



Dr. Albert Gnägi

Chairman of the Board of Directors

This E. Schneider

Delegate of the Board of Directors and CEO

‘2013 was yet another successful year in a challenging market environment. By launching high-margin collections and innovative products and by penetrating new markets outside the public sector, we significantly strengthened our earning power and further improved the company’s profitability, amid stable sales.’

To our shareholders

Dear Madam, dear Sir,

Forbo again performed well in a challenging and mixed market environment. Flooring Systems to a large extent offset the slump in demand in the public sector and in individual European markets by opening up new market segments. Movement Systems increased sales in all regions and successfully compensated for what was in some cases strong depreciation of currencies in its markets, especially in Japan. After Group sales decreased slightly in the first half, it increased again in the second six months of the year.

The successful launch of high-margin and innovative products and collections, new market opportunities outside the public sector, and further productivity gains enabled Forbo to substantially increase its earning power and profitability, amid stable sales. Both divisions significantly raised both their gross margin and their operating margin on the strength of higher value added and more efficient processes in production and logistics.

Sales at previous year's level

Forbo compensates for weaker demand in the public sector and for currency effects

In the year under review, Forbo generated net sales of CHF 1,199.7 million, about the same as the previous year (previous year: CHF 1,201.1 million). In local currency terms, this reflects a gain of 0.3%, while in the corporate currency it equates to a slight decrease of 0.1%.

Net sales at Flooring Systems came to CHF 873.5 million, just a shade off the previous year's figure (previous year: CHF 873.9 million); this marked a small decline of 0.4% in local currencies and 0.1% in the corporate currency. The division compensated to a large extent for the decrease in net sales in the public sector by opening up new market segments in the private sector and new geographic markets. Flooring Systems saw its sales decline in the first half of the year but they increased in the second half compared with the prior-year period.

Movement Systems generated gratifying sales growth of CHF 326.2 million (previous year: CHF 327.2 million), which came to a gain of 2.4% in local currencies. In the corporate currency, though, net sales decreased slightly by 0.3% owing to negative currency effects, especially in Japan.

Significant increase in operating profit

Strategic focus confirmed

In order to reduce our dependence on public spending and take even greater advantage of the potential in the growth markets, Forbo has launched a number of strategic projects in recent years. Their purpose was to add high-margin products to the product portfolio and to open up new sales channels outside the existing market segments and established geographic markets. In these areas, Forbo posted significantly higher sales growth, especially in the second half of the year.

The focus on high-margin products and the extension of the portfolio have led to a further improvement in the gross margin.

Special effect from accounting restatement

The first-time application of the revised accounting standard IAS 19 in the 2013 business year led to changes in the reporting of pension fund liabilities, and as a result the previous year's figures had to be restated. Accordingly, operating profit (EBIT) increased in the year under review by CHF 1.0 million (previous year: CHF 6.3 million). At the same time land and buildings were recognized at amortized cost. Operating profit (EBIT) accordingly rose by CHF 2.6 million in 2013 (previous year: CHF 2.6 million).

The above-mentioned restatements resulted in an aggregate increase in operating profit (EBIT) in the year under review of CHF 3.6 million (previous year: CHF 8.9 million) and an aggregate increase in Group profit of CHF 2.8 million (previous year: CHF 6.0 million).

Substantial improvement in operating profit

After factoring out the above-mentioned restatement effects, both divisions substantially improved both operating profit before depreciation and amortization (EBITDA) and operating profit (EBIT). The Group's EBITDA rose by 6.5%, while EBIT was up by 12.7%. The EBITDA margin rose by 0.9 percentage points to 14.3%, while the EBIT margin increased by 1.3 percentage points and came to 11.3%.

After application of these restatements, Group EBITDA came to CHF 172.1 million (previous year restated, without special items: CHF 166.9 million), while EBIT stood at CHF 135.7 million (previous year restated, without special items: CHF 126.1 million).

Significant increase in Group profit

Above-average financial result

Forbo's strong balance sheet enables it to invest some of its surplus liquidity in the capital markets. The strong capital markets were instrumental in Forbo's financial profit of CHF 5.2 million (previous year CHF –5.5 million).

On the back of the considerably improved operating result plus the gratifying financial result, Group profit from continuing operations rose significantly by 19.2% prior to the application of the revised accounting standard. After the restatements, Group profit from continuing operations came to CHF 110.2 million (previous year restated, without special items: CHF 96.1 million).

Strong balance sheet

Net cash and equity ratio increase further

In the year under review, Forbo increased net cash from CHF 258.3 million to CHF 306.9 million. In addition, as at December 31, 2013, Forbo held treasury shares valued at CHF 165.6 million at the year-end share price. The equity ratio rose significantly to 69.8% (previous year restated: 60.1%).

Strong foundation for growth opportunities

With our focused market leadership, our sound balance sheet and our systematically implemented strategy, we are well placed to force the pace of expansion in growth markets while also taking advantage of external growth opportunities in order to position Forbo more strategically. However, we will make acquisitions only if we can thereby create added value for our shareholders. For the time being, we are holding the liquidity as a strategic reserve. The high level of net cash, plus cash generated in future from operations, enable the Board of Directors to make further share buybacks without restricting the Group's scope for future acquisitions.

Proposals to the Ordinary General Meeting

The Ordinance against Excessive Remuneration in Listed Public Companies entered into force on January 1, 2014. The ordinance allows a transition period until the end of 2015. The Board of Directors has decided to present a comprehensive amendment of the Articles of Association at the Ordinary General Meeting on April 25, 2014. The amendment of the articles of association and the implementation of the ordinance will affect the course of the forthcoming Ordinary General Meeting.

Change in the Chair of the Board of Directors

As announced a year ago, Dr. Albert Gnägi, who has been Chairman of the Board of Directors for the past nine years, will not stand for re-election at the Ordinary General Meeting in spring 2014 as he will have then reached the statutory age of retirement. The Board of Directors proposes to the Ordinary General Meeting the election of This E. Schneider, who has been Delegate of the Board of Directors and CEO for the past ten years, as Executive Chairman of the Board.

Elections to the Board of Directors

At the same time, the Board of Directors proposes electing Claudia Coninx-Kaczynski as a new member of the Board of Directors. She has a degree in law from the University of Zurich and a Master of Law from the London School of Economics. Amongst others, Claudia Coninx-Kaczynski is also a member of the Board of Directors of Tamedia AG.

All the other current members of the Board of Directors are proposed for re-election for a term of one year.

Increase in the dividend from CHF 12 to CHF 14

The Board of Directors will propose to the Ordinary General Meeting the distribution of a dividend of CHF 14 per share for 2013 (previous year: CHF 12). This dividend will be paid out to shareholders as a tax-exempt distribution from capital contribution reserves.

Share buyback program

The Board of Directors will propose to the Ordinary General Meeting that the treasury shares that have been repurchased on the SIX Swiss Exchange via the second trading line be destroyed. The Board of Directors will also propose that over the next three years further treasury shares up to 10 percent of the total share capital be repurchased in order to reduce capital. The repurchase shall take place via a second trading line on the SIX Swiss Exchange or via some other means.

Strengthened for 2014

Long-term succession planning

In connection with the change of the Chairman of the Board of Directors, Stephan Bauer was appointed as the new CEO and Chairman of the Executive Board of the Forbo Group starting on January 1, 2014. He joined our company in September 2013 and has spent this time preparing in depth for his new role. The division of responsibilities between the Executive Chairman of the Board and the CEO is described on page 49 of this Annual Report.

Outlook for 2014

On balance, we anticipate a slightly improved, though very mixed, economic environment in the coming business year. Our two divisions are very well positioned, and we can call on the necessary resources to enable us to implement our strategy systematically and to focus on achieving operational excellence and an impressively strong market performance.

Barring any significant change in the current economic conditions, especially with regard to exchange rates and raw material prices, we expect a slight increase in sales and somewhat higher Group profit from continuing operations in the 2014 business year compared with the year 2013.

Thank you

Thanks to employees, business partners, and shareholders

Owing to close cooperation at all levels, we succeeded in taking advantage of opportunities in growth markets and new customer segments. Our sincere thanks to all our employees whose firm commitment has made this possible.

We also wish to thank our customers and business partners for their professionalism and the confidence they have placed in our company.

On behalf of the Board of Directors and the Executive Board, we thank you, too, dear shareholders, for the deep trust and loyalty you show to Forbo.

Baar, March 2014



Dr. Albert Gnägi
Chairman of the Board of Directors



This E. Schneider
Delegate of the Board of Directors

Financial calendar

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| Ordinary General Meeting: | April 25, 2014 |
| Publication of Half-Year Report 2014: | August 19, 2014 |
| Publication of Annual Report 2014: | March 17, 2015 |