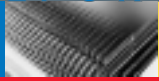


# ANNUAL REPORT

2000



Forbo

For picture captions, see the inside front cover.

Our Annual Report comprises two parts, the general report and the financial report. It is published in German and is also available in English.

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**Picture captions**

The team is a decisive factor for success. Therefore this year's annual report features the Forbo leadership teams in the center of the picture section.

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**Page 8** Linoleum: design- and quality-oriented market appearance generates growth.

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**Page 16** Cushion Vinyls: success through innovation, technology, and quality.

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**Page 22** Carpets: attractive design stimulates customer interest.

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**Page 28** Adhesives: Forbo offers customized solutions for a variety of applications.

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**Page 32** Belting: Siegling belts are used worldwide to drive production and logistics.

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# Forbo

- Forbo was established in 1928 and is a worldwide producer of floor coverings and industry specialties. Forbo employs some 6,000 people worldwide. The Group operates an international network comprising of 28 manufacturing companies in 12 countries and 70 marketing organizations in 26 countries. Forbo's Head Office is located in Eglisau/Zurich, Switzerland.
- Forbo develops, produces and markets Floor Coverings in the form of Linoleum, Cushion Vinyls, Carpets and Parquet Flooring whilst its Industry Specialties include Adhesives and Belting.
- Forbo's products and systems are ideally tailored to the market. The Group's outstanding level of product, production, market and marketing know-how is consistently exploited to tap optimum synergy potential, to promote innovation and for the targeted expansion of its market activities. Forbo is particularly committed to providing a customer-oriented service.
- With its attractive product portfolio and well-established brand names Forbo is the leader in many of its markets. This is particularly true of the market for linoleum, an environmentally friendly material which lends itself to design. Forbo is the number one in this promising segment with a world market share of 60%.
- Forbo's strategy consists of focusing on products and markets that can offer growth prospects and high profitability, enabling the Group to assume or consolidate an excellent market position. Implementing this strategy has involved the creation of four Strategic Business Units: Linoleum, Cushion Vinyls, Adhesives and Belting. By concentrating on promising core products and generating organic growth, but also by utilizing sound acquisitions and a consistently market-oriented approach, Forbo's aim is to sustainably increase its shareholder value.

# Key Figures<sup>1)</sup>

Forbo Group	2000	1999	2000	1999
	m CHF	m CHF	m EUR <sup>2)</sup>	m EUR <sup>2)</sup>
<b>Net sales</b>	<b>1,776.8</b>	<b>1,754.5</b>	<b>1,138.8</b>	<b>1,095.0</b>
Flooring	1,009.9	997.0	647.3	622.2
Industry Specialties	589.5	544.6	377.8	339.9
<b>Continued operations</b>	<b>1,599.4</b>	<b>1,541.6</b>	<b>1,025.1</b>	<b>962.1</b>
Change on previous year (%)	+3.7	+3.5		
Divested activities	177.4	212.9	113.7	132.9
<b>Operating profit before depreciation</b>	<b>234.5</b>	<b>228.5<sup>4)</sup></b>	<b>150.3</b>	<b>142.6<sup>4)</sup></b>
Change on previous year (%)	+2.6	+7.0		
As % of net sales	13.2	13.0		
<b>Operating profit before specific provisions</b>	<b>130.6</b>	<b>123.0</b>	<b>83.7</b>	<b>76.8</b>
<b>Continued operations</b>	<b>138.1</b>	<b>122.8</b>	<b>88.5</b>	<b>76.6</b>
Change on previous year (%)	+12.5	+9.6		
As % of operating assets (ROA)	11.0	9.5		
Divested activities	-7.5	0.2		
<b>Operating profit after specific provisions</b>	<b>130.6</b>	<b>53.0</b>	<b>83.7</b>	<b>33.1</b>
<b>Consolidated profit before specific provisions</b>	<b>90.7</b>	<b>86.1</b>	<b>58.1</b>	<b>53.7</b>
Change on previous year (%)	+5.3	+12.3		
As % of average shareholders' equity	11.3	10.8		
<b>Consolidated profit</b>	<b>90.7</b>	<b>16.1</b>	<b>58.1</b>	<b>10.0</b>
<b>Capital investments</b>	<b>68.3</b>	<b>125.5</b>	<b>43.8</b>	<b>78.3</b>
<b>Total assets</b>	<b>1,526.6</b>	<b>1,727.4</b>	<b>978.4</b>	<b>1,078.1</b>
<b>Shareholders' equity</b>	<b>813.9</b>	<b>794.8</b>	<b>521.6</b>	<b>496.0</b>
Equity ratio (%)	53.3	46.0		

	Number	Number
<b>Employees (31.12.)</b>	<b>5,832</b>	<b>6,829</b>
Employees divested activities	–	1,063

	m CHF	m CHF	m EUR <sup>2)</sup>	m EUR <sup>2)</sup>
Free cash flow (before dividends)	85.7	67.7	54.9	42.3
Economic Value Added (EVA®) <sup>3)</sup>	20.8	18.5	13.3	11.5
Stock market capitalization (at 31.12.)	1,075.6	1,105.1	689.4	689.7

	CHF	CHF	EUR <sup>2)</sup>	EUR <sup>2)</sup>
<b>Per share data</b>				
Earnings per share	61.98	58.44 <sup>4)</sup>	39.72	36.47 <sup>4)</sup>
Shareholders' equity	556.24	539.43	356.50	336.66
Dividend per share	22.00 <sup>5)</sup>	22.00	14.10	13.73
Payout ratio (%)	35.5	37.6 <sup>4)</sup>		

<sup>1)</sup>For explanatory notes, see Financial Report

<sup>2)</sup>CHF values translated at year-average rate of CHF 1.5603/1 EUR (2000) and 1.6023/1 EUR (1999) (Bloomberg)

<sup>3)</sup>Registered trademark of Stern, Stewart & Co.

<sup>4)</sup>1999 relating to consolidated profit before specific provisions

<sup>5)</sup>Proposal of the Board of Directors

# Report of the Chairman of the Board of Directors

## Ladies and Gentlemen,

2000 was marked  
by the renewal

The 2000 financial year was dominated by the strategic renewal and our focus on four core business units – Linoleum and Cushion Vinyls (Flooring), Adhesives and Belting (Industry Specialties). A particular feature was the redesign of these businesses from production-oriented to market-oriented units. Progress was also made outside our core areas. Our Extruded Profiles, Decorative Films and Coated Textiles activities were sold to industrial buyers occupying leading positions in the respective market segments, ensuring that most of the related jobs and production bases could be saved. Meanwhile, our Carpets Business has been systematically expanded to create a pan-European organization with its own integrated production facilities. As part of this restructuring the German needlefelt floor coverings production base was closed down.

## Strategy leads to good results

Group profit at  
record level

The focus of our growth initiatives was the further strengthening of our innovative power and of our competence in research and development, the initiation of marketing programs and the expansion of our overseas markets. Major successes were achieved across all of these areas. Consequently, Forbo finds itself in a stronger position and is well-equipped for the future. Taking into account divestments, sales were up 4% to CHF 1,600 million. An additional CHF 177 million can be attributed to the areas divested in the course of 2000, enabling the Group to post total net sales for the year of CHF 1,777 million. Operating profit rose 6% to CHF 131 million, whilst consolidated profit, at CHF 91 million, was at an all-time high. During 2000 the Group succeeded in reducing its net borrowing by a further CHF 48 million to CHF 157 million. Coupled with the good consolidated profit this led to a further strengthening of the shareholders' equity base, so that Forbo is currently in excellent financial health.

## Optimizing the capital structure

Share buyback  
planned

Our solid financial situation frees up significant assets for acquisitive growth. At the same time, however, with a view to making more flexible use of our shareholders' equity, we would also like to offer our shareholders a share buyback scheme. This scheme, worth up to CHF 200 million, will be proposed to the General Meeting of Shareholders on April 24, 2001, by which time the remaining details will have been finalized. Part of the buyback is aimed at reducing the share capital by issuing tradable put options. The remaining part will be bought back at a later time by establishing a second trading line. This demonstrates the responsible use of shareholders' capital and at the same time ensures a sound financial scope of action for further expansion.

## Dividend

Unchanged dividend

The net income for the year of Forbo Holding AG was CHF 35.4 million, compared with CHF 33.5 million in 1999. On the basis of this result, the Board of Directors will propose to the General Meeting that an unchanged dividend of CHF 22 per registered share be paid to shareholders. The total dividend distribution, at CHF 32.4 million, will therefore be the same as for 1999, the number of shares in circulation having also remained constant.

## Personnel changes

Board of Directors

With effect from the closure of the General Meeting Dr. Ivo Gerster will be retiring from the Board of Directors. We would like to take this opportunity to thank him for his valuable contribution to the Board of Directors over the last ten years.

Executive Board

This year will also see the well-earned retirement of one of our managers, Drs. Antonie J. Pluijmert, Head of Cushion Vinyls, who will be leaving Forbo at the end of May after 24 years with the company. We owe him a great deal of thanks for his strong commitment to Forbo over many years. Richard Pemberton, who has been responsible for linoleum business in the UK to date, has been appointed Board member and will head the Cushion Vinyls Business as from June 1, 2001.

## Moving confidently into the future

Well-equipped for ambitious objectives

Expectations about the future development of the world economy are partially subdued. What is required is an attentive approach and timely reactions. Not least as a result of the strategic reorganization pushed forward in 2000, Forbo – in its capacity as a well-focused company – is well-equipped for the future and for further performance growth. We have set ourselves demanding objectives, but the success of 2000 and the measures taken last year give us every reason to face the future with optimism and self-confidence.

Thanks

The year 2000 was characterized by far-reaching restructuring and dramatic change. We owe great thanks to all employees for their willingness to actively support change and for their exemplary commitment. I would also like to thank our customers for their loyalty. And I would like to take this opportunity to extend very special thanks to our shareholders who have placed their faith in Forbo and accompanied us on our journey towards today's unprecedented position of strength.

Karl Janjóri  
Chairman of the  
Board of Directors



A handwritten signature in dark ink, appearing to read 'K. Janjóri', written in a cursive style.

# Report of the Chief Executive Officer

## Strategy is effective

Convincing results

The year 2000 saw Forbo implement ambitious projects effectively. During the past financial year both the operating profit, at CHF 131 million, and consolidated profit, reaching CHF 91 million, rose to new heights. Excluding turnover attributable to the divested activities, we achieved a rise of the operating profit of 12% up to CHF 138 million. These figures are clear indicators that we are on the right course, particularly as our strategy enabled us to achieve these results in what was a difficult environment. The rising prices of raw materials, unfavorable currency developments, tough competition and the negative trend in the business areas that have since been divested would otherwise have prevented us from achieving such convincing results.

## Dynamic implementation

Focus on attractive markets

The financial year 2000 was, however, also a year of consolidation with the focus on strategy implementation. At the heart of our strategic renewal is the focus on attractive product lines and promising markets. What we aim to do is to secure our market leadership where it has already been achieved and build on our strength, whilst moving into a leading position in markets where we have recognized potential but have yet to build up a major presence. Our overriding goal, therefore, is to achieve sustained profitable growth. To accomplish this, each business unit must contribute to increasing the value of the Group as a whole and achieve long-term profitability. Whilst our business units are highly autonomous, they are also responsible for utilizing synergies across the units.

Changes in the Carpets Business

As part of the restructuring of the Carpets Business, the process of reorientation involved a shift from purely national business units to a pan-European organizational structure with integrated production facilities. An improved product range, the streamlining of administration and sales, a focus on a limited number of production bases and a move away from non-profitable sales components generated a positive effect in what was a difficult market context. The future of this business within the Group remains undecided. Various options are being examined, including expansion, sale or even the formation of an alliance. The business has gained a form and identity of its own and can look to the future with self-confidence, irrespective of the option we will choose.

Strategy implementation as planned

As far as implementing our strategy is concerned we are on schedule. Many structural, organizational and personnel changes have been successfully concluded and are increasingly achieving the desired effect. The implementation process is supported by the expansion of our incentive-based salary system for an extended group of executive employees, who are also eligible for a Group-wide training program on Value-Based Management. Innovative activity is also being intensified, as a result of which several important product launches are now imminent, primarily new collections of linoleum and cushion vinyl flooring, as well as new carpet tile ranges.



## Greater efficiency

Goals in reach

Key performance indicators are developing as planned: the operating profit before depreciation as a percentage of net sales (EBDIT on net sales), adjusted to take into account of divestments, is now 14 %. Our aim is to achieve a figure of 16 % by the year 2004. Operating profit as a percentage of operating capital employed (EBIT on operating assets), excluding divestments, is currently 11 %, with a target of 15 % by 2004. At CHF 68 million, investments are clearly down on last year, whilst depreciation was more or less unchanged on last year due to the very intensive investment activities in earlier years. Free cash flow before dividend, at CHF 86 million, was up CHF 18 million on the previous year. These figures document how we have achieved clear increases in Group performance, consciously acting to reduce our sales basis by means of divestment. Forbo is now equipped with a focused, market-oriented organizational structure and is ready for greater expansion.

## Quality criteria for acquisitions

High demands

In addition to initiatives aimed at organic growth, very active efforts are underway to seek out potential acquisitions. This is an area in which quality has priority: acquisition candidates must be a good fit with our strategy and corporate structure. Additionally, any such potential acquisitions must have strong growth opportunities, be highly profitable and available at a realistic price. Forbo has significant financial strength at its disposal and our strengthened core business is providing additional funds each year. We can and indeed plan to become involved in larger-scale acquisitions provided that the quality requirements are fulfilled.

## Outlook

Positive prospects

Looking towards 2001 we expect to see higher growth in our core business compared with the year under review. In particular, we expect to see an improvement in our Linoleum Business and a return to growth in Adhesives. As far as Cushion Vinyls, Belting and Carpets are concerned, improving our margins will take priority over volume growth. In the light of recent divestments and the resulting reduction in our sales basis, we anticipate an ongoing, significant improvement in our operating profit and consolidated profit. In short, the Group has positive prospects from which we intend to profit for the time to come!

Werner Kummer  
CEO



A handwritten signature in black ink that reads "W. Kummer". The signature is written in a cursive, slightly stylized font.







# The Forbo Group: strength through focus

The Forbo Group achieved net sales of CHF 1,777 million in 2000 (compared with CHF 1,755 million in the previous year). Of this total, CHF 177 million were attributable to Extruded Profiles, Decorative Films and Coated Textiles Business, all of which were divested in the course of the financial year. In disposing of these businesses, Forbo was consistently adhering to its policy of focusing on its core activities. On the basis of the activities that we will continue to pursue, the Group achieved a 4% sales increase to CHF 1,600 million. At CHF 131 million, the operating profit reached new levels, although the 6% increase was slightly lower than originally anticipated. The results of the continued operations were more positive. Here the operating profit rose by 12% to CHF 138 million.

The Group succeeded in raising consolidated profit to CHF 91 million, which equates with 5% of sales. These results represent record values in Forbo's history.

## An overview of business development

Improved results in continued activities

Floorings accounted for CHF 1,010 million of sales with the operating profit in this area reaching CHF 111 million and thus developing better than sales. The portion of sales attributable to Industry Specialties – worth CHF 767 million – contributed CHF 40 million to the Group's operating profit. The operating profit excluding the divested activities would have been CHF 48 million. The Belting and Adhesives Business Units experienced different trends over the course of the year.

Linoleum continues on a positive trend

Sales in Linoleum products were up 2% to CHF 411 million. Linoleum fared particularly well in America and Asia, with a 27% rise in demand. The trend was also positive in the UK (+10%) and in France (+4%). Meanwhile, there were falls in Switzerland, Germany and Scandinavia, primarily due to the trend on the flooring market in general. The launch of a new, extended Linoleum range planned for the beginning of 2001 led to a shift in sales to the detriment of the fourth quarter of 2000. It was possible to maintain the good margin in Linoleum Business.

Cushion Vinyls resistant

Sales in Cushion Vinyls were up 2% to CHF 346 million despite a continuation of difficult market conditions. Business in our main European markets remained subject to pressure but was compensated by export activities to Eastern Europe and overseas. Profitability suffered from pricing pressure and higher raw material costs, with our production site in Scotland also facing additional problems in the form of foreign exchange rates.

Improved situation in Carpets

Sales in Carpets failed to rise above CHF 214 million due to the avoidance of non-profitable business, but there was an improvement in the operating profit.

Adhesives under pressure from raw material prices

Sales of CHF 206 million in Adhesives meant stagnation compared with the previous year, in exchange rate-adjusted terms. The prime cause was the development of the markets in Germany and Switzerland, although business did pick up in the fourth quarter. Whilst the income situation remained satisfactory, the operating profit was CHF 4 million down on 1999, not least due to the strong rise in the price of raw materials. The effect of price increases and cost reduction measures began to filter through in the second half of the year.

Dynamic development of Belting

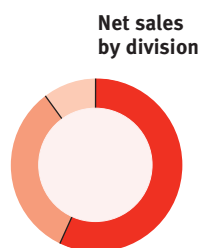
With a 14% rise in sales to CHF 383 million, Belting can look back on a dynamic year. The increases in Asia and the USA, at 30% and 20% respectively, were new all-time records. The Business Unit's operating profit improved from CHF 20 million to CHF 28 million. Measures introduced to reduce overheads began to take effect, and the Belting Business Unit is growing increasingly efficient.

Higher cost factors

Overall, the Group's sales growth tailed off in the course of the year after a strong first quarter, tracking the trends in the economy as a whole. The increases in the price of raw materials became particularly apparent in the second half of the year and could not be passed on in the form of price increases until a later stage and even then only in some areas. The weak Euro had an increasingly negative impact. On the other hand, however, the strength of the US dollar helped alleviate the situation somewhat. The strength of the pound sterling was particularly unfavorable since Forbo is a net exporter from the UK. An increasing burden was placed on the Group by the poor course of Business in Extruded Profiles, Decorative Films and Coated Textiles, all of which were divested in the second half of 2000.

	m CHF 2000	Change 99/00 %	%
Flooring	1,009.9	1.3	56.8
Industry Specialties	589.5	8.2	33.2
Divested activities*	177.4	-16.7	10.0

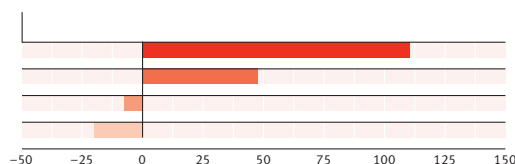
\*Net sales 2000 until date of divestment



	m CHF 2000	Change 99/00 %	ROA* 2000 %
Flooring	110.5	6.7	15.9
Industry Specialties	47.8	7.9	9.9
Divested activities	-7.5	n/a	n/a
Group HQ/Consolidation	-20.2	n/a	n/a

\*Return on Assets (EBIT in % of operating assets)

EBIT by division (m CHF)

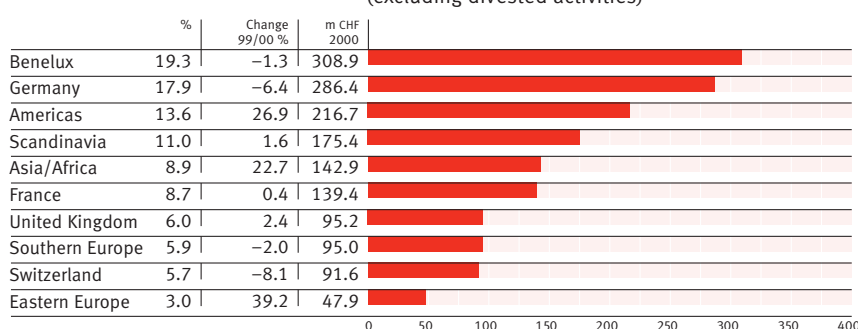


## Geographical distribution

Progress in internationalization

Major progress was made towards the aim of further internationalization of our business activities. In line with the Group's strategy, sales outside of Europe were significantly bolstered, up 25 % and now accounting for about 23 % of net Group sales (in 1999 19 % on a comparative basis). The Linoleum and Belting Business Units, boosted by the international economic situation and a currency bonus, made the main contribution. Business in Switzerland continued to fall slightly and now accounts for 6 % of sales following the divestment of the Coated Textiles Business. The European component of total sales is also down. Increases in France, the UK and Eastern Europe were offset by falls in Germany and Southern Europe.

**Net sales by geographic area**  
(excluding divested activities)

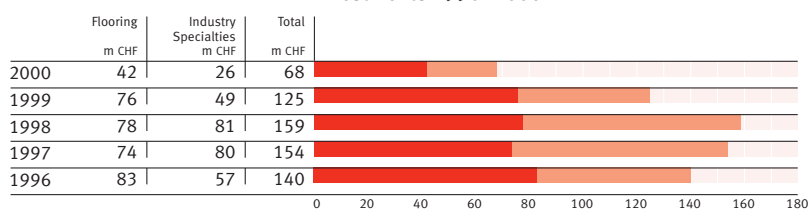


## Capital investments

Successful commissioning of large-scale plants

The major plants set up in previous years in Hanover (D) (Belting) and in Coevorden (NL) (Cushion Vinyls) were successfully commissioned. In the wake of this major investment, investment activity in the year under review, at CHF 68 million, was down significantly. Of the total investment volume, CHF 20 million can be attributed to projects initiated in previous years. The year 2000 saw the beginning of the investment in a new production line in Reims in France for the manufacture of cushion vinyls with coated backing and sound-absorbing properties.

**Investments 1996–2000**

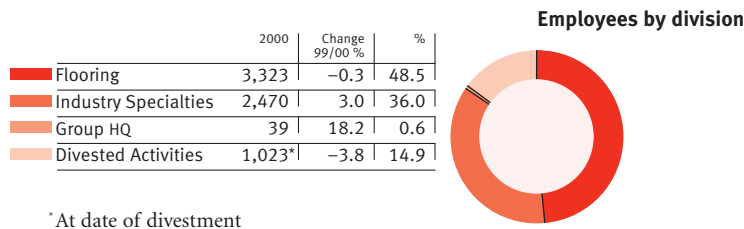


Our production plants are in good condition and enable us to manufacture at competitive costs. There is sufficient capacity in most areas to cope with further growth, although the renewal and expansion of IT equipment demands significant funds. CHF 80 million have been earmarked for investment in the year 2001.

## Employees

Fewer people

At the end of 2000 Forbo employed 5,832 people worldwide. The year-on-year change – 6,829 people were employed at the end of 1999 – is mainly attributable to the reduction of consolidated companies following various divestments. As far as our continued operations are concerned, an increase in the workforce in America and Asia contrasts with a reduction in numbers in Europe. In Cushion Vinyls, Carpets and Belting in particular, structural adjustments in Europe forced a reduction in staff numbers. Social plans were provided for the employees affected by these measures, and in some areas compensation was provided in the form of alternative offers of employment within the Group.



\* At date of divestment

## Divested activities

Buyers with perspectives

In line with its overall strategy the Forbo Group sold three non-core activities in 2000 that continued to develop negatively: Extruded Profiles, Decorative Films and Coated Textiles Business. The Group was able to find a buyer for each of these areas with the industrial strength and entrepreneurial prospects to successfully continue the activities in the future. We believe this to be a good solution for our employees and our production sites.

### Specific provisions

Mostly used

Of the specific provisions made in 1999 totaling CHF 70 million (after taxes), a total of CHF 52 million was utilized, of which CHF 45 million can be attributed to the divestment of the Decorative Films Business. Of the restructuring costs associated with Belting and Carpets, CHF 3 million and CHF 4 million respectively were drawn from the specific provisions. Provisions of CHF 9 million formed at an earlier stage covered the remaining restructuring costs. Specific provisions amounting to CHF 18 million still available at the end of 2000 can be used for further adjustments as the Group continues to implement its strategy. The divestment of the Group's Extruded Profiles and Coated Textiles Business did not affect the specific provisions, since valuation adjustments had been made earlier for these measures.

### Results

Clear improvement in continued activities

In the first two quarters of 2000 in particular results were clearly up on 1999's figures. The second half of the year was weaker. The operating profit before depreciation as a result of higher raw material costs and as a consequence of the negative development of the now divested activities increased only by 3%. The operating profit before depreciation in relation to net sales, at 13%, was unchanged on the previous year. However, adjusted by divestments there is an increase to 14%. Depreciation on fixed assets, amounting to CHF 99 million, was slightly down on 1999, primarily due to lower investment levels. This resulted in an operating profit after depreciation of CHF 131 million, 6% higher than in the previous year. The change in the average translation rates had a slightly positive effect on net sales and a slightly negative impact on the operating profit due to the results mix. Divested activities reduced the operating profit by CHF 8 million for the period up until the relevant disposals. The operating profit for the continued activities rose by CHF 15 million to 138 million, corresponding to a return on capital employed of 11%. Consolidated profit rose by 5% to CHF 91 million on improved operating profit and better financial results. The profit calculated on the EVA® basis represents net income in relation to average weighted capital costs and increased in 2000 by CHF 2 million to CHF 21 million. Particularly satisfying was the development of the free cash flow (before dividend), which increased by CHF 18 million to CHF 86 million.



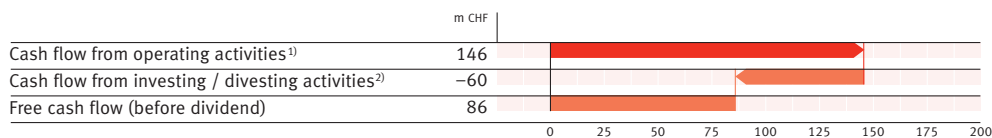
Positive effects on the free cash flow resulted from considerably lower investments of CHF 57 million compared to the previous year and from the divested activities (CHF 6 million) which will bring an additional cash-inflow of CHF 4 million in the year 2001 and another CHF 17 million in the following years. Negative effects came through from the cash effective restructuring and divestment costs of CHF 10 million as well as from the reduction of trade and other payables by CHF 16 million of the continued operations. The development of the free cash flow is also reflected in the balance sheet in a lower level of net debt of CHF 157 million (1999: CHF 205 million). The equity ratio rose from 46 to 53%.

## Outlook

Further increase in enterprise value

With an eye on the challenges of the future Forbo has created a clear structure. By concentrating on core competences and the expansion of our extremely sound financial basis, we are exceptionally well enterprise positioned to raise value further. The conditions required for rapid organic growth are now in place. Forbo has a focused and market-oriented organizational structure and can concentrate more intensively on expansion. The aim is for acquisitions to play a part in this, with the requisite time and attention being devoted to over the next few years.

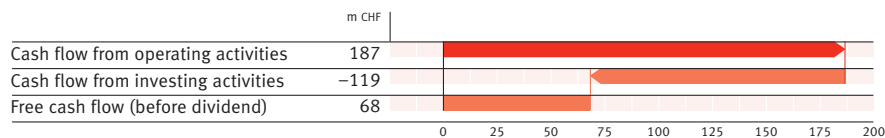
### Free cash flow 2000



<sup>1)</sup>Relating to divested activities m CHF 1

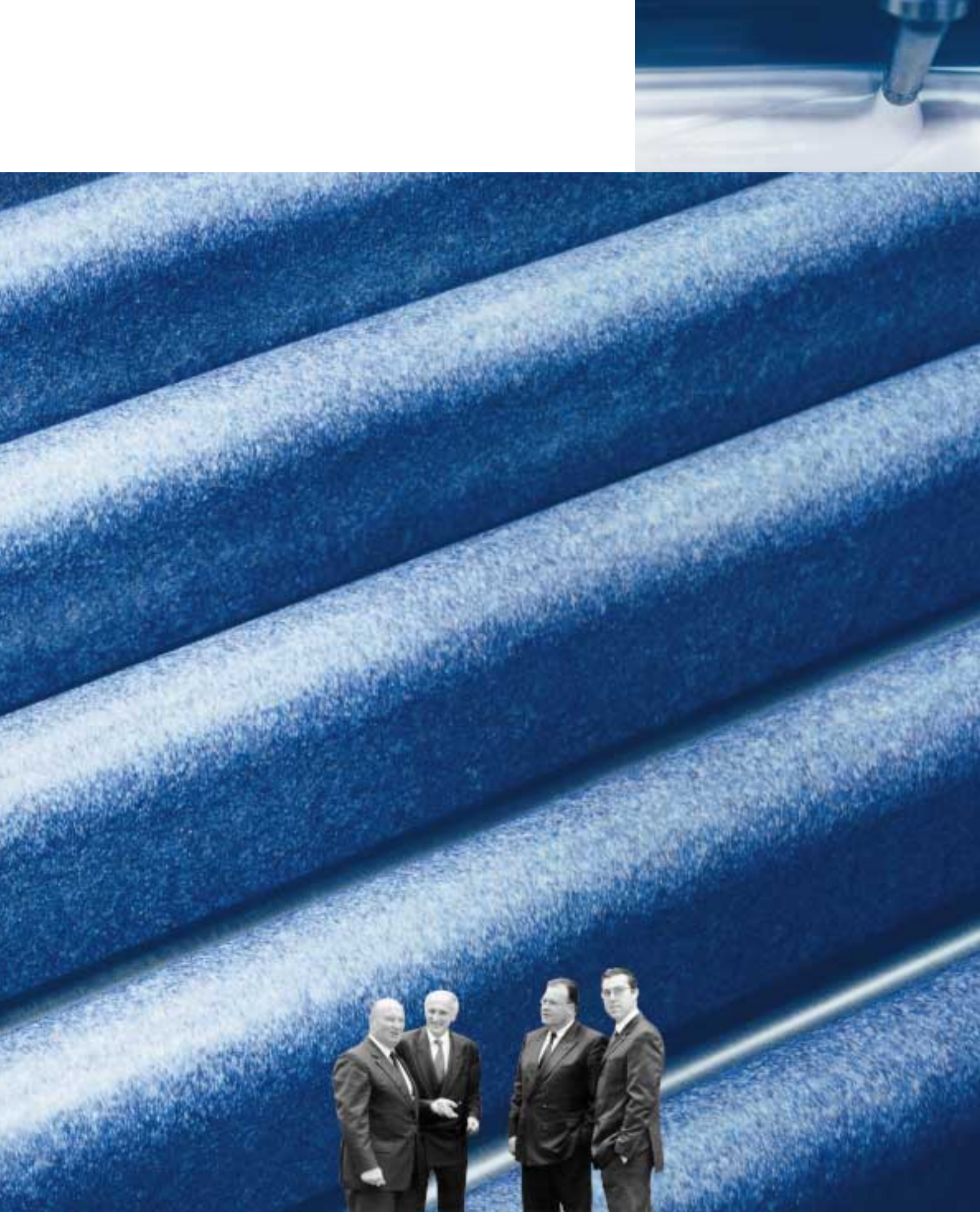
<sup>2)</sup>Thereof from divesting activities m CHF 6

### Free cash flow 1999









# Flooring: good position strengthened

**Faced with difficult competitive conditions we succeeded in consolidating our market share and thus our excellent positioning at a high level with sales of CHF 1,010 million (previous year: CHF 997 million). The operating profit was up 7 % to CHF 111 million, a disproportionate rise in relation to sales. The first half of the year was generally stronger for the sector than the second six months, whilst competition grew increasingly intense.**

## Linoleum

Consistent market leadership

Faced with a general absence of growth in the floor coverings market, and with the trend towards sophisticated, high-quality products – parquet flooring, natural stone and tiles in addition to linoleum – Forbo enjoyed another record year, notching up 2 % growth to post sales of CHF 411 million. There were varying trends in the individual regions: whilst sales in the Benelux countries remained on a par with 1999, there was a slight drop in Germany, Austria, Switzerland and Scandinavia. The situation was quite different in the UK, France, Eastern Europe and the Far East, however, where a pleasing level of sales growth was achieved. As far as the US market was concerned, we were able to draw particular benefit from our new, design- and quality-oriented market image for discerning customer groups and achieve a two-figure increase. Forbo has a world market share of 60 % for linoleum products, making it market leader.

Design-oriented positioning

Progress was made as far as the design-oriented positioning of linoleum was concerned and we were able to expand further the leading position occupied by the Artoleum® collection. The second collection in the successful Marmofloor series recorded two-figure increases. Meanwhile, our new main collection Marmoleum® Global 1, which takes its inspiration from art and culture from across the world, will be launched at Domotex, the world's major trade fair in Hanover, Germany, in January 2001. The first half of 2001 will see the comprehensive presentation of this collection at more than 60 events across the world attended by architects and designers.

Market opportunities in the USA

Particular efforts are still being made in the USA with the goal of capturing this market and the extraordinary potential locked within it quickly and comprehensively. Linoleum has until now accounted for a minute share of approximately 0.1 % of the 2,300 million m<sup>2</sup> of floor coverings sold annually on the US market. With the exception of a few European countries this situation is basically mirrored worldwide. Yet linoleum is optimally placed to increasingly win over new customers thanks to its practically limitless scope

for design, its robustness – its hard-wearing properties are at the top of the scale – and its ability to meet even the toughest maintenance and hygiene requirements. Linoleum is also one of the most environment-friendly floor coverings around, since it is made almost exclusively from natural renewable resources. One focus in all our markets is the communication of these very product advantages as part of special marketing initiatives. Greater emphasis is also being placed on the promotion of training for floor fitters to guarantee that the products are handled correctly during the laying process. Based on our product and design competence in linoleum we are fully determined to seize the exceptionally promising market opportunities on offer.

### **Cushion Vinyls**

Success with brand products

The market continued to be marked by difficult conditions and was hit by excess capacity and pricing pressure. A further obstacle was the intense competition posed by laminate flooring. Price concessions in high-volume business with little product differentiation and a deterioration in the image enjoyed by cushion vinyls were the result. Equipped with branded products such as Novilon® we were able to escape these trends, although products in the lower-end segment fared badly. In view of this market development, we decommissioned the production line for cushion vinyls in Gothenburg, Sweden.

Positive development in product niches

Completely satisfactory, on the other hand, was the development in niche markets: floor coverings with sound-proofing qualities, marketed under the name of Sarlon, and our Novilux® products with their unique inlay chip technology enjoyed a high level of demand. Colorex®, a plastic flooring particularly suited for demanding industry applications, has excellent properties, the likes of which are required in such growth industries as biotechnology, electronics, and clean room technology. Disproportionately large increases were recorded and we succeeded in substantially increasing our production volume for Colorex®. Overall, we were able to maintain a position that far out performed the market, actually achieving slight growth to record sales worth CHF 346 million in the process.

### **Carpets**

Position maintained in a difficult market

The carpet market was characterized by a further major drop in sales. Once again, the ongoing trend in favor of parquet flooring and laminate products was a contributory factor. Faced with a continuation of the weak market situation, featuring strong pricing and cost pressure not to mention excess capacity, our sales dropped to CHF 214 million as a result of currency movements compared with CHF 218 million in 1999.



Strength in the contract market

We did, however, succeed in achieving an appropriate level of sales growth in the commercial sector with sales to commercial premises, hotels and retail outlets constituting a major area of business. This brings us and our design expertise into contact with professional fitters and architects who in turn pass on recommendations on our behalf. Whilst the distribution costs in this segment are high, these are generally offset by better margins.

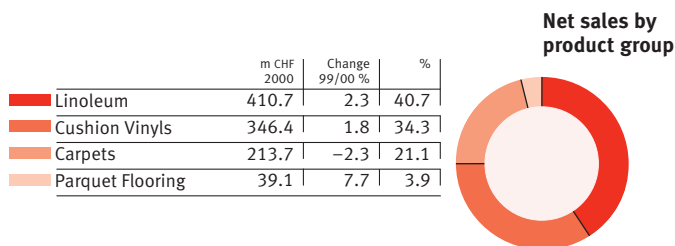
Restructuring leads to result improvement

Our main efforts in 2000 focused on increasing profitability and renewing our product collections. With this in mind, non-profitable business areas and products were avoided to a certain extent so that sales took on a higher quality. As part of restructuring, the European-level coordination of production has been introduced with individual sites focusing on specific product lines and production techniques. The production of needlefelt floor coverings was moved to the French plant in Reims, and the production facility in Wermelskirchen, Germany, was closed down. The sales organizations responsible for Germany, Switzerland, Austria, Southern and Eastern Europe have all been placed under the same management. All these measures will have a beneficial effect on costs. Finally, the product range has been completely revamped with the result that Forbo now has an internationally convincing, very well designed market range and image.

### Parquet Flooring

Complementary product

Our parquet flooring plant in Sweden was able to post satisfactory sales growth of 8 % to reach CHF 39 million. We are the market leader in floor coverings in Scandinavia. Parquet flooring is used to complement our other activities and to ensure that Forbo can operate as a one-stop supplier in the region.



## Outlook

Our plan for the year 2001 is to continue with the targeted implementation of our strategy. We expect competition to continue to develop unevenly. With regard to Linoleum the focus is on the global and design-oriented positioning of our market range and brand image, accompanied by further product innovations. Our priority is then to push forward with our expansion process, above all in the exceptionally promising markets of the USA and Asia. As far as Cushion Vinyls are concerned, we will above all demonstrate in the field of high-sought after branded products our innovative capability in order to further strengthen our presence in the quality segment. The focus in our Carpets Business Unit in 2001 will lie in driving home our design skills and our quality in relation to products at the top end of the market, whilst we will also be looking to add carpet tile products to our product portfolio as a means of generating qualitative growth.







# Industry Specialties: effective concentration

**The individual business areas that make up Industry Specialties fared differently during the year under review. Sales in Adhesives, despite being strong in previous years, stagnated, resulting in a corresponding diminution in profit, whilst a good increase in sales and profit was achieved in Belting. On the basis of the activities that are to be continued, sales of CHF 590 million (previous year: CHF 545 million) and operating profit of CHF 48 million (1999: CHF 44 million) were recorded, coupled with a consolidation of the Group's market position. Activities that have since been divested accounted for sales of CHF 177 million and an operating loss of CHF 8 million.**

## Adhesives

Results impaired by raw material prices

Following robust sales growth over the last few years sales tailed off in 2000 at CHF 206 million. Negative trends in Germany and Switzerland contrasted with a gratifying upturn in Eastern Europe as well as in non-European markets. The effect of the Euro was clearly felt in the course of the year, losing more than 5% of its value against the Swiss franc. Operating profit was up 18% to CHF 20 million, a development that should be considered in conjunction with the state of the industry as a whole, which has been showing only moderate growth worldwide with most European adhesives producers suffering significant falls in profit compared with 1999's results. The impact of rising raw material prices was unmistakable. Rigorous measures on the cost side and an increase in the efficiency of production processes were able to take some of the sting out of this trend. The rise in production costs could not be passed on to end-consumers in the form of price increases until the end of the year, however, and even then the scope for higher prices was limited.

Lack of momentum in key markets

The construction industry, one of our major customer groups, failed to generate growth on the major markets and actually declined in Germany. Floor coverings such as laminates or parquet flooring that can be laid without the use of adhesives acquired greater market share to the detriment of traditional coverings with a correspondingly negative impact on adhesives for use in flooring. In this segment in particular we have access to a customer support service in the form of user and system advice that provides a major competitive edge. This is something on which we wish to build. Among our industrial customers, with the exception of the automotive sector, growth was marginal at best. The market was again marked by difficult competition, in some cases spilling over into price wars. To combat this situation we avoided sales associated with insufficient margins.

Products improved

We were able to make significant progress in the development of reactive adhesives (hot melts in particular) and with regard to the environmental compatibility of our products. In conjunction with our industrial clients we conducted promising large-scale trials in various applications with innovative adhesive systems. The year also saw the successful market launch of new welding rods for laying Forbo Linoleum flooring.

Focused organizational structure

As part of the strategic reorganization of the Group the Adhesives' strategy was revised. In future we will be focusing on selected customer groups and applications; in other words on the profitable niche products within the vast range of applications. Thus as of 2001 our Adhesives Business will be split into two areas – floor/wall and industrial adhesives. The aim is to ensure a coordinated pan-European approach to servicing the market. Our organizational structures have been adapted with this change in mind and the staffing levels increased, especially in terms of development and marketing. This will enable us to pool our resources and utilize these internationally, thus building on our successful positions at local level. Our ongoing focus on our production bases and our concentration on infrastructures should ensure that sales and income become dynamic once more.

### **Belting**

Strong increase in demand

Both industrial production and demand for logistical services have increased the world over. And both phenomena have been driving growth in demand for synthetic drive belts and conveyor systems. Substantial growth rates were achieved in the following customer segments: parcel dispatch companies, airports, the food industry and logistics. Meanwhile, the trend with regard to belts for textile machinery is either devoid of growth or actually on the decline. As in previous years the trend towards price wars has grown increasingly pronounced. With regard to large-scale projects in particular there has been a great deal of pricing pressure, coupled with growing quality requirements.

Substantial growth in the USA

Sales were substantially improved, 14% up on the previous year's figure at CHF 383 million. With regard to the operating profit, a strong increase by 38% to CHF 28 million was recorded. Business in the USA proceeded positively with the further expansion of our leading position. And after many years we also succeeded in achieving a gratifying level of growth in Japan. European business was uneven, but generally on the up. The production bottlenecks of previous years were eliminated with the commissioning of the new 4.5 meter plant in Hanover, Germany, ensuring that sufficient capacity is now available. The ongoing pressure on margins forced us to take specific steps in various cost areas.



New regional structure

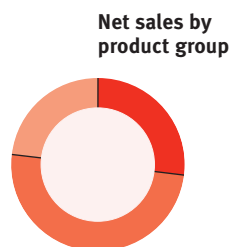
Our drive belt and conveyor system products, marketed under the name of Siegling, were divided up into three regions: North and South America, Europe and Asia. Each area – equipped with the necessary expertise, resources and designed in line with local requirements – is highly autonomous in its operations. The newly appointed heads of these regional business areas are largely responsible for coordinating among themselves such issues as their market image, research and development and manufacturing capacity. Our use of resources and our structures have been systematically geared towards the respective markets. In Europe in particular we have simplified the very fragmented structures and created larger blocks. We are expecting major improvements from the concentration of manufacturing sites and the rationalization associated with the reduction in staff numbers initiated in Hanover, Germany.

Customer-oriented product development

The rising technical demands of our customers require a direct link between the producer and the plant operator. Our research and development activities are increasingly being influenced by direct customer contact. Using sophisticated product development we are in a position to meet these technical requirements and, for example, to produce belting that is both very strong and very elastic. The increased use of processing belting, which is not used to convey or to drive anything but as a functional component of a manufacturing process, is the result of efficient development work in close proximity to the customer.

	m CHF 2000	Change 99/00 %	%
Adhesives	206.3	-1.4	26.9
Belting	383.2	14.3	50.0
Divested activities*	177.4	-16.7	23.1

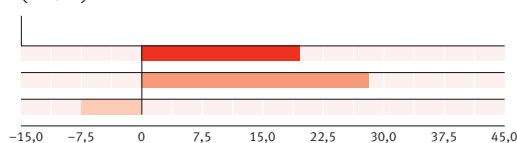
\*Net sales 2000 until date of divestment



	m CHF 2000	Change 99/00 %	ROA* 2000 %
Adhesives	19.6	-18.0	18.1
Belting	28.2	38.2	7.5
Divested activities	-7.5	n/a	n/a

\*Return on Assets (EBIT in % of operating assets)

EBIT by business units (m CHF)



## Outlook

Good earnings perspectives

In terms of Adhesives, it is our focus on selected market segments and the intensification of application development, together with distribution, that will achieve improved results and generate renewed growth. With regard to Belting, achieving a further major rise in our earning strength takes precedence over non-profitable volume growth. The marketing by customer segments and their differentiated coverage focused on growth factors serve the improvement of the sales quality. The cost reduction measures introduced in 2000 will also have a positive effect, contributing to the attractiveness of the business unit.

## Divestments in line with strategy

Solutions found

In September 2000 our Extruded Profiles Business, representing annual sales of CHF 32 million, was sold to Aluplast GmbH in Ettlingen, Germany. Towards the end of November 2000, our Decorative Films Business worth some CHF 140 million in annual sales, was sold to the Dusseldorf-based Hindrichs-Auffermann AG, one of Europe's leading producers of wall coverings and decorative products. Then, in December 2000, our Coated Textiles Business with its production site in Eglisau and with annual sales of approximately CHF 40 million, was sold to the French Ferrari Group. In all three cases it was possible to preserve the majority of related jobs and sites. Overall, these disposals mean that we have parted with activities from an area that achieved sales of CHF 212 million in 1999. The EBIT margin for the divested activity was -4% in 2000 compared with +9% for the rest of the Group.





# Utilizing innovation to face the future

**It is our declared objective to step up our effort in the fields of innovation and development, and the required funds have been made available for this push forward. This applies not only to products but also to customer service and work processes.**

## Product innovation

Design, quality and technology

A major element of our future development will be the use of innovation to expand our leading position in our core business. In terms of our Linoleum Business, the new product collection Marmoleum® Global 1 has been developed, with the market launch planned for the first half of 2001. This collection offers an unprecedented range as far as color, structure and design are concerned and is a further step in our campaign to extend our linoleum applications to a broader customer base. A new foam-coated cushion vinyls collection known as Novilon®/Novilux® has also been prepared. This draws on the opportunities provided by our new production plant in Coevorden, Netherlands, and sets new benchmarks in product properties and design. The Coevorden plant is also to be used in future for the manufacture of halogen-free products, which are due to be launched on a test market with effect from the middle of 2001. In our Carpets Business, meanwhile, new products are primarily geared towards commercial customers with new-look designer collections, carpet tiles and particularly heavy-duty floor coverings for entrance areas. In Adhesives, the focus has been on promoting the development of state-of-the-art products (reactive hot melts) whilst work is underway in Belting to introduce a full new range of drive and processing belts, some with new supporting fabrics, and to produce 4.5 m wide conveyor belts using our new plant in Hanover, Germany.

## Investment in improved infrastructure

Information technology to be expanded

The renewal and standardization of IT solutions for Linoleum and Cushion Vinyls have already begun. The Forbo Group's Internet site is also being given a uniform look and is to be used as a future marketing and sales platform whilst also providing global information on the company, its philosophy and products. The first version of the new website should be online by spring 2001. By extending our training programs for customers and product users, our aim is to guarantee that the future of our products – and the promotion of linoleum in particular – is placed on a firm footing.



## Quality, Environment and Safety

Integral quality understanding

We consider quality as the basis of our relationship to customers, the environment, and to our employees. Only satisfied customers are loyal customers, and this is the only way to be successful in the long run. A consistent understanding of quality will ensure reliability and trust. Satisfying the quality standard ISO 9001 is an important tool to this end.

Environmental report on Group level

Forbo published its first Group environmental report in 2000. It portrays the results of our efforts made for the protection of the environment and the methodology used for the meaningful collection and use of relevant data. The 'Resource Management Reporting' system introduced at our production sites measures the input and output per product and manufacturing process, and individual production sites. It is an effective tool for the identification of improvement potentials regarding environmental and financial criteria. In addition, the key operating units have been accountable for some years now for their own commitment to the protection of the environment. Worth mentioning in this context is the fact that already 13 Group companies are meeting the ISO 14 001 environmental standards, and that nine additional companies will follow suit by 2002.





# Human Resources

**We shall reach our ambitious goals through the efficient interaction of all resources. Our dedicated employees and their joint efforts will make an essential contribution to the success of the Forbo Group.**

## **Incentives for executive employees**

Larger group of executives enrolled

The performance-based remuneration system has been expanded for a larger circle of executives. It includes some 130 senior managers whose base salary is supplemented by a performance-oriented bonus system on the basis of annual objectives. Part of the bonus is paid in shares. The goals are directly linked to sales, profit and other corporate targets of the Forbo Group and its divisions.

## **New training concept**

Integral value approach

Value-Based Management training is being introduced for key executives. The first step was taken during the Group Conference 2000 when the conference participants discussed the concept and resolved some practical training problems. The revised training concept will be handed over to the employees as from January 2001. Its main objective is to enhance the understanding of the integrated value approach concept and the associated financial figures, and to recognize and implement their significance in one's own remit.

## **Forbo Trophy**

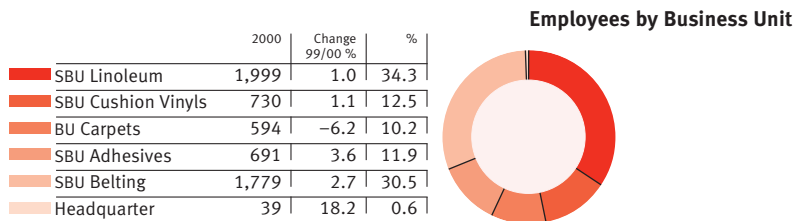
Excellence rewarded

The Forbo Trophy is awarded every year to a Group company who has demonstrated an outstanding performance. The competition for the Forbo Trophy shall bring about business excellence in the sense of a fair competition among equals. The first winner of this new Forbo award is Forbo Helmitin SA at Surbourg, France. With only 100 people, this subsidiary reached a strong position in the French adhesives market and convinced not only by good earnings but also by an average sales increase of 8% in recent years.

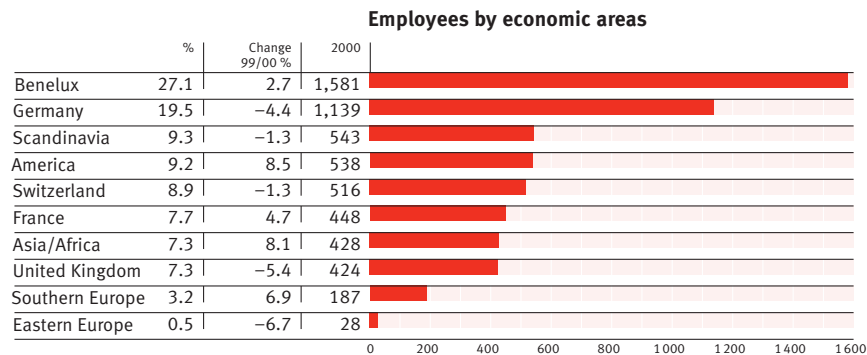
Platform for cross-organizational contacts

## Group Conference

As an international company, it is important to Forbo to establish contacts among the Group companies worldwide in the context of individual meetings of leaders. In 2000 a Group Conference was organized to this end at Schluchsee in the Black Forest, Germany, which was attended by more than 100 senior managers of the Forbo Group. The Conference was also used as a platform for presenting the Group's new corporate image. The by now consistent corporate identity conveys Forbo's new identity and structure both within and outside of the company.



SBU Strategic Business Unit  
BU Business Unit



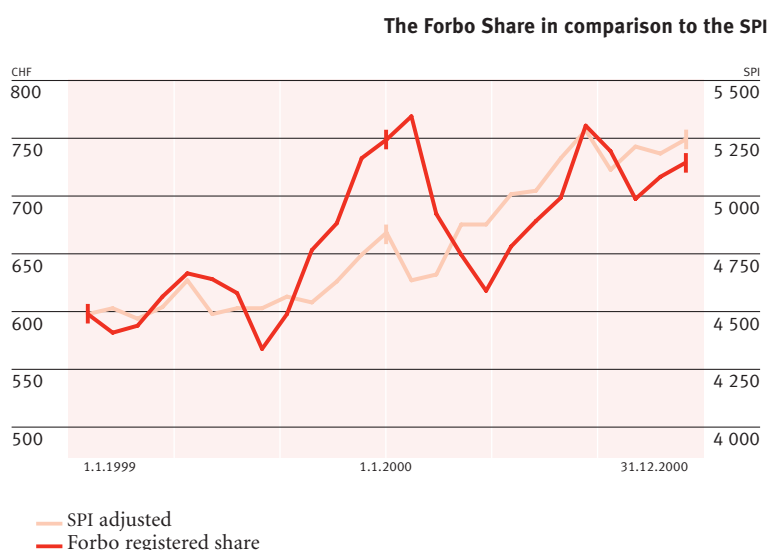
# The Forbo share

**Forbo has adopted a policy of transparency and openness of information aimed at maintaining and nourishing a basis of trust with shareholders and investors. In this sense we prepare financial information transparently to reflect the structure of our business and the origin of our returns.**

## Share price

New strategy not yet reflected

The development of the Forbo share price in the year under review was inconsistent. Starting from the level reached towards the end of 1999 the price was initially declining during the first half year. Among the reasons were profit-taking by Anglo-Saxon investors in portfolio restructuring moves and the fact that at that time companies of the New Economy were favored by investors. Besides, blue chips were again becoming more interesting to investors. The Forbo share could recover some lost ground in the second half year. However, it is unlikely that the price of CHF 730 at the end of the year 2000 is already a reflection of the expectations of the new strategy.



## Shareholders

Nearly a plus of 1,000 shareholders

At the end of December 2000, 3,509 shareholders were registered in the Forbo Holding SA share register, 946 more than in the previous year. To the Company's best knowledge, no shareholder owns more than 5% of the voting rights. In accordance with the Articles of Association of Forbo Holding SA, no single shareholder is allowed to execute more than 8% of all voting rights.

Diary dates

General Meeting of Shareholders: April 24, 2001  
Autumn press conference: November 6, 2001  
Financial analysts' meeting: November 6, 2001

	2000	1999	1998	1997	1996
<b>Share capital</b>					
	Number	Number	Number	Number	Number
Issued registered shares in circulation (of CHF 50)	1,473,416	1,473,416	1,473,416	1,473,416	1,465,800
of which held by Forbo	10,406	9,894	18,592	9,247	9,127
Reserve shares (without voting and dividend rights)					
Registered shares (of CHF 50)	40,134	40,134	40,134	40,134	46,134

	CHF	CHF	CHF	CHF	CHF
<b>Nominal capital</b>					
Total	75,677,500	75,677,500	75,677,500	75,677,500	75,596,700
of which issued and outstanding shares <sup>1)</sup>	73,670,800	73,670,800	73,670,800	73,670,800	73,290,000
of which issued and non-outstanding shares	2,006,700	2,006,700	2,006,700	2,006,700	2,306,700

	CHF	CHF	CHF	CHF	CHF
<b>Data per share</b>					
Shareholders' equity Group	556	539	542	517	522
Consolidated profit					
(1999 before specific provisions) <sup>1)</sup>	62	58	52	42	42
Gross dividend	22 <sup>2)</sup>	22	22	19	19
Gross dividend return (%)					
High	3.5	3.9	5.1	3.7	4.1
Low	2.7	2.9	2.4	2.9	3.5
Payout ratio <sup>3)</sup> (%)	36	38	42	45	46

	CHF	CHF	CHF	CHF	CHF
<b>Stock market statistics</b>					
Share prices					
High	828	764	900	654	550
Low	620	569	435	514	462
Stock market capitalization (m)					
High	1,220	1,126	1,326	959	806
Low	914	838	641	753	677
Year-end	1,076	1,105	884	880	792

<sup>1)</sup> See also Financial Report, 'Notes to the Consolidated Financial Statements', page 15, 'Earnings per share', page 17

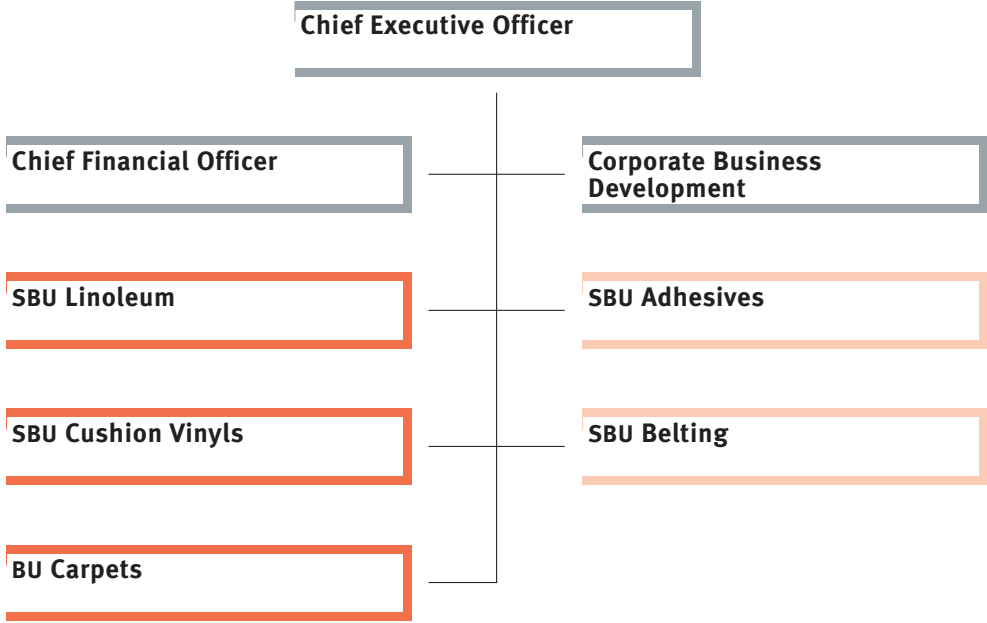
<sup>2)</sup> Proposal of the Board of Directors to the General Meeting of Shareholders

<sup>3)</sup> Gross dividend as % of consolidated profit before specific provisions





# Organizational structure



- Division Flooring
- Division Industry Specialties

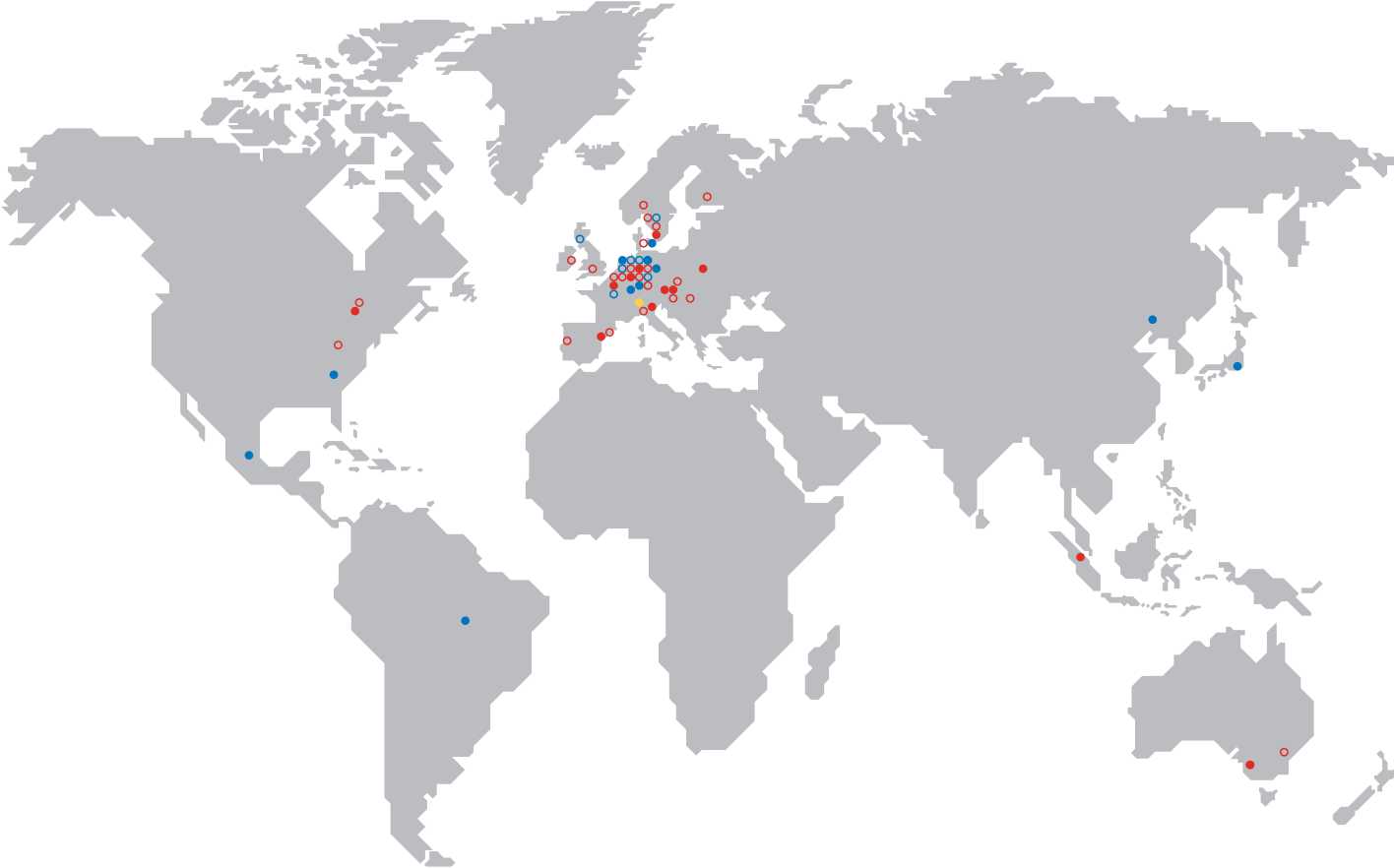
SBU Strategic Business Unit  
 BU Business Unit



from left to right:

- Marien A. G. Weijenberg, Executive Vice President Linoleum
- Gerold A. Zenger, Executive Vice President and CFO
- Jan E. Sångberg, Executive Vice President Corporate Business Development
- Werner Kummer, CEO and President
- Dr. Jan Lipton, Executive Vice President Belting
- Drs. Antonie J. Pluijmer, Executive Vice President Cushion Vinyls
- Werner von Kuensberg, Executive Vice President Adhesives

# Forbo's global presence



- Group Headquarters**
  - Forbo Holding SA
- Production and Sales**
  - Flooring
  - Industry Specialties
- Sales**
  - Flooring
  - Industry Specialties

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