



# 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 132 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, 2013, 1,937 shareholders were listed in the share register of Forbo Holding Ltd, or 227 (10%) fewer than in the previous year. As of December 31, 2013, Forbo Holding Ltd knew of the following significant shareholders with a holding of more than 3%:

	31.12.2013 as a percentage
Michael Pieper <sup>1)</sup>	30.30
Forbo Holding Ltd <sup>2)</sup>	9.66
This E. Schneider	3.84
UBS Fund Management (Switzerland) AG	3 – 5
Norges Bank	3 – 5

1) Michael Pieper holds his interest directly and indirectly through Artemis Beteiligungen I AG.

2) – First trading line 5.24%, second trading line 4.42%.

– 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).

UBS Fund Management (Switzerland) AG reported to Forbo Holding Ltd on January 8, 2013, that it had exceeded the threshold of 3% and held a total of 99,447 registered shares of Forbo Holding Ltd, equivalent to 3.98% of the voting rights.

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Forbo Holding Ltd reported on January 22, 2013, that, as a result of the implementation of the capital reduction that had been approved by the Extraordinary General Meeting of Forbo Holding Ltd on November 5, 2012, it had fallen below the threshold of 10% as at January 22, 2013, and that it held, directly or indirectly through Forbo International SA, Baar (CH) and Forbo Finanz AG, Baar (CH), 196,117 of its own shares, equivalent to 8.716% of the voting rights. In addition, Forbo Holding Ltd had granted 30,601 purchase rights for 30,601 registered shares of Forbo Holding Ltd, equivalent to 1.36% of the voting rights.

Norges Bank reported to Forbo Holding Ltd on May 23, 2013, that it had exceeded the threshold of 3% and held a total of 67,741 registered shares of Forbo Holding Ltd, equivalent to 3.01% of the voting rights.

No other disclosures were made in 2013.

For further information on significant shareholders or shareholder groups, we refer the reader to the table on page 58 and to page 146 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, 2013, Forbo Holding Ltd had a fully paid up share capital of CHF 225,000, which was divided into 2,250,000 listed registered shares, each with a par value of CHF 0.10. Of this amount:

- 68.88% were registered in the name of 1,911 shareholders with voting rights
- 23.76% were shares of banks or of SIX SIS AG pending registration of transfer
- 7.35% 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 Forbo shares can be found on pages 54 and 55. Further information on the rights of participation associated with shares can be found on pages 70 and 71 of this Annual Report.

At the Extraordinary General Meeting of Forbo Holding Ltd of November 5, 2012, the Board of Directors was authorized to buy back own shares up to a maximum of 10% of the share capital over a period of three years either on a second trading line at the SIX Swiss Exchange or otherwise, with the purpose of extinguishing them at a later stage. The Board of Directors reserves the right to interrupt or terminate the share buyback program if this should become necessary in order to finance external growth. The Board of Directors 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 General Meetings. By December 31, 2012, Forbo Holding Ltd had repurchased 99,470 shares via the second trading line, equivalent to 4.42% of share capital.

#### **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.

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The capital increase takes place in accordance with the Articles of Association through the exercise of option and convertible rights granted in connection with the bonds issued by the company or one of its subsidiaries, or through the exercise of option rights granted to 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**

In 2013, except for the implementation of the decision of the Extraordinary General Meeting of November 5, 2012, there was no change to the capital of Forbo Holding Ltd.

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 of CHF 0.10 each. 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 extinguishing 213,152 shares with a par value of CHF 0.10 each. It was further decided to amend the Articles of Association accordingly.

#### **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/she has acquired the shares in his/her own name and for his/her 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 69, as well as on pages 109 and 110 of this Annual Report.

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## Board of Directors

### Members of the Board of Directors

The cutoff date for the following information is December 31, 2013.

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 Artemis Group (formerly Franke Group) since 1988 and its owner and CEO since 1989. He is a member of the Board of Directors of Hero AG, advalTech Holding AG, 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 47 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 private and foreign banks and unlisted investment and real estate 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 April 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, 2013

	First elected	Elected until OGM <sup>1)</sup>	AFC	HRC
<b>Chairman</b>				
DR. ALBERT GNÄGI	2005	2014	M	C
Non-executive director				
<b>Vice Chairman</b>				
MICHAEL PIEPER	2000	2016	–	M
Non-executive director				
<b>Members</b>				
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				
<b>Secretary of the Board</b>				
NICOLE GRAF				
Non-member				

OGM: Ordinary General Meeting

AFC: Audit and Finance Committee

HRC: Committee for Human Resources and Remuneration

C: Chair

M: Member

1) With the entry into force of the Ordinance against Excessive Remuneration in Listed Public Companies (OaER) on January 1, 2014, the term of office of all members of the Board of Directors ends in 2014. With the exception of Dr. Albert Gnägi, who will reach the statutory retirement age in the spring of 2014 and will therefore step down from the Board of Directors, all members of the Board of Directors will be proposed for re-election for one year at the Ordinary General Meeting on April 25, 2014.

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### **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 26, 2013, Dr. Albert Gnägi and Michael Pieper were re-elected for a term of office of one and three years respectively in individual elections. Further details on the terms of office of the other members of the Board of Directors are contained in the table on page 62. As of 2014, all members of the Board of Directors will be elected in individual votes for a one-year term of office, in accordance with the Ordinance against Excessive Remuneration in Listed Public Companies (OaER). 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. 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 62.

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. 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 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 2013, the Board of Directors met seven times, the meetings usually lasting a whole day.

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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 and the CFO 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 2013 business year, three 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 all 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 2013 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 of Directors 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
- definition of 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



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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, 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 2013 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 any matter 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 in consultation with the CEO; it reports to the HRC through the CEO.

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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 63 and 64.

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 2013 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 CFO 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 2013, 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. Three companies in each division were 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.

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### **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 and business interruption 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 127 to 131 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 pages 127 to 131 (note 37 '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 47 and 48 of this Annual Report.

### **Changes on the Executive Board**

Matthias P. Huenerwadel, who headed the Movement Systems division with great success for seven years, took over the Flooring Systems division as of January 1, 2013. Movement Systems has been headed by Jean-Michel Wins since the start of the year under review. Andreas Spreiter took over the expanded CFO function as of January 1, 2013.

Stephan Bauer was appointed as the new CEO and Chairman of the Executive Board of the Forbo Group as per January 1, 2014. It is planned that This E. Schneider, Delegate of the Board of Directors and CEO, will take over as Executive Chairman of the Board of Directors in the spring of 2014, replacing Dr. Albert Gnägi, who will reach the statutory retirement age in the spring of 2014 and will therefore step down from the Board of Directors.

### **Management contracts**

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

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## Compensation, shareholdings, and loans

### CONTENT AND METHODOLOGY OF DETERMINING THE COMPENSATION AND 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 are locked-up for a 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 126 and 147 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 if 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, and based on 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 25% 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, free cash flow and EBIT. The financial (quantitative) targets for Executive Board members who are in charge of a division are net sales, free cash flow, EBIT, and the net current assets of the division, as well as EBIT at Group level. The financial (quantitative) targets of Executive Board members with corporate functions are consolidated net sales, free cash flow and

EBIT of the Group. The variable component can be a maximum of 200% of the fixed compensation, depending on the function and 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 locked-up 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 the MIP are no longer invested in options and shares as of January 1, 2013, but solely in shares of Forbo Holding Ltd. These shares are subject to a lock-up 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 lock-up 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 lock-up 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 lock-up 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, 2013, the Executive Board held the following options:

Allocation	No. of registered shares	Term	Locked-up until	Subscription ratio	Strike price (CHF)
2010	565	15.03.2010 – 16.03.2015	15.03.2013	1:1	434.75
2011	2,033	01.04.2011 – 02.04.2016	01.04.2014	1:1	733.25
2012	3,051	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 109, 110, 126, 127 as well as 147 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 other usual social insurance benefits.

No severance payments have been agreed with Executive Board members.

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### **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 were locked-up 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 ended on April 30, 2013, was extended until December 31, 2016. The total compensation was described in detail in the 2012 Annual Report. The bulk of the compensation will again be paid in locked-up shares which have lock-up periods of three, four, and five years respectively, and in a cash payment for taxes and for employee contributions to social security. With this share package and this cash remuneration, all compensations such as bonuses, inflation, salary adjustments, options, etc. are settled. This share package may not be either pledged or assigned. The last third of the locked-up shares will be available on May 1, 2018, at the earliest. This compensation model is thus geared to long-term and sustainable corporate development and is fully consistent with the interests of the company and its shareholders.

The Ordinance against Excessive Remuneration in Listed Public Companies (OaER) entered into force on January 1, 2014. According to Article 28 of this ordinance, employment contracts must be adjusted to the OaER by no later than December 31, 2015. Consequently, all payments that had been agreed and were paid out for 2016 have to be reversed by December 31, 2015, at the latest. In order to comply with and implement the provisions of the OaER, Forbo and the Delegate of the Board of Directors have agreed that he will repay Forbo in cash the amount of his fixed compensation for the period from January 1, 2016, to December 31, 2016, plus interest from May 1, 2013, to December 31, 2013. The repayment was made before year-end 2013. The compensation package and the relevant agreements were adjusted accordingly.

The relevant figures for this compensation model are found on pages 126 and 147 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/she has acquired and is holding the shares in his/her own name and for his/her 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.

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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 Paragraph 13 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 2013, 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.

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### **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 0.4 million in 2013. These fees consist in the main of general tax advice.

### **Information instruments of the external auditors**

The external auditors prepare for the CEO and the CFO 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](http://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.



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**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](http://www.forbo.com) → Medien Center → Medienmitteilungen → Subscription Service  
[www.forbo.com](http://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.

Publications may be ordered by e-mail, fax, or telephone.  
E-mail: [communications@forbo.com](mailto:communications@forbo.com)  
Phone +41 58 787 25 25  
Fax +41 58 787 20 25

The contact address for Investor Relations is:  
Forbo International SA  
Urs Christen, Head Corporate Development & Investor Relations  
Lindenstrasse 8  
P.O. Box 1339  
CH-6341 Baar  
Phone +41 58 787 25 25

The contact address for press information is:  
Forbo International SA  
Karin Marti, Head Corporate Communications  
Lindenstrasse 8  
P.O. Box 1339  
CH-6341 Baar  
Phone +41 58 787 25 25