Half-year report

Contents

Growth through acquisitions

Dear shareholders

The business development in the first six months mirrors a difficult economic environment. Apart from the temporary insecurity created by the Iraq war and the infectious disease Sars in Asia, the business development suffered from the depressed consumers' mood and the further decline of capital goods investments. In addition, the Group had to cope with an unfavorable currency development, notably of the US Dollar.

Sales of CHF 791.8 million were recorded in the first half-year, an increase by 9.7 % or 15.2 % in local currencies over previous year. The sales growth is especially the result of the Swift adhesives business acquired in April 2002. In local currencies, also the Belting business increased sales compared with the previous year, whereas the Flooring business recorded a slight decline. Besides this, sales of some CHF 8 million for the half-year were missing due to the divestment of the business with floor coverings for industrial applications (Repoxit AG) at the beginning of the year.

The operating profit before depreciation and amortization (EBITDA) of CHF 81.4 million is CHF 6.9 million lower than in the corresponding period of the previous year. Of the CHF 6.9 million, CHF 3.3 million alone are the result of currency translations. However, the Dollar weakness also had a negative impact on the margin since the Forbo Group generates an essential sales portion in North America and Asia on the basis of exports from Euro countries. The higher amortization of goodwill due to acquisitions, increased financial expenses, and a higher tax rate resulted in a clear decrease of the consolidated profit to CHF 14.2 million (previous year: CHF 24.5 million).

Sales and profit development

With 9.7 % higher net sales of CHF 791.8 million, the operating result before depreciation and amortization (EBITDA) was CHF 81.4 million, or 10.3 % of sales. This means that the goals were not reached, mainly as a result of external factors. The Adhesives business expanded its sales to 36 % of total sales (previous year: 27 %). Flooring and Belting are now accounting for 46 % and 18 %, respectively, of total sales. With a sales portion of 31 %, the non-European region has further gained in importance (previous year: 28 %). The gross profit margin declined from 34.3 % in the previous year to 32.4 % as a result of the higher sales portion of Adhesives, but also due to depressed selling prices and higher material costs. In addition, the currency situation with exports from the European region led to transaction-related margin losses.

The operating result after depreciation and amortization (EBIT) of CHF 34.8 million is CHF 9.6 million or 21.6 % below the previous year and thus below the original expectations. All three businesses contributed to this decline. Cost savings could only partly compensate for this negative development.

Summary of consolidated income statement[1]

	First six months	
	2003 m CHF	2002 m CHF
Net sales	**791.8**	**721.9**
Cost of goods sold	–535.3	–474.3
Gross profit	**256.5**	**247.6**
Operating expenses	–221.7	–203.2
Operating profit	**34.8**	**44.4**
Financial expenses, net	–12.9	–9.4
Profit before taxes	**21.9**	**35.0**
Taxes	–7.7	–10.5
Consolidated profit	**14.2**	**24.5**
Earnings per share (basic)	10.91	18.76
Earnings per share (diluted)	10.79	18.62

[1] The unaudited half-year report as per June 30, 2003, has been prepared in accordance with the accounting policies set out in the 2002 Annual Report and International Accounting Standard 34 on Interim Financial Reporting.

The lower operating result and acquisition-related higher financial expenses lead to a consolidated profit before taxes of CHF 21.9 million (previous year: CHF 35.0 million). Following a higher tax rate the resulting consolidated profit after taxes is CHF 14.2 million (previous year: CHF 24.5 million).

Financial situation

The consolidated balance sheet total as per June 30, 2003 rose compared with the end of the previous year by CHF 47.8 million for seasonal and currency reasons, but it decreased by CHF 44.5 million compared with the end of June 2002. Long-term assets have decreased as a result of depreciations that are clearly higher than the capital expenditures of CHF 16.6 million. Operating current assets (inventories and trade receivables) are about on the same level as at the end of June 2002. The increase of the operating current assets compared to year-end 2002 mainly results from seasonally higher trade receivables and increased sales in June. Net debt is CHF 488.1 million. The company's liquidity (cash and marketable securities) has improved by CHF 13.2 million compared with the end of June 2002 and is now with CHF 146.8 million somewhat below the year-end value.

The increase in shareholders' equity compared with the end of 2002 is mainly due to the half-year result and currency translations. The gearing (net debt/equity) at the end of June 2003 is at 78.5 %, 3.7 percentage points lower than at the end of the previous year.

Summary of consolidated balance sheet

	30.6.2003[1] m CHF	31.12.2002 m CHF	30.6.2002[1] m CHF
Long-term assets	**859.7**	**875.1**	**930.5**
Tangible assets	574.9	586.9	628.4
Intangible assets	175.1	178.6	181.6
Investments in associates, deferred taxes and other long-term assets	109.7	109.6	120.5
Current assets	**788.7**	**725.5**	**762.4**
Inventories	278.1	255.9	265.9
Accounts receivable, prepaid expenses and deferred charges	363.8	317.2	362.9
Marketable securities, cash and cash equivalents	146.8	152.4	133.6
Total assets	**1 648.4**	**1 600.6**	**1 692.9**
Shareholders' equity	**621.5**	**590.6**	**605.0**
Long-term liabilities	**718.8**	**638.6**	**285.6**
Long-term financial debt	618.5	539.3	170.7
Employee benefit obligations, provisions and deferred taxes	100.3	99.3	114.9
Current liabilities	**308.1**	**371.4**	**802.3**
Trade payables	117.9	107.3	121.9
Short-term financial debt	16.4	98.5	520.7
Other current liabilities and accrued expenses	173.8	165.6	159.7
Total shareholders' equity and liabilities	**1 648.4**	**1 600.6**	**1 692.9**

[1] unaudited

Summary of consolidated cash flow statement[1]

	First six months 2003 m CHF	First six months 2002 m CHF
Cash flow from operating activities	**19.3**	**52.1**
Cash flow from investing activities	**–16.6**	**–344.3**
Cash flow from financing activities	**–10.9**	**302.6**
Decrease (–)/increase (+) in cash and cash equivalents	–8.2	10.4
Translation differences	1.9	–1.1
Cash and cash equivalents at January 1	128.5	92.7
Cash and cash equivalents at June 30	**122.2**	**102.0**

[1] unaudited

Summary of consolidated statement of changes in shareholders' equity[1]

	First six months 2003 m CHF	First six months 2002 m CHF
Shareholders' equity at January 1	**590.6**	**652.2**
Consolidated profit	14.2	24.5
Changes in treasury shares	0.9	0.8
Fair value adjustments financial instruments	0.1	–1.8
Translation differences	15.7	–41.7
Cash distribution to shareholders	0.0[2]	–29.0
Shareholders' equity at June 30	**621.5**	**605.0**

[1] unaudited
[2] Cash distribution of CHF 22.– per share by reducing the nominal value in July 2003

Net sales by Businesses

	First six months		% change to 2002	
	2003 m CHF	2002 m CHF	actual	currency adjusted
Flooring	360.7	371.3	–2.9	–1.2
Adhesives	285.1	197.8	44.1	54.3
Belting	146.0	152.8	–4.4	4.3
Total net sales	**791.8**	**721.9**	**9.7**	**15.2**

Operating profit by Businesses

	First six months		% change to 2002	
	2003 m CHF	2002 m CHF	actual	currency adjusted
Flooring	26.5	29.8	–11.1	–11.0
Adhesives	17.6	19.3	–8.8	0.5
Belting	2.7	6.8	–60.3	–54.3
Corporate and consolidation	–12.0	–11.5	–4.3	–5.1
Total operating profit	**34.8**	**44.4**	**–21.6**	**–16.8**

Development by businesses and geographical regions*

The **Flooring business** reached sales of CHF 360.7 million in the period under review, 1.2 % less than in the previous year. Encouraging growth was recorded in the sales regions of Asia, USA, Eastern and Southern Europe as well as France. As opposed, sales dropped by partly more than 5 % in the traditional markets of Western Europe, especially in the Benelux countries and in Germany. While the parquet business reached double-digit growth thanks to its home market in Sweden and strong export activity to Eastern Europe, trading conditions remained difficult for both the linoleum and the vinyl segments. This development may be unsatisfactory but it is still slightly better than the overall market. Various factors had a positive effect. The marketing efforts with new linoleum and vinyl collections for the institutional market (commercial buildings, hospitals, schools and other public buildings) were well received. The launch of the innovative linoleum product Marmoleum® click has had a successful start in the residential market segment. Linoleum is made from natural, renewable raw materials, and the product combines in a unique way ecological living with attractive design and excellent properties. With CHF 26.5 million, the operating result was CHF 3.3 million below the previous year, resulting from currency effects and changes in the sales mix of countries and products.

The **Adhesives business** recorded a sales growth of 54.3 % to CHF 285.1 million mainly as a result of acquisitions. Industrial adhesives account for more than 80 % of sales. Due to the economic situation, the markets are difficult at the moment, notably in Germany, Switzerland, Eastern Europe and the USA – especially in the premium segment. Margin pressure was aggravated by price increases for key raw materials in the first quarter. The price increases can hardly be passed on to the customers given the current market situation. Since May 2003 there have been signs of a slight improvement of the situation. Trade with intermediary products showed a positive trend. These sales have been rising steadily in the first half-year. The integration of the Swift adhesives business into the Forbo Group has been concluded successfully. Further organizational and structural adjustments are being carried out in Europe. With an operating result of CHF 17.6 million, the earnings of the Adhesives business did not match the expectations especially because of the raw material costs and the weak US Dollar. The operating result was reduced by some CHF 2 million due to the currency translation effect.

* All percentages in the text are currency-adjusted.

The global **Belting business** which is heavily dependent on capital investments in general and specifically on investments in the logistics infrastructure, continues to suffer from the unfavorable general economic conditions. This trend has particularly hit the original equipment manufacturers (OEM) business, whereas the business with direct customers for belting replacement was somewhat better. All in all the Belting business recorded sales of CHF 146.0 million. This is a 4.3 % increase, about half of it coming from the acquisition of Stephens Miraclo Extremultus Ltd. in September 2002. Market development was far better in Asia and America than in Western Europe. The operating result of CHF 2.7 million was unsatisfactory. Also in this business, the decrease compared with the previous year is due to price pressure and currency influences, especially the development of the US Dollar against the Euro.

Employees

As per June 30, 2003 Forbo employed 5,700 people. On a comparable basis this was a reduction by 25 employees against the end of 2002. Whereas there was a decrease in Western Europe, the number of employees increased in the growth markets of Asia, America, and Eastern Europe.

Outlook

With the continuation of a rigorous cost management, the further improvement of internal structures and an efficient management of current assets, Forbo should be able to achieve better results in the second half of the year even if the adverse conditions persist.

Yours sincerely,

Karl Janjöri
Chairman of the Board of Directors

Werner Kummer
Chief Executive Officer

Forbo Holding AG
Eglisau/Zurich, July 25, 2003

Issued and outstanding shares	30.6.2003	1 307 436
Market prices	Half-Year High	CHF 437.50
	Half-Year Low	CHF 360.50
	30.6.2003	CHF 409.00
Stock market capitalization	30.6.2003	m CHF 535

Financial calendar

Media release on the first three quarters 2003: October 28, 2003
Annual results media conference: March 23, 2004
Presentation to financial analysts: March 23, 2004
Annual General Meeting of Shareholders: April 27, 2004