Half-Year Report 2010

Group profit from operations doubled

Sales in local currencies up considerably by 6.2 %

Big jump in profitability – earnings guidance increased for 2010

flooring. bonding. movement.

forbo

Forbo doubled Group profit from operations

The Forbo Group – a leading manufacturer of flooring systems, adhesives, as well as power transmission and conveyor belt solutions – doubled its Group profit from operations in the first half of 2010 to CHF 58.7 million (same period in 2009: CHF 28.5 million). In addition, it generated an extraordinary financial income of CHF 32.2 million after tax from the sale of Rieter shares. Net sales came to CHF 918.8 million, which is equivalent to solid growth in local currencies of 6.2 % compared with the previous year period. Forbo lifted operating profit (EBIT) to CHF 83.9 million, representing a significant increase of 79.7 %. The EBIT margin improved substantially from 5.3 % in the previous year period to 9.1 % in the reporting period.

Dear shareholders,

In the past two years, Forbo has delivered good results despite the economic crisis. We are therefore all the more pleased to report that our performance improved substantially once again. The first half of 2010 turned out to be better than expected on the whole. Demand stabilized in most regions. Distinct growth trends were clearly visible in customer segments that are crucial for Forbo such as machine tools and plant engineering as well as consumer durables such as cars, furniture, and textiles. In addition, the go-ahead was given for orders from logistics projects that had been previously postponed. The expansion of our sales and distribution organization, the structural adjustments made in the past two years, new and innovative products, and a strong customer focus are now yielding results. Putting decision-making on a long-term footing despite the economic crisis led to a further major improvement in profitability as well as a considerable increase in sales during the period under review.

Good sales growth affected by strong Swiss franc

In the first half of 2010, Forbo generated net sales of CHF 918.8 million, a significant increase of 6.2 % in local currencies compared with the same period the previous year. The strong Swiss franc lopped 2.5 % off this figure so that sales growth in the Group presentation currency came to 3.7 %. Bonding Systems and Movement Systems reported double-digit sales growth in local currencies of 11.8 % and 10.1 % respectively. Flooring Systems posted sales growth of 1.5 % in local currencies.

Strong increase in profitability

All three divisions reported a substantial improvement in operating profit before depreciations and amortizations (EBITDA), which rose 39.7 % to CHF 113.6 million. Operating profit (EBIT) increased sharply by 79.7 % to CHF 83.9 million. Profitability has been strengthened sustainably by a number of factors: the structural adjustments carried out in 2008 and 2009 to counter the economic downturn, the successfully implemented measures to increase efficiency, and new products with greater added value.

Significantly higher margins

All three divisions reported significantly higher operating profit margins in the first half of 2010. The EBITDA margin rose from 9.2 % in the previous year period to 12.4 %, while the EBIT margin increased from 5.3 % to 9.1 %.

Group profit from operations doubled

Group profit from operations soared to CHF 58.7 million, which was more than double the previous year's period result of CHF 28.5 million. In addition, Forbo generated an extraordinary financial income of CHF 43.0 million before tax (CHF 32.2 million after tax) from the sale of Rieter shares. Overall, Group profit in the period under review amounted to CHF 90.9 million.

Performance of the three divisions

The **Forbo Flooring Systems** division reported net sales of CHF 449.1 million in the first half of 2010, equivalent to an increase in local currencies of 1.5 % versus the same period the previous year (– 0.6 % in Swiss francs). Sales growth of the fully integrated Flooring Systems activities in the first half does not yet fully meet our expectations. A solid uptrend especially in markets such as Switzerland, America, and Eastern Europe was offset by weaker demand in the Netherlands and in France. Measures have been taken to strengthen sales performance across the comprehensive product portfolio. Given that integration and restructuring costs were no longer necessary, operating profit (EBIT) increased significantly by 40.7 % versus the previous year period to CHF 61.2 million. The EBIT margin was a pleasant 13.6 % (previous year period: 9.6 %). Following the successful integration of Bonar Floors in the past year, the division will focus in the coming months on making the marketing of its expanded product portfolio stronger and more effective.

The **Forbo Bonding Systems** division reported net sales of CHF 304.6 million in the first half of 2010, equivalent to an increase in local currencies of 11.8 % versus the same period the previous year (8.2 % in Swiss francs). This gratifying growth was driven primarily by the industrial adhesives business, where our key customer segments such as automotive manufacturers, furniture producers and textiles recovered in all regions. The building and construction adhesives business is being held back by the ongoing weakness of the European construction industry. Operating profit (EBIT) for the entire division rose strongly by 39.9 % to CHF 20.0 million, partly owing to lower costs for raw materials and the increase in sales. The EBIT margin improved from 5.1 % to 6.6 %. The decisive factors for the future profitability of the Bonding Systems division are price developments and the availability of raw materials. In the coming months, we expect a rise in raw material prices, only part of which can be passed on to our customers. In the second half, the division will focus on continuously developing sophisticated products with additional customer benefits.

The **Forbo Movement Systems** division reported net sales of CHF 165.1 million in the first half of 2010, equivalent to an increase in local currencies of 10.1 % versus the same period the previous year (8.1 % in Swiss francs). This sales growth was due to the upturn in the plant engineering and machine tools customer segments in Japan, Germany, and Italy and to major logistics projects. The increase in net sales, along with the adjusted structures, resulted in a sharp rise in operating profit (EBIT) to CHF 10.5 million (previous year: CHF – 2.8 million). The successful restructuring last year to counter the economic downturn stabilized and further improved profitability. The EBIT margin rose sharply from – 1.8 % to 6.4 %. In the second half, the division will have to react very flexibly to the ongoing volatile market trends.

Outlook for 2010

The economic environment has had a positive impact on our business operations this year to date. Nevertheless, we are guardedly optimistic since there is still no confidence in a sustainable recovery of the global economy and future developments, especially as regards exchange rates, are difficult to assess. Barring any major changes in the business environment, we expect another good result in the second half. This means that the Group profit from operations for 2010 should beat the record result of CHF 110.7 million in 2007.

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 17, 2010

Consolidated balance sheet and income statement

Condensed consolidated balance sheet

Unaudited, in CHF m

	30.6.2010	31.12.2009
Assets		
Non-current assets	**836.9**	**885.7**
Property, plant and equipment and intangible assets	805.3	859.0
Deferred income tax assets, investments in associates and other non-current assets	31.6	26.7
Current assets	**820.0**	**859.7**
Inventories	287.7	261.0
Trade and other receivables, prepaid expenses and deferred charges	343.6	300.3
Marketable securities	38.6	100.2
Cash and cash equivalents	150.1	198.2
Total assets	**1,656.9**	**1,745.4**
Shareholders’ equity and liabilities		
Shareholders’ equity	**685.6**	**679.6**
Non-current liabilities	**528.6**	**720.2**
Non-current financial debt	335.5	550.1
Employee benefit obligations, provisions and deferred income tax liabilities	193.1	170.1
Current liabilities	**442.7**	**345.6**
Trade payables	123.7	123.3
Current financial debt	83.6	3.4
Provisions and accrued expenses, tax and other liabilities	235.4	218.9
Total liabilities	**971.3**	**1,065.8**
Total shareholders’ equity and liabilities	**1,656.9**	**1,745.4**

Condensed consolidated income statement

Unaudited, in CHF m

	First half 2010	First half 2009
Net sales	**918.8**	**886.1**
Cost of goods sold	– 614.3	– 598.3
Gross profit	**304.5**	**287.8**
Operating expenses	– 220.6	– 241.1
Operating profit	**83.9**	**46.7**
Financial result	37.3	– 8.7
Group profit before taxes	**121.2**	**38.0**
Income taxes	– 30.3	– 9.5
Group profit	**90.9**	**28.5**
Basic earnings per share in CHF	40.14	12.62
Diluted earnings per share in CHF	40.07	12.62

Comprehensive income statement and consolidated shareholders' equity

Comprehensive income statement

Unaudited, in CHF m	First half 2010	First half 2009
Group profit	**90.9**	**28.5**
Income and expenses directly recognized in shareholders' equity:		
Translation differences	– 34.5	40.5
Changes in fair value of financial instruments available-for-sale	4.6	4.9
Proceeds from the sale of financial instruments available-for-sale; transfer to income statement	– 14.3	
Actuarial loss on pension liabilities	– 26.5	– 12.1
Fair value adjustments of cash flow hedges	– 0.7	– 0.5
Fair value adjustments of net investment hedges	– 3.0	– 2.4
Other comprehensive income, net of tax	**– 74.4**	**30.4**
Total comprehensive income	**16.5**	**58.9**

Consolidated statement of changes in equity

Unaudited, in CHF m	Share capital	Treasury shares	Reserves	Revaluation reserve	Reserve for AFS financial assets	Reserves from cash flow hedges	Reserves from net investment hedges	Translation differences	Total
As at January 1, 2010	**0.3**	**– 0.1**	**778.4**	**136.5**	**21.2**	**– 0.2**	**10.5**	**– 267.0**	**679.6**
Group profit			90.9						90.9
Other comprehensive income, net of tax			– 26.5		– 9.7	– 0.7	– 3.0	– 34.5	– 74.4
Total comprehensive income			**64.4**		**– 9.7**	**– 0.7**	**– 3.0**	**– 34.5**	**16.5**
Share-based payments		0.0	1.8						1.8
Treasury shares		0.0	1.2						1.2
Dividend			– 13.5						– 13.5
As at June 30, 2010	**0.3**	**– 0.1**	**832.3**	**136.5**	**11.5**	**– 0.9**	**7.5**	**– 301.5**	**685.6**

Unaudited, in CHF m	Share capital	Treasury shares	Reserves	Revaluation reserve	Reserve for AFS financial assets	Reserves from cash flow hedges	Reserves from net investment hedges	Translation differences	Total
As at January 1, 2009	**10.9**	**– 2.0**	**696.9**	**143.3**	**0.0**	**– 7.0**	**0.4**	**– 258.1**	**584.4**
Group profit			28.5						28.5
Other comprehensive income, net of tax			– 12.1		4.9	– 0.5	– 2.4	40.5	30.4
Total comprehensive income			**16.4**		**4.9**	**– 0.5**	**– 2.4**	**40.5**	**58.9**
Share-based payments		0.0	0.3						0.3
Treasury shares		0.0	0.5						0.5
As at June 30, 2009	**10.9**	**– 2.0**	**714.1**	**143.3**	**4.9**	**– 7.5**	**– 2.0**	**– 217.6**	**644.1**

Consolidated cash flow statement

Condensed consolidated cash flow statement

Unaudited, in CHF m	First half 2010	First half 2009
Cash flow from operating activities	**18.3**	**59.9**
Cash flow from investing activities	**81.9**	**– 4.1**
Cash flow from financing activities	**– 143.8**	**– 41.7**
Decrease (–) / increase in cash and cash equivalents	– 43.6	14.1
Translation differences on cash and cash equivalents	– 4.5	6.2
Total cash and cash equivalents at beginning of year	198.2	215.6
Total cash and cash equivalents at June 30	**150.1**	**235.9**

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, 2010 to June 30, 2010 (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 at December 31, 2009.

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 16, 2010.

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 2009 Annual Report with the following exceptions.

The following new and revised standards and interpretations with a significant effect on the Forbo Group were applied for the first time as of January 1, 2010:

- IFRS 3 (revised), 'Business Combinations' and derived supplements to IAS 27 'Consolidated and Separate Financial Statements', IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures'. The revised standard still stipulates that business combinations are to be accounted for by the purchase method, but with some significant changes. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All transaction costs are recognized as expense. The Forbo Group began applying IFRS 3 (revised) to all business combinations prospectively as of January 1, 2010.

The following new and revised standards and interpretations came into effect as of January 1, 2010. For the time being, however, their application has no significant effect on the Forbo Group.

- IFRS 2 (revised), 'Share-Based Payment'
- IFRIC 17 (new), 'Distributions of Non-Cash Assets to Owners'
- IFRIC 18 (new), 'Transfers of Assets from Customers'
- Improvements to IFRSs (published in May 2008): the IASB published 'Improvements to IFRSs', a collection of amendments to various IFRSs. All the amendments published were applied by the Forbo Group as of December 31, 2009 with the following exception:
  IFRS 5 'Non-Current Assets Held for Sales and Discontinued Operations'. The amendment clarifies that all assets and liabilities of a subsidiary are to be classified as held for sale if the subsidiary is classified as being held for sale. This is true even if the company retains part of the divested subsidiary without a controlling interest in it. The amendment is applied prospectively and had no impact on the financial position or performance of the Forbo Group.
- Improvements to IFRSs (published in April 2009): the IASB published its second collection of amendments to various IFRSs, with the primary aim of eliminating inconsistencies and clarifying formulations. The collection prescribes transitional provisions for each amended IFRS.

The Forbo Group has not early applied further 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 can affect reported revenues, expenses, assets, liabilities and contingent liabilities at the date of the financial statements. If the estimates and assumptions made to the best of their knowledge by management 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.

The consolidated half-year financial statements do not contain any new estimates and assumptions by management compared with the consolidated financial statements at December 31, 2009. 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

There were no significant changes in the scope of consolidation in the reporting period.

04 Segment information

Forbo is a global producer of Flooring Systems, Bonding Systems and Movement Systems. The divisions have their own 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 needle felt as well as the various accessory products required for installing, processing, cleaning, and care of flooring. Bonding Systems develops, produces, and sells adhesives for industrial applications and the construction industry as well as synthetic polymers. Movement Systems develops, produces, and sells high-quality power transmission, conveyor and processing belts, as well as plastic modular, timing and flat belts made of synthetic materials. Corporate includes the costs of the Group headquarters and certain items of income and expenses which are not directly attributable to a specific division.

Flooring Systems, Movement Systems, Bonding Systems, and Corporate are reportable segments. The identification of reportable segments is based on internal management reporting to the Chief Executive Officer of the Forbo Group and hence on the financial information used to review the performance of the operational units in order to reach a decision on the allocation of resources.

Segment information on the reportable segments for the reporting period:

Unaudited, in CHF m	Flooring Systems	Bonding Systems	Movement Systems	Corporate	Elimination	Total
Total net sales	449.3	316.1	165.1	-	– 11.7	918.8
Inter-segment sales	– 0.2	– 11.5	– 0.0	-	11.7	-
Net sales to third parties	**449.1**	**304.6**	**165.1**	**-**	**-**	**918.8**
Operating profit (EBIT)	**61.2**	**20.0**	**10.5**	**– 7.8**	**-**	**83.9**
Operating assets	**727.5**	**410.8**	**261.3**	**36.1**	**-**	**1,435.7**
Number of employees (June 30)	**2,803**	**1,382**	**1,769**	**41**	**-**	**5,995**

Segment information on the reportable segments for the previous year:

Unaudited, in CHF m	Flooring Systems	Bonding Systems	Movement Systems	Corporate	Elimination	Total
Total net sales	452.1	291.4	152.7	-	– 10.1	886.1
Inter-segment sales	– 0.2	– 9.9	– 0.0	-	10.1	-
Net sales to third parties	**451.9**	**281.5**	**152.7**	**-**	**-**	**886.1**
Operating profit (EBIT)	**43.5**	**14.3**	**– 2.8**	**– 8.3**	**-**	**46.7**
Operating assets	**807.8**	**407.5**	**275.0**	**50.4**	**-**	**1,540.7**
Number of employees (June 30)	**2,828**	**1,327**	**1,891**	**41**	**-**	**6,087**

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

The Chief Executive Officer assesses the performance of the reportable segments 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.

Sales between the divisions are effected at arm's length. The reportable segments apply the same accounting policies as the Group. Sales to third parties, as they are reported to the Chief Executive Officer, are identical to the sales reported in the income statement.

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

Unaudited, in CHF m	First half 2010	First half 2009
Total segment profit (EBIT)	**83.9**	**46.7**
Financial income / expenditure (–), net	37.3	– 8.7
Group profit before taxes	**121.2**	**38.0**

Unaudited, in CHF m	30.6.2010	31.12.2009
Total operating assets	**1,435.7**	**1,419.7**
Non-operating assets	221.2	325.7
Total assets	**1,656.9**	**1,745.4**

05 Balance sheet

Total assets as at June 30, 2010 decreased by CHF 88.5 million to CHF 1,656.9 million versus the end of the previous year. Of this amount, about CHF 60 million was due to exchange rates movements compared with the end of the previous year. The decrease in total assets, adjusted for currency fluctuations, came to about CHF 29 million. The decrease can be explained as follows: the decline in cash and cash equivalents (CHF 44 million) and in marketable securities (CHF 62 million) was offset by a growth-driven increase of CHF 95 million in inventories and accounts receivable. Since investments in fixed assets amounting to about CHF 11 million were much lower than the depreciations of CHF 29 million, fixed assets decreased by CHF 18 million. The investments were made mainly for replacements and projects to improve efficiency. The balance sheet item 'Employee benefit obligations, provisions and deferred income taxes' increased by CHF 23.0 million to CHF 193.1 million compared with the end of the previous year. This rise was due mainly to the increase in employee benefit obligations. In the period under review, restructuring provisions of CHF 4.2 million were used; no new ones were made.

Compared with December 31, 2009, shareholders' equity increased by CHF 6.0 million to CHF 685.6 million. The negative effects mainly of the actuarial losses recognized in shareholders' equity in connection with defined benefit pension plans and the losses arising from the translation of subsidiaries' half-year reports into the Group presentation currency were more than offset by the profit of CHF 90.9 million for the first half of 2010. As per June 30, 2010 the equity ratio stood at 41.4 %. Net debt as at June 30, 2010 was CHF 230.4 million. This is equivalent to a reduction in net debt of CHF 24.7 million versus year-end 2009. Gearing (ratio of net debt to shareholders' equity) stood at 33.6 % as per end of June 2010.

06 Income statement

Net financial result came to CHF 37.3 million in the reporting period. This sum consists mainly of CHF 43.0 million from the sale of marketable securities to related parties and interest expense in connection with the financing of the Group. On April 12, 2010, Forbo sold 288,691 Rieter shares to Artemis Beteiligungen IV AG, controlled by Michael Pieper, at a price of CHF 320 per share. This price is about CHF 12 higher than the average stock market price for the preceding 20 trading days. The sale was structured as a forward transaction. The delivery of the shares and the payment of the sales price took place on June 29, 2010. The proceeds for Forbo from the sale of the Rieter shares amounted to CHF 92.4 million. Forbo realized a substantial financial income of CHF 43.0 million before tax in the reporting period on the strength of this sales price. As a result of this transaction, Forbo has reduced its stake in Rieter from over 9 % to below 3 %.

Income tax amounted to CHF 30.3 million, corresponding to a tax rate of 25 %.

Group profit came to CHF 90.9 million. The CHF 62.4 million jump in profit compared with the prior-year period includes the non-recurring gain from the sale of marketable securities. Basic earnings per share in the period under review amounted to CHF 40.14. Diluted earnings per share (adjusted for the dilution effect of outstanding options) was CHF 40.07.

07 Free cash flow

The free cash flow generated in the period under review came to CHF 100.2 million.

Despite the substantial improvement in operating profit, operating cash flow declined by CHF 41.6 million compared with the prior-year period and came to CHF 18.3 million. The reduction was due primarily to the build-up in net working capital which resulted from the need to finance growth and from the temporary increase in inventories owing to the shifting of production sites. The major improvement in cash flow from investing activities compared with the previous year period is due to the inflow of CHF 92.4 million from the sale of Rieter shares. The free cash flow of CHF 100.2 million was used completely in the period under review to reduce financial liabilities.

08 Main exchange rates applied

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

Currency		Income statement Average exchange rate, 6 months			Balance sheet Exchange rate on balance-sheet date	
CHF		2010	2009		30.6.2010	31.12.2009
Euro countries	EUR 1	1.44	1.51		1.35	1.49
United Kingdom	GBP 1	1.65	1.69		1.64	1.66
USA	USD 1	1.08	1.13		1.09	1.03
Japan	JPY 100	1.18	1.18		1.22	1.12

09 Events after the balance sheet date

There are no events after the balance sheet date to report.

Calendar
Media and financial analysts' conference: March 15, 2011
Ordinary General Meeting: April 29, 2011

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