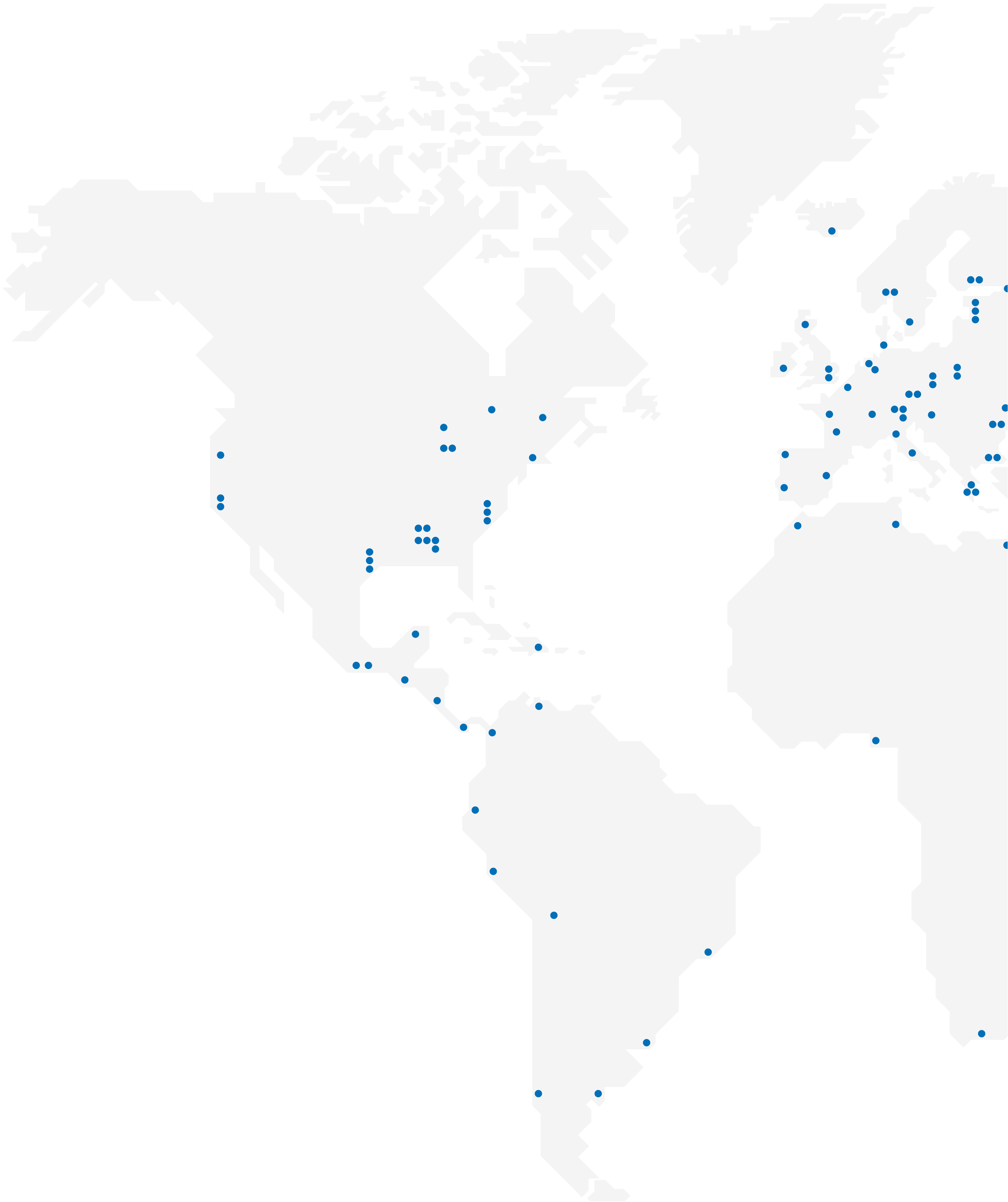
2006

Flooring Systems

Bonding Systems

Movement Systems

Forbo Annual Report



Our Annual Report
is published in German and
in an English translation.

Annual Report 2006

Forbo is back on the path to success

One Group
In the year under review, Forbo continued to pursue its goal of developing all three divisions – flooring, adhesives and belting – into one market-driven company under a single umbrella brand.

A prerequisite for sustainable success is the ability to adapt to continuously changing markets. This also implies changes within the company: processes have to be continuously optimized, and an innovative mindset is essential to adapt products and services to customer needs that are evolving all the time.

At the end of such a long-term and successful process is greater market acceptance, a stronger global presence and a more efficient use of resources.

One identity
To implement plans on this scale successfully, the company needs proactive, motivated people who approach customers, suppliers, business partners and colleagues with an identical way of thinking and who share the same values.

What does Forbo stand for? How does it develop a success-driven culture geared to generating ideas and solving problems? Which shared values are important for us? These are the questions that senior management from around the world had dealt with in order to define the shared Forbo values at the beginning of 2006. By the end of the summer of 2006, all employees were familiarized with these values and principles as they were cascaded downwards in local workshops. 'The Forbo Way to Win' – that's what Forbo calls the joint path to success.

Until now:
Flooring

Until now:
Adhesives

Until now:
Belting

One brand
In order to be present on the market with a common objective – i.e. to be the preferred partner in all its core competencies – Forbo will take the next logical step and transform its brand strategy into a master brand concept. From many different brands one brand standing for the company's competencies will emerge, aligned with the company's ambitious growth targets.

All companies in the Forbo Group are now involved in adopting the Forbo master brand in order to signal their affiliation with the Group.

This development process was started in 2005, and now is nearing the launch of a new era, thanks to the invaluable participation of all employees: Forbo is ready to rise to the challenge of the market as one corporate group with a uniform identity.

This consistent identity is also evident from the new names of our three divisions.

New:
Flooring Systems

New:
Bonding Systems

New:
Movement Systems

The addition of the word 'Systems' is motivated by the determination to be open and flexible for internal and external developments in the future: for instance, by making targeted acquisitions in order to round off and extend our current range of products and services. The idea of systems is associated with a systematic approach – from procurement of raw materials right up to communication with the end users – and is characterized by discernment, efficiency and intelligence in connection with people, resources and the environment.

Contents

Forbo is a leading producer of flooring systems, chemical bonds and adhesives, as well as power transmission and conveyor belt solutions. The company employs some 5,800 people and has an international network of 30 production companies with distribution, and 40 sales organizations in a total of 33 countries. Forbo is headquartered in Baar in the canton of Zug, Switzerland.

Forbo
Flooring Systems

Flooring Systems provides environmentally friendly linoleum, high-quality vinyls, needlefelt and parquetry. Thanks to their excellent attributes and attractive design, the floor coverings from Forbo are invariably the first choice in public buildings, hospitals, schools, commercial offices and in residential markets. With a market share of nearly 65 percent, Forbo is the world leader in linoleum.

Forbo
Bonding Systems

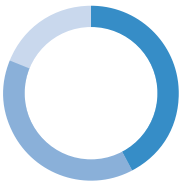
Bonding Systems is among the top suppliers worldwide of industrial adhesives. Its high-performance products ensure stable and durable bonding and are suited for a wide range of materials in key markets such as paper processing, shoe and textile industries, automotive interior trims and furniture as well as product assembly. Bonding Systems also provides ready-made adhesives for laying flooring and tiles as well as welding rods and leveling compounds for the construction industry. Synthetic polymers are the third pillar of Bonding Systems; this unit specializes in emulsion polymers for various markets such as the adhesives and paint industries or the construction industry.

Forbo
Movement Systems

Movement Systems is a global industry leader providing first-class power transmission belts, high-quality conveyor and processing belts as well as plastic modular belts, timing and flat belts. These products are known under the brand name Siegling. They are used in a wide range of applications in industry, trade and the service sector, e.g. as conveyor belts in the food industry, treadmill belts in fitness studios and as flat belts in mail distribution centers.

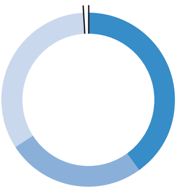
Net sales by divisions

	CHF m 2006	Change on previous year effective %	currency adj. %	%
Flooring Systems	794.2	6.3	4.9	42.3
Bonding Systems	731.1	16.3	14.7	38.9
Movement Systems	354.2	8.5	8.1	18.8
Total	1,879.5	10.4	9.1	100.0



Employees by divisions

	2006	Change 2005/2006 %	%
Flooring Systems	2,322	0.1	40.0
Bonding Systems	1,512	14.6	26.1
Movement Systems	1,926	3.5	33.2
Headquarters	41	4.7	0.7
Total	5,800	4.7	100.0



Financial Overview Group

	2006	2005	2006	2005
	m CHF	m CHF	m EUR [2]	m EUR [2]
Income statement				
Net sales	1,879.5	1,702.0	1,194.1	1,097.4
Flooring Systems	794.2	747.0	504.6	481.6
Bonding Systems	731.1	628.5	464.5	405.2
Movement Systems	354.2	326.5	225.0	210.5
EBITDA before special charges	182.3	135.1	115.8	87.1
EBITDA	182.3	109.3	115.8	70.5
EBIT before special charges and impairment	109.6	64.7	69.6	41.7
EBIT	109.6	23.9	69.6	15.4
Group profit/loss	61.2	–16.5	38.9	–10.6
Balance sheet				
Total assets	1,498.6	1,591.0	952.1	1,025.8
Operating assets	1,181.9	1,156.1	750.9	745.4
Shareholders' equity	638.6	558.1	405.7	359.8
Net debt	43.3	109.3	27.5	70.5
Cash flow statement				
Cash flow from operating activities	157.3	134.9	99.9	87.0
Capital investments	67.0	46.4	42.6	29.9
Free cash flow	90.3	88.5	57.4	57.1
	%	%		
Key figures				
ROS, gross (EBITDA net sales)	9.7	7.9		
ROA (EBIT operating assets)	9.3	5.6		
Equity ratio (shareholders' equity/total assets)	42.6	35.1		
Gearing (Net debt/shareholders' equity)	6.8	19.6		
	Number	Number		
Employees (as of December 31)	**5,800**	**5,538**		
	CHF	CHF	EUR [2]	EUR [2]
Details per share				
Earnings (undiluted)	23.60	–6.26	15.00	–4.04
Equity	246.35	211.81	156.51	136.62
Par value reduction	6.0 [1]	0.0	3.8	0.0
	m CHF	m CHF	m EUR [2]	m EUR [2]
Stock market capitalization (as of December 31)	1,252.5	750.9	795.7	484.1

[1] Proposal of the Board of Directors to the Annual General Meeting.
[2] EUR values translated at the annual average rate of CHF 1.574/1 EUR (2006) and 1.551/1 EUR (2005).

To our Shareholders

Dear Ladies and Gentlemen,

We are on the right path

Following a difficult period of restructuring and reorientation in all three divisions, Forbo can look back on a successful business year 2006. We succeeded in significantly increasing sales and profits in all divisions. Decisive for this turnaround was the successful completion of the measures taken in the past two years to raise profitability. Moreover, the defined strategies and measures to increase efficiency were systematically implemented in all three divisions. The very positive trend on most markets also helped us in our activities.

This result impressively confirms that Forbo is back on the path to success.

Progress in all three divisions

Strong organic growth

Sales were increased by 10.4% from CHF 1,702.0 million to CHF 1,879.5 million. Organic growth came to 7.0%. The positive impact of currency exchanges accounted for 1.3% of the increase and the acquisition of Victa (Guangzhou) Chemicals Co. Ltd. in China as well as the purchase of the net assets of a Belgian dealer accounted for 2.1%.

Profitability improved in all areas

Net profit increased four-fold

A number of factors contributed to a positive raise in profitability for the Forbo Group: solid growth in sales revenue, the successful implementation of measures to increase efficiency and profits, and the elimination of special charges.

Forbo increased operating cash flow (EBITDA) by 34.9% versus the previous year to CHF 182.3 million. Operating profit (EBIT) rose by 69.4% to CHF 109.6 million, while net profit came to CHF 61.2 million, nearly four times higher than the previous year (before special charges).

The EBIT margin target of 6–7% for 2007 announced back in 2004 is now within reach: the EBIT margin in 2006 came to 5.8% (previous year 3.8%). All three divisions contributed to this good result.

Solid equity base and good profitability

Net debt reduced

Forbo succeeded in further reducing its financial debt by means of careful management of its current assets and owing to the steep rise in profits. Adjusted for the purchase of its own shares, Forbo would not have any net debt at the end of 2006.

We now have a strong financial foundation with a solid equity base and a healthy balance sheet structure. The equity ratio was 42.6% at the end of the year. Furthermore, Forbo holds 5% of its own shares that can be used for acquisitions or stock option plans. With the substantial improvement in the company's profitability and borrowing possibilities, Forbo can grow again through acquisitions.

Over a third of the share capital represented on the Board of Directors

Stable, long-term and success-driven shareholder base

The Board of Directors has a direct stake of well over a third in Forbo. This constellation enables the Executive Board to take a long-term view of business activities and gives the other shareholders the security of a success-driven approach.

Proposal to the ordinary Annual General Meeting

Resumption of cash distributions

Forbo's dividend policy is geared to the profit development of the Group. Given the positive trend in profits, the Board of Directors proposes to the Annual General Meeting that the cash distribution to shareholders should be resumed. The payout is by way of a par value reduction of CHF 6.00 per share.

Outlook

Motivated for the future

We have started off well in the new year. Although we have noted a slight downturn in the US since the end of 2006, we see growth potential in most of our markets. Following the effective restructuring, we now have the financial resources and a solid management team so that we can successfully tackle the challenges of corporate development over the long-term. We will continue to focus our efforts on improving profitability, which is not yet at the level we would like to see and on strengthening our organic and external growth. In particular, we want to reinforce our position in the fast-growing markets of Eastern Europe and Asia. For 2007, we anticipate a further increase in sales revenue and a better-than-average rise in profits.

Thank you

Our gratitude for your commitment and trust

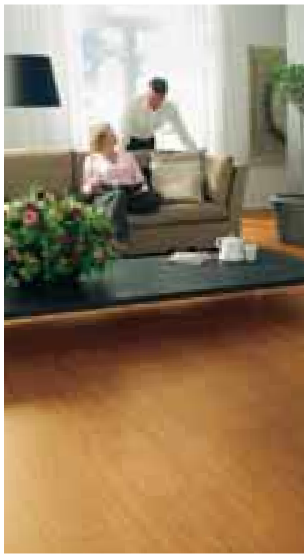
The achievement of the past year has only been possible because everybody at all levels has worked with motivation and commitment. We would therefore like to express our gratitude and appreciation especially to all our employees for their dedication day after day and for their exemplary effort.

We thank all our partners for the close working relationship and their trust in Forbo; in particular we would like to express our gratitude to our shareholders and our loyal customers.

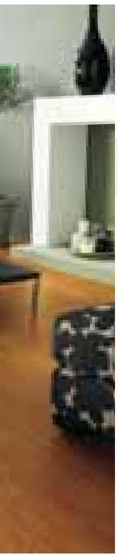
Baar, March 2007

Dr. Albert Gnägi
Chairman of the Board

This E. Schneider
President and CEO



Forbo Flooring Systems



Floors create space and determine the use it is put to, their ambiance and comfort. The more specialized the use, the higher the demands placed on the quality of the flooring.

Appropriate flooring transforms abstract professional space into a personalized 'living' room. This is an art that architects and interior designers master, an art in which the use of the right materials is essential.

In developing product collections, the Forbo designers draw their inspiration from nature, art and the latest design trends. The broad diversity of these designs, which range from warm and exotic to cool and sophisticated, with colors stretching from natural wood to sparkling metal, add a unique touch to the ambiance.

Flawless and versatile, floorings ensure a high level of functionality in innumerable areas, with minimal maintenance and a long life. In order to be able to guarantee this high standard over time, Forbo combines its long-standing production know-how with new and innovative trends and materials that are matched to the needs of a varied clientele.

With eight production facilities and sales organizations in more than 30 countries around the globe, Flooring Systems is always close to its customers and provides expert advice on the spot.

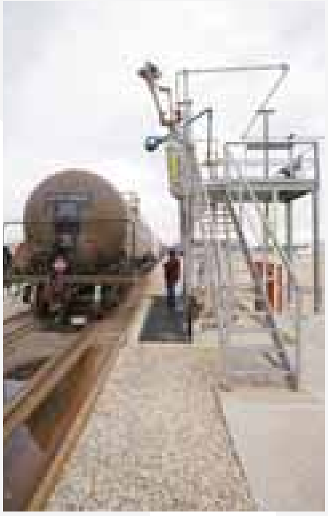
Forbo Bonding Systems

High-quality product design often stems from a combination of unusual materials. For a large number of industries, adhesives and chemical bonds from Forbo ensure that things that have been designed to be joined actually stick together. Forbo's powerful products ensure stable and durable joints and are suitable for a wide range of materials.

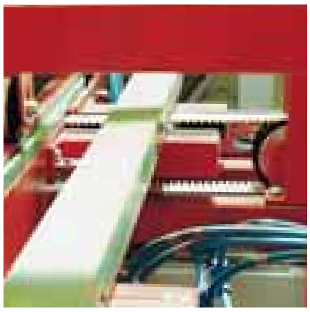
Adhesives are usually not visible, yet they are present in innumerable applications from everyday life. Adhesives provide long lasting stability to sports shoes and high-quality items such as footballs resilient but sturdy; they impart stability to furniture; they join pages together to make a book; they ensure reliable and durable joints for wooden elements in bridges and prefabricated houses; they bond tiles to the wall; they fix flooring; they join diverse materials on the inside of vehicles and they ensure odor-free and stable packaging.

The wide range of uses of Forbo's high-performance adhesives and chemical bonds is the result of intensive research and the technological lead this has given us. Our aim is to provide an even broader range of products, services technologies and niche solutions to our customers.

With about 20 production facilities and sales organizations worldwide, Bonding Systems is always close to its customers and can give them expert advice on the spot.



Forbo Movement Systems



The world is in motion, and Forbo is contributing its part. Global markets today require maximum mobility and flexibility in all areas of business – from product innovation to quality management and right up to customer service. Forbo is not always visible in this process, but it is present almost everywhere, making sure that things move smoothly.

High-quality conveyor and processing belts in the food industry ensure that fresh products are processed efficiently and under hygienic conditions. Treadmill belts in fitness centers keep sports enthusiasts on the move. Conveyor belts and flat belts are key components in paper manufacturing and processing machines. They are crucial for printing daily newspapers, magazines and journals. Conveyor belts provide smooth baggage handling at airports and an efficient flow in the distribution of letters and packages in logistics centers with state-of-the-art equipment.

Forbo's power transmission and conveyor belt solutions are synonymous with outstanding professionalism, quality consciousness as well as efficiency and reliability. Industrial, trade and service companies the world over use these products with great success and benefit from the dense international service and distribution network comprising more than 300 service locations globally.

Forbo Group: Strong earnings growth in all divisions

The positive trend in 2005 continued in 2006 at a higher level. Group sales rose by 10.4% to CHF 1,879.5 million. In local currencies, this corresponded to a 9.1% increase. Growth in all three divisions was driven by the robust US economy, ongoing dynamic expansion in the Asian markets and an improved economic situation in Europe. The positive trend was confronted with rising raw material prices, which impacted especially on Bonding Systems and Movement Systems.

Nevertheless, net income increased almost four-fold to CHF 61.2 million versus the previous year (before special charges). This is one of the best results ever achieved by Forbo.

Return on assets (ROA) rose from 5.6% the previous year to 9.3% in 2006.

Systematic implementation of the measures to increase efficiency and sales and to improve profitability had a positive impact on all three divisions and put Forbo back on track for success. The financial statements for the year 2006 reflect this positive performance in detail.

Satisfying growth in all three divisions

Organic growth in all divisions

Flooring Systems raised sales revenue by CHF 47.2 million to CHF 794.2 million, which comes to an increase of 6.3%. The environmentally friendly linoleum floorings posted satisfying sales especially in North America and Europe. New colors and designs enhanced collections in the vinyl flooring segment and had a positive impact on the residential segment. Homogeneous, pressed vinyl tiles with conducting properties also reported strong growth on the whole.

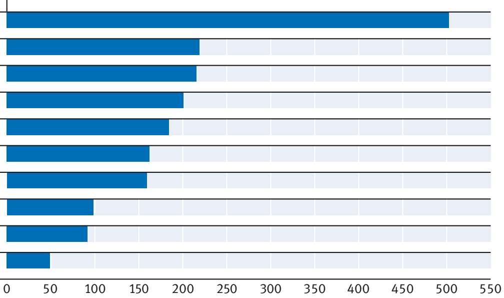
In Bonding Systems all three business segments were instrumental in achieving solid performance. In industrial adhesives, the segment with the highest revenues generated double-digit sales growth, while the two other segments – building and constructions adhesives and synthetic polymers – developed positively as well. The division raised sales revenue by a total of CHF 102.6 million to CHF 731.1 million, which comes to an increase of 16.3%. Upbeat market sentiment in all regions gave additional support to this positive trend. Of the strategic segments, wood, paper and textile processing in particular were successful on the markets with their attractive products.

Movement Systems raised sales revenue by CHF 27.7 million to CHF 354.2 million, corresponding to a growth of 8.5%. All regions contributed to this growth in sales revenue, with Europe the strongest, followed by America and Asia.

Targeted investments over the past two years to promote development in individual markets, along with the expansion of the distribution network, helped the positive trend. In addition, new product launches, especially for the food-processing industry, have laid a sound foundation for sustainable development. The industrial production and logistics segments also witnessed promising growth.

Net sales by geographic areas

	%	Change on previous year effective %	currency adj. %	CHF m 2006
North, Central and South America	26.7	13.0	11.7	502.5
Germany	11.7	7.8	6.2	219.1
Benelux	11.5	5.8	4.3	215.5
France	10.7	7.0	5.5	200.8
Southern Europe	9.8	31.6	11.7	184.3
Scandinavia	8.5	9.8	7.8	159.5
Asia/Australia/Africa	8.4	7.9	6.8	159.1
Great Britain/Ireland	5.2	1.7	–0.1	98.1
Eastern Europe	4.9	11.5	9.8	91.6
Switzerland	2.6	–5.1	–5.1	49.0



A big improvement in profit margins

Strong gain in profits despite rise in raw material prices

A strong growth in volume coupled with the success of the measures to increase efficiency and profits produced a significant rise in Forbo Group's profit margins. For the Group as a whole, operating profit before depreciation and amortization (EBITDA) came to CHF 182.3 million, up from CHF 135.1 million before exceptional charges the previous year. Operating profit (EBIT) was at CHF 109.6 million, which marked a strong increase compared to the previous year (CHF 64.7 million before special charges). The EBIT margin thus rose from 3.8% to 5.8%, which means that the interim target for 2007 of a 6–7% return on sales has almost been reached.

The Flooring Systems division lifted its operating profit before depreciation and amortization (EBITDA) to CHF 96.2 million, up 11.6% compared to the previous year (CHF 86.2 million). The strategic reorientation that focused on streamlining core processes, developing new market strategies, and scaling back costs by exploiting potential synergies had a positive impact. Targeted efforts to develop certain markets and to complete the product range also impacted beneficially.

Owing to active management of raw material prices and measures taken to optimize production, the Bonding Systems division significantly increased operating profit before depreciation and amortization (EBITDA) to CHF 62.5 million, a 34.7% increase over the previous year (CHF 46.4 million). Following steady growth as a result of small-scale acquisitions in recent years, processes and structures were revised in order to better manage future growth.

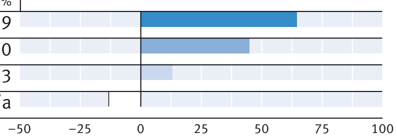
The Movement Systems division lifted operating profit before depreciation and amortization (EBITDA) to CHF 33.2 million, a strong 97.6% rise versus the previous year (CHF 16.8 million).

The structural and management adjustments made during the previous year had a considerable impact on earnings for the first time. In addition, by systematically utilizing the location advantages of the various production and fabrication sites, the business was able to increase its efficiency. However, rising raw material prices eroded margins, though this trend was largely offset by productivity gains.

The return on assets increased positively from 5.6% the previous year (before special charges) to 9.3%. The net profit development was convincing; it rose almost four-fold to CHF 61.2 million (in the previous year CHF 16.1 million, before exceptional charges).

EBIT by divisions

	CHF m 2006	Change* 2005/2006 %
Flooring Systems	64.6	28.9
Bonding Systems	44.9	43.0
Movement Systems	13.1	2,083.3
Headquarters/consolidation	−13.0	n/a



* EBIT 2005 before special charges and impairment

Net financial expense

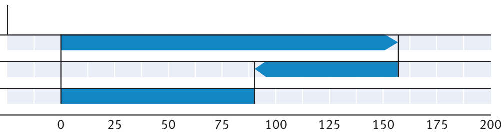
Net financial expense was reduced from CHF 18.8 million to CHF 13.4 million, mainly owing to the decrease in debt.

Free cash flow

Forbo increased cash flow from operating activities by CHF 22.4 million to CHF 157.3 million. This positive cash flow was offset by an increase of CHF 20.6 million in investments, bringing total investments to CHF 67.0 million. The resulting free cash flow in the period under review amounted to CHF 90.3 million (2005: CHF 88.5 million).

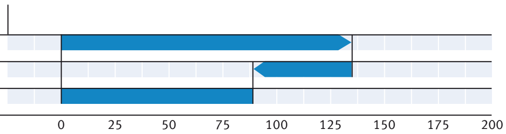
Free cash flow 2006

	CHF m
Cash flow from operating activities	157
Cash flow from investing activitites	−67
Free cash flow	90



Free cash flow 2005

	CHF m
Cash flow from operating activities	135
Cash flow from investing activitites	−46
Free cash flow	89



Balance sheet: sound financial basis for further growth

Net debt

Total assets declined by CHF 92.4 million to CHF 1,498.6 million compared with the end of 2005. All three divisions achieved improvements in the management of net current assets. Furthermore, Forbo repaid a bond in the amount of CHF 150.0 million on June 8, 2006.

Net debt at the end of the year was at CHF 43.3 million. This significant CHF 66.0 million reduction in debt essentially reflects the free cash flow generated less the purchase of the company's own shares. Equity increased by CHF 80.5 million to CHF 638.6 million, which brought the equity ratio to 42.6% (in 2005: 35.1%).

Gearing (net financial liabilities/equity) at the end of December 2006 amounted to 6.8% (end of 2005: 19.6%).

Investments to sustainably improve margins

Investments

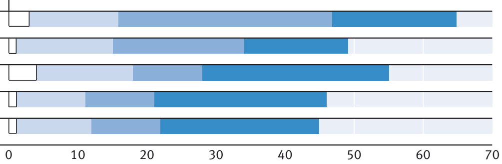
The Forbo Group invested CHF 64.2 million in fixed assets in 2006 (in 2005: CHF 49.3 million). The funds were used primarily to finance projects designed to expand production capacity, to improve efficiency, and to develop new markets.

Investments at Flooring Systems and Movements Systems were on a par with the previous year (CHF 17.6 million and CHF 12.7 million, respectively), while Bonding Systems invested significantly more (CHF 31.0 million) than in the previous year (in 2005: CHF 19.1 million). This was mainly due to the expansion of plant facilities for higher-value products and the development of the Russian and Chinese markets.

Proceeds from the sale of fixed assets came to CHF 1.2 million.

Capital investments 2002–2006

	Flooring Systems CHF m	Bonding Systems CHF m	Movement Systems CHF m	Corporate CHF m	Total CHF m
2006	18	31	13	3	65
2005	15	19	14	1	49
2004	27	10	14	4	55
2003	25	10	10	1	46
2002	23	10	11	1	45



Flooring Systems
Bonding Systems
Movement Systems
Corporate

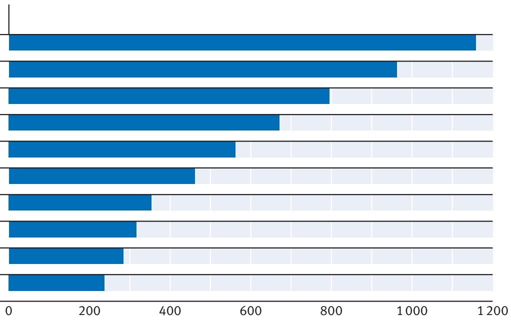
Headcount development

New positions in China and Russia

At the end of the year, Forbo was employing 5,800 people, i.e. 262 more than at the and of the previous year. In some instances, headcount continued to decline marginally as a result of the restructuring, but this was compensated for by the strong increase in Eastern Europe and Asia-Pacific. The bulk of the increase in the number of personnel can be attributed to the acquisition of Victa (Guangzhou) Chemicals Co. Ltd. in China.

Employees by geographic areas

	%	Change 2005/2006 %	2006
Benelux	20.0	1.9	1,158
North, Central and South America	16.6	0.3	962
Germany	13.7	−2.3	795
Asia/Australia/Africa	11.6	49.1	671
France	9.7	0.5	562
Scandinavia	7.9	2.0	461
Great Britain/Ireland	6.1	−10.3	354
Southern Europe	5.4	−1.1	316
Switzerland	4.9	−4.5	284
Eastern Europe	4.1	52.7	237



Flooring Systems: System provider approach is paying off

'Throughout 2006 our employees strove to attain our claim of system leadership in all relevant market segments. We expanded our product range and increased our market presence. The positive sales trend confirms that customers globally endorse our system offering. We will continue to pursue this path with all our energy.'

Tom Kaiser, Executive Vice President Flooring Systems

The Flooring Systems division generated sales revenue of CHF 794.2 million in 2006. This corresponds to a growth of 6.3% compared to the previous year. The increase amounts to 4.9% in local currencies. Flooring Systems accounted for 42% of Group sales (in the previous year: 44%). Linoleum sales were above-average in North America and Eastern Europe, while Germany and Northern Europe also reported satisfying growth. Vinyl floor coverings for the commercial segment posted large gains, while revenues in the residential segment declined in general. Operating profit (EBIT) rose to CHF 64.6 million, up by 14.5 million or 28.9% compared to the previous year.

Market situation: broad-based growth

Stronger demand for environmentally friendly floorings

In the vast majority of our core markets, we saw a positive trend that steadily gained momentum, leading to buoyant growth. Construction volume, which had been declining for years in Germany, an important linoleum market, has now recovered. Demand for environmentally friendly flooring increased, especially in North America, Eastern Europe, Germany and Scandinavia.

Prices for raw materials and energy again increased significantly, but could be offset by prompt measures to boost efficiency and by selective price adjustments.

Measures and investments: optimizing production processes

Market development in Eastern Europe and China

Extensive measures and investments were made to optimize production processes and the IT infrastructure. We focused on market development and on completing the product range, achieving our goals for 2006. In particular, we significantly strengthened the Eastern Europe sales organization and focused it on the commercial business. In China, we prepared the field for rapid expansion of the commercial segment.

Linoleum – architectural innovation prize

Products: promising new colors and designs

We are pleased that we are on the right track with our linoleum collection through the key success factor 'design'. We developed the Marmoleum Dutch Design with twelve well-known designers. This design won us the 'Innovationspreis der Architektur' (architectural innovation prize) in 2007 at the leading trade fair Domotex in Germany. Flooring Systems also launched a new collection 'Marmoleum Sport' in 2006, a universal, environmentally friendly floor for indoor sports facilities. In its second year on the market, Topshield with its outstanding care and cleaning properties very successfully stood the test with our customers.

New developments in the vinyl flooring segment

A new collection called 'Traffic Hagar-Caldera' was developed for the important French market; it addresses the residential construction project business in particular. New colors and designs generated good sales of the newly launched 'Novilon' vinyl flooring for residential use. 'Allura' design tiles complete our product range with over a hundred new, exclusive designs in wood, stone, metal and glass look and are aimed at customers in shop fitting and retailing.

Eastern Europe and North America post gains

Business trend linoleum: sustainable growth

The linoleum product group again grew by about 7% to CHF 371 million, thus contributing 47% to the Group's total sales revenue. Double-digit sales growth in linoleum markets such as North America and Eastern Europe were achieved. Germany and the Scandinavian countries also posted good growth rates.

Range rationalization in the residential market

Business trend vinyls: strong performance in the commercial market

The vinyl flooring product group posted revenues of CHF 306 million, contributing 39% to the Group's total sales. The project business performed well in the vast majority of our markets, reporting revenue growth of around 18%. Sales in the residential market, though, declined as a result of a deliberate range rationalization policy.

Other product and accessory segments expanded by 7% to CHF 117 million.

Invest and support systems

Outlook: creating added value as a system provider

We will very selectively expand our product range wherever we can offer even greater value for our customers as a system provider. Distribution operations are being steadily expanded in Eastern Europe and Asia. Believing as we do in the significance of the distribution process in the complex, international commercial segment, we are planning major investments in support systems and training.

As we are confident that the activities we have planned will meet our customers' expectations, we expect our flooring business to continue to prosper in 2007.

Bonding Systems: Successful entry in the Chinese market

‘In the 2006 business year, we posted better-than-average growth in all regions, and for the first time again this trend was supported by expansion in Europe. The acquisition in the year under review of Victa (Guangzhou) Chemicals Co. Ltd., a manufacturer of hotmelt adhesives and water-based adhesive materials, enabled us to successfully enter the market of the future, China. While rising raw material prices were a cause for concern again this year, we were able to cushion the impact through successful margin management.’

Michel Riva, Executive Vice President Bonding Systems

The Bonding Systems division lifted sales revenue in 2006 by 16.3 % to CHF 731.1 million, equivalent to 14.7 % in local currencies. Bonding Systems thus accounted for 39 % of Group sales (in the previous year: 37 %). While the European markets performed well especially as of the second quarter, North America weakened slightly in the fourth quarter. Despite the further rise in raw material prices, Bonding Systems increased operating profit substantially by 43.0 % to CHF 44.9 million.

Market situation: positive signals from all regions

Stronger growth in Europe

Market sentiment in the Bonding Systems division was basically upbeat in all regions. Growth picked up in Europe as of the second quarter, but North America weakened slightly in the fourth quarter owing to the economic downturn. Better-than-average growth was recorded in the packaging and graphic industry, in wood processing and in assembly (textile lining and sandwich panels). The building and construction segment was also given a boost by the upturn in the Western European construction industry and by the rise in exports to Eastern Europe.

Raw material prices still a cause for concern

The cost pressures caused by higher raw material prices in 2005 showed no let-up in 2006. In addition, delivery bottlenecks occurred for certain commodities, which was a special challenge for management.

Measures and investments: targeted investments in Russia and North America

Capacity expansion

The two major investments initiated in early 2006 are now in the implementation phase. At Stary Oskol in Russia, about 550 km south of Moscow, the building of a new production facility for cement-based products in the construction industry is in full swing. The start-up of production is scheduled for the third quarter of 2007. This local production is expected to open up further development opportunities in Russia and Eastern Europe. The construction of a third reactor in North America for synthetic polymers at Seneca, south of Chicago, proceeded according to schedule and can come on stream in the second quarter of 2007.

Introduction of lean manufacturing

The Bonding Systems division has grown continuously worldwide in recent years through various acquisitions, with the aim of providing even more efficient customer service. The business has revised processes and structures and launched a production cost optimization program with the aim of structuring this growth more effectively and of being prepared for further expansion. The program involves optimization of production sites and the global launch of a lean manufacturing drive at all plants, which is expected to achieve better quality, higher earnings, faster lead time and less waste.

Products: innovative range of polyurethane-based adhesives

Innovative products

Building on the new products launched in the previous year, Forbo focused on developing its range of polyurethane-based adhesives in 2006. These products are employed as dispersions, as reactive hotmelts or as one- or two-component reactive adhesives. They can be used universally, are easy to process and are environmentally friendly. They thus meet the maximum requirements for modern adhesive systems. Dispersions are found in car interiors or in the textile industry; reactive hotmelts are gaining importance in the production of sandwich elements for doors or caravan walls; and reactive adhesives are employed mainly in construction and in the textile and packaging industries.

Business trend: balanced growth in segments and regions

All product groups well ahead of previous year

The biggest-selling segment – industrial adhesives – generated double-digit sales growth. The other two segments – building and construction adhesives and synthetic polymers – also performed satisfactorily. Of the strategic segments, wood, paper and textile processing in particular turned in a very gratifying performance with their attractive products.

Very strong growth in all regions

Sales growth in Asia was above-average owing to the acquisition in China. North America also reported double-digit growth, mainly due to the contribution from Industrial Adhesives Ltd., a company acquired at the end of 2005, and to price increases in the US market for industrial adhesives and synthetic polymers. Taking the business as a whole, Bonding Systems generated 52% of its sales in Europe, 40% in North America, 7% in Asia and 1% in other countries.

Outlook: harmonizing the various expansion efforts

Focus on growth in emerging markets

In order to be able to harmonize activities worldwide and respond more directly to the needs of the various market segments, Bonding Systems revamped its organizational structure at the beginning of 2007, creating a matrix organization that factors in both functional and regional aspects.

The trend for raw material prices will remain a challenge in 2007. In order to counteract this trend, we are stepping up our streamlining and cost-cutting efforts.

Generally speaking, we expect a positive market trend in Europe and Asia, though at a lower level than the previous year. North America is expected to feel the pinch of the economic downturn. In addition to increasing profitability, the focus remains on growth in emerging markets such as Russia and China.

Movement Systems: Strong growth worldwide

'In the 2006 business year, we achieved broad-based growth worldwide, driven in particular by strong OEM business and major projects in all core segments and markets. The firm trend of the world economy also helped. By an accelerating implementation of the segment strategy, we generated growth that was higher than the market average.'

Matthias P. Huenerwadel, Executive Vice President Movement Systems

The Movement Systems division increased sales revenue in the past twelve months by 8.5 % to CHF 354.2 million. The increase was 8.1 % in local currencies. This accounts for 19 % of total Group sales, the same as the previous year. All regions contributed to this growth, with Europe the strongest, followed by America and Asia. Sales in Europe benefited in addition from a small-scale acquisition in Belgium. Growth in Russia and China was over proportional. Rising raw material prices eroded margins, but the pressure was alleviated in part by switching over to alternative materials where possible and by achieving efficiency gains in production and fabrication. Operating profit (EBIT) came to CHF 13.1 million, which was considerably higher than the previous year (CHF 0.6 million).

Market situation: expansion in emerging markets

Strong performamce in the OEM sector

With the economy in good shape, OEM plant engineering turned in a strong performance, thus giving the belting business an additional boost in Europe, especially in Germany and Italy. Movement Systems was able to gain market share in the OEM and end customer businesses thanks to its focus on segmentation. The trend in volume-intensive large-scale projects remains positive. In the year under review, the airports in Seoul, Barcelona and Moscow were outfitted with our belting systems.

Growth in the emerging markets – in particular China and Eastern Europe – was especially pleasing. America benefited from the economy, which remained strong.

Logistics in motion

The logistics customer segment, which includes major projects for airports and distribution centers, reported the largest increase in sales revenue. The food-processing industry and the paper and printing industry also performed very well.

Measures and investments: targeted investments to develop selected markets

Strengthening the organization

In order to enhance efficiency and flexibility, Movement Systems restructured its organization in the past year. Marketing and sales for key accounts, the supply chain, IT and New Product Development are now coordinated at the global level and headed by expert teams. Moreover, the management team was reinforced by selective appointments and promotions.

Capitalizing on location advantages

Targeted investments to develop selected markets, the extension of the distribution network and the general reinforcement of the sales organizations were all factors accelerating sales growth. In addition, the gains in efficiency achieved by capitalizing on the location of the various production and fabrication sites also had a positive impact on the bottom line.

Products: innovation for the food industry

Innovation for the food industry

In 2006, Movement Systems focused primarily on developments for the food-processing industry. A new line of blue conveyor belts was launched to improve both hygiene and working conditions. The blue background contrasts with the goods being conveyed, thus improving hygiene since contamination is identified more quickly and easily.

A new product development was patented in America: this is a belt designed specifically for the transport of dairy and meat products. Moreover, an easy-to-clean plastic conveyor belt module was developed that meets the demanding hygiene standards of meat, fish and poultry processing.

There is further growth potential in the food-processing, industrial manufacturing and logistics segments.

Business trend: broad-based, global growth

Reorganization largely completed

Strong stimuli from the OEM business and large-scale projects were a major factor in the 8.5% increase in sales. The reorganization has been largely completed and will act as a springboard for further healthy, sustainable growth.

Margin pressure from rising raw material prices

The ongoing price pressure in the markets, in particular for commodity products and in large-scale projects, along with rising prices for raw materials, led to margin pressure, which was offset by efficiency gains and streamlining of internal processes. There is further room for optimization in global harmonization and organizational integration.

Sales growth driven by segment focus

Outlook: implementation of the defined strategy

The goal of Movement Systems is to accelerate the progress achieved by means of focused implementation of the strategy and by completing the integration of its organization. This year, we will concentrate on improving our customer focus by expanding distribution operations in selected countries, by rounding off the segment product lines, and by extending the range of services offered.

The Movement Systems division is again expecting good sales and earnings in 2007. We are aiming for further growth by concentrating on the needs of our customer segments and by handling already awarded large-scale projects, for instance the expansion of the UPS distribution hub in Louisville, USA, professionally and efficiently.

Group Structure

This E. Schneider
President and CEO

- **Tom Kaiser**
  Flooring Systems
  - **Regional Sales and Marketing**
  - **Supply Chain Management**
  - **Services**
- **Michel Riva**
  Bonding Systems
  - **North America**
  - **Northern Europe**
  - **Western Europe**
  - **Central Europe**
  - **Southern Europe**
  - **Asia/Pacific**
  - **Building and Construction**
- **Matthias P. Huenerwadel**
  Movement Systems
  - **North and South America**
  - **Europe**
  - **Asia/Pacific**
- **Jörg Riboni**
  Corporate Finance
  - Controlling
  - Treasury
  - IT
  - Tax
  - Investor Relations
- **Gerold A. Zenger**
  Corporate Services
  - Internal Audit
  - Legal Services
  - Pensions
  - Projects
  - Corporate Governance

Tom Kaiser
Executive Vice President
Flooring Systems

Michel Riva
Executive Vice President
Bonding Systems

This E. Schneider
President and CEO

Gerold A. Zenger
Head Corporate Services,
Deputy CEO

Matthias P. Huenerwadel
Executive Vice President
Movement Systems

Jörg Riboni
Chief Financial Officer,
Executive Vice President

This E. Schneider

President and CEO

This E. Schneider, born in 1952, is a Swiss citizen. He studied economics at the University of St. Gallen (lic. oec. HSG) and at the Graduate School of Business, Stanford University, California, USA. After various management functions in Europe and the USA, he joined the Executive Board of Schmidt-Agency, where he was responsible for strategic planning, operations and logistics from 1984 to 1990. From 1991 to 1993 he was Chairman and CEO of the publicly listed company SAFAA, Paris. In 1994, he became a member of the Executive Board of Valora, with responsibility for the canteen and catering division. From 1997 to 2002, he was President and Vice Chairman of the Board of Directors of Selecta Group. This E. Schneider has been President and CEO of the Forbo Group since March 2004. In addition, he is a member of the Board of Directors of Galenica SA and Minibar AG.

Gerold A. Zenger

Deputy CEO, Head Corporate Services

Gerold A. Zenger, born in 1945, is a Swiss citizen. He worked from 1968 to 1970 with Crown Life Insurance in Toronto, Canada in Group Accounting Services. From 1970 to 1973, he studied at the Advanced School of Economics and Business Administration in Zurich and worked part-time with Swiss Aluminium Ltd in various functions. From the end of 1973, he was responsible for Group reporting and consolidation. In October 1976, Gerold A. Zenger joined Forbo as an Assistant Corporate Controller, and he assumed responsibility for Corporate Treasury in 1979. From 1987 to December 2005 he was the Group's Chief Financial Officer and became a member of the Executive Board in 1998. In January 2006, Gerold A. Zenger was appointed Deputy CEO and is responsible for the Group's Corporate Services.

Jörg Riboni

Executive Vice President, CFO

Jörg Riboni, born in 1957, is a Swiss citizen. He studied economics at the University of St. Gallen (lic. oec. HSG) and is a Swiss certified public accountant. After various positions in the auditing and consultancy sector, Jörg Riboni joined the Cosa Liebermann Group where he was Head of Controlling and Finances for the European Division. In 1995, he was appointed Chief Financial Officer of Jelmoli AG, which was sold at the end of 1996. From 1997 to December 2005, he was Chief Financial Officer of Sarna Kunststoff Holding AG in Sarnen. At the beginning of 2006, Jörg Riboni joined the Forbo Group. He is a member of the Executive Board and Chief Financial Officer.

Tom Kaiser

Executive Vice President Flooring Systems

Tom Kaiser, born in 1956, is a German citizen. He completed his commercial apprenticeship (Gross- und Aussenhandelskaufmann) at Stahlwerke Süwestfalen in 1978. In 1992, he attended the International Executive Program INSEAD, Fontainebleau. From 1979 to 1988 he worked for Krupp Handel GmbH, among other areas in North and South America. From 1988 to 1998 he held various management positions with Vaillant GmbH. In 1998, he joined the Wolf Group as Managing Director. In March 2004, Tom Kaiser was appointed Executive Vice President Flooring Systems and member of the Executive Board of Forbo.

Michel Riva

Executive Vice President Bonding Systems

Michel Riva, born in 1964, is a Swiss citizen. He studied economics at the University of Applied Sciences Basel and the IMD Lausanne, where he completed his MBA. From 1989 to 1994 he held various positions in finance at F. Hoffmann-La Roche. Subsequently, he headed Strapex Corporation, Charlotte, NC, USA. From 1998 to 2004, he held various Managing Director positions for the chemical company DuPont, latterly as Business Director Europe, Middle East and Africa for the DuPont Powder Coatings business unit. In October 2004, Michel Riva was appointed Executive Vice President Bonding Systems and member of the Executive Board of Forbo.

Matthias P. Huenerwadel

Executive Vice President Movement Systems

Matthias P. Huenerwadel, born in 1968, is a Swiss citizen. He studied engineering at the Federal Institute of Technology, specializing in manufacturing technologies and technology management. He began his professional career as assistant to the Executive Board of Franke Holding AG. In 1997, he moved to the USA, where he was responsible for logistics, information technology and customer service with Federal Home Products, Ruston, LA. From 1999, he held various sales and marketing managerial positions for Franke Foodservice Systems and managed its European operations from 2002–2005. Matthias P. Huenerwadel assumed the management of the Movement Systems Division in October 2005 and is a member of the Executive Board of Forbo.

Corporate Governance

At Forbo, the concept of corporate governance encompasses the entire set of principles and rules on organization, conduct and transparency designed to protect shareholder interests. Forbo's aim is to strike a careful balance between management and control. The central rules are contained in the Articles of Association, the Organizational Regulations, and the bylaws of the committees of the Board of Directors. The following information is set out in line with the Directive on Information relating to Corporate Governance (Corporate Governance Directive, DCG) and the relevant publications of SWX Swiss Exchange.

Group structure and shareholders

Group structure

Forbo Holding AG, domiciled at Lindenstrasse 8, 6340 Baar, is a limited company under Swiss law. The holding company holds all companies, directly or indirectly, that belong to the Forbo Group. The operational structure of the Group is shown in the organizational chart on page 31. The scope of consolidation of Forbo Holding AG does not include any listed companies. The unlist ed companies within the scope of consolidation of Forbo Holding AG are listed under 'Group companies' starting on page 94 of the Financial Report. The company name and domicile, share capital and percentage of participation along with information relating to the allocation of the Group companies to the Group's businesses can also be found in this list.

Significant shareholders

As of December 31, 2006, 2,571 shareholders were listed in the share register of Forbo Holding AG, 108 or 4% fewer than in the previous year.

Disclosure of significant shareholders is effected in accordance with Article 20 of the Federal Stock Exchange and Securities Trading Act (SESTA) and the provisions of the Ordinance of the Federal Banking Commission on stock exchanges and securities trading. According to the publications in the Swiss Commercial Gazette in the year under review, the following major shareholders or groups of shareholders have exceeded or fallen below the thresholds set out in Article 20 SESTA:

Rudolf Maag announced on March 24, 2006 that he had fallen below the 5% threshold. This E. Schneider announced on April 10, 2006 that he had exceeded the 5% threshold. Forbo Holding AG announced on July 27, 2006 that it had exceeded the 5% threshold.

A further disclosure related to a change in the composition of the shareholders' group of Michael Pieper, Hergiswil, Franke Holding AG, Aarburg and Artemis Beteiligungen I AG, Hergiswil. According to an announcement made on April 12, 2006, this group now consists of Michael Pieper, Hergiswil, and Artemis Beteiligungen I AG, Hergiswil.

For further information on significant shareholders or shareholder groups, we refer the reader to page 106 (duty of disclosure pursuant to Article 663c, Swiss Code of Obligations).

Cross-shareholdings

Forbo Holding AG has not entered any cross-shareholdings with mutual capital shareholdings or voting rights.

Capital structure

Share capital

As of December 31, 2006, Forbo Holding AG had a fully paid up share capital of CHF 54,263,040, which was divided into 2,713,152 listed registered shares, each with a par value of CHF 20. Of this amount:

- 70.52% were registered in the name of 2,514 shareholders with voting rights
- 23.30% were shares of banks and the SIS (SegaInterSettle AG) pending registration of transfer
- 6.18% were registered in the share register without voting rights

The shares of Forbo Holding AG (security number 000354151/ISIN CH0003541510) are listed on SWX Swiss Exchange. There are no different categories of shares; each share entitles the shareholder to one vote. Further information on the Forbo share can be found on page 53. Further information on the rights of participation associated with the share can be found on page 47.

Conditional and authorized capital

Pursuant to § 6 of the Articles of Association, Forbo Holding AG has a maximum conditional capital of CHF 3,329,000, corresponding to 166,450 registered shares to be paid up in full with a par value of CHF 20 each. The capital increase takes place in accordance with the Articles of Association through the exercise of option and convertible rights which are granted in connection with the bonds issued by the company or one of its subsidiaries or through the exercise of option rights which are granted to the shareholders. Except for shareholder options, shareholders have no right of subscription. Holders of option or convertible rights are entitled to subscribe to new share issues. The registration of new shares in the share register is subject to the restrictions set out in the Articles of Association.

There is no authorized capital.

Changes in capital

The share capital of Forbo Holding AG did not change either in the reporting year 2006 or in 2005. For the changes in capital in 2004, the reader is referred to page 36 of the 2005 Annual Report.

Participation certificates and 'Genussscheine'

Forbo Holding AG has neither participation certificates nor non-voting equity securities.

Limitations on transferability and nominee registrations

Forbo Holding AG does not have any percentage limitations on voting rights. The Board of Directors may only refuse to register stock in the share register if the acquirer of the stock does not expressly declare at the company's request that he has acquired the shares in his own name and for his own account.

The Articles of Association contain no clauses concerning nominees. As a general rule, a nominee agreement is concluded with nominees in which it is determined that nominees may only be registered with voting rights if the nominee discloses the beneficial owner to the company. In the absence of such a nominee agreement, nominees are registered without voting rights.

Resolutions on the amendment or abrogation of the clause on the registration of registered shares requires a majority of two thirds of the votes represented at the Annual General Meeting and the absolute majority of the par value of shares represented.

Convertible bonds and warrants/options

Forbo Holding AG has no outstanding convertible bonds nor has it issued any marketable warrants/options. Information on the option program available to the Executive Board can be found on page 45 in this Annual Report.

Board of Directors

Board of Directors

The cut-off date for the following information is December 31, 2006.

With the exception of This E. Schneider, President and CEO, none of the members of the Board of Directors listed below has or has had any operational management tasks for Forbo Holding AG or its Group companies. With the exception of This E. Schneider, none of the members of the Board of Directors sat on the Executive Board of Forbo Holding AG or the management of its Group companies in the three business years preceding the period under review. There are no essential business relationships between the members of the Board of Directors and Forbo Holding AG or its Group companies.

Dr. Albert Gnägi, Chairman

Albert Gnägi, born in 1944, is a Swiss citizen. He studied law at the University of Zurich and in Rome and graduated in jurisprudence (Dr. iur.). He practices law in Zurich, specializing in commercial law, company law and inheritance law. From the IPO in 1997 until the takeover by the British company Compass Group in early 2001, he was Chairman of the Board of Directors of Selecta Group. From 1982 to 1997, he was a member and Chairman of the Board of Directors of Immuno International AG, a manufacturer of biological pharmaceuticals, which went public in Zurich in 1989. Since 1980, Albert Gnägi has been a member of the Board of Trustees of the Sanitas Hospital in Kilchberg, and its president since 2002. He holds additional board memberships in other companies and foundations. He has been Chairman of the Board of Directors of Forbo Holding AG since March 2005.

Michael Pieper, Vice Chairman

Michael Pieper, born in 1946, is a Swiss citizen. Michael Pieper studied economics at the University of St. Gallen (lic. oec. HSG). He has been with the Franke Group since 1988 and its owner and CEO since 1989. He is a member of the Board of Directors of Hero AG, advalTech Holding AG, Feintool International Holding AG and of the Supervisory Board of ThyssenKrupp Stainless AG (Germany). He was first elected to the Board of Directors of Forbo Holding AG in 2000.

This E. Schneider, President an CEO

For the curriculum vitae of This E. Schneider, see page 33.

Dr. Peter Altorfer

Peter Altorfer, born in 1953, is a Swiss citizen. He studied law at the University of Zurich and holds a doctorate degree (Dr. iur.). He attended the PED at the IMD, Lausanne. Until 1988, he worked at Bank Leu AG. He subsequently joined the law firm Wenger & Vieli in Zurich, where he is now a partner, specializing in bank and company law. Peter Altorfer is a member of the Board of Directors of various companies, including Huber+Suhner AG, Herisau, agta record ag, Fehraltorf, and Abegg Holding AG, Zurich, and of several private and foreign banks in Switzerland. He has been a member of the Board of Directors of Forbo Holding AG since March 2005.

Dr. Rudolf Huber

Rudolf Huber, born in 1955, is a Swiss citizen. He studied at the University of Zurich, where he took his doctorate (Dr. oec. publ.). From 1987 to 1992 he led the Finance and Information Technology departments of Bucher Guyer AG and was Head of Corporate Finance at Bucher Holding AG. In 1992, he moved to the Geberit Group, where he was a member of the Executive Board and CFO until 2004. He currently works as an independent consultant. Rudolf Huber is a member of the Board of Directors of several companies, including Georg Fischer AG, Swiss Prime Site AG and Kardex AG. He is a part-time lecturer at the University of Business Studies Lucerne and lecturer at the University of St. Gallen. Since 2006 he has also been President of the recently founded CFO Forum Schweiz-CFOs.

Cross-involvement

There is no cross-involvement between the Board of Directors of Forbo Holding AG and any other listed company.

Elections and terms of office

The members are elected by the Annual General Meeting for a term of four years and may be reelected several times. This E. Schneider's term will end in 2008; the terms of the other members of the Board of Directors will expire in 2009. Detailed information can be found in the following table. In accordance with the Organizational Regulations of Forbo Holding AG, members who have reached the age of 70 resign from the Board of Directors at the Annual General Meeting of the following year. The average age of the incumbent members of the Board is around 56. In determining the composition of the Board of Directors, importance is attached to the election of independent individuals with international experience in industrial companies as well as in the financial and consultancy sectors.

Board of Directors of Forbo Holding AG
as per December 31, 2006

	Member since	Elected until	AFC	HRC
Chairman				
Dr. Albert Gnägi Non-executive member	2005	2009	M	C
Vice Chairman				
Michael Pieper Non-executive member	2000	2009	–	M
Members				
This E. Schneider CEO and executive member	2004	2008	–	–
Dr. Peter Altorfer Non-executive member	2005	2009	M	M
Dr. Rudolf Huber Non-executive member	2005	2009	C	–
Secretary General to the Board of Directors				
Nicole Häfeli Non-member				

AFC: Audit and Finance Committee
HRC: Committee for Human Resources and Remuneration
C: Chair
M: Member

Internal organizational structure

The allocation of tasks within the Board of Directors and the composition of the two Board committees are shown above.

Decisions are as a general rule taken by the full Board of Directors. The Board constitutes two standing committees from its own ranks – the Audit and Finance Committee, the AFC, and the Committee for Human Resources and Remuneration, HRC – to deal with clearly defined subject areas of overriding importance. These two committees have mainly advisory and control functions. The members of these two committees are elected by the Board of Directors on an annual basis and can be dismissed at any time.

As a rule, the Chairman of the Board of Directors chairs the meetings of the Board and the Annual General Meeting. He plans and conducts the meetings of the Board and the Annual General Meeting. The meetings of the Board and the relevant agenda are prepared by the Chairman in consultation with the CEO. The Chairman monitors the execution of the measures adopted by the Board and is in regular contact with the CEO for this purpose. He is the direct superior of the CEO. In addition, the Chairman, in consultation with the CEO, represents the Board vis-à-vis the public, the authorities and the shareholders.

The Vice Chairman is tasked with deputizing for the Chairman should the latter be prevented for any reason whatever. In accordance with the Organizational Regulations and general practice, the Vice Chairman has no further duties.

The President is also CEO and as such is responsible for the operational management of the company and for the tasks delegated to him by the Board of Directors. The members of the Executive Board report to the CEO to support him in his function.

The Chairman, Vice Chairman and President (CEO) are elected by the Board of Directors.

The Board of Directors meets on being convened by the Chairman, as often as business requires but at least four times a year. When the Board is convened, the items on the agenda must be notified at least five working days before the day of the meeting. This notification period may be shortened in urgent cases. In 2006, the Board of Directors met six times, the meetings usually lasting a whole day.

The Chairman and the CEO may invite members of the Executive Board or other senior managers to attend meetings of the Board for specific items. Regular use is made of this option. External consultants participate in the meetings of the Board of Directors, the AFC or the HRC occurs only in exceptional circumstances for the treatment of specific items. As a rule, however, the meetings are held without external consultants.

Audit and Finance Committee

The Audit and Finance Committee (AFC) advises the Board of Directors in respect of its duties on behalf of the company in the areas of financial reporting, the accounting standards and systems used, and significant financial decisions. The AFC also stipulates and assesses the tasks of the internal auditing function and the selection and proposal of the audit mandates to the Annual General Meeting. The CEO and CFO are regularly requested to attend meetings in an advisory capacity, while the internal auditors and the external auditors may receive a special invitation.

The AFC convenes as often as business requires, but at least twice a year. In 2006, three meetings were convened, which normally lasted half a day.

Committee for Human Resources and Remuneration

The Committee for Human Resources and Remuneration (HRC) advises the Board of Directors in respect of its human resources duties on behalf of the Group, in particular as regards the Board itself and senior management personnel. The HRC prepares human resources policy proposals for the attention of the Board of Directors regarding the employment of the Board and the CEO, and it assesses and approves the proposals of the CEO regarding the employment of the Executive Board members. It prepares recommendations for the Board of Directors regarding the remuneration of the Board, the Chairman, the Committee members and the CEO. The CEO is regularly involved in an advisory capacity. Agenda items and matters affecting the function or the person of the CEO are deliberated in his absence.

The HRC convenes as often as business requires. In 2006, three meetings were convened lasting between two and four hours.

Areas of responsibility

The Board of Directors bears ultimate responsibility for the management of Forbo Holding AG. The main duties of the Board are the following non-transferable and indefeasible tasks pursuant to the Swiss Code of Obligations and the Articles of Association:

– ultimate management of the company and the issuance of directives
– stipulation of the organization
– organization of auditing, financial controlling and financial planning
– appointment and dismissal of persons entrusted with management of the company
– preparation of the Annual Report and of the Annual General Meeting and implementation of its resolutions
– notification of the court in the event of overindebtedness

The Board of Directors bears ultimate responsibility for supervising and monitoring management of the company and is responsible for the corporate strategy. It issues guidelines for business policy and is regularly briefed on the current state of business.

Business to be dealt with by the Board of Directors is regularly submitted in advance to the AFC, HRC, to ad hoc committees or individual members, depending on the subject, for review or an opinion. With the exception of its non-transferable and indefeasible tasks, the Board of Directors may transfer tasks and responsibilities in full or in part to individual members of the Board or to third parties.

The Board of Directors is entitled to take decisions on all matters which are not reserved or transferred to the Annual General Meeting or another body of Forbo by law, the Articles of Association or regulations.

Management of the company has been delegated in full to the CEO. Accordingly, the CEO is responsible for the operational management of the company.

In carrying out his tasks, the CEO is supported by the members of the Executive Board, who report to him directly. The Executive Board comprises the CEO, the Head of Corporate Services, the Chief Financial Officer (CFO) and the Heads of the three divisions. It is responsible for the long-term success and market-driven management of the Forbo Group. This involves preparing the bases for decision-making for the Board of Directors regarding:

– corporate strategy, corporate targets, business policy, medium-term plans and budgets
– corporate organization
– organization of auditing, financial controlling and financial planning
– financing and treasury principles
– human resources and compensation policy

The members of the Executive Board are responsible for their particular area of activity and also bear responsibility for safeguarding the interests of the company and achieving the financial result.

The Executive Board meets as often as business requires, normally once a month. In 2006, twelve meetings were held, each lasting a whole day.

Information and control instrument

At the meetings of the Board of Directors, any member may request information about all matters concerning the Forbo Group. Outside the meetings, such requests for information are to be addressed to the Chairman. The CEO and the other members of the Executive Board inform the Board of Directors at each regular meeting about the current state of business, important business events and significant deviations from the budget.

The Chairmen of the AFC and HRC report at the Board meetings on the activities of their committees and express their opinions and recommendations on the business items on which decisions are to be taken. Each member of the Board of Directors has the right to inspect the minutes of the AFC and HRC meetings. The Executive Board reports to the AFC through the CEO, the Head of Corporate Services and the CFO, and it reports to the HRC through the CEO.

The Board is also regularly briefed outside meetings about events and challenges facing the Group and the general performance of the divisions. In addition, the Chairman, Vice Chairman and CEO are in continuous contact when essential policy issues are involved. For important, particularly urgent events, the CEO informs the Chairman and the other members of the Board immediately.

The President, who is at the same time CEO, conducts the meetings of the Executive Board. For details concerning the participation of members of the Executive Board in meetings of the Board of Directors and its committees, see the sections on internal organization, the AFC and the HRC on page 39 ff.

The Board of Directors fulfils supervisory and monitoring obligations as regards financial reporting and its role in the planning cycle. The internal and external auditors assist the Board in this task.

Within the framework of financial reporting, the Board of Directors is briefed quarterly in writing about the current state of business and the company's financial situation by means of commented income statements, balance sheets, key ratios and analyses of any deviations.

The Board of Directors is, moreover, involved in the company's planning cycle. The existing strategy is subjected to a thorough review by the Board every spring. On the basis of this review, the existing strategy is revised and the strategic planning adjusted accordingly. The revised strategy is quantified in the three-year medium-term plan, which is approved at mid-year by the Board. Based on the medium-term plan, the Board of Directors sets the budget objectives for the coming business year. These budget objectives are the basis for the detailed budget, which is approved and adopted by the Board of Directors in the fourth quarter.

The current business year is assessed in an initial estimate at the end of April and in a second estimate at the end of September. On completion of the business year, the extent to which the budget has been reached is assessed and deviations are analyzed. This analysis is used to derive appropriate measures which are then implemented in the next planning cycle.

The internal auditing function is subordinate to the President and CEO and is functionally independent. It acts autonomously and reports directly to the AFC. The audits are conducted in accordance with an annual plan approved by the AFC. A distinction is drawn between the following types of audit: full scope audits, limited reviews, follow-up reviews, post acquisition audits, compliance audits and special engagements.

The risks and weaknesses identified in these audits are, where necessary, minimized by measures adopted by management or eliminated and constantly monitored.

In the first half of the year, Ernst & Young AG, Basel, was still solely responsible for the audits. As of mid-2006, the Group built up its own internal audit department, which now consists of two auditors. Since the Group's own audit department was set up, the audits are conducted mainly by this unit. In 2006, a total of seven full scope audits, one follow-up review, five compliance tests, one post acquisition audit and one special engagement were conducted. Each division was audited at least once in this process.

The supervisory and control instruments with regard to the external auditors are outlined on page 49 of the Annual Report.

The measures taken in the area of risk management are explained at the end of the Corporate Governance report (page 51).

Executive Board

Members of the Executive Board, activities and vested interests

The members of the Executive Board, their nationality, function, training and professional career as well as other activities and vested interests are set out on page 33 of this Annual Report.

Management contracts

Forbo Holding AG has concluded no management contracts with third parties.

Compensations, shareholdings and loans

Content and method of determining the compensation and the shareholding programs

The amount of compensation paid to the Board of Directors is drawn up by the HRC and submitted to the plenary Board of Directors for approval.

The compensations, option programs and target agreements of the Executive Board are as a rule set by the HRC at the last meeting before the end of the year for the following year. When the accounts are produced in March, the performance is reviewed in light of the stipulated target agreements and in consideration of the prevailing market conditions, after which bonus payments are decided on.

Compensation system for the Board of Directors

The members of the Board of Directors receive a fixed compensation, the amount of which is gradated for the Chairman and the members. 40% of the consideration is distributed to Board members as Forbo stock. These shares have a vesting period of three years. The shares are valued by taking the average price of the ten stock market days after distribution of a dividend or repayment of par value. If no dividend is distributed, the average price during the ten stock market days after June 1 of the business year applies.

Compensation system for the Executive Board

The compensation of the members of the Executive Board consists of a fixed base salary plus a performance-dependent bonus, which is determined after the end of the business year.

With effect from March 15, 2006, the Board of Directors approved the introduction of the Management Investment Plan (MIP), for the bonus paid for the 2005 financial year. The Stock Option Plan (SOP) valid until that date was abrogated on the introduction of the MIP. Within the framework of the MIP, members of the Executive Board receive at least 50% of their annual bonus in the form of shares and options. All shares and options are issued at the average market value of the first 14 trading days in January of the year in question and are subject to a vesting period of three years. The term of the options is five years.

The President and CEO does not participate in the Management Investment Plan (MIP). His compensation is described in detail in the next point 'Compensations for acting members of governing bodies'.

Compensations for acting members of governing bodies

The total compensation for all non-executive members of the Board of Directors in the Forbo Group came to CHF 357,108 in 2006.

In fall 2005, it was agreed with the President and CEO that part of his compensation for 2005 and the compensation for the five following years (2006 up to and including 2010) would be paid to a large extent in stock. In lieu of salary payments, for the contractual period of employment until December 31, 2010, he was allocated 47,395 shares at the market value on conclusion of the agreement, i.e. CHF 270 each, for the entire five-year term of the agreement. These shares are time-vested until December 31, 2010 and freely available only as of January 1, 2011. Should he leave the company before this date, the shares must be returned on a pro rata basis.

In addition to the share package, the President and CEO draws an annual sum of CHF 150,000, which is used for settlement of employee contributions to the pension fund and for social insurance payments. The share package and the cash remuneration satisfy all compensations such as bonuses, inflation, adjustments, options, etc. The corresponding personnel expenditure is charged to the income statement over the entire contractual period on a pro rata basis.

On valuation of the shares at market value, the elements listed above result in a total compensation in the year under review of CHF 2,903,392, including the private part of the company car use and all contributions to the pension fund.

With a five-year vesting period for the shares, the compensation model is geared to long-term and sustainable development of the company and is thus fully consistent with the interests of the company and its shareholders. By adopting this salary model, the President and CEO assumes the full entrepreneurial risk.

The remuneration paid to six members of the Executive Board amounted to CHF 3,799,756 in 2006. This sum contains compensations such as base salary, bonuses, private part of the company car use and all contributions to the pension fund. It also includes the cash remuneration of the President and CEO but not the above-mentioned shares. The compensation is determined on the basis of the personnel expenditure as recorded.

Compensations for former members of governing bodies

In the year under review, a former member of the Executive Board, who left the company in August 2003, received a fee of CHF 324,496 for consulting services.

Share allocation in the year under review

In the year under review, the members of the Executive Board received a total of 1,636 shares and 6,294 options in the framework of the MIP as part of their bonus. 673 shares were allocated to the members of the Board of Directors as part of their fees. No shares were allocated to closely linked parties (natural persons or legal entities).

47,395 shares were allocated to the President and CEO for the contractually agreed period of employment of five years in lieu of salary. For further details, please refer to the section ‘Compensations for acting members of governing bodies’.

Share ownership

The number of shares held by the non-executive members of the Board of Directors as per December 31, 2006 was 832,375. The Executive Board held 143,436 shares at the balance-sheet date. These figures include any shares held by closely linked parties (natural persons or legal entities).

Options

As per the balance-sheet date December 31, 2006, the Board of Directors and the Executive Board held the following options:

Year allocated	Number	Term	Vested until	Subscription	Exercise price CHF
Board of Directors					
	0				
Executive Board					
2002	160	07.05.2002–07.05.2007	06.05.2005	1:2	330
2003	800	31.07.2003–30.07.2008	30.07.2006	1:2	251
2004	2 400	01.08.2004–31.07.2009	31.07.2007	1:2	212
2005	5 250	15.06.2005–14.06.2010	14.06.2008	1:1	235
2006	6 294	19.04.2006–19.04.2011	20.04.2009	1:1	370
Total	14 904				

Additional fees and remunerations

All transactions with closely linked companies and persons are based on customary agreements at market conditions.

In the year under review, no notifiable consulting fees or other remunerations were paid to members of the Board of Directors or the Executive Board or to closely linked parties.

Loans granted to governing bodies

As of December 31, 2006, Forbo Holding AG had not awarded any securities, loans, credits or advances to any members of the Board of Directors or Executive Board or to any closely linked parties.

Highest total compensation

The President and CEO received a total compensation of CHF 2 903 392 in the year under review. This amount includes all the remunerations as described above in detail under 'Compensations for acting members of governing bodies'.

Shareholder participation

Voting right restriction and representation

The registration of shares with voting rights in the share register requires the consent of the Board of Directors. Such consent may be withheld if the acquiring party does not expressly declare that he has acquired and is holding the shares in his own name and for his own account. Resolutions on the amendment or abrogation of the clause on the registration of registered shares requires a majority of two thirds of the votes represented at the Annual General Meeting and the absolute majority of the par value of shares represented.

Contrary to Article 689, paragraph 2, Swiss Code of Obligations, shareholders who are unable to attend the Annual General Meeting in person may not be represented by any third party. They may only be represented by a member of a corporate body of the company, the independent proxy or another shareholder who is registered in the share register.

Statutory quorums

Pursuant to § 11 of the Articles of Association, resolutions on the amendment or abrogation of the provisions regarding the moving of the company's domicile, conversion of registered shares into bearer shares, registration of registered shares, representation of shares at the Annual General Meeting, and the dissolution of the company or a merger require the approval of two thirds of the votes represented at the Annual General Meeting and the absolute majority of the par value of shares represented.

Convocation of the Annual General Meeting

The Annual General Meeting is convened in accordance with the statutory provisions.

Agenda

Shareholders representing shares with a par value of a minimum of CHF 400,000 may request that an item be added to the agenda. The application must be submitted in writing and within a period of time published by the company and must specify the shareholder's proposal.

Registration in the share register

Pursuant to the Articles of Association, shareholders' rights of participation and representation at the Annual General Meeting are determined by the status of share register on the 20th day before the Annual General Meeting. In order to accommodate (new) shareholders and enable them to attend the Annual General Meeting, Forbo Holding AG deviates from this principle in practice if shares are registered, wherever possible, up to approximately four days prior to the meeting date.

Changes in control and defense measures

Duty to make an offer

The Articles of Association of Forbo Holding AG contain neither an opting-up clause nor an opting-out clause pursuant to Article 22 SESTA. However, the Articles of Association modify the determination of the minimum price stipulated in Article 32, paragraph 4 SESTA in that, in the event of a compulsory offer, the offer price must at least correspond to the share price and may not be lower than the highest price which the bidder paid in the last twelve months for shares of the company.

Clauses in changes of control

As per year-end 2006, one member of the Executive Board is entitled to claim a severance payment in the event that certain, clearly defined conditions arise due to a change in the controlling shareholder. This severance payment corresponds to one annual salary at most.

Auditors

Duration of the mandate and term of office of the head auditor

PricewaterhouseCoopers has been the Forbo Group's auditors since 1987. The predecessor company of PricewaterhouseCoopers had been Forbo's auditors since 1928. The current head auditor, Stefan Räbsamen, has been in office since 2002. The auditors are elected every year by the Annual General Meeting.

Auditing fees

The auditing fees levied by the Group's auditors for auditing the consolidated financial statements, including the statutory audit of the individual financial statements of the holding company and the consolidated subsidiaries, amounted to CHF 1.6 million in the year under review.

Additional fees

Total additional consultancy fees (e.g. for tax and legal advice, advice in connection with acquisitions, mergers and divestments), as invoiced by the auditing company, amount to CHF 1.0 million for 2006.

Supervisory and control instruments pertaining to the audit

The Audit and Finance Committee (AFC) of Forbo Holding AG is responsible for supervising and monitoring the work of the external auditors. Ultimate responsibility, however, lies with the full Board of Directors. At the AFC's invitation, representatives of the external auditors attend the AFC meetings in an advisory capacity. For the purposes of assessing the external audit, the Chairman of the Board of Directors holds discussions on a yearly basis with the head auditor, dealing with critical aspects of the auditing activity.

Information policy

Investors must be able to have a clear idea of the company

Forbo provides comprehensive and objective communication with shareholders, the capital market, the media and the public by reporting in timely fashion on business trends and activities relevant for the company. The Chairman of the Board of Directors and the CEO can be contacted directly for such information.

Shareholders receive summary reports on the business year as well as half-year reports. The Annual Report, like all other published documents, is available in printed form and in the Internet at www.forbo.com. The Annual General Meeting is an additional source of information. Regular publication of media releases and the annual media and analysts' conference are further information instruments for the capital market and the media.

Ad hoc communication

The push and pull links for the dissemination of ad hoc releases in accordance with the guideline on ad hoc publicity are available at the following addresses:

www.forbo.com/framework/DesktopDefault.aspx?menu_id=352&old_menu_id=352&ssm=1
www.forbo.com/framework/DesktopDefault.aspx?menu_id=56&old_menu_id=56&ssm=1

Communications to registered shareholders are sent by ordinary mail to the addresses stated in the share register. The company's official publication is the Swiss Commercial Gazette.

A financial calendar with the key dates and further information on the Forbo share can be found on page 54 in this Annual Report.

Publications may be ordered by e-mail, fax or telephone.

E-mail: communications@forbo.com
Phone: +41 58 787 25 25
Fax: +41 58 787 20 25

The contact address for Investor Relations is:

Forbo International SA
Jörg Riboni, CFO
Lindenstrasse 8
Postfach 1041
CH-6341 Baar
Phone: +41 58 787 25 25

Risk management

Important managerial and working tool

The ongoing and systematic evaluation of current and future risks invariably involves identifying and capitalizing on opportunities. Forbo regards risk management as a managerial and working tool designed to safeguard the tangible and intangible assets of the company.

Forbo has a risk-based insurance coverage in line with industry practice and has insured in particular operational risks such as property damage, business interruption, and product liability. The risks specifically in the areas of property damage, business interruption and liability are examined in the context of periodic risk engineering reports by external experts. For this purpose, production companies are visited at regular intervals, and comprehensive surveys are worked through with local management. Action plans are devised and implemented based on the risks identified. Forbo has been preparing such risk engineering reports since 1990.

As regards business risks, Forbo addresses both strategic risks and market and financial risks. In the area of market risks, interest and currency risks are monitored centrally and hedged in certain cases (see pages 92 and 93 in this Annual Report). The liquidity and financing of subsidiaries are also monitored centrally. In order to avoid losses on receivables, credit insurance policies were taken out in isolated instances.

The Forbo Share

Confident about the turnaround

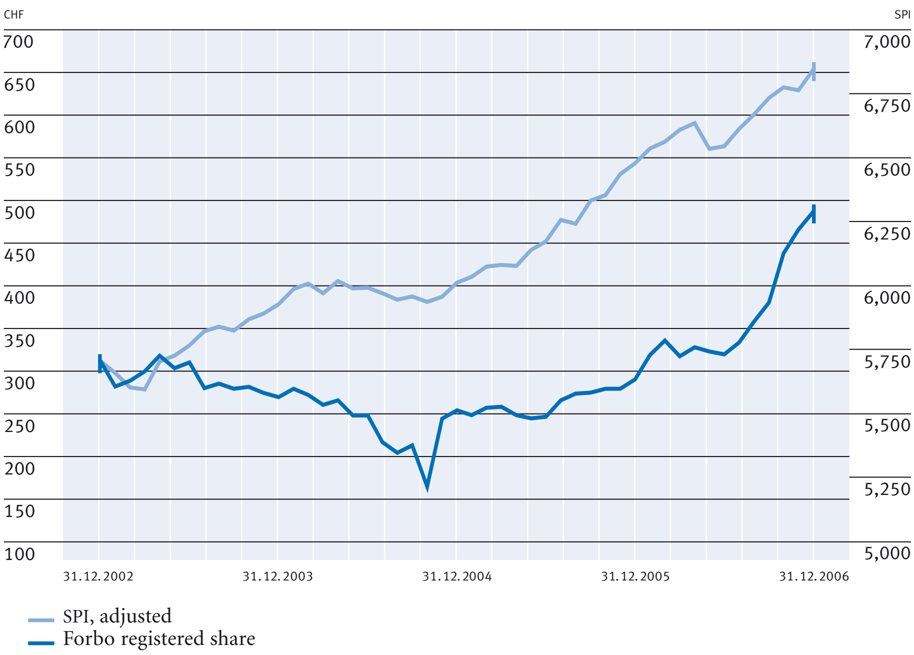
Investors' general confidence that Forbo's turnaround may succeed was reflected in the price movements of the Forbo share in 2006.

Driven by positive market sentiment, the stock was trading at around CHF 310 – 9% above the year-end 2005 price – only a few days after the start of the year. During the rest of the first half, the Forbo share largely tracked the trend on the market index (SPI). Until mid-May, the share was trading in the range of CHF 310 – 335. In the correction that then swept the entire market, the price dropped to around CHF 300 and then climbed back again to CHF 330 at the beginning of the second half.

Steep increase in the second half

Spurred on by positive results from companies in related industries, the Forbo share price rose steadily in the runup to the half-year report. Following the publication of the first-half figures and the announcement of brighter prospects for the entire 2006 business year, the Forbo share price rose steeply. This positive trend continued until the end of the year, with the Forbo share closing 2006 at CHF 486, about 70% above the 2005 year-end price. At the end of September, the company reached a milestone when the market capitalization crossed the CHF 1 billion threshold, the highest level since 2002. At the end of the year 2006, the market capitalization was at CHF 1.253 billion.

The Forbo Share in comparison to the SPI



Share capital

	2006	2005	2004	2003	2002
	Number	Number	Number	Number	Number
Issued registered shares[1]	2,713,152	2,713,152	2,713,152	1,356,576	1,356,576
Thereof:					
Shares outstanding	2,577,198	2,634,849	2,633,897	1,314,986	1,305,207
Treasury shares	114,535	56,884	57,836	20,171	25,489
Reserve shares (without dividend right)	21,419	21,419	21,419	21,419	25,880
	CHF	CHF	CHF	CHF	CHF
Issued nominal capital	54,263,040	54,263,040	54,263,040	37,984,128	67,828,800
Thereof:					
Shares outstanding	51,543,960	52,696,980	52,677,940	36,819,608	65,260,350
Treasury shares	2,290,700	1,137,680	1,156,720	564,788	1,274,450
Reserve shares (without dividend right)	428,380	428,380	428,380	599,732	1,294,000

Data per share

		2006	2005	2004	2003	2002
		CHF	CHF	CHF	CHF	CHF
Shareholders' equity Group[2]		246	212	206	435	453
Earnings[3]		24	–6	–107	12	33
Gross dividend and cash distribution	High	6[4]	0	0	8	22
Gross dividend yield (in %)	Low	1.2[5]	0.0	0.0	1.8[5]	3.8[5]
		2.1[5]	0.0	0.0	2.4[5]	6.3[5]
Payout ratio[6] (in %)		25	0	0	65	67

Stock market statistics

		2006	2005	2004	2003	2002
		CHF	CHF	CHF	CHF	CHF
Share prices[7]	High	490	285	301	326	437
	Low	291	233	155	250	261
	Year-end	486	285	248	264	307
Market capitalization (CHF m)[8]	High	1,263	751	794	575	764
	Low	750	614	408	441	457
	Year-end	1,253	751	653	465	538

[1] Nominal value per share 2004–2006: CHF 20, 2003: CHF 28, 2002: CHF 50.
[2] Adjustment from 2004 according to IAS 19 for actuarial losses.
[3] See also the Financial Report, Notes to the Consolidated Financial Statements, page 76, 'Earnings per share'.
[4] Proposal of the Board of Directors to the Annual General Meeting.
[5] Calculated on the basis of a cash distribution by reducing the nominal value.
[6] Gross cash distribution as a percentage of Group profit.
[7] Adjusted by the capital increase in 2004.
[8] Based on shares outstanding.

Financial calendar

Ordinary Annual General Meeting:	April 27, 2007
Letter to shareholders:	August 21, 2007
Media release on the results in the first half of 2007:	August 21, 2007

Forbo Group
Financial Report

Consolidated Income Statement

CHF m	Notes	2006	2005
Net sales	1	**1,879.5**	**1,702.0**
Cost of goods sold		–1,273.4	–1,151.8
Gross profit		**606.1**	**550.2**
Development costs	2	–31.3	–32.4
Marketing and distribution costs		–300.6	–286.9
Administrative costs	3	–131.9	–143.5
Other operating expenses	4	–32.7	–63.5
Operating profit		**109.6**	**23.9**
Financial income	6	7.0	9.5
Financial expenses	7	–20.4	–28.3
Group profit before taxes		**96.2**	**5.1**
Income taxes	8	–35.0	–21.6
Group profit/loss for the year		**61.2**	**–16.5**

CHF	Notes	2006	2005
Earnings per share in CHF (basic)	9	23.60	–6.26
Earnings per share in CHF (diluted)	9	23.57	–6.26

Consolidated Balance Sheet

Assets		31.12.2006	31.12.2005
CHF m	Notes		
Non-current assets		**593.4**	**597.3**
Tangible assets	10	421.5	422.4
Intangible assets	11	149.2	144.6
Deferred taxes	8	20.5	28.1
Investments in associates and other long-term assets	12	2.2	2.2
Current assets		**905.2**	**993.7**
Inventories	13	266.7	257.0
Trade receivables	14	292.4	273.8
Other receivables		26.4	22.8
Prepaid expenses and deferred charges		25.6	35.5
Cash and cash equivalents		294.1	404.6
Total assets		**1,498.6**	**1,591.0**

Shareholders' equity and liabilities			
Shareholders' equity	18	**638.6**	**558.1**
Share capital	18	54.3	54.3
Treasury shares	18	–3.5	–1.6
Reserves and retained earnings		587.8	505.4
Non-current liabilities		**304.4**	**512.9**
Non-current financial debt	19	209.1	358.4
Employee benefit obligations	20	45.8	101.1
Non-current provisions	21	41.7	40.7
Deferred taxes	8	7.8	12.7
Current liabilities		**555.6**	**520.0**
Trade payables	22	131.5	131.8
Current provisions and accrued expenses	23	169.3	136.5 [1)]
Current financial debt	24	128.3	155.5
Current tax liabilities		21.8	10.6
Other current liabilities		104.7	85.6 [1)]
Total liabilities		**860.0**	**1,032.9**
Total shareholders' equity and liabilities		**1,498.6**	**1,591.0**

[1)] The fair values of the derivative financial instruments has been disclosed as 'other current liabilities' for the first time in the year under review. The prior years have been changed acccordingly.

Consolidated Cash Flow Statement

	2006	2005
Cash flow from operating activities		
CHF m		
Group profit/loss for the year	61.2	–16.5
Depreciation and impairment of tangible assets	65.7	78.5
Amortization and impairment of intangible assets	7.0	6.9
Net financial expenses	13.4	18.8
Tax expense	34.7	21.6
Taxes paid	–21.5	–18.9
Share-based payments	4.1	0.6
Increase (+)/decrease (–) in provisions and employee benefit obligations	–15.5	13.7
Increase (+)/decrease (–) in current liabilities (excl. short-term debt)	22.8	30.9
Increase (–)/decrease (+) in current assets [1)]	–14.6	–0.7
Total cash flow from operating activities	**157.3**	**134.9**
Cash flow from investing activities		
Acquisitions	–3.6	–8.8
Purchases of non-current assets	–64.6	–43.6
Proceeds from sale of non-current assets	1.2	6.0
Total cash flow from investing activities	**–67.0**	**–46.4**
Cash flow from financing activities		
Increase (+)/decrease (–) in current financial debt	154.2	–13.2
Interest paid	–25.5	–27.7
Interest received	7.5	4.5
Change in treasury shares	–32.6	0.0
Total cash flow from financing activities	**–204.8**	**–36.4**
Change in cash and cash equivalents		
Increase/decrease in cash and cash equivalents	–114.5	52.1
Translation differences	4.0	5.7
Cash and cash equivalents at beginning of year	404.6	346.8
Cash and cash equivalents at year end [2)]	**294.1**	**404.6**

[1)] Excluding cash and marketable securities.
[2)] A large portion of the cash position is invested in the money market.

Consolidated Statement of Recognized Income and Expenses

CHF m	Notes	2006	2005
Group profit/loss for the year		**61.2**	**–16.5**
Fair value adjustments of financial instruments		1.8	–3.1
Actuarial profits/losses from defined benefit plans, net	20	42.4	10.8
Translation differences		3.1	22.3
Total income and expenses recognized in shareholders' equity		**108.5**	**13.5**

Consolidated statement of changes in equity, see note 18 on page 82.

Group Accounting Policies

Summary of the general Group Accounting Policies

General information

The consolidated financial statements of Forbo Holding AG were prepared in accordance with the International Financial Reporting Standards (IFRS) and in compliance with Swiss law. They were prepared on the basis of the audited financial statements of the Forbo corporate subsidiaries for the year ended December 31, prepared according to uniform corporate accounting policies. The balance sheet date for all subsidiaries is December 31. These financial statements were approved and released for publication by the Board of Directors on March 13, 2007.

The consolidated statements have been prepared in accordance with the principle of historical and manufacturing costs with the exception of securities, non-consolidated investments in associates and derivative financial instruments, which are valued at fair value. The preparation of the consolidated financial statements requires management to make estimates and assumptions that can affect reported revenues, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. If the estimates and assumptions made by management at the date of the consolidated financial statements to the best of their knowledge differ from the actual circumstances, the original estimates and assumptions will be adjusted in the reporting year in which the circumstances have changed. Changes in the presentation of comparable data from the consolidated financial statements of the previous year were, where necessary, restated and supplemented.

Scope and principles of consolidation

The scope of consolidation includes Forbo Holding AG and all domestic and foreign companies in which the parent company holds, directly or indirectly, controls either by holding more than 50% of voting rights or by having the power to govern their operation and financial policies. These companies are fully consolidated. Assets and liabilities, as well as revenues and expenses, are fully consolidated, while intra-group balances and transactions (receivables and payables, revenues and expenses) are eliminated upon consolidation. Minority interest in the equity and net income of consolidated companies is reported separately but as part of Group equity capital and profit/loss. Intercompany profits on intra-group transactions and balances are eliminated in full. Capital consolidation is based on the purchase method. The acquisition cost of an acquired company is offset against the fair value of net assets acquired, assessed at the time of acquisition on the basis of uniform Group principles.

Companies acquired are consolidated from the date on which control is obtained, while companies disposed of in the course of the year are excluded from the scope of consolidation as of the date on which control is relinquished, with any gain or loss recognized in income. The subsidiaries included in the scope of consolidation are listed under ‘Group Companies’.

Joint ventures in which Forbo Holding AG holds, directly or indirectly, a participation of 50%, or in which the Forbo Group exercised joint control, are included in the consolidated financial statements using the proportionate consolidation method.

Companies in which the Forbo Group holds at least 20 % of voting rights but less than 50 %, or in which it exercises significant influence in some other way, are treated according to the equity method. Investments with a voting power of less than 20 % are stated at fair value and carried on the balance sheet under 'Other investments'; with the non-realized profits and losses recognized in 'Reserves and retained earnings'. In the event of divestment or impairment, the related cumulative profit or loss is transferred to the income statement.

In the year under review, the scope of consolidation was increased to account for the acquisition of Victa Technology Holdings Limited in China.

Foreign currency translation

The individual companies generally prepare their financial statements in local currency. The local currency (functional currency) as a rule corresponds to the currency of the primary economic environment in which the company operates. Transactions in foreign currencies are translated at the current rate at the time of the transaction. Exchange gains and losses from transactions in foreign currencies and from the adjustment of foreign currency balances on the balance sheet date are taken to the income statement.

The consolidated financial statements are prepared and presented in Swiss francs. The annual statements of foreign Group companies stated in foreign currencies are translated into Swiss francs as follows: balance sheet at year-end exchange rates, income statement and cash flow statement at average exchange rates for the year under review. Currency translation differences arising from the different translation of balance sheets and income statements and from equity capital transactions are offset against the consolidated shareholders' equity and taken to the income statement in the event the company is divested. Foreign exchange gains on certain equity-like loans, which form part of net investment in a company, are likewise taken to shareholders' equity provided no repayment of these loans is planned or intended in the foreseeable future.

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

Currency CHF			2006 Income statement (Average exchange rates)	2005	2006 Balance sheet (Year-end exchange rates)	2005
Euro countries	EUR	1	1.57	1.55	1.61	1.56
Sweden	SEK	100	17.00	16.66	17.77	16.53
United Kingdom	GBP	1	2.31	2.27	2.39	2.27
USA	USD	1	1.25	1.25	1.22	1.31
Canada	CAD	1	1.10	1.03	1.05	1.13
Japan	JPY	100	1.08	1.13	1.03	1.12

Maturities

Assets are designated current assets if they are realized or consumed in the Group's ordinary business cycle within one year or are held for trading purposes. All other assets are assigned to non-current assets.

All obligations which the Group intends to settle within the ordinary business cycle using operating cash flows or which are due within one year of the balance sheet date are assigned to current liabilities. All other obligations are assigned to non-current liabilities.

Net sales and revenue recognition

Invoices for goods and services are booked as net sales when the service is provided or when the essential risks and benefits incidental to ownership are transferred. Net sales are reported without any sales or valued-added tax and after deduction of any credits and discounts. Appropriate provisions are made for expected warranty claims.

Research and development

All research costs are charged directly to the income statement in the period in which they are incurred. Development costs have to be capitalized if all the recognition criteria have been met, the research phase can be clearly distinguished from the development phase and costs can be clearly allocated to individual project phases without any overlap. Given the numerous interdependencies within development projects and in view of the uncertainty as to which products will ultimately reach the market, all development expenditures are currently charged to the income statement.

Income tax

Income tax payable on profits is recognized as an expense based on the applicable tax laws in each jurisdiction in the period in which profits arise.

Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognized for temporary differences that will result in deductible amounts in future periods and for tax effects from losses which are deductible in determining taxable profit of future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilized. Deferred taxes are not recognized when the temporary differences result from the recognition of goodwill or arise from the initial recognition of other assets or liabilities which relate to events not affecting taxable income or the profit of the year.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realized or the liability will be settled based on enacted rates. Current as well as deferred tax assets and liabilities are offset when they arise from the same tax reporting group, relate to the same tax authority, the legal right to offset exists, and they are intended to be settled net or realized simultaneously.

Current and deferred taxes are recognized as income tax benefit or expense in the income statement except for net gains or losses directly recognized in equity.

Property, plant and equipment
Property is stated at cost, the other tangible assets at cost less accumulated depreciation and impairment. Borrowing costs are not capitalized. Assets acquired under financial lease contracts are carried on the balance sheet at the lower of the present value of the minimum lease payments and the fair value. Assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease terms. The estimated useful life is usually 33 years for buildings used in operations and five to ten years for plant and equipment. Other operational assets are depreciated over three to ten years. Where components of larger assets have different useful lives, they are depreciated as separate items. Useful lives and residual values are reviewed annually at the balance sheet date, and any adjustments are brought to the income statement. Any gains or losses from the disposal of items of plant, property and equipment are included in the income statement.

Properties that are mainly rented out are carried on the balance sheet as investment property at cost less accumulated depreciation and less impairment. The market value is reported separately.

Maintenance costs are capitalized if this prolongs the useful life or increases production capacity. Maintenance and repair costs that do not increase value are charged directly to the income statement.

Intangible assets and goodwill
The goodwill resulting from consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill and other intangible assets such as acquired trademarks and similar rights are initially carried on the balance sheet at historical cost. Goodwill and intangible assets with an indefinite useful life are not subject to amortization and are tested for impairment at least annually. An impairment loss is immediately recognized as expense in the income statement and goodwill is not recovered in subsequent periods. Intangible assets having a definite useful life are amortized on a straight-line basis. The following useful lives are used: 20 years for trademark rights and three years for software.

Gains and losses on the disposal of a subsidiary/associate include the carrying amount of goodwill relating to the entity sold.

Inventories
Inventories are stated at the lower of cost and net realizable value. Cost includes direct material and other direct costs and related production overheads to the extent that they are incurred in bringing the inventories to their present location and condition, if applicable. The cost of inventories is assigned by using an average cost formula. Net realizable value is the estimated selling price, less applicable cost including marketing, sales and distribution. Inventories with an unsatisfying turnover and unsalable inventory are partially or fully adjusted in value.

Trade receivables
Current trade receivables are stated at amortized cost, which generally corresponds to nominal value. Allowances for doubtful risks are established based on maturity structure and identifiable solvency risks. In addition to individual allowances for specific identifiable risks, additional allowances are made on the basis of statistically determined credit risks.

Cash and cash equivalents
Cash and cash equivalents are stated at nominal value. They include cash on hand, postal and bank accounts and fixed-term deposits with an original maturity of up to 90 days.

Treasury shares
Treasury shares are deducted at their par value from share capital. Acquisition costs in excess of par value arising on the acquisition of treasury shares are deducted from general/free reserves. Gains or losses from the sale of treasury shares are credited to or deducted from general/free reserves.

Share-based compensation
The market value of the shares and the fair value of the respective options, which members of the Board of Directors (until 2004) and of the Executive Board received as part of their compensation, are booked as expenses. Forbo calculates the fair value of the options based on the Black-Scholes model. Share-based compensation is measured at fair value at the grant date. Equity-settled options are booked to the income statement over the vesting period. The expenditure for share-based compensation is reported under personnel expenses.

As set out in the transitional provisions of IFRS 2, before November 7, 2002, claims granted from equity-settled options were not recognized in the income statement.

The treasury shares acquired for this purpose are carried at cost independently of the stock option plan and set off against equity (see treasury shares).

Trade payables
Trade payables are non-interest bearing and are disclosed at nominal value.

Financial debt

Non-current and current financial debt consist mainly of private placements, bonds, leasing debt and bank loans. They are stated at amortized cost (less transaction costs). Borrowing costs are recognized in the income statement, using the effective interest method.

Financial debt is classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Pension plans

Forbo maintains various pension plans designed as defined contribution and defined benefit plans. These pension plans are established in accordance with the local conditions in each country. The plans are funded either by contributions to legally autonomous pension funds/insurances or by recognition of the pension plan liabilities in the financial statements of the respective companies.

For defined contribution plans, the costs incurred in the relevant period correspond to the agreed employer contributions.

For defined benefit plans, the pension liabilities are assessed annually by independent actuaries according to the 'projected unit credit method'. They correspond to the present value of the expected future cash flows. The plan assets are stated at market value. Current service costs, less employee contributions, are recognized in the income statement as personnel costs. Past service costs resulting from changes in pension plans are recognized in the income statement on a straight-line basis over the period until the benefit gets vested, or they are immediately charged to the income statement in case the employee has already retired. Profits resulting from pension plan reductions or compensations are immediately taken to the income statement.

Actuarial gains and losses are recognized in equity with no effect on the income statement but under consideration of deferred taxes.

Provisions

Provisions are recognized when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. No provisions are made for future operating losses.

Where necessary, provisions are valued at the present value of the expected expenditures to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Increases in provisions resulting purely from interest accrual are stated in the income statement as interest expense.

Derivative financial instruments

Derivative financial instruments, which the company uses to manage its financial risks, are carried at fair value on the balance sheet. The recognition of respective profits or losses depends on the type of the hedged position. In connection with the hedging of the periodic interest rate payments and the repayment of the nominal amount of the US private placement, part of the derivatives employed was designated as cash flow hedges. The changes in the fair value of the derivatives are recognized in equity provided the hedge relationship is considered highly effective. The changes in fair value accumulated in equity are brought to the income statement at the time in which future liabilities affect net income. Furthermore, the company hedges certain net investments in foreign subsidiaries by receiving loans in foreign currencies. All profits and losses from currency translation of these loans are carried in equity and reported in the accumulated translation differences.

Changes in accounting policies
The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) adopted the following new and revised standards and interpretations, which came into force on January 1, 2006:

– revision to IAS 19 – actuarial gains and losses, group plans and disclosure
– revisions to IAS 21 – net investment in a foreign operation
– revision to IAS 39 – accounting for cash flow hedges of forecast intragroup transactions
– revision to IAS 39 – fair value option
– revision to IAS 39 and IFRS 4 – financial guarantee contracts
– introduction of IFRS 6 – exploration for and evaluation of mineral resources
– IFRIC 4 – determining whether an arrangement contains a lease
– IFRIC 5 – rights to interests arising from decommissioning, restoration and environmental rehabilitation funds and
– IFRIC 6 – liabilities arising from participation in a specific market – waste electrical and electronic equipment.

The most important effects are described below:

IAS 19 – actuarial gains and losses, group plans and disclosure: in December 2004, the IASB adopted a revision to IAS 19, according to which it was permissible in IAS 19 to immediately recognize actuarial gains and losses in the period in which they occur, outside profit or loss, in a 'statement of recognized income and expense'. Forbo has early adopted the revised standard in the financial year 2005 and has offset actuarial profit from defined benefit pension plans against equity since January 1, 2005.

The other new and revised standards and interpretations had no significant impact on equity, profit/loss or cash flow.

Critical management assumptions and estimates

Critical accounting estimates and assumptions

The accounting principles require estimates and assumptions to be made which may materially affect the financial statements of Forbo, especially in the areas described below.

Impairment of non-financial assets

Along with the regular periodic review of goodwill the carrying amounts of fixed and intangible assets are also always reviewed if their carrying amount can no longer be realized due to changed circumstances or events. If such a situation occurs, the recoverable amount is determined based on expected future revenues. This corresponds to either the expected discounted future cash flow or expected net sales price. If these values are less than the current carrying amount, the value is impaired to the newly calculated figure. This impairment is recognized as expenses in the income statement. If the individual asset does not generate independent cash flow the impairment test is performed for a cash-generating unit. The Group usually defines cash-generating units based on the geographically cohesive market, i.e. the country as a rule. Important assumptions in these calculations include growth rates, margins, and discount rates. The actual cash flows may deviate strongly from the estimated discounted future values. Likewise, the useful lives may be shortened or investment assets impaired in the event of a change in the use of buildings, machinery and facilities, change or abandonment of locations or lower than expected revenues over the medium term. The carrying amounts of the respective tangible and intangible assets are shown in notes 10 and 11.

Employee pension plans

Various employee pension plans and schemes exist for employees at Forbo. In order to measure liabilities and costs, it is first of all necessary to assess whether the plans are defined contribution or defined benefit plans by applying the principle of substance over form. If they are defined benefit plans, actuarial assumptions are made to estimate future developments. These include assumptions and estimates relating to discount rates, the expected return on plan assets in individual countries and future wage trends. In their actuarial calculations for determining employee benefit obligations, the actuaries also use statistical information such as mortality tables and staff turnover rates. If these parameters change due to a change in the economic or market conditions, the subsequent results can deviate considerably from the actuarial reports and calculations. These deviations may have a significant medium-term effect on expenses and revenues from the employee pension plans and on equity. The carrying amounts of the plan assets and liabilities carried in the balance sheet are set out in note 20.

Provisions

In the conduct of their ordinary business activities a liability of uncertain timing and amount may arise. Provisions are determined using available information based on reasonably expected cash outflows. Depending on the outcome claims against the Group may arise that may not be covered, or covered only in part, by provisions or insurance benefits. The carrying amount of such provisions are shown in note 21.

Income taxes

The measurement of current tax liabilities is subject to the interpretation of tax regulations in place in the relevant countries. The adequateness of this interpretation is assessed by the tax authorities in the course of the final assessment or tax audits. This may result in material changes to tax expense. Furthermore, in order to determine whether tax losses carried forward can be capitalized requires a critical estimate of the probability that they can be offset against future profits. This assessment depends on a variety of influencing factors and developments. An analysis of the income taxes is set out in note 8.

Standards approved but not yet applied

The following new and revised standards and interpretations had been approved by the time the consolidated financial statements were authorized by the Board of Directors:

– IFRS 7 – financial instruments – disclosures
– IFRS 8 – operating segments
– IAS 1 – disclosures about capital
– IFRIC 7 – applying the restatement approach under IAS 29
– IFRIC 8 – scope of IFRS 2
– IFRIC 9 – reassessment of embedded derivatives
– IFRIC 10 – interim financial reporting and impairment
– IFRIC 11 – group and treasury shares under IFRS 2 and
– IFRIC 12 – service concession arrangements.

These revisions come into force in financial year 2007 and were not applied in the consolidated financial statements presented here.

The objective of IFRS 7 is to provide information on the extent, timing and probability of future cash flows arising from financial instruments. Their effects on the consolidated financial statements were systematically analyzed. Significant changes are expected in the additional disclosure of sensitivity to market risks and capital management in adoption of IFRS 7.

Notes

1 Segment information

Forbo is a global producer of Flooring Systems, Bonding Systems and Movement Systems. Flooring Systems develops, produces and sells linoleum, vinyl and other floor coverings as well as the various accessory products required for laying, processing, cleaning, and care. Bonding Systems develops, manufactures and sells adhesives for industrial applications as well as floor and wall adhesives. Movement Systems develops, produces and sells high quality belts of modern synthetics for use in power transmission or as conveyor and process belts. 'Corporate' includes the costs of the Group headquarters and certain items of income and expenses which are not directly attributable to a specific business.

The segment results for the financial years 2006 and 2005 are as follows:

2006 CHF m	Flooring Systems	Bonding Systems	Movement Systems	Corporate	Total
Net sales to third parties	**794.2**	**731.1**	**354.2**	**0.0**	**1,879.5**
Inter-segment sales	0.2	22.2	0.1	–22.5	0.0
Total net sales	**794.4**	**753.3**	**354.3**	**–22.5**	**1,879.5**
Operating profit (EBIT)	**64.6**	**44.9**	**13.1**	**–13.0**	**109.6**
Financial income					7.0
Financial expense					–20.4
Group profit before taxes					**96.2**
Income taxes					–35.0
Group profit for the year					**61.2**

2005 CHF m	Flooring Systems	Bonding Systems	Movement Systems	Corporate	Total
Net sales to third parties	**747.0**	**628.5**	**326.5**	**0.0**	**1,702.0**
Inter-segment sales	0.1	21.4	0.0	–21.5	0.0
Total net sales	**747.1**	**649.9**	**326.5**	**–21.5**	**1,702.0**
Operating profit (EBIT)	**50.1**	**31.4**	**0.6**	**–17.4**	**64.7**
Operating profit (EBIT) 1)	**28.0**	**16.6**	**–3.3**	**–17.4**	**23.9**
Financial income					9.5
Financial expense					–28.3
Group profit before taxes					**5.1**
Income taxes					–21.6
Group loss for the year					**–16.5**

1) Including special charges and impairment.

Additional segment information from the income statement is as follows:

Depreciation/impairment and special charges

2006 CHF m	Flooring Systems	Bonding Systems	Movement Systems	Corporate	Total
Depreciation/amortization	27.4	13.5	15.0	3.4	59.3
Impairment	4.2	4.1	5.1	0.0	13.4
Special charges	0.0	0.0	0.0	0.0	0.0

2005 CHF m	Flooring Systems	Bonding Systems	Movement Systems	Corporate	Total
Depreciation/amortization	36.1	15.0	16.2	3.1	70.4
Impairment	4.6	10.4	0.0	0.0	15.0
Special charges	17.5	4.4	3.9	0.0	25.8

Assets/liabilities and investments

2006 CHF m	Flooring Systems	Bonding Systems	Movement Systems	Corporate	Total
Operating assets	400.8	494.2	254.8	32.1	1,181.9
Operating liabilities	161.0	138.2	64.4	151.2	514.8
Investments	17.6	31.0	12.7	3.3	64.6

2005 CHF m	Flooring Systems	Bonding Systems	Movement Systems	Corporate	Total
Operating assets	425.2	447.6	261.2	22.1	1,156.1
Operating liabilities	153.8	121.9	63.4	156.2	495.3
Investments	14.9	19.1	13.7	1.6	49.3

Geographic regions

2006 CHF m	Europe (euro zone)	Switzerland	Rest of Europe	America	Asia/ Africa	Total
Net sales	794.5	49.0	349.2	502.5	184.3	1,879.5
Operating assets	558.7	105.9	212.1	230.7	74.5	1,181.9
Investments	22.5	5.3	12.8	21.7	2.3	64.6
Number of employees (31.12.)	2,831	284	1,052	962	671	5,800

2005 CHF m	Europe (euro zone)	Switzerland	Rest of Europe	America	Asia/ Africa	Total
Net sales	741.9	51.7	323.9	444.5	140.0	1,702.0
Operating assets	554.9	102.5	170.0	252.8	75.9	1,156.1
Investments	18.2	4.5	10.4	14.9	1.3	49.3
Number of employees (31.12.)	2,828	297	1,003	960	450	5,538

2 Development and production overhead costs

Development costs, which include product development as well as sampling activities, amounted to CHF 31.3 million (2005: CHF 32.4 million).

Production overhead costs totaled CHF 145.9 million (2005: CHF 150.3 million) and are included in 'Cost of goods sold'.

3 Administrative costs

This item consists of the usual expenses related to administrative activities. The Group has no significant costs for license fees or royalties.

4 Other operating expenses

CHF m	2006	2005
Impairment	13.4	15.0
Restructuring	0.0	25.8
Other expenses	37.3	33.5
Other revenue	–18.0	–10.8
Total other operating expenses	**32.7**	**63.5**

Impairment relates to tangible assets (CHF 8.5 million) and goodwill (CHF 4.9 million) and is explained in notes 10 and 11.

Other expenses (such as extraordinary maintenance costs, warranty costs, consultancy and auditing costs, and insurance costs) and other income (such as license fees) include costs and income that can not be attributed clearly to the other categories.

5 Personnel expenses

CHF m	2006	2005
Salaries and wages	366.8	355.8
Employer's social security contributions	93.7	98.0
Total personnel expenses	**460.5**	**453.8**

The Group's headcount at December 31, 2006 was 5,800 (2005: 5,538). The average headcount over the year was 5,839 (2005: 5,536). Salaries and wages include share-based payments worth CHF 4.1 million (note 28).

About 120 managers participate in a bonus plan, which is linked to the achievement of financial targets by the Group as well as individually determined objectives.

6 Financial income

CHF m	2006	2005
Interest income	7.0	6.8
Foreign exchange gains, net	0.0	2.7
Total financial income	**7.0**	**9.5**

7 Financial expenses

CHF m	2006	2005
Interest expense	18.7	27.2
Amortization of issuance costs of bonds and private placements	0.7	0.9
Amortization of costs of syndicated bank facility	0.3	0.2
Foreign exchange losses, net	0.7	0.0
Total financial expenses	**20.4**	**28.3**

The average interest rate on interest-bearing debt (bonds, private placements, long- and short-term bank loans) in 2006 was 5.6% (2005: 5.1%).

8 Income taxes

CHF m	2006	2005
Current taxes	32.3	19.5
Deferred taxes	2.7	2.1
Total income taxes	**35.0**	**21.6**

Analysis of tax expense

The following elements explain the difference between the expected and the actual tax expense.

CHF m	2006	2005
Group profit before taxes	96.2	5.1
Tax income/expense at the expected tax rate	**–30.5**	**1.3**
Tax effects of:		
Non tax-deductible expenses and tax-exempt income	–2.2	–14.6
Tax losses and temporary differences for which no deferred tax assets have been recognized	–6.2	–11.5
Write-off of deferred tax assets	–0.1	–2.0
Recognition/utilization of tax losses not capitalized in prior years	3.8	6.8
Changes of applicable deferred tax rates	0.1	0.1
Prior-year adjustments	–0.2	–1.0
Other items	0.3	–0.7
Total income taxes	**–35.0**	**–21.6**

Since the Group operates across the world, it is subject to income taxes in many different tax jurisdictions. Consequently, the expected and the actual tax expense will vary from year to year according to the origin of earnings or losses by country. The expected tax income/tax expense is the sum of the expected, individual tax incomes/tax expenses of all foreign subsidiaries. The expected, individual tax income/tax expense in a single country results from the multiplication of the individual profit/loss by the tax rate applicable in the country concerned. The expected tax rate in the period under review amounted to 32% (2005: –26%).

The gross value of unused tax loss carry forwards which have, or have not, been capitalized as deferred tax assets, with their maturities is as follows:

2006

CHF m	Not capitalized	Capitalized	Total
Expiry after:			
One year	0.8	0.0	0.8
Two years	3.6	0.0	3.6
Three years	4.6	0.0	4.6
Four years	4.1	0.0	4.1
Five years	160.5	0.0	160.5
More than five years	211.7	25.4	237.1
Total	**385.3**	**25.4**	**410.7**

2005

CHF m	Not capitalized	Capitalized	Total
Expiry after:			
One year	4.0	0.0	4.0
Two years	3.2	0.0	3.2
Three years	14.1	0.0	14.1
Four years	27.2	0.0	27.2
Five years	29.2	0.0	29.2
More than five years	410.1	19.6	429.7
Total	**487.8**	**19.6**	**507.4**

In 2006, CHF 1.0 million (2005: CHF 3.4 million) of unused operating tax loss carry forwards expired.

Deferred income tax assets and liabilities are offset when they relate to the same fiscal authority, the legal right to offset exists, and they are intended to be settled net or realised simultaneously. The following amounts are shown in the balance sheet:

CHF m	31.12.2006	31.12.2005
Deferred tax assets	20.5	28.1
Deferred tax liabilities	–7.8	–12.7
Deferred tax assets, net	**12.7**	**15.4**

Deferred tax assets and liabilities and deferred tax charges and credits are attributed to the following items:

Deferred tax assets CHF m	Inventories	Property, plant and equipment	Provisions	Loss carry forwards	Other	Total
At 31.12.2005	**12.9**	**8.3**	**16.7**	**7.3**	**20.9**	**66.1**
Credited (+), charged (–) to the income statement	0.3	–0.6	7.3	1.7	–15.2	–6.5
At 31.12.2006	**13.2**	**7.7**	**24.0**	**9.0**	**5.7**	**59.6**

Deferred tax liabilities CHF m	Inventories	Property, plant and equipment	Provisions	Loss carry forwards	Other	Total
At 31.12.2005	**–7.6**	**–13.5**	**–1.4**	**0.0**	**–28.2**	**–50.7**
Credited (+), charged (–) to the income statement	4.9	–0.6	–9.8	0.0	9.3	3.8
At 31.12.2006	**–2.7**	**–14.1**	**–11.2**	**0.0**	**–18.9**	**–46.9**
Deferred tax assets/liabilities, net at 31.12.2005	5.3	–5.2	15.3	7.3	–7.3	15.4
Deferred tax assets/liabilities, net at 31.12.2006	10.5	–6.4	12.8	9.0	–13.2	12.7

9 Earnings per share

Basic earnings per share is calculated by dividing net profit or loss for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, less the average number of treasury shares held.

Diluted earnings per share in addition takes into account the potential dilution effects which would result if all share options were exercised.

	2006	2005
Group profit/loss for the year (CHF m)	61.2	–16.5
Weighted average number of outstanding shares	2,592,336	2,634,049
Undiluted earnings per share (CHF)	23.60	–6.26
Adjustment for stock option plans	4,221	– [1]
Weighted average number of outstanding shares used to calculate the diluted profit/loss	2,596,557	– [1]
Diluted earnings per share (CHF)	23.57	–6.26

[1] Due to the negative result the dilutive effect would not lead to a reduction of the earnings per share. Therefore, this effect was not calculated.

10 Property, plant and equipment

Cost

CHF m	Land and buildings	Machinery and equipment	Other tangible assets	Assets under construction	Total tangible assets
At 31.12.2004	**468.5**	**852.9**	**171.7**	**21.4**	**1,514.5**
Additions	6.4	24.5	5.8	12.6	49.3
Disposals	–10.2	–7.1	–8.3	–0.4	–26.0
Transfers	3.9	18.4	–1.3	–21.0	0.0
Translation differences	13.3	23.7	4.0	–0.7	40.3
At 31.12.2005	**481.9**	**912.4**	**171.9**	**11.9**	**1,578.1**
Additions	0.1	15.6	6.0	42.5	64.2
Disposals	–0.7	–16.1	–7.6	–0.7	–25.1
Change in scope of consolidation	1.1	1.3	0.3	0.0	2.7
Transfers	0.6	11.2	–5.2	–13.8	–7.2
Translation differences	5.0	19.6	3.0	–1.2	26.4
At 31.12.2006	**488.0**	**944.0**	**168.4**	**38.7**	**1,639.1**

Accumulated depreciation

CHF m	Land and buildings	Machinery and equipment	Other tangible assets	Assets under construction	Total tangible assets
At 31.12.2004	**233.6**	**706.5**	**130.4**	**0.5**	**1,071.0**
Depreciation	13.1	39.0	17.4	0.0	69.5
Impairment	4.4	4.6	0.0	0.0	9.0
Disposals	–5.2	–7.2	–7.6	0.0	–20.0
Translation differences	5.7	17.4	3.1	0.0	26.2
At 31.12.2005	**251.6**	**760.3**	**143.3**	**0.5**	**1,155.7**
Depreciation	12.2	35.5	9.5	0.0	57.2
Impairment	4.3	2.1	2.1	0.0	8.5
Disposals	–0.2	–13.8	–7.2	0.0	–21.2
Change in scope of consolidation	0.0	0.0	0.0	0.0	0.0
Transfers	0.0	0.0	–5.1	0.0	–5.1
Translation differences	3.5	16.3	2.7	0.0	22.5
At 31.12.2006	**271.4**	**800.4**	**145.3**	**0.5**	**1,217.6**

Net book value					
At 31.12.2005	230.3	152.1	28.6	11.4	422.4
At 31.12.2006	216.6	143.6	23.1	38.2	421.5

Property, plant and equipment also include leased assets with a net book value of CHF 1.3 million (2005: CHF 1.7 million) as well as non-operating investment property with a net book value of CHF 2.6 million (2005: CHF 3.4 million). The carrying amount of the non-operating investment property represents approximately the current market value.

The fire insurance value of buildings, machinery and factory equipment of CHF 2,194 million (2005: CHF 2,109 million) covers the replacement cost. The business interruption risk arising from fire and the production and product liability risks are covered by a group-wide policy.

Maintenance and repair cost amounted to CHF 29.6 million (2005: CHF 31.8 million). The depreciation expense is included in the items 'Cost of goods sold', 'Development costs', 'Marketing and distribution costs' and 'Administrative costs'.

Impairment tests have resulted in impairments on buildings, equipment and other assets. The impairment charge of CHF 8.5 million is included in 'other operating expenses'.

11

Intangible assets

Cost

CHF m	Goodwill	Trademarks/ patents	Other intangible assets	Total
At 1.1.2005	**118.2**	**54.2**	**6.1**	**178.5**
Additions	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	–0.2	–0.2
Translation differences	8.6	0.4	–0.2	8.8
At 31.12.2005	**126.8**	**54.6**	**5.7**	**187.1**
Additions	0.2	0.0	0.2	0.4
Disposals	–0.5	0.0	–0.5	–1.0
Change in scope of consolidation	9.8	0.0	1.5	11.3
Transfers	0.0	0.0	7.2	7.2
Translation differences	–2.2	0.0	0.4	–1.8
At 31.12.2006	**134.1**	**54.6**	**14.5**	**203.2**

Accumulated amortization and impairment

CHF m	Goodwill	Trademarks/ patents	Other intangible assets	Total
At 1.1.2005	**0.0**	**32.0**	**3.5**	**35.5**
Amortization	0.0	0.0	0.9	0.9
Impairment	6.0	0.0	0.0	6.0
Disposals	0.0	0.0	–0.2	–0.2
Translation differences	0.0	0.3	0.0	0.3
At 31.12.2005	**6.0**	**32.3**	**4.2**	**42.5**
Amortization	0.0	0.7	1.4	2.1
Impairment	4.9	0.0	0.0	4.9
Disposals	–0.5	0.0	–0.4	–0.9
Change in scope of consolidation	0.0	0.0	0.0	0.0
Transfers	0.1	0.0	5.0	5.1
Translation differences	0.0	0.0	0.3	0.3
At 31.12.2006	**10.5**	**33.0**	**10.5**	**54.0**

Net book value				
At 31.12.2005	120.8	22.3	1.5	144.6
At 31.12.2006	123.6	21.6	4.0	149.2

The intangible assets with an indefinite useful life are subject to an impairment test every year on the basis of the cash-generating unit. The test is carried out using a standardized method with discounted cash flow for calculating the value in use. The sales figures are estimated by management for the first five years; sales growth for the remaining useful life is between 0% and 3%. The discounting rate corresponds to the weighted cost of capital before taxes plus an extra risk charge estimated by the Management, which is between 8% and 12%.

The impairment of CHF 4.9 million in the period under review relates to Bonding Systems (see note 26). With 95%, the acquisition of Swift in 2002 is the main goodwill item; it was classified as recoverable.

12 Investments in associates and other non-current assets

CHF m	31.12.2006	31.12.2005
Other investments	1.8	1.6
Other non-current assets	0.4	0.6
Total investments in associates and other non-current assets	**2.2**	**2.2**

13 Inventories

CHF m	31.12.2006	31.12.2005
Raw materials and supplies	71.6	65.4
Work in progress	85.3	80.5
Finished goods	138.4	137.3
Allowance for product risks	–28.6	–26.2
Total inventories	**266.7**	**257.0**

The inventory allowance amounts to CHF –28.6 million (2005: CHF –26.2 million). Write-downs totaling CHF 2.4 million are recognized in 'Cost of goods sold' in the income statement.

14 Trade receivables

CHF m	31.12.2006	31.12.2005
Accounts receivable	278.2	263.7
Notes receivable	28.7	28.2
Allowance for doubtful receivables	–14.5	–18.1
Total trade receivables	**292.4**	**273.8**

15 **Pledged or assigned assets**

Of the total assets, CHF 8.3 million (2005: CHF 4.9 million) are pledged or assigned, relating to assigned book account.

16 **Share capital**

The share capital of Forbo Holding AG was unchanged at December 31, 2006, amounting to CHF 54,263,040. It is divided into 2,713,152 registered shares with a par value of CHF 20 each. Of these, 21,419 registered shares without voting and dividend rights are at the disposal of the Board of Directors. Consequently, 2,691,733 registered shares were eligible for dividends in the 2006 financial year. The changes in outstanding shares were as follows:

Changes in outstanding shares	1.1.2006 Number	Change Number	31.12.2006 Number
Total number of shares	**2,713,152**	**0**	**2,713,152**
Treasury shares			
Shares with dividend rights	56,884	57,651	114,535
Shares with no dividend rights	21,419	0	21,419
Total number of treasury shares	**78,303**	**57,651**	**135,954**
Total number of outstanding shares	**2,634,849**	**57,651**	**2,577,198**

17 **Stock Option Plan**

Members of the Board of Directors (until 2004) and of management were granted options as part of the Groups Stock Option Plan (SOP). The stock options are in recognition of past performance and are intended as a stimulus for future performance. The grant or strike price relevant for the allocation of the stock options is determined by the closing price on the fifth trading day after payment of the dividend. The options issued usually have a term of five years and a vesting period of three years.

On March 15, 2006, the Board of Directors approved the introduction of the Management Investment Plan (MIP). With the introduction of the MIP, the SOP is canceled. As part of the MIP, members of management receive at least 50% of their annual performance bonus in the form of shares and options. All shares and options were issued at the average market price of the first 14 trading days in January of the current year and are subject to a vesting period of three years. The term of the options is five years. The shares and options issued within the framework of the MIP are equity-settled.

Options
The change in the number of outstanding equity-settled options and their weighted average strike price are as follows:

	2006		2005	
	Weighted average strike price	Number of options	Weighted average strike price	Number of options
Options outstanding on 1.1.	263	13,486	288	8,796
Granted	370	7,194	235	5,250
Forfeited	264	–3,200	–	0
Exercised	331	–356	–	0
Expired	442	–1,320	407	–560
Options outstanding on 31.12.	295	15,804	263	13,486

Of the 15,804 options outstanding (2005: 13,486), 960 were exercisable (2005: 2,936) as per December 31, 2006. The exercise of 356 options (2005: 0) resulted in the issue of 712 Forbo Holding shares at an issue price of CHF 331. The share price at exercise date was CHF 377. The expense for equity-settled options charged to the income statement in application of IFRS 2 amounted to CHF 0.6 million (2005: CHF 0.4 million).

The following table summarizes information about the options outstanding at December 31, 2006.

Series	Strike price (CHF)	No. of outstanding options	Average remaining term (years)	No. of exercisable options
2002	330	160	0.4	160
2003	251	800	1.6	800
2004	212	2,400	2.6	0
2005	235	5,250	3.5	0
2006	370	7,194	4.4	0
Total		15,804	3.6	960

In the year under review a total of 7,194 (2005: 5,250) equity-settled options were granted under the MIP. The fair value of these options amounted to CHF 45.80 (2005: CHF 51.90). The options were valued in accordance with the Black-Scholes model using the following input factors: Share price at issue date CHF 320 (2005: CHF 234), strike price CHF 370 (2005: CHF 235), volatility 24.3% (2005: 34.6%), expected life of the financial instrument 4.0 years (2005: 4.1 years), dividend yield 1.5% (2005: 3.0%), and risk-free interest rate 2.5% (2005: 1.6%). The expected volatility is based on historical market data referring to an expected life of the options over a comparable period. The expected useful life applied in the calculation model has been adapted to the best possible estimate of limitations of exercise rights and behavior assessment.

Shares

The number of shares of Forbo Holding AG issued as part of the MIP was 1,870 (2005: 0). The share price at measurement date was CHF 320.

The Delegate of the Board of Directors and CEO is remunerated primarily with shares. Based on a work contract signed in the year 2005 the amount of 47,395 shares have been issued in the year 2006 at a market price of CHF 270 each for the total contract term of over five years (2006 until 2010). These shares are blocked until December 31, 2010. The respective personnel expenditure is charged to the income statement over the vesting period.

In the year under review the amount charged to the income statement under application of IFRS 2 for issued shares amounted to CHF 3.1 million (2005: CHF 0).

18 **Consolidated statement of changes in equity**

2006

CHF m	Share capital	Treasury shares	Reserves	Actuarial gain/(loss)	Translation differences	Total
At 1.1.2006	**54.3**	**–1.6**	**673.4**	**–25.6**	**–142.4**	**558.1**
Profit for the year			61.2			61.2
Total income and expenses recognized in equity			1.8	42.4	3.1	47.3
Share-based payments			4.1			4.1
Treasury shares		–1.9	–30.7			–32.6
Other			–0.5			0.5
At 31.12.2006	**54.3**	**–3.5**	**710.3**	**16.8**	**–139.3**	**638.6**

2005

CHF m	Share capital	Treasury shares	Reserves	Actuarial gain/(loss)	Translation differences	Total
At 1.1.2005	**54.3**	**–1.6**	**692.1**	**–36.4**	**–164.7**	**543.7**
Loss for the year			–16.5			–16.5
Total income and expenses recognized in equity			–3.1	10.8	22.3	30.0
Share-based payments			0.6			0.6
Other			0.3			0.3
At 31.12.2005	**54.3**	**–1.6**	**673.4**	**–25.6**	**–142.4**	**558.1**

19 Non-current financial debt

CHF m	31.12.2006	31.12.2005
Outstanding bonds	0.0	150.0
Outstanding private placements	335.7	360.3
Unamortized issuance cost	–1.4	–2.3
Total outstanding bonds and private placements	**334.3**	**508.0**
Unamortized cost syndicated bank facility	0.0	–0.3
Lease obligations	1.1	1.3
Less current portion	–126.3	–150.6
Total non-current financial debt	**209.1**	**358.4**

Maturities of non-current financial debt CHF m	31.12.2006	31.12.2005
After 1 year	0.3	135.3
After 2 years	149.2	0.3
After 3 years	0.0	159.8
After 4 years	0.0	0.1
After 5 and more years	61.0	65.5
Unamortized cost	–1.4	–2.6
Total	**209.1**	**358.4**

The costs of private placements are amortized over the respective terms. Derivatives established in connection with non-current financing amount to CHF 68.9 million and are included in 'other current liabilities'.

Total outstanding bonds and private placements at 31.12.2006

Company	Currency	m	Term	Interest rate
Forbo NL Holding B.V. (guaranteed by Forbo Holding AG)	USD	103.0	2002–2007	5.120%
Forbo NL Holding B.V. (guaranteed by Forbo Holding AG)	USD	122.0	2002–2009	5.790%
Forbo NL Holding B.V. (guaranteed by Forbo Holding AG)	USD	50.0	2002–2012	6.290%

Covenants related to non-current financial debt

The private placements (USD 275.0 million) contain general covenants customary for such facilities. The private placements also contain financial covenants, i.e. defined maximum debt coverage (the ratio of consolidated net debt to consolidated EBITDA may not be greater than 3 to 1), a defined maximum interest coverage (the ratio of consolidated EBITDA to consolidated net interest payable may not be less than 4 to 1) and a consolidated net worth test (shareholders' equity on the consolidated balance sheet may not fall below CHF 535.5 million).

The private placements include events of default customary for such facilities. All three facilities are unsecured (with the exception of guarantees provided by Forbo Holding AG for obligations of its subsidiaries).

20 Employee benefit obligations

The Group has established several pension plans on the basis of the specific requirements of the countries in which it operates. The Group has both defined contribution and defined benefit plans. The obligations and assets under all the material defined benefit plans are assessed annually by independent actuaries in accordance with the 'projected unit credit method'.

Details of the pension cost related to the major defined benefit plans are as follows:

CHF m	2006	2005
Current service cost, net	16.8	16.5
Interest costs on employment benefit obligations	34.1	34.4
Expected return on plan assets	–38.9	–33.6
Curtailment loss	0.0	–0.6
Net periodic pension cost	**12.0**	**16.7**

The actual return on plan assets was CHF 45.5 million (2005: CHF 88.8 million).

The movements in the obligation related to the defined benefit plans are as follows:

CHF m	2006	2005
At 1.1.	**789.6**	**706.0**
Total pension costs, gross	22.1	21.2
Interest costs on employment benefit obligations	34.1	34.4
Benefits paid	–36.7	–29.6
Actuarial gains/losses	–35.8	44.5
Inclusion of new pension plans	4.1	0.0
Translation differences	29.8	13.1
At 31.12.	**807.2**	**789.6**

The movements of plan assets at fair value are as follows:

CHF m	2006	2005
At 1.1.	**688.5**	**593.9**
Expected return on plan assets	38.9	33.6
Employer contributions	26.5	18.5
Employee contributions	5.3	4.8
Actuarial profits	6.6	55.3
Benefits paid	–36.7	–29.6
Inclusion of new pension plans	3.8	0.0
Translation differences	28.5	12.0
At 31.12.	**761.4**	**688.5**

The present value of pension obligations and fair value of plan assets was as follows at the end of the year:

CHF m	31.12.2006	31.12.2005
Present value of defined benefit obligation	807.2	789.6
Fair value of plan assets	–761.4	–688.5
Net liabilities recognized in the balance sheet	**45.8**	**101.1**

CHF m	2006	2005
Experience adjustment arising on the plan obligation		
Actuarial gains/losses	15.5	26.2
Percentage of plan obligation	2.0 %	3.7 %
Experience adjustment arising on the plan assets		
Actuarial gains/losses	6.6	55.3
Percentage of plan assets	1.0 %	9.3 %

In 2005, actuarial gains and losses and adjustments due to past experience, which are used for valuing assets and liabilities, were initially recognized in the balance sheet under pension obligations and directly charged to shareholders' equity.

Most of the pension plans are financed in whole or in part via a fund. Pension obligations worth CHF 32.3 million (of a total of CHF 807.2 million) are not financed via a fund.

The movements in the net liability recognized in the balance sheet are as follows:

CHF m	2006	2005
Net liability at 1.1.	**101.1**	**112.1**
Total pension expenses include in personnel expenses	12.0	16.7
Employer contributions	–26.5	–18.5
Actuarial (gains)/losses	–42.4	–10.8
Inclusion of new pension plans	0.3	0.0
Translation differences	1.3	1.6
Net liability at 31.12.	**45.8**	**101.1**

The gains and losses charged to shareholders' equity are as follows :

CHF m	2006	2005
Accumulated gains and losses recognized		
Actuarial losses at 1.1.	–25.6	–36.4
Actuarial gains/(losses) in the current period	42.2	10.8
Translation differences	–1.2	0.0
Total actuarial losses at 31.12.	**15.6**	**–25.6**

The actuarial gain in 2006 includes a profit of CHF 22.1 million resulting from adjustments made due to past experience and a profit of CHF 20.3 million resulting from a change in assumptions.

The principal actuarial assumptions used were as follows (expressed as weighted averages):

%	2006	2005
Discount rate	4.6	4.3
Expected return on plan assets	5.6	5.7
Future salary increases	3.2	2.8

The expected return on plan assets is derived from long-term government bonds in the respective currency zones.

The weighted average distribution of the plan assets for 2006 and 2005 is shown below by investment category:

%	2006	2005
Shares	46	47
Fixed-interest bonds	48	44
Real estate	1	2
Cash and other investments	5	7
Total	**100**	**100**

The pension plans do not hold any Forbo shares.

Future contributions to defined benefit plans are estimated in the following year on the basis of the period under review.

The expense for the contributions to defined contribution plans included in personnel expenses amounted to CHF 6.5 million in 2006 (2005: CHF 5.2 million).

21 Non-current provisions

CHF m	Warranty provisions	Environmental provisions	Provisions for legal claims	Personnel provisions	Other provisions	Total provisions
At 31.12.2005	**5.9**	**9.1**	**10.4**	**4.0**	**11.3**	**40.7**
Additions	0.4	0.3	2.9	0.9	1.6	6.1
Disbursements/release	–0.3	–0.6	0.0	–0.2	–1.6	–2.7
Transfers to current provisions	0.0	–3.0	0.0	0.0	0.0	–3.0
Translation differences	0.2	0.2	0.1	0.1	0.0	0.6
At 31.12.2006	**6.2**	**6.0**	**13.4**	**4.8**	**11.3**	**41.7**

Warranty provisions are made in connection with the sale of products and are based on past experience. Experience shows that cash outflows are spread evenly over the warranty period of five to ten years. The environmental provisions cover the anticipated remediation costs related to operations in previous years. The provisions for legal claims relate to product liability claims in which the Group is involved in the course of its normal conduct of business. The personnel provisions reflect long-term obligations to employees. The environmental, legal, personnel and other provisions are expected to result in a cash outflow in the medium term.

22 Trade payables

CHF m	31.12.2006	31.12.2005
Accounts payable	126.1	121.3
Notes payable	5.4	10.5
Total trade payables	**131.5**	**131.8**

23 Current provisions and accrued expenses

CHF m	31.12.2006	31.12.2005
Provisions for restructuring	8.6	15.9
Accrued expenses for compensation and benefits to employees	63.2	59.9
Other accrued expenses	97.5	60.7
Total current provisions and accrued expenses	**169.3**	**136.5**

Provisions for restructuring changed as follows in the year under review:

CHF m	
At 31.12.2005	**15.9**
Credited to the income statement	–1.2
Utilized during the year	–6.1
At 31.12.2006	**8.6**

Accrued expenses for compensation and benefits to employees mainly include holidays and overtime accruals as well as bonus provisions.

Other accrued expenses include accrued volume rebates, commissions, premiums, interest and accrued warranty costs, and similar items.

24 Current financial debt

CHF m	31.12.2006	31.12.2005
Current bank loans and overdrafts	2.0	4.9
Current portion of non-current debt	126.3	150.6
Total current financial debt	**128.3**	**155.5**

25 Commitments and contingent liabilities

CHF m	31.12.2006	31.12.2005
Commitments and contingent liabilities	0.7	0.8

Contingent liabilities relate to sureties and guarantees in favor of third parties.

26 Acquisition of subsidiaries

On January 8, 2006, the Forbo Group acquired 100% of the issued capital of the Chinese adhesives company Victa Technology Holdings Limited, Hong Kong. Victa Technology Holdings Limited is the parent company of Victa (Guangzhou) Chemicals Co., Ltd in Guangzhou. This transaction was accounted for according to the acquisition method. In the year under review, the acquired companies contributed a total of around CHF 34.3 million to net sales and earnings of CHF 2.7 million to the Group result. In addition, net assets of a Belgium dealer amounting to CHF 0.9 million were acquired in 2006 by Movement Systems.

In the previous year, the Forbo Group acquired the US company Industrial Adhesives Inc. in order to strengthen its position in the packaging sector. This transaction gave rise to badwill of CHF 0.4 million.

CHF m	2006	2005
Part of purchase price paid in cash	3.6	6.0
Earn-out component	9.3	0.0
Directly allocable acquisition costs	0.0	0.7
Total purchase price	**12.9**	**6.7**
Fair value of the acquired net assets	–3.1	–7.2
Goodwill/(Badwill)	**9.8**	**–0.5**

The purchase price to be paid for Victa Technology Holdings Limited consists of a cash payment made at the time of purchase in the amount of CHF 1.1 million plus a purchase price component (earn-out), which is owed on the basis of the 2006 operating profit and is due for settlement in 2007. Based on the provisional consolidated operating result of Victa Technology Holdings Limited, the earn-out component amounts to CHF 9.3 million.

Through this acquisition, the Group gained entry to the Chinese adhesives market, acquired the customer lists and the customer relationships. The fair value of these intangible assets comes to CHF 1.5 million. The acquired goodwill of CHF 8.2 million was impaired by CHF 4.0 million in the year under review, based on internal planning.

The acquired net assets are as follows:

	31.12.2006			31.12.2005		
CHF m	Book value	Adjustments to the Fair value	Fair value	Book value	Adjustments to the Fair value	Fair value
Tangible assets	2.5	–	2.5	5.5	−1.0	4.5
Intangible assets	–	1.5	1.5	–	–	–
Inventories	2.2	–	2.2	2.5	−1.0	1.5
Payables	0.3	–	0.3	1.6	−0.4	1.2
Cash	0.0	–	0.0	–	–	–
Short-term provisions and accrued expenses	−3.4	–	−3.4	–	–	–
Fair value of the net assets	**1.6**	**1.5**	**3.1**	**9.6**	**−2.4**	**7.2**
Purchase price paid in cash			3.6			6.7
Cash acquired			−0.0			–
Net cash outflow for payment			**3.6**			**6.7**

The initial accounting for the business combinations was performed on a provisional basis.

27 **Leasing**

	Operational leasing	
CHF m	2006	2005
Leasing obligation up to 1 year	9.3	8.6
Leasing obligation 2–5 years	18.1	21.1
Leasing obligations of more than 5 years	0.9	2.1
Total	**28.3**	**31.8**

The expense for operational leasing charged to the income statement in 2006 amounted to CHF 23.3 million (2005: CHF 22.8 million). The Group has no significant operational leasing contracts. The liability for financial leasing amounted to CHF 1.1 million at year end.

28 **Related party transactions**

CHF m	Executive Board 2006	Executive Board 2005	Non-executive members of the Board of Directors 2006	Non-executive members of the Board of Directors 2005	Total 2006	Total 2005
Payments due in the short term	3.8	4.8	0.4	0.6	4.2	5.4
Payments due in the long term	0.0	0.2	0.0	0.0	0.0	0.2
Payments upon termination of employment	0.0	1.7	0.0	0.0	0.0	1.7
Share-based compensations	3.9	0.4	0.2	0.2	4.1	0.6
Total	**7.7**	**7.1**	**0.6**	**0.8**	**8.3**	**7.9**

The compensation paid to the Executive Board, as shown above, relates to six members including the Delegate of the Board of Directors.

Payments to all non-executive directors within Forbo Holding AG amounted to CHF 0.6 million in 2006 and include benefits for directors who retired in the year under review.

The share-based compensation include Forbo shares with a fair market value of CHF 0.2 million (CHF 0.1 million in 2005) allotted to the Board of Directors in 2006, including the portion of Forbo shares allotted to the Delegate of the Board of Directors worth CHF 2.6 million (2005: CHF 0) in the year under review, and the fair market value of the issued share options (see note 17).

The Group has a 33% interest in Enia Carpet Group. In 2006, the Forbo Group bought products from Enia Carpet Group worth CHF 4.8 million (2005: CHF 4.7 million), while Enia Carpet Group bought products from the Forbo Group worth CHF 2.5 million (2005: CHF 3.8 million).

29 Financial risk management

In its financial operations, the Forbo Group uses derivative financial instruments in order to control the risks and opportunities arising from fluctuations in exchange rates and interest rates. The various risks involved in existing assets and liabilities as well as planned and anticipated transactions are monitored and managed centrally – with due regard to the Group's consolidated risk exposure. In adherence to the Group's financial risk management policy (established on the basis of written guidelines and policies), Corporate Treasury continuously monitors both the risk exposure and the effectiveness of the hedging instruments and issues recommendations with regard to partial or complete hedging of existing risks. The Group's financial risk management policy does not permit the use of derivative financial instruments for trading purposes or speculation. Derivative financial transactions are concluded only with first-class banking institutions in order to manage the counterparty risk. The creditworthiness of these institutions is assessed on the basis of evaluations by leading rating agencies.

At Forbo, 'derivative instruments' are related to management either of currency risks or of interest rate risks (or a combination of both).

Management of currency risks

Risks arising from short-term currency exposure created by purchases and sales of goods and services (transaction risks) are identified, and selective hedging strategies are implemented in the line of an ongoing assessment of exchange rate movements. The Group only uses foreign exchange forward and option contracts with maturities of up to twelve months.

Financial derivatives	Number of contracts	Gross value hedged CHF m	Unrealized profit/loss CHF m
Forward contracts at 31.12.2005	12	9.8	–0.2
Forward contracts at 31.12.2006	12	7.9	1.1

The above instruments are recognized in the balance sheet at fair value in accordance with IAS 39. The net fair value (total of all positive and negative market values) at December 31, 2006 was CHF 1.1 million (at December 31, 2005: CHF –0,2 million).

Furthermore, risks associated with the translation of assets and liabilities denominated in foreign currencies (translation risks) are managed by establishing an appropriate financing policy.

Management of interest rate risks

The market value of interest-bearing assets and liabilities are subject to fluctuations in interest rates. The Group makes use of financial derivatives in order to manage potential risks and benefits arising from interest rate movements and the duration of the fixed interest rates. The Group uses the interest rate swaps and cross-currency interest rate swaps shown below, with terms of up to seven years:

Financial derivatives	Number of contracts	Gross value hedged CHF m	Unrealized gain/loss CHF m
Interest rate swaps and cross-currency interest rate swaps at 31. 12. 2005	6	256.8	–52.5
Interest rate swaps and cross-currency interest rate swaps at 31. 12. 2006	6	239.3	–68.9

The above instruments are recognized in the balance sheet at fair value in accordance with IAS 39. The net fair value (total of all positive and negative market values) at December 31, 2006 was CHF –68.9 million (December 31, 2005: CHF –52.5 million).

Management of liquidity risks

Group companies need sufficient cash in order to meet their obligations. Within the guidelines of the Group, the individual companies are responsible for the management of their own cash surpluses and the raising of funds to cover their liquidity needs. In certain cases, approval must be obtained from Corporate Treasury. The Group maintains sufficient cash reserves and unused credit lines to meet its liquidity requirements at all times.

Management of credit risks

Credit risks arise from the possibility that customers may not be able to meet their agreed obligations. To manage this risk, the financial creditworthiness of various customers is constantly assessed. Credit risks are restricted by the company's broadly diversified customer base in various business segments and geographic regions. Counterparty risk from financial instruments is spread over an appropriate number of major financial institutions. Given the excellent credit ratings of these counterparties, the Group does not expect any of them to fail to meet their obligations.

30 Events after the balance sheet date

The Board of Directors and Executive Board are not aware of any significant events which have occurred since the year end on December 31, 2006 that would impact the information presented in the financial statements approved by the Board of Directors on March 13, 2007.

Group Companies (December 31, 2006)

Company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Bonding Systems	Movement Systems	Holding/Services
Australia									
Forbo Floorcoverings PTY. Ltd.	Wetherill Park, NSW	D	AUD	1,400,000	100%	S			
Siegling Australia PTY. Ltd.	Wetherill Park, NSW		AUD	3,000,000	100%			S	
Austria									
Forbo-Contel Handelsgesellschaft m.b.H.	Vienna		EUR	73,000	100%	S			
Siegling-Austria Ges.m.b.H.	Vienna		EUR	330,000	100%			S	
Belgium									
Forbo-Balco BVBA	Dendermonde		EUR	61,000	100%		S		
N.V. Forbo Linoleum S.A.	Dilbeek		EUR	250,000	100%	S			
Brazil									
Forbo Pisos Ltda.	São Paulo		BRL	10,000	100%	S			
Siegling Brasil Elementos de Transmissao e de Transporte Ltda.	São Paulo	N	BRL	7,168,000	50%			MS	
Canada									
Forbo Adhesives (Canada) Ltd.	St. John		CAD	3,500,157	100%		MS		
Forbo Linoleum Inc.	Toronto		CAD	500,000	100%	S			
Siegling Canada Ltd.	Toronto		CAD	501,000	100%			S	
Czech Republic									
Forbo s.r.o.	Prague		CZK	500,000	100%	S			
Denmark									
Forbo Flooring A/S	Glostrup		DKK	500,000	100%	S			
Siegling, Danmark A/S	Brøndby		DKK	1,000,000	100%			MS	
Finland									
Oy Forbo Swift Ab	Esbo		EUR	25,253	100%		MS		
France									
Forbo Participations S.A.S.	Surbourg	D	EUR	11,524,800	100%				H
Forbo Sarlino S.A.S.	Reims		EUR	6,400,000	100%	S			
Forbo Adhesives France S.A.S.	Surbourg		EUR	800,000	100%		MS		
Siegling France S.A.S.	Lomme		EUR	819,000	100%			S	
Sté. de Production de Sols Textiles-P.S.T. S.N.C.	Reims		EUR	3,092,000	100%	MS			
Sté. de Production de Sols Vinyls-P.S.V. S.N.C.	Reims		EUR	3,447,000	100%	MS			

Company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Bonding Systems	Movement Systems	Holding/Services
Germany									
Forbo Beteiligungen GmbH	Lörrach	D	EUR	15,400,000	100%				H
Forbo Erfurt GmbH	Erfurt		EUR	2,050,000	100%		MS		
Forbo Flooring GmbH	Paderborn		EUR	500,000	100%	S			
Forbo Adhesives Deutschland GmbH	Pirmasens		EUR	5,193,000	100%		MS		
Forbo-Novilon GmbH	Lörrach		EUR	1,030,000	100%	S			
Paul Heinicke GmbH & Co KG	Pirmasens	D	EUR	1,023,000	100%				H
Realbelt GmbH	Velen		EUR	100,000	100%			S	
Siegling GmbH	Hanover		EUR	10,230,000	100%			MS	
Greece									
Forbo Swift Adhesives Greece S.A.I.C.	Kallithea (Athens)		EUR	895,000	100%		MS		
Hong Kong									
Victa Technology Holdings (Hong Kong) Ltd.	Hong Kong		HKD	1,000	100%				H
Hungary									
Forbo Swift Adhesives Hungary Kft.	Budapest		HUF	3,000,000	100%		S		
Siegling Hungária Kft.	Budapest		HUF	30,000,000	100%			S	
Ireland									
Forbo Ireland Ltd.	Dublin		EUR	125,000	100%	S			
Siegling Ireland Ltd.	Dublin		EUR	25,400	100%			S	
Waller & Wickham Ltd.	Dublin		EUR	2,540	100%		S		
Italy									
Forbo Adhesives Italia SPA	Pianezze (Vicenza)		EUR	416,000	100%		MS		
Forbo Resilienti SRL	Segrate (Milan)		EUR	60,000	100%	S			
Siegling Italia SPA	Paderno Dugnano (Milan)		EUR	104,000	100%			S	
Japan									
Siegling (Japan) Ltd.	Tokyo		JPY	330,000,000	100%			MS	
Jersey, C.I.									
Forbo Invest Ltd.	St. Helier	D	GBP	25,000	100%				H
Malaysia									
Siegling Malaysia SDN. BHD.	Johor Bahru		MYR	2,500,000	100%			S	
Mexico									
Siegling Mexico S.A. de C.V.	Tlalnepantla		MXP	19,335,000	100%		S	MS	

Company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Bonding Systems	Movement Systems	Holding/Services
Netherlands									
Eurocol B.V.	Zaanstad		EUR	454,000	100 %		MS		
Forbo Linoleum B.V.	Krommenie		EUR	11,350,000	100 %	MS			
Forbo NL Holding B.V.	Krommenie		EUR	13,500,000	100 %				H
Forbo-Novilon B.V.	Coevorden		EUR	3,630,000	100 %	MS			
Forbo Swift Adhesives Nederland B.V.	Genderen		EUR	27,000	100 %		MS		
Siegling Nederland B.V.	Driebergen		EUR	113,000	100 %			S	
New Zealand									
Siegling New Zealand Ltd.	Auckland		NZD	650,000	100 %			S	
Norway									
Forbo Flooring AS	Asker	D	NOK	1,000,000	100 %	S			
People's Republic of China									
Forbo Siegling (Shenyang) Belting Co., Ltd.	Shenyang		CNY	146,391,000	100 %			MS	
Forbo Adhesives (Guangzhou) Co., Ltd.	Guangzhou		CNY	32,261	100 %		PV		
Poland									
Forbo Swift Adhesives Poland Sp. z o.o.	Warsaw		PLZ	50,000	100 %		S		
Portugal									
Forbo-Revestimentos, S.A.	Leça da Palmeira (Porto)		EUR	75,000	100 %	S			
Siegling (Portugal) Lda.	Gemunde (Porto)		EUR	500,000	100 %			S	
Romania									
Forbo Helmitin Romania S.R.L.	Oradea		ROL	70,770,000	100 %		S		
Siegling Romania S.R.L.	Otopeni (Bucharest)		ROL	380,000,000	100 %			S	
Russia									
Siegling (ZAO)	St. Petersburg		RUB	411,000	100 %			S	
Forbo Stroitech (OOO)	Stary Oskol		RUB	181,000	100 %		MS		
Slovakia									
Siegling, s.r.o.	Malacky		SKK	200,000	100 %			S	
Spain									
Forbo Adhesives Spain S.L.	Mos (Pontevedra)		EUR	15,006	100 %		MS		
Forbo Pavimentos S.A.	Barcelona		EUR	60,000	100 %	S			
Siegling Iberica S.A.	Montcada i Reixac (Barcelona)		EUR	1,533,000	100 %			S	
Sweden									
Forbo Flooring AB	Gothenburg	D	SEK	8,000,000	100 %	S			
Forbo Parquet AB	Tibro		SEK	20,000,000	100 %	MS			
Forbo Project Vinyl AB	Gothenburg	D	SEK	50,000,000	100 %	MS			
Forbo Swift Sweden AB	Gothenburg		SEK	100,000	100 %		S		
Siegling Svenska AB	Mölndal		SEK	1,000,000	100 %			S	

Company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Bonding Systems	Movement Systems	Holding/Services
Switzerland									
Enia Carpet Group AG	Ennenda	N	CHF	3,000,000	**33 %**				H
FJK Carpet D GmbH	Ennenda	N	CHF	20,000	**25 %**				H
Forbo Financial Services AG	Baar		CHF	100,000	**100 %**				H
Forbo Finanz AG	Baar	D	CHF	10,000,000	**100 %**				H
Forbo-Giubiasco SA	Giubiasco	D	CHF	10,000,000	**100 %**	MS			
Forbo International SA	Baar	D	CHF	100,000	**100 %**		MS	MS	H
Turkey									
Forbo Adhesives Ticaret Limited Şirketi	Istanbul		YTL	725,000	**100 %**		S		
United Kingdom									
Forbo Nairn Ltd.	London		GBP	8,000,000	**100 %**	MS			
Forbo Swift Adhesives Ltd.	Chatteris		GBP	100	**100 %**		MS		
Forbo UK Ltd.	London	D	GBP	49,500,000	**100 %**				H
Siegling (UK) Ltd.	London		GBP	126,000	**100 %**			S	
USA									
Forbo Adhesives LLC	Durham, NC		USD	100	**100 %**		MS		
Forbo America Inc.	Wilmington, DE	D	USD	19,957,258	**100 %**				H
Forbo America Services Inc.	Wilmington, DE		USD	50,000	**100 %**				H
Forbo Finance Inc.	Wilmington, DE		USD	100,000	**100 %**				H
Forbo Linoleum Inc.	Hazleton, PA		USD	3,517,000	**100 %**	S			
Siegling America LLC	Huntersville, NC		USD	15,455,100	**100 %**			MS	

S Sales
MS Manufacturing and Sales
H Holding/Services
N Not included in the consolidation
D Direct participation of Forbo Holding AG

Report of the Group Auditors

PRICEWATERHOUSECOOPERS

Report of the Group Auditors
to the General Meeting of
Forbo Holding AG, Baar

As auditors of the group, we have audited the consolidated financial statements (consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of recognized income and expense and notes to the consolidated financial statements – pages 57 to 97) of Forbo Holding AG for the year ended December 31, 2006.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

St Räbsamen　　G. Siegrist

Stefan Räbsamen	Gerhard Siegrist
Auditor in charge	

Zurich, March 16, 2007

Consolidated Income Statements 2002–2006

CHF m	2006	2005	2004	2003	2002
Net sales	**1,879.5**	**1,702.0**	**1,622.3**	**1,598.9**	**1,531.1**
Cost of goods sold	–1,273.4	–1,151.8	–1,092.5	–1,091.3	–1,017.4
Gross profit	**606.1**	**550.2**	**529.8**	**507.6**	**513.7**
Development costs	–31.3	–32.4	–32.1	–28.9	–24.2
Marketing and distribution costs	–300.6	–286.9	–285.1	–287.5	–277.2
Administrative costs	–131.9	–143.5	–143.6	–122.2	–119.6
Other operating expenses	–32.7	–63.5	–113.5	–8.6	–4.3
Operating profit/loss	**109.6**	**23.9**	**–44.5**	**60.4**	**88.4**
Financial income	7.0	9.5	4.2	7.9	5.0
Financial expense	–20.4	–28.3	–49.8	–37.3	–29.2
Share of result of associated companies	0.0	0.0	–22.5	0.8	–0.7
Group profit/loss before taxes	**96.2**	**5.1**	**–112.6**	**31.8**	**63.5**
Income taxes	–35.0	–21.6	–44.8	–15.7	–20.9
Group profit/loss for the year	**61.2**	**–16.5**	**–157.4**	**16.1**	**42.6**

Consolidated Balance Sheets 2002–2006

	31.12.2006	31.12.2005	31.12.2004	31.12.2003	31.12.2002
Assets					
CHF m					
Non-current assets	**593.4**	**597.3**	**612.2**	**812.9**	**875.1**
Tangible assets	421.5	422.4	443.5	558.8	586.9
Intangible assets	149.2	144.6	143.0	163.9	178.6
Deferred taxes	20.5	28.1	23.5	61.5	65.6
Investments in associates and other long-term assets	2.2	2.2	2.2	28.7	44.0
Current assets	**905.2**	**993.7**	**904.4**	**750.9**	**725.5**
Inventories	266.7	257.0	255.2	247.9	255.9
Trade receivables	292.4	273.8	242.9	251.6	254.8
Other receivables	26.4	22.8	28.7	34.9	27.0
Prepaid expenses and deferred charges	25.6	35.5	30.8	27.8	35.4
Marketable securities	0.0	0.0	0.0	18.9	23.9
Cash and cash equivalents	294.1	404.6	346.8	169.8	128.5
Total assets	**1,498.6**	**1,591.0**	**1,516.6**	**1,563.8**	**1,600.6**

	31.12.2006	31.12.2005	31.12.2004	31.12.2003	31.12.2002
Shareholders’ equity and liabilities					
CHF m					
Shareholders’ equity	**638.6**	**558.1**	**543.7**	**572.5**	**590.6**
Share capital	54.3	54.3	54.3	38.0	67.8
Treasury shares	–3.5	–1.6	–1.6	–7.7	–11.7
Reserves and retained earnings	587.8	505.4	491.0	542.2	534.5
Non-current liabilities	**304.4**	**512.9**	**604.7**	**670.7**	**638.6**
Non-current financial debt	209.1	358.4	459.7	554.2	539.3
Employee benefit obligations	45.8	101.1	112.1	88.7	68.9
Non-current provisions	41.7	40.7	26.9	21.3	22.6
Deferred taxes	7.8	12.7	6.0	6.5	7.8
Current liabilities	**555.6**	**520.0**	**368.2**	**320.6**	**371.4**
Trade payables	131.5	131.8	108.8	114.9	107.3
Current provisions and accrued expenses	169.3	136.5	116.6	81.3	90.7
Current financial debt	128.3	155.5	18.1	13.8	98.5
Current tax liabilities	21.8	10.6	6.1	7.9	14.0
Other current liabilities	104.7	85.6	118.6	102.7	60.9
Total liabilities	**860.0**	**1,032.9**	**972.9**	**991.3**	**1,010.0**
Total shareholders’ equity and liabilities	**1,498.6**	**1,591.0**	**1,516.6**	**1,563.8**	**1,600.6**

Adjustments to shareholders’ equity and employee benefit obligations for the year 2004 in accordance with the 2005 accounting principles. No adjustments were made for the years 2001–2003.

Adjustment 2006: The fair values of the financial instruments have been disclosed as ‘other current liabilities’ for the first time in the year under review. The prior years have been changed accordingly.

Financial Statements of Forbo Holding AG

Income Statement of Forbo Holding AG

Income CHF	Notes	2006	2005
Financial income			
from investments in and advances to Group companies	1	21,255,988	27,103,747
from securities and short-term investments	2	578,165	1,138,783
Income from services and other sources		125,236	6,931
Total income		**21,959,389**	**28,249,461**

Expenses CHF	Notes	2006	2005
Administrative expenses	3	4,786,688	5,510,452
Financial expense	4	8,835,866	15,850,006
Taxes		65,000	183,000
Total expenses		**13,687,554**	**21,543,458**
Net profit for the year		**8,271,835**	**6,706,003**

Balance Sheet of Forbo Holding AG (before appropriation of available earnings)

Assets CHF	Notes	31.12.2006	31.12.2005
Long-term assets		**532,640,737**	**502,915,191**
Investments in Group companies	5	346,804,727	309,013,375
Advances to Group companies	6	185,836,010	193,901,816
Current assets		**3,325,503**	**155,154,543**
Other receivables from Group companies		1,112,756	6,022,903
Other receivables from third parties		120,924	77,966
Prepaid expenses and deferred charges		26,509	513,420
Cash and cash equivalents	7	2,065,314	148,540,254
Total assets		**535,966,240**	**658,069,734**

Shareholders' equity and liabilities CHF	Notes	31.12.2006	31.12.2005
Shareholders' equity		**407,052,075**	**398,780,241**
Share capital	8	54,263,040	54,263,040
Statutory reserves:			
General reserves		15,600,000	15,600,000
Reserve for treasury shares	10	31,904,493	14,245,526
Other reserves	11	289,748,724	307,407,692
Available earnings:			
Profit carried forward		7,263,983	557,980
Net profit/loss for the year		8,271,835	6,706,003
Liabilities		**128,914,165**	**259,289,493**
Long-term provisions	12	28,000,000	28,000,000
Bond issues		0.0	150,000,000
Advances from Group companies		64,280,000	32,697,000
Other liabilities to Group companies		36,157,500	38,546,970
Current liabilities to third parties		20,741	25,978
Accrued expenses		455,924	10,019,545
Total shareholders' equity and liabilities		**535,966,240**	**658,069,734**

Notes to the Financial Statements of Forbo Holding AG

1 Income from investments in and advances to Group companies

Income from investments in and advances to Group companies amounts to CHF 21.3 million (previous year: CHF 27.1 million) and consists of interest, dividend income, and exchange rate gains with foreign currency loans.

2 Income from securities and short-term investments

In the year under review, this item includes income from short-term investments of CHF 0.6 million (previous year: CHF 1.1 million) exclusively.

3 Administrative expenses

Administrative expenses amount to CHF 4.8 million. They have been reduced by CHF 0.7 million compared to prior year.

4 Financial expenses

The financial expenses of CHF 8.8 million relate to the 4⅛% bond issue 2001–2006 of CHF 150.0 million and the amortization of the capitalized issuance costs. This item also includes interest expenses incurred by loans drawn in the context of a syndicated bank facility and by a loan from a Group company. The prior year includes costs in connection with the public offering by CVC Capital Partners for all shares of Forbo Holding AG.

5 Investments in Group companies

As of December 31, 2006 Forbo Holding AG held the following direct investments:

Company		Activity	Currency	Share capital in 1,000	Equity interest
Forbo Floorcoverings PTY. Ltd.	AU-Wetherill Park, NSW	Sales	AUD	1,400	100%
Forbo Participations SAS	FR-Surbourg	Holding/Services	EUR	11,525	100%
Forbo Beteiligungen GmbH	DE-Lörrach	Holding/Services	EUR	15,400	100%
Paul Heinicke GmbH & Co KG	DE-Pirmasens	Services	EUR	1,023	72%
Forbo Invest Ltd.	CI-St. Helier	Services	GBP	25	50%
Forbo Flooring A/S	NO-Asker	Sales	NOK	1,000	100%
Forbo Flooring AB	SE-Gothenburg	Sales	SEK	8,000	100%
Forbo Project Vinyl AB	SE-Gothenburg	Manufacturing and Sales	SEK	50,000	100%
Forbo Finanz AG	CH-Baar	Holding/Services	CHF	10,000	100%
Forbo-Giubiasco SA	CH-Giubiasco	Manufacturing and Sales	CHF	10,000	100%
Forbo International SA	CH-Baar	Services, Manufacturing and Sales	CHF	100	100%
Forbo UK Ltd.	GB-London	Holding/Services	GBP	49,500	100%
Forbo America Inc.	US-Wilmington, DE	Holding/Services	USD	19,957	100%

The increase in investments in Group companies compared to the previous year amounts to CHF 37.8 million and is attributable to a capital investment in Forbo Beteiligungen GmbH.

6 **Advances to Group companies**

Advances to Group companies are denominated in Swiss Francs and foreign currencies. The net increase compared to the previous year was CHF 8.1 million.

7 **Cash**

This item consists of cash and cash equivalents with original maturities of three months or less.

8 **Share capital**

At the end of 2006 the company's share capital was unchanged at CHF 54,263,040 and is divided into 2,713,152 registered shares with a par value of CHF 20 each. 21,419 shares without voting or dividend rights are at the disposal of the Board of Directors. For the financial year 2006, therefore, 2,691,733 shares are eligible for dividends. The shares are listed on SWX Swiss Exchange with the security number 354 151.

9 **Conditional capital increase**

CHF 8,500,000 of conditional capital reserved for the exercise of shareholder options and warrants in connection with a bond issue was created by a resolution of the Annual General Meeting of Shareholders held on April 27, 1994. Following the exercise of options and warrants in 1994, 1995 and 1997 and reductions in the par value of CHF 22 per share in 2003 and CHF 8 per share in 2004, the conditional capital was unchanged at CHF 3,329,000 on December 31, 2006.

10 **Reserve for treasury shares**

The CHF 31,904,493 included at year-end under 'Reserve for treasury shares' relates to treasury shares held by Forbo Holding AG and its subsidiaries valued at cost. The treasury shares developed as follows over the period under review:

Treasury shares	Cost CHF	No. of registered shares par value CHF 20
Total at 1.1.2006	**14,245,526**	**78,303**
Additions	35,003,304	113,801
Disposals	−17,344,337	−56,150
Total at 31.12.2006	**31,904,493**	**135,954**

11 **Other reserves**

Other reserves decreased by CHF 17.7 million. This decrease is due to the transfer to the reserve for treasury shares.

12 **Long-term provisions**

The CHF 28.0 million stated under this heading serve as a precautionary provision against general risks.

13 **Contingent liabilities**

Guarantees and letters of support to third parties in favor of Group companies amount to CHF 499.7 million at year-end, of which CHF 384.9 million (previous year: CHF 412.9 million) are utilized. Most of this relates to guarantees to investors in connection with funds raised by a Group company in the form of a US private placement (CHF 335.8 million) and guarantees in connection with utilized swap facilities.

14 **Significant shareholders**

From information made available to the Board of Directors, the following shareholders or groups of shareholders with restricted voting rights were major investors in the company pursuant to Art. 663c Swiss Code of Obligations as at the balance sheet date: Michael Pieper, Hergiswil, and Artemis Beteiligungen I AG, Hergiswil, with a total of 30.03% or 814.842 shares, This E. Schneider, Wilen bei Wollerau, with 5,08% or 137,695 shares, Forbo Holding AG, Baar, through its two subsidiaries Forbo International SA, Baar, and Forbo Finanz AG, Baar, with 5,01% or 135,954 shares and Tweedy Browne Company LLC, New York, with more than 5%.

Proposal for Appropriation of Available Earnings Forbo Holding AG

The Board of Directors proposes to the Annual General Meeting that the available earnings, consisting of:

CHF	2006	2005
Net profit for the year	8,271,835	6,706,003
Profit carried forward from the previous year	7,263,983	557,980
Total available earnings	**15,535,818**	**7,263,983**

be appropriated as follows:

CHF	2006	2005
Proposal by the Board of Directors:		
Dividend payment	0[1)]	0
To be carried forward to the following year	15,535,818	7,263,983
Total available earnings	**15,535,818**	**7,263,983**

[1)] The Board of Directors is proposing to the General Meeting, to be held on April 27, 2007, a reduction in par value of CHF 6 to CHF 14 per registered share.

Report of the Statutory Auditors

PRICEWATERHOUSECOOPERS

Report of the Statutory Auditors
to the General Meeting of
Forbo Holding AG, Baar

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes – pages 102 to 107) of Forbo Holding AG for the year ended December 31, 2006.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

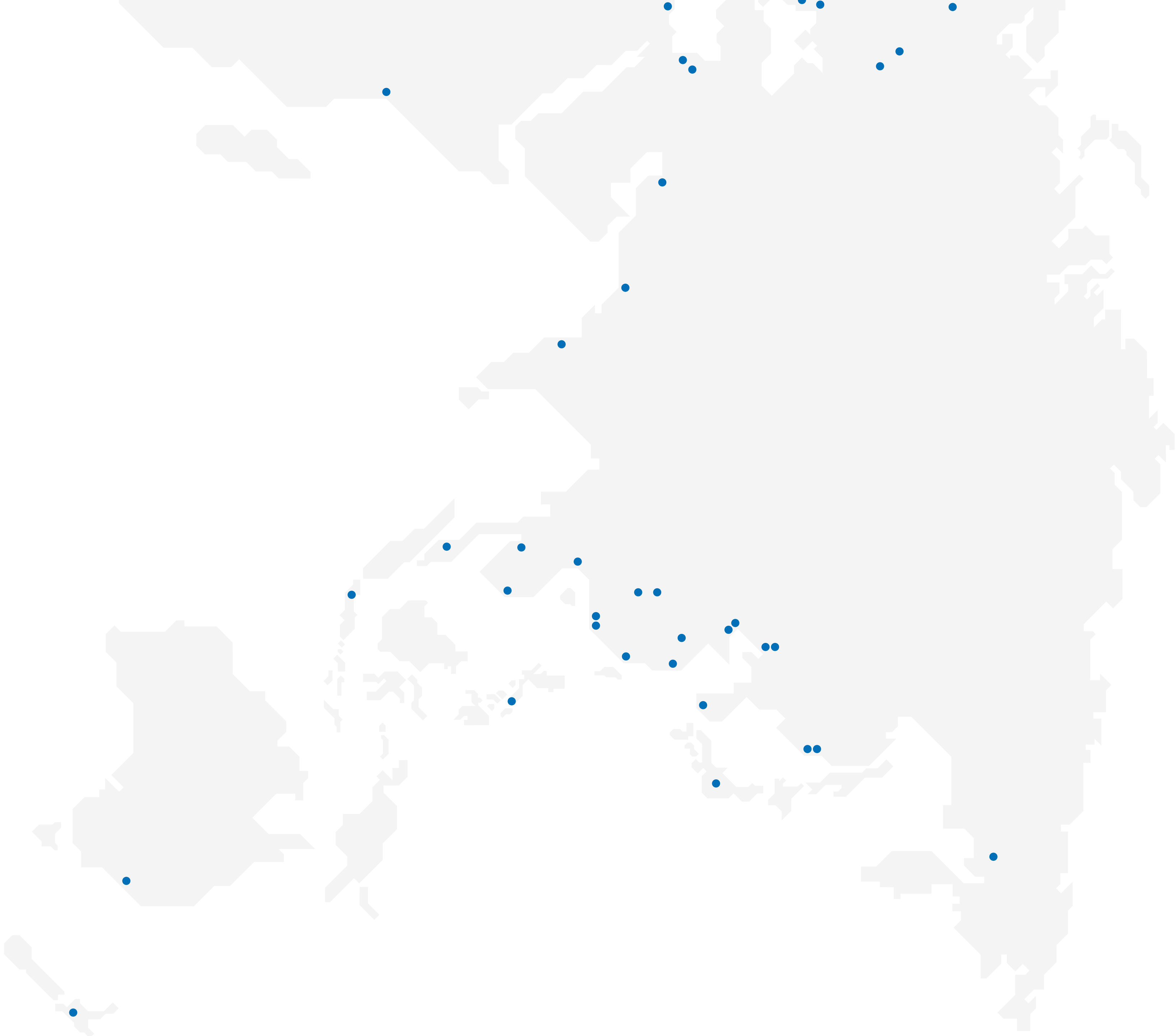
We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Stefan Räbsamen
Auditor in charge

Reto Tognina

Zurich, March 16, 2007



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