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Half-Year Report 2014

Strong organic sales growth

Profitability further strengthened

Double-digit growth in Group profit again

Outlook for 2014 confirmed

flooring. movement.

forbo

The Forbo Group – a leading manufacturer of floor coverings, building and construction adhesives, as well as power transmission and conveyor belt solutions – reported net sales of CHF 603.0 million in the first half of 2014 (prior-year period: CHF 592.5 million). In local currencies, this represents strong organic growth of 5.0%. Forbo again reported a double-digit increase in operating profit (EBIT), which rose by 12.2% to CHF 65.3 million (prior-year period, restated: CHF 58.2 million). The EBIT margin also improved significantly to 10.8% (prior-year period, restated: 9.8%). Group profit from continuing operations amounted to CHF 53.6 million (prior-year period, restated: CHF 47.8 million), which is equivalent to a significant increase of 12.1%.

Dear shareholders,

Forbo reports good results again in the first half of 2014, even though market conditions were mixed. Both divisions generated strong organic sales growth in local currencies, on the back of our strong positions in the relevant markets, the successful and sustained expansion of our operations in growth markets, and our attractive and innovative product portfolio. In particular, the focus on developing market segments not dependent on public spending at Flooring Systems and the development of new product offerings at Movement Systems were successful.

The higher sales, combined with further productivity gains along the entire value chain, produced a significant increase in margins and a disproportionately large rise in earnings.

Due to the adjustment made at the end of 2013 to the valuation of land and buildings at amortized cost, the relevant items have been restated in the prior-year period.

Strong organic sales growth in local currencies

In the first six months of 2014, Forbo maintained the good pace of sales growth achieved in the second half of 2013. In the first half of 2014, Forbo generated significantly higher net sales of CHF 603.0 million (prior-year period: CHF 592.5 million), reflecting an increase of 5.0% in local currencies (+ 1.8% in the corporate currency). Negative currency effects, particularly owing to the Japanese yen and the US dollar, caused a reduction of about CHF 20 million in net sales reported in the corporate currency. Flooring Systems grew its sales in local currencies by 4.2% (+ 1.6% in the corporate currency). Movement Systems reported a significant increase in sales of 7.0% in local currencies (+ 2.1% in the corporate currency).

In both divisions, the investments in growth markets made in recent years have had a positive impact on the sales trend.

Profitability further strengthened
Despite the ongoing expansion of our activities in growth markets along with considerable expenditures for the development of high-value products and global market launches, we succeeded in significantly increasing profitability in both divisions. The contributing factors were higher sales and further productivity gains all along the value chain.

Operating profit before depreciation and amortization (EBITDA) came to CHF 83.2 million (prior-year period, restated: CHF 76.6 million), corresponding to an increase of 8.6%. The EBITDA margin improved to 13.8% (prior-year period, restated: 12.9%). Operating profit (EBIT) came to CHF 65.3 million, compared with CHF 58.2 million in the same period in 2013 (restated), corresponding to a significant increase of 12.2%. The EBIT margin improved to 10.8% (prior-year period, restated: 9.8%).

Double-digit growth in Group profit again
Group profit from continuing operations amounted to CHF 53.6 million (prior-year period, restated: CHF 47.8 million), which is equivalent to a significant increase of 12.1%.

Share buybacks resulted in earnings accretion. Earnings per share from continuing operations (undiluted) therefore rose disproportionately by 13.7% to CHF 26.36 (prior-year period, restated: CHF 23.19).

Further increase in equity ratio
Shareholders' equity, already at a high level, was further strengthened despite the share repurchases. Equity rose by CHF 11.4 million to CHF 798.2 million compared with the beginning of the year. The equity ratio rose to 70.4%.

High level of net cash
Net cash came to CHF 255.3 million as at June 30, 2014. In addition, Forbo held treasury shares worth CHF 215.5 million, based on the share price at the end of June 2014. The strong balance sheet coupled with the high level of net cash enables Forbo not only to engage in the approved share buyback program but also to take advantage of external growth opportunities if they can generate value for the shareholders.

Performance of the divisions
The **Forbo Flooring Systems** division reported net sales of CHF 437.2 million in the first half of 2014 (prior-year period: CHF 430.2 million), which is equivalent to a sales increase of 4.2% in local currencies (+ 1.6% in the corporate currency). The division maintained the positive sales trend of the second half of 2013 into the first six months of 2014. In particular, alongside expansion in the growth markets, the launch of new collections targeted to specific customer segments not related to the public sector such as shop fitting, offices, hotels, and restaurants have given sales a positive impetus. Compared with the prior-year period, demand in Europe and North America has stabilized and even increased slightly. The ongoing weakness of the construction industry in the Netherlands and the related muted demand for building and construction adhesives continue to be a challenge for the building and construction adhesives activity.

Based on the strong sales performance and various productivity improvements, operating profit (EBIT) rose significantly by 12.1% to CHF 52.7 million (prior-year period, restated: CHF 47.0 million). The EBIT margin rose to 12.1% (prior-year period, restated: 10.9%). The focus in the coming months will be on the continued expansion of our activities in the growth markets, intensified marketing efforts in new market segments not dependent on public spending, and the successful marketing of the new collections we have just launched.

The **Forbo Movement Systems** division reported net sales of CHF 165.8 million in the first half of 2014 (prior-year period: CHF 162.3 million), which is equivalent to a significant sales increase of 7.0% in local currencies (+ 2.1% in the corporate currency). All regions contributed to this gratifying growth. Demand received positive stimuli from the double-digit growth rates in the growth markets, especially Asia/Pacific. Europe and North America also made gratifying progress.

Operating profit (EBIT) rose by CHF 4.9% to CHF 17.0 million (prior-year period, restated: CHF 16.2 million). The EBIT margin increased to 10.3% (prior-year period, restated: 10.0%). In the second half of the year, the division will continue to focus on expanding its activities in growth markets, targeted extensions of its product offering, and the development of new, innovative applications. At the same time, its task will be to shape global processes in the value chain even more efficient.

Outlook for 2014 confirmed

Our estimates for the current year have not changed since March. Owing to the strong growth rates in the second half of 2013, achieving our target for the full year 2014 will still be challenging despite the good start in the first half of 2014.

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 net sales and once again somewhat higher Group profit from continuing operations for the full 2014 business year compared with the previous year.

This E. Schneider
Executive Chairman

Stephan Bauer
CEO

Forbo Holding Ltd
Baar, August 19, 2014

Consolidated balance sheet and income statement

Condensed consolidated income statement

Unaudited, CHF m	30.6.2014	31.12.2013
Assets		
Non-current assets	**401.6**	**408.2**
Property, plant, and equipment and intangible assets	372.6	378.7
Deferred tax assets, investments in associates, and other non-current assets	29.0	29.5
Current assets	**731.4**	**718.8**
Inventories	237.3	213.4
Trade and other receivables, deferred income, and prepaid charges	236.5	196.3
Other current financial instruments	67.5	68.1
Cash and cash equivalents	190.1	241.0
Total assets	**1,133.0**	**1,127.0**

Shareholders' equity and liabilities

Shareholders' equity	**798.2**	**786.8**
Non-current liabilities	**107.4**	**99.1**
Non-current financial debt	1.2	1.2
Employee benefit obligations, non-current provisions, and deferred tax liabilities	106.2	97.9
Current liabilities	**227.4**	**241.1**
Trade payables	61.6	87.2
Current financial debt	1.0	0.7
Current provisions, accrued expenses, current tax and other liabilities	164.8	153.2
Total liabilities	**334.8**	**340.2**
Total shareholders' equity and liabilities	**1,133.0**	**1,127.0**

Condensed consolidated income statement

Unaudited, CHF m	First half 2014	First half 2013 (restated)
Continuing operations		
Net sales	**603.0**	**592.5**
Cost of goods sold	– 372.8	– 367.7
Gross profit	**230.2**	**224.8**
Operating expenses	– 164.9	– 166.6
Operating profit	**65.3**	**58.2**
Financial result	2.1	0.9
Group profit before taxes	**67.4**	**59.1**
Income taxes	– 13.8	– 11.3
Group profit from continuing operations	**53.6**	**47.8**
Group profit from discontinued operations after taxes	**0.2**	**–**
Group profit	**53.8**	**47.8**
Earnings per share total		
Basic earnings per share in CHF	26.47	23.19
Diluted earnings per share in CHF	26.44	23.19
Earnings per share from continuing operations		
Basic earnings per share in CHF	26.36	23.19
Diluted earnings per share in CHF	26.33	23.19
Earnings per share from discontinued operations		
Basic earnings per share in CHF	0.11	–
Diluted earnings per share in CHF	0.11	–

The accompanying notes are an integral part of the Half-Year Report.

Comprehensive income statement and consolidated shareholders' equity

Comprehensive income statement

Unaudited, CHF m	First half 2014	First half 2013 (restated)
Group profit	**53.8**	**47.8**
Items that will not be reclassified to the income statement		
Remeasurements of defined benefit plans, net of taxes	– 4.6	1.9
Items that may be subsequently reclassified to the income statement		
Translation differences	3.4	2.6
Fair value adjustment of cash flow hedges	–	0.0
Other comprehensive income, net of tax	**– 1.2**	**4.5**
Total comprehensive income	**52.6**	**52.3**

Consolidated shareholders' equity
First half 2014

Unaudited, CHF m	Share capital	Treasury shares	Reserves	Reserves from cash flow hedges	Translation differences	Total
January 1, 2014	**0.2**	**– 0.1**	**1,031.5**	**0.0**	**– 244.8**	**786.8**
Group profit			53.8			53.8
Other comprehensive income, net of tax			– 4.6		3.4	– 1.2
Total comprehensive income			**49.2**		**3.4**	**52.6**
Share-based payments			1.2			1.2
Treasury shares		– 0.0	– 13.8			– 13.8
Dividend payment			– 28.6			– 28.6
June 30, 2014	**0.2**	**– 0.1**	**1,039.5**	**0.0**	**– 241.4**	**798.2**

Consolidated shareholders' equity
First half 2013 (restated)

Unaudited, CHF m	Share capital	Treasury shares	Reserves	Reserves from cash flow hedges	Translation differences	Total
January 1, 2013	**0.3**	**– 0.1**	**965.6**	**0.0**	**– 236.6**	**729.2**
Group profit			47.8			47.8
Other comprehensive income, net of tax			1.9		2.6	4.5
Total comprehensive income			**49.7**		**2.6**	**52.3**
Share-based payments			1.4			1.4
Treasury shares	– 0.1	0.0	8.7			8.6
Dividend payment			– 24.9			– 24.9
June 30, 2013	**0.2**	**– 0.1**	**1,000.5**	**0.0**	**– 234.0**	**766.6**

The accompanying notes are an integral part of the Half-Year Report.

Consolidated cash flow statement

Condensed consolidated cash flow statement		
Unaudited, CHF m	First half 2014	First half 2013
Cash flow from operating activities	**1.7**	**–2.2**
Cash flow from investing activities	**–4.7**	**–2.3**
Cash flow from financing activities	**–48.5**	**–24.0**
Decrease (–) in cash and cash equivalents	–51.5	–28.5
Translation differences on cash and cash equivalents	0.6	0.2
Cash and cash equivalents at beginning of year	241.0	251.3
Total cash and cash equivalents as at June 30	**190.1**	**223.0**

The accompanying notes are an integral part of the Half-Year Report.

Notes to the condensed consolidated half-year financial statements (unaudited)

01 General information

This condensed consolidated interim report covers the six-month period from January 1, 2014, to June 30, 2014 (hereinafter 'reporting period'), and was drawn up in accordance with the International Accounting Standard 34 (IAS 34) 'Interim Financial Reporting'. The consolidated half-year financial statements do not include all information reported in the consolidated full-year financial statements and should therefore be read in conjunction with the consolidated financial statements as at December 31, 2013.

The consolidated half-year financial statements have not been audited by the auditors. They were approved for publication by the Board of Directors on August 18, 2014.

02 Group accounting principles

The accounting principles applied in the consolidated Half-Year Report are in line with the accounting policies set out in the 2013 Annual Report with the following exceptions:

The following new and revised standards and interpretations were first applied by the Group as at January 1, 2014:

- IAS 32 (revised) 'Offsetting Financial Assets and Financial Liabilities'
- IAS 36 (revised) 'Recoverable Amount Disclosures for Non-Financial Assets'
- IAS 39 (revised) 'Novation of Derivatives and Continuation of Hedge Accounting'

The first-time adoption of the above-mentioned IAS standards had no impact on the Half-Year Report presented here.

As of the 2013 reporting year, land and buildings are recognized at amortized cost and no longer at fair value at the date of revaluation, less cumulative depreciation and impairments. The retrospective application required an adjustment to the opening balance as at January 1, 2012, as if the valuation method had always been applied. The resulting restatement according to IAS 8 reduced the cost of goods sold by CHF 1.0 million and administrative costs by CHF 0.3 million in the first half of the previous year. Operating profit and Group profit from continuing operations were therefore CHF 1.3 million and CHF 0.9 million higher, respectively.

Standards, interpretations or amendments that have been published but are not yet mandatory have not been early adopted.

The preparation of the consolidated half-year financial statements requires management to use estimates and assumptions that may affect reported revenues, expenses, assets, liabilities, and contingent liabilities at the date of the financial statements. If the estimates and assumptions used by management to the best of its knowledge at the date of the financial statements happen to differ from subsequent actual facts, the original estimates and assumptions will be adjusted in the reporting period in which the facts have changed. The consolidated half-year financial statements do not contain any significant new estimates and assumptions used by management compared with the consolidated financial statements as at December 31, 2013.

Earnings and expenses which are not incurred on a straight-line basis during the business year are only deferred if such deferral was justified at year-end. Income tax expenditure is estimated on the basis of average actual tax rates during the current business year.

03 Segment information

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 that they manufacture, distribute, and sell differ fundamentally in terms of production, distribution, and marketing.

Flooring Systems develops, produces, and sells linoleum, vinyl floorings, entrance matting systems, carpet tiles, needle felt floor coverings, Flotex – the washable textile flooring – as well as the various accessory products required for installing, processing, cleaning, and care of flooring. Movement Systems develops, produces, and sells high-quality conveyor and processing belts, plastic modular belts, as well as timing and flat belts made of synthetic materials. 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 Movement Systems divisions are reportable segments. The identification of reportable segments is based on internal management reporting to the Group's Executive Chairman and its Chief Executive Officer 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.

The Executive Chairman and the Chief Executive Officer assess the performance of the segments based on their operating result (EBIT). The net financial result is not allocated to the divisions since it is Corporate Treasury that in the main exercises central control over the financial result.

First half 2014

Unaudited, CHF m	Flooring Systems	Movement Systems	Corporate/ Elimination	Total
Total net sales	437.2	165.8	–	603.0
Inter-segment sales	–	–	–	–
Net sales to third parties	**437.2**	**165.8**	**–**	**603.0**
Operating profit (EBIT)	**52.7**	**17.0**	**– 4.4**	**65.3**
Operating assets	**603.5**	**220.4**	**22.5**	**846.4**
Number of employees (June 30)	**3,127**	**2,000**	**41**	**5,168**

First half 2013 (restated)

Unaudited, CHF m	Flooring Systems	Movement Systems	Corporate/ Elimination	Total
Total net sales	430.2	162.3	–	592.5
Inter-segment sales	–	–	–	–
Net sales to third parties	**430.2**	**162.3**	**–**	**592.5**
Operating profit (EBIT)	**47.0**	**16.2**	**– 5.0**	**58.2**
Operating assets	**598.9**	**222.3**	**30.8**	**852.0**
Number of employees (June 30)	**3,088**	**1,950**	**41**	**5,079**

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

Unaudited, CHF m	First half 2014	First half 2013 (restated)
Segment result (EBIT)	**65.3**	**58.2**
Financial result	2.1	0.9
Group profit before taxes	**67.4**	**59.1**

Unaudited, CHF m	30.6.2014	31.12.2013 (restated)
Total operating assets	**846.4**	**788.4**
Non-operating assets	286.6	338.6
Total assets	**1,133.0**	**1,127.0**

04 Balance sheet

Total assets as at June 30, 2014, increased slightly by CHF 6.0 million versus the end of the previous year to CHF 1,133.0 million.

Property, plant, and equipment declined by CHF 7.5 million to CHF 224.8 million because investments in fixed assets amounting to CHF 9.6 million in the first half of 2014 were lower than depreciation. The investments were primarily related to maintenance and efficiency improvement projects.

The increase in inventories and trade and other receivables, deferred income, and prepaid charges totaling CHF 64.1 million was mainly timing-related.

Liquidity holdings came to CHF 190.1 million as at June 30, 2014.

Current financial instruments, compared with the balance-sheet date as at December 31, 2013, remain the only essential financial instruments valued at recurring fair value. These are listed securities that are allocated to the first fair-value hierarchy level.

Compared with December 31, 2013, shareholders' equity increased by CHF 11.4 million to CHF 798.2 million. The increase in shareholders' equity by the amount of Group profit of CHF 53.8 million was offset in part by the tax-free dividend of CHF 28.6 million and changes in the item 'Treasury shares', amounting to CHF 13.8 million. The equity ratio rose to 70.4% as at June 30, 2014.

05 Income statement

Operating profit (EBIT) in the reporting period came to CHF 65.3 million, which was CHF 7.1 million higher than in the prior-year period.

In the reporting period, the financial result amounted to CHF 2.1 million, which was CHF 1.2 million better than the previous year. The improvement in financial income in the year under review was due to capital gains and income from securities.

Income tax amounted to CHF 13.8 million, corresponding to a tax rate of 20.5%. The tax rate in the prior-year period was 19.1%.

The resulting Group profit from continuing operations came to CHF 53.6 million, which is CHF 5.8 million or 12.1% higher than the restated prior-year result.

Group profit from discontinued operations amounted to CHF 0.2 million and was related to the sale of the industrial adhesives activity to H.B. Fuller Company completed in the 2012 business year.

Undiluted earnings per share on the basis of the average number of outstanding shares amounted to CHF 26.47 in the reporting period. Diluted earnings per share (adjusted for the dilution effect of outstanding options) came to CHF 26.44.

06 Cash flow statement

Free cash flow in the reporting period was barely minus at CHF – 3.0 million. Cash flow from operating activities was only slightly positive owing to the increase in net operating working capital.

Cash flow from investing activities contains the cash outflow of CHF 9.6 million for investments in property, plant, and equipment and inflows of CHF 4.9 million from divestments of property, plant, and equipment and financial instruments.

Cash flow from financing activities reflects primarily the repayment of capital contribution reserves of CHF 28.6 million and a net cash outflow totaling CHF 20.1 million from treasury shares.

07 Main exchange rates applied

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

			Income statement (average exchange rates for 6 months)		Balance sheet (exchange rates on balance-sheet date)	
Exchange rates			**2014**	**2013**	**30.6.2014**	**31.12.2013**
Euro zone	EUR	1	1.2214	1.2296	1.2163	1.2256
USA	USD	1	0.8909	0.9365	0.8936	0.8915
Great Britain	GBP	1	1.4865	1.4459	1.5215	1.4698
Japan	JPY	100	0.8692	0.9820	0.8785	0.8478

08 Contingent liabilities

The Group's contingent liabilities have not changed significantly compared with December 31, 2013.
As announced in a media release on July 3, 2013, the activity of Forbo Flooring Systems in France is being investigated by the French competition authorities. The investigation affects the flooring market in France and was instituted on suspicion of anti-competitive practices by leading manufacturers. As the investigation is ongoing, the Group is unable to provide any further information at present or estimate the possible repercussions.

09 Events after the balance sheet date

At the Ordinary General Meeting on April 25, 2014, the shareholders of Forbo Holding Ltd voted to reduce the share capital of CHF 225,000 to CHF 215,000 by cancellation of the 100,000 registered shares repurchased through the share buyback program approved at the Extraordinary General Meeting on November 5, 2012. The capital reduction was completed with the entry in the Commercial Register of the Canton of Zug on July 4, 2014, and was published in the SHAB on July 9, 2014. The stock exchange adjustment took place on the same day.

Calendar

Media and financial analysts' conference for the 2014 business year:	Tuesday, March 17, 2015
Ordinary General Meeting:	Friday, April 24, 2015

Our Half-Year Report is published in German and in English translation.

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