHF 15.2 million in the same period the previous year. The EBIT margin contracted slightly from 9.5% to 9.1%. Also in the second half, the division will keep its focus on expanding its activities in the growth markets and on worldwide marketing of its range of plastic modular belts.

Outlook for 2012

We expect that public-sector cost-cutting will continue and that the impact on our business, especially for new buildings and renovations, will intensify slightly. The measures Forbo launched some time back to reduce its dependence on the public sector by developing new market segments are currently being implemented and will have the medium-term effect of offsetting the decline in demand from the public sector.

Assuming no major changes in other relevant conditions, Forbo expects to post somewhat higher net income from operations from continuing operations in the second half of 2012 than it did in the first six months of the year.

Dr. Albert Gnägi
Chairman of the Board of Directors

This E. Schneider
Delegate of the Board of Directors and CEO

Forbo Holding Ltd
Baar, August 14, 2012

Consolidated balance sheet and income statement

Condensed consolidated balance sheet		
Unaudited, CHF m	30.6.2012	31.12.2011
Assets		
Non-current assets	**529.2**	**536.4**
Property, plant, and equipment, and intangible assets	501.1	513.3
Deferred income tax assets, investments in associates, and other non-current assets	28.1	23.1
Current assets	**956.8**	**965.5**
Assets held for sale		361.4
Inventories	244.6	219.6
Trade and other receivables, prepaid charges, and deferred income	226.9	192.0
Marketable securities	118.4	0.1
Cash and cash equivalents	366.9	192.4
Total assets	**1,486.0**	**1,501.9**

Shareholders' equity and liabilities		
Shareholders' equity	**888.5**	**815.3**
Non-current liabilities	**280.9**	**276.2**
Non-current financial debt	133.5	144.5
Employee benefit obligations, provisions, and deferred tax liabilities	147.4	131.7
Current liabilities	**316.6**	**410.4**
Trade payables	81.6	86.1
Current financial debt	49.8	47.5
Provisions and accrued expenses, tax, and other liabilities	185.2	179.2
Liabilities directly associated with assets held for sale		97.6
Total liabilities	**597.5**	**686.6**
Total shareholders' equity and liabilities	**1,486.0**	**1,501.9**

Condensed consolidated income statement		
Unaudited, CHF m	First half 2012	First half 2011
Continuing operations		Restated
Net sales	**603.1**	**619.9**
Cost of goods sold	– 378.5	– 384.0
Gross profit	**224.6**	**235.9**
Operating expenses	– 169.4	– 168.4
Operating profit	**55.2**	**67.5**
Financial result	– 6.0	21.8
Group profit before taxes	**49.2**	**89.3**
Income taxes	– 8.9	– 22.2
Group profit from continuing operations	**40.3**	**67.1**
Group profit from discontinued operations after taxes	**73.1**	**7.5**
Group profit	**113.4**	**74.6**
Earnings per share total		
Basic earnings per share in CHF	49.68	31.72
Diluted earnings per share in CHF	49.65	31.62
Earnings per share from continuing operations		
Basic earnings per share in CHF	17.65	28.53
Diluted earnings per share in CHF	17.64	28.44
Earnings per share from discontinued operations		
Basic earnings per share in CHF	32.03	3.19
Diluted earnings per share in CHF	32.01	3.18

The accompanying notes are an integral part of the half-year report.

Comprehensive income statement and consolidated shareholders' equity

Comprehensive income statement		
Unaudited, CHF m	First half 2012	First half 2011
Group profit	**113.4**	**74.6**
Components of other comprehensive income:		
Translation differences	– 0.7	– 66.1
Translation differences reclassified in the income statement	41.2	–
Changes in fair value of financial instruments available-for-sale		–
Proceeds from the sale of financial instruments available-for-sale; transfer to income statement		– 18,6
Actuarial losses (–)/gains on pension liabilities	– 12.6	14.8
Fair value adjustments of cash flow hedges	1.0	1.2
Fair value adjustments of net investment hedges	0.0	5.1
Other comprehensive income, net of tax	**28.9**	**– 63.6**
Total comprehensive income	**142.3**	**11.0**

Consolidated shareholders' equity first half 2012

Unaudited, CHF m	Share capital	Treasury shares	Reserves	Revaluation reserves	Assets available-for-sale	Reserves from cash flow hedges	Translation differences	Total
As at January 1, 2012	**0.3**	**– 0.1**	**978.2**	**128.0**	**0.0**	**– 1.7**	**– 289.4**	**815.3**
Group profit			113.4					113.4
Other comprehensive income, net of tax			– 12.6			1.0	40.5	28.9
Total comprehensive income			**100.8**			**1.0**	**40.5**	**142.3**
Change in scope of consolidation			14.3	– 17.0			2.7	
Share-based payments			2.1					2.1
Treasury shares			– 43.7					– 43.7
Dividend			– 27.5					– 27.5
As at June 30, 2012	**0.3**	**– 0.1**	**1,024.2**	**111.0**		**– 0.7**	**– 246.2**	**888.5**

Consolidated shareholders' equity first half 2011

Unaudited, CHF m	Share capital	Treasury shares	Reserves	Revaluation reserves	Assets available-for-sale	Reserves from cash flow hedges	Translation differences	Total
As at January 1, 2011	**0.3**	**– 0.1**	**864.9**	**129.2**	**18.6**	**0.0**	**– 283.2**	**729.7**
Group profit			74.6					74.6
Other comprehensive income, net of tax			14.8		– 18.6	1.2	– 61.0	– 63.6
Total comprehensive income			**89.4**		**– 18.6**	**1.2**	**– 61.0**	**11.0**
Share-based payments			3.9					3.9
Treasury shares			8.1					8.1
Dividend			– 28.3					– 28.3
As at June 30, 2011	**0.3**	**– 0.1**	**938.0**	**129.2**	**0.0**	**1.2**	**– 344.2**	**724.4**

The accompanying notes are an integral part of the half-year report.

Consolidated cash flow statement

Condensed consolidated cash flow statement

Unaudited, CHF m	First half 2012	First half 2011
Cash flow from operating activities	**4.2**	**2.4**
Cash flow from investing activities	**240.5**	**41.3**
Cash flow from financing activities	**– 83.4**	**– 85.3**
Increase/decrease (–) in cash and cash equivalents	161.3	– 41.6
Translation differences on cash and cash equivalents	0.3	– 9.8
Cash and cash equivalents at beginning of year	205.3	171.4
Total cash and cash equivalents as at June 30	**366.9**	**120.0**

Cash and cash equivalents as at January 1, 2012 stood at CHF 205.3 million and can be broken down as follows:

Continuing operations:	CHF 192.4 million
Discontinued operations:	CHF 12.9 million

The cash flow from investing activities contains the cash flow from the sale of the industrial adhesives activity, including synthetic polymers. From this divestment, there resulted a positive cash flow of CHF 368.0 million, which was the difference between the cash inflow from H.B. Fuller Company (CHF 383.2 million) and the outflow of the cash and cash equivalents of the divested subsidiaries (CHF 15.2 million) on March 5, 2012.

The accompanying notes are an integral part of the half-year report.

Notes to the condensed consolidated half-year financial statements (unaudited)

01 General information

This condensed consolidated interim report covers the six-month period from January 1, 2012 to June 30, 2012 (hereinafter 'reporting period') and was drawn up in accordance with the International Accounting Standard 34 (IAS 34) 'Interim Financial Reporting'. The consolidated half-year financial statements do not include all information reported in the consolidated full-year financial statements and should therefore be read in conjunction with the consolidated financial statements as at December 31, 2011.

The consolidated half-year financial statements have not been audited by the auditors. They were approved for publication by the Board of Directors on August 7, 2012.

02 Group accounting policies

The accounting policies applied in the consolidated half-year report are in line with the accounting policies set out in the 2011 Annual Report with the following exceptions:

The following new and revised standards and interpretations were applied by the Forbo Group for the first time as at January 1, 2012:

- IFRS 1 (revised), 'First-time Adoption of International Financial Reporting Standards'
- IFRS 7 (revised), 'Financial instruments: Disclosures'
- IAS 12 (revised), 'Income taxes'

The application of these revised standards has no effect on the Half-Year Report presented here.

The Forbo Group has not prematurely applied standards, interpretations or amendments that have been published but are not yet mandatory.

The preparation of the consolidated half-year financial statements requires management to make estimates and assumptions that may affect reported revenues, expenses, assets, liabilities, and contingent liabilities at the date of the financial statements. If the estimates and assumptions made by management to the best of its knowledge at the date of the financial statements differ from the actual facts, the original estimates and assumptions will be adjusted in the reporting period in which the facts have changed.

With the exception of the impairments mentioned in section '04 Segment information', the consolidated half-year financial statements do not contain any new estimates and assumptions by management compared with the consolidated financial statements as at December 31, 2011. Earnings and expenses which are not incurred on a straight-line basis during the business year are only deferred if such deferral was justified at year-end. Income tax expenditure is estimated on the basis of average actual tax rates during the current business year.

03 Changes in the scope of consolidation

Forbo signed a contract with H.B. Fuller Company on December 21, 2011 on the sale of its industrial adhesives and synthetic polymers activities, which were part of the Bonding Systems division. On fulfillment of all conditions, the transaction was closed on March 5, 2012. All companies active in the businesses affected left the scope of consolidation as of March 5, 2012. The information on the prior-year period in the income statement and segment reporting has been restated accordingly.

04 Segment information

Forbo is a global producer of Flooring Systems, Bonding Systems, and Movement Systems. The divisions reflect the internal management structure and are run separately because the products that they manufacture, distribute, and sell differ fundamentally in terms of production, distribution, and marketing.

Flooring Systems develops, produces, and sells linoleum, vinyl floorings, entrance matting systems, carpet tiles, and needlefelt floor coverings as well as the various accessory products required for installing, processing, cleaning, and care of flooring. Following the sale of the industrial adhesives activity, including synthetic polymers, the Bonding Systems division now consists solely of development, manufacture and distribution of adhesives for the building and construction industry. Movement Systems develops, produces, and sells high-quality power transmission belts, conveyor and processing belts, as well as plastic modular, timing and flat belts made of synthetic materials. Corporate encompasses the costs of the Group headquarters and certain items of income and expenses that are not directly attributable to a specific division.

The four segments Flooring Systems, Movement Systems, Bonding Systems, and Corporate are reportable segments. The identification of reportable divisions is based on internal management reporting to the Chief Executive Officer of the Forbo Group and hence on the financial information used to check the performance of the operational units in order to reach a decision on the allocation of resources. Whereas the segment information for the Bonding Systems division still included industrial adhesives, including synthetic polymers, in the 2011 consolidated financial statements, the segment information below for the Bonding Systems division shows only the building and construction adhesives activity, the only activity that has remained in the Forbo Group. The information for the prior-year period has been restated accordingly. As already announced, Forbo has decided to integrate the building and construction adhesives activity into the Flooring Systems division in the second half of 2012. It may therefore be assumed that building and construction adhesives will no longer be a reportable segment in the 2012 consolidated financial statements.

Management reporting is based on the same accounting principles as external reporting.

The Chief Executive Officer assesses the performance of the divisions based on their operating result (EBIT). The net financial result is not allocated to the divisions since it is Corporate Treasury that in the main exercises central control over the financial result.

Inter-segment sales are effected at arm's length. The divisions apply the same accounting principles as the Group. Sales to third parties, as they are reported to the Chief Executive Officer, are identical with the sales reported in the income statement.

Segment information on the reportable segments for the reporting period:

First half 2012						
Unaudited, CHF m	Flooring Systems	Bonding Systems	Movement Systems	Corporate	Elimination	Total
Total net sales	402.1	48.2	161.7	–	– 8.9	603.1
Inter-segment sales	– 0.2	– 8.7	–	–	8.9	–
Net sales to third parties	**401.9**	**39.5**	**161.7**	**–**	**–**	**603.1**
Operating profit (EBIT)	**40.5**	**8.1**	**14.7**	**– 8.1**	**–**	**55.2**
Operating assets	**657.5**	**46.0**	**248.6**	**20.2**	**–**	**972.3**
Number of employees (June 30)	**2,780**	**276**	**1,891**	**43**	**–**	**4,990**

Segment information on the reportable segments for the prior-year period:

First half 2011 (restated)						
Unaudited, CHF m	Flooring Systems	Bonding Systems	Movement Systems	Corporate	Elimination	Total
Total net sales	419.3	52.3	159.7	–	– 11.4	619.9
Inter-segment sales	– 1.0	– 10.4	– 0.0	–	11.4	–
Net sales to third parties	**418.3**	**41.9**	**159.7**	**–**	**–**	**619.9**
Operating profit (EBIT)	**50.2**	**9.5**	**15.2**	**– 7.4**	**–**	**67.5**
Operating assets	**637.0**	**44.2**	**228.3**	**23.8**	**–**	**933.3**
Number of employees (June 30)	**2,771**	**256**	**1,830**	**41**	**–**	**4,898**

The EBIT of the Flooring Systems division contains impairments of intangible assets totaling CHF 4.0 million. For one thing, an impairment of CHF 1.8 million had to be taken for the goodwill that had been capitalized when a production site was acquired in Russia. As expectations regarding future sales and margins at this site had been revised downwards, we conducted an impairment test at the end of the first half. Furthermore, an impairment of CHF 2.2 million was taken for the brand name Westbond capitalized on the acquisition of Bonar Floors and for the related bonding technology. In this case, lower expectations regarding future sales achievable with this brand name were the reason for conducting an impairment test at the end of the first half.

In comparison with the prior-year period, the EBIT of Corporate contains exceptional charges in the area of personnel and one-off charges in connection with the evaluations conducted for the sale of the building and construction adhesives activity of the Bonding Systems division.

Reconciliation of division results to the income statement and balance sheet:

Unaudited, CHF m	First half 2012	First half 2011 Restated
Operating profit (EBIT)	**55.2**	**67.5**
Financial result	– 6.0	21.8
Group profit before taxes	**49.2**	**89.3**

Unaudited, CHF m	30.6.2012	31.12.2011
Total operating assets, continuing operations	972.3	961.6
Total operating assets, discontinued operations		305.9
Total operating assets	**972.3**	**1,267.5**
Non-operating assets	513.7	234.4
Total assets	**1,486.0**	**1,501.9**

05 Balance sheet

Total assets as at June 30, 2012 decreased by CHF 15.9 million versus the end of the previous year to CHF 1,486.0 million. The sale of the industrial adhesives activity, including synthetic polymers, had a major impact on the balance sheet structure. This resulted in the outflow of assets and liabilities classified as held for sale at the end of the previous year but on the other hand brought in net cash and cash equivalents of CHF 368.0 million. Since cash and cash equivalents had increased substantially, CHF 116.4 million was invested in marketable securities.

The increase in inventories and in trade receivables totaling CHF 57.5 million was mainly contingent on the closing date. Another reason for the increase in inventories is that the adjustment of output to the lower-than-expected sales took place with a certain time lag. Since investments in fixed assets amounting to about CHF 10.2 million were lower than the depreciations of CHF 17.9 million, fixed assets decreased by CHF 9.0 million. The investments were made mainly for replacements and projects to boost efficiency.

The balance sheet item 'Employee benefit obligations, provisions and deferred tax liabilities' increased by CHF 15.7 million to CHF 147.4 million compared with the end of the previous year. This increase was due mainly to the actuarial calculation of employee benefit obligations. The decline of CHF 11.0 million in non-current financial debt was achieved primarily by buying back the Group's own bonds on the market.

Compared with December 31, 2011, shareholders' equity increased by CHF 73.2 million to CHF 888.5 million. The increase is due primarily to the sale of the industrial adhesives activity, including synthetic polymers, which increased shareholders' equity by CHF 114.3 million. Furthermore, shareholders' equity increased by CHF 40.3 million, which is the Group profit from continuing operations. Various factors reduced shareholders' equity: these were the dividend of CHF 27.5 million paid out to shareholders of Forbo Holding Ltd, the impact of treasury shares (CHF 43.7 million), and the actuarial losses on pension liabilities (CHF 12.6 million). The equity ratio increased further in the first half of 2012 and stood at 59.8% as at June 30, 2012.

Net cash came to CHF 302.0 million as at June 30, 2012.

06 Income statement

Operating profit (EBIT) in the reporting period came to CHF 55.2 million, which was CHF 12.3 million lower than in the prior-year period. The impact of the currency effects stemming from the translation of the half-year reports of subsidiaries into the corporate currency came to CHF 2.7 million at the EBIT level. As a result, operating profit (EBIT) in the reporting period decreased, after currency adjustment, by CHF 9.6 million in comparison with the prior-year period. The main reasons for this development are, for one thing, slightly lower sales than in the prior-year period, even after adjustment for currency effects and, for another, the lower EBIT margin, which was due to higher operating expenditures and to the CHF 4.0 million impairment on intangible assets of the Flooring Systems division.

Financial result (net financial expenses) came to CHF 6.0 million in the reporting period. The financial result of the prior-year period (net financial income of CHF 21.8 million) contains in particular the proceeds from the sale of securities. Without this income, the result in the prior-year period would have been net financial expenses of CHF 7.3 million. Consequently, the comparable net financial expenses declined by CHF 1.3 million versus the same period the previous year.

Income tax amounted to CHF 8.9 million, corresponding to a tax rate of 18.0%.

Group profit came to CHF 113.4 million and consists of Group profit from continuing operations amounting to CHF 40.3 million and Group profit from discontinued operations amounting to CHF 73.1 million. Group profit from discontinued operations is related solely to the sale of the industrial adhesives activity, including synthetic polymers, on March 5, 2012. The sum includes the profit generated by this activity in the period from January 1 to March 5, 2012 of CHF 5.0 million, the profit from the sale of this business amounting to CHF 110.5 million, and transaction costs of CHF 1.2 million connected with the sale. Currency translation losses of CHF 41.2 million not recognized in income in the past were also deducted from the profit from the sale. These had to be transferred from shareholders' equity to the income statement at the date of the sale.

The CHF 26.8 million decline in profit from continuing operations compared with the prior-year period is mainly attributable to the financial income of CHF 22.4 million after tax from the sale of securities contained in the profit of the prior-year period. The negative currency effects stemming from translation of the half-year statements of subsidiaries into the corporate currency caused Group profit in the first half of 2012 to contract by CHF 2.2 million. The comparable and currency-adjusted Group profit from continuing operations therefore declined by CHF 2.2 million compared to the same period the previous year.

Basic earnings per share in the period under review amounted to CHF 49.68. Diluted earnings per share (adjusted for the dilution effect of outstanding options) came to CHF 49.65.

07 Cash flow statement

The free cash flow generated in the period under review came to CHF 244.7 million.

Operating cash flow increased slightly in comparison with the prior-year period and came to CHF 4.2 million. As in the prior-year period, the build-up of net working capital versus the end of the previous year prevented Forbo from achieving a better operating cash flow. In particular, the increase in inventories resulting from lower-than-expected sales contributed to this.

The cash inflow from investing activities, amounting to CHF 240.5 million, was greatly influenced by the sale of industrial adhesives and synthetic polymers activities. This divestment generated a cash flow of CHF 368.0 million, of which CHF 116.4 million had been invested in marketable securities by June 30, 2012. Investments in property, plant, and equipment in the first half of 2012 came to CHF 10.2 million.

In the reporting period, liquidity of CHF 83.4 million was used for financing. Of this amount, CHF 27.5 million went to pay out the dividend to Forbo shareholders. The high level of liquidity was also used to buy back some Group's own financing instruments. Via the market, Forbo spent CHF 44.1 million to buy back own shares and CHF 12.4 million for own bonds.

08 Main exchange rates applied

The following exchange rates have been applied for the most important currencies concerned:

		Income statement Average exchange rate, 6 months		Balance sheet Exchange rate on balance-sheet date	
Currency					
CHF		2012	2011	30.6.2012	31.12.2011
Euro countries	EUR 1	1.20	1.27	1.20	1.22
USA	USD 1	0.93	0.91	0.97	0.94
United Kingdom	GBP 1	1.46	1.47	1.50	1.46
Japan	JPY 100	1.17	1.11	1.22	1.22

09 Events after the balance sheet date

On July 13, 2012, the Board of Trustees of our main pension fund in the Netherlands agreed to a change in the pension plan, involving a switchover from a defined benefit to a defined contribution plan. As part of this change in plan, Forbo agreed to make a one-off contribution of EUR 15 million. Since the new plan qualifies as a defined contribution plan under IFRS as well, the employee benefit obligations existing as at year-end 2012 will in all likelihood be eliminated at that time. The change in plan is likely to have a significant impact on the income statement for 2012, though the precise effects cannot yet be determined reliably since they depend to a large extent on the actuarial assumptions that will be made in the second half of 2012. On the premise – which is unlikely – that the actuarial assumptions for calculating the employee benefit obligations as at December 31, 2012 are identical with those as at June 30, 2012, the change in plan would create a profit of around CHF 22 million, which would be recognized in the income statement. Taking into account the one-off payment to be made by Forbo, a net profit of CHF 4 million would be recognized in the income statement on the basis of the above-mentioned assumptions.

Calendar

Media and financial analysts' conference for the 2012 business year:	Tuesday, March 19, 2013
Ordinary General Meeting:	Friday, April 26, 2013

Our half-year report appears in German language and in English translation.

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