connect.

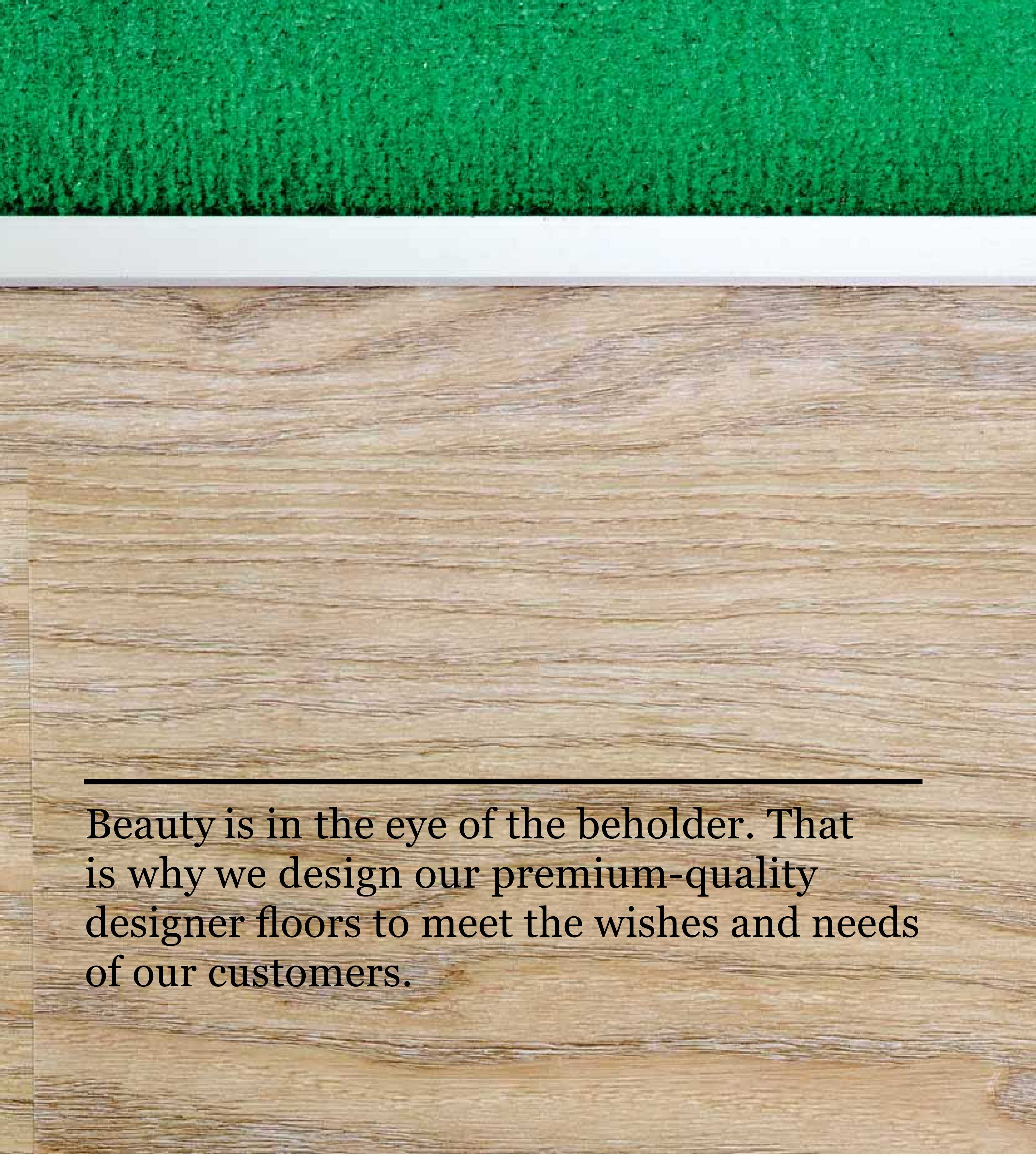
Annual Report 2012

Individuality.
Interface.

Forbo –
in everyday life

flooring. movement.

Forbo



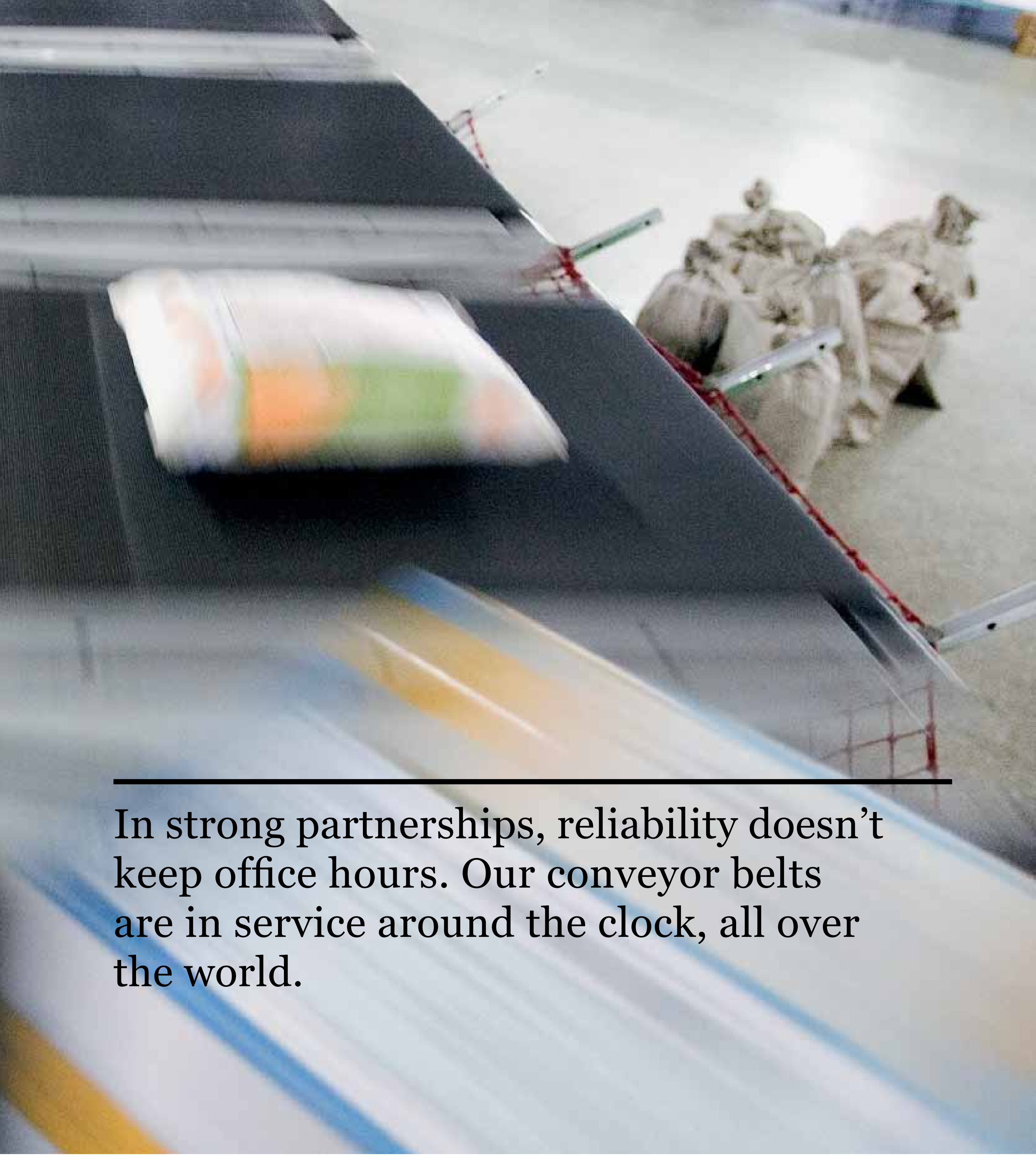
Beauty is in the eye of the beholder. That is why we design our premium-quality designer floors to meet the wishes and needs of our customers.

INDI-VIDUALITY

FLOORING SYSTEMS

INTER-FACE

Siegling – total belting solutions



In strong partnerships, reliability doesn't keep office hours. Our conveyor belts are in service around the clock, all over the world.

forbo
MOVEMENT SYSTEMS

Dr. Albert Gnägi
Chairman of the Board of Directors

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

‘As expected, 2012 was marked by challenging economic conditions that demanded great efforts on our part. By consistently implementing our strategic activities and initiatives, we further strengthened our market position, displaying customer focus, innovation, and flexibility.’

To our shareholders

Dear Madam, dear Sir,

As expected, 2012 proved to be a very challenging business year owing to the difficult economic environment. Business conditions, in particular efforts to cut public spending and uncertainties in the markets, demanded flexibility from us and even faster implementation of our strategic projects. Since a major part of Forbo's business is in Europe and is, directly or indirectly, a function of public spending, cost-cutting measures, especially in the euro zone, left their mark on the Group's results in the year under review. Spending on schools, hospitals, retirement homes, and public buildings was cut back massively, resulting in a decrease in sales and earnings at Flooring Systems.

However, we were able to offset a large part of these decreases by accelerating penetration efforts in new markets and market segments and by expanding our existing distribution channels. Our innovative product portfolio and our customer-driven services enabled us to build new market segments and to further strengthen our position, particularly in growth markets.

Strategy confirmed

Focus on leading market positions
In December 2011, Forbo announced the sale of its industrial adhesives activity, including synthetic polymers, which was part of the Bonding Systems division, to H.B. Fuller Company. The transaction was closed successfully on March 5, 2012. The remaining Bonding Systems activity, building and construction adhesives, will now be further developed within the flooring business of the Flooring Systems division. Our aim is to fully exploit its potential and also the synergies with the flooring business.

Following this portfolio adjustment, the Forbo Group now consists of two strong divisions, each with globally leading market positions: Flooring Systems and Movement Systems. Both divisions thus match our strategic principles.

Net sales at previous year's level

Public spending cutbacks impact sales growth
In the year under review, Forbo generated net sales of CHF 1,201.1 million, broadly in line with previous year (2011: CHF 1,203.8 million). This equates to a minor 0.2% decline (– 1.1% in local currencies) versus previous year.

Net sales at Flooring Systems, which were significantly impacted by measures to curtail public spending, were CHF 873.9 million (previous year: CHF 886.5 million), equivalent to a slight decline of 1.4% versus 2011 (– 1.7% in local currencies). Movement Systems generated net sales of CHF 327.2 million (previous year: CHF 317.3 million) in a very ambiguous market environment. This represents an increase of 3.1% (+ 0.5% in local currencies).

Strategic initiatives impact bottom line

Accelerated implementation of strategic projects impacts bottom line
In order to reduce our dependence on public spending and to exploit the potential of growth markets, various strategic projects have been launched in recent years. For one thing, the Group made concerted efforts to expand the product portfolio and to open new distribution channels; for another, we forged ahead with reinforcing our position in growth markets. The related expenses had an additional impact on the result in the year under review.

The conversion of our most important pension plan in the Netherlands from a defined benefit to a defined contribution plan resulted, in accordance with applicable IFRS rules, in one-time extraordinary pretax gain of CHF 45.4 million. This had a significant effect both on the operating profit of the Flooring Systems division and on consolidated Group profit. This effect must, therefore, be neutralized when assessing operating profit.

Without factoring in this extraordinary gain, earnings before depreciation and amortization (EBITDA) decreased by 15.0% to CHF 160.6 million (previous year: CHF 189.0 million). The Group's operating profit (EBIT) declined by 21.3% from CHF 148.9 million the previous year to CHF 117.2 million. The EBITDA margin decreased from 15.7% to 13.4% year-on-year, and the EBIT margin was down from 12.4% to 9.8%.

Including above-mentioned special items, EBITDA rose by 9.1% to CHF 206.0 million (previous year: CHF 189.0 million) and EBIT increased by 9.3% to CHF 162.6 million (previous year: CHF 148.9 million). The EBITDA margin rose from 15.7% to 17.2% year-on-year, while the EBIT margin increased from 12.4% to 13.5%.

Decline in net income from operations

Group profit affected by two factors
Adjusted net income from operations was CHF 90.1 million (previous year: CHF 115.0 million), equivalent to a decrease of 21.7%. This decline is explained by the challenging market conditions, investments in growth markets, and a higher tax rate.

In addition, two non-recurring special factors had a major impact on Group profit: for one thing, the Group posted extraordinary net income of CHF 73.1 million stemming from the sale of the industrial adhesives activity, including synthetic polymers. For another, the conversion of the pension plan in the Netherlands from a defined benefit to a defined contribution plan resulted, in accordance with applicable IFRS rules, in extraordinary gain of CHF 34.0 million after tax in the 2012 consolidated financial statements.

This resulted in total Group profit of CHF 197.2 million in the year under review. In the previous year, Forbo had posted Group profit of CHF 146.5 million, a result that included extraordinary financial income of CHF 22.4 million after tax from the sale of Rieter shares. A year-on-year comparison of Group profit is therefore not very meaningful.

Considerably stronger balance sheet

Net cash significantly higher
In the year under review, the Ordinary General Meeting of April 2011 approved the repurchase of some of the company's own stock. Despite the share buyback, shareholders' equity rose slightly to CHF 817.4 million as at the end of December 2012 (previous year: CHF 815.3 million). The equity ratio – the ratio of total shareholders' equity to total assets – once again improved significantly from 54.3% to 61.3%.

As at December 31, 2012, Forbo had liquidity and short-term financial instruments amounting to CHF 393.4 million (previous year: CHF 192.5 million) plus 197,260 treasury shares (excluding the shares that were subsequently cancelled in January 2013 from the share buyback program concluded in 2012), which had a value of CHF 115.4 million at year-end share price. Net cash was CHF 258.3 million (previous year: CHF 0.5 million).

With our market leadership, strong balance sheet, and proven strategy, we are able to drive expansion in growth markets and take advantage of external opportunities for growth in order to consolidate our position. However, we will not make acquisitions unless they can create added value for our shareholders. We will therefore use our liquidity as a strategic reserve for the time being.

The high level of liquidity plus cash generated by future trading enable the Board of Directors to make further share repurchases without restricting the Group's scope for future acquisitions. The Extraordinary General Meeting of November 5, 2012 granted the Board of Directors such scope for share buybacks. In the framework of this new program, the Board of Directors was authorized to repurchase further shares amounting to up to 10 percent of the share capital within a period of three years via a dedicated second trading line on the SIX Swiss Exchange or by another means in order to reduce capital.

Proposals to the Ordinary General Meeting

Dividend of CHF 12.00
The Board of Directors will propose to the Ordinary General Meeting the distribution of a dividend of CHF 12.00 per share for 2012, unchanged from the previous year. This dividend will be paid out to shareholders as a tax-exempt distribution from capital contribution reserves.

Re-elections to the Board of Directors
Dr. Albert Gnägi, who has been Chairman of the Board of Directors for eight years, will stand for re-election for a further year at the Ordinary General Meeting. In order to ensure long-term succession planning, it is envisaged that This E. Schneider, who has been Delegate of the Board of Directors for nine years, will take over from Dr. Albert Gnägi in the spring of 2014 as Executive Chairman.

Furthermore, the Board of Directors will propose to the Ordinary General Meeting the re-election of its Vice Chairman, Michael Pieper, for a further three-year term of office.

Well-positioned for 2013

Strengthening competitiveness and worldwide presence
In the coming business year, we expect economic conditions to be similar to 2012. The steady stream of cost-cutting measures in the public sector announced in recent years will impact business in Flooring Systems with a time lag. However, we will do everything we possibly can to offset sales losses with new products, stronger presence in new market segments, and business activities in growth markets. We are well positioned with our two divisions and will continue to implement our strategy as planned.

Assuming no significant change in the current economic conditions, especially with regard to exchange rates and raw material prices, we expect a slight increase in net income from operations in the 2013 business year.

Thank you

Thanks to employees, business partners, and investors
Our confidence is boosted by the motivation and commitment of our highly qualified employees, our efficient and market-driven organization, and the professional and close cooperation with our business partners. This makes it possible for us to continue to increase both the quality and the added value of our products and services.

Dear shareholders, on behalf of the Board of Directors and the Executive Board, we would like to thank you for the trust and loyalty you have in our company.

Baar, March 2013

Dr. Albert Gnägi Chairman of the Board of Directors	This E. Schneider Delegate of the Board of Directors and CEO

Financial calendar

Ordinary General Meeting:	April 26, 2013
Publication of Half-Year Report 2013:	August 20, 2013
Publication of Annual Report 2013:	March 18, 2014

Annual report 2012

At a glance

2012 at a glance

FORBO IS A LEADING PRODUCER OF FLOOR COVERINGS, BUILD-ING AND CONSTRUC-TION ADHESIVES, AS WELL AS POWER TRANSMISSION AND CONVEYOR BELT SOLUTIONS.

The company employs 5,000 people and has an international network of 24 production and distribution companies, 6 assembly operations and 37 sales organizations in a total of 34 countries. Forbo is headquartered in Baar in the canton of Zug, Switzerland.

Forbo announced in December 2011 that it would sell its industrial adhesives activity, including synthetic polymers, which had been part of the Bonding Systems division, to H.B. Fuller Company. On fulfillment of all conditions, the transaction was successfully closed on March 5, 2012. Following this sale, Forbo reviewed the strategic options for the building and construction adhesives activity, the remaining unit of the Bonding Systems division, and decided that it would further develop this business within the floor coverings activities of Flooring Systems in order to maximize its potential.

Forbo in figures

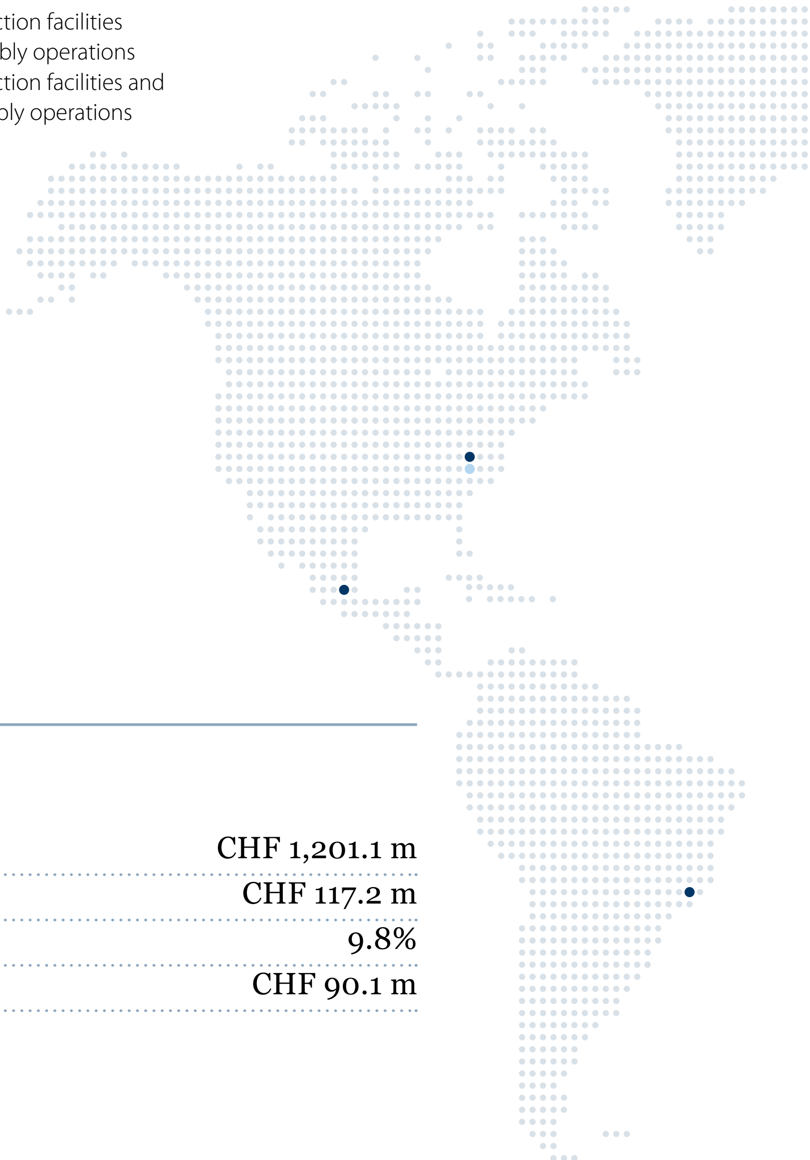
Forbo is a global player, and its two divisions supply a wide range of industries. The Group's global reach means that it is close to dynamic markets, making Forbo the first choice as a local partner for customers that have similar global requirements. The quality, longevity, and performance of our products and systems reflect the quality and stability of our relations with our business partners.

Flooring Systems
15 production facilities in 6 countries and distribution companies in over 20 countries. Sales offices in Europe, North, Central and South America as well as Asia/Pacific.

- Floor coverings
- Building and construction adhesives

Movement Systems
9 production sites and 6 assembly operations in 9 countries and distribution companies in over 25 countries. 300 sales and service offices worldwide

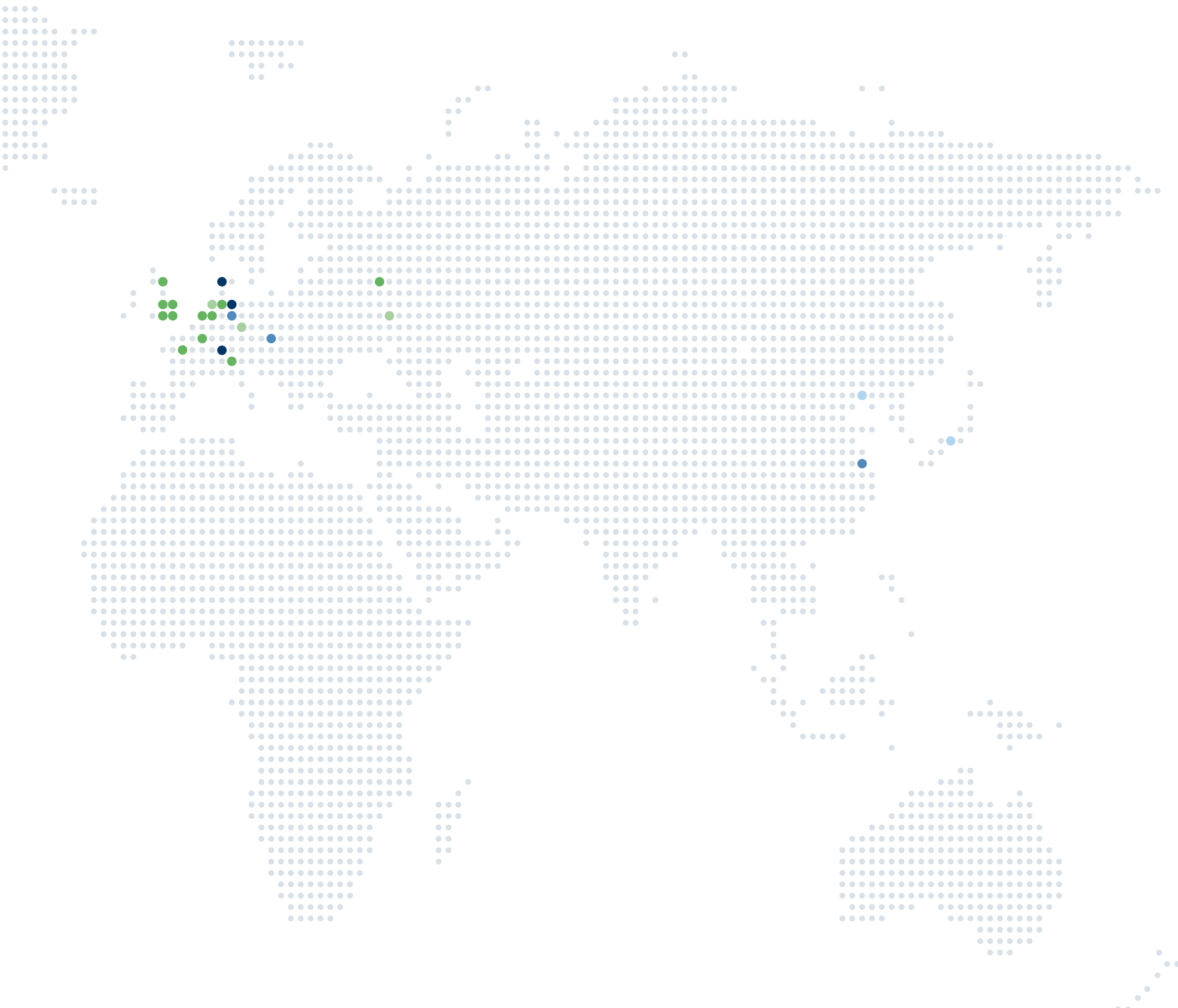
- Production facilities
- Assembly operations
- Production facilities and assembly operations



Without special items:

Net sales	CHF 1,201.1 m
EBIT	CHF 117.2 m
EBIT margin	9.8%
Net income from operations	CHF 90.1 m

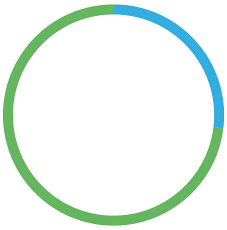
Net sales	CHF 1,201.1 m
EBIT	CHF 162.6 m
EBIT margin	13.5%
Group profit	CHF 197.2 m



Net sales by division

		Change on previous year		
	CHF m 2012	in %	in local currencies in %	In % of total
Flooring Systems	873.9	– 1.4	– 1.7	72.8
Movement Systems	327.2	3.1	0.5	27.2
Total	**1,201.1**	**– 0.2**	**– 1.1**	**100.0**

72.8%
Flooring Systems

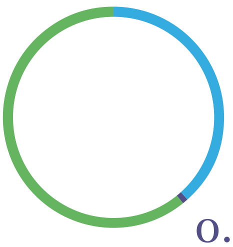


27.2%
Movement Systems

Employees by division

	Number 2012	Change on previous year in %	In % of total
Flooring Systems	3,034	1.8	60.7
Movement Systems	1,925	3.5	38.5
Corporate Functions	41	0	0.8
Total	**5,000**	**2.4**	**100.0**

60.7%
Flooring Systems



38.5%
Movement Systems

0.8%
Corporate Functions

Financial overview Group

	2012	2011[5]	2012	2011[5]
Income statement	CHF m	CHF m	EUR m[1]	EUR m[1]
Net sales	1,201.1	1,203.8	996.6	976.4
Flooring Systems[5]	873.9	886.5	725.1	719.0
Movement Systems	327.2	317.3	271.5	257.4
EBITDA	206.0	189.0	170.9	153.3
EBITDA without special items	160.6	189.0	133.3	153.3
EBIT	162.6	148.9	134.9	120.8
EBIT without special items	117.2	148.9	97.2	120.8
Group profit[5]	197.2	146.5	163.6	118.8
Net income from operations[5] without special items	90.1	115.0	74.8	93.3
Balance sheet	CHF m	CHF m	EUR m[1]	EUR m[1]
Total assets	1,333.9	1,501.9	1,106.8	1,218.2
Operating assets[5]	913.7	961.6	758.1	779.9
Shareholders' equity	817.4	815.3	678.2	661.3
Net cash[5]	258.3	0.5	214.3	0.4
Cash flow statement	CHF m	CHF m	EUR m[1]	EUR m[1]
Cash flow from operating activities	106.3	141.5	88.2	114.8
Cash flow from investing activities[7]	183.5	19.1	152.3	15.5
Free cash flow	289.8	160.6	240.5	130.3
Key ratios	%	%		
ROS (EBITDA/net sales)[5]	17.2	15.7		
ROS (EBITDA/net sales)[5] without special items	13.4	15.7		
Equity ratio (shareholders' equity/total assets)	61.3	54.3		
Gearing (net debt/shareholders' equity)	– 31.6	0.0		
Employees (as at December 31)	Number	Number		
Total employees	5,000	4,882		
Ratios per share	CHF	CHF	EUR[1]	EUR[1]
Earnings per share (undiluted)[5] [6]	56.06	58.88	46.51	47.76
Equity (undiluted)	369.3	349.4	306.4	283.4
Dividend	12.0[2]	12.0[3]	10.0	9.7
Stock market capitalization (as at December 31)	CHF m	CHF m	EUR m[1]	EUR m[1]
Stock market capitalization[4]	1,200.9	1,133.3	996.4	919.2

1) Euro values translated at the average annual exchange rate of CHF 1.2052/1 EUR (2012) and CHF 1.2329/1 EUR (2011).

2) The Board of Directors proposes to the Ordinary General Meeting of April 26, 2013 the distribution of a dividend in the amount of CHF 12.00 per registered share.

3) Approval of a dividend of CHF 12.00 per registered share at the Ordinary General Meeting of April 27, 2012.

4) Total number of shares in circulation, multiplied by year-end share price.

5) Previous year's figures adjusted for continuing operations.

6) See note 15 'Earnings per share' on page 101 of the financial report.

7) As of 2012, 'Cash flow from investing activities' also contains interest received. The figure for the previous year has been adjusted accordingly.

Well-positioned for 2013

The 2012 business year was a demanding one for Forbo in many ways. The difficult economic conditions, particularly in the euro zone, along with huge cuts in government spending, impacted on the company's performance because Forbo generates the lion's share of its sales in Europe and because the sales of Flooring Systems largely depend directly or indirectly on public spending. Forbo was able to counter this with strategic activities initiated a few years ago, including developing and expanding business in growth markets, tapping into new market segments – especially in the private commercial market segment – and focusing on the expansion of its product portfolio.

In order to reduce dependence on public spending and take even greater advantage of the potential in growth markets, Forbo set about implementing various strategic projects in the year under review. The expenses for these projects impacted on the company's operating profit. However, the extraordinary income from the sale of the industrial adhesives activity, including synthetic polymers, along with the conversion of a pension plan in the Netherlands had a significant positive effect on Group profit.

Forbo considerably strengthened its balance sheet in the year under review. With another significant increase in net cash, the company is well-positioned to further drive expansion in growth markets and to strengthen its market position in 2013.

Focus on leading market positions

In December 2011, Forbo announced that it would sell its industrial adhesives activity, including synthetic polymers, which was part of the Bonding Systems division, to H.B. Fuller Company. The transaction was closed successfully on March 5, 2012. The remaining Bonding Systems activity, building and construction adhesives, will now be further developed within the flooring business of the Flooring Systems division. In the following reports and charts, all previous year figures have been adjusted in relation to the consolidated income statement. Thus, the previous year's figures only report the numbers of continuing operations. In accordance with IFRS 5, the previous year balance sheet has not been restated.

Net Sales at previous year's level

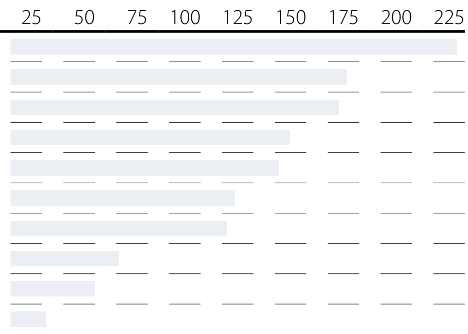
In the year under review, Forbo generated net sales of CHF 1,201.1 million, nearly maintaining the previous year's figure (2011: CHF 1,203.8 million). This equates to a minor 0.2% decline (– 1.1% in local currencies) versus the previous year.

The Flooring Systems division generated net sales of CHF 873.9 million in 2012 (previous year: CHF 886.5 million), which comes to a slight decline of 1.4% year-on-year. Positive exchange rates had an additional minor impact of 0.3%, resulting in a decrease of 1.7% in local currencies. High levels of government debt and associated large cuts in public spending impacted many markets adversely.

The Movement Systems division generated net sales of CHF 327.2 million in the year under review (previous year: CHF 317.3 million), which marked a year-on-year increase of 3.1% or a slight increase in sales of 0.5% in local currencies. Sales trends in the different regions and customer segments show a very mixed picture.

Net sales by geographic area

	%	Change on previous year in %	Change on previous year in local currencies in %	CHF m 2012
North, Central, and South America	18.4	5.7	1.0	221.2
France	14.1	3.3	5.7	169.4
Asia/Pacific and Africa	13.8	1.1	– 3.5	165.4
Benelux	11.8	– 7.7	– 5.7	141.9
Germany	11.4	– 6.7	– 4.6	136.7
Great Britain/Ireland	9.7	2.2	– 1.7	116.1
Scandinavia	9.4	– 0.3	– 0.8	112.6
Eastern Europe	5.1	12.6	13.9	61.3
Southern Europe	4.1	– 9.2	– 7.2	49.8
Switzerland	2.2	– 13.6	– 13.6	26.7
Total	**100.0**	**– 0.2**	**– 1.1**	**1,201.1**



Accelerated implementation of strategic initiatives impacts on operating profit
In order to reduce dependence on public spending and take even greater advantage of the potential in the growth markets, Forbo accelerated the implementation of various strategic projects in the year under review. This included tapping into market segments outside the public sector, focusing on expansion of the product portfolio, and developing and expanding activities in growth markets. The expenses related to these projects impacted on the company's operating profit. However, the conversion of our most important pension plan in the Netherlands from a defined benefit to a defined contribution plan resulted, in accordance with applicable IFRS rules, in one-time extraordinary pretax gain of CHF 45.4 million. This had a substantial effect both on the operating profit of the Flooring Systems division and on consolidated Group profit. This effect, therefore, must be neutralized when assessing operating profit.

Factoring out this positive effect, earnings before depreciation and amortization (EBITDA) of the entire Forbo Group decreased by 15.0% to CHF 160.6 million (previous year: CHF 189.0 million). The EBITDA margin declined to 13.4% from 15.7% the previous year. The EBITDA of Flooring Systems decreased by 12.6% to CHF 134.1 million (previous year: CHF 153.5 million), while that of Movement Systems was down by 12.0% to CHF 38.7 million (previous year: CHF 44.0 million). The EBITDA margin of Flooring Systems declined from 17.3% to 15.3%, that of Movement Systems from 13.9% to 11.8%.

If the before mentioned special item is factored in, however, EBITDA of the entire Forbo Group rose by 8.9% to CHF 206.0 million (previous year: CHF 189.0 million). The EBITDA margin increased to 17.2% from 15.7% the previous year. The EBITDA of Flooring Systems rose by 16.9% to CHF 179.5 million (previous year: CHF 153.5 million), and the EBITDA margin was up from 17.3% to 20.5%.

EBITDA by division

	CHF m 2012	Change on previous year in %
Flooring Systems	179.5	16.9
Flooring Systems without special items	134.1	– 12.6
Movement Systems	38.7	– 12.0
Corporate	– 12.2	– 43.5

Compared with previous year, depreciation and amortization rose by a total of CHF 3.3 million in 2012 to CHF 43.4 million (previous year: CHF 40.1 million). Factoring out the special effect from the conversion of the pension plan, the Group's operating profit (EBIT) was 21.3% lower at CHF 117.2 million (previous year: CHF 148.9 million), while the EBIT margin declined to 9.8% (previous year: 12.4%). The special effect factored in, though, EBIT increased by 9.2% to CHF 162.6 million, and the EBIT margin rose to 13.5%.

Net income from operations of CHF 90.1 million is based on the Group profit from continuing operations adjusted for special items, including the related tax effects.

Taxes and financial income
The effective tax rate rose to 21.0% compared to 17.9% the previous year. This increase was due primarily to the greater impact of countries with higher tax rates on Group profit and to special effects.

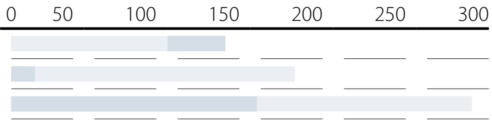
Financial expenses declined slightly by CHF 0.5 million to CHF 11.2 million, owing in particular to the repayment of the US private placement in November 2012. The Forbo Group reported financial income amounting to CHF 5.7 million, a result that can be ascribed in particular to the investment of the liquidity generated by the sale of the industrial adhesives activity.

Group profit from operations 2012, without special items

	CHF m
Group profit 2012 from continuing operations	124.1
./. special effect from conversion of pension plan	– 45.4
+ related taxes	+ 11.4
Net income from operations 2012, without special items	**90.1**

Free cash flow

	CHF m 2012	CHF m 2011
Cash flow from operating activities	106.3	141.5
Cash flow from investing activities	183.5	19.1
Free cash flow	289.8	160.6



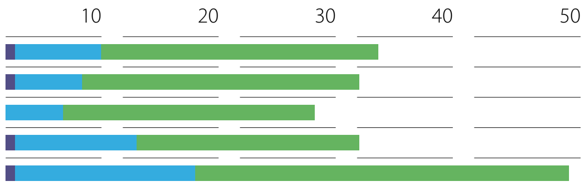
Significantly higher free cash flow
Cash flow from operating activities came to CHF 106.3 million in the year under review, which was considerably lower than the previous year. This was due primarily to the lower EBITDA without special items. Cash flow from investing activities came to CHF 183.5 million, a significantly higher figure than the previous year. This stems from the net effect of the sale of the industrial adhesives activity less the acquisition of short-term financial instruments. Free cash flow thus came to CHF 289.8 million (previous year: CHF 160.6 million). This strong position enables Forbo to further drive development and expansion in growth markets and also to take advantage of external growth opportunities.

Considerably stronger balance sheet
Total assets as at December 31, 2012 stood at CHF 1,333.9 million (previous year: CHF 1,501.9 million). Net cash came to CHF 258.3 million (previous year: CHF 0.5 million). Despite the share buyback, shareholders' equity as at the end of December 2012 rose slightly to CHF 817.4 million (previous year: CHF 815.3 million). The equity ratio thus further increased significantly from 54.3% the previous year to 61.3% in the year under review.

Capital expenditures focus on strategic activities
The Group's capital expenditures this past year was again adapted to economic conditions and concentrated on important operations and strategic projects designed to support market expansion, product technology, and efficiency gains. Accordingly, investments in fixed assets in 2012 came to CHF 33.7 million, an increase of 6.6% over the previous year (CHF 31.6 million). In the reporting period, Flooring Systems invested CHF 23.7 million, slightly less than the previous year (CHF 24.0 million). The division invested in the expansion of a production plant for the manufacture of linoleum flooring and in the renovation of drying and manufacturing facilities for the purpose of increasing efficiency. At Movement Systems, investments came to CHF 9.2 million, which was about a quarter higher than the previous year (CHF 7.3 million). The funds were spent primarily on developing and expanding new markets and customer segments, developing innovative products, and expanding and renovating production plants.

Investments 2008 – 2012

	Flooring Systems CHF m	Movement Systems CHF m	Corporate CHF m	Total CHF m
2012	24	9	1	34
2011	24	7	1	32
2010	22	6	0	28
2009	19	12	1	32
2008	31	17	1	49



Payroll development

At year-end 2012, the Forbo Group had 5,000 employees on its payroll which is 118 employees more than in the previous year. The slight decrease in headcount in the Netherlands, Switzerland, the UK, France, and Southern Europe is a result of structural adjustments in these markets. The higher-than-average increases in Asia/Pacific and Eastern Europe stemmed mainly from the expansion of the sales and distribution organizations in these regions. The increase in North America is due essentially to the takeover of the business operations of Phoenix Floor&Wall Products Inc. in Canada, a previous distribution partner of Flooring Systems, and to market expansion in Mexico.

Employees by geographic area

	%	Change on previous year in %	2012
Benelux	22.2	– 2.1	1,110
North, Central, and South America	13.7	9.2	687
Great Britain/Ireland	12.5	– 0.6	626
Asia/Pacific and Africa	12.5	11.2	625
Germany	12.3	0.8	614
France	9.1	– 0.9	456
Eastern Europe	8.0	7.8	401
Switzerland	3.9	– 3.6	193
Scandinavia	3.4	1.5	170
Southern Europe	2.4	– 0.4	118
Total	**100.0**	**2.4**	**5,000**

Sustainable value creation

Social responsibility and protecting the environment are fundamental Forbo values. We are committed to protecting the environment and investing in a sustainable future. As a responsible manufacturer and employer, Forbo sets very high standards in occupational health and safety, environmental protection, and quality assurance.

Social dimension

In the past year, Forbo successfully continued the internal management training program that was launched two years ago. In conjunction with the University of St. Gallen, other external partners, and internal specialists, a practice-driven training program for senior managers and employees in key positions consisting of various modules in management, sales, marketing, and operations was established. The new leadership program, a module added in 2012, is aimed at the current participants and focuses on strategic implementation topics and leadership issues such as dealing with organizational and team changes as well as performance management. Also at the divisional level courses were held on a wide range of topics spanning products and applications, sales, finance, operations, project management as well as the Forbo values.

Ecological dimension

Protecting the environment and generating ecological added value are decisive factors in all Forbo's developments and investments. Minimizing Forbo's environmental footprint is a top priority, and both divisions are fully committed to optimizing production processes so as to minimize water and energy consumption, reduce emissions, and reuse heat generated in production processes as well as to reduce and, wherever possible, recycle used materials. In the year under review, a number of initiatives in these areas were implemented, and investments were made to develop environmentally friendly products. In 2012, the responsible use of energy resources, especially at assembly and production sites, was forefront priority for both Forbo divisions. Lighting was significantly improved by installing solar spot systems in order to make greater use of daylight or by fitting high-performance mirror lamps that provide brighter light. Energy-saving sen-

sors were installed for lighting purposes and as motion detectors. Movement Systems in Germany was certified to ISO 50001 in the year under review. This norm aims at continuous improvement in energy management and covers virtually all areas of a company's activities. The division plans to have other sites certified as well.

A pilot project that got off the ground in the Netherlands in 2011 is now in full swing: Flooring Systems is the first company in the Netherlands to collect linoleum waste cuttings from customers and reuse the waste to manufacture new floorings. By the end of 2012, customers had returned a total of 75,000 kg linoleum that can now be recycled in our production process.

A big priority at Forbo is safety at work. Occupational safety is founded on three pillars: working methods, processes, and people. Various initiatives were launched on this front in the year under review in order to increase awareness of a range of safety issues. For instance, plants now also report minor incidents or near accidents as these indicate where risks and possible sources of danger lie which need to be addressed. This allows the organization to take appropriate measures to effectively prevent accidents from happening. Our US organization received an official award for exemplary efforts to improve occupational safety.

Economic dimension

As a listed company, Forbo concernes itself with the economic aspects of sustainability on a daily basis. Compliance is of enormous importance for the reputation and positioning of a company. Forbo continued its efforts in this area in the year under review, for example by training employees in the Code of Conduct, competition law as well as anti-corruption principles, and continued to strengthen its risk management processes.

Activity report


INDIVIDUALITY


INTERFACE

Two divisions – leading market positions

Forbo aims to operate in business areas in which it can achieve a leading global market position – something it has achieved for both Flooring Systems and Movement Systems.

Flooring Systems

The Flooring Systems division offers a broad and attractive range of environmentally friendly linoleum, high-quality vinyl floors, entrance flooring systems for cleaning and drying shoes, carpet tiles, needle felt, and Flotex, the washable textile flooring. Thanks to their excellent technical properties and attractive design, these flooring products are invariably the first choice for public buildings, department stores, hospitals and other healthcare facilities, schools, libraries, commercial and office spaces, leisure centers, shops, hotels, restaurants, and cafeterias as well as for applications in the residential market. With a market share of over 65 percent, Forbo is the world leader in linoleum.

Flooring Systems also provides ready-made adhesives for flooring installations and ceramic tiles as well as leveling compounds for the construction industry under the trade name Eurocol.

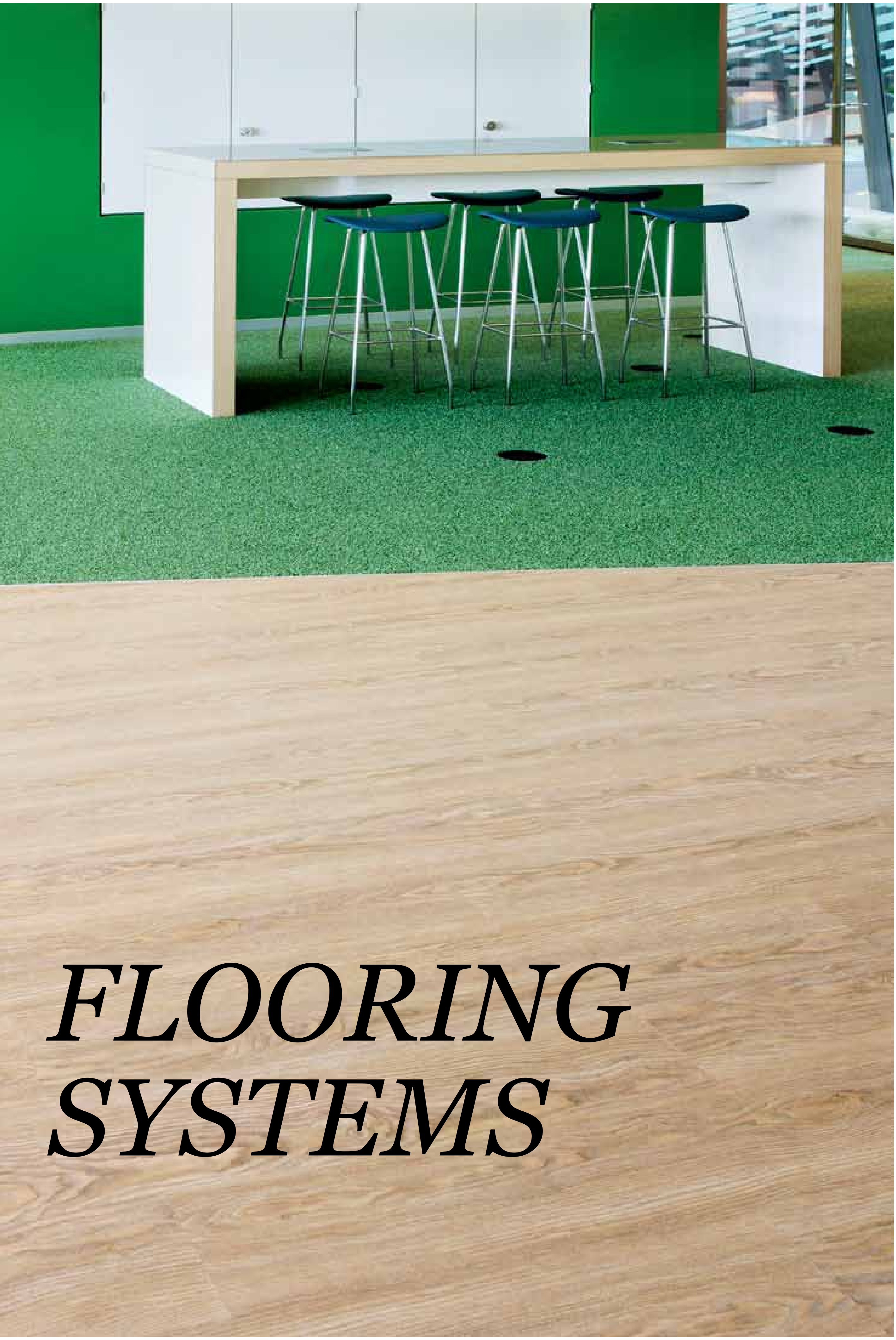
Movement Systems

Movement Systems is a global industry leader for top-quality power transmission belts, sophisticated conveyor and processing belts, synthetic modular belts as well as 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 sector, including conveyor and processing belts in the food industry, treadmill belts in fitness studios, and flat belts in mail distribution centers.

Implementing the strategy

To ensure that the Group remains successful in the market place despite its operations having distingt activities, the two divisions act independently and flexibly, but always in line with the following strategic principles that govern the entire Group. The Group's strategy is to:

- have a leading position in clearly defined market segments based on customer focus, a high service level, and innovation
- strengthen and develop the Group's presence in growth markets
- make targeted acquisitions that generate added value for shareholders through greater geographic reach, product extensions, and market consolidation
- support and promote employees through ongoing training and the exchange of ideas at all levels
- reinforce the strong Forbo umbrella brand globally



FLOORING SYSTEMS

Individuality

A SPACE JUST LIKE YOUR COMPANY

Appearance counts: its offices are a company's calling card. Offices tell visitors a lot about what they can expect from the place they are visiting. Our high-quality collections offer customers an inspiring selection of colors and structures for linoleum, vinyl or carpet tile floorings. The individual spaces they create underpin the corporate image aesthetically and provide a stimulating working atmosphere.

Flooring Systems:
Market conditions remain difficult

Jens Schneider

Executive Vice President
Flooring Systems

'The challenges we faced in the previous year became even tougher in the course of 2012. Massive cuts to public spending in many of Forbo's key markets continued to put a damper on investments in new buildings and renovations, which particularly affected the high-volume customer segments in the healthcare and education sectors. While we were able to continuously raise both sales and earnings by focusing on the commercial market segment and the public sector in the past, the change in market conditions has created an entirely new situation. We managed to offset part of the decline in demand because we had already made efforts in the past to adjust our strategy and to strengthen the focus on new market segments outside the public sector. Increased investments in growth markets and in marketing and distribution activities aimed at developing new customer segments in the commercial market segment reduced operating profit despite good expense management. We reinforced our market position as a leading system provider for the commercial market segment by making wide-ranging investments in new designs, collections, and product specifications.'

The Flooring Systems division generated net sales of CHF 873.9 million in 2012 (previous year: CHF 886.5 million), which comes to a slight decline of 1.4% year-on-year. Positive currency effects had a marginal impact of 0.3%, which results in a decrease of 1.7% in local currencies. The division's share of Group sales came to 72.8%. The government debt challenge coupled with the euro crisis had a negative effect on a number of markets and resulted in declining sales in most European markets as well as in North America. Some countries in Europe, Forbo's largest region, were hit by the ongoing weakness of the construction sector. The trend to weaker demand in North America, which had been taking shape towards the end of the previous year, was confirmed in the year under review. Sales trends in Asia/Pacific were very mixed. The conversion of the pension plan in the Netherlands from a defined benefit to a defined contribution plan resulted, in accordance with applicable IFRS rules, in one-time extraordinary pretax gain of CHF 45.4 million, which had a significant impact on operating profit. Accordingly, operating profit (EBIT) rose by 17.7% to CHF 149.0 million, and the EBIT margin was up by 17.0%. Excluding this special item, EBIT decreased by 18.2% to CHF 103.6 million (previous year: CHF 126.7 million). This decline was due on the one hand to investments made in growth markets and sales and marketing activities, and on the other to an impairment of intangible assets amounting to CHF 4.0 million reported in the annual figures. The EBIT margin decreased to 11.8% (previous year: 14.2%).

Sales strongly affected by public sector spending cuts

Since Flooring Systems' main customer segments are schools, hospitals, retirement homes, and public buildings, the division is highly dependent on public sector spending for its flooring business. Efforts to adjust the strategy to the changed circumstances – by reinforcing distribution channels and entering new customer segments outside the public sector such as shop fittings, offices, hotels, and restaurants – are beginning to show results.

In Europe, Russia and France performed very well thanks to a greater focus on growth segments and a strong position in all relevant distribution channels. Many European countries reported a decline in sales, due mostly to weak demand and ongoing sluggishness in the construction industry. North America, too, increasingly felt the pinch of reduced spending in some of Forbo's key customer segments such as education and healthcare. The situation was aggravated by the wait-and-see stance on healthcare reform in the run-up to the US presidential elections. The implemented strategy to accelerate development in growth markets resulted in strong growth in Brazil and Russia, with the latter also benefiting from a generally favorable economic environment.

The building and construction adhesives activity in Russia posted very good sales growth, but the Benelux countries, which account for the largest portion of sales in this activity, had to contend with the ongoing weakness in the construction sector. On balance, sales of building and construction adhesives in Germany remained at the previous year's level, as did the overall sales for the whole building and construction adhesives activity.

High-end vinyl designer floors post strong growth

Within the product portfolio with its very extensive flooring collections mixed trends were seen. The Allura collection, a range of high-end vinyl designer floorings launched the previous year is currently the fastest-growing product category. Available as either planks or tiles, it is in high demand for shop fittings as well as in the hotel and restaurant segments. The collection generates double-digit growth rates. This success confirms that the implementation of the growth strategy in the private commercial market segment, designed to decrease dependence on public spending, is bearing fruit. Sales of heterogeneous vinyl floorings for the commercial market segment and of high-end carpet tiles for office spaces performed well also.

Since linoleum is widely used in the high-volume healthcare and education customer segments, where massive spending cuts have been made because of severe budgetary constraints, this product group saw an overall decline in demand. Demand for Flotex – the washable textile flooring that is as comfortable as a carpet and as easy to care for as resilient flooring – and for entrance flooring systems also declined slightly. Owing to strategic portfolio adjustments, sales of flooring for the residential market segment again decreased marginally in the year under review.

New global linoleum collection

A new surface technology for linoleum was launched in 2012. It provides significantly better resistance to dirt, scratches, and wear and tear and was well received by customers, especially for applications in the healthcare sector. Forbo also developed a new, next-generation global linoleum collection that will be launched in the first quarter of 2013. The collection features new designs geared specifically to the private commercial market segment as well as a modular sampling concept.

For the high-end vinyl designer floorings in the Allura collection, Forbo developed new forms and formats that enlarge the scope for design freedom. New designs for the Flotex product group were introduced, increasing its attractiveness for European markets, particularly in highly frequented areas such as leisure centers, restaurants, retirement and nursing homes, as well as public transport.

Sales growth remains the challenge

Flooring Systems is assuming that investment in the public sector will continue to be muted. The division will take a number of targeted growth measures and engage in marketing and sales activities to counter this trend. We expect sales to remain very solid in the private commercial market segment and see further potential for the recently launched global linoleum collection.

The expansion of activities in growth markets will remain important in 2013. The division expects additional sales growth as a result of greater penetration of the North American market and its direct market engagement in Canada following the acquisition of the business operations of Phoenix Floor & Wall Products Inc., our previous distribution partner.

Fireworks of colors and structures

With every change to the product line and every new development, Flooring Systems focuses on making its products and processes more sustainable and environmentally friendly. Forbo floorings combine attractive and innovative design with a long life and high product quality. In the year under review, Forbo once again set trends with its new and diverse range of products.

A new generation of linoleum

To mark the 150th anniversary of linoleum, Flooring Systems worked towards a new modern generation of linoleum throughout the year under review. The result: a new global linoleum collection that will be launched in the first quarter of 2013. The flooring classic has always been a favorite in terms of functionality as its formulation lends it a whole raft of positive material properties. Product innovations such as the double-layered, water-based, dual UV-cured surface coating Topshield 2 make it ideally suited to everyday use in high-intensity contexts, reduce maintenance, and extend the product's life cycle. Its outstanding material and in-use properties, natural composition, and ideal ecological profile make it one of the most-used commercial floorings and the undisputed number one choice in both ecological and economic terms. The

broad range of new design options coupled with an impressive palette of colors opens up a host of new applications in shop fittings, offices, hotels, restaurants, and leisure facilities as well as in the traditional areas of education and healthcare.

New sound-absorbing vinyl collection sets design trend in France

One of the reasons for the strong sales performance of Flooring Systems in France is certainly the new sound-absorbing vinyl collection Sarlon Trafic – an all-purpose collection of acoustic floorings developed especially for France and southern Europe. This collection focuses on the two customer segments educational and senior citizen facilities. Two distinct design lines were launched in order to meet the differing needs of the target groups: 'Expression' is geared to retirement homes and multipurpose facilities, while 'Vision' is attractive for the educational sector owing to its trendy designs and cheerful colors. Our customers and users regard the new collection as the leader particularly in these segments. Some of the designs have now been included in the international range of acoustic floorings.

Thanks to an additional dirt-repellent surface treatment this floor covering is simpler to maintain and does not require spraying for metallization or maintenance purposes during the product's entire life. It is antistatic and very resistant to chemicals and greasy substances. In addition, the new collection has the best indentation performance of all 19dB products on the market.

'BOLD DESIGNS SET NEW TREND'

MOVEMENT SYSTEMS

— Interface —

CONNECTING PROCESSES EFFICIENTLY

International courier companies and national post offices rely on our conveyor and processing belts. Thanks to our reliable products and close cooperation our customers can rely on efficient material flows in both large distribution centers and local sorting offices.

Movement Systems:

Focus on strategic activities

'In the year under review, we focused on systematically implementing our strategic activities and initiatives. We continued to optimize global, cross-organizational processes and structures in specific core functions to achieve technical excellence and increase efficiency. We stepped up the worldwide marketing of synthetic modular belts and consequently gained market share with the further expansion of our product and services portfolio. We concentrated on developing activities in growth markets by building local teams and opening new assembly operations. Building on this strategy and drawing on the wide-ranging investments in new product specifications and applications, we are confident that we can further strengthen our market position.'

Matthias P. Huenerwadel

Executive Vice President
Movement Systems

The Movement Systems division generated net sales of CHF 327.2 million in the year under review (previous year: CHF 317.3 million), which marked a year-on-year gain of 3.1% or a slight increase in sales of 0.5% in local currencies. The division's share of Group sales came to 27.2%. Sales trends in the different regions and customer segments were ambiguous. Owing to above-average investments in growth markets, operating profit (EBIT) declined by 16.2% to CHF 27.0 million (previous year: CHF 32.2 million) despite the slight upturn in sales. The EBIT margin accordingly decreased to 8.2% (previous year: 10.1%).

Sales trends were mixed

Although sales were somewhat higher on balance than in the previous year, trends in the various markets were very mixed. In the America region, the strong performance seen in the fourth quarter of 2011 was confirmed in the year under review, with sales rising substantially in 2012 despite difficult market conditions. In Europe, government indebtedness and the euro crisis had a negative impact on demand, a trend that had already been apparent in the fourth quarter of the previous year. The result was a decline in sales in most European markets, with demand declining strongly especially in the central and southern European countries. Asia/Pacific managed to keep sales at approximately the same level overall as in the previous year. Core markets such as Japan and Australia were weaker amid the economic downturn, and China did not succeed in meeting its ambitious growth targets. India was the best-performing market with sales growth in the double-digits.

Strategic and long-term organizational expansion and development were pursued intensively in the year under review. The new organization established in Turkey in the previous year was expanded, while new assembly operations were put into service in India and South Korea. Mexico posted impressive double-digit sales growth after opening additional service centers.

New product groups report double-digit growth

Two product groups for which development had been prioritized in the past two years – the Prolink synthetic modular belts and the rip and tear-free Transtex conveyor belts – posted double-digit sales growth in the past year. Following the global sales rollout the previous year, a convincing offering was developed in new customer segments in the field of logistics, in facilities with harsh production conditions, and in the transport of raw materials, very heavy cargoes or parts with sharp edges.

This expansion of the product range with impressively innovative and high-quality properties is also indirectly reflected in the sustainable and disproportionately high sales growth achieved in the strategic customer segments logistics and industrial production. The customer segments food processing and textiles, which had grown strongly the previous year, also developed positively. In paper and printing, sales were up again slightly despite ongoing market weakness in the printing industry. In the highly competitive sports treadmill market, demand faltered after a number of successful years with above-average growth rates.

Investments focused on strategic projects and innovation

This past year the division again made significant investments in order to expand its position in the growth markets and to develop and round off its product portfolio of synthetic modular belts. New series have been developed especially for the food industry to transport medium-weight goods in hygiene-sensitive areas, including for the processing of meat, fruit, and vegetables, and to convey goods requiring small end radiuses or sticky products (for instance, baked goods and confectionery) for which the belt's release properties are very important. These properties are also an important sales argument in the tire industry and in rubber processing.

Working closely together with partners in the manufacture and processing of gypsum plasterboards and gypsum fiberboards, Forbo has developed new high-performance forming belts that ensure a smooth flow of materials from the belt to the packaging line. Wallboards are manufactured primarily for interior and drywall construction, where they are used for instance as light, non-bearing walls or for cladding under sloping roofs or in attics. These energy-saving belts are thinner but stronger than before thanks to their special double-layer cover material made of high-tech fabric and their thermoplastic, abrasion-resistant PVC coating ensures even wallboard surfaces.

Wherever differences in height need to be overcome in production, Forbo supplies slope conveyors that master gradients of up to 20 degrees without any additional surface elements. To avoid spillage or breakage, the belt's surface grip must ensure very reliable conveyance of the goods. In the year under review, an innovative high-grip coating was developed for a wide range of conveyor and processing belts as well as for special applications in the customer segments food, logistics, printing and paper converting as well as industrial production.

In the operational field, various global projects were implemented in connection with the new functional organization. The aim was to establish globally efficient organizational structures and workflows for all sites in order to drive competitive core processes along the entire value chain.

Ambitious growth targets to achieve market leadership

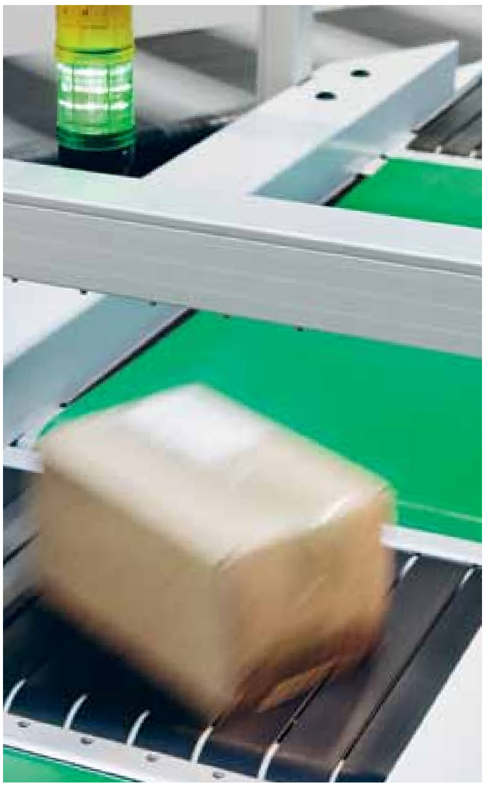
In the 2013 business year, the division will continue to press ahead with its strategic initiatives. Now that the organization has been remodeled along global functional lines, these internal global processes will be further reinforced and strengthened with dedicated resources and industry expertise. Movement Systems will attach great importance in the coming year to further expanding its activities in growth markets. The primary focus will be on Russia, Turkey, Mexico, and Asia/Pacific, where the division will establish sales and service teams and develop its assembly competencies.

The investments made in previous years in extended product portfolios and developing innovative products and application specifications will be pursued intensively in the coming year.

A leader in innovation

Though not always visible, Movement Systems is present almost everywhere, ensuring optimum process reliability. Forbo stood out again in the year under review as a professional partner in the development of sector-specific, future-oriented solutions for drives, transport, and manufacturing.

First sustainable conveyor belt
In the year under review, Movement Systems presented a world premiere: the first sustainable conveyor and processing belt that makes a very positive contribution to the environment. The belt is made of renewable, biodegradable raw materials, saves energy, yet provides the same performance as traditional conveyor belts. It is available in different versions, either with a smooth surface or with longitudinal grooves for inclined conveying. The interest in sustainable conveyor belts is increasing, but there have been none on the market to date. As an innovation leader, we have pulled out all the stops to find solutions that stand the test of real-world conditions. The belt's technical specifications are the same and the joint technology is identical. Customers can continue to use all the components from traditional belts such as drums, tracking systems, and drives. The international development team replaced oil-based raw materials with renewable plant-based materials. Biobelts can be coated with a patented special impregnation that saves the customer up



to 40 percent in energy costs (the Amp Miser concept). This version has been a success on the market for some years now – an ideal and logical combination with the Biobelt. If the belt has to be exchanged after a number of years, it is biodegradable. Biobelts are a distinct improvement that put the cradle-to-cradle principle into practice: waste is turned into new products, and a sustained and environmentally friendly cycle is perpetuated.

'BIOBELT, THE ENVIRONMENTALLY FRIENDLY ALTERNATIVE'

Expanded product portfolio of synthetic modular belts

Owing to their design, conventional conveyor belts are not always completely suitable for conveyor and processing tasks. To make up for this, Movement Systems is expanding its product range specifically in the area of synthetic modular belts used particularly in food processing facilities. In the year under review, the division focused on expanding the product range in line with its strategic orientation.

For transporting sticky products, new series 4.1 modules were developed for belts with a small end radius. Their novel surface structure ensures excellent product release properties (meaning minimal product loss) and resistance to oil and grease. They are the ideal solution for processing dough, baked goods and confectionery as well as in rubber manufacturing and the tire industry.

New series 6.1 modules were developed for conveying light to medium-weight goods, including for the food industry. They are designed to allow good air circulation and water drainage and at the same time have confirmed resistance to hot water, cleaning agents, and disinfectants.

They comply with the most stringent demands of various regulations governing food standards. Their blue color makes it easier to identify dirt, improves working conditions by reducing light reflection, and is suited for use in optical sorting facilities.

Organization

Executive Board

Matthias P. Huenerwadel, Jörg Riboni, Jens Schneider, This E. Schneider, Daniel Keist

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 US, he joined the Executive Board of Schmidt Agency, where he was responsible for strategic planning, operations, and logistics from 1984 to 1990. From 1991 to 1993 he was Chairman and CEO of the publicly listed company SAFAA, Paris. In 1994, he became a member of the Executive Board of Valora, with responsibility for the canteen and catering division. From 1997 to 2002, he was Delegate and Vice President of the Board of Directors of Selecta Group. This E. Schneider has been Delegate of the Board of Directors and CEO of the Forbo Group since March 2004. He is also a member of the Board of Directors of Galenica SA, Rieter Holding AG, and Autoneum Holding AG.

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 holding 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. Jörg Riboni joined the Forbo Group in January 2006 as a member of the Executive Board and Chief Financial Officer. He left the company on December 31, 2012.

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 Committee and CFO of the Selecta Group. He was then a partner at Ernst & Young Corporate Finance in Zurich until 2003, where he acted as a consultant in various M & A, restructuring and financing transactions. Until the summer of 2007, he was a member of the Executive Committee of SIX Swiss Exchange and headed the Admissions Division. Daniel Keist joined the Forbo Group in August 2007 as a member of the Executive Board with responsibility for the Corporate Center. He left the company on December 31, 2012.

Jens Schneider

Executive Vice President Flooring Systems

Jens Schneider, born in 1956, is a German citizen. He completed his BSc. Hons in geology and chemistry at the University of the Witwatersrand in Johannesburg in 1978 and then did his Master of Science at Imperial College London in 1984. After working in the mining industry in South Africa and Europe, he joined S.G. Warburg Securities in London in 1987 as a financial analyst for two years. From 1989 on, he headed international investment projects for the Frankfurt-based corporation Metallgesellschaft. In 1995 he moved to the Preussag Corporation, where he held various senior positions, among others in the Building Technology unit. Jens Schneider joined the Forbo Group at the end of December 2005 where he took over responsibility for Finance and Administration in the Flooring Systems division. He was appointed Executive Vice President Flooring Systems and member of the Executive Board of Forbo as of April 1, 2010. Jens Schneider left the Executive Board on December 31, 2012 and will now support Forbo Group in strategic projects.

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 1996, he moved to the US, where he was responsible for logistics, information technology, and customer service with Federal Home Products, Ruston. From 1999, he held various managerial positions for Franke Foodservice Systems and managed its European operations from 2002 to 2005. Matthias P. Huenerwadel took over management of the Movement Systems division in October 2005 and is a member of the Executive Board of Forbo. As of January 1, 2013, he is the Head of the Flooring Systems division.

Changes on the Executive Board

As a result of the sale of the industrial adhesives activity – including synthetic polymers – the size of the Group has been reduced by about a third.

For this reason the Executive Board has also been streamlined. The divisions now report directly to the CEO, and the functions of the CFO and Head Corporate Center have been merged by and large. Tom Kaiser, COO, Jörg Riboni, CFO, and Daniel Keist, Head Corporate Center, as well as the Head of the divested Bonding Systems division, Michel Riva, left the company in the course of, respectively during the year under review.

Matthias P. Huenerwadel, who headed the Movement Systems division with great success for seven years, took over the Flooring Systems division from Jens Schneider on January 1, 2013. Jens Schneider will assume new duties within the Group. The new Head of Movement Systems is Jean-Michel Wins, and Andreas Spreiter took over the expanded CFO function as of January 1, 2013.

Group structure

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

Jens Schneider

Flooring Systems

- Sales & Marketing
- Supply Chain
- Innovation & Product Management
- Finance & Services
- Building and Construction Adhesives

Matthias P. Huenerwadel

Movement Systems

- North, Central, and South America
- Europe
- Asia/Pacific
- Plastic Modular Belts
- Global Production
- Global Research & Development
- Global Business Development

Jörg Riboni

Corporate Finance

- Controlling
- Treasury
- Tax
- IT
- Pensions International
- Investor Relations

Daniel Keist

Corporate Center

- Legal Services
- Mergers & Acquisitions
- Internal Audit
- Risk Management
- Communications
- Human Resources/ Pensions Switzerland

Board of Directors

Dr. Reto Müller, Vincent Studer, Michael Pieper, Dr. Albert Gnägi, This E. Schneider, Dr. Peter Altorfer

Dr. Albert Gnägi
Chairman/Elected until 2013.

Member and until 2010 Chairman of the Board of Trustees of the Sanitas Hospital, Kilchberg.
Chairman of the Board of Directors of SAM Group Holding AG, Zurich.
Member of other Boards of Directors or Boards of Trustees.

Michael Pieper
Vice Chairman/Elected until 2013.

Owner of the Franke Artemis Holding AG, Aarburg.
Chief Executive Officer of Franke Artemis Management AG, Aarburg.
Member of the Board of Directors of Hero AG, Lenzburg.
Member of the Board of Directors of advalTech Holding AG, Niederwangen near Berne.
Member of the Board of Directors of Berenberg Bank (Schweiz) AG, Zurich.
Member of the Board of Directors of Rieter Holding AG, Winterthur.
Member of the Board of Directors of Autoneum Holding AG, Winterthur.

This E. Schneider
Delegate and CEO/Elected until 2014.

Member of the Board of Directors of Galenica SA, Berne.
Member of the Board of Directors of Rieter Holding AG, Winterthur.
Member of the Board of Directors of Autoneum Holding AG, Winterthur.

Dr. Peter Altorfer
Member/Elected until 2014.

Partner at the law firm Wenger & Vieli AG, Zurich.
Member of the Board of Directors of Huber + Suhner AG, Herisau.
Member of the Board of Directors of agta record ag, Fehraltorf.
Member of the Board of Directors of Abegg Holding AG, Zurich.
Member of the Board of Directors of Altin AG, Baar.
Member of the Board of Trustees of Werner Abegg Fonds, Zurich.
Member of the Board of other private and foreign banks and non-listed investment companies in Switzerland.

Dr. Reto Müller
Member/Elected until 2015.

Full-time Chairman of the Board of Directors of Helbling Holding AG, Zurich.
Member of the Council of SWISSMEM, Zurich.
Member of other Boards of Directors.

Vincent Studer
Member/Elected until 2015.

Partner and member of Management of T + R AG, Gümligen near Berne.
Member of the Board of Directors of Bank EEK AG, Berne.
Member of other Boards of Directors or Boards of Trustees.

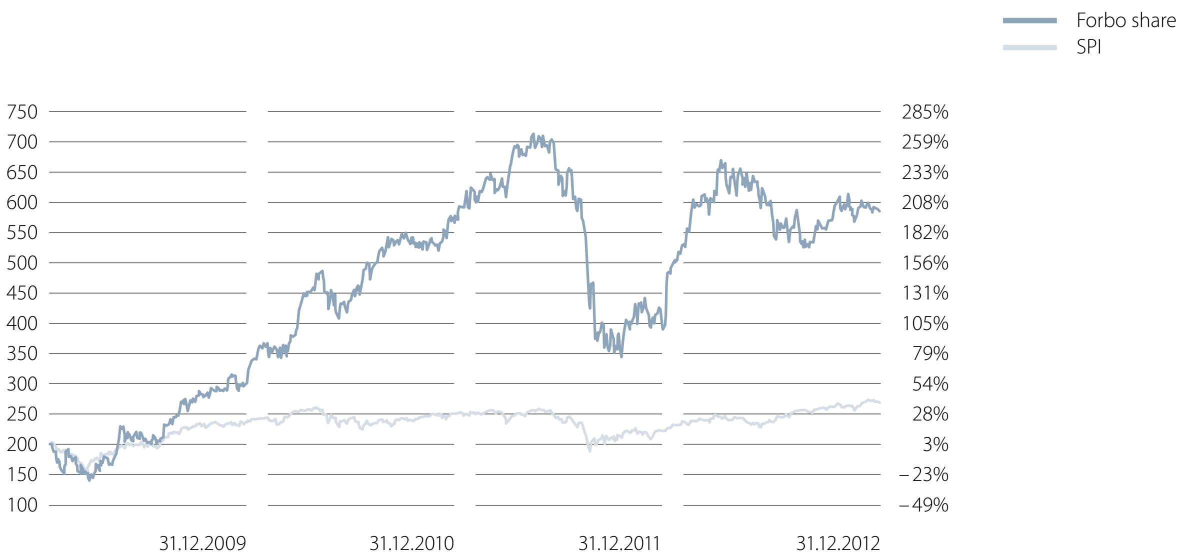
The Forbo share

The Forbo share

On the whole, the year 2012 was a very good one for the stock market. After a negative performance in 2011 (– 7.7%), the Swiss Performance Index (SPI) got off to a good start in 2012, despite the ongoing euro crisis, and by mid-March had gained almost 9%. However, the renewed flare-up of recessionary fears both in Europe and on the other side of the Atlantic, coupled with subdued growth in Asia, led to a downturn in May; and by the beginning of June the SPI turned slightly negative. The market then rallied, and the SPI continued to make significant gains until the end of the year, ultimately closing 2012 with a surprising 17.7% gain.

The Forbo share price rose from CHF 493 at year-end 2011 to CHF 685 shortly before the end of March 2012. In the wake of the downturn on the SPI the share price then dipped, but then recovered again in late August, ultimately closing 2012 with a gain of 18.7%.

The Forbo share in comparison to the SPI



Share capital

		2012 Number	2011 Number	2010 Number	2009 Number	2008 Number
Issued registered shares[1]		2,500,000	2,500,000	2,713,152	2,713,152	2,713,152
Thereof:						
Shares outstanding		2,052,740	2,298,758	2,339,162	2,266,593	2,230,729
Share buyback second line		250,000	-	213,152	213,152	213,152
Other treasury shares		175,841	179,823	139,419	211,988	247,852
Reserve shares (without dividend rights)		21,419	21,419	21,419	21,419	21,419

Issued nominal capital

		CHF	CHF	CHF	CHF	CHF
Total		250,000	250,000	271,315	271,315	10,852,608
Thereof:						
Shares outstanding		205,274	229,876	233,916	226,659	8,922,916
Share buyback second line		25,000	-	21,315	21,315	852,608
Other treasury shares		17,584	17,982	13,942	21,199	991,408
Reserve shares (without dividend rights)		2,142	2,142	2,142	2,142	85,676

Data per share

		CHF	CHF	CHF	CHF	CHF
Group shareholders' equity per share[7]		369	349	320	301	250
Group profit per share[2] [7]		89,1	62,8	71,6	33,7	6,9
Gross dividend and cash distribution		12,0[3]	12,0	12,0	6,0	3,9
Gross dividend yield (in %)	High	1,8[5]	1,7[5]	2,0[5]	1,8[5]	0,6[4]
	Low	2,5[5]	3,5[5]	3,5[5]	4,3[5]	2,1[4]
Payout ratio[6] (in %)		13	19	17	18	57

Stock market statistics

		CHF	CHF	CHF	CHF	CHF
Share price	High	685	713	595	343	705
	Low	484	343	343	140	188
	Year-end	585	493	590	340	195
Market capitalization (m)[8]	High	1,406	1,639	1,392	777	1,573
	Low	994	788	802	317	420
	Year-end	1,201	1,133	1,380	771	435

1) Par value per share in 2012, 2011, 2010, and 2009: CHF 0.10; 2008: CHF 4.
2) See note 15 'Earnings per share' on page 101 of the financial report.
3) Proposal of the Board of Directors to the Ordinary General Meeting.
4) Calculated on the basis of a cash distribution in the form of a reduction in par value.
5) Calculated on the basis of a cash distribution in the form of a dividend.
6) Gross cash distribution as a percentage of Group profit.
7) Based on the weighted average of the number of shares as set out in note 15 'Earnings per share' on page 101 of the financial report.
8) Total number of shares outstanding, multiplied by year-end share price.

Corporate governance report

Corporate governance report

At Forbo, the concept of corporate governance encompasses the entire set of principles and rules on organization, conduct and transparency designed to protect shareholders' 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 SIX 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 subsidiaries, directly or indirectly, that belong to the Forbo Group. The operational structure of the Group is shown in the organizational chart on page 47. 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 130 of the financial report. The company name and domicile, share capital and percentage of participation along with information relating to the allocation of the Group company to the Group's businesses can also be found in that section of this Annual Report.

Significant shareholders
As of December 31, 2012, 2,164 shareholders were listed in the share register of Forbo Holding Ltd, or 157 (7%) fewer than in the previous year. At December 31, 2012, Forbo Holding Ltd knew of the following significant shareholders with a holding of more than 3%:

	31.12.2012 as a percentage
Michael Pieper[1)]	27.27
Forbo Holding Ltd[2)]	17.89
This E. Schneider	3.10

1) Michael Pieper holds his interest directly and indirectly through Artemis Beteiligungen I AG.
2) – First trading line 7.89%, second trading line 10.00%.
– Forbo Holding Ltd holds its interest directly and indirectly through Forbo International SA and Forbo Finanz AG.

Disclosure of significant shareholders and significant shareholder groups and their holdings is effected in accordance with the disclosures made in the year under review pursuant to Article 20 of the Federal Act on Stock Exchanges and Securities Trading (SESTA) and the provisions of the Ordinance of the Swiss Financial Market Supervisory Authority on Stock Exchanges and Securities Trading (SESTO-FINMA).

Forbo Holding Ltd reported on May 23, 2012 that it had exceeded the threshold of 10% and on October 9, 2012 that it had exceeded the threshold of 15% of the voting shares as at October 4, 2012 through the purchase of its own shares via the second trading line on the SIX Swiss Exchange as part of the share buyback program it had previously announced. It reported that it held, directly or indirectly, via Forbo International SA, Baar (CH), and Forbo Finanz AG, Baar (CH), 375,477 of its own shares, corresponding to 15.019% of the voting rights. In addition, Forbo Holding Ltd has granted 31,744 purchase rights for 31,744 registered shares of Forbo Holding Ltd, corresponding to voting rights of 1.270% of the total.

No other disclosures were made in 2012.

For further information on significant shareholders or shareholder groups, we refer the reader to the table on the facing page and to page 144 of the financial report (duty of disclosure pursuant to Article 663c, Swiss Code of Obligations).

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

Capital structure

Share capital
As of December 31, 2012, Forbo Holding Ltd had a fully paid up share capital of CHF 250,000, which was divided into 2,500,000 listed registered shares, each with a par value of CHF 0.10. Of this amount:

– 63.84% were registered in the name of 2,136 shareholders with voting rights
– 29.88% were shares of banks or of SIX SIS AG pending registration of transfer
– 6.29% were registered in the share register without voting rights

The shares of Forbo Holding Ltd (security number 000354151/ISIN CH0003541510) are listed on SIX Swiss Exchange. No different categories of shares exist. Each share entitles the owner to one vote. Further information on the Forbo share can be found on pages 52 and 53. Further information on the rights of participation associated with the share can be found on page 68 of this Annual Report.

At the Annual General Meeting of Shareholders of Forbo Holding AG held on April 29, 2011, the Board of Directors was authorized to buy back company's own shares, for the purpose of extinguishing the share certificates at a later stage, up to a maximum of 10% of the share capital over a period of three years through a second trading line on the SIX Swiss Exchange. By November 1, 2012, Forbo Holding Ltd had repurchased 250,000 shares via the second trading line. At the Extraordinary General Meeting of Forbo Holding Ltd held on November 5, 2012, it was decided to extinguish the shares that had been repurchased.

At the Extraordinary General Meeting of Shareholders of Forbo Holding Ltd of November 5, 2012, the Board of Directors was authorized to buy back company's own shares either on the SIX Swiss Exchange or in another manner, with the purpose of extinguishing them at a later stage, up to a maximum of 10% of the share capital over a period of three years through a second trading line. The Board reserves the right to interrupt or stop the share buyback program if this should become necessary in order to finance external growth. The Board opted for a two-stage procedure in which the shareholders took the basic decision at the Extraordinary General Meeting of Forbo Holding Ltd on November 5, 2012 and will be asked to approve the cancellation of the repurchased shares at one of the forthcoming annual general meetings. By December 31, 2012, Forbo Holding Ltd had repurchased no shares via the second trading line.

Conditional and authorized capital
Pursuant to paragraph 6 of the Articles of Association, Forbo Holding Ltd has a maximum conditional capital of CHF 16,645, corresponding to 166,450 registered shares to be paid up in full with a par value of CHF 0.10 each. The capital increase takes place in accordance with the Articles of Association through the exercise of option and convertible rights which are granted in connection with the bonds issued by the company or one of its subsidiaries or through the exercise of option rights which are granted to the shareholders. Except for shareholder options,

shareholders have no right of subscription. Holders of option or convertible rights are entitled to subscribe to new share issues. The registration of new shares is subject to the general restriction set out in paragraph 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 Extraordinary General Meeting of Forbo Holding Ltd on November 5, 2012 decided, based on the audit report of an accredited auditor, to reduce the ordinary share capital of the company by CHF 25,000 from CHF 250,000 to CHF 225,000 by extinguishing 250,000 shares with a par value each of CHF 0.10. It was further decided to amend the Articles of Association accordingly.

The Ordinary General Meeting of Forbo Holding Ltd on April 29, 2011 decided, based on the audit report of an accredited auditor, to reduce the ordinary share capital of the company by CHF 21,315.20 from CHF 271,315.20 to CHF 250,000 by cancelling 213,152 shares with a par value each of CHF 0.10. It was further decided to amend the Articles of Association accordingly.

No changes to the capital of Forbo Holding Ltd were made in 2010.

Participation certificates and 'Genussscheine' (non-voting equity securities)
Forbo Holding Ltd has issued neither 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 to register stock in the share register if the purchaser 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 paragraph 4 of the Articles of Association, 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. Over and above this limit, nominees are only entered provided the name, address and shareholding of those 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.

Resolutions on the amendment or abrogation of the clause on the registration of registered shares require 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 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 marketable warrants/options. Information on the option program available to the Executive Board can be found on page 67, as well as on pages 109 and 110 of this Annual Report.

Board of Directors

Members of the Board of Directors
The cutoff date for the following information is December 31, 2012.

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 in 1944, is a Swiss citizen. He studied law at the Universities of Zurich and 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. Albert Gnägi has been a member of the Board of Trustees of the Sanitas Hospital in Kilchberg since 1980 and was its Chairman until 2010. He has been Chairman of the Board of Directors of SAM Group Holding AG, Zurich, since 2007. 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 in 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 Artemis 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, Berenberg Bank (Schweiz) AG, Autoneum Holding AG, and Rieter Holding AG. 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 45 of this report.

Dr. Peter Altorfer
Peter Altorfer, born in 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 program at the IMD, Lausanne. Until 1988, he worked at Bank Leu AG and 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 in Herisau, agta record ag in Fehraltorf, Abegg Holding AG in Zurich, Altin AG in Baar, Werner Abegg Fonds in Zurich and of several private and foreign banks and unlisted investment companies in Switzerland. He has been a member of the Board of Directors of Forbo Holding Ltd since March 2005.

Dr. Reto Müller
Reto Müller, born in 1951, is a Swiss citizen. He took a first degree in economics and completed his doctorate (Dr. oec. HSG) at the University of St. Gallen. He also completed the Stanford Executive Program and additional training at IMD, INSEAD, and the Harvard Business School. He is a founding partner of the Helbling Group, for which he has worked since 1984, from 2000 to 2011 as Chairman of the Board and CEO. In July 2011, he was appointed full-time Chairman of the Board of Helbling Holding AG. Between 2002 and 2010, Reto Müller was

either a member or Chairman of the Zurich Regional Economic Advisory Board (Zurich) of the Swiss National Bank. He has been a member of the Council of SWISSMEM since 2008 and he holds additional board memberships in other companies. He became a member of the Board of Directors of Forbo Holding Ltd in 2011.

Vincent Studer
Vincent Studer, born in 1962, is a Swiss citizen. He completed the Advanced School of Economics and Business Administration in Berne and trained as a Swiss certified public accountant. In addition, he has attended various national and international training courses. From 1991 to 2008, Vincent Studer worked at Ernst & Young AG in Berne as an external auditor and was head auditor for the statements of national and international companies in various industries. In 2001 he was appointed a partner in the area of auditing. Since 2008 he has been a partner and member of the management of the accountancy and auditing firm T+R AG, Gümligen/Berne, where he heads the Auditing business unit. Vincent Studer is a member of the Board of Directors of Bank EEK AG in Berne and holds additional board memberships in other companies and foundations. He has been a member of the Board of Directors of Forbo Holding Ltd since April 2009.

Board of Directors of Forbo Holding Ltd at December 31, 2012

	First elected	Elected until OGM	AFC	HRC
Chairman				
DR. ALBERT GNÄGI	2005	2013	M	C
Non-executive director				
Vice Chairman				
MICHAEL PIEPER	2000	2013	–	M
Non-executive director				
Members				
THIS E. SCHNEIDER	2004	2014	–	–
Delegate of the Board of Directors and executive director				
DR. PETER ALTORFER	2005	2014	M	M
Non-executive director				
DR. RETO MÜLLER	2011	2015	M	–
Non-executive director				
VINCENT STUDER	2009	2015	C	–
Non-executive director				
Secretary of the Board				
NICOLE GRAF-HÄFELI				
Non-member				

OGM: Ordinary General Meeting
AFC: Audit and Finance Committee
HRC: Committee for Human Resources and Remuneration
C: Chair
M: Member

Elections and terms of office

The members are elected by the 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 to the Board of Directors is designed so that every year roughly one-third of all members have to be elected or re-elected. Members may be re-elected several times. At the Ordinary General Meeting on April 27, 2012, Dr. Reto Müller and Vincent Studer were re-elected for a three-year term of office in a single vote. Further details on the terms of office of the other members of the Board of Directors are contained in the table on page 60. 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 61. 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.

Internal organizational structure

The allocation of tasks within the Board of Directors and the composition of the Board committees are shown in the table on page 60.

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 compensation 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 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 from attending for any reason whatsoever. 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 company and for the tasks delegated to him by the Board of Directors. The CFO, the Head Corporate Center and the Executive Vice Presidents of the two divisions report to him for 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 announced at least five working days before the day of the meeting. This notification period may be shortened in urgent cases. In 2012, the Board of Directors met seven 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 to deal with 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 company in the areas of financial reporting, the accounting standards and systems used, and decisions with significant financial implications. The AFC monitors the activities of the internal auditors and the external auditors. Moreover, it establishes the audit program of the internal auditors and proposes to the Board of Directors the choice of the external auditors for the attention of the General Meeting. The CEO, CFO, and Head Corporate Center are regularly requested to attend meetings in an advisory capacity, while the internal and external auditors may attend on special invitation.

The AFC convenes as often as business requires, but at least twice a year. In the 2012 business year, four meetings were held, each lasting about half a day. The external auditors were present for some items on the agenda of the AFC's meeting on the financial statements, while the Ernst & Young representatives responsible for internal auditing attended two meetings held to discuss the internal audit reports.

Committee for Human Resources and Remuneration
The Committee for Human Resources and Remuneration (HRC) advises the Board of Directors in respect of its human resources duties on behalf of the Group, in particular as regards the Board itself and senior management personnel. The HRC prepares 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 compensation 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 the 2012 business year, two meetings were held, each lasting about half a day.

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 inalienable tasks pursuant to the Swiss Code of Obligations and the Articles of Association:

– ultimate management of the company and issuing the necessary directives
– defining the organization
– organization of accounting, financial controlling, and financial planning
– appointment and dismissal of persons entrusted with the 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 over indebtedness

The Board of Directors bears ultimate responsibility for supervising and monitoring the 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 inalienable 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 company 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. The Executive Board comprises the CEO, CFO, Head Corporate Center, and the Executive Vice Presidents of the two 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 accounting, financial controlling, and financial planning
- financing and treasury principles
- human resources and compensation policy

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

Information and control instruments vis-à-vis the Executive Board
The Executive Board meets as often as business requires, normally once a month. In the 2012 business year, eleven 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 the opinions and recommendations of the AFC or HRC 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 and the Head Corporate Center 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 divisions. In addition, the Chairman, Vice Chairman, and CEO are in regular 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 pages 61 and 62.

The Board of Directors furthermore fulfills its supervisory and monitoring obligations by means of financial reporting and its role in the planning cycle. The internal and external auditors also assist the Board in this task. Neither the external auditors nor the internal auditors, however, were invited to any meetings of the Board of Directors in 2012 as there were no special incidents or topics for discussion.

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.

The Board of Directors is, moreover, involved in the company's planning cycle. As a rule, the existing strategy is subjected to a thorough review by the Board of Directors in the first half of the year. The revised strategy is quantified in the three-year medium-term plan, which is approved at mid-year by the Board of Directors. 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 discussed and adopted by the Board of Directors in the fourth quarter.

The current business year is assessed in a first estimate always at the end of April and in a second estimate at the end of September. On completion of the business year, the extent to which the budget has been reached is 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 effected by Ernst&Young, which has been commissioned for this purpose. Internal auditing is administratively subordinated to the Head Corporate Center and is functionally independent. It reports to the AFC.

The audits are conducted in accordance with an annual plan approved by the AFC. A distinction is made between ordinary and special engagement audits. The latter consist of limited reviews, follow-up reviews, compliance audits, and other special engagements. Where necessary, the risks and weaknesses identified in these audits are minimized or eliminated by measures adopted by management and are constantly monitored.

In 2012, a total of six internal audits were conducted. The internal audits were restricted to individual business processes. In its review of audited Group companies, Internal Audit included any issues that had been defined in the framework of the internal control system (ICS). Internal audits also involved various compliance reviews related to these processes. Lastly, additional risks and controls in connection with the above-mentioned business processes were analyzed in the audit. At least one company in each division was audited in the course of the internal audits.

By means of self-assessments and management controls by division management, the implementation and reliability of the controls introduced with the ICS were examined to ensure that deviations were identified and that appropriate corrective measures were implemented.

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, among other things, to safeguard the tangible and intangible assets of the company.

Forbo has a risk-based insurance coverage in line with industry practice and has appropriately insured in particular operational risks such as property damage, business interruption, and 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. These risk engineering audits have been prepared since 1990.

As regards business risks, Forbo addresses strategic risks as well as market and financial risks. In the area of market risks, interest and currency risks are monitored centrally and hedged in certain cases. The liquidity and financing of subsidiaries are also monitored centrally. Please also refer to pages 125 to 129 of the financial report for more information on this subject.

With regard to the risk management process pursuant to Article 663b section 12 of the Swiss Code of Obligations, the reader is referred to the relevant explanations on page 105 (note 18 'Risk assessment') and on pages 125 to 129 (note 38 'Risk assessment and financial risk management').

Executive Board

Members of the Executive Board, other 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 45 and 46 of this Annual Report.

Changes on the Executive Board
As a result of the sale of the industrial adhesives activity – including synthetic polymers – the size of the Group has been reduced by about a third.

For this reason the Executive Board has also been streamlined. The divisions now report directly to the CEO, and the functions of the CFO and Head Corporate Center have been merged by and large. Tom Kaiser, COO, Jörg Riboni, CFO, and Daniel Keist, Head Corporate Center, as well as the Head of the divested Bonding Systems division, Michel Riva, left the company in the course of, respectively during the year under review.

Matthias P. Huenerwadel, who headed the Movement Systems division with great success for seven years, took over the Flooring Systems division from Jens Schneider on January 1, 2013. Jens Schneider will assume new duties within the Group. The new Head of Movement Systems is Jean-Michel Wins, and Andreas Spreiter took over the expanded CFO function as of January 1, 2013.

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

Compensation, shareholdings, and loans

CONTENT AND METHODOLOGY 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. Industrial companies are regarded as comparable if and when they are similar to Forbo in terms of sector, structure, size, and complexity. No external consultants are co-opted for determining the compensation.

The members of the Board of Directors receive a fixed compensation, 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 percent 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 or no repayment of par value is made, the average price during the first ten trading days in June of the relevant business year applies. Payment and distribution of the shares takes place in December.

The amount of compensation for each Board member in the year under review, along with the details of the valuation of the shares, can be found on pages 124 and 145 of the financial report.

Executive Board
The amounts of the fixed compensation and the target bonus for the Executive Board are set by the HRC in the fall for the following year; members of the Executive Board are excluded from the deliberations. In determining the compensation, the HRC takes into consideration criteria such as function, responsibility, and experience and it compares the compensation paid to Forbo Executive Board members 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. Industrial companies are regarded as comparable which are similar to Forbo in terms of sector, structure, size, and complexity. No external consultants are co-opted for determining the compensation.

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

The variable component (performance-related bonus) is tied to financial (quantitative) and qualitative targets which are defined in accordance with the 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 up to 30% of the total variable component; the remaining portion of the variable component is a function of the achievement of financial (quantitative) targets. Depending on the function of the Executive Board member in question, these may be Group and/or divisional objectives and refer in particular to net sales, EBITDA, EBIT, current assets, and net income. The main financial (quantitative) targets for Executive Board members who are in charge of a division are net sales, EBITDA, EBIT, and the net current assets of the division, as well as EBITDA and EBIT at Group level. The main financial (quantitative) targets of Executive Board members with corporate functions are consolidated net sales, EBITDA, EBIT, and Group profit as well as net current assets of the Group. The variable component can be a maximum of 125% of the fixed compensation, depending on the individual's target achievement.

The bonus payment is linked to the Management Investment Plan (MIP), which was introduced in 2006 and revised in 2012. According to this plan, at least 50% of the annual bonus of Executive Board members is paid into the MIP. Under the previous plan, 25% of the payments were invested in options and 75% in shares of Forbo Holding Ltd. The shares and options were vested for a period of three years, and the lifetime of the options was five years. As can be seen from the table below, the options issued in connection with the MIP come to maturity no later than April 21, 2017. Following the revision of the MIP, the sums paid into it will be fully invested in shares of Forbo Holding Ltd as of January 1, 2013. These shares will also be vested for a period of three years.

Of special note with regard to the options issued before the revision of the MIP is the treatment of these options in the event of termination of the employment contract, disability or retirement. If notice is given terminating the employment contract during the vesting period, the MIP participants may either buy back the options (the repurchase price then corresponds to the difference between the strike price of the option and the average price of the shares during the last five trading days before the employment contract was terminated) or they may keep the options and sell or exercise them after the vesting period during their remaining lifetime. In the event of disability 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 period to maturity from the moment the disability or retirement begins.

As of the balance-sheet date of December 31, 2012, the Executive Board held the following options:

Allocation	No. of registered shares	Term	Vested until	Subscription ratio	Strike price (CHF)
2008	3,888	19.03.2008 – 19.03.2013	19.03.2011	1:1	822.00
2010	2,696	15.03.2010 – 16.03.2015	15.03.2013	1:1	434.75
2011	7,112	01.04.2011 – 02.04.2016	01.04.2014	1:1	733.25
2012	6,551	20.04.2012 – 21.04.2017	20.04.2015	1:1	616.33

The amount of the compensation for the Executive Board in the year under review, along with the details of the valuation and distribution of the shares and options, can be found on pages 124 and 145 of the financial report. This compensation consists of the base salary, a performance-related bonus, private use of the company car, employer contributions to the pension funds and to AHV/ALV (old-age and unemployment insurance), and accident and company sick payment insurance.

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 compensation 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).

With effect from January 2009, the employment contract with the Delegate of the Board of Directors and CEO was extended until April 30, 2013. Compensation is being paid mainly in stock. These shares are vested until December 31, 2013. The modalities are similar to a very large extent to the provisions of the first contract. 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 to social security. With the share package and the cash remuneration, all compensations such as bonuses, inflation, adjustments, options, etc. are settled. No severance payment was agreed.

The employment contract with the Delegate of the Board of Directors and CEO, which ends on April 30, 2013, was extended until December 31, 2016. The bulk of the compensation will again be paid in vested shares which have a vesting period of three, four, and five years respectively, and in a cash payment for taxes and for employee contributions to social security. The share package and the cash remuneration are deemed to cover all compensations such as bonuses, options, salary adjustments, inflation, etc. This share package may not be either pledged or assigned. No severance payment or compensation in the event of a change of control was agreed.

The relevant figures for this compensation model are found on pages 124 and 145 of the financial report.

Shareholders' 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 the Articles of Association, 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 require 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.

Deviating from Article 689, Paragraph 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 paragraph 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 paragraph13 section 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 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 in 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 32 and 22 SESTA. However, as regards the determination of the minimum price, the Articles of Association deviate from Article 32, paragraph 4 SESTA in that, in the event of a compulsory offer, the offer price must at least correspond to the share price and may not be lower than the highest price which the bidder paid in the last twelve months for shares of the company.

Clause on changes of control
As per year-end 2012, no clauses on changes of control existed in agreements or plans involving members of the Board of Directors, the Executive Board or other members of management.

Auditors

Duration of the mandate and term of office of the head auditor
PricewaterhouseCoopers has been the Forbo Group's auditors since 1987. The predecessor company of PricewaterhouseCoopers had been Forbo's auditors since 1928. The auditors are elected every year by the Ordinary General Meeting on a proposal by the Board of Directors. As the Auditor in Charge has to be changed at least every seven years, Daniel Ketterer took over the function of Auditor in Charge as of the 2009 business year.

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 0.9 million in the year under review.

Additional fees
The additional consultancy fees that were invoiced by the auditing company amounted to CHF 0.9 million in 2012. These fees consist in the main of tax consulting work in connection with a restructuring in North America (CHF 0.3 million), the sale of the industrial adhesives activity, including synthetic polymers (CHF 0.2 million), and general tax advice (CHF 0.4 million).

Information instruments of the external auditors
The external auditors prepare for the CEO, the CFO and the Head Corporate Center an annual management letter on their work and the results of their audit at Group level in the year under review. The key points are submitted to the Board of Directors in the form of a comprehensive report. The external auditors also prepare management letters on the subsidiaries they have audited. The AFC assesses and evaluates the proposals and statements it has received and appraises the corrective 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 activities of the AFC and its assessment of the external auditors at the meetings of the Board of Directors. Any member of the Board of Directors may inspect the minutes of the AFC meetings.

At its meetings, the AFC assesses the performance and fees of the external auditors as well as their independence in both their auditing and their non-auditing capacities. This evaluation is based on the documents prepared by the external auditors and the discussions held with the external auditors in the meetings. It also draws on the evaluation of the CFO, who obtains the opinion of local management with regard to the audit work for the subsidiaries. The criteria for the evaluation of the external auditors are, in particular, their technical and operational competency, their independence and objectivity, delivery of the audit reports on time, scope and focus of the audits, and the ability to provide effective and practical recommendations. This assessment by the AFC forms the basis for the proposal made by the Board of Directors to the Ordinary General Meeting regarding the choice of the external auditors.

Information policy

Transparency for investors
Forbo provides objective and periodic communication with shareholders, the capital market, the media, and the public by reporting in timely fashion on business trends and activities relevant to 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. Periodic publication of media releases, the annual media and analysts' conference, as well as road shows are further information tools for the media and the capital market.

Ad hoc communication

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

www.forbo.com → Medien Center → Medienmitteilungen → Subscription Service
www.forbo.com → Media Center → Media Releases → Subscription Service

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 page 8 of this Annual Report. Further information on the Forbo share is printed on pages 52 and 53 of this Annual Report.

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Financial report

Consolidated balance sheet

		31.12.2012	31.12.2011
Assets			
CHF m	Note		
Non-current assets		**530.9**	**536.4**
Property, plant, and equipment	16	355.0	359.8
Intangible assets	17	149.2	153.5
Deferred tax assets	14	26.5	21.9
Investments in associates and other non-current assets	18	0.2	1.2
Current assets		**803.0**	**965.5**
Assets held for sale	32		361.4
Inventories	19	218.6	219.6
Trade receivables	20	150.2	159.2
Other receivables		28.9	24.8
Deferred income and prepaid charges		11.9	8.0
Other current financial instruments	21	142.1	0.1
Cash and cash equivalents	22	251.3	192.4
Total assets		**1,333.9**	**1,501.9**
Shareholders' equity and liabilities			
CHF m	Note		
Shareholders' equity		**817.4**	**815.3**
Share capital	24	0.3	0.3
Treasury shares		– 0.1	– 0.1
Reserves and retained earnings		817.2	815.1
Non-current liabilities		**137.4**	**276.2**
Non-current financial debt	26	2.6	144.5
Employee benefit obligations	27	54.8	42.7
Non-current provisions	28	35.8	39.5
Deferred tax liabilities	14	44.2	49.5
Current liabilities		**379.1**	**410.4**
Trade payables	29	84.7	86.1
Current provisions	28	16.4	18.3
Accrued expenses	30	96.5	106.7
Current financial debt	31	132.5	47.5
Current tax liabilities		26.6	27.6
Other current liabilities		22.4	26.6
Liabilities directly associated with assets held for sale	32		97.6
Total liabilities		**516.5**	**686.6**
Total shareholders' equity and liabilities		**1,333.9**	**1,501.9**

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

Consolidated income statement

CHF m	Note	2012	2011
Continuing operations			
Net sales	6	**1,201.1**	**1,203.8**
Cost of goods sold		– 763.2	– 745.1
Gross profit		**437.9**	**458.7**
Development costs	7	– 16.3	– 16.0
Marketing and distribution costs		– 194.1	– 192.5
Administrative costs	8	– 103.4	– 96.6
Other operating expenses	9	– 25.3	– 17.8
Other operating income	10	63.8	13.1
Operating profit		**162.6**	**148.9**
Financial income	12	5.7	30.1
Financial expenses	13	– 11.2	– 11.7
Group profit before taxes		**157.1**	**167.3**
Income taxes	14	– 33.0	– 29.9
Group profit for the year from continuing operations		**124.1**	**137.4**
Group profit for the year from discontinued operations after taxes	32	**73.1**	**9.1**
Group profit for the year		**197.2**	**146.5**

Earnings per share, total			
CHF	Note		
Basic earnings per share	15	89.08	62.78
Diluted earnings per share	15	89.04	62.61

Earnings per share from continuing operations			
CHF			
Basic earnings per share	15	56.06	58.88
Diluted earnings per share	15	56.03	58.72

Earnings per share from discontinued operations			
CHF			
Basic earnings per share	15	33.02	3.90
Diluted earnings per share	15	33.01	3.89

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

Comprehensive income statement

	2012	2011
CHF m		
Group profit for the year	**197.2**	**146.5**
Components of other comprehensive income:		
Translation differences	– 6.9	– 6.2
Translation differences reclassified to the income statement	41.2	
Proceeds from the sale of financial instruments available-for-sale; reclassification to the income statement		– 18.6
Changes in revaluation reserves for property, plant, and equipment		– 1.2
Actuarial loss (–)/gain on pension liabilities	– 57.7	8.6
Fair value adjustments of cash flow hedges	1.7	– 1.7
Other comprehensive income for the year, net of tax	**– 21.7**	**– 19.1**
Total comprehensive income	**175.5**	**127.4**

The items under 'Other comprehensive income for the year, net of tax' include income tax effects which are described in note 14 'Income taxes'.

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

Consolidated shareholders’ equity

2012

CHF m	Share capital	Treasury shares	Reserves	Revaluation reserve	Assets available-for-sale	Reserves from cash flow hedges	Translation differences	Total
December 12, 2011	**0.3**	**– 0.1**	**978.2**	**128.0**	**0.0**	**– 1.7**	**– 289.4**	**815.3**
Group profit for the year			197.2					197.2
Other comprehensive income for the year, net of tax			– 57.7			1.7	34.3	– 21.7
Total comprehensive income			**139.5**			**1.7**	**34.3**	**175.5**
Change in scope of consolidation			14.3	– 17.0			2.7	
Share-based payments			2.0					2.0
Treasury shares			– 147.9					– 147.9
Dividend payment			– 27.5					– 27.5
December 31, 2012	**0.3**	**– 0.1**	**958.6**	**111.0**	**0.0**	**0.0**	**– 252.4**	**817.4**

2011

CHF m	Share capital	Treasury shares	Reserves	Revaluation reserve	Assets available-for-sale	Reserves from cash flow hedges	Translation differences	Total
As at December 31, 2010	**0.3**	**– 0.1**	**864.9**	**129.2**	**18.6**	**0.0**	**– 283.2**	**729.7**
Group profit for the year			146.5					146.5
Other comprehensive income for the year, net of tax			8.6	– 1.2	– 18.6	– 1.7	– 6.2	– 19.1
Total comprehensive income			**155.1**	**– 1.2**	**– 18.6**	**– 1.7**	**– 6.2**	**127.4**
Share-based payments			5.0					5.0
Treasury shares		0.0	– 18.5					– 18.5
Dividend payment			– 28.3					– 28.3
December 31, 2011	**0.3**	**– 0.1**	**978.2**	**128.0**	**0.0**	**– 1.7**	**– 289.4**	**815.3**

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

Consolidated cash flow statement

	2012	2011
Cash flow from operating activities		
CHF m		
Group profit for the year	197.2	146.5
Tax expense	33.0	29.8
Group profit before taxes	**230.2**	**176.3**
Financial result	5.5	– 17.5
Depreciation and impairment of property, plant, and equipment	36.1	44.8
Amortization and impairment of intangible assets	7.3	4.9
Profit from the sale of non-current assets		– 0.1
Profit from disposal of discontinued operations	– 73.1	
Share-based payments	2.0	5.2
Income tax paid	– 30.5	– 29.8
Decrease (–)/increase in provisions and employee benefit obligations	– 68.4	13.1
Increase in other current assets	– 16.7	– 1.3
Decrease/increase (–) in net operating working capital[1)]	13.9	– 54.1
Net cash flow from operating activities	**106.3**	**141.5**
Cash flow from investing activities		
CHF m		
Purchase of business operations net of cash acquired	– 12.4	
Sale of Group companies net of cash disposed of	368.0	
Purchase of non-current assets	– 32.7	– 39.7
Proceeds from the disposal of non-current assets	0.3	0.4
Decline in current financial liabilities		4.4
Purchase of current financial instruments	– 141.6	
Sale of current financial instruments		53.0
Interest received[2]	1.9	1.0
Net cash flow from investing activities	**183.5**	**19.1**
Cash flow from financing activities		
CHF m		
Repayment of current financial debt	– 46.2	– 64.6
Repayment of non-current financial debt	– 12.7	– 6.0
Interest paid	– 8.8	– 10.3
Purchase of treasury shares	– 162.0	– 42.2
Proceeds from sale of treasury shares	13.1	28.7
Dividend payment	– 27.5	– 28.3
Net cash flow from financing activities	**– 244.1**	**– 122.7**
Change in cash and cash equivalents		
CHF m		
Increase in cash and cash equivalents	45.7	37.9
Translation differences on cash and cash equivalents	0.3	– 4.0
Total cash and cash equivalents at beginning of year	205.3	171.4
Total cash and cash equivalents at year-end	**251.3**	**205.3**
Total cash and cash equivalents discontinued operations		**12.9**
Total cash and cash equivalents continuing operations	**251.3**	**192.4**
Total cash and cash equivalents at year-end	**251.3**	**205.3**

1) Net operating working capital includes the items 'Trade receivables', 'Inventories', and 'Trade payables'.

2) In the year under review, interest received is shown for the first time as cash flow from investing activities. The information for the previous year has been restated accordingly.

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

Notes – accounting principles

1 General information

Forbo Holding Ltd (the company) and its subsidiaries (together with the company constituting the Group) manufacture floorings, construction adhesives, and drive and conveyor technology. The Group has a global network of locations with production and distribution as well as pure sales companies.

The company is a public limited company under Swiss law, domiciled in Baar, Switzerland. It is listed on the SIX Swiss Exchange.

These financial statements were approved by the Board of Directors on March 13, 2013 and released for publication on March 19, 2013. The report is subject to approval by the Ordinary General Meeting of April 26, 2013.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

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 reporting date for all Group companies is December 31.

The consolidated statements were prepared in accordance with the principle of historical purchase and production costs with the exception of available-for-sale financial assets (securities), non-consolidated investments, land and buildings, and derivative financial instruments, which are measured 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 contingent assets and liabilities at the date of the financial statements. If the estimates and assumptions made by management at the date of the 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. The comparable data from the consolidated financial statements of the prior year were, where necessary, restated, supplemented, and the presentation adjusted.

Scope and principles of consolidation

The subsidiaries of Forbo Holding Ltd are all domestic and foreign companies in which the company holds, directly or indirectly, more than 50% of voting rights or in which it bears managerial responsibility for their operations and financial policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The value of the transferred consideration in a business combination is recognized at the fair value on the acquisition date. The consideration includes cash payments and the fair value of the assets transferred, liabilities incurred or assumed, and equity instruments issued by the acquirer on the transaction date. Liabilities dependent on future events which are based on agreements on contingent considerations are accounted for at their fair value in the accounting treatment of the acquisition. Directly distributable acquisition costs are reported in the income statement in the period in which they are incurred. At the acquisition date, the acquirer recognizes the acquired identifiable assets, liabilities, and any non-controlling interest in the acquiree. The acquired identifiable assets and liabilities assumed are recognized at their fair value. Provided the acquirer does not acquire a 100% share in the acquiree, the non-controlling interest is as a general rule recognized as the proportionate share of the fair value of the net assets acquired on a case by case decision, this interest can be assessed at fair value on the date of acquisition. Goodwill is the excess of the consideration of the business combination and the amount of the non-controlling interest over the identifiable net assets assessed at fair value. If the accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected, provisional values are used. During the measurement period, the provisional values are adjusted retroactively. Further assets and liabilities can be recognized in order to include new information about facts and circumstances at the acquisition date which would have influenced the measurement of the amounts recognized had they been known at the time. The measurement period does not last more than twelve months from the date of acquisition. Goodwill is not written off but is tested for impairment at least after each reporting date or earlier if there are any indications of a possible impairment.

Inter-company transactions, balances, and unrealized gains or losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

Associates are all entities over which the Group has significant influence but not control, generally accompanied by a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investments in associates include goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition changes in reserves is recognized in reserves. The cumulative post-acquisition movements are offset against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The subsidiaries included in the group of consolidated companies are listed under 'Group companies' (from page 130 of this report).

Foreign currency translation
The individual companies generally prepare their financial statements in their functional currency, which generally corresponds to the local currency. The functional currency is the currency of the primary economic environment in which the company operates. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transaction or the dates of valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, unless recognized in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary financial assets and liabilities whose changes in fair value are recognized in income are reported in the income statement. However, translation differences on non-monetary financial assets whose changes in fair value are recognized in comprehensive income are taken to 'Other comprehensive income'.

The consolidated financial statements are prepared in Swiss francs. Unless otherwise noted, all sums are stated in millions of Swiss francs (CHF m) and are generally rounded to one decimal place. The annual statements of foreign Group companies stated in foreign currencies are translated into Swiss francs as follows: assets and liabilities at year-end exchange rates; the income statement and cash flow statement at average exchange rates for the year. Currency translation differences arising from the different translation of balance sheets and income statements and from equity capital transactions are recognized in other comprehensive income and taken to profit or loss for the period (reclassified) in the event the company is disposed of.

On consolidation, exchange differences arising from the translation of net investment in independent foreign operations are recognized in other comprehensive income. The same applies to borrowings and other currency instruments designated as hedges of such investments. When a foreign operation is disposed of, these exchange differences in profit or loss for the period are transferred to the income statement as part of the gain or loss on sale.

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

			Income statement (average exchange rates for the year)		Balance sheet (year-end exchange rates)	
			2012	2011	2012	2011
Currency						
CHF						
Euro zone	EUR	1	1.21	1.23	1.21	1.22
USA	USD	1	0.94	0.89	0.91	0.94
Great Britain	GBP	1	1.49	1.42	1.47	1.46
Japan	JPY	100	1.18	1.11	1.06	1.22
China	CNY	100	14.86	13.72	14.60	14.88
Sweden	SEK	100	13.85	13.66	14.01	13.66

Current and non-current classification
Assets are designated current assets if they are realized or consumed in the Group's ordinary business cycle within one year or if they 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 reporting date are assigned to current liabilities. All other obligations are assigned to non-current liabilities.

Segment information
Segment reporting discloses financial and descriptive information on the reportable segments. The reportable segments are operating segments and combinations of operating segments that meet specific criteria. Operating segments are components of a company for which separate financial information is available that is regularly reviewed by the chief operating decision-maker concerned in order to determine how resources are to be allocated and performance assessed. Generally speaking, financial information must be reported on the basis of internal controlling through which the performance of the operating segments is assessed and decisions are taken on how to allocate the resources to the operating segments.

The reportable segments apply the same accounting policies as the Group. The provision of services among the reportable segments is transacted at arm's length, and the prices applied are therefore comparable to those that would have applied in a transaction with a third party.

Segment result is determined on operating profit level (EBIT). Allocation of interest and taxes to the individual divisions and Corporate is not appropriate owing to the highly centralized functions Finance and Tax functions.

Discontinued operations
Discontinued operations are recognized separately if a component of the Group has either already been discontinued or been classified as held for sale. A component of the Group is either a separate major line of business, a geographic area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations, or a subsidiary acquired exclusively with a view to resale. A component of the Group can be clearly distinguished from the rest of the Group, both operationally and for accounting purposes. Discontinued operations are presented separately in the consolidated income statement. The prior-year figures affecting the income statement are adjusted accordingly (as if the operation had been discontinued at the beginning of the prior year) and are also presented separately. Associated assets are carried in the balance sheet under 'Assets held for sale' and associated liabilities under 'Liabilities directly associated with assets held for sale'. In accordance with IFRS 5, however, no adjustment was made to the prior year for these items. Information associated with the discontinued operation is disclosed separately in the notes.

Net sales and revenue recognition
Sales revenue includes the fair value of the consideration received or to be received for the sale of goods and services as part of ordinary business activity. Sales revenue is reported net of sales tax, returns, discounts, and rebates and after elimination of intra-Group sales.

The Group recognizes sales revenue when the amount of the revenue can be reliably determined and when it is sufficiently likely that the company will derive an economic benefit. The amount of the revenue can be reliably determined when all contingencies concerning the sale have been settled. The Group makes estimates on the basis of historical data, taking into account features specific to customers, transactions, and agreements. Appropriate provisions are made for expected warranty claims.

Research and development

All research costs are posted directly to the income statement in the period in which they are incurred. Development costs must 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. Development expenses that do not meet these criteria are taken to the income statement.

Share-based payments

Equity-settled share-based payments to employees are valued at the fair value of the equity instrument on the date on which the instruments are granted. The fair value of the share options is determined by the Black-Scholes model. The anticipated life of the option used in the model is adjusted on the basis of best estimates with regard to the effects of non-transferability, restrictions on exercise, and conduct. Further information on determining the fair value of the share options is provided in note 25 'Employee participation plan'. The fair value determined on granting equity-settled share-based payments is recognized in the income statement over the vesting period and is included in personnel expenses.

Income taxes

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

Current income taxes are determined on the basis of taxable profits and the applicable tax laws of the individual countries. They are recognized 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 that will only be taxable or tax-deductible in subsequent years if at all. The Group's liability for current income taxes is calculated on the basis of applicable tax rates.

Deferred tax liabilities are recognized for temporary differences between assets and liabilities in the balance sheet, and their tax bases if they will 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 unused tax losses and tax credits, but only to the extent as it is probable that sufficient taxable profits will be available against which these differences can be offset. Deferred tax liabilities are not recognized if temporary differences arise from the initial recognition of goodwill. For temporary differences from the initial recognition of assets or liabilities in a transaction, which is not a business combination and affects neither taxable income nor the profit for the year, no deferred taxes are recognized.

Deferred tax assets and tax liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realized or the liability will be settled based on enacted rates. Current 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 carrying amounts of the deferred tax assets are reviewed each year on the reporting date and reduced if it is no longer probable that sufficient taxable profits are available to realize the assets either wholly or in part.

Current and deferred income taxes are recognized as an income tax benefit or expense in the income statement, with the exception of items posted directly to equity or recognized in other comprehensive income. In this case, the corresponding tax effect is also to be recognized directly in shareholders' equity or in other comprehensive income.

Deferred income tax is recognized on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Property, plant, and equipment

Land and buildings are carried on the balance sheet at their revaluation amount, which corresponds to the fair value at the date of revaluation less accumulated depreciation and impairment losses. The revaluations are conducted regularly, at least every five years, by independent external valuers to ensure that the carrying amount does not differ materially from the carrying amounts determined on the basis of the fair value at the reporting date. All accumulated depreciation is offset against the gross carrying amounts of the assets on the revaluation date. The net amount is adjusted to the revalued amount. All other property, plant, and equipment are reported at cost less accumulated depreciations and recognized impairments.

Subsequent costs, for instance for expansion or replacement investments, are recognized as part of the asset's costs or as a separate asset only when it is probable that future economic benefits will accrue to the Group as a result and when the cost of the item can be measured reliably. Expenses for repairs and maintenance which do not constitute a significant replacement investment are posted to the income statement as expenses in the year in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation reserve in shareholders' equity. This does not apply if the revaluation reserve for the same assets has been reduced with an effect on income. In such a case, the increase is recognized as income up to the amount of the previous decrease. Decreases that offset previous increases in the same asset are charged against the revaluation reserves directly in other comprehensive income. All further decreases are posted to the income statement.

Land is not depreciated. Depreciation of other assets is calculated on the basis of their cost or their revalued amounts (with the exception of assets under construction) using the straight-line method over their estimated useful lives. The estimated useful life is usually 33 years for buildings used in operations and 5 to 10 years for plant and equipment. Other operating assets are depreciated over three to ten years. Where components of larger assets have different useful lives, they are depreciated as separate items. Useful lives and residual values are reviewed annually at the reporting date, and any necessary changes are taken into account prospectively.

If the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to the recoverable amount (see note 16 'Property, plant, and equipment').

Assets that are held in finance lease arrangements are depreciated over their estimated useful life in the same way as assets owned by the company or, if this is shorter, over the term of the underlying lease agreement.

The profit or loss arising from the sale of property, plant, and equipment is defined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in income.

Intangible assets

Goodwill is the excess of the consideration paid or payable of a business combination and the amount of the non-controlling interest over the identifiable net assets assessed at fair value. Goodwill derived in a business combination is included in 'Intangible assets'. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill may not be reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity that is disposed of.

For the purpose of impairment testing, goodwill is allocated to cash-generating units. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Trademarks, licenses, customer relationships, and technologies acquired in a business combination are recognized at fair value at the acquisition date. Trademarks carried in the balance sheet with an indefinite useful life are not subject to amortization but are tested for impairment at least annually. Any impairment is recognized as an expense in the income statement. Certain trademarks, licenses, customer relationships, and technologies have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method: trademarks 20 years, customer relations between 5 and 25 years, and technologies 30 years.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over an estimated useful life of three years.

Development costs that are directly attributable to the design and testing of identifiable software products controlled by the Group generally do not meet the criteria for intangible assets on the balance sheet. These costs are recognized as an expense in the period in which they are incurred. Development costs previously recognized as an expense are not capitalized in a subsequent period.

Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill and certain trademarks, are not subject to regular amortization. They are tested for impairment at least annually. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment in the past are reviewed for possible reversal of the impairment at each reporting date.

Financial assets

CLASSIFICATION

Financial assets are classified in the following categories: financial assets at fair value through profit or loss, loans and receivables, and financial assets available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also classified in this category unless they are designated as hedges. Assets in this category are classified as 'Other receivables'.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for maturities greater than twelve months after the end of the reporting year, in which case they are classified as non-current assets. The Group's loans and receivables are reported in the balance sheet under 'Trade receivables', 'Other receivables', and 'Cash and cash equivalents'.

(c) Financial assets available-for-sale
Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. The Group's available-for-sale financial assets and other assets are reported under 'Marketable securities' in the balance sheet.

RECOGNITION AND MEASUREMENT
Purchases and sales of financial assets are basically recognized as soon as Forbo becomes a contractual party. In the case of regular purchases or sales (purchases or sales under a contract whose terms require delivery of the asset within the time frame generally established by regulation or convention in the market 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. Financial assets not classified as being at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets which are carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards incidential to ownership.

Available-for-sale financial assets and assets in the category 'Financial assets at fair value through profit or loss' are carried at fair value after their initial recognition. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from financial assets in the category 'Financial assets at fair value through profit or loss' are recognized in the income statement in the period in which they are incurred. Dividend income from financial assets classified as at fair value through profit or loss is recognized in the income statement when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously recognized in other comprehensive income are reclassified in the income statement. Dividends on available-for-sale financial assets are recognized in the income statement when the Group's right to receive payments is established. The fair value of listed shares is determined by the current stock market price.

The Group assesses at the end of each reporting year whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the equity investments below their cost is also regarded as evidence that the equity investments are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any previous impairment losses on that financial asset – is reclassified in the income statement. Impairment losses on equity instruments recognized in the income statement are not reversed through profit and loss. Impairment testing of trade receivables is described in note 20 'Trade receivables'.

Derivative financial instruments and hedging activities

The Group uses derivative financial instruments solely to manage financial risks and not for the purpose of speculation.

Derivatives are initially recognized at the fair value they are attributed on the date a derivative contract is entered into. This may be positive or negative. Subsequent measurement is also effected at the fair value applicable on the reporting date. The method of recognizing the resulting gain or loss depends on whether the derivative was designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment (fair value hedge);
- hedges of a particular risk of variability of cash flows associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or
- hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the conclusion of the transaction the relationship between the hedging instruments and the hedged items, as well as its risk management objectives and the underlying strategy for effecting various hedging transactions. The Group also assesses and documents, both at hedge inception and subsequently, whether the derivatives that are used in hedging transactions are likely to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 35 'Additional information on financial instruments'. Movements in the hedging reserve for cash flow hedges are reported in the statement of comprehensive income. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months after the reporting date, and as a current asset or non-current liability when the remaining maturity of the hedged item is less than twelve months. Trading derivatives are classified as current assets or liabilities if the remaining maturity on the reporting date is shorter than 12 months.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges of a recognized asset or a commitment are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only uses fair value hedges to hedge the fixed interest risk on borrowings and to hedge currency risks in connection with short-term or medium-term loans. The gain or loss relating to the effective portion of the hedging instrument is recognized in the income statement under 'Financial result'. The gain or loss relating to the ineffective portion is recognized in the income statement under 'Financial result'. Changes in the fair value of the hedged underlyings, which are attributable to interest rate risk or currency risk, are recognized in the income statement under 'Financial income/financial expenses'.

If the hedge no longer meets the criteria for hedge accounting, and the previously designated underlying transaction is measured using the effective interest method, the required adjustment of the carrying amount is implemented over the remaining term to maturity.

(b) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The ineffective portion of such changes in fair value, however, is recognized directly in the income statement.

Changes in value accumulated in other comprehensive income are reclassified to profit or loss and are recognized as income or expense in the period in which the hedged item affects profit or loss (for example, when the forecast sale that has been hedged takes place). The gain or loss from the effective portion of interest rate swaps that hedge variable rate borrowings is recognized in the income statement. The gain or loss from the ineffective portion is also recognized in the income statement. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventories or property, plant, and equipment) or a non-financial liability, the cumulative gains or losses previously deferred in other comprehensive income are included in the initial measurement of the cost of the asset or liability. The deferred amounts are ultimately recognized in the cost of goods sold in the case of inventories or in depreciation in the case of property, plant, and equipment.

When a hedging instrument expires, is sold, or ceases to meet the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in equity and is recognized in the income statement only when the originally hedged forecast transaction actually occurs. If a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to the income statement.

(c) Net investment hedge
Hedges of net investments in foreign operations serve to hedge translation differences of foreign business operations and are accounted for similarly to cash flow hedges. Any gain or loss on the effective portion of the hedging instrument is recognized in other comprehensive income; the gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Gains or losses accumulated in equity are transferred to the income statement when the foreign operation is sold off in full or in part.

(d) Derivatives measured at fair value through profit or loss
Certain derivative financial instruments are not suitable for hedge accounting. Changes in the fair value of such derivatives are recognized directly in the income statement.

Until repayment in November 2012, the Group employed hedge accounting in connection with the hedging of periodic interest payments and the repayment of the nominal amount of the US private placement. Some of the derivatives employed were recognized as a cash flow hedge in order to hedge the future cash flows from the US private placement against fluctuations. The effective portion of the change in market value of the hedging instrument was recognized in other comprehensive income, until the gain or loss on the hedged item was realized; the ineffective portion of the change in market value of the hedging instrument was recognized in profit or loss. The cumulative changes in fair value were reclassified to the income statement when future firm commitments were recognized in the income statement.

Assets held for sale and liabilities directly associated with assets held for sale
Current and non-current financial assets and directly associated liabilities are classified as 'held for sale' and recognized separately in the balance sheet under 'Assets held for sale' and 'Liabilities directly associated with assets held for sale' if their carrying amount is more likely to be realized by sale than by use. This is conditional upon the sale being highly probable and the assets being ready for immediate sale on the reporting date. For a sale to be classified as highly probable, the following criteria must be met: management is committed to a plan to sell the asset, the asset is marketed for sale at a price that is reasonable in relation to its current fair value, and the completion of the sale is expected to occur within twelve months. Assets held for sale are measured at the lower of their carrying amount or the fair value less costs to sell.

Inventories
Inventories are stated at the lower of cost or 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 net realizable value constitutes the estimated sales price less all estimated costs up to completion, as well as the costs of marketing, sales, and distribution.

Inventories are for the greater part measured at average cost. Adjustments are made for unsaleable inventories and inventories with insufficient turnover.

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

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

Shareholders' equity
Registered shares are classified as share capital at their par value. Payments by shareholders above the par value are credited to reserves.

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 debited to reserves. On the sale of treasury shares, gains or losses compared with the par value are credited or debited to reserves.

Dividends are debited to equity in the period in which the resolution on their distribution is adopted.

Current and non-current financial debt
Current and non-current financial debt consists mainly of private placements, bonds, bank loans, and finance lease obligations. It is stated at amortized cost (less transaction costs). Borrowing costs are recognized in the income statement, using the effective interest method.

Financial debt is assigned to current debt, except if the Group has to settle the obligation twelve months after the reporting date or enjoys unlimited right to postpone payment of the debt by at least twelve months after the reporting date.

Employee pension plans
The Group 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. The liabilities correspond to the present 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 expenses 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 acquires a vested pension right, or are immediately posted to the income statement if the employee has already retired. Profits resulting from pension plan curtailments or settlements are immediately taken to the income statement.

Actuarial gains and losses are reported in the statement of comprehensive income under 'Other comprehensive income for the year, net of tax', with due account being taken of deferred taxes.

Provisions
Provisions are recognized if the Group has a current legal or constructive obligation as a result of a past event, 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 reporting date of the amount required to meet the current obligation, taking into account the risks and uncertainties underlying the obligation.

A provision for restructuring expenses is reported if the Group has defined a detailed, formalized restructuring plan which has created a valid expectation among those affected that the restructuring will be carried out as a result of the plan's implementation being initiated or essential parts being announced. Measurement of a restructuring provision only takes account of direct expenses for the restructuring. Only those expenses are included, therefore, that are caused by the restructuring and are not related to the company's ongoing business activities.

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

3 Changes in accounting principles

In the reporting year, the following new and revised standards and interpretations of the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRIC) came into force:

– *IFRS 7 (revised) – 'Financial instruments: disclosures'*
– *IAS 12 (revised) – 'Income taxes'*

These standards and interpretations have been applied provided they are relevant for the Group's business activities. The application of these standards, however, has no significant effect on the Group's disclosures, equity, profits or cash flows.

4 Critical judgements, estimates and appraisals by management

CRITICAL ASSUMPTIONS AND ESTIMATES REGARDING ACCOUNTING AND MEASUREMENT
The application of the measurement and accounting principles requires that circumstances and estimates be assessed and assumptions be made with respect to the carrying amounts of assets and liabilities. The estimates and the underlying assumptions are based on past experience and other factors regarded as relevant, including expectations of future events that appear reasonable in the given circumstances. The actual results may, of course, deviate from the estimates and assumptions of management.

The following are the main areas in which a significant risk exists in the coming business year involving a significant adjustment of the carrying value of assets and liabilities.

Impairment of non-financial assets
Along with the regular periodic review of goodwill and intangible assets with an indefinite useful life, the carrying amounts of fixed and intangible assets with a finite useful life 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 discounted expected values in use or the expected net sales price. If these are less than the current carrying amount, the value is impaired to the recalculated figure. This impairment is recognized as an expense in the income statement.

Important assumptions in these calculations include growth rates, margins, estimates and management's experience of the future development of net working capital, and discount rates. The actual cash flows may deviate significantly from the planned discounted future values. Likewise, the useful lives may be shortened or non-current 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. Further information on this topic can be found in note 16 'Property, plant, and equipment' and note 17 'Intangible assets'.

Employee pension schemes

Various employee pension plans and schemes exist for employees of the Group. 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 from an economic perspective. In the case of defined benefit plans, actuarial assumptions are made to estimate future developments. These include assumptions and estimates relating to the 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 income from the employee pension schemes and on the comprehensive income statement. Further information on this topic can be found in note 27 'Employee benefit obligations'.

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. Claims against the Group may arise that may not be covered, or are covered only in part, by provisions or insurance benefits. Further information on this topic can be found in note 28 'Provisions'.

Income taxes

The Group is obliged to pay income taxes in various countries. Certain key assumptions are necessary in order to determine income tax in the relevant countries. There are business events which have an impact on taxation and taxable profit. Hence, the amount of the final taxation cannot be determined definitively. The measurement of current tax liabilities is subject to the interpretation of tax regulations in the relevant countries. The adequacy 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 expenses. Where the definitive taxation of these business events deviates from the previous assumptions, this will have an impact on the current and deferred taxes in the period in which the taxation is definitively determined. Furthermore, determining 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 number of different factors and developments. Further information on this topic can be found in note 14 'Income taxes'.

CRITICAL JUDGEMENT IN THE APPLICATION OF ACCOUNTING PRINCIPLES

Cash-generating units

If a non-financial asset itself does not generate independent cash flows, the impairment test must be performed for the cash-generating unit that contains this asset. A cash-generating unit is defined as the smallest identifiable group of assets generating cash flows that are largely independent of the cash flows of other assets or other groups of assets. In particular, the goodwill acquired with a business combination does not generate cash flows that are independent from other assets or groups of assets. The identification and definition of cash-generating units requires judgement by management. As a rule, the Group defines the cash-generating units on the basis of geographically cohesive markets, the technologies used, or the sales generated by the brands concerned.

Currency translation of intercompany financial items

The Group finances its Group companies with intercompany loans. Balances that are denominated in another currency than the functional currency of the reporting unit have to be translated at the exchange rate on the balance-sheet date. The recognition of currency differences to profit and loss or to other comprehensive income depends on management's assessment as to whether these loans are to be considered part of net investment or not. A monetary item for which repayment is neither planned nor likely in the foreseeable future constitutes part of the net investment in a foreign operation. Therefore, management must make an appraisal judgement of intercompany loans with regard to whether repayment is planned or likely.

5 Standards issued but not yet effective

The following new and revised standards and interpretations had been published, though they had not yet become effective by the time the consolidated financial statements were approved by the Board of Directors. Since their impact on the consolidated financial statements has not yet been systematically analyzed, the anticipated effects shown in the notes to the table below represent an initial estimate by management.

Standards

Standard/Interpretation		Date effective	Planned application
IAS 1 (revised) – 'Presentation of financial statements'	*	July 1, 2012	2013 business year
IAS 19 (revised) – 'Employee benefits'	*	January 1, 2013	2013 business year
IFRS 10 (new) – 'Consolidated financial statements'	**	January 1, 2013	2013 business year
IFRS 11 (new) – 'Joint arrangements'	*	January 1, 2013	2013 business year
IFRS 12 (new) – 'Disclosure of interests in other entities'	*	January 1, 2013	2013 business year
IFRS 13 (new) – 'Fair value measurement'	**	January 1, 2013	2013 business year
IFRS 7 (revised) – 'Offsetting financial assets and financial liabilities'	*	January 1, 2013	2013 business year
IAS 32 – 'Offsetting financial assets and financial liabilities'	*	January 1, 2014	2014 business year
IFRS 9 (new) – 'Financial instruments'	**	January 1, 2015	2015 business year

* No significant impact on the consolidated financial statements is expected.
** The impact on the consolidated financial statements cannot yet be determined with sufficient certainty.

Moreover, various adjustments to the standards were published as part of the Annual Improvement Project that will be applied for the first time in the business year beginning on January 1, 2013. Since they have little impact on the financial statements, no detailed list of the changes is given.

Management is currently assessing the impact of applying IAS 19 (2011) for the first time. Since the Group already reports all actuarial gains and losses in the year in which they are incurred in other comprehensive income under the current IAS 19, the retroactive application of IAS 19 (2011) will probably only have a minor impact on the Group's equity as at January 1, 2012. Replacement of the concept of expected return on plan assets by net interest costs, i.e. by applying a uniform discount rate to the net pension liabilities would have only had an insignificant impact on employee benefit expense for 2012.

Notes

6 Segment reporting

Forbo is a global producer of Flooring Systems and Movement Systems. The divisions correspond to the internal management structure and are run separately because the products they manufacture, distribute, and sell differ fundamentally in terms of production, distribution, and marketing.

Flooring Systems develops, produces, and sells linoleum, vinyl floorings, clean-off systems, carpet tiles, and needle felt floor coverings as well as the various accessory products required for laying, processing, cleaning, and care of flooring. The construction adhesives activity was integrated into the Flooring Systems division during the reporting year; in the previous year it had been part of the Bonding Systems division. As a result of the sale of the industrial adhesives activity, including synthetic polymers, and the integration of the construction adhesives activity into the Flooring Systems division, the Bonding Systems division now no longer exists. The previous year's figures have been restated to reflect the new internal management structure. Forbo's Movement Systems division develops, produces, and sells high-quality processing belts, synthetic module belts, as well as timing and flat belts made of synthetics. Corporate includes the costs of the Group headquarters and certain items of income and expenses which are not directly attributable to a specific business.

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

Segment information on the reportable segments for the reporting year:

2012

CHF m	Flooring Systems	Movement Systems	Corporate	Elimination	Total
Total net sales	874.3	327.2		– 0.4	1,201.1
Inter-segment sales	– 0.4			0.4	
Net sales to third parties	873.9	327.2			1,201.1
EBIT before special items	103.6	27.0	– 13.4		117.2
Special items	45.4				45.4
EBIT	149.0	27.0	– 13.4		162.6
Operating assets	665.5	225.1	23.1		913.7
Number of employees (December 31)	3,034	1,925	41		5,000

The special items in the Flooring Systems division contain the gain on settlement of the Dutch pension plan amounting to CHF 45.4 million. For further details, see note 27 'Employee benefit obligations'. In addition, the segment result for Flooring Systems (EBIT) contains impairment charges for goodwill and intangible assets amounting to CHF 4.0 million (see note 17 'Intangible assets').

Segment information on the reportable segments for the prior year:

2011					
CHF m	Flooring Systems	Movement Systems	Corporate	Elimination	Total
Total net sales	889.5	317.3		– 3.0	1,203.8
Inter-segment sales	– 3.0			3.0	
Net sales to third parties	886.5	317.3			1,203.8
EBIT	126.7	32.2	– 10.0		148.9
Operating assets	705.4	235.0	21.2		961.6
Number of employees (December 31)	2,980	1,861	41		4,882

Management reporting and the internal control system are based on the same accounting principles as external reporting.

The Chief Executive Officer assesses the performance of the reportable segments based on their operating result (EBIT). The net financial result is not allocated to the segments since it is Corporate Treasury that mainly exercises central control over the financial result.

Inter-segment sales are transacted at arm's length. The segments apply the same accounting principles as the Group. Sales to third parties, as they are reported to the Chief Executive Officer, are identical with the sales reported in the income statement.

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

	2012	2011
CHF m		
Segment result (EBIT)	**162.6**	**148.9**
Financial result	– 5.5	18.4
Group profit before taxes	**157.1**	**167.3**

	31.12.2012	31.12.2011
CHF m		
Total operating assets, continuing operations	913.7	961.6
Total operating assets, discontinued operations		305.9
Operating assets	**913.7**	**1,267.5**
Non-operating assets	420.2	234.4
Total assets	**1,333.9**	**1,501.9**

Third-party sales and operating assets broken down by region in the reporting year and the prior year:

	2012 Third-party sales	31.12.2012 Operating assets
CHF m		
Switzerland (domicile)	26.7	62.2
France	169.4	87.9
Benelux	141.9	268.9
Germany	136.7	88.5
Great Britain and Ireland	116.1	163.9
Scandinavia	112.6	27.2
Southern Europe	49.8	19.4
Eastern Europe	61.3	27.9
Europe	**814.5**	**745.9**
North, Central, and South America	**221.2**	**91.7**
Asia/Pacific and Africa	**165.4**	**76.1**
Total net sales to third parties and operating assets	**1,201.1**	**913.7**

	2011 Third-party sales	31.12.2011 Operating assets
CHF m		
Switzerland (domicile)	30.9	83.6
France	164.0	101.1
Benelux	153.7	272.8
Germany	146.5	94.0
Great Britain and Ireland	113.6	173.4
Scandinavia	112.9	29.0
Southern Europe	54.8	28.4
Eastern Europe	54.5	28.3
Europe	**830.9**	**810.6**
North, Central, and South America	**209.3**	**65.7**
Asia/Pacific and Africa	**163.6**	**85.3**
Total net sales to third parties and operating assets	**1,203.8**	**961.6**

In the reporting year, no customer accounted for sales that exceeded 10% of the Group's total sales.

7 Development costs

'Development costs', which mainly comprise product development, amounted to CHF 16.3 million in the reporting year (2011: CHF 16.0 million).

8 Administrative costs

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

9 Other operating expenses

'Other operating expenses' comprises primarily environmental expenditure, recruting measures, legal costs, warranties, costs for consulting and auditing, insurance costs, taxes on capital, and levies based on local legislation.

10 Other operating income

'Other operating income' includes, in addition to the gain on settlement of the Dutch pension plan amounting to CHF 45.4 million (note 27 'Employee benefit obligations'), in particular income from insurance payments received, from the sale of material for recycling, and from the release of provisions.

11 Personnel expenses

Personnel expenses	2012	2011
CHF m		
Salaries and wages	276.2	275.3
Social security contributions	57.8	54.2
Employee benefit expenses	18.6	18.3
Total personnel expenses	**352.6**	**347.8**

As at December 31, 2012, the headcount of the continuing operations was 5,000 (2011: 4,882). The average headcount over the year was 4,990 (2011: 4,884). Salaries and wages include share-based payments expenses of CHF 2.0 million (2011: CHF 5.0 million).

A bonus program is available for around 100 managers of the continuing operations, which is linked to achieving financial targets set for the Group, the divisions, and individual objectives.

12 Financial income

Financial income	2012	2011
CHF m		
Interest income[1]	1.9	1.0
Gains on sale of available-for-sale financial assets	1.3	29.1
Increase in fair value of financial assets classified as being at fair value through profit and loss	2.5	
Total financial income	**5.7**	**30.1**

1) In particular interest income from cash and cash equivalents.

13 Financial expenses

	2012	2011
Financial expenses		
CHF m		
Interest expenditure from financial liabilities valued at amortized cost	8.9	9.9
Reduction in fair value of financial assets classified as being at fair value through profit and loss	0.9	
Amortization of issuance costs for private placement and bond	0.3	0.4
Foreign exchange losses net	0.5	1.4
Foreign exchange gains (–) on financial assets or liabilities at fair value through profit or loss		– 0.3
Loss from repurchase of own bond	0.6	0.3
Total financial expenses	**11.2**	**11.7**

The average interest rate on interest-bearing debt (private placements, bonds, non-current bank debt, and current bank debt) in 2012 was 4.5% (2011: 4.5%).

14 Income taxes

	2012	2011
Income taxes		
CHF m		
Current income taxes	37.3	30.8
Deferred income taxes	– 4.3	– 0.9
Total income taxes	**33.0**	**29.9**

Analysis of tax expense

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

	2012	2011
CHF m		
Group profit before taxes	157.1	167.3
Tax expense at the expected tax rate	**– 41.0**	**– 40.3**
Tax effects of:		
Non-tax-deductible expenses and tax-exempt income	– 0.6	– 0.2
Tax losses and temporary differences for which no deferred tax assets have been recognized yet	1.7	– 0.6
Write-off of deferred tax assets		– 2.5
Utilization of tax losses not capitalized or revalued in previous years	13.8	7.7
Previous-year and other positions	– 6.9	6.0
Total income taxes	**– 33.0**	**– 29.9**

Since the Group operates in various countries with different tax laws and rates, the expected and effective tax expense depends every year on the origin of the income or losses in each country. The expected tax expense is the sum of the expected individual tax income/expense of all subsidiaries. The expected individual tax income/expense in a country is calculated by multiplying the individual profit/loss by the tax rate applicable in the country concerned. The expected tax rate in the reporting year was 26.1% (2011: 24.1%). The expected tax rate is higher than in the previous year due to countries with higher tax rates having a stronger impact on Group profit.

Tax loss carry forwards not capitalized and capitalized as deferred income tax assets, broken down by expiry dates:

2012 CHF m	Not capitalized	Capitalized	Total
Expiry after:			
1 year	0.1	2.2	2.3
2 years	0.2	1.9	2.1
3 years	0.2		0.2
4 years	0.3		0.3
5 years	0.4		0.4
More than 5 years	77.3	34.8	112.1
Total tax loss carry forwards	**78.5**	**38.9**	**117.4**

2011 CHF m	Not capitalized	Capitalized	Total
Expiry after:			
1 year	3.7	2.3	6.0
2 years	0.2	2.2	2.4
3 years	0.5	1.9	2.4
4 years	0.4	0.0	0.4
5 years	0.3	0.0	0.3
More than 5 years	89.9	29.1	119.0
Total tax loss carry forwards	**95.0**	**35.5**	**130.5**

In 2012, CHF 3.7 million (2011: CHF 1.8 million) of unused tax loss carry forwards expired.

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

	31.12.2012	31.12.2011
CHF m		
Deferred tax assets	26.5	21.9
Deferred tax liabilities	– 44.2	– 49.5
Deferred tax liabilities, net	**– 17.7**	**– 27.6**

Deferred tax assets and liabilities, tax credits, and tax charges from deferred taxes (prior to netting):

Deferred tax assets						
CHF m	Inventories	Property, plant, and equipment	Provisions	Loss carry forwards	Other	Total
As at December 31, 2011	**5.9**	**3.0**	**15.0**	**13.3**	**11.6**	**48.8**
Increase/decrease (–) in deferred tax assets	0.5	– 0.5	9.7	– 2.7	– 2.5	4.5
As at December 31, 2012	**6.4**	**2.5**	**24.7**	**10.6**	**9.1**	**53.3**

Deferred tax liabilities						
CHF m	Inventories	Property, plant, and equipment	Provisions	Loss carry forwards	Other	Total
As at December 31, 2011	**– 3.7**	**– 33.9**	**– 14.2**		**– 24.6**	**– 76.4**
Decrease/increase (–) in deferred tax liabilities	0.3	0.7	6.9		– 2.5	5.4
As at December 31, 2012	**– 3.4**	**– 33.2**	**– 7.3**		**– 27.1**	**71.0**
Deferred tax assets/liabilities (–), net as at December 31, 2011	2.2	– 30.9	0.8	13.3	– 13.0	– 27.6
Deferred tax assets/liabilities (–), net as at December 31, 2012	3.0	– 30.7	17.4	10.6	– 18.0	– 17.7

Decrease in deferred tax liabilities, net	**9.9**
Of which recognized in other comprehensive income	17.2
Of which recognized in the income statement	4.3
Of which deferred tax expense of discontinued operations	– 11.6

Tax expense and income recognized directly in the other comprehensive income statement:

			2012			2011
	Before tax	Tax expense (–)/income	After tax	Before tax	Tax expense (–)/income	After tax
CHF m						
Gain from sale of financial instruments available-for-sale; transfer to income statement				– 23.4	4.8	– 18.6
Changes in revaluation reserve for property, plant, and equipment				– 1.6	0.4	– 1.2
Actuarial losses (–)/gains on pension obligations	– 76.7	19.0	– 57.7	15.7	– 7.1	8.6
Cash flow hedges	1.7		1.7	– 1.7		– 1.7
Translation differences	36.1	– 1.8	34.3	– 4.4	– 1.8	– 6.2
Other comprehensive income	**– 38.9**	**17.2**	**– 21.7**	**– 15.4**	**– 3.7**	**– 19.1**

15 Earnings per share

Undiluted earnings per share are calculated by dividing the net profit or loss for the year attributable to registered shareholders by the weighted average number of registered shares issued and outstanding during the year, less the average number of treasury shares. The 213,152 registered shares cancelled in the previous year as part of the reduction in share capital had no effect on earnings per share, as this stock was already included in treasury shares in the prior year.

The figure for diluted earnings per share also takes into account the potential dilution effects if all issued and in-the-money share options were to be exercised.

The calculations are based on the following share information:

	2012	2011
Weighted average number of shares	2,213,669	2,333,621
Amount of shares adjusted for stock option plans	1,125	6,100
Weighted average number of shares used to calculate diluted earnings per share	2,214,794	2,339,721

16 Property, plant, and equipment

Fair value or cost on acquisition CHF m	Land and buildings	Machinery and equipment	Other property, plant, and equipment	Assets under construction	Total property, plant, and equipment
As at December 31, 2010	**317.7**	**779.4**	**139.5**	**11.6**	**1,248.2**
Additions	2.1	14.2	2.8	20.3	39.4
Disposals	– 0.5	– 7.3	– 3.5		– 11.3
Revaluation	– 1.6				– 1.6
Transfers	3.9	10.0	3.1	– 16.3	0.7
Translation differences	– 8.6	– 14.1	– 2.7	– 0.1	– 25.5
Transfer to assets held for sale	– 51.8	– 121.2	– 18.7	– 4.9	– 196.6
As at December 31, 2011	**261.2**	**661.0**	**120.5**	**10.6**	**1,053.3**
Acquisition		0.2	0.1		0.3
Additions	3.3	6.7	3.2	20.5	33.7
Disposals	– 0.3	– 1.8	– 2.6		– 4.7
Revaluation					
Transfers	1.8	14.3	3.8	– 19.9	
Translation differences	– 5.1	– 4.3	– 1.0		– 10.4
As at December 31, 2012	**260.9**	**676.1**	**124.0**	**11.2**	**1,072.2**

Accumulated depreciation and impairments CHF m	Land and buildings	Machinery and equipment	Other property, plant, and equipment	Assets under construction	Total property, plant, and equipment
As at December 31, 2010	**3.7**	**665.0**	**127.9**	**1.4**	**798.0**
Depreciation	12.5	27.1	5.2		44.8
Disposals	– 0.4	– 7.2	– 3.4		– 11.0
Transfers	6.3	– 6.4	0.8		0.7
Translation differences	– 5.8	– 18.1	– 2.6	0.2	– 26.3
Transfer to assets held for sale	– 0.8	– 95.7	– 16.2	0.0	– 112.7
As at December 31, 2011	**15.5**	**564.7**	**111.7**	**1.6**	**693.5**
Depreciation	9.9	21.9	4.3		36.1
Disposals	– 0.3	– 1.6	– 2.5		– 4.4
Transfers			– 0.2		– 0.2
Translation differences	– 3.2	– 3.8	– 0.8		– 7.8
As at December 31, 2012	**21.9**	**581.2**	**112.5**	**1.6**	**717.2**
Net carrying amount					
As at December 31, 2011	245.7	96.3	8.8	9.0	359.8
As at December 31, 2012	239.0	94.9	11.5	9.6	355.0

Land and buildings are valued in the balance sheet as at the revaluation date at fair value less accumulated depreciation and impairments. Property and buildings were last systematically revalued by independent experts on July 1, 2008. The methods used for the revaluation in 2008 were fair value, capitalized value, and cost-oriented valuation. In applying the capitalized value method, the fair value was determined using the discounted cash flow (DCF) method. In the cost-oriented valuation, the fair value was ascertained by means of the depreciated replacement cost method. The increase in net value was recognized in the revaluation reserve in equity, taking into account deferred taxes. The value of a property in Switzerland was adjusted by CHF 1.6 million in the previous year as the result of a revaluation. The adjustment has been recognized in other comprehensive income.

If land and buildings were carried at amortized cost on acquisition or production cost, the figures would be as follows:

CHF m	2012	2011
Cost on acquisition/production cost	319.5	319.2
Cumulative depreciation	– 192.9	– 188.2
Net carrying amount	**126.6**	**131.0**

Property, plant, and equipment also include leased assets with a net carrying amount of CHF 1.3 million (2011: CHF 0.2 million).

The sum insured for property damage for buildings, machinery, equipment, and inventories came to CHF 1,668.4 million (2011: CHF 1,650.7 million).

Maintenance and repair costs amounted to CHF 21.4 million (2011: CHF 22.0 million). Depreciation totaling CHF 36.1 million (2011: CHF 36.0 million) has been posted under 'Cost of goods sold', 'Development costs', 'Marketing and distribution costs', and 'Administrative costs'.

17 Intangible assets

Cost on acquisition CHF m	Goodwill	Trademarks	Other intangible assets	Total
As at December 31, 2010	**185.0**	**62.8**	**90.2**	**338.0**
Additions			0.3	0.3
Disposals			– 0.1	– 0.1
Transfers			0.2	0.2
Translation differences	– 2.9	– 0.1	– 0.3	– 3.3
Transfer to assets held for sale	– 89.6	– 25.0	– 6.6	– 121.2
As at December 31, 2011	**92.5**	**37.7**	**83.7**	**213.9**
Acquisition			1.7	1.7
Additions			0.5	0.5
Disposals		– 3.8		– 3.8
Transfers				
Translation differences	– 0.3	0.1	0.7	0.5
As at December 31, 2012	**92.2**	**34.0**	**86.6**	**212.8**

Accumulated amortization and impairments CHF m	Goodwill	Trademarks	Other intangible assets	Total
As at December 31, 2010	**10.2**	**32.6**	**24.8**	**67.6**
Amortization			4.9	4.9
Disposals			– 0.1	– 0.1
Transfers			0.1	0.1
Translation differences	– 0.2		– 0.3	– 0.5
Transfer to assets held for sale	– 1.8	– 3.5	– 6.3	– 11.6
As at December 31, 2011	**8.2**	**29.1**	**23.1**	**60.4**
Amortization			3.3	3.3
Impairments	1.8	0.5	1.7	4.0
Disposals		– 3.8		– 3.8
Transfers				
Translation differences	– 0.4	0.0	0.1	– 0.3
As at December 31, 2012	**9.6**	**25.8**	**28.2**	**63.6**
Net carrying amount				
As at December 31, 2011	84.3	8.6	60.6	153.5
As at December 31, 2012	82.6	8.2	58.4	149.2

Intangible assets with an indefinite useful life (goodwill and trademarks) are subject to an annual impairment test at cash-generating unit level. The test is carried out using a standardized method with discounted cash flows for calculating the value in use. Cash flows for the first five years are estimated on the basis of the plan approved by management (detailed planning period). Cash flows after the detailed planning period are extrapolated to the terminal value using sustainable normalized earnings without applying a growth rate. Relatively constant EBITDA margins are assumed during the detailed planning period of around 17% for Flooring Systems and around 6% for Movement Systems. The discount rate corresponds to the total weighted cost of capital before taxes including an average risk charge estimated by management, which lies between 8.0% and 12.1%.

Goodwill is distributed among the following groups of cash-generating units:

	31.12.2012	31.12.2011
Flooring Systems	78.5	80.2
Movement Systems	4.1	4.1
	82.6	**84.3**

The goodwill in Flooring Systems as at December 31, 2012 comprises mainly the goodwill acquired in connection with the acquisition of Bonar Floors in 2008. As at December 31, 2012, the item 'Brands' includes mainly the trademarks acquired as part of the acquisition of Bonar Floors. 'Other intangible assets' consists mainly of the customer relations and technologies, as well as software, acquired as part of the acquisition of Bonar Floors.

The annual impairment test of goodwill yielded a value in use that was greater than the carrying amount. The discount rate applied was 8.0%. Due to lower expectations regarding sales and margins the impairment test was conducted at the half-year mark and showed that the carrying amount exceeded the recoverable amount of the cash-generating unit by CHF 1.8 million. Accordingly, an impairment charge of CHF 1.8 million was taken for the goodwill allocated to this cash-generating unit. The impairment expense is contained under 'Other operating expenses' in the consolidated income statement.

The intangible assets acquired were also tested for impairment by means of sensitivity analyses. The impairment made in connection with trademarks is based on sales made with these trademarks. The discount interest rate applied in the impairment tests for trademarks is 12.1%. Expectations regarding future sales that could be made with the trademarks Westbond and the related adhesive technology were lower in the first half of the year, producing an impairment of CHF 2.2 million, which is reflected in the income statement under 'Other operating expenses'.

The entire impairment expenditure amounting to CHF 4.0 million is contained in the Flooring Systems division.

18 Investments in associates and other non-current assets

	31.12.2012	31.12.2011
Investments in associates and other non-current assets		
CHF m		
Investments in associates	0.0	0.9
Other non-current financial assets	0.2	0.3
Total investments in associates and other non-current assets	**0.2**	**1.2**

19 Inventories

	31.12.2012	31.12.2011
Inventories		
CHF m		
Raw materials and supplies	42.3	43.6
Work in progress	66.4	65.4
Finished goods	138.9	135.6
Valuation allowance for inventories	– 29.0	– 25.0
Total inventories	**218.6**	**219.6**

Valuation allowance for inventories amounted to CHF 29.0 million (2011: CHF 25.0 million). Expenses for inventories (cost of goods sold) recognized in the reporting year came to CHF 498.7 million (2011: CHF 488.6 million).

20 Trade receivables

	31.12.2012	31.12.2011
Trade receivables		
CHF m		
Accounts receivable	134.2	144.4
Notes receivable	23.0	22.9
Allowance for doubtful trade receivables	– 7.0	– 8.1
Total trade receivables	**150.2**	**159.2**

As a rule, no default interest is charged for receivables past due. As at the reporting date, there was no indication that debtors would fail to meet their payment obligations in respect of trade receivables for which no allowance was made or which were past due. Allowances are made in the form of a specific valuation allowance for losses. A specific valuation allowance is required if the debtor is unable to pay, if the debt has been past due for more than 90 days, or if the debtor has given notice of payment difficulties. Valuation allowances take due account of default risks. In addition to the specific allowance, a portfolio allowance may be made. For this purpose, trade receivables with similar risk characteristics for which an additional allowance may be necessary are grouped together and reviewed. Where appropriate, such an allowance is made. The decision whether to make a portfolio allowance in addition to a specific valuation allowance depends on whether past loss experience indicates that an allowance might be required.

Trade receivables recognized as at the balance sheet date:

CHF m	31.12.2012	31.12.2011
Total trade receivables, gross	**157.2**	**167.3**
Of which not due	132.9	143.9
Of which past due for:		
Less than 30 days	12.9	11.0
Between 31 and 90 days	5.8	5.9
Between 91 and 180 days	3.4	4.0
Between 181 days and 1 year	2.0	2.3
Over 1 year	0.2	0.2
Allowance for doubtful trade receivables	– 7.0	– 8.1
Total trade receivables	**150.2**	**159.2**

Of the total of CHF 24.3 million in trade receivables past due as at December 31, 2012, for trade receivables with a nominal value of CHF 19.8 million (2011: CHF 18.2 million) no impairment charges were recognized. Overall, trade receivables with a nominal value of CHF 29.4 million (2011: CHF 30.1 million) were impaired.

Gross value of trade receivables by currency:

CHF m	31.12.2012	31.12.2011
CHF	1.3	1.0
EUR	74.1	83.7
USD	15.9	20.0
JPY	15.5	17.3
GBP	13.4	14.5
CNY	8.1	7.8
SEK	5.9	7.0
Other	23.0	16.0
Total trade receivables, gross	**157.2**	**167.3**

Changes in valuation allowances for doubtful trade receivables during the reporting year:

CHF m	2012	2011
As at January 1	**– 8.1**	**– 14.9**
Additions	– 1.5	– 1.2
Release	0.8	5.3
Use	1.6	2.6
Translation differences	0.2	0.1
As at December 31	**– 7.0**	**– 8.1**

Allowances of CHF 2.0 million were made for trade receivables not yet due and of CHF 5.0 million for trade receivables past due.

The creation and release of allowances for doubtful trade receivables are included in 'Marketing and distribution costs' in the income statement.

21 Other current financial instruments

The item 'Other current financial instruments' contains mainly securities (stocks, bonds, and funds) as well as fixed-term deposits with a maturity greater than three months. For further details, see note 35 'Additional information on financial instruments'.

22 Cash

	31.12.2012	31.12.2011
Cash and cash equivalents		
CHF m		
Cash	0.2	0.2
Bank accounts	157.6	130.1
Short-term deposits with banks	93.5	62.1
Total cash and cash equivalents	**251.3**	**192.4**

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

23 Pledged or assigned assets

There were no significant pledged or assigned assets.

24 Share capital

The share capital of Forbo Holding Ltd stood at CHF 250,000 on December 31, 2012 (2011: CHF 250,000) and was divided into 2,500,000 registered shares with a par value of CHF 0.10 each. Of these, 21,419 registered shares without voting and dividend rights are at the disposal of the Board of Directors. Consequently, 2,478,581 registered shares were eligible for dividends as at December 31, 2012.

Change of shares issued and outstanding:

	31.12.2012	Change	31.12.2011
	Number	Number	Number
Total shares outstanding	**2,500,000**		**2,500,000**
Treasury shares			
Shares with dividend rights:			
Treasury shares	175,841	– 3,982	179,823
Share buyback program 2011	250,000	250,000	
Shares with no dividend rights	21,419		21,419
Total treasury shares	**447,260**	**246,018**	**201,242**
Total shares issued and outstanding	**2,052,740**	**– 246,018**	**2,298,758**

At the Ordinary General Meeting of April 29, 2011, shareholders voted to reduce the share capital of CHF 271,315.20 to CHF 250,000 by cancellation of the 213,152 registered shares repurchased through the share buyback program approved at the Ordinary General Meeting of April 25, 2008. The capital reduction was completed with the entry in the Commercial Register of the canton of Zug on July 11, 2011 and was published in the SHAB on July 14, 2011. The exchange adjustment took place on the same day.

At the Extraordinary General Meeting of Forbo Holding Ltd held on November 5, 2012, the shareholders approved a capital reduction of CHF 250,000 to CHF 225,000 by cancellation of the shares acquired in connection with the share buyback program approved at the Ordinary General Meeting of April 29, 2011, and also approved the necessary amendment to the Articles of Association. Owing to the legally mandatory notice to creditors, the capital reduction had not yet been entered in the Commercial Register on December 31, 2012. Furthermore, a motion was approved to repurchase further shares amounting to up to 10% of the share capital via a second trading line on the SIX Swiss Exchange or by another means in order to reduce capital.

25 Employee participation plan

On March 15, 2006, the Board of Directors approved the introduction of the Management Investment Plan (MIP). Members of the Board of Directors are not party to the MIP. Under the MIP, participants receive at least 50% of the variable component of their compensation in the form of shares and options. The share-based portion of the variable compensation is recognized at fair value, offset by equity instruments and entered as a corresponding increase in equity. The shares are issued at the average market price for the first 14 trading days in January of the current year. The options are issued on the basis of a valuation by an independent bank, whereby the valuation is based on the average market price of the shares in the first 14 trading days in January of the current year. Shares and options are subject to a three-year vesting period. The term of the options is five years. The shares and options issued under the MIP are equity-settled.

Options

Change in the number of outstanding options and their weighted average strike price:

	2012		2011	
	Weighted average strike price in CHF	Number of options	Weighted average strike price in CHF	Number of options
Options outstanding as at January 1	**568**	**32,438**	**484**	**25,594**
Granted	616	9,047	733	12,194
Exercised	232	– 8,823	546	– 5,350
Expired	565	– 918		0
Options outstanding as at December 31	**675**	**31,744**	**568**	**32,438**

The expense for equity-settled options charged to the income statement in application of IFRS 2 amounted to CHF 1.2 million (2011: CHF 1.9 million).

Of the outstanding 31,744 options (2011: 32,438), 6,044 were exercisable as at December 31, 2012 (2011: 6,962). The exercise of 8,823 options (2011: 5,350) resulted in the issue of 8,823 Forbo Holding Ltd shares (2011: 5,350) at a weighted average strike price of CHF 232 (2011: CHF 546). The weighted average share price on the exercise days was CHF 628 (2011: CHF 699).

Information on the outstanding options as at December 31, 2012:

Series	Strike price (CHF)	Number of outstanding options	Average remaining term (years)	Number of exercisable options
2008	822	6,044	0.2	6,044
2010	435	4,459	2.2	
2011	733	12,194	3.3	
2012	616	9,047	4.4	
Total options outstanding		**31,744**	**1.6**	

In the reporting year, a total of 9,047 equity-settled options (2011: 12,194) were issued under the MIP. The fair value of these options amounted to CHF 186.4 (2011: CHF 149.9). The options were valued in accordance with the Black-Scholes model using the following input factors: share price at issue date CHF 630 (2011: CHF 690), strike price CHF 616 (2011: CHF 733), volatility 31.8% (2011: 29.0%), expected life to maturity 4.1 years (2011: 4.1 years), dividend yield 2.3% (2011: 1.7%), and risk-free interest rate 0.548% (2011: 1.7%). The expected volatility is based on adjusted historical market data over a period comparable to the expected lifetime of the options. The expected term applied in the calculation model has been adapted using the best possible estimates to allow for restrictions on exercise rights and possible behavior patterns.

Shares

Under the MIP, 1,213 shares in Forbo Holding Ltd were issued in the reporting year (2011: 2,232). The share price at valuation date was CHF 630 (2011: CHF 690).

The Delegate of the Board of Directors and CEO is remunerated primarily with shares. With effect from January 2009, the employment contract with the Delegate of the Board of Directors and CEO was extended to run until the end of April 2013. Compensation is again being paid mainly in shares, which in accordance with IFRS 2 had to be recognized on a pro rata basis.

In the reporting year, the total amount charged to the income statement in accordance with IFRS 2 for shares issued to the Executive Board and Board of Directors came to CHF 0.8 million (2011: CHF 3.1 million).

26 Non-current financial debt

	31.12.2012	31.12.2011
CHF m		
Outstanding private placement and bond	132.4	191.3
Unamortized issuance cost	– 0.2	– 0.5
Total outstanding private placement and bond	**132.2**	**190.8**
Bank debt		
Lease obligations	2.6	0.7
Less current portion	– 132.2	– 47.0
Total non-current financial debt	**2.6**	**144.5**

	31.12.2012	31.12.2011
Maturities of non-current financial debt		
CHF m		
After 1 year	1.2	144.5
After 2 years	0.2	0.5
After 3 years	0.1	
5+ years	1.1	
Unamortized costs		– 0.5
Total non-current financial debt	**2.6**	**144.5**

Forbo Holding Ltd issued a CHF 150.0 million four-year bond on July 6, 2009 (maturity: July 31, 2013). The bond has a coupon of 4 1/8% and has been traded on the SIX Swiss Exchange since July 20, 2009. In the year under review, Forbo Holding Ltd repurchased bonds with a nominal value totaling CHF 12.0 million (2011: CHF 5.6 million). The resulting loss of CHF 0.6 million is reported under financial expenses (note 13 'Financial expenses').

The USD 50.0 million private placement of Forbo NL Holding B.V., which was guaranteed by Forbo Holding Ltd, fell due on November 21, 2012 and was repaid in full on that date.

The carrying amount of the liabilities from non-current financing is approximately equivalent to their fair value.

Derivatives:

Financial derivatives	Number of contracts	Gross value hedged CHF m	Unrealized gain/loss (–) CHF m
Derivative financial instruments as at December 31, 2011	70	84.7	– 2.3
Derivative financial instruments as at December 31, 2012	6	1.9	0.0

Financial covenants

The bond and bank debt are unsecured and contain standard covenants and standard events of default.

27 Employee benefit obligations

The Group has established several pension plans on the basis of the specific requirements of the countries in which it operates. The Group has both defined contribution and defined benefit plans. The liabilities and assets under the main defined benefit plans are assessed annually by independent actuaries using the projected unit credit method. The Group's largest pension plans are in the Netherlands and the United Kingdom.

Pension costs of continuing operations for defined benefit plans:

	2012	2011
Actuarial net periodic pension costs		
CHF m		
Current service cost, net	10.6	10.5
Interest costs	28.8	29.0
Expected return on plan assets	– 20.8	– 21.2
Curtailments and settlements	– 45.4	
Total actuarial net periodic pension income/costs	**– 26.8**	**18.3**

Changes in defined benefit obligations under the defined benefit plans:

	2012	2011
CHF m		
As at January 1	**584.3**	**599.9**
Current service cost, net	10.6	10.9
Employee contributions	4.5	4.4
Interest costs	28.8	30.5
Benefits paid	– 28.4	– 22.2
Actuarial losses	114.9	6.1
Curtailments and settlements	– 378.0	
Translation differences	– 2.6	– 11.8
Transfer to liabilities directly associated with assets held for sale		– 33.5
As at December 31	**334.1**	**584.3**

Changes in expected plan assets of the defined benefit plans at fair value:

	2012	2011
CHF m		
As at January 1	**541.6**	**525.2**
Expected return on plan assets	20.8	22.4
Employer contributions	35.9	12.8
Employee contributions	4.5	4.4
Actuarial gains	38.2	21.8
Benefits paid	– 28.4	– 22.2
Curtailments and settlements	– 332.6	
Translation differences	– 0.7	– 3.2
Transfer to liabilities directly associated with assets held for sale		– 19.6
As at December 31	**279.3**	**541.6**

With effect from January 1, 2013, the defined benefit plan in the Netherlands was converted into a defined contribution plan. As a result, the Group will in future no longer incur any actuarial risks from this plan. After derecognition of the liability and the related plan assets and after inclusion of the lump-sum payment of CHF 18.0 million (EUR 15.0 million) made in connection with the conversion, a gain of CHF 45.4 million was recognized that was presented in 'Other operating income'.

The present value of defined benefit pension liabilities and plan assets as at year-end:

	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
CHF m					
Present value of defined benefit liabilities	334.1	584.3	599.9	635.5	575.1
Fair value of plan assets	– 279.3	– 541.6	– 525.2	– 566.9	– 516.5
Net liabilities recognized in the balance sheet	**54.8**	**42.7**	**74.7**	**68.6**	**58.6**

Actuarial gains and losses linked to experience adjustments used to value the defined benefit plan assets and liabilities:

	2012	2011	2010	2009	2008
Experience adjustments					
CHF m					
Plan liabilities					
Actuarial gains/losses (–)	7.2	0.4	– 7.7	8.8	0.6
Percentage of plan liabilities	2.2%	0.1%	– 1.2%	1.5%	0.0%
Plan assets					
Actuarial gains/losses (–)	38.2	23.4	15.9	27.0	– 96.9
Percentage of plan assets	13.7%	4.5%	2.8%	5.2%	– 12.9%

The data in the reporting year and the previous year refer to the continuing operations. Actuarial gains and losses are recognized in the balance sheet under 'Pension liabilities' and are presented directly in the other comprehensive income.

Most of the pension plans are financed in full or in part via separate funds. Pension liabilities amounting to CHF 33.4 million (2011: CHF 32.1 million) of a total of CHF 334.1 million (2011: CHF 584.3 million) are unfunded.

Changes in the net liabilities of defined benefit plans recognized in the balance sheet:

	2012	2011
CHF m		
Net liabilities as at January 1	**42.7**	**74.7**
Pension income/costs	– 26.8	19.0
Employer contributions	– 35.9	– 12.8
Actuarial losses/gains (–)	76.7	– 15.7
Translation differences	– 1.9	– 8.6
Transfer to liabilities directly associated with assets held for sale		– 13.9
Net liabilities as at December 31	**54.8**	**42.7**

The pension expenses of the continuing operations are included in personnel expenses, while those of the discontinued operations are reported in Group profit for the year from discontinued operations, after taxes.

Actuarial gains and losses on defined benefit plans of all operations recognized in the comprehensive income statement:

	2012	2011
Cumulative recognized gains and losses		
CHF m		
Actuarial losses as at January 1	**9.8**	**– 14.6**
Actuarial losses (–)/gains in the current period	– 76.7	15.7
Translation differences	1.7	8.7
Total actuarial gains/losses (–) as at December 31	**– 65.2**	**9.8**

The actuarial loss in the reporting year comprised a gain of CHF 31.0 million (2011: gain of CHF 23.7 million linked to past experience adjustments and a loss of CHF 107.7 million (2011: CHF 8.0 million) caused by changes in assumptions.

The principal actuarial assumptions used for accounting purposes for defined benefit plans (expressed as weighted averages):

	2012	2011
%		
Discount rate	3.8	5.2
Expected return on plan assets	3.3	4.2
Future salary increases	3.2	3.2
Inflation	2.4	2.3

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

Weighted average asset allocation of the defined benefit plan assets as at December 31:

	2012	2011
%		
Shares	3.4	20.7
Bonds	75.8	76.7
Real estate	2.9	1.6
Cash and other investments	17.9	1.0
Total plan assets as at December 31	**100.0**	**100.0**

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

The cost of the contributions to defined contribution plans of continuing operations, which is included in personnel expenses, amounted to CHF 4.3 million (2011: CHF 2.5 million).

28 Provisions

Provisions

CHF m	Warranty provisions	Environmental provisions	Provisions for legal claims	Personnel provisions	Other provisions	Total 2012	Total 2011
As at January 1	**1.7**	**12.5**	**14.6**	**16.3**	**12.7**	**57.8**	**57.2**
Additions	1.8		1.8	3.7	0.6	7.9	33.2
Used during the year	– 1.8			– 2.3	– 0.5	– 4.6	– 20.6
Reversed during the year		– 1.1	– 0.8	– 2.0	– 5.0	– 8.9	– 9.2
Translation differences							– 0.3
Reclassification to liabilities in connection with assets held for sale							– 2.5
As at December 31	**1.7**	**11.4**	**15.6**	**15.7**	**7.8**	**52.2**	**57.8**
Of which current provisions	1.4		1.5	10.8	2.7	16.4	18.3
Of which non-current provisions	0.3	11.4	14.1	4.9	5.1	35.8	39.5

Warranty provisions are linked to product sales and are based on past experience. The provisions for legal claims relate mainly to product liability claims in which the Group is involved in the course of its normal business. The personnel provisions comprise the bonus programs, provisions for paid leave, and severance payments in connection with restructuring measures.

In connection with the sale of the industrial adhesives activity, including synthetic polymers, there are provisions of CHF 21.0 million that are all classified as long-term. They are kept for anticipated cash outflows in connection with risks in the areas of environmental protection (CHF 7.0 million), litigation (CHF 6.0 million), personnel (CHF 3.0 million), and other (CHF 5.0 million). In connection with the continuing operations of Bonding Systems environmental provisions of CHF 5.5 million were set aside the previous year, of which CHF 1.1 million was released in the year under review based on revised estimates. This provision of CHF 4.4 million corresponds to the anticipated cash outflow necessary for the decontamination of a production site. The item 'Other provisions' includes the use of restructuring provisions and provisions for structural adjustments formed the previous year. Provisions no longer needed for completed restructuring measures were released because the costs were lower than anticipated.

29 Trade payables

	31.12.2012	31.12.2011
Trade payables		
CHF m		
Accounts payable	84.7	85.9
Notes payable		0.2
Total trade payables	**84.7**	**86.1**

30 Accrued expenses

	31.12.2012	31.12.2011
Accrued expenses		
CHF m		
Accrued expenses for compensation and employee benefits	40.7	43.3
Other accrued expenses	55.8	63.4
Total accrued expenses	**96.5**	**106.7**

Accrued expenses for compensation and employee benefits mainly comprise overtime accruals and provisions. Other accrued expenses include accrued volume rebates, commissions, premiums, interest and accrued warranty costs, and similar items.

31 Current financial debt

	31.12.2012	31.12.2011
Current financial debt		
CHF m		
Current bank loans and overdrafts	0.3	0.5
Current portion of non-current debt	132.2	47.0
Total current financial debt	**132.5**	**47.5**

For information on covenants, see note 26 'Non-current financial debt'.

32 Discontinued operations and assets held for sale as well as liabilities directly associated with assets held for sale

On December 21, 2011, Forbo signed an agreement with H.B. Fuller Company regarding the sale of the industrial adhesives operation, including synthetic polymers, of the Bonding Systems division. This transaction excludes the operations of the building and construction adhesives business unit. The sale price was CHF 384.7 million. After fulfillment of all conditions, the transaction was closed on March 5, 2012.

In the consolidated balance sheet the assets and liabilities of the discontinued operations were recognized in the previous year under 'Assets held for sale' and 'Liabilities directly associated with assets held for sale'. For movement tables related to assets and liabilities, discontinued operations were transferred at the closing values of the reporting period in the previous year's data. The consolidated cash flow statement includes the cash flows from discontinued operations. This note provides a summary of these cash flows related to the discontinued operations separately.

Cash flows from discontinued operations:

	2012	2011
CHF m		
Cash flow from operating activities	4.4	– 0.4
Cash flow from investment activities	– 2.2	– 7.9
Cash flow from financing activities	0.1	2.3

In the previous year the assets related to the sale of the industrial adhesives activity, including synthetic polymers, were reported under assets held for sale:

	2011
CHF m	
Property, plant, and equipment	83.9
Intangible assets	109.6
Deferred taxes	5.5
Investments and other non-current assets	0.1
Inventories	63.1
Trade receivables	81.0
Other receivables	3.3
Deferred income and prepaid expenses	2.0
Cash and cash equivalents	12.9
Total assets of discontinued operations	**361.4**

In the prior year, the liabilities directly associated with the assets held for sale were as follows:

	2011
CHF m	
Employee benefit obligations	13.9
Non-current provisions	2.5
Deferred taxes	17.3
Trade payables	42.3
Accrued expenses	15.8
Current tax liabilities	1.1
Other current liabilities	4.7
Total liabilities directly associated with assets held for sale	**97.6**

Net profit/loss from discontinued operations:

	2012	2011
CHF m		
Net sales	**90.2**	**503.4**
Cost of goods sold	– 73.6	– 424.7
Gross profit	**16.6**	**78.7**
Other functional costs and other operating expenses	– 11.1	– 68.8
Operating profit	5.5	9.9
Financial profit		– 0.9
Profit before taxes	5.5	9.0
Related income taxes	– 0.5	0.1
Profit after taxes	**5.0**	**9.1**
Profit from the sale of the discontinued operations before taxes	**73.6**	
Related income taxes	– 5.5	
Profit from the sale of the discontinued operations after taxes	**68.1**	
Group profit from discontinued operations	**73.1**	**9.1**

The profit from the sale can be determined as follows:

CHF m	2012
Sales price in cash	384.7
Compensation for loans to discontinued operations	– 186.0
Net assets disposed of	– 81.1
Cumulative translation differences	– 41.2
Transaction costs	– 2.8
Profit from sale before taxes	**73.6**

The outgoing net assets are distributed among the following asset categories:

CHF m	2012
Property, plant, and equipment	81.6
Intangible assets	107.1
Other non-current assets	13.1
Inventories	68.2
Receivables and other current assets	90.5
Cash and cash equivalents	15.2
Total assets of discontinued operations	**375.7**
Financial debt	186.0
Employee benefit liabilities, provisions, and other non-current liabilities	32.8
Trade payables	54.4
Provisions and other current liabilities	21.4
Total liabilities in connection with discontinued operations	**294.6**
Total net assets of the discontinued operations	**81.1**

The sale resulted in an inflow of CHF 368.0 million, which is made up of the difference between the sales price in cash amounting to CHF 383.2 million on the one hand and cash and cash equivalents of the divested subsidiaries (CHF 15.2 million) on the other. As at December 31, 2012, Forbo still had a receivable of CHF 1.5 million from H.B. Fuller Company arising from the sale.

33 Contingent liabilities

	31.12.2012	31.12.2011
CHF m		
Contingent liabilities	2.2	1.5

The item 'Contingent liabilities' refers to sureties and guarantees in favor of third parties.

34 Leasing

	2012	2011
Leasing		
CHF m		
Operating leasing liabilities:		
Up to 1 year	8.4	7.5
2 – 5 years	18.9	17.5
More than 5 years	2.9	5.6
Total operating leasing liabilities	**30.2**	**30.6**

Expenses for operating leasing and rentals charged to the 2012 income statement totaled CHF 20.4 million (2011: CHF 18.5 million). The Group has no individually significant operational leasing contracts.

Finance lease liabilities stood at CHF 2.6 million at year-end 2012 (2011: CHF 0.7 million) and appear under 'Non-current financial debt'.

35 Additional information on financial instruments

The financial instruments held at the balance sheet date fall into the following categories:

As at December 31, 2012

CHF m	Cash and cash equivalents	Loans and receivables	Derivatives used for hedging	Financial assets available-for-sale
Assets				
Trade receivables and other receivables		179.2		
Other financial non-current assets				
Cash and cash equivalents	251.3			
Other current financial instruments				142.1
Derivative financial instruments			0.1	
Total assets	**251.3**	**179.2**	**0.1**	**142.1**

CHF m	Financial liabilities at amortized costs	Derivatives used for hedging	Financial instruments held for trading
Liabilities			
Interest-bearing debt	135.2		
Derivative financial instruments			
Trade payables and other payables[1)]	95.4		
Total liabilities	**230.6**		

As at December 31, 2011

CHF m	Cash and cash equivalents	Loans and receivables	Derivatives used for hedging	Financial assets available-for-sale
Assets				
Trade receivables and other receivables		183.9		
Other financial non-current assets		0.2		
Cash and cash equivalents	192.4			
Marketable securities				0.1
Derivative financial instruments			0.3	
Total assets	**192.4**	**184.1**	**0.3**	**0.1**

CHF m	Financial liabilities at amortized costs	Derivatives used for hedging	Financial instruments held for trading
Liabilities			
Interest-bearing debt	191.7		
Derivative financial instruments		2.5	
Trade payables and other payables[1)]	98.5		
Total liabilities	**290.2**	**2.5**	

1) Excluding sales tax.

The following table classifies the financial instruments that are valued at fair value in a three-level hierarchy:

– Level 1: listed market prices in an active market for identical assets and liabilities.
– Level 2: input factors other than market prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
– Level 3: input factors for the asset or liability that are not based on observable market data (non-observable inputs).

As at December 31, 2012				
CHF m	Level 1	Level 2	Level 3	Total
Financial instruments held for trading purposes	142.1			142.1
Derivative financial instruments		0.1		0.1
Total assets	**142.1**	**0.1**		**142.2**
Derivative financial instruments				
Total liabilities				

As at December 31, 2011				
CHF m	Level 1	Level 2	Level 3	Total
Financial assets available-for-sale	0.1			0.1
Derivative financial instruments		0.3		0.3
Total assets	**0.1**	**0.3**		**0.4**
Derivative financial instruments		2.5		2.5
Total liabilities		**2.5**		**2.5**

36 Acquisition of operations

In the year under review, Forbo acquired the operations of Phoenix Floor&Wall Products Inc., Canada (asset deal), a distributor of Flooring Systems. The purchase price totaling CHF 12.4 million was paid entirely in cash. The acquired identifiable assets and the assumed debts recognized at fair value on the date of acquisition consist primarily of trade receivables (CHF 4.1 million), inventories (CHF 5.9 million), intangible assets (CHF 1.7 million), property, plant, and equipment (CHF 0.2 million), and debts (CHF 0.3 million). No goodwill was generated. The purchase price and valuations of the acquired asset are definitive. The transaction costs arising from the acquisition were recognized in the income statement.

The acquisition took place on November 1, 2012, and has only had a minor impact on the results of the Group. Had the acquisition took place at the beginning of the year, Group sales and profit would have been affected insignificantly.

37 Related party transactions

Compensation paid to members of the Board of Directors and Executive Board:

	Executive Board		Board of Directors		Total	
CHF m	2012	2011	2012	2011	2012	2011
Remuneration	2.2	4.8	0.9	0.9	3.1	5.7
Employer contributions to the pension scheme	0.4	0.4	0.2	0.2	0.6	0.6
Share-based payments	0.2	3.1	1.5	1.5	1.7	4.6
Total payments	**2.8**	**8.3**	**2.6**[1]	**2.6**[1]	**5.4**	**10.9**

1) This sum includes the payments to the Board of Directors and to the Delegate of the Board of Directors and CEO.

The compensation paid to the Executive Board in the reporting year consists of the gross base salary, special bonuses, private use of the company car, and social security payments made by the company. The reduction versus the previous year is due to special bonuses paid in 2011 in connection with the sale of the industrial adhesives activity. Employer contributions to the pension fund are reported separately. Share-based payments to the Executive Board consist of an estimated performance-based variable remuneration within the framework of the MIP (see note 25 'Employee participation plan') for the reporting year, amounting to CHF 0.8 million (payable in spring 2013) less the difference, amounting to CHF 0.6 million, between the bonuses deferred at the end of the previous year (payable in equity instruments) and the value of the equity instruments actually issued in the year under review.

The compensation paid to the Board of Directors included CHF 0.3 million (2011: CHF 0.3 million) for the Delegate of the Board of Directors and CEO. This includes annual amounts of CHF 0.15 million (2011: CHF 0.15 million) for payment of employee contributions to the pension fund and social security, and of CHF 0.15 million (2011: CHF 0.15 million) for private use of the company car, employer contributions to the pension fund and to the AHV/ALV (old-age and unemployment insurance), plus accident and daily benefits insurance. Employer contributions to the pension fund are reported separately. Current payment benefits for non-executive Board members of Forbo Holding Ltd totaled CHF 0.6 million (2011: CHF 0.6 million).

With effect from January 2009, the employment contract with the Delegate of the Board of Directors and CEO was extended to run until the end of April 2013. Compensation is again being paid mainly in shares. The modalities are very similar to the provisions of the first contract. The 29,775 shares are restricted until December 31, 2013. The share-based payments made to the Board of Directors include the annual portion of the shares of Forbo Holding Ltd allocated to the Delegate of the Board of Directors and CEO totaling CHF 1.1 million (2011: CHF 1.1 million) pursuant to the extension of the employment contract until the end of April 2013. In accordance with IFRS 2, these shares have been recognized on a pro rata basis.

The employment contract with the Delegate of the Board of Directors and CEO, which ends on April 30, 2013, was extended until December 31, 2016. The bulk of the compensation will again be paid in vested shares which have a vesting period of three, four, and five years respectively, and in an annual cash payment of CHF 310,000 to be used for taxes and for employee contributions to the pension fund and social security. The last third of the share-based compensation will not be available until May 1, 2018 at the earliest. The underlying share price used to calculate the number of shares is the weighted average price of the first and last five days on which Forbo Holding shares were traded on the stock market in 2012 (CHF 522.12), less the reduced value as a result of vesting of the shares. The share package corresponds to annual compensation of about CHF 2,200,000 (5,314 shares per annum). The share package and the cash remuneration are deemed to cover all compensations such as bonuses, options, salary adjustments, inflation, etc. This share package may not be either pledged or assigned. No severance payment or compensation in the event of a change of control was agreed.

Moreover, the share-based payments made to the Board of Directors include 588 Forbo Holding Ltd shares allocated to the non-executive Board members in 2012 (2011: 508 shares) with a market value of CHF 0.4 million (2011: CHF 0.4 million).

Further details relating to the compensation paid to the Executive Board and the Board of Directors can be found in note 17 'Disclosure of compensation to the Board of Directors and the Executive Board pursuant to Article 663b^{bis} and Article 663c of the Swiss Code of Obligations' in the financial statements for Forbo Holding Ltd.

As at December 31, 2012 and 2011, Forbo had no significant receivables due from or liabilities to related parties.

38 Risk assessment and financial risk management

The tasks of the Board of Directors include identifying risks, determining suitable measures, and implementing those measures or having them implemented. The Board of Directors of Forbo Holding Ltd conducted a Group-wide risk assessment in the reporting year and also determined the risks to be managed by particular management levels. The Board of Directors is closely involved in the assessment of strategic risks and, in consultation with the Executive Board, ensures that operational risks are dealt with appropriately and that they are duly reported. This approach gives the Board a complete overview of the key risks and measures. This broad overview enables the Group to set priorities and allocate the necessary resources.

Financial risk management

In its day-to-day operations, the Forbo Group uses derivative and non-derivative financial instruments to manage the risks and opportunities arising from fluctuations in exchange rates and interest rates. The various risks associated with existing assets and liabilities as well as planned and anticipated transactions are monitored and managed centrally – with due regard to the Group's overall risk exposure. In line with the Group's hedging policy, Corporate Treasury constantly 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. In order to manage counterparty risk, derivative financial transactions are concluded only with first-class banks. The creditworthiness of these institutions is assessed on the basis of evaluations by leading rating agencies.

Derivatives include instruments used by the company to manage foreign currency and interest risks or combinations thereof.

Foreign exchange risk management
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 uses only foreign exchange forward and option contracts with maturities of up to twelve months to hedge against transaction risk.

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

Sensitivity analysis of existing foreign exchange positions on the balance sheet date
The following table shows the sensitivity of profit before tax and of equity to changes in the exchange rate of the US dollar, the euro, the pound sterling and the Swiss franc. The table illustrates the sensitivity in relation to transaction risks from financial instruments. Translation risks, the effects of loans that qualify as net investments, and net investment hedges are not taken into account.

2012

CHF m	Change in exchange rate	Impact on profit before tax	Impact on shareholders' equity
EUR/CHF	5%	0.4	
	– 5%	– 0.4	
USD/CHF	5%	0.1	
	– 5%	– 0.1	
EUR/USD	5%	0.0	
	– 5%	0.0	
GBP/USD	5%	0.0	
	– 5%	0.0	

2011

CHF m	Change in exchange rate	Impact on profit before tax	Impact on shareholders' equity
EUR/CHF	5%	0.3	0.0
	– 5%	– 0.3	0.0
USD/CHF	5%	0.4	– 0.1
	– 5%	– 0.4	0.1
EUR/USD	5%	0.0	1.4
	– 5%	0.0	– 1.4
GBP/USD	5%	– 0.2	1.1
	– 5%	0.2	– 1.1

Management of interest rate risks
Interest rate risks arise from changes in the fair value of interest-bearing assets and liabilities caused by fluctuations in interest rates. Since these risks may have a negative effect on net financial profit and shareholders' equity, the Group uses derivatives to manage them on a case-by-case basis. The table below shows the sensitivity of profit before tax and of shareholders' equity to the stated changes in interest rates for cash and cash equivalents, interest-bearing debt, and financial derivatives.

An average figure has been used for cash and cash equivalents as the final amount is not significant for calculating interest rate sensitivity. The average was arrived at by taking the arithmetic mean of the initial and final amounts.

2012

CHF m	Change in interest rate	Impact on profit before tax	Impact on shareholders' equity
EUR	50bp	0.2	
	– 50bp	– 0.2	
USD	50bp	0.0	
	– 50bp	0.0	
CHF	50bp	0.5	
	– 50bp	– 0.5	

2011

CHF m	Change in interest rate	Impact on profit before tax	Impact on shareholders' equity
EUR	50bp	0.3	0.0
	– 50bp	– 0.3	0.0
USD	50bp	0.0	0.0
	– 50bp	0.0	0.0
CHF	50bp	0.2	0.0
	– 50bp	– 0.2	0.0

Management of liquidity risks
Group companies need sufficient cash in order to meet their liabilities. Corporate Treasury is responsible for managing liquidity surpluses. The share of the aggregate cash and cash equivalents and securities managed by Corporate Treasury was around 75% on December 31, 2012. The Group has sufficient liquidity reserves (as at December 31, 2012, these stood at CHF 251.3 million in cash and cash equivalents and CHF 142.0 million in securities and fixed-term deposits) to be able to meet its commitments at any time. At present, the Group regards a cash level of roughly CHF 65 million as sufficient to meet its payment obligations at all times.

The maturity structure of the existing financial liabilities is shown in the following table. These liabilities correspond to contractually agreed maturities and represent nominal payment outflows. Inflows and outflows of funds from derivative financial instruments are shown separately.

As at December 31, 2012

CHF m	Remaining term to maturity up to 1 year	Remaining term to maturity 1 – 2 years	Remaining term to maturity 2 – 5 years	Remaining term to maturity over 5 years
Interest-free liabilities	95.1	0.2		0.1
Leasing contract liabilities	1.3	0.2	1.5	
Liabilities from bonds	137.8			
Cash outflow from financial derivatives	1.9			
Cash inflow from financial derivatives	2.0			

As at December 31, 2011

CHF m	Remaining term to maturity up to 1 year	Remaining term to maturity 1 – 2 years	Remaining term to maturity 2 – 5 years	Remaining term to maturity over 5 years
Liabilities to banks	0.5			
Interest-free liabilities	98.3	0.1		0.1
Leasing contract liabilities	0.2	0.2	0.5	
Liabilities from private placements and bonds	55.9	150.3		
Cash outflow from financial derivatives	84.4			
Cash inflow from financial derivatives	82.3			

Management of credit risks
Credit risks arise from the possibility that customers may not be able to meet their agreed commitments. To manage this risk adequately, the financial creditworthiness of various customers is constantly monitored. Credit risks are diversified by the company's broad customer base in various business segments and geographic regions. With regard to counterparty risk exposure to banks, Group-wide directives stipulate that financial investments and other financial transactions are to be made only with first-class banks. Given the credit ratings of these counterparties, the Group does not anticipate any defaults.

Capital management

For the Group, capital management means both optimizing the capital employed and managing consolidated shareholders' equity, which consists of paid-up share capital, treasury shares, reserves, and translation differences. As at December 31, 2012, shareholders' equity stood at CHF 817.4 million. The objectives of capital management are to ensure that the Group remains a going concern, to preserve its financial flexibility for investments, and to achieve a risk-adjusted return on equity for investors.

Changes in economic conditions may require adjustments to the Group's shareholders' equity. These adjustments can take the form of dividend distributions, capital repayments or increases, or share buybacks.

39 Events after the balance sheet date

At the Extraordinary General Meeting of Forbo Holding Ltd held on November 5, 2012, the shareholders approved a capital reduction of CHF 250,000 to CHF 225,000 in connection with the share buyback program approved at the Annual General Meeting of April 29, 2011, and also approved the necessary amendment to the Articles of Association. Owing to the legally mandatory notice to creditors, the capital reduction had not yet been entered in the Commercial Register on December 31, 2012. The entry was made after the balance sheet date on January 17, 2013.

Group companies (as at December 31, 2012)

Company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Move-ment 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	6,000,000	100%		S	
Austria								
Forbo Flooring Austria GmbH	Vienna		EUR	73,000	100%	S		
Forbo Siegling Austria Ges.m.b.H.	Vienna		EUR	330,000	100%		S	
Belgium								
Forbo Flooring N.V.	Groot-Bijgaarden		EUR	250,000	100%	S		
Brazil								
Forbo Pisos Ltda.	São Paulo		BRL	2,000,000	100%	S		
Forbo Siegling Brasil Ltda.	São Paulo	N	BRL	7,008,746	50%		MS	
Canada								
Forbo Flooring Canada Corp.	Halifax		CAD	500,000	100%	S		
Forbo Siegling Canada Corp.	Halifax		CAD	501,000	100%		S	
Chile								
Forbo Siegling Chile S.A.	Santiago	N	CLP	335,631,092	50%		MS	
Czech Republic								
Forbo Siegling Ceska republika s.r.o.	Liberec		CZK	100,000	100%		S	
Forbo s.r.o.	Prague		CZK	500,000	100%	S		
Denmark								
Forbo Flooring A/S	Glostrup		DKK	500,000	100%	S		
Forbo Siegling Danmark A/S	Brøndby		DKK	32,200,000	100%		MS	
Finland								
Forbo Flooring Finland Oy	Helsinki		EUR	33,638	100%			H
France								
Forbo Château Renault S.A.S.	Château-Renault		EUR	1,000,000	100%	MS		
Forbo Participations S.A.S.	Reims	D	EUR	5,000,000	100%			H
Forbo Reims SNC	Reims		EUR	3,879,810	100%	MS		
Forbo Sarlino S.A.S.	Reims		EUR	6,400,000	100%	S		
Forbo Siegling France S.A.S.	Lomme		EUR	819,000	100%		S	

S Sales
MS Manufacturing and Sales
H Holding/Services
N Not consolidated as at December 31, 2012
D Direct participation of Forbo Holding Ltd

Company	Registered office		Currency	Share capital	Equity interest	Flooring 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 Siegling GmbH	Hanover		EUR	10,230,000	100%		MS	
Realbelt GmbH	Lörrach		EUR	100,000	100%		S	
Hong Kong								
Forbo International Hong Kong Ltd.	Hong Kong		HKD	1	100%			H
India								
Forbo Siegling Movement Systems India Pvt. Ltd.	Pune		INR	26,000,000	100%		S	
Ireland								
Forbo Ireland Ltd.	Dublin		EUR	127,000	100%	S		
Italy								
Forbo Resilienti S.r.l.	Segrate (Milan)		EUR	60,000	100%	S		
Forbo Siegling Italia S.p.A.	Paderno Dugnano (Milan)		EUR	120,000	100%		S	
Japan								
Forbo Siegling Japan Ltd.	Tokyo		JPY	330,000,000	100%		MS	
Jersey, C.I.								
Forbo Invest Ltd.	Saint Helier	D	GBP	25,000	100%			H
Malaysia								
Forbo Siegling SDN. BHD.	Johor Bahru		MYR	2,500,002	100%		S	
Mexico								
Forbo Siegling, S.A. de C.V.	Tlalnepantla		MXN	24,676,404	100%		MS	
Netherlands								
Forbo Eurocol B.V.	Zaanstad		EUR	454,000	100%	MS		
Forbo Flooring B.V.	Krommenie		EUR	11,350,000	100%	MS		
Forbo Flooring Coral N.V.	Krommenie		EUR	1,944,500	100%	MS		
Forbo NL Holding B.V.	Krommenie		EUR	13,500,000	100%			H
Forbo-Novilon B.V.	Coevorden		EUR	3,624,000	100%	MS		
Forbo Siegling Nederland B.V.	Spankeren		EUR	113,445	100%		S	

S Sales
MS Manufacturing and Sales
H Holding/Services
N Not consolidated as at December 31, 2012
D Direct participation of Forbo Holding Ltd

Company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Move-ment Systems	Holding/ Services
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 Shanghai Co., Ltd.	Shanghai		CHF	4,000,000	100%	S	MS	
Forbo Siegling (China) Co., Ltd.	Shenyang		USD	16,221,000	100%		MS	
Portugal								
Forbo-Revestimentos, S.A.	Maia (Porto)		EUR	74,850	100%	S		
Romania								
Forbo Siegling Romania S.R.L.	Bucharest		RON	38,000	100%		S	
Russia								
OOO 'Forbo Flooring'	Moscow		RUB	500,000	100%	S		
OOO 'Forbo Kaluga'	Moscow		RUB	158,313,780	100%	MS		
OOO 'Forbo Stroitech'	Stary Oskol		RUB	144,181,000	100%	MS		
ZAO 'Forbo Siegling'	Saint Petersburg		RUB	400,000	100%		S	
Slovakia								
Forbo Siegling s.r.o.	Malacky		EUR	15,281,639	100%		MS	
South Korea								
Forbo Korea Ltd.	Seoul		KRW	900,000,000	100%	S	S	
Spain								
Forbo Pavimentos, S.A.	Barcelona		EUR	60,101	100%	S		
Forbo Siegling Iberica, S.A.	Montcada i Reixac (Barcelona)		EUR	1,532,550	100%		S	
Sweden								
Forbo Flooring AB	Gothenburg	D	SEK	8,000,000	100%	S		
Forbo Project Vinyl AB	Gothenburg	D	SEK	50,000,000	100%			H
Forbo Siegling Svenska AB	Kållered (Gothenburg)		SEK	1,000,000	100%		S	

S Sales
MS Manufacturing and Sales
H Holding/Services
N Not consolidated as at December 31, 2012
D Direct participation of Forbo Holding Ltd

Company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Movement Systems	Holding/ Services
Switzerland								
Forbo Financial Services AG	Baar	D	CHF	100,000	100%			H
Forbo Finanz AG	Baar	D	CHF	10,000,000	100%			H
Forbo Finanz II AG	Baar	D	CHF	250,000	100%			H
Forbo-Giubiasco SA	Giubiasco	D	CHF	100,000	100%	MS		
Forbo International SA	Baar	D	CHF	100,000	100%		MS	H
Turkey								
Forbo Siegling Hareket Sistemleri Ticaret Limited Çirketi	Istanbul		TRY	10,000	100%		S	
United Kingdom								
Forbo Flooring UK Ltd.	Kirkcaldy		GBP	3,609,990	100%	MS		H
Forbo-Nairn Ltd.	London		GBP	8,000,000	100%			H
Forbo Siegling (UK) Ltd.	Dunkinfield		GBP	50,774	100%		S	
Forbo UK Ltd.	London		GBP	49,500,000	100%			H
Westbond Ltd.	Derbyshire		GBP	400,000	100%			H
USA								
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.	Wilmington, DE		USD	3,517,000	100%	S		
Forbo Siegling, LLC	Wilmington, DE		USD	15,455,000	100%		MS	

S Sales
MS Manufacturing and Sales
H Holding/Services
N Not consolidated as at December 31, 2012
D Direct participation of Forbo Holding Ltd

Report of the statutory auditor

Report of the statutory auditor to the General Meeting of Forbo Holding Ltd, Baar

Report of the statutory auditor on the consolidated financial statements
As statutory auditor, we have audited the consolidated financial statements of Forbo Holding Ltd, which comprise the consolidated balance sheet, consolidated income statement, comprehensive income statement, consolidated shareholder's equity, consolidated cash flow statement, and notes (pages 74 to 129), for the year ended December 31, 2012.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing, and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended December 31, 2012 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.

Report on other legal requirements
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (Article 728 CO and Article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with Article 728a Paragraph 1 Item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG

Daniel Ketterer
Audit expert
Auditor in charge

Reto Tognina
Audit expert

Zurich, March 13, 2013

Consolidated income statements 2008 – 2012

	2012	2011	2010	2009	2008
CHF m					
Net sales	**1,201.1**	**1,203.8**	**1,291.2**	**1,782.4**	**1,918.7**
Cost of goods sold	– 763.2	– 745.1	– 785.6	– 1,200.4	– 1,325.0
Gross profit	**437.9**	**458.7**	**505.6**	**582.0**	**593.7**
Development costs	– 16.3	– 16.0	– 17.6	– 27.9	– 29.9
Marketing and distribution costs	– 194.1	– 192.5	– 213.3	– 270.0	– 282.7
Administrative costs	– 103.4	– 96.6	– 103.9	– 128.3	– 137.9
Other operating expenses	– 25.3	– 17.8	– 12.1	– 46.4	– 50.0
Other operating income	63.8	13.1	10.0	12.4	23.9
Operating profit	**162.6**	**148.9**	**168.7**	**121.8**	**117.1**
Financial income	5.7	30.1	44.3	4.3	9.2
Financial expenses	– 11.2	– 11.7	– 15.0	– 24.7	– 104.9
Group profit before taxes	**157.1**	**167.3**	**198.0**	**101.4**	**21.4**
Income taxes	– 33.0	– 29.9	– 48.8	– 25.3	– 5.4
Group profit for the year from continuing operations	**124.1**	**137.4**	**149.2**		
Group profit for the year from discontinued operations after taxes	**73.1**	**9.1**	**14.1**		
Group profit for the year	**197.2**	**146.5**	**163.3**	**76.1**	**16.0**

The distinction between continuing and discontinued operations is only drawn for the period from 2010 to 2012. The consolidated income statements for the period from 2008 and 2009 therefore include both the continuing and the discontinued operations.

Consolidated balance sheets 2008 – 2012

	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Assets					
CHF m					
Non-current assets	**530.9**	**536.4**	**743.9**	**885.7**	**928.7**
Property, plant, and equipment	355.0	359.8	450.2	549.9	586.3
Intangible assets	149.2	153.5	270.4	309.1	311.7
Deferred tax assets	26.5	21.9	17.6	20.5	28.8
Investments in associates and other non-current assets	0.2	1.2	5.7	6.2	1.9
Current assets	**803.0**	**965.5**	**750.3**	**859.7**	**909.1**
Assets held for sale		361.4			
Inventories	218.6	219.6	260.9	261.0	298.3
Trade receivables	150.2	159.2	220.8	237.1	265.8
Other receivables	28.9	24.8	28.4	33.1	32.2
Deferred income and prepaid charges	11.9	8.0	21.4	30.1	23.6
Other current financial instruments	142.1	0.1	47.4	100.2	73.6
Cash and cash equivalents	251.3	192.4	171.4	198.2	215.6
Total assets	**1,333.9**	**1,501.9**	**1,494.2**	**1,745.4**	**1,837.8**

	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Shareholders' equity and liabilities					
CHF m					
Shareholders' equity	**817.4**	**815.3**	**729.7**	**679.6**	**584.4**
Share capital	0.3	0.3	0.3	0.3	10.9
Treasury shares	– 0.1	– 0.1	– 0.1	– 0.1	– 2.0
Reserves and retained earnings	817.2	815.1	729.5	679.4	575.5
Non-current liabilities	**137.4**	**276.2**	**360.8**	**720.2**	**676.6**
Non-current financial debt	2.6	144.5	196.5	550.1	512.4
Employee benefit obligations	54.8	42.7	74.7	68.6	58.6
Non-current provisions	35.8	39.5	35.3	38.8	37.0
Deferred tax liabilities	44.2	49.5	54.3	62.7	68.6
Current liabilities	**379.1**	**410.4**	**403.7**	**345.6**	**576.8**
Trade payables	84.7	86.1	135.7	123.3	144.5
Current provisions and accrued expenses	112.9	125.0	140.3	158.2	149.0
Current financial debt	132.5	47.5	65.9	3.4	181.3
Current tax liabilities	26.6	27.6	31.0	24.7	25.3
Other current liabilities	22.4	26.6	30.8	36.0	76.7
Liabilities directly associated with assets held for sale		97.6			
Total liabilities	**516.5**	**686.6**	**764.5**	**1,065.8**	**1,253.4**
Total shareholders' equity and liabilities	**1,333.9**	**1,501.9**	**1,494.2**	**1,745.4**	**1,837.8**

Financial report

Income statement for Forbo Holding Ltd

		2012	2011
Income			
CHF	Note		
Financial income:			
From investments in and advances to Group companies	1	77,450,515	65,883,284
From securities and short-term investments	2	13,166,813	3,497,813
Other income	3	24,097,417	412,203
Total income		**114,714,745**	**69,793,300**

		2012	2011
Expenses			
CHF	Note		
Administrative expenses		5,479,595	3,903,605
Financial expenses	4	13,541,862	17,884,349
Taxes		2,573,682	9,542
Total expenses		**21,595,139**	**21,797,496**
Net profit for the year		**93,119,606**	**47,995,804**

Balance sheet for Forbo Holding Ltd (before appropriation of available earnings)

		31.12.2012	31.12.2011
Assets			
CHF	Note		
Non-current assets		**478,600,868**	**634,888,337**
Shareholdings in Group companies	5	385,089,092	479,665,053
Advances to Group companies	6	93,511,776	155,223,284
Current assets		**288,215,153**	**119,493,164**
Other receivables from Group companies		1,220,310	2,246,365
Other receivables from third parties		342,320	115,053
Deferred income and prepaid expenses		289,547	2,743,557
Marketable securities	7	229,051,468	57,169,149
Cash and cash equivalents	8	57,311,508	57,219,040
Total assets		**766,816,021**	**754,381,501**

		31.12.2012	31.12.2011
Shareholders' equity and liabilities			
CHF	Note		
Shareholders' equity		**541,720,769**	**476,912,175**
Share capital	9	250,000	250,000
Statutory capital contribution reserves:			
Thereof general reserves	12	72,064,159	122,225,827
Thereof reserves for treasury shares	11	55,610,149	33,759,493
Other statutory reserves:			
Thereof general reserves	12	15,600,000	15,600,000
Thereof reserves for treasury shares	11	172,575,649	45,696,901
Other reserves		19,542,995	0
Available earnings:			
Retained earnings		112,958,211	211,384,150
Net profit for the year		93,119,606	47,995,804
Liabilities		**225,095,251**	**277,469,326**
Bond	13	150,000,000	150,000,000
Advances from Group companies			17,762,290
Other liabilities to Group companies	14	70,177,261	104,528,059
Current liabilities to third parties		20,422	17,830
Accrued expenses		4,897,568	5,161,147
Total shareholders' equity and liabilities		**766,816,021**	**754,381,501**

Notes to the financial statements for Forbo Holding Ltd

1 Financial income from investments in and advances to Group companies

Income from investments in and advances to Group companies amounts to CHF 77.5 million (2011: CHF 65.9 million) and consists of interest and dividend income.

2 Financial income from securities and short-term investments

This item totaling CHF 13.2 million (2011: CHF 3.5 million) includes income from securities and derivatives and interest income from banks.

3 Other income

This item includes income from the sale of the investments and trademarks (CHF 24.0 million) belonging to the industrial adhesives activity, including synthetic polymers.

4 Financial expenses

This item relates mainly to losses on foreign exchange accounts, losses from forward currency contracts, losses from securities transactions, plus interest costs for current bank debt.

5 Investments in Group companies

As at December 31, 2012, Forbo Holding Ltd held the following direct investments:

Investments in Group companies

Company	Registered office	Activity	Currency	Share capital in 1,000	Equity interest
Forbo America Inc.	US-Wilmington, DE	Holding/Services	USD	19,957	100%
Forbo Beteiligungen GmbH	DE-Lörrach	Holding/Services	EUR	15,400	100%
Forbo Financial Services AG	CH-Baar	Services	CHF	100	100%
Forbo Finanz AG	CH-Baar	Holding/Services	CHF	10,000	100%
Forbo Finanz II AG	CH-Baar	Holding/Services	CHF	250	53.60%
Forbo Floorcoverings Pty. Ltd	AU-Wetherill Park, NSW	Sales	AUD	1,400	100%
Forbo Flooring AB	SE-Gothenburg	Sales	SEK	8,000	100%
Forbo Flooring AS	NO-Asker	Sales	NOK	1,000	100%
Forbo-Giubiasco SA	CH-Giubiasco	Manufacturing and Sales	CHF	100	100%
Forbo International SA	CH-Baar	Services, Manufacturing, and Sales	CHF	100	100%
Forbo Invest Ltd.	JE-Saint Helier	Services	GBP	25	50%
Forbo Participations S.A.S.	FR-Reims	Holding/Services	EUR	5,000	100%
Forbo Project Vinyl AB	SE-Gothenburg	Services	SEK	50,000	100%

The holdings in the companies Forbo Adhesives UK Ltd. and Paul Heinicke GmbH & Co. KG were eliminated from the Group as at March 6, 2012, following the sale of the industrial adhesives activity, including synthetic polymers, to H.B. Fuller Company.

6 Advances to Group companies

Advances to Group companies are denominated in Swiss francs and foreign currencies.

7 Marketable securities

The item ‘Marketable securities’ includes treasury shares in Forbo Holding Ltd. This balance sheet item was valued at fair value as at December 31, 2012. This item also includes repurchased bonds of Forbo Holding Ltd.

8 Cash and cash equivalents

This item consists of bank deposits and cash equivalents with initial maturities of three months or less.

9 Share capital

As at December 31, 2012, the share capital of Forbo Holding Ltd totaled CHF 250,000 (2011: CHF 250,000), divided into 2,500,000 registered shares with a par value of CHF 0.10 each. 21,419 registered shares without voting and dividend rights are at the disposal of the Board of Directors.

At the Ordinary General Meeting of April 29, 2011, the shareholders of Forbo Holding Ltd voted to reduce the share capital of CHF 271,315.20 to CHF 250,000 by cancellation of the 213,152 registered shares repurchased through the share buyback program approved at the Ordinary General Meeting of April 25, 2008. The capital reduction was completed with the entry in the Commercial Register of the canton of Zug on July 11, 2011 and was published in the SHAB on July 14, 2011. The exchange adjustment took place on the same day.

Furthermore, at the Ordinary General Meeting of April 29, 2011, the shareholders of Forbo Holding Ltd approved the proposal of the Board of Directors to repurchase the company's own shares, via a second trading line on the SIX Swiss Exchange amounting to up to a maximum of 10% of the share capital over a period of three years in order to reduce the capital.

10 Conditional capital

Originally, conditional capital of CHF 8,500,000 for the exercise of shareholder options and warrants in connection with a bond issue was created by a resolution of the Ordinary General Meeting held on April 27, 1994. Following the exercise of options in 1994, 1995, and 1997 and reductions in the par value by CHF 22 per share in 2003, CHF 8 per share in 2004, CHF 6 per share in 2007, CHF 10 per share in 2008, and CHF 3.90 per share in 2009, the conditional capital on December 31, 2012 remained unchanged against the prior year at CHF 16,645.

11 Reserve for treasury shares

The 'Reserve for treasury shares' amounting to CHF 172.6 million and the capital contribution reserves amounting to CHF 55.6 million relate to treasury shares held at year-end by Forbo Holding Ltd and its subsidiaries valued at cost of CHF 228.2 million (prior year: CHF 79.5 million). The treasury shares developed as follows over the reporting year:

Treasury shares	Cost CHF	Number of registered shares
As at January 1, 2012	79,456,395	201,242
Additions	161,951,757	274,675
Disposals	13,222,353	28,657
As at December 31, 2012	**228,185,799**	**447,260**

12 General reserves

General reserves totaled CHF 87.7 million (prior year: CHF 137.8 million) and consist of general reserves (CHF 15.6 million) and general capital contribution reserves (CHF 72.1 million). The statutory capital contribution reserves total CHF 127.7 million and consist of general reserves (CHF 72.1 million) and reserves for treasury shares (CHF 55.6 million).

13 Bond

Forbo Holding Ltd issued a CHF 150.0 million four-year bond on July 6, 2009 (maturity: July 31, 2013). The bond has a coupon of 4 1/8%. It has been traded on the SIX Swiss Exchange since July 20, 2009. By December 31, 2012, Forbo Holding Ltd repurchased bonds with a nominal value totaling CHF 17.6 million. These bonds are included under the item 'Marketable securities'.

14 Other advances from Group companies

'Other liabilities to Group companies' as at December 31, 2012 include in particular advances from Forbo Finanz AG in connection with its cash pool.

15 Contingent liabilities

Guarantees and letters of comfort to third parties in favor of Group companies amounted to CHF 8.2 million at year-end (2011: CHF 52.5 million), of which CHF 3.1 million (2011: CHF 47.3 million) was utilized. The reduction versus the prior year was due to the repayment of the US private placement in November 2012. In the previous year guarantees had been given to investors in connection with the US private placement.

16 Significant shareholders

According to information available to the Board of Directors, the following shareholders or groups of shareholders with restricted voting rights constituted significant shareholders in the company pursuant to Article 663c Swiss Code of Obligations as at the reporting date:

	Number of shares	As percentage
Michael Pieper, Hergiswil, and Artemis Beteiligungen I AG, Hergiswil	681,628	27.27%
Forbo Holding Ltd, Baar, together with its two subsidiaries Forbo International SA, Baar, and Forbo Finanz AG, Baar	447,260	17.89%

17 Disclosure of compensation to the Board of Directors and Executive Board pursuant to Article 663b^{bis} and Article 663c of the Swiss Code of Obligations

Compensation
For the year 2012[1)]

	Base compensation			Variable compensation	Other compensation	Total
	Cash		Shares	Cash, shares, options		
Name and function	CHF	Number	CHF	CHF	CHF	CHF
Dr. Albert Gnägi, Chairman	231,230	243	153,770		30,119	415,119
Michael Pieper, Vice Chairman	81,212	85	53,788		13,730	148,730
Dr. Peter Altorfer, member	86,782	92	58,218		14,390	159,390
Dr. Reto Müller, member	71,907	76	48,093		12,647	132,647
Vincent Studer, member	86,782	92	58,218		7,765	152,765
Non-executive members of the Board of Directors[2)]	**557,913**	**588**	**372,087**		**78,651**	**1,008,651**
This E. Schneider, Delegate of the Board of Directors and CEO[3)4)]	150,000	12,761	2,015,855		332,791	2,498,646
Board of Directors	**707,913**	**13,349**	**2,387,942**		**411,442**	**3,507,297**
Executive Board[5)]	**1,871,343**	**0**	**0**	**760,812**	**615,509**	**3,247,664**

1) The amounts shown in the table are based on valuation models used and disclosed in the consolidated financial statements. The table therefore shows the entire compensation that was granted in the year under review, including compensation for which the payment date or definitive legal title will occur after December 31, 2012.

2) The non-executive members of the Board of Directors receive a fixed fee, the amount of which is determined according to whether the member is Chairman or a simple member of the Board or a member of the AFC or HRC. The cash compensation is shown as a gross amount before deduction of social security 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 for the non-executive members of the Board of Directors also includes a lump-sum for expenses plus employer contributions to the AHV/ALV (old-age and unemployment insurance). These are reported in the column 'Other compensation'.

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

4) With effect from January 2009, the employment contract with the Delegate of the Board of Directors and CEO was extended to encompass the period from January 1, 2011 to April 30, 2013. The remuneration was again mainly in shares. The modalities are very similar to the provisions of the first contract. In lieu of salary payments, for the contractual period of employment until April 30, 2013, he was allocated 29,775 shares at the market value on conclusion of the agreement, i.e. CHF 158 each, for the entire term of the agreement. These shares were time-vested until December 31, 2013 and freely available only as of January 1, 2014. 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 to make employee contributions to the pension fund and for social security contributions. The share package and the cash remuneration are deemed to cover all compensations such as bonuses, inflation, options, etc. The corresponding personnel expenses are charged to the income statement over the entire contractual period on a pro rata basis (see note 25 'Employee participation plan' to the consolidated financial statements). The Delegate of the Board of Directors and CEO does not benefit from the Management Investment Plan (MIP) or the share-based payments for the non-executive Board members. The total compensation for the Delegate of the Board of Directors and CEO for the financial year comes to CHF 2,498,646. This figure, reported under 'Other compensation', includes private use of a company car, employer contributions to the pension plan, and to the AHV/ALV (old-age and unemployment insurance), plus accident and daily sickness benefits insurance.

The employment contract with the Delegate of the Board of Directors and CEO, which ends on April 30, 2013, was extended until December 31, 2016. The bulk of the compensation will again be paid in vested shares which have a vesting period of three, four, and five years respectively, and in an annual cash payment of CHF 310,000 to be used for taxes and for employee contributions to the pension fund and social security. The last third of the share-based compensation will not be available until May 1, 2018 at the earliest. The underlying share price used to calculate the number of shares is the weighted average price of the first and last five days on which Forbo Holding shares were traded on the stock market in 2012 (CHF 522.12), less the reduced value as a result of vesting of the shares. The share package corresponds to annual compensation of about CHF 2,200,000 (5,314 shares per annum). The share package and the cash remuneration are deemed to cover all compensations such as bonuses, options, salary adjustments, inflation, etc. This share package may not be either pledged or assigned. No severance payment or compensation in the event of a change of control was agreed.

5) The total compensation paid to the members of the Executive Board (excluding the Delegate of the Board of Directors and CEO) was CHF 3,247,664 million in the year under review. It comprised a gross basic 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 25 'Employee participation plan' to the consolidated financial statements). The total compensation paid to the members of the Executive Board also includes private use of a company car, employer contributions to the pension plan, and to the AHV/ALV (old-age and unemployment insurance) plus accident and daily sickness benefits insurance, which are shown separately in the column 'Other compensation'.

Compensation
For the year 2011[1)]

Name and function	Base compensation Cash CHF	Base compensation Number	Base compensation Shares CHF	Variable compensation Cash, shares, options CHF	Other compensation CHF	Total CHF
Dr. Albert Gnägi, Chairman	230,934	219	154,066		30,116	415,116
Michael Pieper, Vice Chairman	80,831	77	54,169		13,726	148,726
Dr. Peter Altorfer, member	86,609	83	58,391		14,388	159,388
Dr. Reto Müller, member[6)]	47,639	46	32,361		8,428	88,428
Vincent Studer, member	86,609	83	58,391		7,776	152,776
Non-executive members of the Board of Directors[2)]	**532,622**	**508**	**357,378**		**74,434**	**964,434**
This E. Schneider, Delegate of the Board of Directors and CEO[3)4)]	150,000	12,761	2,015,855		331,339	2,497,194
Board of Directors	**682,622**	**13,269**	**2,373,233**		**405,773**	**3,461,628**
Executive Board[5)]	**4,229,999**	**0**	**50,000**	**2,708,000**	**980,620**	**7,968,619**

1) The amounts shown in the table are based on valuation models used and disclosed in the consolidated financial statements. The table therefore shows the entire compensation issued in the reporting year, including compensation for which the payment date or definitive legal title will occur after December 31, 2011.

2) The non-executive members of the Board of Directors receive a fixed fee, the amount of which is determined according to whether the member is Chairman or a simple member of the Board or a member of the AFC or HRC. The cash compensation is shown as a gross amount before deduction of social security 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 for the non-executive members of the Board of Directors also includes a lump-sum for expenses plus employer contributions to the AHV/ALV (old-age and unemployment insurance). These are reported in the column 'Other compensation'.

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

4) With effect from January 2009, the employment contract with the Delegate of the Board of Directors and CEO was extended to encompass the period from January 1, 2011 to April 30, 2013. Compensation is again being paid mainly in shares. The modalities are very similar to the provisions of the first contract. In lieu of salary payments, for the contractual period of employment until April 30, 2013, he was allocated 29,775 shares at the market value on conclusion of the agreement, i.e. CHF 158 each, for the entire term of the agreement. These shares are restricted until December 31, 2013 and freely available only as of January 1, 2014. 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 to make employee contributions to the pension fund and for social security contributions. The share package and the cash remuneration are deemed to cover all compensations such as bonuses, inflation, options, etc. The corresponding personnel expenses are charged to the income statement over the entire contractual period on a pro rata basis (see note 25 'Employee participation plan' to the consolidated financial statements). The Delegate of the Board of Directors and CEO does not benefit from the Management Investment Plan (MIP) or the share-based payments for the non-executive Board members. The total compensation for the Delegate of the Board of Directors and CEO for 2011 came to CHF 2,497,194. This figure, reported under 'Other compensation', includes private use of a company car, employer contributions to the pension plan, and to the AHV/ALV (old-age and unemployment insurance), plus accident and daily sickness benefits insurance.

5) The total compensation paid to the members of the Executive Board (excluding the Delegate of the Board of Directors and CEO) was CHF 7,968,619 in 2011. It comprised a gross basic 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 25 'Employee participation plan' to the consolidated financial statements). The total compensation paid to the members of the Executive Board also includes private use of a company car, employer contributions to the pension plan, and to the AHV/ALV (old-age and unemployment insurance) plus accident and daily sickness benefits insurance, which are shown separately in the column 'Other compensation'.

6) Dr. Reto Müller was elected as a new member of the Board of Directors at the Ordinary General Meeting of April 29, 2011.

Advances and loans

As at December 31, 2012, no advances or loans to members of the Board of Directors or members of the Executive Board were outstanding.

Investments in Group companies

IN 2012

As at December 31, 2012, 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:

Investments 2012

	Shares	Options[1)5)]				
Name and function		Series 2012 1:1[2)]	Series 2011 1:1[2)]	Series 2010 1:1[2)]	Series 2008 1:1[2)]	Tradable options
Dr. Albert Gnägi, Chairman	4,903					
Michael Pieper, Vice Chairman	681,628					
Dr. Peter Altorfer, member	857					
Vincent Studer, member	533					
Dr. Reto Müller, member	322					
Non-executive members of the Board of Directors	**688,243**					
This E. Schneider, Delegate of the Board of Directors and CEO[3)4)]	77,653					
Board of Directors	**765,806**					
Matthias P. Huenerwadel, Executive Vice President Movement Systems	2,095	3,051	2,033	565	1,157	
Daniel Keist, Head Corporate Center	901	1,647	2,707	988	783	
Jörg Riboni, Chief Financial Officer	660	1,243	1,465	1,143	1,948	
Jens Schneider, Executive Vice President Flooring Systems	242	610	907			
Executive Board	**3,898**	**6,551**	**7,112**	**2,696**	**3,888**	

1) The details of the options are described in note 25 'Employee participation plan' to the consolidated financial statements.

2) Subscription ratio.

3) With effect from January 2009, the employment contract with the Delegate of the Board of Directors and CEO was extended to encompass the period from January 1, 2011 to April 30, 2013. The remuneration was again mainly in shares. The modalities are very similar to the provisions of the first contract. The 29,775 shares are contained in the amount shown and are vested until December 31, 2013.

4) The Delegate of the Board of Directors and CEO's shareholdings are disclosed separately and are included under the Board of Directors' total.

5) Since participation in the MIP and option ownership is not limited to the above-mentioned members of the Executive Board, the number of outstanding options shown here as at December 31, 2012, differs from the figures in note 25 'Employee participation plan' to the consolidated financial statements.

IN 2011

As at December 31, 2011, the current and former members of the Board of Directors and the Executive Board (including related parties) held the following number of shares in Forbo Holding Ltd:

Investments 2011

	Shares						Options[1)5)]
		Series 2011	Series 2010	Series 2009	Series 2008	Series 2007	Tradable options
Name and function		1:1[2)]	1:1[2)]	1:1[2)]	1:1[2)]	1:1[2)]	
Dr. Albert Gnägi, Chairman	4,660						
Michael Pieper, Vice Chairman	681,543						
Dr. Peter Altorfer, member	765						
Vincent Studer, member	441						
Dr. Reto Müller, member	246						
Non-executive members of the Board of Directors	**687,655**						
This E. Schneider, Delegate of the Board of Directors and CEO[3)4)]	114,039						
Board of Directors	**801,694**						
Matthias P. Huenerwadel, Executive Vice President Movement Systems	1,686	2,033	565	1,496	1,157		
Tom Kaiser, Chief Operating Officer	1,213	2,684	1,058	2,179	1,073		
Daniel Keist, Head Corporate Center	1,091	2,707	988	2,034	783		
Jörg Riboni, Chief Financial Officer	740	1,465	1,143	1,220	1,948		
Michel Riva, Executive Vice President Bonding Systems	817	872	706	99	485	697	
Jens Schneider, Executive Vice President Flooring Systems	160	907					
Executive Board	**5,707**	**10,668**	**4,460**	**7,028**	**5,446**	**697**	

1) The details of the options are described in note 25 'Employee participation plan' to the consolidated financial statements.
2) Subscription ratio.
3) The number of shares reported includes the 47,395 shares vested until end-2010. With effect from January 2009, the employment contract with the Delegate of the Board of Directors and CEO was extended to encompass the period from January 1, 2011 to April 30, 2013. The remuneration is mainly in shares. The modalities are very similar to the provisions of the first contract. The 29,775 shares are contained in the amount reported and are vested until December 31, 2013.
4) The Delegate of the Board of Directors and CEO's shareholdings are disclosed separately and are included under the Board of Directors' total.
5) Since participation in the MIP and option ownership is not limited to the above-mentioned members of the Executive Board, the number of outstanding options shown here as at December 31, 2011, differs from the figures in note 25 'Employee participation plan' to the consolidated financial statements.

18 Risk assessment

With respect to the risk management process conducted pursuant to Article 663b item 12 of the Swiss Code of Obligations, please refer to the comments in note 38 'Risk assessment and financial risk management' to the consolidated financial statements.

19 Events after the balance sheet date

At the Extraordinary General Meeting of Forbo Holding Ltd of November 5, 2012, the shareholders approved a reduction in capital by CHF 250,000 to CHF 225,000 by cancellation of the shares acquired as a result of the share buyback program approved by the Ordinary General Meeting of April 29, 2011, and the corresponding changes in the Articles of Association. Owing to the legally mandatory notice to creditors, the capital reduction had not yet been entered in the Commercial Register on December 31, 2012. The entry took place on January 17, 2013.

Proposal for appropriation of available earnings of Forbo Holding Ltd

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

	2012	2011
CHF		
Net profit	93,119,606	47,995,804
Retained earnings	112,958,211	242,047,247
Capital reduction		– 30,663,097
Release of general capital contribution reserves[1]	24,632,880	27,585,096
Total at the shareholders' meeting's disposal	**230,710,697**	**286,965,050**

be appropriated as follows:

	2012	2011
CHF		
Withholding tax-free distribution[2]	24,632,880	27,585,096
To be carried forward	206,077,817	259,379,954
Total at the shareholders' meeting's disposal	**230,710,697**	**286,965,050**

1) The definitive amount to be distributed depends on the amount of the tax-free distribution as described below in footnote 2).

2) At the Ordinary General Meeting of April 26, 2013, the Board of Directors will propose a dividend payment of CHF 12.00 (2011: CHF 12.00) per registered share out of the capital contribution reserves, with the exception of the treasury shares held by Forbo Holding Ltd, for which no dividend is paid. The definitive amount may therefore still change.

Report of the statutory auditor

Report of the statutory auditor to the General Meeting of Forbo Holding Ltd, Baar

Report of the statutory auditor on the financial statements
As statutory auditor, we have audited the financial statements of Forbo Holding Ltd, which comprise the income statement, balance sheet, and notes (pages 140 to 148), for the year ended December 31, 2012.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing, and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended December 31, 2012 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (Article 728 CO and Article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with Article 728a Paragraph 1 Item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Daniel Ketterer	Reto Tognina
Audit expert	Audit expert
Auditor in charge	

Zurich, March 13, 2013

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