Half-year report

Sales maintained – Auctioning process leaves traces – Group loss in line with expectations

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Dear shareholders

The lengthy auctioning process that lasted from November 2004 until April 2005, as already announced, had a negative impact on the half-year figures. The high non-recurring costs of this process also affected the Group results. The profit-enhancement measures planned in fall 2004, which had been seriously delayed by the auctioning process, were resumed and intensified in the second quarter by the new Board of Directors and the Executive Board. The first positive effects of these measures will manifest themselves in the second half-year at the earliest.

The sales decline in the first quarter could be largely offset by clearly higher sales in the second quarter. In addition, the stronger US Dollar and stable Euro resulted in a slight improvement of the currency situation. As far as costs were concerned, soaring raw material prices impaired the result. Adhesives, in particular, had to cope with higher prices that could not be completely transferred to the products. Of the remaining special charges of some CHF 40 million announced last year, CHF 15.1 million was charged to the first half-year result.

Development of sales and profits

In the first half-year 2005, Forbo achieved net sales of CHF 829.4 million, 0.3 % (1.8 % in local currency) higher than in the previous year. The flooring business recorded a decrease of 1.6 % (0.8 % in local currency) to CHF 370.8 million. By contrast, the adhesives business increased sales by 2.1 % (4.0 % in local currency) to CHF 302.7 million. The belting business achieved a sales plus of 1.5 % (3.7 % in local currency) to CHF 155.9 million.

The operating profit before depreciation and amortization (EBITDA) decreased to CHF 47.9 million (previous year: CHF 79.2 million). This was mainly the result of the direct costs of the auctioning process of CHF 5.9 million and restructuring charges of CHF 15.1 million. The operating profit after depreciation and amortization amounts to CHF 15.4 million, CHF 14.2 million lower than in the corresponding period of the previous year. Before special charges, the operating profit is CHF 30.5 million, CHF 3.7 million lower than in the previous year. The positive effects due to goodwill amortization, which used to be reflected in the operating profit but is no longer admissible according to IFRS, amount to CHF 4.9 million.

Net financial expenses decreased by CHF 19.0 million to CHF 13.1 million, notably as a result of higher interest income and last year's valuation adjustment on securities of CHF 12.0 million. The resulting Group profit before taxes is CHF 2.3 million (previous year: Group loss before taxes of CHF 2.5 million). After tax expenses of CHF 8.4 million (CHF 5.3 million less than in the previous year), the Group loss is CHF 6.1 million (previous year: Group loss of 16.2 million). The loss includes special charges of CHF 15.1 million (previous year: CHF 20.0 million).

Consolidated half-year financial statements

Summary of consolidated income statement

	First six months 2005 m CHF	First six months 2004 m CHF
Net sales	**829.4**	**827.0**
Cost of goods sold	–552.7	–567.5
Gross profit	**276.7**	**259.5**
Operating expenses	–261.3	–229.9
Operating profit (EBIT)	**15.4**	**29.6**
Financial expenses, net	–13.1	–32.1
Profit/loss before taxes	**2.3**	**–2.5**
Taxes	–8.4	–13.7
Group loss	**–6.1**	**–16.2**
Operating profit before depreciation and amortization (EBITDA)	**47.9**	**79.2**
	CHF	CHF
Loss per share (basic)	–2.33	–12.34
Loss per share (diluted)	–2.33	–12.34

There was no dilution effect in 2005 as a result of the group loss.

Financial situation

The balance sheet total rose by CHF 68.3 million compared to the previous year-end. This is mainly due to a seasonal increase in the working capital (inventories and trade receivables) and the stronger US Dollar. By contrast, cash and cash equivalents decreased by CHF 32.1 million to CHF 314.7 million. The investments in fixed assets of CHF 19.3 million are below depreciation of CHF 32.1 million. Moreover, returns from the divestment of fixed assets amount to CHF 5.8 million. Net debt rose by CHF 60.9 million compared with the previous year-end, with CHF 39.9 million accounted for by the currency translation of the US Private Placement. The credit conditions agreed with the lenders were adhered to. The gearing (net debt/equity) was 32.9 % at the end of June (end of 2004: 22.6 %).

Summary of consolidated balance sheet

	30.6.2005 m CHF	31.12.2004 m CHF	30.6.2004 m CHF
Long-term assets	**620.7**	**612.2**	**774.4**
Tangible assets	437.8	443.5	536.0
Intangible assets	150.5	143.0	156.1
Investments in associates, deferred taxes and other long-term assets	32.4	25.7	82.3
Current assets	**964.2**	**904.4**	**761.3**
Inventories	281.8	255.2	265.8
Accounts receivable, prepaid expenses and deferred charges	367.7	302.4	347.4
Marketable securites, cash and cash equivalents	314.7	346.8	148.1
Total assets	**1 584.9**	**1 516.6**	**1 535.7**
Shareholders' equity	**583.2**	**578.6**	**561.1**
Long-term liabilities	**611.6**	**569.8**	**626.7**
Long-term financial debt	499.7	459.7	525.3
Employee benefit obligations, provisions and deferred taxes	111.9	110.1	101.4
Current liabilities	**390.1**	**368.2**	**347.9**
Trade payables	129.8	108.8	128.5
Short-term financial debt	6.9	18.1	17.4
Other current liabilities and accrued expenses	253.4	241.3	202.0
Total shareholders' equity and liabilities	**1 584.9**	**1 516.6**	**1 535.7**

Summary of consolidated cash flow statement

	First six months 2005 m CHF	First six months 2004 m CHF
Cash flow from operating activities	**–8.9**	**10.6**
Cash flow from investing activities	**–13.5**	**–22.0**
Cash flow from financing activities	**–13.9**	**–29.4**
Decrease in cash and cash equivalents	–36.3	–40.8
Translation differences	4.2	–0.4
Cash and cash equivalents at January 1	346.8	169.8
Cash and cash equivalents at June 30	**314.7**	**128.6**

Summary of consolidated statement of changes in shareholders' equity

	First six months 2005 m CHF	First six months 2004 m CHF
Shareholders' equity at January 1	**578.6**	**572.5**
Group loss	–6.1	–16.2
Changes in treasury shares	–1.6	1.0
Fair value adjustments financial instruments	–2.7	10.5
Translation differences	15.0	–6.7
Shareholders' equity at June 30	**583.2**	**561.1**

Notes to the consolidated half-year results

The unaudited half-year report as of 30 June 2005, with the exception of the following notes, was prepared in accordance with the accounting principles described in the 2004 Annual Report and the International Accounting Standard 34 on interim reports.

Effective 1 January 2005, the International Accounting Standard Board (IASB) implemented various International Financial Reporting Standards (IFRS) or revised existing International Accounting Standards (IAS) (the "IASB Improvement Project") leading to the following changes to the accounting principles:

IFRS 2: Share-based payment
The introduction of IFRS 2 Share-based payment resulted in a change to the accounting principles of share-based transactions. Until 31 December 2004, the allocation of share options to employees did not result in an expense in the profit and loss account. However, effective 1 January 2005 the expense must be shown in the profit and loss account. As the group does not maintain any significant share option plans, the recorded expense according to IFRS 2 is not material. This also applies to the retrospective view of the first half-year 2004.

IFRS 3: Business combinations
According to IFRS 3, the amortization of goodwill has no longer been admissible since 1 January 2005. Instead of the goodwill amortization, the value of goodwill positions is reviewed annually by means of an impairment test. IFRS 3 stipulates the prospective application of the standard. Retrospective application of the standard to the first half-year 2004 would have had the effect that amortizations worth CHF 4.1 million would not have been recorded.

IAS 21: The effects of changes in foreign exchange rates
This standard revised in 2004 stipulates that exchange differences arising on group loans qualified as net investment in the group company concerned may be recorded under equity as a currency translation difference only if the loan is maintained in the functional currency of one of the loan parties.
Until 1 January 2005, all the exchange differences arising on group loans that were economically qualified as equity were booked as currency translation differences directly to equity. The effect of this adjustment did not lead to any significant changes of the net financial expense in the period from January to June 2005.

IAS 38: Intangible assets
The amortization of intangible assets classified as of indefinite useful life according to the revised IFRS standard has not been admissible since 1 January 2005. By analogy with the treatment of goodwill, the value of intangible assets classified as of indefinite useful life is subject to an annual impairment test. Had this standard been applied in the first half-year 2004, amortizations worth CHF 1.3 million would have become void in the income statement.

The effect of the remaining adjusted standards and new standards to be applied has no significant influence on the half-year accounts.

The scope of consolidation did not change in the period under review.

Comments on the businesses

Sales and results first half-year

	Flooring business m CHF	Adhesives business m CHF	Belting business m CHF	Corporate and consol. m CHF	Total m CHF
Net sales 2005	370.8	302.7	155.9		**829.4**
Net sales 2004	377.0	296.5	153.5		**827.0**
Change in % actual	–1.6	2.1	1.5		**0.3**
Change in % currency adjusted	–0.8	4.0	3.7		**1.8**
Operating profit (EBIT) 2005 *	7.2	17.4	2.8	–12.0	**15.4**
Operating profit (EBIT) 2005 before special charges *	20.0	19.1	3.4	–12.0	**30.5**
Operating profit (EBIT) 2004	17.7	15.1	1.0	–4.2	**29.6**
Operating profit (EBIT) 2004 before special charges	19.5	17.9	1.0	–4.2	**34.2**

* The operating profit was influenced positively by the impairment of fixed assets in 2004 and the disallowance of amortization of goodwill and other intangible assets through IFRS.

Development by businesses and geographical regions

The **flooring business** achieved sales of CHF 370.8 million or 1.6 % less than in the first half of 2004. Sluggish investment by the public sector again caused a sales decline in some European markets, notably Germany. In the USA, however, a buoyant building market and increasing interest in ecological products helped boost sales of linoleum, which is based on natural raw materials. Unlike the residential market, the PVC commercial business showed positive growth. All in all, the new cushion vinyl collections have been well received in the marketplace. The product portfolio in the residential area was streamlined in parallel with a far-reaching new product offensive. In line with the portfolio streamlining, production of cushion vinyl in Kirkcaldy, Scotland, was discontinued as of June 30, 2005. This move will allow the reduction of overcapacities and better utilization of the existing site in Coevorden, the Netherlands. Higher raw material prices could partly be offset by cost savings. The operating profit (EBIT) before special charges at CHF 20.0 million is CHF 0.5 million higher than in the previous year as a result of the lower depreciation of fixed assets.

The **adhesives business** increased sales by 2.1 % to CHF 302.7 million compared with the first half of the previous year. Whereas the European markets stayed at the previous year's level, the US business and exports to Asia showed a positive development all in all. The policy of strict orientation to strategic market segments initiated last year showed its first positive effects. In particular, sales of adhesives used in the automotive industry for interior trim increased at an above-average rate. Adhesives for building applications and the synthetic polymers product group also recorded sales growth. These semi-finished products are used in various industries. Since June 1, 2005, Forbo Adhesives has been represented in Turkey with its own sales organization. Steep price increases for raw materials could only partly be passed on, and pressure on margins was therefore intensified. This impacted the operating profit (EBIT) before special charges. At CHF 19.1 million, it is above the previous year's result of CHF 17.9 million as a result of goodwill amortization and amortization of other intangible assets (CHF 4.2 million) that are no longer admissible.

In the first half-year 2005, the **belting business** recorded a sales plus of 1.5 % to CHF 155.9 million (previous year: CHF 153.5 million). Sales on all continents contributed to the growth. Sales growth was particularly strong in the USA. In Asia, the markets were on a positive trend, but they remained below expectations with regard to returns. Except for some European countries, there are early signs that investments in industrial projects are picking up slightly – mainly in the logistics area – benefiting the OEM business. Business with end consumers is good. The shift of the product mix in the direction of higher-value drive belts is being intensified further. East European markets are being opened up, and a local fabrication center is being established. The operating profit (EBIT) before special charges and lower depreciation of assets is CHF 3.4 million, meaning that it is still unsatisfactory (previous year: CHF 1.0 million).

Relocation of the company's head office to Baar

In the context of the ongoing reorganization it is Forbo's intention to relocate the Group's head office to Baar near Zug within the next 12 months.

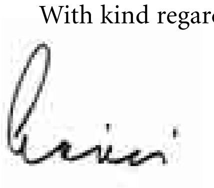
Employees

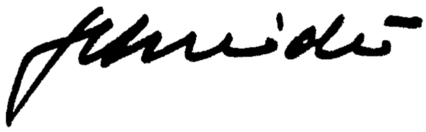
Forbo employed some 5 562 people at the end of June 2005, 35 less than at year-end 2004.

Outlook

Assuming that today's positive market environment continues, Forbo expects, for the entire business year, slightly higher sales than in the previous year and a positive result before special charges. The profit-enhancement measures resumed following the auctioning process will have a positive effect in the second half-year at the earliest. The announced need for special charges of some CHF 40 million can be maintained, with CHF 30 million being allocated to 2005 and CHF 10 million to 2006.

With kind regards





Dr. Albert Gnägi
Chairman of the Board of Directors

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

Forbo Holding AG
Eglisau/Zurich August 23, 2005

Stock exchange information

Issued and outstanding shares	30.6.2005	2 633 897
Market prices	Half-year high	CHF 265.00
	Half-year low	CHF 233.00
	30.6.2005	CHF 240.00
Stock market capitalization	30.6.2005	m CHF 632

Dates

Media release on the first three quarters of 2005: October 25, 2005
Annual results media conference: March 21, 2006
Presentation to financial analysts: March 21, 2006
Annual General Meeting of Shareholders: April 28, 2006