Forbo Annual Report 2007

flooring systems.

bonding systems.

movement systems.

flooring.bonding.movement.

forbo

Financial calendar

Ordinary General Meeting:	April 25, 2008
Letter to shareholders:	August 19, 2008
Media release on the results in the first half of 2008:	August 19, 2008

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

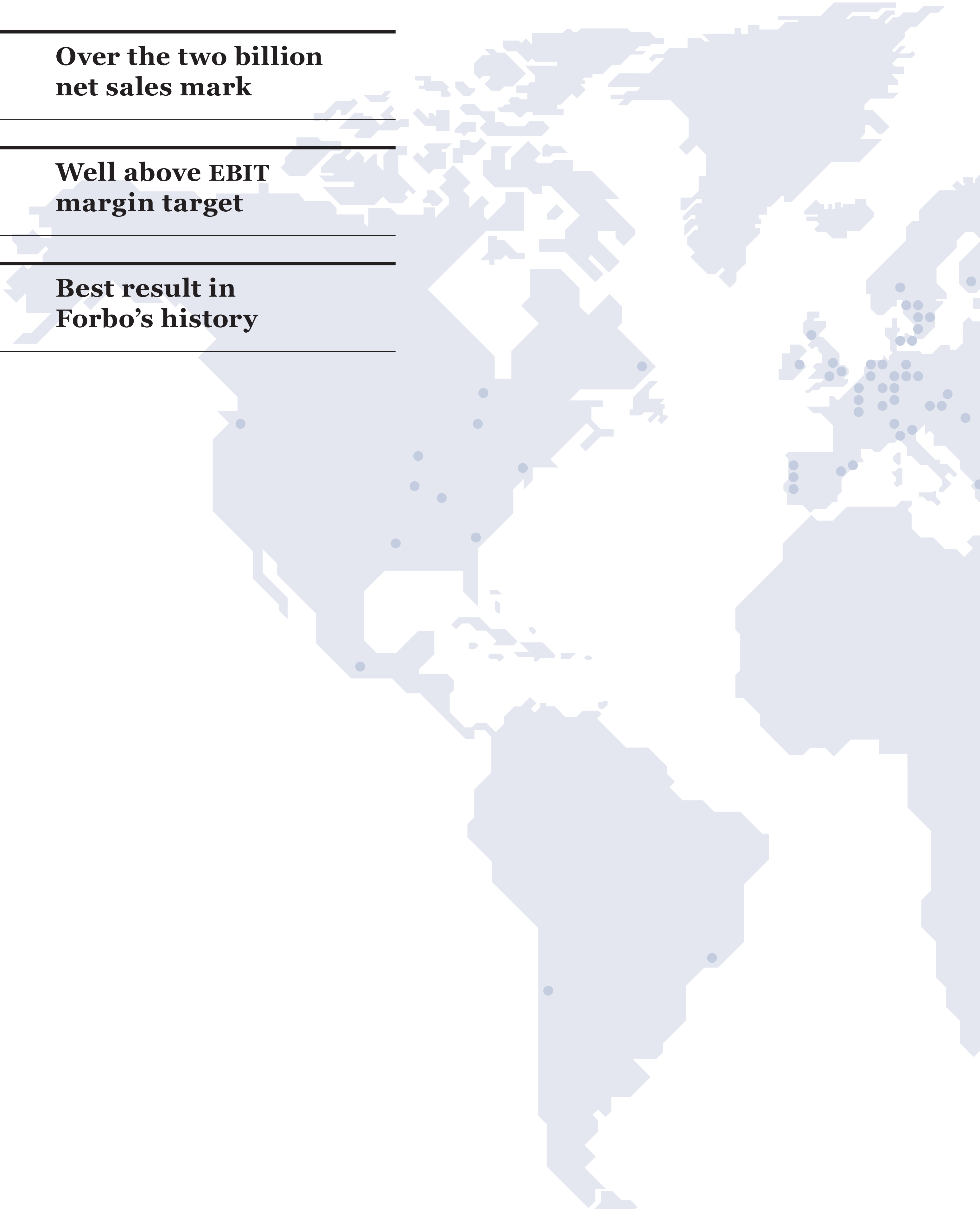
Annual Report 2007

Contents

Over the two billion net sales mark

Well above EBIT margin target

Best result in Forbo's history



Significant increase in cash payout to shareholders

Low net debt

10 percent of own shares held

Portrait

Forbo is a leading producer of flooring systems, adhesives and chemical bonds, as well as power transmission and conveyor belt solutions. The company employs about 6,000 people and has an international network of 31 production companies with distribution, and 42 sales organizations in a total of 34 countries. Forbo is headquartered in Baar in the canton of Zug, Switzerland.

In the 2007 business year, Forbo successfully implemented its brand strategy aimed at creating a master brand and is now present on the market as one Group with three core competencies.

Forbo Flooring Systems

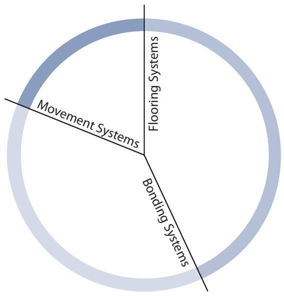
Flooring Systems provides a broad product range of environmentally friendly linoleum, high-quality vinyl floor coverings, as well as needlefelt and parquetry. Thanks to their excellent attributes and attractive designs, these floorings are invariably the first choice for public buildings, hospitals, schools, commercial offices and for applications in the residential market. With a market share of well 65 percent, Forbo is the world leader in linoleum.

Forbo Bonding Systems

Bonding Systems is among the world's leading suppliers of industrial adhesives. Its high-performance products ensure stable and durable bonding and are suitable for a wide range of materials in key markets such as paper processing, the shoe and textile industries, automotive interior trims, furniture, product assembly as well as laminates. Bonding Systems also provides ready-made adhesives for laying flooring and tiles as well as welding rods and leveling compounds for the construction industry. The third business area is synthetic polymers which is specializing in emulsion polymers to customers for various markets such as the adhesives, paint, coating and construction industries.

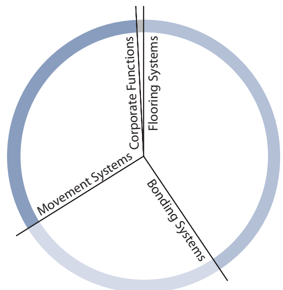
Forbo Movement Systems

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



Net sales by division

CHF m	2007	Change on previous year: effective %	Change on previous year: currency adjusted %	%
Flooring Systems	864.4	8.8	5.5	43.1
Bonding Systems	763.7	4.5	3.4	38.1
Movement Systems	375.9	6.1	5.6	18.8
Total	**2,004.0**	**6.6**	**4.7**	**100.0**



Employees by division

Number	2007	Change 2006/2007 %	%
Flooring Systems	2,457	5.4	40.7
Bonding Systems	1,540	1.9	25.5
Movement Systems	2,002	3.9	33.1
Corporate Functions	41	0.0	0.7
Total	**6,040**	**4.1**	**100.0**

Financial Overview Group

	2007	2006	2007	2006
Income statement	CHF m	CHF m	EUR m[2]	EUR m[2]
Net sales	2,004.0	1,879.5	1,218.2	1,194.1
Flooring Systems	864.4	794.2	525.2	504.6
Bonding Systems	763.7	731.1	464.3	464.5
Movement Systems	375.9	354.2	228.5	225.0
EBITDA	221.9	182.3	134.9	115.8
EBIT	162.4	109.6	98.7	69.6
Group profit	110.7	61.2	67.3	38.9
Balance sheet	CHF m	CHF m	EUR m[2]	EUR m[2]
Total assets	1 405.2	1 498.6	854.2	952.1
Operating assets	1 201.6	1 181.9	730.5	750.9
Shareholders' equity	713.1	638.6	433.5	405.7
Net debt	41.6	43.3	25.3	27.5
Cash flow statement	CHF m	CHF m	EUR m[2]	EUR m[2]
Cash flow from operating activities	165.3	157.3	100.5	99.9
Cash flow from investing activities	76.6	67.0	46.6	42.6
Free cash flow	88.7	90.3	53.9	57.4
Key figures	%	%		
ROS (EBITDA / net sales)	11.1	9.7		
ROA (EBIT / operating assets)	13.5	9.3		
Equity ratio (shareholders' equity / total assets)	50.7	42.6		
Gearing (net debt / shareholders' equity)	5.8	6.8		
Employees (as of December 31)	Number	Number		
	6,040	5,800		
Details per share	CHF	CHF	EUR[2]	EUR[2]
Earnings (undiluted)	43.64	23.60	26.50	15.00
Equity	281.1	246.3	170.9	156.5
Par value reduction	10.0[1]	6.0	6.1[1]	3.8
Stock market capitalization (as of December 31)	CHF m	CHF m	EUR m[2]	EUR m[2]
	1,717.0	1,252.5	1,043.8	795.7

1) Proposal of the Board of Directors to the Ordinary General Meeting.
2) EUR values translated at the annual average rate of CHF 1.645 / 1 EUR (2007) and CHF 1.574 / 1 EUR (2006).

To our Shareholders

Dear Ladies and Gentlemen,

The reorientation of all three divisions initiated three years ago and the systematic implementation of the strategy had their full impact in the year under review. Profitable growth was driven by close cooperation with our customers, high-quality products and customer-focused services. Net sales broke through the two billion mark. Thanks to clear and rapidly implemented measures to increase productivity in all divisions, Forbo was able to offset the strong rise in raw material and energy prices to a large extent. In the year under review, we benefited both from the investments made in recent years to build up key growth markets and from the favorable general economic growth, which has underpinned our efforts to strengthen the Group.

Net sales increases in all three divisions

Profitable, organic growth predominates

In the past year, the Group again focused on enhancing profitable activities. Net sales increased by 6.6 % from CHF 1,879.5 million to CHF 2,004.0 million. 4.7 % of this increase was based on organic growth and 1.9 % came out of currency exchanges. All three divisions contributed to this positive result.

Significant margin improvements in all activities

Margin target clearly exceeded

All three divisions reported significantly higher margins owing to profitable, organic growth and the continuous focus on high-margin products, combined with effective measures to increase productivity.

Forbo considerably beat the EBIT margin target of 6 % to 7 % for 2007 – announced back in 2004 – with a margin of 8.1 % in 2007 (previous year: 5.8 %). Operating profit before depreciations and amortizations (EBITDA) increased by 21.7 % to CHF 221.9 million versus the previous year. Operating profit (EBIT) rose by 48.2 % to CHF 162.4 million.

The best result ever achieved by Forbo

Record net income

Net income increased significantly compared with the previous year from CHF 61.2 million to CHF 110.7 million by 80.9 %. It was thus well ahead of the previous net income record of CHF 90.7 million set in 2000, and represents the best year ever in the company's history.

Forbo holds close to 10 percent of own shares

Significant holding of treasury shares

Also in the year under review, Forbo used a substantial part of its liquidity to acquire own shares for possible acquisitions or stock option plans. By year-end, Forbo held 9.6 % of the company's shares. Valued at year-end 2007, the shares represented a value of about CHF 182 million.

Despite these share purchases, the Group's net debt is only just CHF 41.6 million.

Proposals to the Ordinary General Meeting

Substantial increase in distribution

The Group's dividend policy is geared to the profit development of the Group. Given the increase in operating profit, the Board of Directors proposes to the Ordinary General Meeting that the cash distribution be increased from CHF 6 to CHF 10 per share. This distribution is to take place in the form of a reduction in par value.

Share buyback program of up to 10 percent planned

The Board of Directors intends to buy back up to 10 % of the company's own shares in the next two to three years in order to reduce share capital, thus enabling it to return to shareholders capital not needed for operations.

Given the low level of net debt, the repurchase of almost 10 percent of the Group's own shares to date and a cash flow that is expected to remain strong, a share buyback program on this scale would not restrict options for external growth. The Board of Directors reserves the right, however, to interrupt or discontinue the share buyback program should the cash be needed to finance further external growth. However, acquisitions will only be made if they generate added value for the shareholders.

Outlook

Further improvement of earnings expected

The past year was the best in Forbo's history, even though in the second half we were confronted by difficult market conditions in North America.
We assume that the general economic situation will weaken in 2008.

Nevertheless, we are guardedly optimistic since we are well placed, with our new products and services plus further efficiency gains, to more than offset the negative impacts.

For the 2008 business year, therefore, we expect a further increase in net sales and another over-proportional rise in profits.

Thank you

Our thanks for your commitment and trust

The commitment shown at all levels in the past year was great. We therefore wish to express our gratitude and appreciation especially to all our employees for their unceasing dedication and their exemplary achievements.

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 2008

Dr. Albert Gnägi
Chairman of the Board

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

Forbo Group: significant margin improvements in all divisions

The systematic implementation of the defined strategies in all three divisions resulted in another successful year in 2007. Consolidated net sales rose by 6.6 % to CHF 2,004.0 million. In local currencies, the increase was 4.7 %. This growth was supported by factors such as high-quality products and customer-oriented services as well as by investments aimed at building up key growth markets and the generally firm economic environment in Europe and Asia. Raw material and energy prices rose again strongly in the year under review; there were partially also some raw material bottlenecks on the procurement market that impacted on some areas. Efficient margin management along with measures to increase in productivity offset the higher prices to a large extent.

Nevertheless, net income increased significantly versus the previous year, up from CHF 61.2 million to CHF 110.7 million. This resulted in the best result ever achieved in the Forbo history.

Return on assets (ROA) rose from 9.3 % the previous year to 13.5 %.

The reorientation of all three divisions launched three years ago and the sustained implementation of these measures and objectives have shown that Forbo is continuously on the road to success. The financial statements for the year reflect this pleasing performance.

Good growth in all three divisions

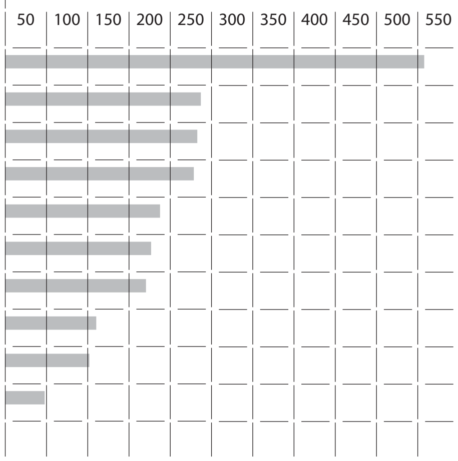
The Flooring Systems division grew net sales by CHF 70.2 million to CHF 864.4 million, representing an increase of 8.8 %. A generally good investment climate in the public sector, along with a robust economic environment in a number of core markets and increased activities by the sales organizations lent support to this growth. The commercial segment in particular posted substantial growth of both linoleum products and vinyl floor coverings. Southern Europe and North America contributed to this positive trend with double-digit growth rates.

In the Bonding Systems division, the markets in Europe and Asia were the main growth drivers on the back of a robust economy and a targeted focus on strategic segments. Although clear signs of a downturn were seen as of the second half year in North America and as of the fourth quarter in Europe, net sales were up by CHF 32.6 million to CHF 763.7 million, representing an increase of 4.5 %. Industrial adhesives, the business activity with the highest sales, performed well in Western and Eastern Europe, supported in particular by increasing net sales in the strategic automotive, packaging and assembly segments. The two other business activities, adhesives and cement-based products for the construction industry and synthetic polymers, also continued to expand in their core markets Europe, respectively North America.

The Movement Systems division increased net sales by CHF 21.7 million to CHF 375.9 million, representing a gain of 6.1 %. All regions contributed to this positive growth. The robust health of the OEM plant engineering market contributed again to positive growth particularly in Europe. The chosen focus on expansion in emerging markets generated stimuli in China, South Asia, South America and Eastern Europe especially. Towards the end of the year under review, the North American market showed signs of slowing down. New products developed for key segments such as paper processing, industrial production, as well as raw materials and food processing should impact positively on future growth.

Net sales by geographic areas

		Change on previous year		
	%	effective %	currency adjusted %	CHF m 2007
North, Central and South America	25.4	+ 1.1	+ 4.9	508.1
Benelux	11.8	+ 8.4	+ 3.7	237.4
France	11.6	+ 16.1	+ 11.0	233.1
Germany	11.4	+ 6.2	+ 1.8	228.8
Asia / Australia / Africa	9.5	+ 2.0	+ 0.6	187.9
Southern Europe	8.8	+ 11.3	+ 7.1	177.1
Scandinavia	8.5	+ 7.0	+ 2.4	170.8
Eastern Europe	5.5	+ 20.9	+ 15.3	110.6
Great Britain / Ireland	5.1	+ 4.3	+ 0.1	102.2
Switzerland	2.4	– 2.1	– 2.5	48.0



Another substantial improvement in profit margins

Clear and efficient implemented measures to increase productivity in all three divisions enabled Forbo to offset most of the strong rise in prices for raw materials and energy and significantly improved profit margins in the Forbo Group. For the Group as a whole, operating profit before depreciations and amortizations (EBITDA) came to CHF 221.9 million (previous year: CHF 182.3 million). Operating profit (EBIT) rose to CHF 162.4 million, which marked a large increase compared to the previous year (CHF 109.6 million). The EBIT margin thus rose from 5.8 % to 8.1 %. This was well ahead of the interim goal set three years ago of a 6 % to 7 % margin which had been set for 2007.

The Flooring Systems division lifted its operating profit before depreciations and amortizations (EBITDA) to CHF 122.0 million, up 26.8 % compared to the previous year (CHF 96.2 million). A number of factors had a positive influence on earnings: a stronger identification as a systems provider in all core markets, in particular as a result of product range extensions in the commercial segment, significant expansion of the sales organizations in Eastern Europe, and ongoing improvement of processes in logistics, inventory management and distribution.

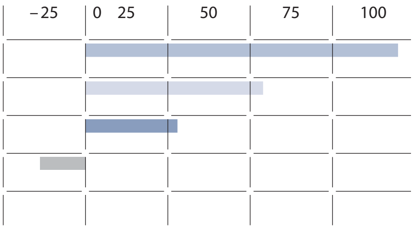
In the Bonding Systems division, difficult market conditions in North America plus strong increases in raw material prices offset otherwise positive profit margins in the second half of the year. Operating profit before depreciations and amortizations (EBITDA) rose to CHF 69.4 million, up 11.0 % compared to the previous year (CHF 62.5 million). The division was able to improve earnings despite the difficult conditions thanks to greater efforts in the area of key account management, improvement of price management, the implementation of lean manufacturing and the streamlining of production sites.

The Movement Systems division increased its operating profit before depreciations and amortizations (EBITDA) to CHF 41.8 million, up 25.9 % compared to the previous year (CHF 33.2 million). Efficiency gains in production and manufacturing, and the systematic implementation of the corporate strategy aimed at higher-margin applications compensated for the negative exchange rate effects in the dollar region.

The return on assets (ROA) rose significantly from 9.3 % in 2006 to 13.5 %, mainly due to the strong increase in operating profit to CHF 162.4 million compared to CHF 109.6 million the previous year.

EBIT by divisions

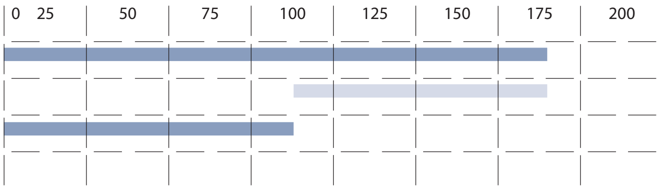
	CHF m 2007	Change 2006/2007 %
Flooring Systems	94.9	+ 46.9
Bonding Systems	53.7	+ 19.6
Movement Systems	28.0	+ 113.7
Headquarters / Consolidation	– 14.2	n / a



Net financial costs were reduced from CHF 13.4 million to CHF 7.6 million. This positive effect of the decrease of net financial costs was mainly due to the repayment of the CHF 150 million bond on June 8, 2006, the repayment of the USD 103 million US private placement on November 21, 2007, and positive interest effects arising from the derivatives structure. Due to higher average interest rates in some markets and a higher average investment base compared with the previous year have led to higher interest earnings.

Free cash flow 2007

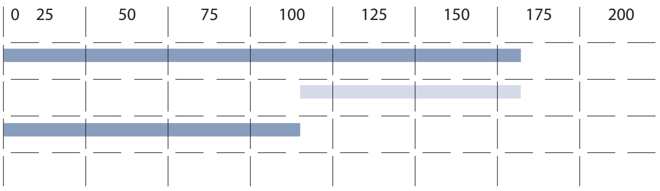
	CHF m
Cash flow from operating activities[1]	165
Cash flow from investing activities	– 77
Free cash flow	88



1) Cash flow from operating activities includes a cash outflow of CHF 36.0 million arising from currency swaps which fell due in connection with the repayment of the first portion of the US private placement. The correspondent offsetting position is contained in 'cash flow from investing activities.'

Free cash flow 2006

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



Balance sheet: sound basis for further growth

Total assets as per December 31, 2007 amounted to CHF 1,405.2 million. The reduction in total assets of CHF 93.4 million compared to the previous year is due mainly to the repayment of the US private placement of USD 103 million on November 21, 2007 and to the purchase of the company's own shares.

Net debt at year-end was virtually unchanged at CHF 41.6 million (2006: CHF 43.3 million). This positive effect of the higher net income on net debt was offset by the Group's purchase of its own shares. Equity increased by CHF 74.5 million to CHF 713.1 million, which brought the equity ratio up to 50.7 % (previous year: 42.6 %).

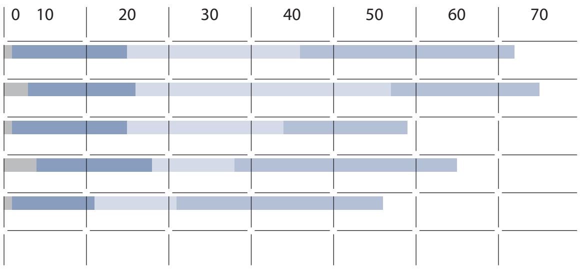
The gearing (net financial liabilities / equity) at the end of December 2007 stood at 5.8 % (2006: 6.8 %).

Further investments to sustainably improve margins

The Forbo Group invested CHF 60.3 million in fixed assets in 2007 (2006: CHF 64.2 million). The funds were used primarily to finance projects designed to expand production capacity, to improve efficiency, and to develop new markets. Investments at Movement Systems, including intangible assets, amounting to CHF 13.5 million, were just fractionally higher than the previous year (2006: CHF 12.7 million). Investments at Bonding Systems in 2007 amounted to CHF 21.2 million, compared with an exceptionally high CHF 31.0 million the year before when the division expanded production capacity and built a factory in Russia. At Flooring Systems, capital spending of CHF 25.6 million in 2007 was well above the prior-year level (2006: CHF 17.6 million). The investments were made primarily to streamline production and increase efficiency at the division's large plants.

Capital investments 2003 – 2007

	Flooring Systems CHF m	Bonding Systems CHF m	Movement Systems CHF m	Corporate CHF m	Total CHF m
2007	26	21	14	1	62
2006	18	31	13	3	65
2005	15	19	14	1	49
2004	27	10	14	4	55
2003	25	10	10	1	46

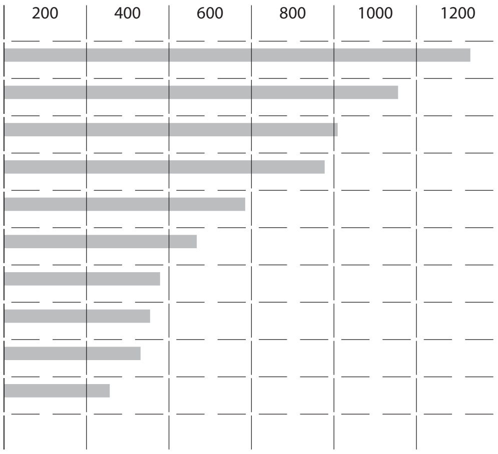


Headcount development

At the end of the year, Forbo employed 6,040 people, overall 240 employees more than in the previous year.

Employees by geographic areas

	%	Change 2006/2007 %	2007
Benelux	18.7	– 2.5	1,129
North, Central and South America	15.8	– 0.8	954
Germany	13.4	+ 1.8	809
Asia / Australia / Africa	12.8	+ 15.6	776
France	9.7	+ 4.0	584
Scandinavia	7.7	+ 1.5	468
Eastern Europe	6.3	+ 59.2	378
Great Britain / Ireland	5.9	– 0.1	354
Southern Europe	5.5	+ 4.8	331
Switzerland	4.3	– 9.5	257



As one of the global leaders in flooring, bonding and movement systems, Forbo is a vital part of the interface with daily life. Forbo's business is about connecting materials, perfecting surfaces and transporting goods: the materials from which everyday objects are made, the surfaces on which people move, and the equipment that moves goods to where they are needed. We do that by interconnecting with people all over the world every day:

**Every step you take …
At home, at work or on the move:
Forbo floors are essential to the
way people experience quality of life.**

**Every bond we make …
Bonding materials are most successful
when they create inseparable
connections and remain invisible.**

**Every move you make …
Forbo's systems make production lines flow,
sort the mail and move people and goods
of every kind.**

Forbo Flooring Systems: rewards for our consistent strategy

'Our business partners expect a high level of support and professionalism from Forbo, and the excellent service provided by our employees further strengthened our market position in 2007. In driving forward growth in all areas, they were guided by a clear market and product strategy. The positive results and developments this consistent strategy has generated confirms our entire business approach and we will continue building on this in 2008.'

Tom Kaiser
Executive Vice President
Flooring Systems

The Flooring Systems division generated net sales of CHF 864.4 million in 2007, representing an increase of 8.8 % versus the previous year. The increase amounted to 5.5 % in local currencies. The division thus accounted for 43 % of Group net sales (previous year: 42 %). The commercial market segment reported substantial growth worldwide for both linoleum products and vinyl floor coverings, especially in North America and in the southern part of Europe. Profitability in the residential market segment also improved following measures to streamline production and to roll out new products. Operating profit (EBIT) came to CHF 94.9 million, representing a good increase of CHF 30.3 million or 46.9 % compared to the previous year.

Market situation: increasing demand for Forbo products in all regions

The demand for Flooring Systems products was generally robust amid positive market conditions. In the division's core business – floor coverings for the commercial market segment – net sales were up in all markets, particularly in Southern Europe and North America, where growth rates were in the double-digit range. The generally positive investment climate in the public sector, especially in health care and education, two segments of great importance to Forbo, supported this positive trend in several core markets.

Measures and investments: focus on streamlining production and distribution

A significant portion of capital expenditure in the 2007 business year was devoted to measures to increase efficiency at existing production sites. In addition, the division invested in a production facility in Russia in order to supply this important market with locally produced floorings. The sales organizations, especially in Germany, North America and Eastern Europe, were expanded with the aim to provide even better support for target markets in the commercial segment.

Flooring Systems expanded its service by launching a powerful e-commerce solution that enables business partners to exchange relevant information and to order goods around the clock. Our ambition of offering excellent service requires an efficient sales information system in the commercial market segment. The division is currently working on a large-scale sales information system project that will be rolled out internationally in 2008.

Products: rising demand for ecologically-friendly flooring products

The numerous launched new products in the previous year met customer needs and drove sales. These include the easy-to-lay 'linoleum click' products for the residential market segment and the design tiles for outfitting retail outlets.

Rising demand for ecologically-friendly floor coverings made from renewable resources enabled Flooring Systems to consolidate its market leadership in linoleum. The exceptional natural properties of linoleum make it an eminently suitable product capable of satisfying customers' wishes for ecologically-friendly and economically floor coverings.

'Creating better environments' is therefore more than only a catch phrase at Forbo.

Business trend linoleum: persistently strong demand

The linoleum product group again grew by about 7 % to CHF 398 million, thus contributing 46 % to total sales. North America and Eastern Europe reported above-average increases. The 'marmoleum click' linoleum products, designed for the residential market segment, generated double-digit growth rates.

Business trend vinyls: positive development in the commercial market segment

The vinyl flooring product group generated sales of CHF 345 million; contributing 40 % to total sales. The trend in the commercial market segment – up by 11 % – was also developing positively. The growth was supported by the design tile range, which underscores Flooring Systems' strength as a systems provider. The 4 % decline in the residential market segment in the wake of country-specific range adjustments in the product range was in line with expectations. Sales in accessories increased by 4 %.

Outlook: excellent services for our market partners

In 2008, a number of projects at Flooring Systems will again focus on expanding the division's product offering and on broadening the services it provides. One such focal point will be devoted to the development of employees in sales by an increased promotion of distribution support systems and by offering training programs.

Assuming the success of these measures as a systems provider in the commercial segment, Forbo is confident that Flooring Systems will perform well again in 2008.

flooring systems.

Floors create spaces and determine the use they are put to, their ambience and comfort. The more specialized the use, the higher the demands placed on the properties of the flooring. The appropriate flooring transforms abstract professional space into a personalized 'living' room. This is the art of architecture and interior design, an art in which the use of the right materials is essential. Forbo therefore works very closely together with professionals in these areas.

In developing product collections, the Forbo designers draw their inspiration from nature, art and the latest design trends and cooperate with well-known artists and architects. The broad diversity of these designs, which range from warm and exotic to cool and sophisticated, with colors stretching from natural wood to glittering metal, add an individual touch to the space.

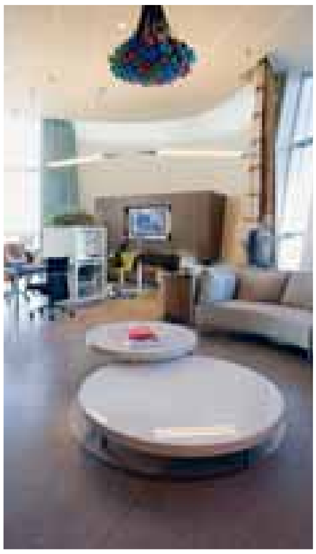
Flawless and versatile floorings ensure a high level of functionality in innumerable areas, while minimizing maintenance and maximizing longevity. In order to be able to sustainably guarantee this high standard over time, Forbo combines its long-standing production know-how with life-cycle analyses as well as new and innovative trends and materials that are matched to the needs of a varied clientele. The environment plays an ever more important role in these considerations. Linoleum is a pure natural product that is manufactured from linseed oil, resin, wood flour, jute and ecological pigments.

With seven production facilities and sales organizations in about 20 countries around the globe, Forbo Flooring Systems is always close to its customers and provides expert advice on the spot.

flooring systems.

flooring systems.

flooring systems.



Forbo Bonding Systems: focus on efficiency and margin management

'The 2007 business year was marked by mixed trends in our global markets. Sales in Europe were strong thanks to a robust economy and our continued focus on strategic segments. In the important North American market, though, economic conditions deteriorated substantially in the second half of the year, and we concentrated there on improving efficiency and managing our margins. Targeting large accounts in the European automotive sector paid off very positively.'

Michel Riva
Executive Vice President
Bonding Systems

The Bonding Systems division increased net sales in 2007 by 4.5 % to CHF 763.7 million, equivalent to an increase of 3.4 % in local currencies. Bonding Systems thus accounted for 38 % of Group net sales (previous year: 39 %). This growth was driven mainly by the general economic upswing in Europe and the good situation prevailing in Asia. North America failed to live up to expectations, especially in the second half of the year. Despite rising raw material prices, Bonding Systems increased operating profit (EBIT) by 19.6 % to CHF 53.7 million.

Market situation: positive development in Europe

In the Bonding Systems division, the markets in Europe and Asia performed especially well, even though the European market tended to weaken in the fourth quarter. In North America, a noticeable fall in demand was felt in the second half of the year. This affected in particular construction-related industrial segments, durable goods such as doors and furniture, and the automotive industry, including motor homes.

In the second half, raw material prices increased strongly again owing to the high price of oil and capacity bottlenecks of certain products, a situation that demanded even more intensive margin management. Hardest hit by this trend were the well-selling product groups dispersions and thermoplastic hotmelts.

Measures and investments: new production facilities in Russia, China and North America

New production facilities were opened in Russia and China with the aim to participate in the economic upswing and strong growth in these countries. A new plant for construction chemicals was opened at Stary Oskol, about 550 km south of Moscow, while in Shanghai a new factory for industrial adhesives was opened. The third reactor for synthetic polymers, south of Chicago, was brought on stream in early 2007.

The projects initiated in 2006 to streamline processes, structures, production sites and costs were systematically implemented in the year under review. Lean manufacturing was introduced at all major production facilities, with the result that production costs were lower than the previous year despite the rise in volumes. Due to these measures the division was able to partially offset price rises for raw materials.

Products: focus on higher-margin and ecologically-friendly products

In the 2007 business year, Bonding Systems focused on marketing higher-margin and ecologically-friendly products in the key technologies. One of the focal points was thermoplastic hotmelt products based on metalocene catalysts. The products in this range are used in packaging, textile laminates and wood industries. Unlike traditional products, these hotmelts offer better fertility and stability properties, giving better results with a lower quantity of adhesives.

In the most important growth technology, the PUR adhesive systems, low-monomer and isocynate-free adhesives were launched. These low-emission adhesives mark a significant improvement for the employees who are in direct contact with the adhesives during production or its processing.

Business trend: above-average growth in Europe and success in strategic customer segments

In the industrial adhesives segment, sales were developing well especially in Western and Eastern Europe. They were driven mainly by the strategic segments automotive, packaging and assembly. In North America, though, sales declined in the second half of the year in the automotive / motor home and assembly segments, while packaging and the graphic industry showed a positive trend.

In Asia, the focal point in 2007 was the integration of Victa, acquired in 2006, and the construction of a new facility in Shanghai. Due to the robust market in China, it is planned to build up a new factory, which should be ready to start production by the end of 2008 or early 2009, to replace the Guangzhou plant.

Adhesives and cement-based products for the construction industry continued to develop pleasantly thanks to the firm economic trend in Europe. The division gained market share in various countries, and it maintained its strong market position in the Benelux countries.

Sales growth of synthetic polymers increased again in the year under review, driven by state subsidies for 'synthetic fuels', though the state subsidy program of the goverment was discontinued at the end of 2007.

The division passed on part of the strong rises in raw material costs for industrial and construction adhesives to customers, while the remainder was offset through additional efficiency measures. The strong increase in prices for ethylene and vinyl acetate eroded margins in the synthetic polymers business, and it was not possible to offset this erosion in full.

Outlook: focused activities in North America and exploitation of the new capacity

In the 2008 business year, Bonding Systems will concentrate mainly on implementing the measures to enhance efficiency and increase market penetration as a response to the weak demand in North America. Because of the termination of the subsidies for the synthetic fuel activities, Bonding Systems in North America assumes that sales will remain stagnant or even slightly decline.

Markets in Europe and Asia are expected to be moderately positive. Additional growth can be expected from the newly created capacity in Russia and China.

bonding systems.

Adhesives are around for as long as man has been making things. Nowadays, complex adhesives have developed into sophisticated systems which are an unseen presence in every aspect of daily life. They provide stability and comfort to sports shoes; they are used in the manufacture of high-quality sporting goods such as footballs and tennis rackets; they impart stability to furniture and water-tightness to textiles; they join pages together to make a book; they ensure reliable and durable bonds for wooden elements in bridges and prefabricated houses; they bond tiles to the wall; they fix flooring; they join diverse materials in vehicle interiors; they ensure odor-free packaging; and they help the packaging remain stable. Synthetic polymer emulsions are raw materials that are worked up into products in the adhesives, coating, construction, carpet, and textile industries. Adhesives are indispensable in almost any object made by man.

Forbo is a long-standing business partner of many manufacturers with whom it works together to improve the quality of existing products and develop new ones. The worldwide success in the adhesives industry is based on the technological sophistication of the processes and products and the longevity of the bonding systems. Dynamic and global industries rely on a partner with international reach and years of know-how, a partner that understands customers' needs and works with them to develop new approaches and solutions. The wide range of applications is the result of intensive research and development and of the technology leadership this has resulted in.

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

bonding systems.

bonding systems.

bonding systems.

Forbo Movement Systems
sustained success as strategy is implemented

'Our 2007 business year was characterized by sustained and broad-based growth, which was above-average especially in the strategic segments. This was supported by the generally firm economic situation in the main markets and reinforced by targeted investments in sales organizations in growth markets and by new product developments. We continued to implement the strategy and we completed the organizational adjustments. This again resulted in strongly improved profitability. We now have a solid foundation for a sustainable growth.'

The Movement Systems division increased net sales in the year under review by 6.1 % to CHF 375.9 million, equivalent to an increase of 5.6 % in local currencies. As in the previous year, the division accounted for 19 % of Group net sales. All regions contributed to this growth. Investment in process optimization and in new technologies led to efficiency gains that were reflected in higher profits, even though the US dollar was weaker and raw material prices significantly higher. Operating profit (EBIT) amounted to CHF 28.0 million, which was more than doubled compared to the prior-year figure of CHF 13.1 million.

Matthias P. Huenerwadel
Executive Vice President
Movement Systems

Market situation: focus on expansion in emerging markets

The robust health of the OEM plant engineering market contributed again to positive growth particularly in Europe. The decision to focus on expansion in emerging markets generated growth stimuli in China, South Asia, South America and Eastern Europe especially. Towards the end of the year under review, growth began to slow down in North America. However, this was offset by major projects such as the expansion of the UPS distribution hub – at the moment the largest project of Movement Systems – in Louisville, Kentucky.

This positive trend was driven by two main factors: organic growth, resulting from the expansion of the existing organization; and a stronger market presence in selected markets, which resulted from selective acquisitions in Denmark, Italy and the Czech Republic.

Measures and investments: a global oriented company

In the year under review, Movement Systems completed its strategic reorganization as a global company. A number of activities in the area of employee and management development were planned and implemented. Global coordination was achieved for the functions marketing, sales to key accounts and supply chain. This was supported by the worldwide rollout of the ERM software SAP, which is now at an advanced stage. Visually, Movement Systems adapted its identity to the consistent master brand of the Forbo Group.

Research and development was intensified, leading to shorter product launch times and to numerous solutions tailored to customer needs. Generally speaking, substantial improvements in the efficiency of the value chain were a crucial factor. The efficiency gains resulted from the streamlining of processes, investment in new technologies and the greater use of location advantages of the various production and assembly plants.

Products: new product line for logistics and active contribution to sustainability

Once again in the year under review, new product developments were launched for key segments such as paper processing, industrial manufacturing, processing of raw materials and the food industry. A new product line was developed for the logistics customer segment that uses significantly less energy than previously. A patent application was submitted for this innovative technology, and the trademark has been protected. Soon after these new products were launched, two important customers took advantage of the opportunity and completely reoutfitted their existing equipment. This technology, which offers substantial savings in energy, is an active contribution to sustainability, also leading to big cost savings for the customer.

Business trend: stable foundation for healthy future development

In 2007, Movement Systems generated broad-based and good growth. This expansion was driven by a generally firm economic environment in the main markets and positive volume effects along with targeted investments in sales organizations in growth markets and new product developments. The systematic and planned implementation of the defined strategy resulted in another strong increase in profitability, even though the division had to cope with a steep drop in the value of the US dollar and a significant increase in raw material prices, only part of which could be passed on to customers. On the whole, the division now has a solid foundation for long-term and sustainable growth.

Outlook: expansion of sales activities and targeted developments for new applications

The focus in 2008 will be on expanding sales activities in markets that are still under-represented. At the same time, the products and services are to be rounded off to ensure optimum coverage for selected core segments. The launch of innovative products and applications tailored to specific customer needs is expected to drive growth. Earlier investments will increasingly have a positive impact on the division's profitability.

Despite conditions that are likely to be more difficult in the main markets, Movement Systems expects positive growth.

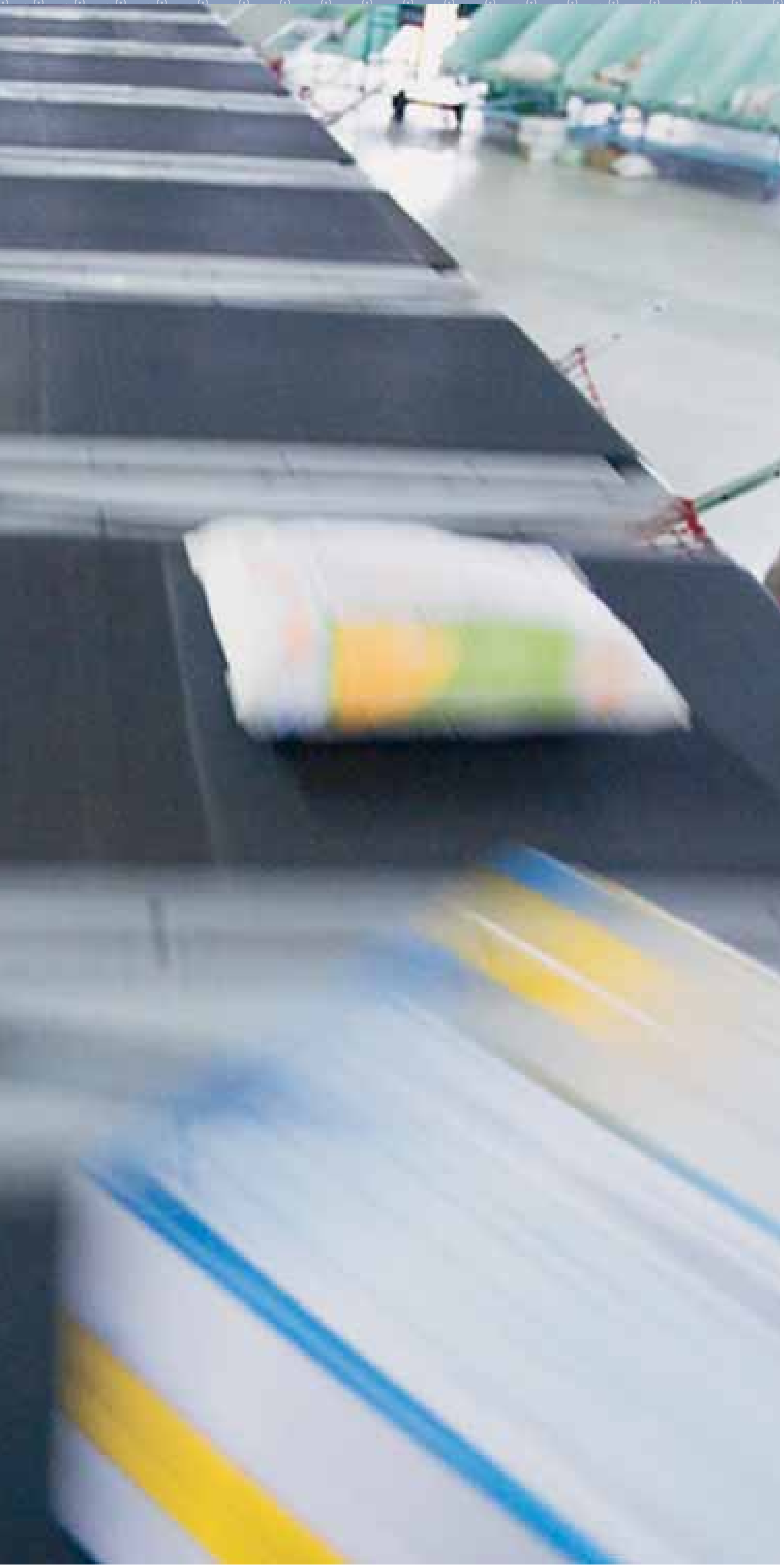
movement systems.

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

High-quality conveyor and processing belts in the food industry ensure that fresh produce is 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 timing belts are widely used as a component in modern drive and handling technology and are synonymous with cost-effectiveness, precision and reliability.

As markets become more global, industry needs innovative concepts for production, material flows and logistics, in which conveyor, processing and flat belts often play a crucial role. Leading industrial companies throughout the world therefore rely on the know-how of Forbo Movement Systems as a professional partner in developing sector-specific, forward-looking solutions for drives, transport and manufacturing. Many of the world's most important industrial, commercial and service companies use Forbo products with great success; they benefit from the close-meshed international service and distribution network comprising more than 300 service stations globally.

movement systems.



movement systems.

movement systems.

Group Structure

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

Tom Kaiser	**Michel Riva**	**Matthias P. Huenerwadel**	**Jörg Riboni**	**Daniel Keist**
Flooring Systems	Bonding Systems	Movement Systems	Corporate Finance	Corporate Center
Regional Sales and Marketing	North America	North and South America	Controlling Treasury Tax	Mergers & Acquisitions Human Resources Pensions
Supply Chain Management	Europe 1	Europe	IT Pensions international	Switzerland Communications Legal Services
Services	Europe 2	Asia | Pacific	Investor Relations	Internal Audit
	Asia | Pacific			
	Building and Constructions			

Executive Board

Tom Kaiser	**Michel Riva**	**Matthias P. Huenerwadel**	**This E. Schneider**	**Jörg Riboni**	**Daniel Keist**
Flooring Systems	Bonding Systems	Movement Systems	Delegate of the Board of Directors and CEO	Corporate Finance	Corporate Center

This E. Schneider

Delegate of the Board of Directors and CEO

This E. Schneider, born 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 President and CEO of the 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 President 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, Minibar AG and Selecta AG.

Tom Kaiser

Executive Vice President Flooring Systems

Tom Kaiser, born 1956, is a German citizen. He completed his commercial apprenticeship in wholesale and export sales at Stahlwerke Süwestfalen in 1978. In 1992, he completed the International Executive Program INSEAD, Fontainebleau. From 1979 to 1988 he worked for Krupp Handel GmbH in North and South America as well as in other locations. 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 1964, is a Swiss citizen. He studied economics at the University of Applied Sciences Basel and the IMD in Lausanne, where he completed his MBA. From 1989 to 1994 he held various positions in finance at 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 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 managerial positions for Franke Foodservice Systems and managed its European operations from 2002 to 2005. Matthias P. Huenerwadel assumed management of the Movement Systems Business in October 2005 and is a member of the Executive Board of Forbo.

Jörg Riboni

Chief Financial Officer, Executive Vice President

Jörg Riboni, born 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. In January 2006, Jörg Riboni joined the Forbo Group. He is a member of the Executive Board and Chief Financial Officer.

Daniel Keist

Head Corporate Center, Executive Vice President

Daniel Keist, born 1957, is a Swiss citizen. He studied economics at the University of St. Gallen (lic. oec. HSG) and joined UBS in Zurich in 1984, where he was Managing Director and Co-Head of the Corporate Finance Equity Advisory unit. From 1998 to 2001 he was a member of the Executive Board and CFO of the Selecta Group. He was then a partner at Ernst & Young Corporate Finance in Zurich until 2003, where he was responsible for various M&A, restructuring and financing transactions. Until the summer of 2007, he was a member of the Executive Board of SWX Swiss Exchange and headed the Admissions division. Daniel Keist joined Forbo in August 2007 as Head Corporate Center and is a member of the Executive Board.

Division: **Flooring Systems, France**
Name: **Youssef Serhane**
Operational Area: **Quality Control**

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 regulations 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 (Directive on Corporate Governance, DCG) and the relevant publications of SWX Swiss Exchange.

Group structure and shareholders

Group structure

Forbo Holding Ltd, 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 32. The scope of consolidation of Forbo Holding Ltd does not include any listed companies. The unlisted companies within the scope of consolidation of Forbo Holding Ltd are listed under 'Group companies' starting on page 105 of this report. The companies' name and domicile, share capital and percentage of participation along with information relating to the allocation of the Group companies to the Group's divisions can also be found in this list.

Significant shareholders

As of December 31, 2007, 1,948 shareholders were listed in the share register of Forbo Holding Ltd, 647 (25 %) fewer than the previous year.

Disclosure of significant shareholders and significant groups of shareholders and their participations is effected in accordance with the disclosures made according to 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 (FBC Ordinance). According to reports received by Forbo Holding Ltd, in 2007 the following significant shareholders or shareholder groups have exceeded or fallen below the thresholds set out in Art. 20 SESTA and the FBC Ordinance:

Focus Capital Investors, LLC, New York, reported on January 19, 2007 that it had exceeded the 5 % threshold. Goldman Sachs Group, Inc., New York, as the beneficiary, and Goldman Sachs International, Goldman Sachs Asset Management International, London, and Goldman Sachs Asset Management, Wilmington, as indirect purchasers, reported on November 7, 2007 that they had exceeded the 5 % threshold. The corporate group Deutsche Bank AG and DWS Investment GmbH, Frankfurt am Main, reported on October 10, 2007 that they had exceeded the 5 % threshold. On November 30, 2007 they announced a change in the composition of the shareholders' group, as a result of which Deutsche Bank Securities Inc. New York, is now also a beneficiary. The group holds its stake directly and indirectly through Deutsche Bank AG, Frankfurt am Main, Taunus Corporation, Wilmington, and DB U.S. Financial Markets Holding Corporation, likewise in Wilmington. On December 7, 2007, following the amendment of the FBC Ordinance, this group announced that it held 7.599 % of the registered shares and had granted (written) 85,428,000 convertible and purchase rights for 409,140 registered shares, corresponding to 15.08 % of the total voting rights. On December 20, 2007, the Group reported that, since December 12, 2007, it consisted only of Deutsche Bank AG, Frankfurt, Theodor-Heuss-Allee 70, 60486 Frankfurt am Main, and Deutsche Bank Securities Inc., 60 Wall Street, New York, NY 10005-2858, and directly and indirectly held 199,973 registered shares, corresponding to voting rights of 7.37 % of the total. In addition, the group has granted (written) 87,730,000 convertible and purchase rights for 420,249 registered shares of Forbo Holding Ltd, corresponding to voting rights of 15.489 % of the total.

For further information on significant shareholders or shareholder groups, we refer the reader to page 117 (duty of disclosure pursuant to Article 663c, Swiss Code of Obligations).

Cross-shareholdings

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

Capital structure

Share capital

As of December 31, 2007, Forbo Holding Ltd had a fully paid up share capital of CHF 37,984,128, which was divided into 2,713,152 listed registered shares, each with a par value of CHF 14.

- 59.11 % were registered in the name of 1,868 shareholders with voting rights
- 26.62 % were shares of banks and the SIS (SegaInterSettle AG) pending registration of transfer
- 14.27 % were registered in the share register without voting rights

The shares of Forbo Holding Ltd (security number 000354151/ISIN CH0003541510) are listed on SWX Swiss Exchange. No different categories of shares exist; each share entitles the shareholder to one vote. Further information on the Forbo share can be found on pages 56 and 57. Further information on the rights of participation associated with the shares can be found on page 51.

Conditional and authorized capital

Pursuant to §6 of the Articles of Association, Forbo Holding Ltd has a maximum conditional capital of CHF 2,330,300, corresponding to 166,450 registered shares to be paid up in full with a par value of CHF 14 each. The respective 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 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, the subscription right of the shareholders is excluded. Holders of option or convertible rights are entitled to subscribe to new shares. The registration of the new shares is subject to the general restriction set out in §4 of the Articles of Association, which stipulates that shareholders are entered in the share register with voting rights only if they declare expressly that they have acquired the shares in their own name and for their own account.

There is no authorized capital.

Changes in capital

The Ordinary General Meeting of Forbo Holding Ltd on April 27, 2007 decided, based on the audit report of a specially qualified auditor, to reduce the ordinary share capital of the company by CHF 16,278,912 from CHF 54,263,040 to CHF 37,984,128 by reducing the par value of the shares from CHF 20 to CHF 14 each. It was further decided to pay out the difference of CHF 6 per share to the shareholders and to amend the Articles of Association accordingly.

The share capital of Forbo Holding Ltd did not change either in 2006 or in 2005.

Participation certificates and 'Genussscheine' (profit sharing certificates)

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

Limitations on transferability and nominee registrations

Forbo Holding Ltd does not have any percentage limitations on voting rights. The Board of Directors may only refuse registrations 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.

Pursuant to §4 of the Articles of Association as amended on April 27, 2007, nominees may be entered in the share register with voting rights for up to a maximum of 0.3 % of the registered share capital entered in the commercial register. Beyond this limit, nominees are only entered provided the name, address and shareholding of these persons are disclosed for whose account the nominee holds a total of 0.3 % or more of the registered share capital entered in the commercial register. A nominee agreement was reached with nominees on the basis of actual practice prior to the amendment of §4 of the Articles of Association and, since then, on the basis of the amended §4 in which the registration ruling has been set down in writing.

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 General Meeting and the absolute majority of the par value of the shares represented.

No statutory privileges exist, and, with the exception of the above-mentioned requirement of making the beneficiary known, there is no restriction on the transferability of the shares of Forbo Holding Ltd.

Convertible bonds and warrants / options

Forbo Holding Ltd has no outstanding convertible bonds nor has it issued any tradeable warrants / options. Information on the option program available to the Executive Board can be found on page 49 of this Annual Report.

Board of Directors

Members of the Board of Directors

The cutoff date for the following information is December 31, 2007.

With the exception of This E. Schneider, Delegate of the Board of Directors and CEO, none of the members of the Board of Directors listed below has or has had any operational management tasks for Forbo Holding Ltd 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 Ltd 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 Ltd or its Group companies.

Dr. Albert Gnägi, Chairman

Albert Gnägi, born 1944, is a Swiss citizen. He studied law at the University of Zurich and in Rome and holds a doctorate in law (Dr. iur.). He practices law in Zurich, specializing in commercial, company and inheritance law. He was Chairman of the Board of Selecta Group from the IPO in 1997 until the takeover by the British company Compass Group in early 2001. 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 Ltd since March 2005.

Michael Pieper, Vice Chairman

Michael Pieper, born 1946, is a Swiss citizen. Michael Pieper took a degree in economics (lic. oec. HSG) at the University of St. Gallen. 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 Ltd in 2000.

This E. Schneider, Delegate and CEO

For the curriculum vitae of This E. Schneider, please see page 34 of this report.

Dr. Peter Altorfer

Peter Altorfer, born 1953, is a Swiss citizen. He studied law at the University of Zurich and holds a doctorate in law (Dr. iur.). He attended the PED at the IMD in 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 Ltd since March 2005.

Dr. Rudolf Huber

Rudolf Huber, born 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 Lucerne University of Applied Sciences and lecturer at the University of St. Gallen. Since 2006 he has also been President of the recently founded CFO forum Schweiz-CFOs. He has been a member of the Board of Directors of Forbo Holding Ltd since March 2005.

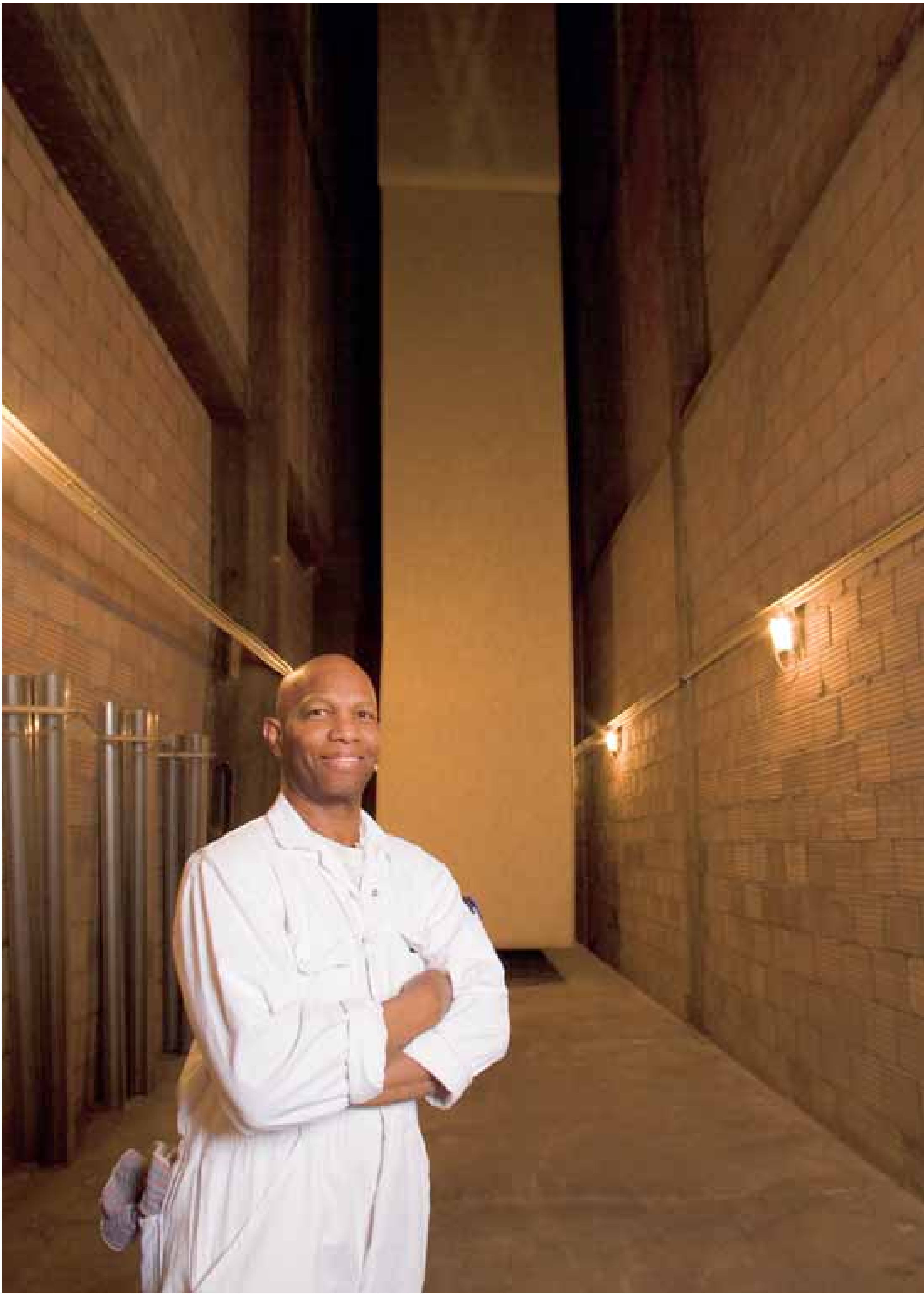
Elections and terms of office

The members are elected by the Ordinary General Meeting for a term of three years. A year is defined as the period between two Ordinary General Meetings. The first term of office after the first election of a member of the Board of Directors is designed so that every year about one third of all members have to be elected or re-elected. They may be re-elected several times. At the Ordinary General Meeting of April 27, 2007, Dr. Albert Gnägi and Michael Pieper were re-elected in an anticipated re-election for a term of three years in accordance with §15, para. 2 of the Articles of Association. Further details on the terms of office of the other members of the Board of Directors are contained in the following table. In accordance with the Organizational Regulations of Forbo Holding Ltd, members who have reached the age of 70 resign from the Board of Directors at the Ordinary General Meeting of the following year. The average age of the incumbent members of the Board is around 57. 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 Forbo Holding Ltd
As per December 31, 2007

	First elected	Elected until	AFC	HRC
Chairman				
Dr. Albert Gnägi	2005	2010	M	C
Non-executive member				
Vice Chairman				
Michael Pieper	2000	2010	–	M
Non-executive member				
Members				
This E. Schneider	2004	2008	–	–
Delegate and executive member				
Dr. Peter Altorfer	2005	2009	M	M
Non-executive member				
Dr. Rudolf Huber	2005	2009	C	–
Non-executive member				
Secretary of the Board of Directors				
Nicole Häfeli				
Non-member				

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



Division: **Flooring Systems, Netherlands**
Name: **Frank Room**
Operational Area: **Drying Rooms Linoleum**

Internal organizational structure

The allocation of tasks within the Board of Directors and the composition of the 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 (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. In addition, the HRC is empowered to determine the compensation paid to members of the Executive Board. The remuneration of the Delegate of the Board of Directors and CEO is determined by the full Board of Directors. 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 the Directors chairs the meetings of the Board and the General Meeting. He plans and conducts the meetings of the Board and the Ordinary General Meeting. The meetings of the Board and the relevant items on the 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 actual practice, the Vice Chairman has no further duties. The Delegate of the Board of Directors is also CEO and as such is responsible for the operational management of the Group and for the tasks delegated to him by the Board of Directors. The members of the Executive Board report to him for the exercise of this function.

The Chairman, Vice Chairman and Delegate (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 2007, the Board of Directors met eight times, the meetings usually lasting a whole day.

After mutual consultation, the Chairman and the CEO may invite members of the Executive Board or other senior employees to attend Board meetings for individual items. Regular use is made of this option. External consultants participate in the meetings of the Board of Directors, the AFC or the HRC only in exceptional circumstances for particular 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 Group in the areas of financial reporting, the applied accounting standards and systems used, and significant financial decisions. The AFC establishes the audit program of the Internal Audits and selects the external auditors for the attention of the General Meeting respectively proposes the external auditors to the General Meeting. The CEO and CFO are regularly requested to attend meetings in an advisory capacity, while the representatives of the Internal Audit and external auditors may attend on special invitation.

The AFC convenes as often as business requires, but at least twice a year. In the 2007 business year, two meetings were held, each lasting about 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 for 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 selection of the members of the Board and of 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 2007, two 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 Ltd. 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 financial controlling, auditing and financial planning
- Appointment and dismissal of persons entrusted with management of the company
- Preparation of the Annual Report and of the 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, 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 empowered to take decisions on all matters which are not reserved or transferred to the General Meeting or another body of Forbo by law, the Articles of Association or regulations.

Management of the Group has been delegated entirely to the CEO. Accordingly, the CEO is responsible for the operational management of the Group.

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, CFO, Head Corporate Center and the Executive Vice Presidents 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 financial controlling, financial planning and auditing
– 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 Group and achieving the financial result.

Information and control instruments vis-à-vis management

The Executive Board meets as often as business requires, normally once a month. In the 2007 business year 2007, twelve meetings were held, each lasting from half a day to a full day.

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 CFO in consultation with the CEO; 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 businesses. 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 Delegate of the Board, 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 43.

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

As part of financial reporting, the Board of Directors is informed as a rule once a month in writing about the company’s current business performance and earnings situation by means of annotated income statements, key ratios and deviation analyses.

Division: **Bonding Systems, China**
Name: **Chunquiao Zhao**
Operational Area: **Packaging of adhesives**

The Board of Directors is, moreover, closely involved in the company's planning cycle. The existing strategy is subjected to a thorough review by the Board every first semester. 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 appraisal at the end of April and in a second appraisal at the end of September. On completion of the business year, the extent to which the budget has been reached is checked and deviations are analyzed. This analysis is used to derive appropriate measures, which are then implemented in the next planning cycle.

Internal auditing is administratively subordinate to the Head Corporate Center and is functionally independent. It acts autonomously and reports to the AFC.

The audits are conducted in accordance with an annual plan approved by the AFC. The following types of audit are distinguished: full scope audits, limited reviews, follow-up reviews, post acquisition audits, compliance audits und special engagements.

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

The internal auditing department consists of two auditors who are basically responsible for conducting the internal audits. In 2007, a total of nine full scope audits, one project audit and two limited reviews were carried out. They were limited to individual business processes and were linked with compliance audits focused on these processes. Each division was audited at least once in the course of a full scope audit.

In view of Article 728a Swiss Code of Obligations, which came into force on January 1, 2008, the internal audit department has provided local management of various group companies with support in introducing a uniform internal control system (ICS). As part of the introduction of the ICS, the key control mechanisms in various business processes were documented, and inadequate or missing control mechanisms were identified. Local management has been tasked with drawing up an action plan designed to eliminate any control shortcomings identified.

Risk management

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 drawn up and implemented based on the risks identified. Such risk engineering reports have been established 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 101 and 102 in this 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.

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 pages 34 and 35 of this Annual Report.

Management contracts

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

Compensations, shareholdings and loans

Content and method of determining the compensation and the shareholding programs

Board of Directors

The amount of compensation paid to the Board of Directors is worked out by the HRC in the spring for the current year and submitted to the full Board of Directors at its April meeting for approval. In order to determine the remuneration, the compensation paid to Board members of Forbo Holding Ltd is compared with that paid to Board members of comparable industrial companies based on information that is available from publicly accessible sources or is known to Board members from their experience of office in similar companies. No external consultants are co-opted for determining the remuneration.

The members of the Board of Directors receive a fixed remuneration, the amount of which is gradated according to whether the member is Chairman or a simple member of the Board and whether he is a member of the AFC or HRC. 40 % of the consideration is distributed to the Board of Directors as Forbo stock. These shares have a vesting period of three years. The shares are valued by taking the average price in the ten trading days after distribution of a dividend or repayment of par value. If no dividend is distributed, the average price during the first ten trading days in June of the relevant business year applies. Payment or distribution of the shares takes place in December.

The amount of the remuneration for each Board member in the year under review, along with the details of the valuation of the shares, can be found on page 118 of the financial report.

Executive Board

The amount of the fixed remuneration and the target bonus for the Executive Board is set by the HRC in the fall for the following year; members of the Executive Board are excluded from the deliberations. In order to determine the remuneration, the compensation paid to Forbo Executive Board members is compared with that paid to Executive Board members in comparable industrial companies based on information that is available from publicly accessible sources or is known to the members from their experience of office in similar companies. No external consultants are co-opted for determining the remuneration.

The compensation of the members of the Executive Board consists of a fixed base salary plus a performance-dependent bonus, which is determined in March, on completion of the business year, on the basis of individual and company target achievement.

The variable (performance-related) component is tied to financial (quantitative) and qualitative targets which are defined in accordance with the operational responsibility of the Executive Board member in question. The qualitative targets are geared to the company's long-term sustainable development and may account for between 15 % and 40 % of the total variable component; the remaining portion of the variable component depends on the achievement of the financial (quantitative) targets. Depending on the function of the Executive Board member in question, these may be Group or divisions objectives and refer in particular to net sales, EBITDA, EBIT, current assets and net income. The variable component may be as much as 120 % of the fixed remuneration, depending on the individual's target achievement.

Payment of a bonus is linked with the Management Investment Plan (MIP) launched in 2006. According to this plan, at least 50 % of the annual bonus of Executive Board members is channeled into the MIP. 25 % of these sums in the MIP are invested in options and 75 % in shares. Shares and options are subject to a three-year vesting period; the options have an exercise period of five years.

As of December 31, 2007 the Board of Directors and the Executive Board held the following options:

	Year allocation	Number	Term	Vested until	Ratio	Strike price in CHF
Board of Directors		0				
Executive Board	2005	4,200	15.06.2005 – 14.06.2010	14.06.2008	1:1	235.00
	2006	6,294	19.04.2006 – 19.04.2011	20.04.2009	1:1	370.00
	2007	5,250	15.03.2007 – 15.03.2012	15.03.2010	1:1	564.69

Of special note with regard to the MIP is the treatment of options in the event of termination of the employment contract, invalidity or retirement. If notice is given terminating the employment contract during the vesting period, the options are repurchased; the repurchase price corresponds to 100 % of the theoretical average value of the option on the basis of the share value during the last 14 trading days for the share before the employment contract was terminated. In the event of invalidity or retirement (including early retirement), the options – regardless of whether or not they are still subject to a vesting period – may be sold during the entire remaining exercise period from the moment the invalidity or retirement begins.

Division: **Movement Systems, North America**
Name: **Gary Grams**
Operational Area: **Department Manager Treadmills**

The amount of the remuneration for the Executive Board in the year under review, along with the details of the valuation and distribution of the shares, can be found on pages 87 and 118 of this report. This remuneration consists of the base salary, a performance-related bonus, the private use of the company car, employer contributions to the pension funds, AHV / ALV (old-age and unemployment insurance) as well as accident and company sick payment insurance.

With the exception of the severance payment for the Delegate of the Board of Directors and CEO mentioned below, no severance payments have been agreed with Executive Board members.

Delegate of the Board of Directors and CEO

The Delegate of the Board of Directors and CEO has a separate remuneration model which is independent of that of the Board of Directors and Executive Board; he is also not a participant in the Management Investment Plan (MIP).

In fall 2005, it was agreed with the Delegate of the Board of Directors and CEO that part of his compensation for 2005 and the compensation for the following five years (from 2006 up to and including 2010) would be paid largely in stock. In lieu of salary payments for the contractual period of employment until December 31, 2010, he was allocated a number of shares for the entire five-year term of the agreement (i.e. 2006 – 2010). 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. Under the terms of this model, the Delegate of the Board of Directors and CEO is entitled to a severance payment amounting to a maximum of 18 monthly salaries in the event of notice being given for which he was not at fault. This right lapses without compensation on expiry of the vesting period on December 31, 2010.

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

The relevant figures for this compensation model are found on page 118 of this report.

Shareholder’s 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 purchaser does not expressly declare that he has acquired and is holding the shares in his own name and for his own account. Pursuant to §4 of the Articles of Association as amended on April 27, 2007, nominees may be entered in the share register with voting rights for up to a maximum of 0.3 % of the registered share capital entered in the Commercial Register. The restriction also applies to shares that are subscribed or acquired through exercise of a subscription, option or convertible right. 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 General Meeting and the absolute majority of the par value of the shares represented.

Contrary to Article 689, para. 2, Swiss Code of Obligations, shareholders who are unable to attend the General Meeting in person may not be represented by any third party of their choosing. 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 §13 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 General Meeting, the dissolution or merger of the company, and amendment of §13 para. 4 of the Articles of Association require the approval of two thirds of the votes represented at the General Meeting and the absolute majority of the par value of the shares represented.

Convening of the General Meeting

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

Agenda

Shareholders who represent shares with a par value of at least CHF 1,000,000 or 1 % of the share capital may request that an item be placed on the agenda. This request must be communicated to the Board of Directors in writing, indicating the proposals, at least 45 days before the date of the General Meeting.

Entry in the share register

Pursuant to the Articles of Association, shareholders' rights of participation and representation at the General Meeting are determined by the status of the share register on the fourth day before the General Meeting.

Changes of control and defense measures

Duty to make an offer

The Articles of Association of Forbo Holding Ltd do not contain an opting-up clause or an opting-out clause pursuant to Article 22 SESTA. However, as regards the determination of the minimum price, the Articles of Association were modified in Article 32, para. 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.

Clause in changes of control

As of December 31, 2007, one member of the Executive Board is entitled to claim a severance pay-ment in the event that certain 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 have been the Forbo Group's (group) auditors since 1987. The predecessor company of PricewaterhouseCoopers had been Forbo's auditors since 1928. The current head auditor, Stefan Räbsamen, took over this function in 2002. The auditors are elected every year by the 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 0.7 million for 2007.

Information instruments of the external auditors

The Audit and Finance Committee (AFC) of Forbo Holding Ltd assesses and evaluates the proposals and statements of the Internal Audit and the external auditors. The AFC also obtains additional remarks in the form of Management Letters from the Internal Audit and the external auditors and assesses the measures taken by management. At the AFC's invitation, representatives of the external auditors attend the AFC meetings in an advisory capacity. The Chairman of the AFC reports on the AFC's activities at the meetings of the Board of Directors and states the opinion of the AFC on business items of decisive importance. On request, each member of the Board of Directors may inspect the minutes of the AFC meetings. The external auditors were not invited to any meetings of the Board of Directors in 2007 as there were no special incidents or discoveries. However, both the Head Internal Audit and the external auditors were present at the meeting of the AFC on the annual financial statements.

Division: **Bonding Systems, North America**
Name: **Gary Battistelli**
Operational Area: **Process Operator**

Information policy

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

Forbo provides a periodical and comprehensive communication with its shareholders, the capital market, the media and the public by reporting in timely fashion on business trends and activities relevant for the company. Both 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 as well as on the Internet at www.forbo.com. The General Meeting is an additional source of information. Periodical 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 Directive on ad hoc publicity of the SWX Swiss exchange are available at the following addresses:

www.forbo.com / Default.aspx?menuId=165
www.forbo.com / Default.aspx?menuId=248

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 can be found on the inside of the cover and further information on the share can be found on pages 56 and 57 of 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

The contact address for press information is:

Forbo International SA
Karin Marti, Head Corporate Communications
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Postfach 1041
CH-6341 Baar
Phone: +41 58 787 25 25

Nervous markets

For investors, 2007 was a mixed year. The markets advanced early in the year, but concerns surfaced about the imminent mortgages-subprime crisis and the deepening weakness of the American economy. This bad news, coupled with the loss of confidence by investors, impacted mainly on financial industry stocks, which suffered significant losses during the course of the year.

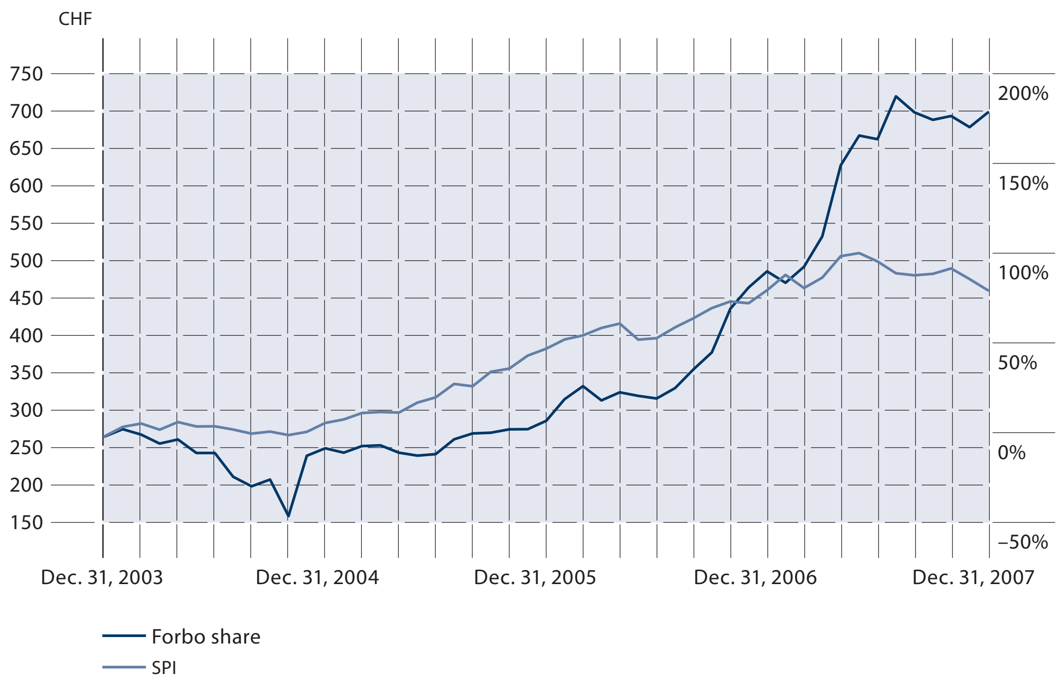
Companies that continued to enjoy investor confidence were less hard hit by these developments on the stock markets. One such company on the Swiss equity market was the Forbo Group. Following the presentation of the annual results for 2006 at the end of March 2007, the price of the Forbo share rose by 37 % in the first half of the year. This compares with an increase of about 9 % for the broad market (SPI).

Confidence in the company

Uncertainty worsened in the second half of 2007. In the second half of the year, the markets became increasingly nervous. This was reflected in the growing volatility of the capital and money markets in the face of the deepening subprime mortgage crisis. This fueled investors' worries that the financial market crisis might spill over into the real economy. As a result, by the end of the year many industrial stocks in the industrialized countries had lost all the price gains they had achieved in the first half year. This is also reflected in the trend of the SPI, which finished the year just barely in negative territory. Forbo, however, managed to live up to investors' expectations with the half-year report for 2007. The share posted further gains in the second half of the year, too.

By the end of 2007, the Forbo share closed at CHF 700, about 44 % above the year-end price for 2006. By contrast, the SPI was unchanged for this period. By year-end, the market capitalization of Forbo stood at CHF 1.717 billion.

The Forbo share in comparison to the SPI



Share capital		2007 Number	2006 Number	2005 Number	2004 Number	2003 Number
Issued registered shares[1]		**2,713,152**	2,713,152	2,713,152	2,713,152	1,356,576
Thereof:						
Shares outstanding		**2,453,379**	2,577,198	2,634,849	2,633,897	1,314,986
Treasury shares		**238,354**	114,535	56,884	57,836	20,171
Reserve shares (without dividend rights)		**21,419**	21,419	21,419	21,419	21,419
Issued nominal capital		CHF	CHF	CHF	CHF	CHF
Total		**37,984,128**	54,263,040	54,263,040	54,263,040	37,984,128
Thereof:						
Shares outstanding		**34,347,306**	51,543,960	52,696,980	52,677,940	36,819,608
Treasury shares		**3,336,956**	2,290,700	1,137,680	1,156,720	564,788
Reserve shares (without dividend rights)		**299,866**	428,380	428,380	428,380	599,732
Data per share		CHF	CHF	CHF	CHF	CHF
Shareholders' equity Group[2]		**281**	246	212	206	435
Earnings[3]		**44**	24	– 17	– 107	12
Gross dividend and cash distribution		**10**[4]	6	0	0	8
Gross dividend yield (in %)	High	**1.4**[5]	1.2[5]	0.0	0.0	1.8[5]
	Low	**2.2**[5]	2.1[5]	0.0	0.0	2.4[5]
Payout ratio[6] (in %)		**23.0**	25.0	0.0	0.0	65.0
Stock market statistics		CHF	CHF	CHF	CHF	CHF
Share prices[7]	High	**721.5**	490	285	301	326
	Low	**447**	291	233	155	250
	Year-end	**700**	486	285	248	264
Market capitalization (CHF m)[8]	High	**1,770**	1,263	751	794	575
	Low	**1,097**	750	614	408	441
	Year-end	**1,717**	1,253	751	653	465

1) Nominal value per share 2007: CHF 14; 2004 – 2006: CHF 20; 2003: CHF 28.
2) Adjustment from 2004 as per IAS 19 for actuarial profits / losses.
3) See the Financial Report on page 81, 'earnings per share' (CHF).
4) Proposal of the Board of Directors to the Annual General Meeting.
5) Calculated on the basis of a cash distribution in the form of a reduction in nominal value.
6) Gross cash distribution as a percentage of Group profit.
7) Adjusted for the capital increase in 2004.
8) Based on shares outstanding.

Contents

Consolidated Income Statement

CHF m	Notes	2007	2006
Net sales	1	**2,004.0**	**1,879.5**
Cost of goods sold		– 1,331.9	– 1,273.4
Gross profit		**672.1**	**606.1**
Development costs	2	– 31.6	– 31.3
Marketing and distribution costs		– 325.9	– 300.6
Administrative costs	3	– 137.7	– 131.9
Other operating expenses	4	– 14.5	– 32.7
Operating profit		**162.4**	**109.6**
Financial income	6	11.7	7.6
Financial expenses	7	– 19.3	– 21.0
Group profit before taxes		**154.8**	**96.2**
Income taxes	8	– 44.1	– 35.0
Group profit for the year		**110.7**	**61.2**
CHF			
Earnings per share (basic)	9	43.64	23.60
Earnings per share (diluted)	9	43.45	23.57

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

		31.12.2007	31.12.2006
Assets			
CHF m	Notes		
Non-current assets		**601.7**	**593.4**
Tangible assets	10	423.7	421.5
Intangible assets	11	151.9	149.2
Deferred taxes	8	20.7	20.5
Employee benefit assets	21	3.1	-
Investments in associates and other long-term assets	12	2.3	2.2
Current assets		**803.5**	**905.2**
Inventories	13	286.3	266.7
Trade receivables	14	287.7	293.7
Other receivables		29.5	25.1
Prepaid expenses and deferred charges		22.5	25.6
Cash and cash equivalents	15	177.5	294.1
Total assets		**1,405.2**	**1,498.6**
Shareholders' equity and liabilities			
Shareholders' equity	19	**713.1**	**638.6**
Share capital	17, 19	38.0	54.3
Treasury shares	19	– 4.0	– 3.5
Reserves and retained earnings	19	679.1	587.8
Non-current liabilities		**254.7**	**304.4**
Non-current financial debt	20	194.9	209.1
Employee benefit obligations	21	-	45.8
Non-current provisions	22	42.3	41.7
Deferred taxes	8	17.5	7.8
Current liabilities		**437.4**	**555.6**
Trade payables	23	138.1	131.5
Current provisions and accrued expenses	24	167.6	169.3
Current financial debt	25	24.2	128.3
Current tax liabilities		29.8	21.8
Other current liabilities		77.7	104.7
Total liabilities		**692.1**	**860.0**
Total shareholders' equity and liabilities		**1,405.2**	**1,498.6**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	2007	2006
Cash flow from operating activities		
CHF m		
Group profit for the year	110.7	61.2
Depreciation and impairment of tangible assets	58.2	65.7
Amortization and impairment of intangible assets	1.3	7.0
Net financial expenses	7.6	13.4
Tax expense	44.1	34.7
Taxes paid	– 34.6	– 21.5
Share-based payments	5.2	4.1
Increase / (decrease) in provisions and employee benefit obligations	1.2	– 15.5
Increase / (decrease) in current liabilities (excl. short-term debt)	– 25.6	22.8
Increase in current assets[1]	– 2.8	– 14.6
Total cash flow from operating activities	**165.3**	**157.3**
Cash flow from investing activities		
Acquisitions	– 21.9	– 3.6
Purchases of non-current assets	– 61.5	– 64.6
Proceeds from sale of non-current assets	6.8	1.2
Total cash flow from investing activities	**– 76.6**	**– 67.0**
Cash flow from financing activities		
Decrease in current financial debt	– 98.5	– 154.2
Interest paid	– 22.5	– 25.5
Interest received	9.9	7.5
Change in treasury shares	– 80.1	– 32.6
Reduction of par value	– 16.3	-
Total cash flow from financing activities	**– 207.5**	**– 204.8**
Change in cash and cash equivalents		
Decrease in cash and cash equivalents	– 118.8	– 114.5
Translation differences	2.2	4.0
Cash and cash equivalents at beginning of year	294.1	404.6
Cash and cash equivalents at year end[2]	**177.5**	**294.1**

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

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Recognized Income and Expenses

CHF m	Notes	2007	2006
Fair value adjustments of cash flow hedges		2.4	1.8
Fair value adjustments of net investment hedges		1.5	2.5
Actuarial profits from defined benefit plans, net	21	49.6	42.4
Translation differences		1.5	0.6
Net income recognized directly in equity (net)		**55.0**	**47.3**
Group profit for the year		110.7	61.2
Total recognized income for the year		**165.7**	**108.5**

Consolidated statement of changes in equity, see note 19 on page 89.

The accompanying notes are an integral part of these consolidated financial statements.

Methods Underlying Accounting Policies

General information

The consolidated financial statements of Forbo Holding Ltd were prepared in accordance with the International Financial Reporting Standards (IFRS) and in compliance with Swiss law. They were drawn up on the basis of the audited financial statements of the subsidiaries 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 12, 2008.

The consolidated statements have been prepared in accordance with the principle of historical purchase 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 Ltd and all domestic and foreign companies in which the parent company holds, directly or indirectly, more than 50 percent of voting rights or in which it bears managerial responsibility for their operations and financial policies. These companies are fully consolidated. Assets and liabilities as well as revenues and expenses are fully consolidated, while intra-group balances (receivables and payables, revenues and expenses) are eliminated upon consolidation. Minority interests in the equity and in net income of consolidated companies are reported separately but as part of Group equity capital and profit / loss. Inter-company profits on intra-group transactions and balances are eliminated in full. Capital consolidation is based on the purchase method. The purchase cost of an acquired company is offset against the fair value of the 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 from the date on which control is relinquished. The subsidiaries included in the scope of consolidation are listed under 'Group Companies'.

Joint ventures in which Forbo Holding Ltd holds, directly or indirectly, a 50 percent interest or in which the Forbo Group exercises joint control are included in the consolidated financial statements using the proportionate consolidation method.

Companies in which the Forbo Group has at least 20 percent of the voting rights but less than a 50 percent interest or in which it exercises a significant influence in some other way are treated according to the equity method. Interests of less than 20 percent are stated at fair value and are carried on the balance sheet under 'Other investments'. Unrealized profits and losses are included and reported in 'Reserves and retained earnings'. In the event of divestment or impairment, the related accumulated profit or loss is transferred to the income statement.

In the year under review, the scope of consolidation was expanded by the acquisition of OOO 'Linoleum', Russia, and Forbo Siegling Ceska republika s.r.o, Czech Republic.

Foreign currency translation

The individual companies generally prepare their financial statements in the 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 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 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:

			Income statement (Average exchange rates)		Balance sheet (Year-end exchange rates)	
			2007	2006	**2007**	2006
Currency						
CHF						
Euro countries	EUR	1	**1.65**	1.57	**1.66**	1.61
Sweden	SEK	100	**17.76**	17.00	**17.57**	17.77
United Kingdom	GBP	1	**2.40**	2.31	**2.27**	2.39
USA	USD	1	**1.20**	1.25	**1.14**	1.22
Canada	CAD	1	**1.12**	1.10	**1.16**	1.05
Japan	JPY	100	**1.02**	1.08	**1.01**	1.03

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 taxes

Income taxes constitute the total of current and deferred income taxes.

Current income taxes are determined on the basis of profits on which taxes are to be paid and the applicable tax laws of the individual countries. They are carried as an expense in the accounting period in which the profits are made. The profit on which taxes are to be paid differs from the profit or loss for the year in the income statement since it excludes expenses and revenues which in subsequent years are never taxable or deductible from taxes. The Group’s liability for current income taxes is calculated on the basis of applicable tax rates or those which are likely to be applicable as seen from the balance sheet date.

Deferred tax liabilities are recognized for temporary differences between assets and liabilities in the balance sheet and the amounts as measured for tax purposes if they result in taxable income in future. Deferred tax assets are reported for temporary differences that will result in deductible amounts in future periods and for tax effects from fiscally offsettable losses but only insofar as it is likely that sufficient taxable profits will be available against which these differences can be offset. Deferred taxes are not reported if the temporary differences arise 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 for the year.

Deferred tax liabilities and tax claims 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 and 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.

The book value of the deferred tax asset is checked each year on the balance sheet date and reduced if it is no longer likely that sufficient taxable profits are available to realize the asset either wholly or in part.

Current and deferred income taxes are recognized as an income tax benefit or expense in the income statement, except for net gains or losses directly recognized in equity, in which case, the tax is also recognized directly in equity.

Tangible assets

Property is stated at cost, the other tangible assets at cost less accumulated depreciation and impairment. Borrowing costs are not capitalized. Tangible 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. Tangible assets are depreciated on a straight-line basis over the shorter of their estimated useful life or the lease term. 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 systems 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 and losses from the disposal of plant, property and equipment are included in the income statement.

Properties that are mainly rented out and are kept for the purpose of obtaining rents and / or an increase in value are carried on the balance sheet as investment property at cost less accumulated depreciation and 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 generated on the acquisition of a subsidiary, associate or a jointly managed company represents the excess of the cost of an acquisition over the fair value of the Group’s share of net identifiable assets, debts and contingent debts of the subsidiary, associate or jointly managed company at the date acquisition. Goodwill and other intangible assets such as acquired trademarks and similar rights are initially carried in the balance sheet at the date of acquisition at cost. Goodwill and intangible assets with an indefinite useful life are not subject to amortization but 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 or losses on the disposal of a subsidiary, associate or jointly managed company include the carrying amount of goodwill relating to the entity sold.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another entity. In the Forbo Group financial assets include, in particular, the categories cash and cash equivalents, trade receivables and non-derivative financial assets held for trading. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes the US private placement, trade payables, liabilities to banks, finance lease payables and derivative financial liabilities. Financial instruments are generally recognized as soon as Forbo becomes a party to the contractual regulations of the financial instrument. However, in the case of regular way purchase or sale (purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned), the settlement date is relevant for the initial recognition and derecognition. This is the day on which the asset is delivered to or by Forbo. In general, financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the entity currently has a right to set off the recognized amounts and intends to settle on a net basis.

Financial assets

Financial assets are measured at fair value on initial recognition. For all financial assets not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are taken into account. The fair values recognized in the balance sheet generally correspond to the acquisition value of the financial assets. If these are not immediately available, they must be calculated using standard valuation models. For this calculation, the cash flows already fixed or determined by way of forward rates using the current yield curve are discounted at the measurement date using the discount factors calculated from the yield curve applicable at the reporting date. Middle rates are used.

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.

Trade receivables

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

Financial assets held for trading

Such financial assets are measured at fair value. These mainly include derivatives that are not part of an effective hedging relationship as set out in IAS 39 and therefore have to be classified as held for trading. Any gains or losses arising from subsequent measurement are recognized in the income statement.

The Forbo Group does not hold any financial instruments of the categories 'held for trading' or 'held-to-maturity' and has not made use of the option of designating financial assets upon initial recognition as financial assets at fair value through profit or loss.

Financial liabilities

Financial liabilities are measured at fair value on initial recognition. For all financial liabilities not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are also recognized.

Trade payables

Trade payables are non-interest-bearing short-term payables 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.

Derivative financial instruments and hedging transactions

Derivative financial instruments, which the Group uses solely to manage financial risks and not for speculation, are recognized at their fair value the first time they are reported on the balance sheet. The fair values are relevant for the subsequent valuation, too. The fair value of traded derivative financial instruments corresponds to the market value, which may be positive or negative. If no market value can be determined, the fair value must be calculated using recognized valuation models. In determining changes in fair values, it is decisive to know whether the hedging relationship of the derivative financial instrument is highly effective or not according to IAS 39. If the hedging relationship is not highly effective, hedge accounting in line with IAS 39 is not possible, and the fair values of the financial instruments are immediately recognized in the income statement. However, if the hedging relationship is highly effective, the hedging instrument is recognized as such.

Forbo employs the IAS 39 hedge accounting provisions especially in connection with the hedging of periodic interest payments and the repayment of the nominal amount of the US private placement.

Part of the derivatives employed are recognized as cash flow hedges in order to hedge the future cash flows from the US private placement against fluctuations. The effective portion of the change in value of the hedging instrument is recognized in equity, with no effect on the income statement, until the gain or loss on the hedged item is realized; the ineffective portion of the change in value of the hedging instrument is recognized in the income statement. The cumulative changes in market value are reported in the income statement when future firm commitments are recognized in the income statement.

Furthermore, the Group hedges some net investments in foreign subsidiaries by taking loans in foreign currencies. All gains and losses from the currency translation of these loans are recognized in equity and reported in the cumulative translation differences. Only if and when the subsidiary is divested are the cumulative valuation changes of the foreign currency loans and the valuation change of the hedged item recognized in the income statement.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes direct material and, if applicable, other direct costs and related production overheads to the extent that they are incurred in bringing the inventories to their present location and condition. The cost of inventories is assigned for the most part by using an average cost formula.

Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs for marketing, sales and distribution. An allowance is made for obsolete and slow-moving inventories.

Treasury shares

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

Share-based payment

Equity-settled share-based payments to employees are valued at the fair value of the equity instrument at the grant date. The fair value of the share options is determined by the Black-Scholes model. The anticipated maturity used in the model has been adjusted on the basis of best estimates with regard to the effects of non-transferability, restrictions on exercise and exercise behavior. Further information on determining the fair value of the share options is provided in note 18. The fair value determined on granting equity-settled share-based payments is charged over the vesting period to the income statement and is included in personnel expenditure.

Employee 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 / insurance plans 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 cash value of the expected future cash flows. The plan assets are stated at market value. Current service costs incurred in the relevant period, less employee contributions, are stated as personnel expenditure in the income statement. Past service costs resulting from changes in pension plans are recognized in the income statement on a straight-line basis over the remaining average period until an active employee has a vested pension right, 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 stated in equity with no effect on the income statement, but with due regard to 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. The provision is the best estimate on the balance sheet date required to meet the current obligation, taking into account the risks and uncertainties underlying the obligation.

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity. In the evaluation of a restructuring provision, only direct expenses for the restructuring are considered. Only those expenses are included, therefore, that are caused by the restructuring and are not connected with the ongoing business activities of the company.

Changes in accounting principles

In the current year, the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) published the following new and revised standards and interpretations:

IFRS 7 Financial instruments: Disclosures and IAS 1 Presentation of financial statements Additional information on the capital of the company.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies. IFRIC 7 indicates how a company has to restate its financial statements in the first year in which it identifies the existence of hyperinflation in the economy of its functional currency.

IFRIC 8 Scope of IFRS 2 clarifies that IFRS share-based payment applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration.

IFRIC 9 Reassessment of Embedded Derivatives. According to IFRIC 9, an assessment whether an embedded derivative is to be separated from the host contract and accounted for as if it were a stand-alone derivative is to be made only when the company becomes party to such a contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that would result from the original contract. In this case, reassessment is required. A first-time adopter must make its assessment whether an embedded derivative is to be separated on the basis of the conditions that existed when the entity first became a party to the contract unless there was a subsequent change in terms of the contract that significantly modified the cash flows.

IFRIC 10 Interim Financial Reporting and Impairment demands that a company shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

These standards and interpretations have been applied provided they are relevant for the Group’s business activities. The most important effects are described below:

IFRS 7 – Financial instruments: The aim of the new disclosure provisions in IFRS 7 is to provide information relevant for taking decisions on the amount, the timing and the probability of future cash flows that stem from financial instruments. The impact of this new standard is to extend the financial instruments presented in these consolidated financial statements.

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

Management assumptions and estimates

Critical accounting methods and assumptions

The application of the accounting principles requires that circumstances and estimates be assessed and assumptions be made with respect to the book values of assets and debts. The estimates and the underlying assumptions are based on past experience and on factors deemed to be relevant. The actual values may deviate from the estimates.

In the following, the main areas are indicated in which such a considerable risk may result from the uncertainty of estimates that a significant restatement of the reported assets and debts becomes necessary within the next business year.

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 these amounts 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 free 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 in expenses in the income statement. If the asset itself does not generate any independent cash flow, the impairment test for a cash-generating unit is to be performed. As a rule, the Group defines the cash-generating units on the basis of geographically cohesive markets, i.e. generally speaking an individual country. Important assumptions in these calculations include growth rates, margins, estimates of the future development of net current assets and discount rates. The actual cash flows may deviate significantly from the 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 value of the respective tangible and intangible assets is show 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 determine whether a plan is a defined contribution or a defined benefit plan by applying the principle of substance over form. In the case of defined benefit plans, actuarial assumptions are made to estimate future developments. These include assumptions and estimates relating to discount rate, 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 owing to a change in the economic situation or market conditions, the subsequent results may 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 schemes and on equity. The carrying amounts of the plan assets and liabilities carried in the balance sheet are set out in note 21.

Provisions

In the conduct of ordinary business activities, a liability of uncertain timing and / or 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 amounts of such provisions are shown in notes 22 and 24.

Income taxes

The measurement of current tax liabilities is subject to the interpretation of tax regulations 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 published, though they had not yet become compulsory by the time the consolidated financial statements were authorized by the Board of Directors:

IAS 23 (expanded) – Borrowing Costs (reporting periods beginning on or after January 1, 2009)
IAS 27 (revised) – Consolidated and Separate Financial Statements (reporting periods beginning on or after July 1, 2009)
IFRS 3 (revised) – Business Combinations (reporting periods beginning on or after July 1, 2009)
IFRS 8 – Operating Segments (reporting periods beginning on or after January 1, 2009)
IFRIC 11 – Group and Treasury Share Transactions under IFRS 2 (reporting periods beginning on or after March 1, 2007)
IFRIC 12 – Service Concession Arrangements (reporting periods beginning on or after Januar 1, 2008)
IFRIC 13 – Customer Loyalty Programmes (reporting periods beginning on or after July 1, 2008)
IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (reporting periods beginning on or after January 1, 2008)

These do not take effect until later on and were not adopted early in preparing this set of consolidated financial statements. Their effect on the consolidated financial statements has not yet been systematically analyzed.

1 Segment information

Forbo is a global producer of Flooring Systems, Bonding Systems and Movement Systems. The divisions have their own management structure and are run separately because the products that they manufacture, distribute and sell differ in terms of production, distribution and marketing. 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 distributes adhesives for industrial applications, the construction industry and synthetic polymers. Movement Systems develops, produces and sells high quality belts made of 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.

Sales between the divisions are effected at market prices. The divisions apply the same accounting principles as the Group.

The divisional results for the financial years 2007 and 2006 are as follows:

2007

CHF m	Flooring Systems	Bonding Systems	Movement Systems	Corporate	Total
Net sales to third parties	**864.4**	**763.7**	**375.9**	**-**	**2,004.0**
Inter-segment sales	0.3	24.4	0.1	– 24.8	-
Total net sales	**864.7**	**788.1**	**376.0**	**– 24.8**	**2,004.0**
Operating profit (EBIT)	**94.9**	**53.7**	**28.0**	**– 14.2**	**162.4**
Financial income					11.7
Financial expense					– 19.3
Group profit before taxes					**154.8**
Income taxes					– 44.1
Group profit for the year					**110.7**

2006

CHF m	Flooring Systems	Bonding Systems	Movement Systems	Corporate	Total
Net sales to third parties	**794.2**	**731.1**	**354.2**	**-**	**1,879.5**
Inter-segment sales	0.2	22.2	0.1	– 22.5	-
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					7.6
Financial expense					– 21.0
Group profit before taxes					**96.2**
Income taxes					– 35.0
Group profit for the year					**61.2**

Additional segment information from the income statement and the balance sheet is as follows:

Depreciation and impairment charges

2007

CHF m	Flooring Systems	Bonding Systems	Movement Systems	Corporate	Total
Depreciation / amortization	26.7	15.7	13.8	2.9	59.1
Impairment	0.4	-	-	-	0.4

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	-	13.4

Assets / liabilities and investments

2007

CHF m	Flooring Systems	Bonding Systems	Movement Systems	Corporate	Total
Operating assets	440.2	468.5	265.6	27.3	1,201.6
Operating liabilities	193.6	118.8	65.0	78.2	455.6
Investments	25.6	21.2	13.5	1.2	61.5

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

Geographic regions

2007

CHF m	Europe (euro zone)	Switzerland	Rest of Europe	America	Asia / Africa	Total
Net sales	876.4	48.0	383.6	508.1	187.9	2,004.0
Operating assets	619.0	117.0	168.4	217.5	79.7	1,201.6
Investments	35.6	3.1	10.5	7.1	5.2	61.5
Number of employees (December 31)	2,853	257	1,200	955	775	6,040

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 (December 31)	2,831	284	1,052	962	671	5,800

2 Development costs

Development costs, which include product development as well as sampling activities, amounted to CHF 31.6 million (2006: CHF 31.3 million).

3 Administrative costs

This item consists of the usual expenses related to administrative activities.

4 Other operating expenses

CHF m	2007	2006
Impairment	0.4	13.4
Other expenses	33.5	37.3
Other revenue	– 19.4	– 18.0
Total other operating expenses	**14.5**	**32.7**

Impairment of CHF 0.4 million relates to plant and machinery and is explained in note 10.

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	2007	2006
Salaries and wages	387.1	366.8
Employer's social security contributions	104.1	93.7
Total personnel expenses	**491.2**	**460.5**

The Group's headcount at December 31, 2007 was 6,040 employees (2006: 5,800). The average headcount over the year was 5,891 (2006: 5,839). Salaries and wages include share-based payments worth CHF 5.2 million.

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

6 Financial income

CHF m	2007	2006
Interest income[1]	9.8	7.0
Gains on financial assets or liabilities at fair value through profit or loss	1.9	0.6
Total financial income	**11.7**	**7.6**

1) This consists of interest accruing from cash and cash equivalents.

7 Financial expenses

CHF m	2007	2006
Interest expenditure from financial liabilities valued at amortized cost	21.8	23.3
Gains from derivative financial instruments used in hedging	– 4.0	– 4.0
Amortization of issuance costs for bonds and private placements	0.6	0.7
Amortization of costs of syndicated bank facility	-	0.3
Foreign exchange losses, net	– 15.1	– 18.6
Foreign exchange losses from derivative financial instruments used in hedging	8.6	10.0
Losses on financial assets or liabilities at fair value through profit or loss	7.4	9.3
Total financial expenses	**19.3**	**21.0**

The average interest rate on interest-bearing debt (bonds, private placements, long- and short-term bank loans) in 2007 was 5.6 % (2006: 5.6 %).

8 Income taxes

CHF m	2007	2006
Current taxes	40.5	32.3
Deferred taxes	3.6	2.7
Total income taxes	**44.1**	**35.0**

Analysis of tax expense

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

CHF m	2007	2006
Group profit before taxes	154.8	96.2
Tax expense at the expected tax rate	**– 45.2**	**– 30.5**
Tax effects of:		
Non tax-deductible expenses and tax-exempt income	– 1.0	– 2.2
Tax losses and temporary differences for which no deferred tax assets have been recognized	– 7.5	– 6.2
Write-off of deferred tax assets	– 0.6	– 0.1
Recognition / utilization of tax losses not capitalized in prior years	7.3	3.8
Changes of applicable deferred tax rates	– 0.5	0.1
Prior-year and other positions	3.4	0.1
Total income taxes	**– 44.1**	**– 35.0**

Since the Group operates around 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 financial year 2007 amounted to around 29 % (2006: 32 %).

The item 'Prior-year and other positions' comprises mainly corrections of tax provisions for taxed owed in previous years.

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:

2007

CHF m	Not capitalized	Capitalized	Total
Expiry after:			
1 year	2.8	-	2.8
2 years	3.1	-	3.1
3 years	3.8	-	3.8
4 years	119.5	-	119.5
5 years	3.6	-	3.6
More than 5 years	205.7	21.0	226.7
Total	**338.5**	**21.0**	**359.5**

2006

CHF m	Not capitalized	Capitalized	Total
Expiry after:			
1 year	0.8	-	0.8
2 years	3.6	-	3.6
3 years	4.6	-	4.6
4 years	4.1	-	4.1
5 years	160.5	-	160.5
More than 5 years	211.7	25.4	237.1
Total	**385.3**	**25.4**	**410.7**

In 2007, no tax loss carry forwards expired (2006: CHF 1.0 million).

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 realized simultaneously. The following amounts are shown in the balance sheet:

CHF m	31.12.2007	31.12.2006
Deferred tax assets	20.7	20.5
Deferred tax liabilities	– 17.5	– 7.8
Deferred tax assets, net	**3.2**	**12.7**

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 December 31, 2006	**13.2**	**7.7**	**24.0**	**9.0**	**5.7**	**59.6**
Increase / (decrease) deferred tax assets	1.2	– 0.5	– 3.1	– 2.8	1.8	– 3.4
At December 31, 2007	**14.4**	**7.2**	**20.9**	**6.2**	**7.5**	**56.2**

Deferred tax liabilities CHF m	Inventories	Property, plant and equipment	Provisions	Loss carry forwards	Other	Total
At December 31, 2006	**– 2.7**	**– 14.1**	**– 11.2**	**-**	**– 18.9**	**– 46.9**
Increase / (decrease) deferred tax liabilities	-	0.2	– 0.6	-	– 5.7	– 6.1
At December 31, 2007	**– 2.7**	**– 13.9**	**– 11.8**	**-**	**– 24.6**	**– 53.0**
Deferred tax assets / (liabilities), net at December 31, 2006	10.5	– 6.4	12.8	9.0	– 13.2	12.7
Deferred tax assets / (liabilities), net at December 31, 2007	11.7	– 6.7	9.1	6.2	– 17.1	3.2
Change in deferred tax assets / liabilities, net						**– 9.5**
Of which addition to scope of consolidation						0.3
Of which recognised in equity						– 6.2
Of which recognised in the income statement						– 3.6

9 Earnings per share

Undiluted earnings per share is calculated by dividing the net profit or loss for the year attributable to registered shareholders by the weighted average number of registered shares issued during the year or outstanding, 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.

	2007	2006
Group profit for the year (CHF m)	110.7	61.2
Weighted average number of outstanding shares	2,536,699	2,592,336
Undiluted earnings per share (CHF)	43.64	23.60
Adjustment for stock option plans	10,773	4,221
Weighted average number of outstanding shares used to calculate the diluted profit	2,547,472	2,596,557
Diluted earnings per share (CHF)	43.45	23.57

10 Property, plant and equipment

Cost

CHF m	Land and buildings	Machinery and equipment	Other tangible assets	Assets under construcion	Total tangible assets
At December 31, 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	-	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 December 31, 2006	**488.0**	**944.0**	**168.4**	**38.7**	**1,639.1**
Additions	9.6	12.1	4.0	34.6	60.3
Disposals	– 3.0	– 16.3	– 9.4	-	– 28.7
Change in scope of consolidation	2.8	0.1	0.1	-	3.0
Transfers	7.8	37.0	2.2	– 47.3	– 0.3
Translation differences	2.6	4.8	3.0	– 0.2	10.2
At December 31, 2007	**507.8**	**981.7**	**168.3**	**25.8**	**1,683.6**

Accumulated depreciation

CHF m	Land and buildings	Machinery and equipment	Other tangible assets	Assets under construcion	Total tangible assets
At December 31, 2005	**251.6**	**760.3**	**143.3**	**0.5**	**1,155.7**
Depreciation	12.2	35.5	9.5	-	57.2
Impairment	4.3	2.1	2.1	-	8.5
Disposals	– 0.2	– 13.8	– 7.2	-	– 21.2
Change in scope of consolidation	-	-	-	-	-
Transfers	-	-	– 5.1	-	– 5.1
Translation differences	3.5	16.3	2.7	-	22.5
At December 31, 2006	**271.4**	**800.4**	**145.3**	**0.5**	**1,217.6**
Depreciation	12.7	34.5	10.6	-	57.8
Impairment	-	0.4	-	-	0.4
Disposals	– 1.8	– 13.9	– 8.7	-	– 24.4
Change in scope of consolidation	-	-	-	-	-
Transfers	-	-	0.4	– 0.5	– 0.1
Translation differences	2.0	3.8	2.8	-	8.6
At December 31, 2007	**284.3**	**825.2**	**150.4**	**-**	**1,259.9**
Net book value					
At December 31, 2006	216.6	143.6	23.1	38.2	421.5
At December 31, 2007	223.5	156.5	17.9	25.8	423.7

The additions at cost include property, plant and equipment of CHF 0.4 million acquired in connection with the asset deals disclosed in footnote 29. Property, plant and equipment also include leased assets with a net book value of CHF 1.1 million (2006: CHF 1.3 million) as well as non-operating investment property with a net book value of CHF 2.3 million (2006: CHF 2.6 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 2,197 million (2006: CHF 2,194 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 costs amounted to CHF 31.6 million (2006: CHF 29.6 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 equipment and other assets. The impairment charge of CHF 0.4 million is included in 'Other operating expenses'.

11 Intangible assets

Cost

CHF m	Goodwill	Trademarks / patents	Other intangible assets	Total
At December 31, 2005	**126.8**	**54.6**	**5.7**	**187.1**
Additions	0.2	-	0.2	0.4
Disposals	– 0.5	-	– 0.5	– 1.0
Change in scope of consolidation	9.8	-	1.5	11.3
Transfers	-	-	7.2	7.2
Translation differences	– 2.2	-	0.4	– 1.8
At December 31, 2006	**134.1**	**54.6**	**14.5**	**203.2**
Additions	0.6	-	0.7	1.3
Disposals	– 1.6	-	– 0.4	– 2.0
Change in scope of consolidation	7.1	-	-	7.1
Transfers	-	-	0.3	0.3
Translation differences	– 2.6	0.1	0.3	– 2.2
At December 31, 2007	**137.6**	**54.7**	**15.4**	**207.7**

Accumulated amortization and impairment

CHF m	Goodwill	Trademarks / patents	Other intangible assets	Total
At December 31, 2005	**6.0**	**32.3**	**4.2**	**42.5**
Amortization	-	0.7	1.4	2.1
Impairment	4.9	-	-	4.9
Disposals	– 0.5	-	– 0.4	– 0.9
Change in scope of consolidation	-	-	-	-
Transfers	0.1	-	5.0	5.1
Translation differences	-	-	0.3	0.3
At December 31, 2006	**10.5**	**33.0**	**10.5**	**54.0**
Amortization	-	-	1.3	1.3
Impairment	-	-	-	-
Disposals	-	-	– 0.4	– 0.4
Change in scope of consolidation	-	-	-	-
Transfers	-	-	0.1	0.1
Translation differences	0.4	-	0.4	0.8
At December 31, 2007	**10.9**	**33.0**	**11.9**	**55.8**

Net book value

At December 31, 2006	123.6	21.6	4.0	149.2
At December 31, 2007	126.7	21.7	3.5	151.9

The additions at cost include intangible assets of CHF 0.5 million acquired in connection with the asset deals disclosed in footnote 29.

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 for the first five years are estimated by management; sales growth for the remaining useful life is assumed to be between 0 % and 3 %. The discounting rate is between 8 % and 15 % and corresponds to the weighted cost of capital before taxes plus an extra risk charge estimated by management.

The acquisition of Swift in 2002 is the main goodwill item; it is classified as recoverable.

12 Investments in associates and other non-current assets

CHF m	31.12.2007	31.12.2006
Other investments	1.9	1.8
Other non-current assets	0.4	0.4
Total investments in associates and other non-current assets	**2.3**	**2.2**

13 Inventories

CHF m	31.12.2007	31.12.2006
Raw materials and supplies	74.0	71.6
Work in progress	97.5	85.3
Finished goods	144.8	138.4
Allowance for product risks	– 30.0	– 28.6
Total inventories	**286.3**	**266.7**

The inventory allowance amounts to CHF 30.0 million (2006: CHF 28.6 million). Write-downs totaling CHF 1.4 million (2006: CHF 2.4 million) are recognized in 'Cost of goods sold' in the income statement.

14 Trade receivables

CHF m	31.12.2007	31.12.2006
Accounts receivable	276.6	278.2
Notes receivable	29.6	28.7
Allowance for doubtful trade receivables	– 18.5	– 13.2
Total trade receivables	**287.7**	**293.7**

Trade receivables after deduction of the allowance for doubtful receivables amounting to CHF 18.5 million (2006: CHF 13.2 million) came to CHF 287.7 million (2006: CHF 293.7 million).

As a rule, no default interest is charged for receivables past due. As regards the trade receivables for which no allowance has been made or which are past due, there is no indication, as of the reporting date, to suggest that the debtors will not meet their payment obligations. Provisions are set up in the form of a specific allowance. The need for a specific allowance arises in the event the debtor is unable to pay, the debt is more than 90 days old or the debtor has made it known that it is encountering payment difficulties. Allowances take sufficient account of default risks. In addition to the specific allowance, a portfolio allowance may be made. Trade receivables for which an additional allowance may potentially be necessary are grouped together on the basis of similar risk characteristics and reviewed to determine an allowance. Where appropriate, such an allowance is made. The decision whether to make a portfolio allowance in addition to a specific allowance depends on whether past loss experience supports a potential valuation allowance.

The table below shows trade receivables on the reporting date:

CHF m	31.12.2007	31.12.2006
Trade receivables (gross)	**306.2**	**306.9**
Of which not overdue	244.0	245.2
Of which past due in the following times frames:		
Less than 30 days	36.9	36.4
Between 31 and 90 days	14.0	13.9
Between 91 and 180 days	5.3	4.3
Between 181 and 360 days	4.0	4.3
Over 1 year	2.0	2.8
Allowance for doubtful trade receivables	– 18.5	– 13.2
Trade receivables	**287.7**	**293.7**

The trade receivables at gross value are in the following currencies:

CHF m	31.12.2007	31.12.2006
CHF	3.2	2.8
EUR	183.6	179.6
GBP	11.7	15.2
JPY	16.0	16.3
SEK	13.1	11.7
USD	43.8	51.8
Other	34.8	29.5
Trade receivables (gross)	**306.2**	**306.9**

The following table shows the movements of allowances on trade receivables during the financial year:

CHF m	2007	2006
At January 1	**– 13.2**	**– 16.6**
Additions	– 8.7	– 2.4
Release	1.3	2.0
Use	2.2	3.8
Change in scope of consolidation	-	0.1
Translation differences	– 0.1	– 0.1
At December 31	**– 18.5**	**– 13.2**

The set up and release of allowances on trade receivables are contained in the item 'Marketing and distribution costs' in the income statement.

15 Cash and cash equivalents

CHF m	31.12.2007	31.12.2006
Cash	0.2	0.1
Bank accounts	142.0	260.5
Short-term deposits with credit institutions	35.3	33.5
Total cash and cash equivalents	**177.5**	**294.1**

The movement of cash and cash equivalents can be found in the consolidated cash flow statement.

16 Pledged or assigned assets

There are no pledged or assigned assets.

17 Share capital

After the reduction in par value of CHF 6 from CHF 20 to CHF 14, the share capital of Forbo Holding Ltd stood at CHF 37,984,128 on December 31, 2007 (2006: CHF 54,263,040) and is divided into 2,713,152 registered shares with a par value of CHF 14 each. Of these, 21,419 registered shares without voting or dividend rights are at the disposal of the Board of Directors. Consequently, 2,691,733 registered shares were eligible for dividends in the financial year 2007. The changes in outstanding shares were as follows:

Changes in outstanding shares	31.12.2006	Change	31.12.2007
	Number	Number	Number
Total number of shares	**2,713,152**	**-**	**2,713,152**
Treasury shares			
Shares with dividend rights	114,535	123,819	238,354
Shares with no dividend rights	21,419	-	21,419
Total number of treasury shares	**135,954**	**123,819**	**259,773**
Total number of outstanding shares	**2,577,198**	**123,819**	**2,453,379**

18 Stock Option Plan

Members of the Board of Directors (until 2004) and of management were granted options as part of the Group's Stock Option Plan. 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.

With effect from March 15, 2006, the Board of Directors approved the introduction of the Management Investment Plan (MIP). The SOP was canceled on the introduction of the MIP. Within the framework of the MIP, participants receive at least 50 % of the variable component of their compensation in the form of shares and options. All shares are issued at the average market price of the first 14 trading days in January of the current year. The options are issued on the basis of a valuation prepared by an independent bank. The valuation is based on the average market price of the shares in the first 14 trading days in January of the current year. Equities and options are subject to a three-year vesting period. The term of the options is five years. The shares and options issued within the framework of the MIP are equity-settled.

Options

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

	2007		2006	
	Weighted average strike price	Number of options	Weighted average strike price	Number of options
Options outstanding on January 1	**295**	**15,804**	**263**	**13,486**
Granted	565	5,768	370	7,194
Forfeited	-	-	264	– 3,200
Exercised	233	– 2,360	331	– 356
Expired	-	-	442	– 1,320
Options outstanding on December 31	**383**	**19,212**	**295**	**15,804**

Of the 19,212 options outstanding (2006: 15,804) 1,000 were exercisable as per December 31, 2007 (2006: 960). The exercise of 2,360 options (2006: 356) resulted in the issue of 4,720 Forbo Holding shares (2006: 712) at a weighted average issue price of CHF 233 (2006: CHF 331). The weighted average share price on the exercise days was CHF 655 (2006: CHF 377). The expense for equity-settled options charged to the income statement in application of IFRS 2 amounted to CHF 0.7 million (2006: CHF 0.6 million).

The following table summarizes information about the options outstanding at December 31, 2007:

Series	Strike price (CHF)	Number of outstanding options	Average remaining term (years)	Number of exercisable options
2004	212	1,000	1.6	1,000
2005	235	5,250	2.5	-
2006	370	7,194	3.3	-
2007	565	5,768	4.3	-
Total		**19,212**	**3.3**	**1,000**

In the year under review, a total of 5,768 equity-settled options (2006: 7,194) were granted as part of the MIP. The fair value of these options amounted to CHF 75.60 (2006: CHF 45.80). The options were valued in accordance with the Black-Scholes model using the following input factors: share price at issue date CHF 475 (2006: CHF 320), strike price CHF 565 (2006: CHF 370), volatility 27.4 % (2006: 24.3 %), expected life of the financial instrument 4.1 years (2006: 4.0 years), dividend yield 1.5 % (2006: 1.5 %) and risk-free interest rate 2.6 % (2006: 2.5 %). The expected volatility is based on adjusted historical market data over a period comparable to the expected life of the options. The expected useful life applied in the calculation model has been adapted, using the best possible estimate, to the limitation of exercise rights and to assessment of possible exercise behavior.

Shares

The number of shares of Forbo Holding Ltd issued as part of the MIP in the year under review was 1,455 (2006: 1,870). The share price at measurement date was CHF 475 (2006: CHF 320).

The Delegate of the Board of Directors and CEO is remunerated primarily with shares. Based on an employment contract signed in 2005, 47,395 shares were issued in 2006 at a market value of CHF 270 each for the entire five-year contract term (2006 – 2010). These shares are blocked until December 31, 2010. The corresponding personnel expenditure is charged to the income statement over the entire contractual period on a pro rata basis.

In the year under review, the amount charged to the income statement in application of IFRS 2 for shares issued amounted to CHF 4.5 million (2006: CHF 3.1 million).

19 Consolidated statement of changes in equity

2007

CHF m	Share capital	Treasury shares	Reserves	Cash flow hedge reserve	Net investment hedge reserve	Translation differences	Total
At December 31, 2006	**54.3**	**– 3.5**	**735.4**	**– 8.3**	**– 9.2**	**– 130.1**	**638.6**
Total income and expenses recognized in equity	-	-	160.3	2.4	1.5	1.5	165.7
Share-based compensation	-	0.2	5.0	-	-	-	5.2
Treasury shares	-	– 1.7	– 79.4	-	-	-	– 81.1
Reduction in par value	– 16.3	1.0	-	-	-	-	– 15.3
At December 31, 2007	**38.0**	**– 4.0**	**821.3**	**– 5.9**	**– 7.7**	**– 128.6**	**713.1**

2006

CHF m	Share capital	Treasury shares	Reserves	Cash flow hedge reserve	Net investment hedge reserve	Translation differences	Total
At December 31, 2005	**54.3**	**– 1.6**	**647.8**	**-**	**-**	**– 142.4**	**558.1**
Reclassification	-	-	10.1	– 10.1	– 11.7	11.7	-
At December 31, 2005	**54.3**	**– 1.6**	**657.9**	**– 10.1**	**– 11.7**	**– 130.7**	**558.1**
Total income and expenses recognized in equity	-	-	103.6	1.8	2.5	0.6	108.5
Share-based compensation	-	0.2	3.9	-	-	-	4.1
Treasury shares	-	– 2.1	– 30.5	-	-	-	– 32.6
Other	-	-	0.5	-	-	-	0.5
At December 31, 2006	**54.3**	**– 3.5**	**735.4**	**– 8.3**	**– 9.2**	**– 130.1**	**638.6**

20 Non-current financial debt

CHF m	31.12.2007	31.12.2006
Outstanding private placements	195.2	335.7
Unamortized issuance cost	– 0.8	– 1.4
Total outstanding bonds and private placements	**194.4**	**334.3**
Lease obligations	0.9	1.1
Less current portion	– 0.4	– 126.3
Total non-current financial debt	**194.9**	**209.1**

Maturities of non-current financial debt

CHF m	31.12.2007	31.12.2006
After 1 year	138.7	0.3
After 2 years	0.2	149.2
After 3 years	-	-
After 4 years	56.8	-
After 5 and more years	-	61.0
Unamortized cost	– 0.8	– 1.4
Total	**194.9**	**209.1**

The following derivatives were used in connection with hedging the private placement:

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 December 31, 2006	6	239.3	– 68.9
Interest rate swaps and cross-currency interest rate swaps at December 31, 2007	3	120.3	– 45.5

Valued at fair value in accordance with IAS 39. The net fair value (total of all positive and negative fair values) at December 31, 2007 was CHF 45.5 million (2006: CHF 68.9 million). It is contained in the item 'Other current liabilities'.

The cost of private placements is amortized over the respective terms.

Total outstanding bonds and private placements at 31.12.2007

Company	Currency	m	Term	Interest rate
Forbo NL Holding B.V. (guaranteed by Forbo Holding Ltd)	USD	122.0	2002 – 2009	5.79 %
Forbo NL Holding B.V. (guaranteed by Forbo Holding Ltd)	USD	50.0	2002 – 2012	6.29 %

Covenants related to non-current financial debt

The private placements (USD 172.0 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 Ltd for obligations of its subsidiaries).

21 Employee benefit obligations

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

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

CHF m	2007	2006
Current service cost, net	14.4	16.8
Interest costs on employment benefit obligations	37.3	34.1
Expected return on plan assets	– 38.3	– 38.9
Curtailment loss	– 1.2	-
Net periodic pension cost	**12.2**	**12.0**

The actual return on plan assets came to CHF 11.7 million (2006: CHF 45.5 million).

The movements in liabilities under the defined benefit plans are as follows:

CHF m	2007	2006
At January 1	**807.2**	**789.6**
Total pension costs, gross	19.9	22.1
Interest costs on employment benefit obligations	37.3	34.1
Benefits paid	– 34.4	– 36.7
Actuarial gains	– 91.6	– 35.8
Inclusion of new pension plans	6.3	4.1
Plan curtailments and compensations	– 5.1	-
Translation differences	– 4.7	29.8
At December 31	**734.9**	**807.2**

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

CHF m	2007	2006
At January 1	**761.4**	**688.5**
Expected return on plan assets	38.3	38.9
Employer contributions	14.0	26.5
Employee contributions	5.5	5.3
Actuarial gains / (losses)	– 26.6	6.6
Benefits paid	– 34.4	– 36.7
Inclusion of new pension plans	3.4	3.8
Plan curtailments and compensations	– 4.0	-
Translation differences	– 7.1	28.5
At December 31	**750.5**	**761.4**

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

CHF m	31.12.2007	31.12.2006	31.12.2005
Present value of defined benefit obligation	734.9	807.2	789.6
Fair value of plan assets	– 750.5	– 761.4	– 688.5
(Net assets) / liabilities	**– 15.6**	**45.8**	**101.1**
Net assets not recognized in the balance sheet	12.5	-	-
(Net assets) / liabilities recognized in the balance sheet	**– 3.1**	**45.8**	**101.1**

CHF m	2007	2006	2005
Experience adjustment arising on the plan obligation			
Actuarial gains	0.3	15.5	26.2
Percentage of plan obligation	0 %	2.0 %	3.7 %
Experience adjustment arising on the plan assets			
Actuarial gains / (losses)	– 26.6	6.6	55.3
Percentage of plan assets	– 3.5 %	1.0 %	9.3 %

In 2005, actuarial gains and losses and adjustments in light of past experience, which are used for valuing assets and liabilities, were recognized in the balance sheet for the first time under pension liabilities and charged directly to equity.

Most of the pension plans are financed in whole or in part via a fund. Pension obligations amounting to CHF 35.8 million (2006: CHF 32.3 million) of a total of CHF 734.9 million (2006: CHF 807.2 million) are not financed via a fund.

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

CHF m	2007	2006
Net liabilities at January 1	**45.8**	**101.1**
Total pension expenses include in personnel expenses	12.2	12.0
Employer contributions	– 14.0	– 26.5
Actuarial gains	– 52.5	– 42.4
Inclusion of new pension plans	2.9	0.3
Translation differences	2.5	1.3
(Net assets) / liabilities at December 31	**– 3.1**	**45.8**

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

CHF m	2007	2006
Accumulated gains and losses recognized		
Actuarial gains / (losses) at January 1	15.6	– 25.6
Actuarial gains in the current period	52.5	42.4
Translation differences	– 0.7	– 1.2
Total actuarial gains at December 31	**67.4**	**15.6**

The actuarial gain in 2007 includes losses of CHF 26.3 million (2006: gain of CHF 22.1 million) due to experience adjustments and a gain of CHF 91.3 million (2006: CHF 20.3 million) due to changes in assumptions.

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

%	2007	2006
Discount rate	5.3	4.6
Expected return on plan assets	5.0	5.6
Future salary increases	2.8	3.2

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 at December 31, 2007 and 2006 is shown below by investment category:

%	2007	2006
Shares	28	46
Fixed-interest bonds	68	48
Real estate	1	1
Cash and other investments	3	5
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, which is included in personnel expenses, amounted to CHF 5.4 million in 2006 (2006: CHF 6.5 million).

22 Non-current provisions

CHF m	Warranty provisions	Environ-mental provisions	Provisions for legal claims	Personnel provisions	Other provisions	Total provisions
At December 31, 2006	**6.2**	**6.0**	**13.4**	**4.8**	**11.3**	**41.7**
Additions	0.5	0.3	7.7	0.6	-	9.1
Disbursements / release	– 0.1	– 0.2	– 2.3	– 4.3	– 2.0	– 8.9
Translation differences	0.2	0.1	– 0.1	0.1	0.1	0.4
At December 31, 2007	**6.8**	**6.2**	**18.7**	**1.2**	**9.4**	**42.3**

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 essentially to product liability claims in which the Group is involved in the course of its normal conduct of business and to trademark litigation. 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.

23 Trade payables

CHF m	31.12.2007	31.12.2006
Accounts payable	132.2	126.1
Notes payable	5.9	5.4
Total trade payables	**138.1**	**131.5**

24 Current provisions and accrued expenses

CHF m	31.12.2007	31.12.2006
Provisions for restructuring	7.4	8.6
Accrued expenses for compensation and benefits to employees	64.9	63.2
Other accrued expenses	95.3	97.5
Total current provisions and accrued expenses	**167.6**	**169.3**

Of the provisions for restructuring, CHF 1.2 million was used for the specific purpose in the year under review. 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.

25 Current financial debt

CHF m	31.12.2007	31.12.2006
Current bank loans and overdrafts	23.8	2.0
Current portion of non-current debt	0.4	126.3
Total current financial debt	**24.2**	**128.3**

26 Commitments and contingent liabilities

CHF m	31.12.2007	31.12.2006
Commitments and contingent liabilities	0.9	0.7

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

27 Leasing

	Operational leasing	
CHF m	2007	2006
Leasing obligation up to 1 year	10.4	9.3
Leasing obligation 2 – 5 years	16.1	18.1
Leasing obligations of more than 5 years	0.6	0.9
Total	**27.1**	**28.3**

The expense for operational leasing charged to the income statement came to CHF 25.5 million in 2007 (2006: CHF 23.3 million). The Group has no significant operational leasing contracts. The liability from financial leasing stood at CHF 0.9 million at year-end (2006: CHF 1.1 million) and is included in 'Current financial debt'.

28 Additional information on financial instruments

The financial instruments held on the balance sheet date can be allocated to the following categories as per IAS 39:

31.12.2007 CHF m	Cash and cash equivalents	Loans and receivables	Financial assets at fair value through profit or loss
Aktiva			
Trade receivables and other receivables	-	317.2	-
Cash and cash equivalents	177.5	-	-
Financial derivatives	-	-	-
Total	**177.5**	**317.2**	**-**

CHF m	Liabilities at fair value through profit and loss	Derivatives used for hedging	Financial instruments held for trading
Passiva			
Interest-yielding debt	219.1	-	-
Financial derivatives	-	34.1	11.7
Trade payables and other payables[1)]	170.3	-	-
Total	**389.4**	**34.1**	**11.7**

31.12.2006 CHF m	Cash and cash equivalents	Loans and receivables	Financial assets at fair value through profit or loss
Aktiva			
Trade receivables and other receivables	-	318.8	-
Cash and cash equivalents	294.1	-	-
Financial derivatives	-	-	1.1
Total	**294.1**	**318.8**	**1.1**

CHF m	Liabilities at fair value through profit and loss	Derivatives used for hedging	Financial instruments held for trading
Passiva			
Interest-yielding debt	377.4	-	-
Financial derivatives	-	29.7	39.2
Trade payables and other payables[1)]	167.2	-	-
Total	**544.6**	**29.7**	**39.2**

1) Excl. sales tax.

29 Acquisition of subsidiaries

With effect on December 5, 2007, the Forbo Group acquired 100 % of the issued capital of OOO 'Linoleum'. OOO 'Linoleum' is a flooring manufacturer domiciled in Moscow, Russia, and specializes in the production and marketing of vinyl flooring. OOO 'Linoleum' is reported as part of the Flooring Systems division. The cost of the acquisition was CHF 10.6 million and consists of liquid funds amounting to CHF 10.1 million and directly attributable transaction costs of CHF 0.5 million.

With effect on November 21, 2007, the Group acquired the assets of Specialpipe s.r.l. domiciled in Erban, Italy. The acquired assets of Specialpipe s.r.l. were integrated in Forbo Siegling Italia S.p.A and are reported as part of the Movement Systems division. The cost of the acquisition was CHF 0.6 million and consists of liquid funds amounting to CHF 0.55 million and directly attributable transaction costs of CHF 0.05 million.

With effect on October 24, 2007, the Group acquired the assets of Rasmussen & Möller domiciled in Fredrikssund, Denmark. Rasmussen & Möller markets conveyor and flat belts for the local market. The acquired assets of Rasmussen & Möller were integrated in Forbo Siegling Danmark A / S and are reported as part of the Movement Systems division. The cost of the acquisition was CHF 2.2 million and consists of liquid funds amounting to CHF 2.0 million and directly attributable transaction costs of CHF 0.2 million.

With effect on May 31, 2007 the Group acquired 100 % of the issued capital of Forbo Siegling Ceska republika s.r.o (formerly Jaros Service s.r.o.). This company is a distributor which sells conveyor and flat belts in the Czech market. Forbo Siegling Ceska republika s.r.o is reported as part of the Movement Systems division. The cost of the acquisition was CHF 0.9 million and consists of liquid funds.

CHF m	2007	2006
Portion of purchase price paid in cash	13.5	3.6
Earn-out component	-	9.3
Directly allocable acquisition costs	0.8	-
Total purchase price	**14.3**	**12.9**
Fair value of the acquired net assets	– 6.7	– 3.1
Goodwill	**7.6**	**9.8**

The acquired net assets break down as follows:

	31.12.2007			31.12.2006		
	Adjustments to the			Adjustments to the		
CHF m	Book value	Fair value	Fair value	Book value	Fair value	Fair value
Property, plant and equipment	2,5	0,9	3,4	2,5	–	2,5
Intangible assets	-	0,5	0,5	–	1,5	1,5
Inventories	2,4	– 0,2	2,2	2,2	–	2,2
Receivables	0,6	-	0,6	0,3	–	0,3
Cash	0,2	-	0,2	-	–	-
Other assets	0,4	-	0,4			
Short-term provisions and accrued expenses	– 0,7	0,1	– 0,6	– 3,4	–	– 3,4
Fair value of the net assets	**5,4**	**1,3**	**6,7**	**1,6**	**1,5**	**3,1**
Purchase price paid in cash			– 14,3			– 3,6
Cash acquired			0,2			-
Net cash outflow for payment			**– 14,1**			**– 3,6**

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

The net cash outflow from company acquisitions in 2007 is CHF 23.3 million. In addition to the net cash outflow for acquisitions effected in the year under review amounting to CHF 14.1 million, it comprised the actual earn-out component of CHF 9.2 million in 2007 in connection with the acquisition of Victa Technology Holdings Limited, Hong Kong, effected in the 2006 business year.

The acquired goodwill consists of assets that cannot be individually identified and reliably identified, and of the synergies which can be achieved in connection with the existing Flooring Systems and Movement Systems divisions.

The net profit of the acquired companies since the time of acquisition is reported in the consolidated annual statements and amounts to CHF 0.1 million. On the assumption that all company acquisitions were completed with the 2007 business year as per January 1, 2007 the net sales for the reporting period would have been CHF 9.5 million higher and net profit as well as equity would have remained unchanged.

30 Related party transactions

CHF m	Executive Board 2007	Executive Board 2006	Members of the Board of Directors 2007	Members of the Board of Directors 2006	Total 2007	Total 2006
Payments due in the short term	2.0	3.2	0.7	0.5	2.7	3.7
Contribution to pension funds	0.3	0.3	0.2	0.2	0.5	0.5
Share-based compensations	2.0	1.3	2.8	2.8	4.8	4.1
Total	**4.3**	**4.8**	**3.7**	**3.5**	**8.0**	**8.3**

In order to ensure comparability with the information provided in connection with the introduction of the transparency law (see Note 17 'Disclosure of compensation to the Board of Directors and Executive Board as per Article 663b bis and Article 663c Swiss Code of Obligations' on page 118 of the financial Report of Forbo Holding Ltd), compensation to the Delegate of the Board of Directors and CEO of CHF 3.1 million is reported in the compensation to the Board of Directors for the first time. This figure has been restated accordingly.

The short-term compensation to the Executive Board in the 2007 business year consists mainly of the gross base salary, private use of the company car and social insurance payments made by the company. Employer contributions to pension funds are disclosed separately. Share-based compensation to the Executive Board comprises mainly the estimated result-driven variable component as part of the MIP (see Note 18 'Stock option plans') for the 2007 business year (payable in 2008).

The short-term compensation to the Board of Directors amounted to CHF 0.5 million (2006: CHF 0.4 million) for the Delegate of the Board of Directors and CEO. This comprises annual amounts of CHF 0.15 million for payment of employee contributions to the pension fund and social insurances and of CHF 0.35 million for private use of the company car and – a new element – employer contributions to AHV / ALV (old-age and unemployment insurance) plus accident and daily benefits insurance. Employer contributions to pension funds are disclosed separately. The short-term compensation for non-executive Board members of Forbo Holding Ltd amounts to CHF 0.4 million (2006: CHF 0.2 million). The share-based compensation to the Board of Directors includes the annual portion of the Forbo shares allocated to the Delegate of the Board of Directors and CEO amounting to CHF 2.6 million (2006: CHF 2.6 million) and the 349 Forbo shares allocated to the non-executive Board members in 2007 at a market value of CHF 0.2 million (2006: CHF 0.2 million).

The Group has a 33⅓ % interest in Enia Carpet Group. In 2007, the Forbo Group bought products from Enia Carpet Group worth CHF 3.7 million (2006: CHF 4.8 million), while Enia Carpet Group bought products from the Forbo Group worth CHF 0.1 million (2006: CHF 2.5 million).

31 Financial risk management

In its financial operations, the Forbo Group uses derivative and non-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 assessed and monitored 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 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 line with an ongoing assessment of exchange rate movements. The Group only uses foreign exchange forward and option contracts with maturities of up to twelve months.

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

The following table shows the sensitivity of profit before tax and of equity to changes in the exchange rate of the US dollar and euro against the Swiss franc.

2007

CHF m	Change in exchange rate	Impact on profit before tax	Impact on equity
EUR / CHF	5 %	– 1.0	– 5.7
	– 5 %	1.0	5.7
USD / CHF	5 %	0.1	7.8
	– 5 %	– 0.1	– 7.8
EUR / USD	5 %	0.5	-
	– 5 %	– 0.5	-

2006

CHF m	Change in exchange rate	Impact on profit before tax	Impact on equity
EUR / CHF	5 %	– 4.4	– 6.7
	– 5 %	4.4	6.7
USD / CHF	5 %	0.5	8.2
	– 5 %	– 0.5	– 8.2
	5 %	0.5	-
EUR / USD	– 5 %	– 0.5	-

Management of interest rate risks

Interest rate risks arise from the fact that the market value of interest-bearing assets and liabilities is subject to fluctuations in interest rates. Since these risks may have a negative effect on net financial profit and equity, the Group uses derivative financial instruments to manage them. The following table shows the sensitivity of profit before tax and of equity to changes in interest rates. The effects on cash, interest bearing liabilities and derivative financial instruments are shown separately.

As the closing balances of cash and cash equivalents do not provide meaningful information about the interest rate sensitivities the arithmetic average of opening and closing balances was calculated.

2007

CHF m	Change in interest rate	Impact on profit before tax	Impact on equity
EUR	50bp	0.7	0.3
	– 50bp	– 0.7	– 0.3
USD	50bp	– 0.1	– 0.9
	– 50bp	0.1	0.9

2006

CHF m	Change in interest rate	Impact on profit before tax	Impact on equity
EUR	50bp	0.9	0.9
	– 50bp	– 0.9	– 0.9
USD	50bp	– 1.0	– 1.6
	– 50bp	1.0	1.6

Management of liquidity risks

Group companies need sufficient cash in order to meet their obligations. Subject to the guidelines issued by 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 to meet its liquidity requirements at all times. At present, the Group regards a liquidity stock of CHF 80.0 million as sufficient to meet its payment obligations at all times.

The maturity structure of the existing financial liabilities can be seen in the following table. They correspond to contractually agreed maturities and represent nominal payment outflows. Since IFRS 7 demands the presentation of cash outflows, potential cash inflows, for instance from derivative financial instruments, are not shown.

31.12.2007 CHF m	Remaining term to maturity up to1 year	Remaining term to maturity 1 – 2 years	Remaining term to maturity 2 – 5 years	Remaining term to maturity over 5 years
Liabilities to credit institutions	23.9	-	-	-
Interest-free liabilities	170.2	-	-	0.1
Liabilities from leasing contracts	0.4	0.3	0.2	-
Liability from private placement	11.6	149.1	67.1	-
Derivative financial liabilities	31.6	173.9	-	-

31.12.2006 CHF m	Remaining term to maturity up to1 year	Remaining term to maturity 1 – 2 years	Remaining term to maturity 2 – 5 years	Remaining term to maturity over 5 years
Liabilities to credit institutions	2.0	-	-	-
Interest-free liabilities	165.8	-	-	0.1
Liabilities from leasing contracts	0.5	0.3	0.3	-
Liability from private placement	138.3	12.5	168.2	64.4
Derivative financial liabilities	154.2	8.3	170.9	-

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 diversified by the company’s widespread customer base in various business segments and geographic regions. With regard to counterparty risk exposure to financial institutions, Group-wide directives stipulate that financial investments and other financial transactions are to be made only with first-class banks. The Group considers a bank first-class if it has a credit rating of at least single A. Given the excellent credit ratings of the Group’s counterparties, the Group does not expect any of them to fail to meet their obligations.

Capital management

The Group understands capital management as the management of the consolidated equity position. This includes the paid-in share capital, the retained earnings and the treasury shares position. The purpose of capital management is to ensure the going concern of the Group, to ensure financial flexibility for investments and to attain a risk-adjusted return for the investor.

Changing economic conditions can influence the capital management and lead to modifications of the equity structure of the Group. Such modifications can take place in form of dividend distributions, capital repayments and capital increases.

A covenant exists in connection with the US private placement defining the minimum requirement for the consolidated equity as CHF 535.5 million.

32 Events after balance sheet date

Focus Capital Investors, Inc., New York, announced on January 17, 2008 that as of January 11, 2008 its interest in Forbo Holding Ltd had risen above the 10 % threshold due to the acquisition of registered shares and the new proportion of voting rights would correspond to 10,71 %. The same company announced on February 25, 2008 that due to the sale of registered shares on January 19, 2008 their interest had fallen below the threshold of 5 % and the new proportion of voting rights would correspond to 3.51 %. Eventually, on February 27, 2008 the same company announced that their interest had fallen below the 3 % threshold to 0 % (see note 'Significant shareholders' in the financial statements of Forbo Holding Ltd on page 117).

Group Companies (December 31, 2007)

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			
Forbo Siegling Pty. Ltd.	Wetherill Park, NSW		AUD	3,000,000	100 %			S	
Austria									
Forbo-Contel Handelsges.m.b.H.	Vienna		EUR	73,000	100 %	S			
Forbo Siegling Austria Ges.m.b.H.	Vienna		EUR	330,000	100 %			S	
Belgium									
Forbo Adhesives België BVBA	Dendermonde		EUR	61,000	100 %		S		
Forbo Flooring N.V.	Dilbeek		EUR	250,000	100 %	S			
Brazil									
Forbo Pisos Ltda.	São Paulo		BRL	10,000	100 %	S			
Forbo Siegling Brasil Ltda.	São Paulo	N	BRL	7,008,746	50 %			MS	
Canada									
Forbo Adhesives (Canada), Ltd.	St. John		CAD	3,500,157	100 %		MS		
Forbo Flooring, Inc.	Toronto		CAD	500,000	100 %	S			
Forbo Siegling, Ltd.	Toronto		CAD	501,000	100 %			S	
Chile									
Forbo Siegling Chile S.A.	Santiago	N	CLP	335,631,092	50 %			MS	
Czech Republic									
Forbo s.r.o.	Prague		CZK	500,000	100 %	S	S		
Forbo Siegling Ceska republika s.r.o.	Liberec		CZK	100,000	100 %			S	
Denmark									
Forbo Flooring A / S	Glostrup		DKK	500,000	100 %	S			
Forbo Siegling Danmark A / S	Brøndby		DKK	1 000,000	100 %			MS	
Finland									
Oy Forbo Adhesives Finland Ab	Esbo		EUR	25,280	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	1,440,000	100 %		MS		
Forbo 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	1,834,290	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	5,120,000	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	
Forbo Siegling GmbH	Hanover		EUR	10,230,000	100 %			MS	
Forbo Uli-Chemie GmbH	Lörrach		EUR	110,000	100 %		S		
Greece									
Forbo Adhesives Greece S.A.I.C	Kallithea (Athens)		EUR	928,000	100 %		MS		
Hong Kong									
Victa Technology Holdings (Hong Kong) Ltd.	Hong Kong		HKD	1,000,000	100 %				H
Hungary									
Forbo Adhesives Hungary Kft.	Budapest		HUF	3,000,000	100 %		V		
Forbo Siegling Hungária Kft.	Budapest		HUF	30,000,000	100 %			V	
Ireland									
Forbo Ireland Ltd.	Dublin		EUR	127,000	100 %	S			
Forbo-Siegling (Ireland) Ltd.	Dublin		EUR	25,400	100 %			S	
Forbo Adhesives Ireland Ltd.	Dublin		EUR	2,540	100 %		S		
Italy									
Forbo Adhesives Italia S.p.A.	Pianezze (Vicenza)		EUR	416,000	100 %		MS		
Forbo Resilienti S.r.l.	Segrate (Milan)		EUR	60,000	100 %	S			
Forbo Siegling Italia S.p.A.	Paderno Dugnano (Milan)		EUR	104,000	100 %			S	
Japan									
Forbo 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									
Forbo Siegling SDN. BHD.	Johor Bahru		MYR	2,500,000	100 %			S	
Mexico									
Forbo Siegling, S.A. de C.V.	Tlalnepantla		MXP	2,815,000	100 %		S	MS	

Company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Bonding Systems	Movement Systems	Holding / Services
Netherlands									
Forbo Eurocol B.V.	Zaanstad		EUR	454,000	100 %		MS		
Forbo Flooring 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 Adhesives Nederland B.V.	Genderen		EUR	27,000	100 %		MS		
Forbo Siegling Nederland B.V.	Driebergen		EUR	113,000	100 %			S	
Forbo Stamoid B.V.	Krommenie		EUR	227,000	100 %	S			
New Zealand									
Forbo Siegling 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 %			PV	
Forbo Adhesives (Guangzhou) Co., Ltd.	Guangzhou		CNY	32,261,000	100 %		PV		
Forbo Adhesives (Shanghai) Co., Ltd.	Shanghai		CNY	7,630,000	100 %		V		
Poland									
Forbo 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		RON	7,077	100 %		S		
Forbo Siegling Romania S.R.L.	Bukarest		RON	38,000	100 %			S	
Russia									
ZAO 'Forbo Siegling'	St. Petersburg		RUB	400,000	100 %			S	
OOO 'Forbo Stroitech'	Stary Oskol		RUB	70,181,000	100 %		MS		
OOO 'Linoleum'	Moscow		RUB	75,263,000	100 %	MS			
Slovakia									
Forbo 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			
Forbo Siegling Iberica, S.A.	Montcada i Reixac (Barcelona)		EUR	1,533,000	100 %			S	

Company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Bonding Systems	Movement Systems	Holding / Services
Sweden									
Forbo Flooring AB	Göteborg	D	SEK	8,000,000	100 %	S			
Forbo Parquet AB	Tibro		SEK	20,000,000	100 %	MS			
Forbo Project Vinyl AB	Göteborg	D	SEK	50,000,000	100 %	MS			
Forbo Adhesives Sweden AB	Göteborg		SEK	100,000	100 %		S		
Forbo Siegling Svenska AB	Mölndal		SEK	1,000,000	100 %			S	
Switzerland									
Enia Carpet Group AG	Ennenda	N	CHF	3,375,000	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 Sirketi	Istanbul		TRY	725,000	100 %		V		
United Kingdom									
Forbo-Nairn Ltd.	London		GBP	8,000,000	100 %	MS			
Forbo Adhesives UK Ltd.	Chatteris		GBP	100	100 %		MS		
Forbo UK Ltd.	London	D	GBP	49,500,000	100 %				H
Forbo Siegling (UK) Ltd.	London		GBP	163,000	100 %			S	
USA									
Forbo Adhesives, LLC	Durham, NC		USD	5,000,100	100 %		PV		
Forbo America, Inc.	Wilmington, DE	D	USD	19,957,259	100 %				H
Forbo America Services Inc.	Wilmington, DE		USD	50,000	100 %				H
Forbo Flooring, Inc.	Hazleton, PA		USD	3,517,000	100 %	V			
Forbo Siegling, LLC	Huntersville, NC		USD	15,455,000	100 %			PV	

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

Report of the Group Auditors
to the Annual General Meeting
of Forbo Holding Ltd, 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 60 to 108) of Forbo Holding Ltd for the year ended December 31, 2007.

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 on Auditing and international auditing standards, 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

Stefan Räbsamen
Auditor in charge

Gerhard Siegrist

Zurich, March 14, 2008

Consolidated Income Statements 2003 – 2007

CHF m	2007	2006	2005	2004	2003
Net sales	**2,004.0**	**1,879.5**	**1,702.0**	**1,622.3**	**1,598.9**
Cost of goods sold	– 1,331.9	– 1,273.4	– 1,151.8	– 1,092.5	– 1,091.3
Gross profit	**672.1**	**606.1**	**550.2**	**529.8**	**507.6**
Development costs	– 31.6	– 31.3	– 32.4	– 32.1	– 28.9
Marketing and distribution costs	– 325.9	– 300.6	– 286.9	– 285.1	– 287.5
Administrative costs	– 137.7	– 131.9	– 143.5	– 143.6	– 122.2
Other operating expenses	– 14.5	– 32.7	– 63.5	– 113.5	– 8.6
Operating profit / loss	**162.4**	**109.6**	**23.9**	**– 44.5**	**60.4**
Financial income	11.7	7.6	9.5	4.2	7.9
Financial expense	– 19.3	– 21.0	– 28.3	– 49.8	– 37.3
Share of result of associated companies	-	-	-	– 22.5	0.8
Group profit / loss before taxes	**154.8**	**96.2**	**5.1**	**– 112.6**	**31.8**
Income taxes	– 44.1	– 35.0	– 21.6	– 44.8	– 15.7
Group profit / loss for the year	**110.7**	**61.2**	**– 16.5**	**– 157.4**	**16.1**

Consolidated Balance Sheets 2003 – 2007

Assets CHF m	31.12.2007	31.12.2006	31.12.2005	31.12.2004	31.12.2003
Non-current assets	**601.7**	**593.4**	**597.3**	**612.2**	**812.9**
Tangible assets	423.7	421.5	422.4	443.5	558.8
Intangible assets	151.9	149.2	144.6	143.0	163.9
Deferred taxes	20.7	20.5	28.1	23.5	61.5
Employee benefit assets	3.1	-	-	-	-
Investments in associates and other long-term assets	2.3	2.2	2.2	2.2	28.7
Current assets	**803.5**	**905.2**	**993.7**	**904.4**	**750.9**
Inventories	286.3	266.7	257.0	255.2	247.9
Trade receivables	287.7	293.7	273.8	242.9	251.6
Other receivables	29.5	25.1	22.8	28.7	34.9
Prepaid expenses and deferred charges	22.5	25.6	35.5	30.8	27.8
Marketable securities	-	-	-	-	18.9
Cash and cash equivalents	177.5	294.1	404.6	346.8	169.8
Total assets	**1,405.2**	**1,498.6**	**1,591.0**	**1,516.6**	**1,563.8**

Shareholders' equity and liabilities CHF m	31.12.2007	31.12.2006	31.12.2005	31.12.2004	31.12.2003
Shareholders' equity	**713.1**	**638.6**	**558.1**	**543.7**	**572.5**
Share capital	38.0	54.3	54.3	54.3	38.0
Treasury shares	– 4.0	– 3.5	– 1.6	– 1.6	– 7.7
Reserves and retained earnings	679.1	587.8	505.4	491.0	542.2
Non-current liabilities	**254.7**	**304.4**	**512.9**	**604.7**	**670.7**
Non-current financial debt	194.9	209.1	358.4	459.7	554.2
Employee benefit obligations	-	45.8	101.1	112.1	88.7
Non-current provisions	42.3	41.7	40.7	26.9	21.3
Deferred taxes	17.5	7.8	12.7	6.0	6.5
Current liabilities	**437.4**	**555.6**	**520.0**	**368.2**	**320.6**
Trade payables	138.1	131.5	131.8	108.8	114.9
Current provisions and accrued expenses	167.6	169.3	136.5	116.6	81.3
Current financial debt	24.2	128.3	155.5	18.1	13.8
Current tax liabilities	29.8	21.8	10.6	6.1	7.9
Other current liabilities	77.7	104.7	85.6	118.6	102.7
Total liabilities	**692.1**	**860.0**	**1,032.9**	**972.9**	**991.3**
Total shareholders' equity and liabilities	**1,405.2**	**1,498.6**	**1,591.0**	**1,516.6**	**1,563.8**

Financial Statements of Forbo Holding Ltd

Contents

Income Statement of Forbo Holding Ltd

Income		2007	2006
CHF	Notes		
Financial income			
from investments in and advances to Group companies	1	38,789,562	21,255,988
from securities and short-term investments	2	15,162,264	578,165
Income from services and other sources		1,633	125,236
Total income		**53,953,459**	**21,959,389**

Expenses		2007	2006
CHF	Notes		
Administrative expenses	3	4,609,165	4,786,688
Financial expense	4	11,734,535	8,835,866
Taxes		18,000	65,000
Total expenses		**16,361,700**	**13,687,554**
Net profit for the year		**37,591,759**	**8,271,835**

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

Assets		31.12.2007	31.12.2006
CHF	Notes		
Long-term assets		**445,498,476**	**532,640,737**
Investments in Group companies	5	346,804,727	346,804,727
Advances to Group companies	6	98,693,749	185,836,010
Current assets		**153,856,306**	**3,325,503**
Other receivables from Group companies		2,436,291	1,112,756
Other receivables from third parties		15,840	120,924
Prepaid expenses and deferred charges		15,196	26,509
Securities	7	146,918,100	-
Cash and cash equivalents	8	4,470,879	2,065,314
Total assets		**599,354,782**	**535,966,240**

Shareholders' equity and liabilities		31.12.2007	31.12.2006
CHF	Notes		
Shareholders' equity		**428,364,923**	**407,052,075**
Share capital	9	37,984,128	54,263,040
Statutory reserves:			
General reserves		15,600,000	15,600,000
Reserve for treasury shares	11	112,251,537	31,904,493
Other reserves	12	209,401,681	289,748,724
Available earnings:			
Profit carried forward		15,535,818	7,263,983
Net profit / loss for the year		37,591,759	8,271,835
Liabilities		**170,989,859**	**128,914,165**
Long-term provisions	13	28,000,000	28,000,000
Advances from Group companies		121,356,383	64,280,000
Short-term bank debt	14	20,000,000	-
Other liabilities to Group companies		974,879	36,157,500
Current liabilities to third parties		20,716	20,741
Accrued expenses		637,881	455,924
Total shareholders' equity and liabilities		**599,354,782**	**535,966,240**

1 Income from investments in and advances to Group companies

Income from investments in and advances to Group companies amounts to CHF 38.8 million (previous year CHF 21.3 million) and consists of interest and dividend income.

2 Income from securities and short-term investments

This item includes income from short-term investments of CHF 0.1 million (previous year: CHF 0.6 million) and income on securities transactions of CHF 15.1 million.

3 Administrative expenses

Administrative expenses decreased from the previous year by CHF 0.2 million and amount to CHF 4.6 million.

4 Financial expenses

Financial expenses come to CHF 11.7 million. They relate mainly to interest expenses on loans of Group companies and exchange rate losses on advances in foreign currencies to Group companies.

5 Investments in Group companies

As of December 31, 2007 Forbo Holding Ltd 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 S.A.S	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 AS	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 %

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 87.1 million.

7 Marketable securities

The marketable securities relate to shares of Forbo Holding Ltd. They are valued at market value.

8 Cash

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

9 Share capital

At the end of 2007 the company's share capital was CHF 37,984,128, divided into 2,713,152 registered shares with a par value of CHF 14 each. In the year under review, the par value was reduced by CHF 6 per share from CHF 20 to CHF 14 following a cash distribution. 21,419 registered shares without voting or dividend rights are at the disposal of the Board of Directors. Consequently, 2,691,733 registered shares were eligible for dividends in the financial year 2007. The shares are listed on SWX Swiss Exchange with the security number 354 151.

10 Conditional capital increase

Conditional capital of CHF 8,500,000, 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, CHF 8 per share in 2004 and CHF 6 per share in 2007, the conditional capital was CHF 2,330,300 on December 31, 2007 (previous year: CHF 3,329,000).

11 Reserve for treasury shares

The CHF 112,251,537 included at year-end under 'Reserve for treasury shares' relates to treasury stock held by Forbo Holding Ltd 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
Total at January 1, 2007	31,904,493	135,954
Additions	83,093,759	130,343
Disposals	– 1,787,309	– 6,524
Reduction of par value	– 959,406	-
Total at December 31, 2007	112,251,537	259,773

12 Other reserves

Other reserves decreased by 80.3 million. This decrease is due to the transfer to the reserve for treasury shares.

13 Long-term provisions

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

14 Short-term bank debt

This item includes a fixed advance of CHF 20.0 million. The interest rate is 3.07 %. It falls due on January 23, 2008.

15 Commitments and contingent liabilities

Guarantees and letters of support to third parties in favor of Group companies amounted to CHF 284.0 million at year-end, of which CHF 240.6 million (previous year: CHF 384.9 million) is 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 195.2 million) and guarantees in connection with utilized swap facilities.

16 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:

	Number of shares	as percentage
Michael Pieper, Hergiswil, and Artemis Beteiligungen AG, Hergiswil	814,894	30,035 %
Forbo Holding Ltd, Baar, through its two subsidiaries Forbo International SA, Baar and Forbo Finanz AG, Baar	259,773	9,575 %
Deutsche Bank AG, Frankfurt, and Deutsche Bank Securities Inc., New York	199,973	7,371 %
Focus Capital Investors, LLC, New York	150,702	5,554 %
This E. Schneider, Wilen b. Wollerau	136,955	5,047 %
Goldman Sachs Group, Inc., New York including its subsidiaries Goldman Sachs International, London and Goldman Sachs Asset Management International, London, and Goldman Sachs Asset Management, Wilmington	136,715	5,039 %
Tweedy, Browne Company LLC, New York	-	over 5 %

17 Disclosure of compensation to the Board of Directors and Executive Board pursuant to Art. 633b bis and Art. 663c Swiss Code of Obligations

Compensation for 2007[1]:

Name and function	Base compensation			Variable compen-sation		
	Cash	Shares		Cash, Shares, Options	Others	Total
	CHF	Number	CHF	CHF	CHF	CHF
Dr. Albert Gnägi, President	176,853	172	118,147	-	23,560	318,560
Michael Pieper, Vice President	54,281	52	35,719	-	10,493	100,493
Dr. Peter Altorfer, member	60,160	58	39,840	-	11,212	111,212
Dr. Rudolf Huber, member	68,978	67	46,022	-	12,283	127,283
Non-executive Board of Directors[2]	**360,272**	**349**	**239,728**	**-**	**57,548**	**657,548**
This E. Schneider, Executive Board member and CEO[3][4]	150,000	9,479	2,559,330	-	380,938	3,090,268
Board of Directors	**510,272**	**9,828**	**2,799,058**	**-**	**438,486**	**3,747,816**
This E. Schneider, Executive Board member and CEO[3]						
Other Executive Board[5]	1,774,733	-	-	1,876,750	510,772	4,162,255
Executive Board	**1,774,733**	**-**	**-**	**1,876,750**	**510,772**	**4,162,255**

1) The amounts stated in the table are, in principle, based on valuation models used and disclosed in the consolidated statements. For the valuation of shares and options this means in particular that the grant date is authoritative. The compensation is booked to the appropriate period. The table therefore discloses all compensation that has been granted for the 2007 financial year, even if the date of the payment of the definitive legal acquisition is after December 31, 2007.

2) The non-executive members of the Board of Directors receive a fixed remuneration, the amount of which is gradated according to whether the member is Chairman or a simple member of the Board and whether he is a member of the AFC or HRC. The cash compensation is shown as a gross amount before deduction of social insurance contributions. 40 % of the compensation is paid to the directors in the form of shares of Forbo Holding Ltd. The shares are valued at fair value on the grant date. The total compensation to the non-executive members of the Board of Directors also includes a lump sum for expenses and employer contributions to AHV / ALV (old-age and unemployment funds) and child allowance. These are reported in the column 'Other compensation'.

3) The compensation to the Delegate of the Board of Directors and CEO is disclosed separately and subsumed under total compensation to the Board of Directors. It is not possible to clearly allocate the total compensation to the two functions.

4) In fall 2005, it was agreed with the Delegate of the Board of Directors and CEO that part of his compensation for 2005 and the compensation for the following five 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 (2006 – 2010). The shares are valued at fair value on the grant date. 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 to the company on a pro rata basis. In addition to the share package, the Delegate of the Board of Directors 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. With the share package and the cash remuneration, all compensations such as bonuses, inflation, adjustments, options, etc. are settled. The corresponding personnel expenditure is charged to the income statement over the entire contractual period on a pro rata basis (see note 18 'Stock Option Plans' on page 87 of the consolidated financial statements). The Delegate of the Board of Directors and CEO does not participate in the Management Investment Plan (MIP) or the share-based compensation program of the non-executive Board members. The entire compensation for the Delegate of the Board of Directors and CEO for the financial year comes to CHF 3,090,268. This total includes private use of the company car, employer contributions to the pension fund and – a new element – employer contributions to the AHV / ALV (old-age and unemployment insurance), plus accident and daily benefits insurance. These are show in the column 'Other compensation'.

5) The total compensation paid to the members of the Executive Board (excluding the Delegate of the Board of Directors and CEO) was CHF 4,162,255 in the 2007 business year. It comprises a gross base salary and a performance-related bonus, which is set in March of the year following the business year in question and is determined by the achievement of the individual and the Group targets. The performance-related component is paid in accordance with the rules of the Management Investment Plan (MIP) (see note 18 'Stock Option Plans' on page 87 of the consolidated financial statements). The total compensation paid to the members of the Executive Board also includes private use of the company car and employer contributions to the pension fund as well as – a new element – employer contributions to the AHV / ALV (old-age and unemployment insurance) plus accident and daily benefits insurance, which are shown separately in the column 'Other compensation'.

Advances and loans

In the 2007 financial year, no advances or loans were made to individual members of the Board of Directors, the Executive Board or related parties. As at December 31, 2007, no such advances or loans were outstanding.

Investments in Group companies

As per December 31, 2007, the individual members of the Board of Directors and the Executive Board (including related parties) held the following number of shares in Forbo Holding Ltd:

Name and function	Shares	Options[1)5)]			
		Series 2005	Series 2006	Series 2007	Tradable options
		1:2[2)]	1:1[2)]	1:1[2)]	
Dr. Albert Gnägi, President	12,741	-	-	-	-
Michael Pieper, Vice President	814,894	-	-	-	-
Dr. Peter Altorfer, member	264	-	-	-	-
Dr. Rudolf Huber, member	2,345	-	-	-	-
Non-executive Board of Directors	**830,244**	**-**	**-**	**-**	**-**
This E. Schneider, Executive Board member and CEO[3)]	136,955	2,100			
Board of Directors	**967,199**	**2,100**	**-**	**-**	**-**
This E. Schneider, Executive Board member and CEO[4)]					
Matthias P. Huenerwadel, Executive VP Movement Systems	664		1,385	1,204	
Tom Kaiser, Executive VP Flooring Systems	1,056	1,050	2,380	1,258	
Daniel Keist, Head Corporate Center	170				
Jörg Riboni, Chief Financial Officer	3,976		1,685	2,091	
Michel Riva, Executive VP Bonding Systems	395	1,050	844	697	
Executive Board	**6,261**	**2,100**	**6,294**	**5,250**	**-**

1) The details of the options are described in note 18 'Stock Option Plans' on page 87 of the consolidated financial statements.
2) Subscription ratio
3) The number of shares reported include the vested 47,395 shares (see note 4) in the previous table.
4) The compensation to the Delegate of the Board of Directors and CEO is disclosed separately and shown in the line Board of Directors.
5) Since participation in the MIP is not limited to members of the Executive Board, the number of outstanding options shown here as per December 31, 2007 differs from note 18 'Stock Option Plans' on page 87.

Proposal for Appropriation of Available Earnings Forbo Holding Ltd

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

CHF	2007	2006
Net profit for the year	37,591,759	8,271,835
Profit carried forward from the previous year	15,535,818	7,263,983
Total available earnings	**53,127,577**	**15,535,818**

be appropriated as follows:

CHF	2007	2006
Dividend payment		
Proposal by the Board of Directors:	0[1)]	-
To be carried forward to the following year	53,127,577	15,535,818
Total available earnings	**53,127,577**	**15,535,818**

1) Instead of a dividend, the Board of Directors will propose to the Ordinary General Meeting, to be held on April 25, 2008, a reduction in par value of CHF 10 to CHF 4 per registered share.

Report of the Statutory Auditors

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

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes – pages 113 to 120) of Forbo Holding Ltd for the year ended December 31, 2007.

These 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, 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 association.

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

PricewaterhouseCoopers AG

Stefan Räbsamen
Auditor in charge

Reto Tognina

Zurich, March 14, 2008

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bonding systems.

movement systems.

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