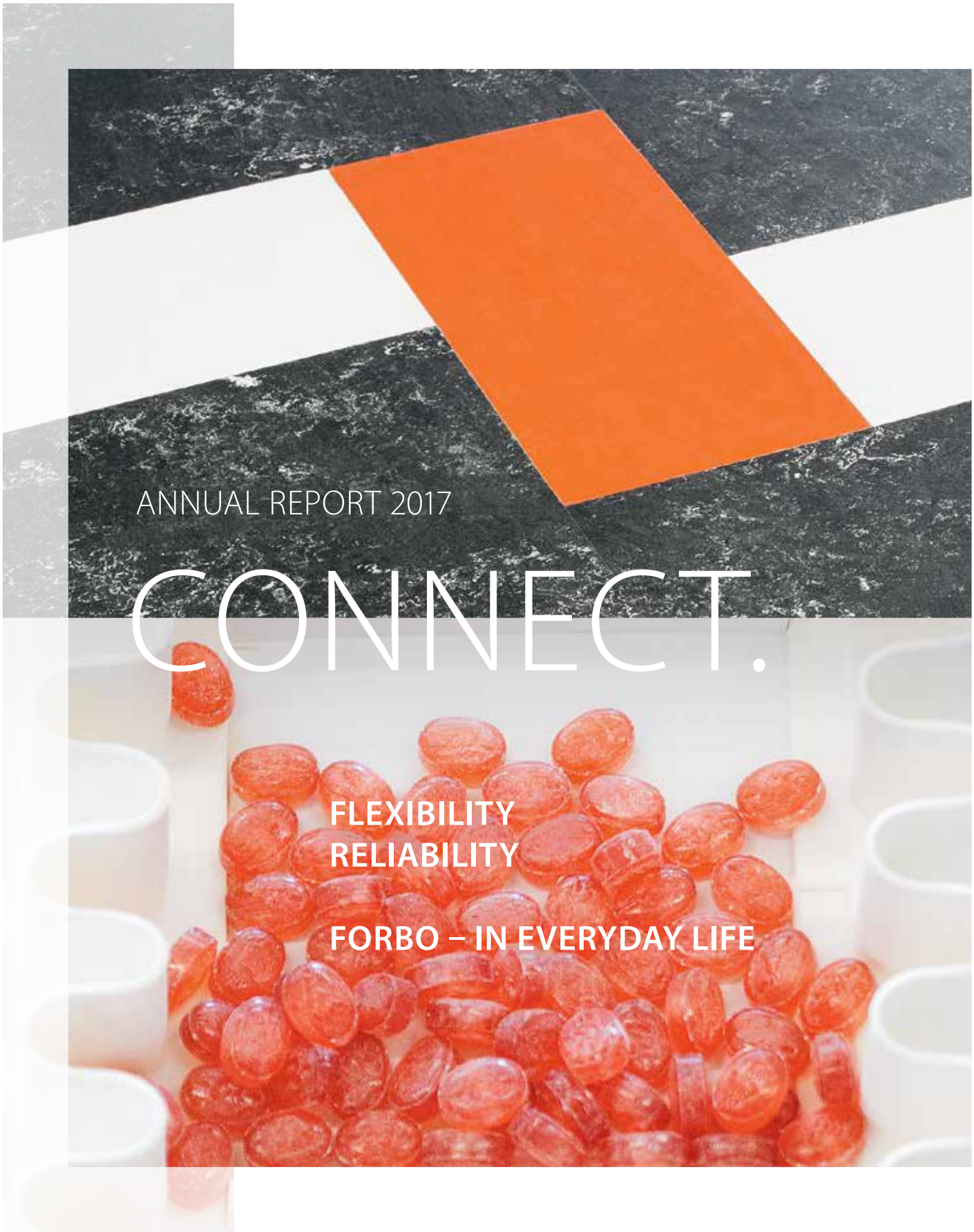


ANNUAL REPORT 2017

CONNECT.

FLEXIBILITY
RELIABILITY

FORBO – IN EVERYDAY LIFE

flooring. movement.

forbo

FLEXIBILITY.

High-quality floor coverings are distinguished by good design and optimum integration in the room. Thanks to long years of experience, sound know-how and innovative technology, we offer the right floor coverings for the widest possible range of needs in optimum execution and the most modern designs. With our diverse product portfolio we can always offer our customers and sales partners the right applications for every area of a building.


forbo
FLOORING SYSTEMS

Siegling – total belting solutions

RELIABILITY.

For every production and processing constellation, we elaborate the individually appropriate solution. This is also necessary in the food production industry where especially strict hygiene regulations apply. Small goods such as candies have to be carefully conveyed so that they reach their final destination without being damaged in the production process. With individual finishing options for the widest possible range of applications, we can guarantee careful transport and the cleanliness of your product.

forbo

MOVEMENT SYSTEMS

This E. Schneider
Executive Chairman

Stephan Bauer
CEO

'Forbo raised sales significantly in 2017. Both divisions again improved operating profit through operations. Movement Systems built a new, state-of-the-art production plant in China, which will provide additional capacity for conveyor belts, mainly for the Asia/Pacific region. The plant is slated to come on stream mid-2018. The high-tech 3-D digital printing machine installed in the spring of 2017 is enabling Flooring Systems to roll out unique Flotex designs.

We once again selectively broadened our portfolio with innovative products and particularly expanded our distribution and service structures. These efforts are reflected in the company's strong sales growth.'

TO OUR SHAREHOLDERS

Dear Madam, dear Sir,

Forbo increased net sales significantly in 2017 amid challenging market conditions. It again improved operating profit before one-off costs despite higher raw material prices. Both divisions were instrumental in this success.

An investigation by the French antitrust authorities that has been going on for several years concerning the exchange of information by various flooring producers – going back to 1990 – was concluded in the year under review with a payment of EUR 75 million. This was an isolated event relating to a subsidiary of Flooring Systems in France. Forbo cooperated closely with the French authorities and supported them in establishing the facts of the case. We have up-to-date compliance rules, and under no circumstances do we accept violations of the law or of ethical codes of conduct. We have extended training and have tightened our directives and regulations. This event, which we carried in our financial reporting as a contingent liability until the 2017 Half-Year Report and which we booked at the end of June 2017, had a major impact on the 2017 results.

The construction of one of our largest and most modern production plants in Pinghu, China, which is slated to come on stream mid-2018, has created additional capacity for Transilon conveyor belts, mainly for the Asia/Pacific region.

We gained market share in important market segments despite challenging conditions by systematically implementing our strategy and generating added value with products and services for our customers. Ongoing optimization of global processes along the entire value chain enabled us to largely offset the expansion costs and higher prices for raw materials.

When the results in local currencies were translated into the corporate currency, the currency effect was slightly positive on balance compared with the previous year.

Significant growth in sales

Strong sales growth in both divisions
In the year under review, Forbo generated net sales of CHF 1,246.4 million (previous year: CHF 1,185.5 million) which represents an increase of 5.1%, or 4.3% in local currencies, due to slightly positive currency effects. Both divisions contributed to this solid growth.

The net sales of Flooring Systems rose by 4.7% to CHF 856.6 million (previous year: CHF 818.0 million). This represents an increase of 3.7% in local currencies. The innovative flooring collections launched in 2017 impressed customers and were instrumental in producing this positive development. We backed this up by selectively expanding our distribution structures.

Movement Systems reported net sales of CHF 389.8 million (previous year: CHF 367.5 million), another encouraging increase of 6.1%, or a gain of 5.8% in local currencies. The increase was driven by high-quality, application-specific product innovations along with the ongoing expansion of distribution and service structures, particularly in growth markets.

Operating profit confirmed

Profitability remains strong
Operating profit before depreciation and amortization (EBITDA) and before one-off costs in connection with the antitrust proceedings against Flooring Systems in France increased by CHF 8.1 million, or 4.2%, to CHF 201.0 million (previous year: CHF 192.9 million). Group operating profit (EBIT) before one-off costs rose by CHF 6.1 million, or 3.9%, to CHF 163.3 million (previous year: CHF 157.2 million). The EBITDA margin declined slightly from 16.3% to 16.1%, and the EBIT margin from 13.3% to 13.1%, owing to higher raw material prices.

Factoring in one-off costs, operating profit before depreciation and amortization (EBITDA) came to CHF 117.6 million (previous year: CHF 192.9 million), while operating profit (EBIT) stood at CHF 79.9 million (previous year: CHF 157.2 million).

Tax effects significantly impact Group profit

Profitability impacted by one-off effects
Group profit from continuing operations before one-off costs declined by CHF 7.8 million to CHF 119.8 million (previous year: CHF 127.6 million) owing in particular to higher taxes. The higher tax charge was predominantly due to the sale of Forbo treasury shares. The sale produced a profit of a high double-digit million amount, which was not recognized in the income statement but rather credited directly to shareholders' equity. The federal tax on capital gains, however, was booked in the income statement. Additionally, financial income in fiscal 2017 was CHF 1.8 million lower than the previous year owing to foreign currency effects.

Factoring in one-off costs, Group profit from continuing operations came to CHF 36.5 million (previous year: CHF 127.6 million), while Group profit stood at CHF 38.7 million (previous year: CHF 127.6 million).

Balance sheet remains robust

High net liquidity
Net liquidity at year-end stood at CHF 195.0 million (previous year: CHF 209.2 million) despite high capital expenditure of CHF 57.8 million – in particular to expand capacity – and a cash outflow of EUR 75.0 million in the wake of the antitrust proceedings against Flooring Systems in France. In addition, as at December 31, 2017, Forbo held 95,556 treasury shares valued at year-end at CHF 143.8 million (previous year: CHF 118.4 million). Of these, 63,105 shares are earmarked for a capital reduction.

The equity ratio still remains at a high 61.9% (previous year: 62.8%).

Undiluted earnings per share from continuing operations before one-off costs decreased by 7.1% to CHF 69.34 (previous year: CHF 74.66). Factoring in the one-off costs, undiluted earnings per share from continuing operations came to CHF 21.10.

Share buyback program
The share buyback program approved by the 2017 Ordinary General Meeting for a maximum of 10 percent of the share capital will remain in effect unchanged. The program is scheduled to end at the Ordinary General Meeting in 2020. To date, 63,105 shares have been repurchased at an average price of CHF 1,430.

Solid foundation for profitable growth opportunities
Our strong global presence – which we have bolstered with the new Movement Systems plant in Pinghu, China – as well as our solid balance sheet, and our systematic implementation of the Forbo strategy enable us to forge ahead with expansion in growth markets and, where appropriate, to capitalize on external growth opportunities. However, we will make acquisitions only if doing so creates added value for our shareholders.

Proposals to the Ordinary General Meeting

Re-elections to the Board of Directors
All the current members of the Board of Directors will stand for re-election for a further one-year term of office.

Stable dividend
The Board of Directors will propose to the Ordinary General Meeting the distribution of a dividend for 2017, unchanged from the previous year, of CHF 19 per share.

In good shape for 2018

Outlook for 2018
For the 2018 business year we expect market conditions to be similar to 2017. We still face significant challenges, especially as we are present in a range of different global markets. Economic and – especially – political circumstances can change quickly. We will stick to our tried-and-tested strategy, convince our customers with our strong brand plus our high-quality products and services, and further expand our global presence.

Against this background and provided the currency situation remains unchanged and the economic environment remains similar, for 2018 we anticipate a slight increase in net sales and Group profit from continuing operations before one-off costs (2017: CHF 119.8 million) and special tax effects of CHF 7.8 million (2017: CHF 127.6 million).

Thank you

Thanks to employees, business partners, and shareholders
Close cooperation at all levels, the committed and professional attitude of our employees, and their flexibility were the major factors contributing to operational success in the year under review. Many thanks for this effort.

We also wish to thank our customers, business partners, and suppliers for the good cooperation 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 ongoing trust and loyalty you show to Forbo.

Baar, March 2018

This E. Schneider
Executive Chairman

Stephan Bauer
CEO

Financial calendar

Ordinary General Meeting	**April 6, 2018**
Publication of 2018 Half-Year Report	**July 27, 2018**
Publication of 2018 Annual Report	**March 5, 2019**

CONTENTS

AT A GLANCE

2017 AT A GLANCE

FORBO IS A LEADING PRODUCER OF FLOOR COVERINGS, BUILDING AND CONSTRUCTION ADHESIVES, AS WELL AS POWER TRANS-MISSION AND CONVEYOR BELT SOLUTIONS.

The company employs more than 5,500 people and has an international network of 24 production and distribution companies, 6 assembly operations and 45 pure sales organizations in a total of 36 countries. Forbo is headquartered in Baar in the canton of Zug, Switzerland.

FORBO IN FIGURES

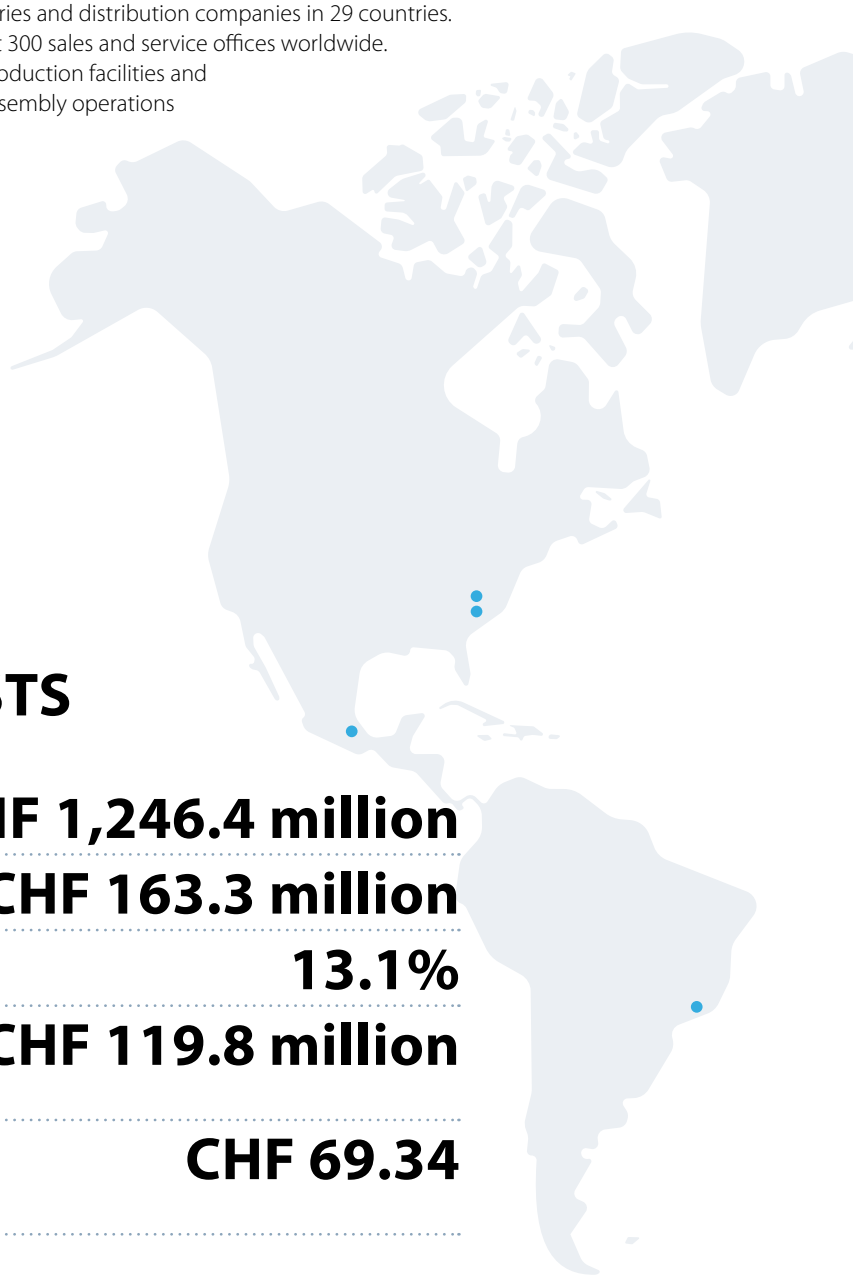
Forbo is a global player, and its two divisions supply a wide range of industries. The Group's global reach means that it is close to dynamic markets, making Forbo the first choice as a local partner for customers that have similar global requirements. The quality, longevity, and performance of our products 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 26 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 29 countries. About 300 sales and service offices worldwide.

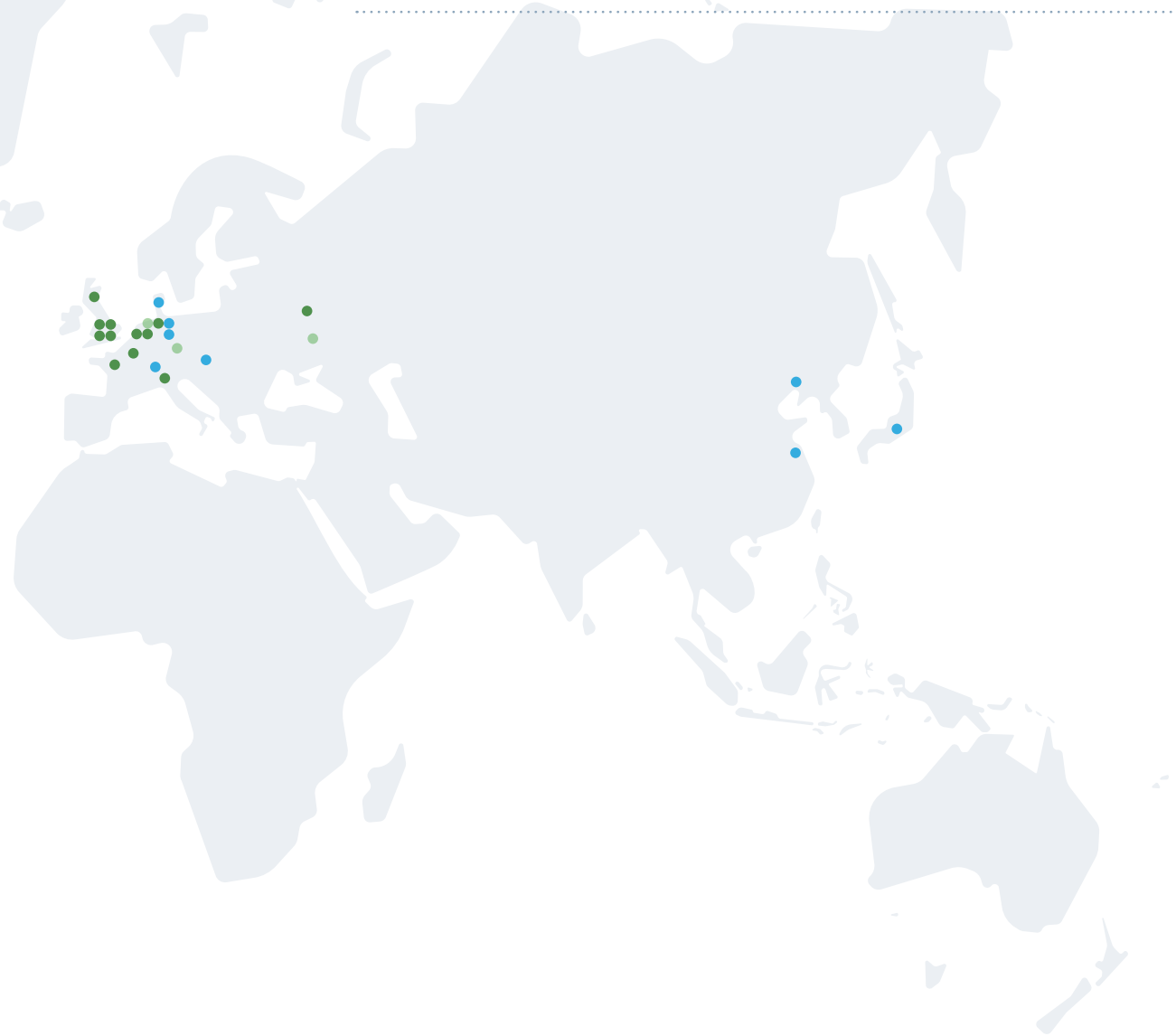
- Production facilities and assembly operations



BEFORE ONE-OFF COSTS

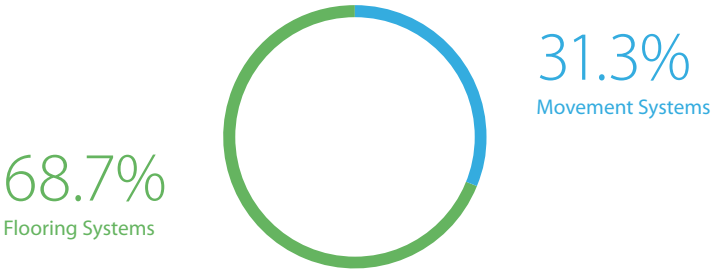
Net sales	**CHF 1,246.4 million**
EBIT	**CHF 163.3 million**
EBIT margin	**13.1%**
Group profit from continuing operations	**CHF 119.8 million**
Earnings per share undiluted	**CHF 69.34**

Net sales	**CHF 1,246.4 million**
EBIT	**CHF 79.9 million**
EBIT margin	**6.4%**
Group profit from continuing operations	**CHF 36.5 million**
Earnings per share undiluted	**CHF 21.10**



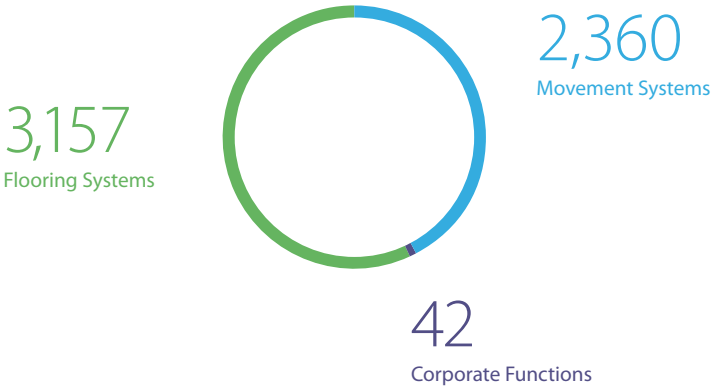
Net sales by division

	CHF m 2017	Change on previous year in %	Change on previous year in local currencies in %	In % of total
Flooring Systems	856.6	4.7	3.7	68.7
Movement Systems	389.8	6.1	5.8	31.3
Total	**1,246.4**	**5.1**	**4.3**	**100.0**



Employees by division

	Number 2017	Change on previous year in %	In % of total
Flooring Systems	3,157	1.5	56.8
Movement Systems	2,360	7.6	42.5
Corporate Functions	42	0.0	0.7
Total	**5,559**	**4.0**	**100.0**



Financial overview Forbo Group

	2017	2016	2017	2016
Income statement	CHF m	CHF m	EUR m[1]	EUR m[1]
Net sales	1,246.4	1,185.5	1,121.2	1,087.5
Flooring Systems	856.6	818.0	770.5	750.4
Movement Systems	389.8	367.5	350.6	337.1
EBITDA	117.6	192.9	105.8	177.0
EBITDA before one-off costs[6]	201.0	192.9	180.8	177.0
EBIT	79.9	157.2	71.9	144.2
EBIT before one-off costs[6]	163.3	157.2	146.9	144.2
Group profit from continuing operations	36.5	127.6	32.8	117.1
Group profit from continuing operations before one-off costs[6]	119.8	127.6	107.8	117.1
Group profit	38.7	127.6	34.8	117.1
Group profit before one-off costs[6]	122.0	127.6	109.7	117.1
Balance sheet	CHF m	CHF m	EUR m[1]	EUR m[1]
Total assets	1,067.5	989.3	960.2	907.5
Operating assets	832.8	738.9	749.1	677.8
Shareholders' equity	661.2	621.4	594.8	570.0
Net cash	195.0	209.2	175.4	191.9
Cash flow statement	CHF m	CHF m	EUR m[1]	EUR m[1]
Cash flow from operating activities	78.8	166.5	70.9	152.7
Cash flow from investing activities	– 56.5	– 40.3	– 50.8	– 37.0
Free cash flow	22.3	126.2	20.1	115.8
Key ratios	%	%		
ROS (EBITDA/net sales)	9.4	16.3		
Equity ratio (shareholders' equity/total assets)	61.9	62.8		
Gearing (net debt/shareholders' equity)	– 29.5	– 33.7		
Employees (as at December 31)	Number	Number		
Total employees	5,559	5,346		
Ratios per share	CHF	CHF	EUR[1]	EUR[1]
Earnings per share (undiluted)[2], from continuing operations	21.10	74.66	18.98	68.49
Earnings per share (undiluted)[2], from continuing operations before one-off costs[6]	69.34	74.66	62.37	68.49
Equity (undiluted)	382.60	363.57	344.16	333.52
Dividend	19.00[3]	19.00[4]	17.10	17.40
Stock market capitalization (as at December 31)	CHF m	CHF m	EUR m[1]	EUR m[1]
Stock market capitalization[5]	2,709.0	2,363.4	2,436.8	2,168.1

1) Euro values translated at the average annual exchange rate of CHF 1.1117/1 EUR (2017) and CHF 1.0901/1 EUR (2016).

2) See note 13 'Earnings per share' on page 114 of the financial report.

3) The Board of Directors proposes to the Ordinary General Meeting of April 6, 2018, the distribution of a dividend in the amount of CHF 19 per registered share.

4) Approval of a dividend of CHF 19 per registered share at the Ordinary General Meeting of April 6, 2017.

5) Total number of shares multiplied by year-end share price.

6) Not factoring in the one-off costs from the antitrust proceedings against Flooring Systems in France.

STRONG SALES RESULT; SPECIAL ITEMS IMPACT PROFIT

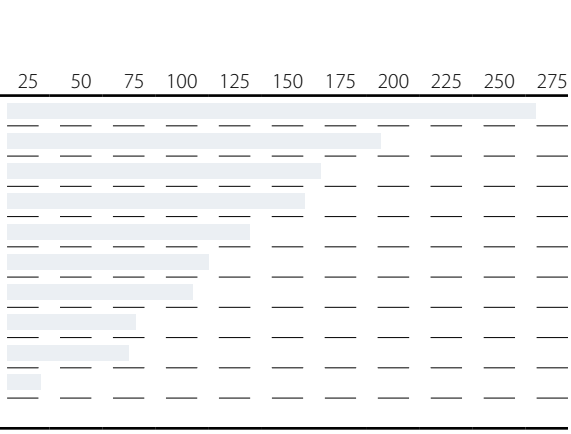
The 2017 business year at Forbo was marked by strong sales growth in a challenging environment, though market dynamics sometimes differed greatly according to country and market segment. Both divisions again raised their operating profit – before one-off costs incurred in connection with the antitrust proceedings against Flooring Systems in France – despite higher raw material prices and a major increase in capital expenditure.

The Group added attractive and innovative products to its portfolio, selectively expanded its distribution and service structures, significantly increased capacity, and streamlined operational processes with investments in manufacturing facilities and equipment tools to bring them up to the state of the art.

Our strong global presence, our solid balance sheet, and our attractive offering of products and services, along with selective capacity expansion, give us a strong basis and the right prerequisites for future growth.

Net sales by geographic area

		Change on previous year		
	%	in %	in local currencies in %	2017 CHF m
North, Central, and South America	20.8	3.4	3.1	259.5
Asia/Pacific and Africa	15.0	4.7	5.8	186.3
France	12.7	8.2	6.2	158.3
Germany	12.1	7.7	5.7	150.5
Benelux	10.0	6.8	4.7	124.5
Scandinavia	8.4	1.7	1.0	105.2
Great Britain/Ireland	7.8	–9.9	–5.8	97.8
Southern Europe	5.7	10.8	8.6	70.6
Eastern Europe	5.4	23.1	14.5	67.7
Switzerland	2.1	12.1	12.1	26.0
Total	**100.0**	**5.1**	**4.3**	**1,246.4**



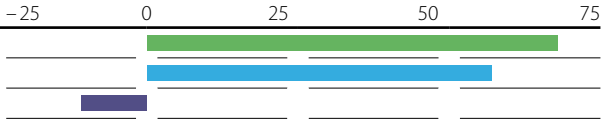
Strong sales growth in both divisions
In the year under review, Forbo reported net sales of CHF 1,246.4 million (previous year: CHF 1,185.5 million) which represents an increase of 5.1%, or 4.3% in local currencies, due to slightly positive currency effects. Both divisions contributed to this strong and gratifying growth and gained market shares in a challenging environment.

The Flooring Systems division generated net sales of CHF 856.6 million in 2017 (previous year: CHF 818.0 million). This represents an increase of 4.7% in the corporate currency (+3.7% in local currencies). All three regions contributed to this growth with different drivers amid mixed market conditions, particularly in our core markets France, Germany, and the Netherlands. Attractive additions to the product portfolio and the targeted expansion of distribution resources supported this positive trend.

The Movement Systems division again demonstrated its strong growth potential and generated net sales of CHF 389.8 million in the year under review (previous year: CHF 367.5 million), which was equivalent to a significant increase of 6.1% (+ 5.8% in local currencies). All three regions, most markets, and all customer segments contributed to varying degrees to this strong increase in net sales. The other key factors driving this success were application-specific, technologically advanced product innovations, ongoing expansion of the distribution and service structures, and investments in efficiency-enhancing fabrication tools.

EBITDA by division

	2017 CHF m	Change on previous year in %
Flooring Systems	69.7	– 53.3
Movement Systems	58.7	7.9
Corporate	– 10.8	1.9



Profit impacted by special items

Forbo's profitability remains strong even though various one-off special items had a negative impact on operating profit.

On the positive side, operating profit was positively affected by strong sales growth and various efficiency-enhancing measures in a number of different operational areas. The opposing factors were higher raw material prices, significantly higher capital expenditure, and above all the one-off costs in connection with the antitrust proceedings against Flooring Systems in France.

Group operating profit before depreciation and amortization (EBITDA) and before one-off costs in connection with the antitrust proceedings against Flooring Systems in France rose by 4.2% to CHF 201.0 million (previous year: CHF 192.9 million). Factoring in one-off costs, EBITDA came to CHF 117.6 million. EBITDA at Flooring Systems before one-off costs rose by 2.7% to CHF 153.1 million (previous year: CHF 149.1 million) owing to higher sales and operational efficiency gains, despite higher raw material prices. Factoring in one-off costs, the division's EBITDA came to CHF 69.7 million. At Movement Systems, EBITDA was up 7.9% to CHF 58.7 million (previous year: 54.4 million) on the back of strong sales growth and systematic improvements in global processes, despite additional capacity expansion in China.

The EBITDA margin for the Group before one-off costs decreased slightly from 16.3% to 16.1%. At Flooring Systems, the EBITDA margin before one-off costs declined from 18.2% the previous year to 17.9% in the year under review, while at Movement Systems the EBITDA margin improved by 0.3 percentage points to 15.1% (previous year: 14.8%).

Group operating profit (EBIT) before one-off costs increased by 3.9% to CHF 163.3 million (previous year: CHF 157.2 million). Factoring in one-off costs, EBIT came to CHF 79.9 million. The Group EBIT margin before one-off costs decreased from 13.3% in the previous year to 13.1% in the year under review.

Group profit from continuing operations before one-off costs declined by CHF 7.8 million to CHF 119.8 million (previous year: CHF 127.6 million) owing in particular to higher taxes from the sale of Forbo treasury shares.

Factoring in one-off costs, Group profit from continuing operations came to CHF 36.5 million, while Group profit stood at CHF 38.7 million (previous year: CHF 127.6 million). The reason for the difference of CHF 2.2 million was the release of provisions owing to the expiry of warranty periods in connection with the sale of the industrial adhesives activity at the beginning of 2012.

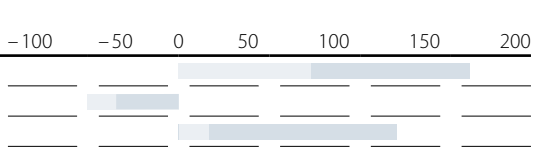
Taxes and financial income

The tax rate for the year under review was 54.4%, well above the 19.8% of the previous year. This is due to the impact of the one-off costs in connection with the antitrust proceedings against Flooring Systems in France as well as the sale of Forbo treasury shares. This sale produced capital gains of a high double-digit million amount, which, however, was not recognized in the income statement but rather credited directly to shareholders' equity. The federal tax paid on this extraordinary income, meanwhile, was charged to the income statement.

Financial expenses came to CHF 0.8 million (previous year: CHF 0.1 million); the increase was due to foreign currency losses. This was offset by financial income of CHF 0.9 million (previous year: CHF 2.0 million); the decline is due to non-recurring foreign exchange gains in the previous year. On balance, the financial result came to CHF 0.1 million (previous year: CHF 1.9 million).

Free cash flow

	2017 CHF m	2016 CHF m
Cash flow from operating activities	78.8	166.5
Cash flow from investing activities	– 56.5	– 40.3
Free cash flow	22.3	126.2



Cash flow performance impacted by one-off special factors

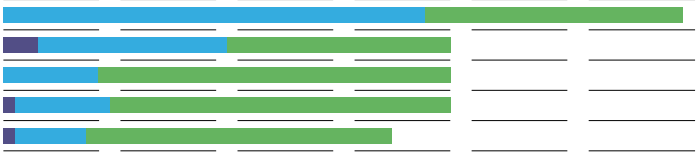
In the reporting year, cash flow from operating activities came to CHF 78.8 million, a decline of CHF 87.7 million compared with the previous year (CHF 166.5 million), due mainly to the one-off costs incurred in connection with the antitrust proceedings against Flooring Systems in France. Cash flow from investing activities came to CHF – 56.5 million (previous year: CHF – 40.3 million), due primarily to the significant increase in capital expenditure in the year under review. Free cash flow thus amounted to CHF 22.3 million (previous year: CHF 126.2 million). The main reasons for the decline were the one-off costs incurred in connection with the antitrust proceedings against Flooring Systems in France, higher capital expenditure, and the one-off steep rise in taxes.

Balance sheet remains robust

Total assets as at December 31, 2017, stood at CHF 1,067.5 million, which was CHF 78.2 million higher than the previous year (CHF 989.3 million). Net liquidity remains at a comfortable level, despite the one-off costs in connection with the antitrust proceedings against Flooring Systems in France and the significant increase in capital expenditure. Liquidity declined by CHF 14.2 million to CHF 195.0 million (previous year: CHF 209.2 million). Equity stood at CHF 661.2 million on December 31, 2017, which was CHF 39.8 million higher than in the previous year (CHF 621.4 million). The equity ratio still remains at a high 61.9% (previous year: 62.8%).

Investments 2013 – 2017

	Flooring Systems CHF m	Movement Systems CHF m	Corporate CHF m	Total CHF m
2017	22	36	0	58
2016	20	17	3	40
2015	31	9	0	40
2014	30	9	1	40
2013	27	7	1	35



Significant increase in capital expenditure

In addition to increasing efficiency and steadily streamlining processes, our focus is on factors that will promote future growth. Capital expenditure in the year under review was significantly higher than in the previous year, mainly due to the construction of a new Movement Systems plant in Pinghu, China. In addition to this major capacity increase, over the past year we concentrated our resources in both divisions on key activities and strategic projects in the areas of product portfolio, technology, production capacity, and market expansion. Total Group investments in property, plant, and equipment and intangible assets in 2017 rose significantly by 44.5% year-on-year to CHF 57.8 million (previous year: CHF 40.0 million).

In the reporting period, Flooring Systems invested CHF 22.3 million (previous year: CHF 20.5 million), which represents a 8.8% increase. This sum includes in particular a portion for the recently installed digital printing facility for high-end Flotex designs in 3-D quality in France as well as a new 3-D digital printing line for modular Flotex floor coverings in the USA. The additional cutting facility for luxury vinyl tiles in the Netherlands is supporting the double-digit growth of this product line. In the UK, production capacity for manufacturing carrier layers from recycled material for carpet tiles was expanded. Part of the funds were also used for the extension of the product offering with innovative new collections.

At Movement Systems, investment in property, plant, and equipment came to CHF 35.5 million, more than double the prior-year figure (previous year: CHF 16.5 million). The main reason for the increase was the construction of a new plant in Pinghu, China, which will provide additional capacity for Transilon processing belts. Funds were also used for various additional fabrication tools, in particular cutting machines, heat presses, cooling stations, punch presses using waterjet technology, bending machines, and laser measurement systems. Part of the expenditure was invested in innovative range extensions for specific applications.

Employees by geographic area

	%	Change on previous year in %	2017
Benelux	21.8	3.3	1,214
Asia/Pacific and Africa	15.0	8.2	832
North, Central, and South America	13.8	4.5	772
Germany	12.2	4.5	677
Great Britain/Ireland	10.9	– 1.9	604
Eastern Europe	9.9	8.7	551
France	7.8	0.2	431
Switzerland	3.1	1.7	175
Scandinavia	2.9	0.0	159
Southern Europe	2.6	9.9	144
Total	**100.0**	**4.0**	**5,559**

Headcount higher owing to capacity expansion
At year-end 2017, the Forbo Group employed 5,559 people. This is an increase of 213 employees year-on-year; the increase was due mainly to the capacity expansion at Movement Systems. The individual percentage changes in employee levels by and large reflect market developments in the countries and regions in question.

The significant increase in Asia/Pacific was due mainly to the new plant in Pinghu, China. The fabrication activity started in fall 2017. For the planned production start mid-2018, hiring of production personnel already began in the year under review. These employees are currently being trained in test production runs. The strong increase in headcount in Eastern Europe is largely due to the expansion of the European fabrication plant of Movement Systems in Slovakia. The increase in Southern Europe can be ascribed to the expansion of both divisions in the growth market Turkey and to the continuing growth of Movement Systems in Spain and Italy.

SUSTAINABLE ENGAGEMENT

A responsible attitude toward the management of resources in all dimensions is one of the fundamental values at Forbo. We are committed to protecting the environment and continuously investing in a sustainable future. As a manufacturer and employer conscious of its responsibilities, Forbo sets very high standards for health, safety, the environment, and quality.

Social dimension

Forbo promotes a high-performance culture in order to meet the high demands of our customers and business partners as well as the requirements we impose on ourselves. This is why we promote the necessary capabilities and competences at all organizational levels, and support this internally with seminars and further training activities.

This means that the divisions provide internal training in a wide range of areas regarding products and applications, sales and marketing, finance, operations, project management, strategy implementation, and Forbo's values. Continuous intensive training in the area of health and safety includes measures on the topics of accident prevention, risk awareness, and occupational health and safety, as well as general ongoing preventive measures.

At the Group level, Forbo has established an internal management training program in collaboration with the University of St. Gallen as well as other external partners and internal experts. This practice-oriented advanced training program for senior managers and persons in key positions consists of a first training week that includes various modules in areas ranging from management and sales to marketing and operations. A second training week expands on this and includes leadership modules, focusing on strategic implementation and leadership topics such as dealing with organizational and team changes as well as performance management. A third training week that builds on the previous courses was introduced in 2016; it is devoted mainly to leadership topics that involve implementation of the strategy at various organizational levels. This is combined with relevant tools for communication challenges and cooperation in international, cross-cultural teams.

Ecological dimension
Protection of the environment and the generation of ecological added value are important factors in all of Forbo's development and investment decisions. Our customers also demand efficient and sustainable products and services. Both divisions are meeting these demands by offering purely natural products in their product portfolio.

With linoleum, Flooring Systems offers a floor covering made of 97% renewable raw materials of which 72% are renewable within ten years. Linoleum is made from the natural raw materials linseed oil, natural resin, wood flour and limestone as well as jute and pigments. A natural product through and through, which, in view of its long service life and positive ecological balance, is regarded as the most environmentally friendly resilient floor covering available. At the end of its long service life it can be composted, as it is 100% biodegradable. In addition to this, linoleum is made from about 45% recycled material, which lowers the consumption of primary raw materials accordingly.

Vinyl floor coverings receive their elasticity, pliability, and flexibility from plasticizers. Flooring Systems is the leader in the use of phthalate-free plasticizers of the latest generation. Vinyl floor coverings also contain up to 45% recycled material in the substrate layer. Within the framework of our 'back to the floor' program, we collect off-cuts of our vinyl coverings as well as waste material from our own production and put these back into the production of new coverings, for example for the substrate layer of carpet tiles and Flotex – the washable textile flooring. Flooring Systems gets 100% of the electricity used at its production locations from renewable energy sources.

With the BioBelt, Movement Systems is the first-ever conveyor belt manufacturer to develop a biodegradable conveyor belt whose physical and dynamic properties are equal to standard belts. The same applies to its performance and long service life. In BioBelt products, oil-based raw materials and synthetic-technical materials have been largely substituted by materials made from renewable, plant-based raw materials.

In order to maximize environmental compatibility and at the same time increase the product advantages, Movement Systems has patented some years ago a special coating (AmpMiser) that significantly reduces the friction between the underside of the belt and the slider bed compared with conventional conveyor belts.

SUSTAINABLE ENGAGEMENT

In the meantime, Movement Systems launched new generations of these energy-saving conveyor belts that are even more efficient. Conveyor belts coated with AmpMiser display their advantages most clearly where goods are being continuously conveyed and many belts are in use, for example at airports or in logistics and distribution centers. For this type of application, energy savings of up to 50% are achieved for the overall systems.

We have also made it our aim to continually make our own activities more sustainable and efficient. We do this by using less material and energy to realize equivalent or even better solutions. Both divisions are working constantly on the optimization of production processes in terms of water and energy consumption, reduction of emissions, reuse of heat generated in the production process, and the reduction and efficient recycling of waste material in order to reduce the burden on the environment. A wide range of certifications confirm these efforts. At the same time, we are working on innovative ideas regarding the materials used in the production process as well as new application techniques.

FLOORING SYSTEMS

Floor coverings are part of our everyday lives and define our living, leisure, and working spaces. Whether as a direct end customer, builder of a major project, architect or installer, for every stakeholder group the topic of sustainability plays an important role in the decision-making process. This is why it is important for Flooring Systems to differentiate itself from its competitors with comprehensible and convincing arguments, including in terms of sustainability.

With the approach 'committed to the health of one' Flooring Systems wants, alongside a fully transparent product declaration, to highlight the sustainability features more clearly than it has done up to now and place them in correlation to each individual. In creating a healthy interior space, we concentrate on all aspects of our installations that contribute positively to safety, hygiene, and well-being. These include avoiding asthma triggers and allergens, focusing on light-reflecting and acoustic properties, facilitating cleaning and maintenance, and ensuring the overall quality of the interior.

MOVEMENT SYSTEMS
Movement Systems' resource management is based on the continuous improvement of consumption efficiency through the development and the targeted implementation of measures for the optimization of electricity, gas, oil, and water consumption. Alongside ongoing energy-saving measures, energy recovery is an important factor, i.e. the use of energy released in the downstream incineration plant for the purposes of heating and/or power generation. In order to reduce water consumption and avoid unnecessary waste, Movement Systems is increasingly using closed water circulation systems. Some of the waste water can be used in another production step in order to minimize water requirements. The reduction and productive re-use of waste material is increasingly the focus of Kaizen and sustainability initiatives. Cut-offs from the belts we produce in certain countries are sold to other companies to be reused in their production. The locations in North America collect sanding dust in filters which is then processed as material by external partners in their production. Some of the waste from plastic modular belts and polyurethane cut-offs is recycled back into our own production.

Economic dimension
As a listed company, Forbo also engages intensively with the economic dimension of sustainability. Compliance is enormously important for the reputation and positioning of a company. We are successful as a company when we meet the expectations of customers, when employees are enthusiastic and committed, and when we create added value in the long term for our shareholders.

In the year under review, we constantly maintained our efforts in terms of a conscious attitude to what we do by reinforcing awareness, particularly regarding the contents of the code of conduct (by means of e-learning modules) as well as competition law and anti-corruption principles, and diligently implementing the risk management process.

ACTIVITY REPORT


FLEXIBILITY.


RELIABILITY.

TWO DIVISIONS WITH LEADING MARKET POSITIONS

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

Strategic directions

To be successful in the market place as a Group with differently aligned operations, the individual divisions act independently and flexibly, but always along the strategic directions defined for the Group as a whole:

- Based on a pronounced customer focus, a high level of service, innovation, digital transformation, and a strong global brand, we are creating global leadership positions in clearly defined market segments.
- Due to a strong market orientation, we shape markets and drive profitable growth.
- We are developing significant positions in growth markets.
- We are acquiring companies to extend our product range, to consolidate and/or reinforce market access.
- We are developing a high-performance culture and providing the relevant skills and competences at all levels.

Flooring Systems

The Flooring Systems division offers a broad and attractive range of environmentally friendly natural linoleum, high-quality vinyl floors, entrance matting systems for cleaning and drying shoes, carpet tiles, needle felt, and Flotex, the washable textile flooring. Thanks to their excellent technical properties and attractive designs, 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 about 70 percent, Forbo is the world leader in linoleum.

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

Movement Systems

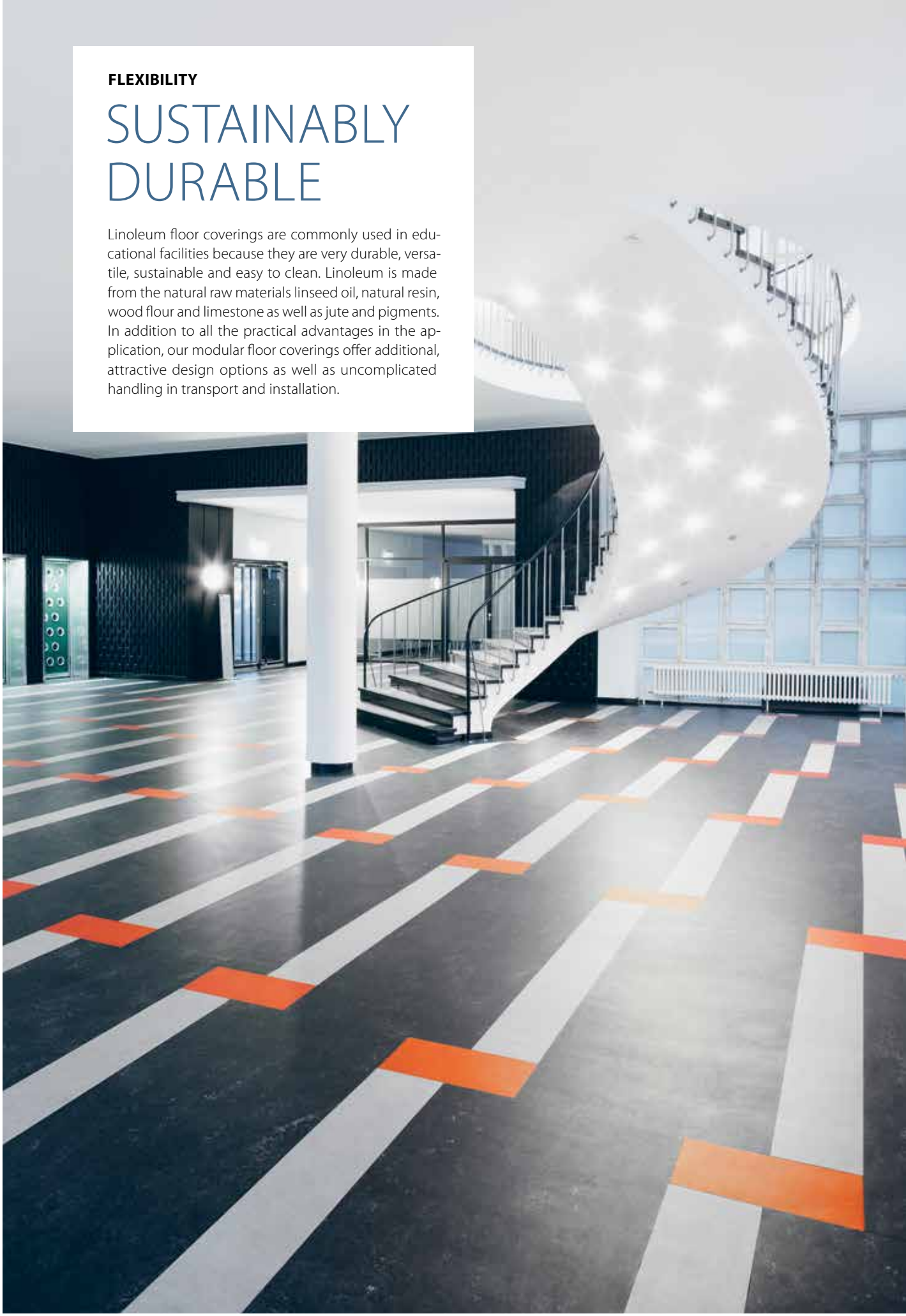
Movement Systems is a global industry leader for sophisticated conveyor and processing belts, plastic modular belts, top-quality power transmission belts, as well as timing and flat belts made of synthetic materials. These products are known under the brand name Siegling. They are used in a wide range 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.

FLOORING SYSTEMS

FLEXIBILITY

SUSTAINABLY DURABLE

Linoleum floor coverings are commonly used in educational facilities because they are very durable, versatile, sustainable and easy to clean. Linoleum is made from the natural raw materials linseed oil, natural resin, wood flour and limestone as well as jute and pigments. In addition to all the practical advantages in the application, our modular floor coverings offer additional, attractive design options as well as uncomplicated handling in transport and installation.



FLOORING SYSTEMS: ATTRACTIVE PRODUCT PORTFOLIO PROVIDES A COMPETITIVE EDGE

'Once again we added new elements to our product offering this year and enriched our collections with attractive new products in all categories. A special highlight was the launch of three collections from the new line of high-end homogenous vinyl floor coverings. Our growth initiatives included selectively building up distribution resources for the private sector commercial segment, reinforcing our teams in growth markets, raising the service level, and thereby increasing our customer focus. We invested in technological innovations in a large number of operational areas, carried out expansion projects, and in this way streamlined our processes. Thanks to our attractive product portfolio and clearly defined market strategies, we further strengthened our position as a leading systems supplier in the commercial segment.'

Matthias P. Huenerwadel
Executive Vice President
Flooring Systems

The Flooring Systems division generated net sales of CHF 856.6 million in 2017 (previous year: CHF 818.0 million). This represents a solid increase of 4.7% in the corporate currency (+ 3.7% in local currencies). The division's share of Group sales was 68.7%. All three regions contributed to this growth amid mixed market conditions, though with different growth rates. Operating profit (EBIT) before one-off costs rose by 2.3% to CHF 125.5 million (previous year: CHF 122.7 million) despite the negative impact of higher raw material prices. The EBIT margin before one-off costs declined by 0.3 percentage points to 14.7% (previous year: 15.0%). Factoring in one-off costs from the antitrust proceedings – now concluded – against Flooring Systems in France, operating profit (EBIT) came to CHF 42.1 million.

Solid sales trend
All three regions contributed to this solid sales trend.

Most European markets, especially our core markets in France, Germany, and the Netherlands, reported moderate to above-average growth. Demand was very buoyant in southern and eastern Europe, and somewhat more muted in northern Europe. Sales in the UK declined slightly owing to the economic environment and the resulting atmosphere of restraint.

The Americas region reported marginal sales growth, due mainly to the stabilization and gradual recovery of the growth markets in South America. The main market, North America, reported sales on a par with the previous year.

In the Asia/Pacific region, China, Japan, and South Korea made an above-average contribution to the sales upturn. This gratifying trend was driven by various growth initiatives and the completion of some major customer projects.

After a number of difficult years during the down cycle, the building and construction adhesives activity recovered and reported very satisfactory sales growth overall. Russia and the Netherlands in particular made an above-average contribution to these gains.

Versatile and trendy collections enhance the product portfolio

The division continued to expand its offering for private sector customers by launching new and innovative collections in the year under review. The range now features new formats, a broad spectrum of color and design options, new effects and materials, and advanced functionalities and floor-laying options.

We kicked off 2017 by very successfully launching a host of attractive linoleum collections along with luxury vinyl tiles and a completely new product line of homogenous vinyl floor coverings. We followed this up by focusing on compelling collections in the textile flooring range, in particular for modular applications, in the second half of the year.

We also rolled out various new collections of the Flotex product line in the second half of 2017. Flotex is our high-tech textile flooring that can be cleaned using a pressure washer. It is employed primarily in care facilities, leisure centers, hotels, restaurants, and offices, where its robust durability, good hygiene features for allergy sufferers, and its ease of care make it invaluable. The high-end 3-D digital printing options opened up by the newly installed facility in Château-Renault, France, are promising – the ultra-modern designs and special features of both broadloom and modular tile and plank formats it enables are creating exciting opportunities. The plant's increased output is also impressive.

We added attractive collections to our range of high-end Tessera carpet tiles, which are in especially great demand for office premises. They are influenced by strong design and color trends from the world of architectural décor that we reinforce with fashionable colors and motifs plus new plank formats that are closely coordinated with our new collections of luxury vinyl tiles.

The modular Coral entrance matting systems launched the previous year are now available in a click floor-laying option that greatly simplifies installation – a welcome addition especially in the retail segment.

Above-average growth in vinyl floor coverings

The homogenous vinyl flooring line that was launched with its three inspiring collections in the year under review met with an enthusiastic response internationally, and customers, especially in healthcare, were excited by its designs and material features.

The luxury vinyl tiles again reported double-digit growth in a highly competitive market and impressed customers with a wide range of design and application options. In the linoleum segment, demand for innovative special collections and revitalized furniture linoleum was gratifying. Demand for linoleum in traditional broadloom form was close to the previous year's level. The other product groups – project vinyl, entrance matting systems, carpet tiles, Flotex, and needle felt floor coverings – also contributed to the sales growth.

Wide-ranging capital expenditure

In addition to the many activities to complement the product portfolio, we selectively built up distribution resources for the private sector customer segments and gained a number of new, reputable international key accounts. We supported our growth markets with initiatives for successful development: we added distribution partners to strengthen the sales structures in China; we expanded the distribution team in South Korea; and we reinforced the organization in Turkey by supplementing logistics with a local warehouse.

We installed a new 3-D digital printing line in the USA – in addition to the new facility in Château-Renault, France – for modular Flotex floor coverings, which will start operating in the spring of 2018. This facility can produce small lot sizes with individual designs for the local market with optimized delivery times.

Ongoing implementation of market strategies

Ongoing implementation and development of the defined market strategies will be important for 2018. We have made exceptionally large investments over the past two years to enhance our product portfolio and the related production facilities. We also selectively expanded distribution structures for private sector commercial customers. Now we have to follow up on these activities and initiatives and add support through local market activities.

We are also constantly bolstering our organization with local operational investments to minimize delivery times and further raise the service level. Cost consciousness plus target procurement measures will ensure that we successfully meet the challenges coming our way from higher raw material prices.

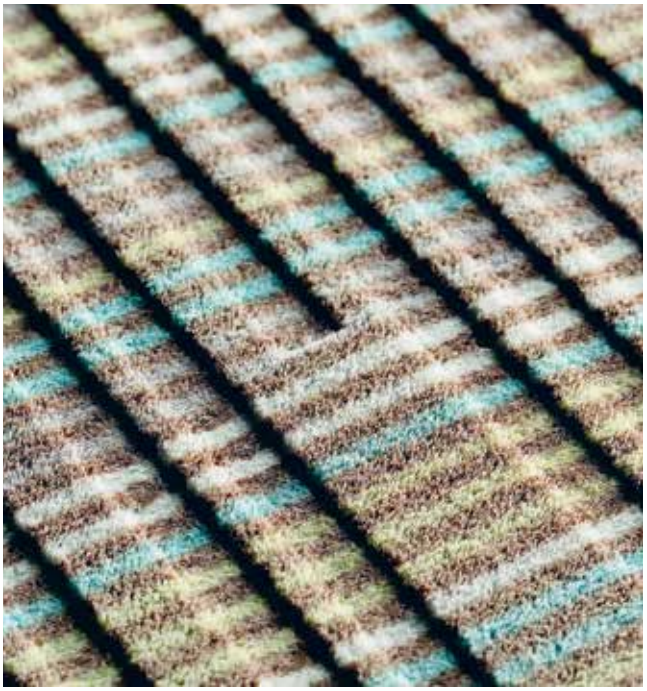
TEXTILE COLLECTIONS FOR A WARM AMBIENCE

Forbo floor coverings combine functionality and excellent product quality with innovative designs; they enhance interior spaces, whose character and appearance are geared to the needs of the people using these spaces. With every new development we are constantly making our products and production processes more sustainable and environmentally friendly, thus increasing the quality of the air in the room to meet the most stringent demands. In the reporting year we kept pace with the pulse of technical innovation and design trends.

At the start of 2017 Flooring Systems launched a number of attractive collections ranging from linoleum to luxury vinyl tiles and homogenous vinyl floor coverings. The focus in the second half of the year was mainly on new technologies and additions to the product range, featuring attractive designs for textile floorings.

Flotex – versatile and varied

Flotex is a robust, high-tech textile floor covering that is phthalate-free. It is power-washable with water, easy to maintain, and is produced exclusively by Forbo. More than 80 million nylon-6.6 fibers per square meter are injected and anchored electrostatically in an impermeable vinyl base. Due to its robustness, its hygiene advantages for allergy sufferers, anti-slip properties, and its excellent acoustic properties, Flotex is ideal for use in care facilities and nursing homes, the catering sector, leisure centers, and office premises. The 2017 fall collections are diverse and distinguished by state-of-the-art, three-dimensional designs coupled with special embossment textures for broadloom material as well as for modular tile and plank formats. The Cityscape collection, for instance, features fascinating designs: its embossed lines change in the light depending on the angle the flooring is viewed from. The new plank collection encompasses six new designs, each of them available in multiple color variations. The planks in the new 25 × 100 cm format give designers and architects a host of opportunities for creativity with different color combinations and floor-laying patterns.



FLOTEX WITH SPECIAL EMBOSSING

LUXURY VINYL TILES IN COMBINATION WITH TESSERA CARPET TILES

COLLECTION TESSERA DIFFUSION

CORAL CLICK SYSTEM

High-end Tessera carpet tiles
Carpet tiles give a room a special character, generate a warm atmosphere, and are especially suitable for office premises or cozy hotel settings. We have expanded our range of high-end Tessera carpet tiles, adding fashionable colors and designs along with new plank formats that are coordinated with the new collections of luxury vinyl tiles. The different formats can be combined with each other and can be laid without transition strips, making them an even more attractive option. The new Tessera Seagrass planks are very appealing with their soft, striated look and 12 natural colors ranging from light to dark. Yet another collection is geared to maximizing floor-installing options. Depending on whether the tiles have a monolithic, half-width offset, quarter-turned or randomly patterned configuration, different aesthetic effects can be achieved.

Despite the generous fiber weight, which enhances comfort, our carpet tiles are sustainable in the way they are produced. Recycled material makes up over 60%, and they are manufactured entirely with electricity from renewable resources.

Modular click entrance matting systems
The modular Coral entrance matting systems launched in 2016 are now also available with a click version. These versatile tiles with textile inserts can be used in all types of building and are especially suitable for simple installation in retail stores because they do not have any metal components that interfere with electronic identification devices.

‘MODULARITY INCREASES CREATIVE ABILITY’

MOVEMENT SYSTEMS

RELIABILITY

EFFICIENT AND TAILOR-MADE

For every production and processing constellation, we elaborate the individually appropriate solution. This is also necessary in the food production industry where especially strict hygiene regulations apply. Small goods such as candies have to be carefully conveyed so that they reach their final destination without being damaged in the production process. With individual finishing options for the widest possible range of applications, we can guarantee careful transport and the cleanliness of your product.

MOVEMENT SYSTEMS: IMPRESSIVE CUSTOMER-SPECIFIC APPLICATIONS

'Multiple activities on the operational side, along with the consistent implementation of our strategic initiatives in all business areas, had a very positive impact on Movement Systems in 2017. We successfully launched innovative and application-specific products that generate added value for our customers in the production and logistics process and selectively expanded our distribution and service structures. Globally, we optimized various processes, especially in the supply chain, fabrication, and production and we trained our people at all levels of the organization in these technical topics and areas. In terms of productivity, we succeeded in further increasing our efficiency and our performance through a number of local investments and the use of new tools.'

Jean-Michel Wins
Executive Vice President
Movement Systems

The Movement Systems division generated net sales of CHF 389.8 million in the year under review (previous year: CHF 367.5 million), which reflects a substantial year-on-year increase of 6.1% in the corporate currency (+ 5.8% in local currencies). The division's share of Group sales was 31.3%. All three regions, most markets, and all customer segments contributed to varying degrees to this significant increase in sales revenue. We gained market share in key segments despite the mixed business environment. This sales growth coupled with consistently executed operational activities designed to improve global processes across the board again had a positive impact on operating profit (EBIT), which climbed to CHF 49.3 million (previous year: CHF 45.3 million). This increase of 8.8% was achieved despite the additional expansion of capacity in China. The EBIT margin edged up to 12.6% (previous year: 12.3%).

Strong sales growth again

Almost all markets contributed to the gratifying sales expansion with a variety of growth stimuli. The Europe region maintained its strong growth path and reported the largest increase in sales. The core markets in Germany and southern Europe made a larger-than-average contribution to this increase.

The Americas region also reported a solid increase in sales, partly due to the growth market in Mexico but also to demand in the main market USA, which posted a strong recovery in key customer segments during the year under review.

A number of smallish markets in Asia/Pacific reported very satisfactory developments, while the larger markets such as Japan and China continued to record solid growth. Only India posted a slight decline, following several successful years with above-average growth, owing to unfavorable economic conditions.

All customer segments posted higher sales

All customer segments contributed to the strong growth, even though sales and market trends showed wide regional disparities in some cases. Our impressive and high-quality customer-specific solutions, coupled with ongoing innovative range improvements and exciting features, are a cornerstone of this success.

Demand in the logistics segment was exceptionally high due to a number of large-scale projects for international courier services and airports, especially in Europe and North America. Food-processing, industrial manufacturing, sports treadmills, and tobacco posted

satisfactory growth, though the results showed significant regional disparities in some cases. The sales trend in the textile sector and in the generally downtrending paper and printing industry was moderately positive.

Innovation partner for our customers
Movement Systems not only supplies a wide range of conveyor and power transmission belts but is also a reliable source of technical know-how for all-in solutions and an innovation partner for both original equipment manufacturers and end customers. In the year under review, the division developed numerous innovative products for very specific applications that have big advantages and increase efficiency in both production and processing.

For the logistics segment we developed a special coating with longitudinal grooves for moving heavy and sturdier goods. Its grip properties and low operating noise levels are particularly convincing. We expanded our sustainable and energy-saving AmpMiser2.0 product line by adding four new belt types for specific applications in various areas of logistics. These conveyor belts have even lower friction coefficients, meaning higher energy savings and lower operating noise levels. The new AmpMiser conveyor belts are more flame-resistant than previous developments, and their especially robust fabric design gives them greater lateral tear resistance.

We created two innovative solutions for the food-processing industry. One of them is an elastic weighing belt conveyor that is integrated into the production process. Its elasticity, physical properties, and the resulting runnability make it ideal for use in the packaging phase of food processing. The other is a new series of plastic modular belts that we developed mainly for the pastries industry that need cooling and packaging lines, especially for small items such as cookies, crackers, and snacks that have to be moved across narrow transfer gaps during processing.

One of the innovations launched in the reporting year was a new processing belt for the wood panel industry. The sophisticated surface coating almost entirely prevents wood fibers from sticking to the belt and also inhibits the accumulation of moisture, thereby preventing the build-up of dirt and hydrolysis. The belt is used mainly in the manufacture of particleboard, medium-density fiberboard (MDF) and oriented strand board (OSB). OSB is high-quality waferboard that is produced in an environmentally friendly way using a high proportion of recycled wood materials.

Investments to drive future growth
While continuing to invest in expansion in growth markets, we have also invested in new technologies and efficiency-enhancing measures in various fabrication and production facilities in order to promote sustainable growth and further improve customer service. The purchase of local, customer-specific tools for fabrication processes helps us streamline the handling of assembly orders. These are state-of-the-art tools such as cutting machines, heat presses, cooling stations, punch presses using waterjet technology, bending machines, and laser measurement systems.

The biggest capital expenditure item of Movement Systems at present, however, is the new plant in Pinghu, China, which will provide additional production capacity for Transilon conveyor belts, mainly for the Asia/Pacific region. The plant is slated to come on stream mid-2018.

Operational excellence remains the focus
The successful start-up of operations at Pinghu will certainly be one of the key topics in the 2018 business year. At the same time we are working on optimizing various global areas of operations in order to further improve customer satisfaction in terms of delivery times and increase both our productivity and our efficiency.

We will continue to expand our product offering with innovative ideas that are geared specifically to the needs of our varied customer segments and thus position ourselves in a wide range of industries with added value in production or logistics processes and further strengthen our global market position.

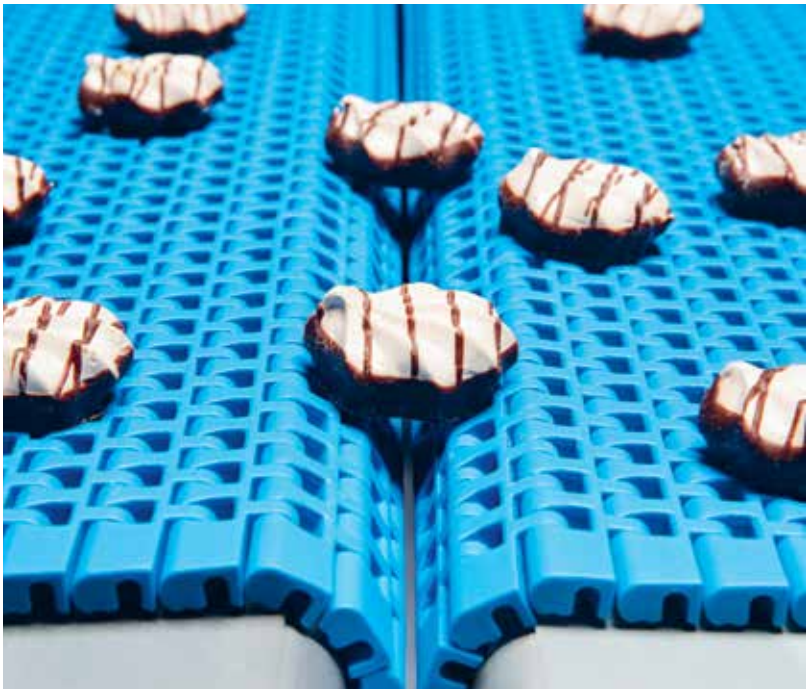
GUARANTEEING SEAMLESS PRODUCTION

You will find Movement Systems present wherever power is transmitted and automated production and conveyor processes have to run smoothly. Our solutions for different configurations and requirements across a wide range of industries are renowned for innovation, precision, reliability, and cost effectiveness. In the year under review, Movement Systems again demonstrated that it is a professional partner in the development of industry-specific and customized solutions.

In keeping with our strategic goals, we have selectively expanded in particular the range of Extremultus high-efficiency flat belts and Prolink plastic modular belts as well as our main product group, the Transilon conveyor belts. In the two examples from the food-processing industry described hereafter, we show how the challenges arising in connection with customer installations continuously inspire Movement Systems to develop innovative solutions. Our processing and conveyor belts are the ideal choice for the production of food, where strict hygiene standards and regulations have to be adhered to. Geared to individual needs and equipped for the stringent requirements of the food-processing industry, they ensure efficiency, quality, hygiene, and careful transportation of goods.

Plastic modular belt for the pastries industry

The product portfolio of the Prolink plastic modular belts features important innovations for the food industry. The new Series 14 supplements the product range, especially for the pastries industry with refrigeration and packaging lines on which small confectionery items such as cookies, crackers, and snacks have to be carefully transported during processing and packaging, without any damage or loss across narrow transfer gaps. This series is also suitable for the processing of meat, poultry, fish and seafood, as well as fruit and vegetables.



PROLINK SERIES 14

EXTREMULTUS WEIGHING BELT

The robust design with its single-row sprocket construction ensures that goods remain securely on the belt as well as excellent belt tension and wear resistance. The closed, solid belt edge prevents damage at the edges. Moreover, the new headless pin system simplifies belt assembly and dismantling for maintenance.

'INDUSTRY-SPECIFIC INNOVATIONS'

Highly elastic weighing belt

Movement Systems has developed a new, highly elastic Extremultus belt especially for use in check-weighing systems. This innovation is already enjoying great popularity among weighing system manufacturers. Weighing is needed mostly as part of other processes such as packaging, labeling, portioning, or cutting, for example in the case of food or in the packaging of screws or plastic parts. Our polyurethane belt meets the latest hygiene requirements and is remarkable for its special construction, its elasticity, and the resulting tracking properties; with these features it's ideal for use in an extremely wide range of processes in the food and packaging industries. Elastic belts are easy to track when short center distances apply, thus saving the use of complicated belt handling devices. Other advantages are outstanding resistance to grease, oils, and aggressive cleaning agents and to the buildup of moisture (hydrolysis). The new Extremultus belt is thermally stable up to 60° C and is antistatic.

ORGANIZATION

EXECUTIVE BOARD

Matthias P. Huenerwadel, Urs Uehlinger, Stephan Bauer, Jean-Michel Wins

Stephan Bauer
Chief Executive Officer

Stephan Bauer was born in 1961 and is a German citizen. He took a degree in Engineering and Management at the Munich University of Applied Sciences (FH) and began his professional career at BMW in Munich in 1987 as a project manager for the launch of new vehicle models. From 1991 to 2008 he worked for Siemens VDO Automotive AG (which became Continental Automotive in 2007) in various regional and global management positions in the field of sales and marketing and general management. In 2004 he was appointed CEO of Diesel Systems. From 2008 to 2013 Stephan Bauer was CEO and President Control Products & Systems at the Siemens Building Technologies division, where he was responsible for the entire product spectrum. He joined our company in September 2013 and took over the position of Chief Executive Officer and Chairman of the Executive Board of the Forbo Group as of January 2014.

Urs Uehlinger
Chief Financial Officer

Urs Uehlinger was born in 1966 and is a Swiss citizen. He completed his studies in economics at the University of Zurich with the degree lic. oec. publ. From 1994 to 2001, he worked for ABB Brown Boveri, where he was in audit and finance functions for almost three years before being appointed CFO in two Group companies, one for three years, the other for a year. From 2001 to 2004, he was self-employed as the owner of Uehlinger & Partner, with mandates relating to CFO tasks. From 2004 to 2016, he held various positions at Siemens Building Technologies: for four years he was head of Risk Management, in the three following years CFO of the HVP Heating & Ventilation Products business unit, and then for five years CFO of the CPS Control Products & Systems business unit. Urs Uehlinger joined the Forbo Group in January 2017 and, after an introduction period, took over the function of Chief Financial Officer and was appointed to the Executive Board effective May 2017.

Matthias P. Huenerwadel
Executive Vice President Flooring Systems

Matthias P. Huenerwadel was born in 1968 and is a Swiss citizen. He studied engineering at the Federal Institute of Technology (ETH) in Zurich, 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 USA, 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 joined the Forbo Group as a member of the Executive Board in October 2005 where he was appointed head of the Movement Systems division. He has been head of the Flooring Systems division since January 2013.

Jean-Michel Wins
Executive Vice President Movement Systems

Jean-Michel Wins was born in 1967 and is a Belgian as well as German citizen. He studied business administration and languages at the IPET in Nivelles, Belgium, and began his professional career in Germany at Calberson GmbH, where he held various specialist functions. He then moved to Simut Sicherheit GmbH for two years, where he was in charge of sales and marketing. From 1992 to 1996 he was Export Manager at Brabus GmbH and from 1996 to 2002 he held various sales and managerial functions at Hirschmann Electronics. In 2002 he switched to Grammer AG, headquartered in Germany, where he held a number of international sales and senior management positions; in 2009 he was appointed Vice President responsible for the Offroad Seating Business Unit. As a member of the Executive Board, Jean-Michel Wins took over management of the Movement Systems division in January 2013.

GROUP STRUCTURE

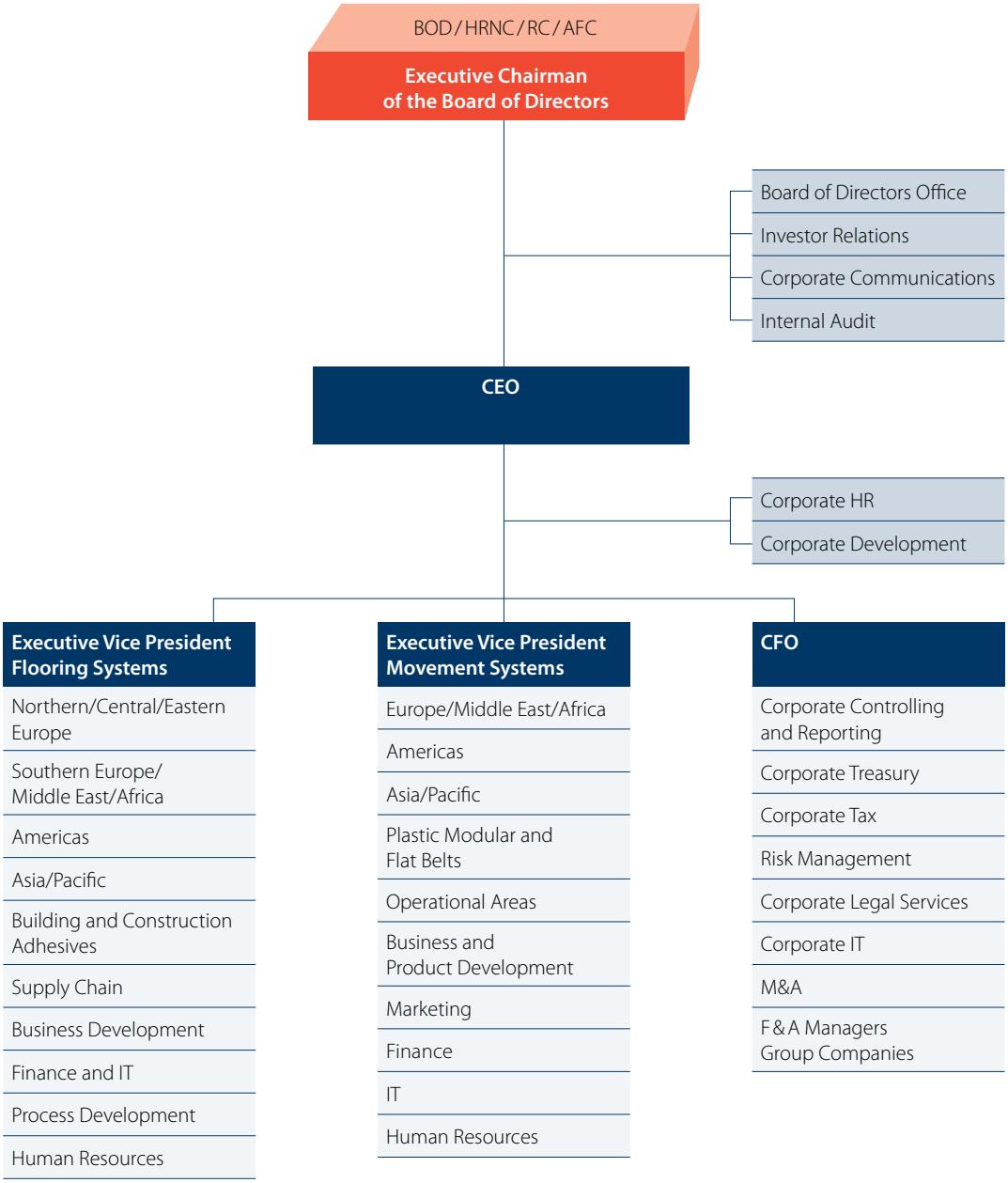
Forbo has performed better than average in the last 13 years compared with other exchange-listed companies. With its two focused divisions, the Group is now a world leader in its markets, free of debt, and in possession of considerable resources for further strategic development. In line with its strategy, Forbo is tasked with maintaining its successful performance of recent years, on the one hand, and – with the means available – of reinforcing and expanding its positions in the global market through strong organic growth and acquisitions, on the other hand.

Tasks of the Executive Chairman of the Board of Directors

- Leading the Board of Directors
- Preparing the decisions of the Board of Directors and ensuring they are executed
- Representing and positioning the Group in the public
- Overall management of strategy development and involvement in realizing key strategic projects
- Management of relationships with key accounts and business as well as sector and capital market partners

Tasks of the Chief Executive Officer

- Operational management of the Group
- Leading the Executive Board
- Development and operational implementation of the strategies
- Implementation and monitoring of multi-year planning and budgets
- Supporting the Executive Chairman of the Board of Directors in preparing important projects relating to strategy as well as personnel and finances for discussion and decision-taking by the Board of Directors



BOD Board of Directors
HRNC Human Resources and Nomination Committee
RC Remuneration Committee
AFC Audit and Finance Committee

Member of the Executive Board

BOARD OF DIRECTORS

Vincent Studer, Michael Pieper, Claudia Coninx-Kaczynski, This E. Schneider, Dr. Peter Altorfer, Dr. Reto Müller

This E. Schneider
Executive Chairman

Member of the Board of Directors of Rieter Holding AG, Winterthur
Member of the Board of Directors of Autoneum Holding AG, Winterthur

Michael Pieper
Vice Chairman

Owner of the Artemis Holding AG, Hergiswil
Chairman of the Management Board of Artemis Group, Hergiswil
Member of the Board of Directors of various Artemis and Franke subsidiaries worldwide
Member of the Board of Directors of Arbonia AG, Arbon
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
Member of the Board of Directors of Reppisch-Werke AG, Dietikon

Dr. Peter Altorfer
Vice Chairman

Partner at the law firm Wenger & Vieli AG, Zurich
Member of the Board of Directors of agta record ag, Fehraltorf
Member of the Board of Directors of BIH SA, Rapperswil-Jona
Member of the Board of other private and foreign banks as well as non-listed investment and real-estate companies in Switzerland

Claudia Coninx-Kaczynski
Member

Member of the Board of Directors of Swisscontent AG, Zurich
Member of other Boards of Trustees

Dr. Reto Müller
Member

Partner at BLR & Partners AG, Thalwil
Chairman of the Board of Directors of Utz Holding AG, Bremgarten
Chairman of the Board of Directors of Riri Group, Mendrisio
Member of other Boards of Directors and Advisory Boards

Vincent Studer
Member

Partner, member of the Board of Directors and of the 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

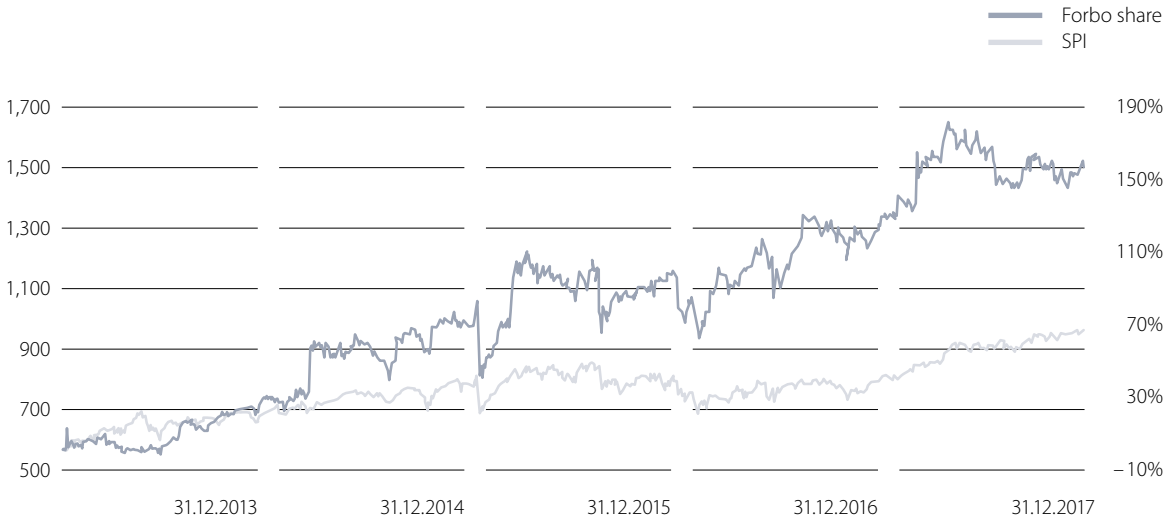
2017 was a good year for the Swiss equity market, with stock markets benefiting from a prolonged low-interest environment and a corresponding dearth of investment alternatives. The good performance was helped along by the stable economic situation.

The Swiss Performance Index (SPI) got off to a strong start in 2017 and after only six trading days was a good 2.5 percentage points above the end-2016 level. By early May the SPI reached the 10,000 mark for the first time and by mid-May performance was up by over 15 percent. The market eased off temporarily during the summer, but by early October share prices had started to climb again. Shortly after mid-December, the SPI reached an all-time high of 10,827 points and closed the year at 10,751, reflecting an annual performance of +19.9%.

For some years now the Forbo share has steadily and sustainably put in better-than-average performances. In 2017 the share price tracked the SPI until March, when the Group announced its 2016 annual results. The Forbo share then posted significant gains, reaching an all-time high of CHF 1,669 in the first half of May. This works out at an increase of a good 27 percent versus the price at year-end 2016 (CHF 1,313). In the course of the subsequent corrections, the Forbo share stabilized at the level of the SPI by the end of July 2017. Until early November, the share price again tracked the SPI, which mainly trended sideways in the final weeks of the year. The Forbo share closed 2017 at CHF 1,505, which means that it gained 14.6% in the course of 2017.

Taking the trend since the end of 2005 into consideration, the Forbo share has outperformed the SPI by a factor of almost five.

The Forbo share in comparison to the SPI



Share capital

		2017 Number	2016 Number	2015 Number	2014 Number	2013 Number
Issued registered shares[1]		1,800,000	1,800,000	1,990,000	2,150,000	2,250,000
Thereof:						
Shares outstanding		1,704,444	1,709,844	1,708,458	1,888,850	2,032,703
Share buyback programs		63,105	0	190,000	158,467	99,470
Other treasury shares		11,032	68,737	70,123	81,264	96,408
Reserve shares (without dividend rights)		21,419	21,419	21,419	21,419	21,419

Issued nominal capital

		CHF	CHF	CHF	CHF	CHF
Total		180,000	180,000	199,000	215,000	225,000
Thereof:						
Shares outstanding		170,444	170,984	170,846	188,885	203,270
Share buyback programs		6,311	0	19,000	15,847	9,947
Other treasury shares		1,103	6,874	7,012	8,126	9,641
Reserve shares (without dividend rights)		2,142	2,142	2,142	2,142	2,142

Data per share

		CHF	CHF	CHF	CHF	CHF
Group shareholders' equity per share[2]		383	364	300	371	380
Group profit per share (undiluted)[2] [3]		22.4	74.7	62.1	62.0	56.8
Gross dividend and cash distribution		19.00[4]	19.00	17.00	16.00	14.00
Gross dividend yield (in %)	High	1.1[5]	1.4[5]	1.4[5]	1.5[5]	1.8[5]
	Low	1.4[5]	2.0[5]	2.1[5]	2.2[5]	2.4[5]
Payout ratio[6] (in %)		85	25	27	26	26

Stock market statistics

		CHF	CHF	CHF	CHF	CHF
Share price	High	1,669	1,367	1,255	1,043	769
	Low	1,324	960	811	719	580
	Year-end	1,505	1,313	1,182	995	762
Market capitalization (m)[7]	High	3,004	2,461	2,497	2,242	1,730
	Low	2,383	1,728	1,613	1,545	1,305
	Year-end	2,709	2,363	2,352	2,138	1,715

1) Par value per share in 2017, 2016, 2015, 2014 and 2013: CHF 0.10
2) Based on the weighted average of the number of shares as set out in note 13 'Earnings per share' on page 114 of the financial report.
3) See note 13 'Earnings per share' on page 114 of the financial report.
4) Proposal of the Board of Directors to the 2018 Ordinary General Meeting.
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) Total number of shares multiplied by the corresponding 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 that are designed to protect the company's long-term 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 138 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, 2017, 3,711 shareholders were listed in the share register of Forbo Holding Ltd, or 989 (36%) more than in the previous year. As of December 31, 2017, Forbo Holding Ltd knew of the following significant shareholders with a holding of more than 3%:

	31.12.2017 as a percentage
Michael Pieper[1)]	27.01
Forbo Holding Ltd[2)]	5.31
UBS Fund Management (Switzerland) AG	3 – 5
BlackRock Inc.	3 – 5
JPMorgan Chase & Co.	3 – 5

1) Michael Pieper holds his interest directly and indirectly through Artemis Beteiligungen I AG.
2) 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 120 of the Financial Market Infrastructure Act (FMIA) and the provisions of the Ordinance of the Swiss Financial Market Supervisory Authority on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FMIO-FINMA).

Below is a summary of the latest disclosure notices published in the year under review:

On March 16, 2017, JPMorgan Chase & Co. reported that it had exceeded the 3% threshold and that it held 54,614 shares and 490 equity swaps indirectly, corresponding to 3.061% of the voting rights.

BlackRock Inc. reported on September 2, 2017, that it had exceeded the 3% threshold and that it held 59,871 shares, 339 voting rights to be exercised at its own discretion, and 5,200 contracts for difference, corresponding to 3.63% of voting rights altogether.

On December 1, 2017, Forbo Holding Ltd reported that it had exceeded the threshold of 5% and that it held 95,973 of its own shares, corresponding to 5.33% of the voting rights, directly or indirectly via Forbo International SA, Baar, Switzerland and Forbo Finanz AG, Baar, Switzerland.

Full disclosure reports and all further published disclosure notices can be consulted on the publication platform of the disclosure office of the SIX Swiss Exchange (www.six-exchange-regulation.com → Publications → Significant shareholders).

For further information on significant shareholders or shareholder groups, we refer the reader to the table on page 56 and to page 156 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, 2017, Forbo Holding Ltd had a fully paid up share capital of CHF 180,000, divided into 1,800,000 listed registered shares, each with a par value of CHF 0.10. Of this amount:

– 68.44% were registered in the name of 3,673 shareholders with voting rights
– 27.21% were shares of banks or of SIX SIS AG pending registration of transfer
– 4.35% 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 52 and 53. Further information on the rights of participation associated with shares can be found on pages 67 and 68 of this Annual Report.

The fixed-price share buyback for the reduction of share capital launched by the Board of Directors on November 16, 2017, based on the authorization given by the Ordinary General Meeting of Forbo Holding Ltd of April 6, 2017, was completed on November 29, 2017. At one of the forthcoming Ordinary General Meetings, the Board of Directors will propose a capital reduction by cancelation of the 63,105 registered shares repurchased as part of this share buyback. The share buyback program approved by the 2017 Ordinary General Meeting for a maximum of 10 percent of the share capital will remain in effect. The program is scheduled to end at the Ordinary General Meeting in 2020.

Conditional and authorized capital
Pursuant to Clause 4 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 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 Clause 6 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
No changes to the capital of Forbo Holding Ltd were made in the year under review.

The Ordinary General Meeting of Forbo Holding Ltd on April 29, 2016, decided, based on the audit report of a licensed audit expert, to reduce the ordinary share capital of the company by CHF 19,000 from CHF 199,000 to CHF 180,000 by canceling 190,000 shares with a par value of CHF 0.10 each. It was further decided to amend the Articles of Association accordingly. The capital reduction was effected, and the new share capital of CHF 180,000 was entered in the Commercial Register on July 14, 2016.

The Ordinary General Meeting of Forbo Holding Ltd on April 24, 2015, decided, based on the audit report of a licensed audit expert, to reduce the ordinary share capital of the company by CHF 16,000 from CHF 215,000 to CHF 199,000 by canceling 160,000 shares with a par value of CHF 0.10 each. The Articles of Association were amended accordingly.

Participation certificates and non-voting equity securities ('Genussscheine')
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 Clause 6 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.

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. Details on the long-term incentive plan for the Executive Board, introduced in the year under review, under which future subscription rights are outstanding, can be found in the Remuneration Report on pages 81 and 82, 84 and 85 as well as on page 126.

Board of Directors

Members of the Board of Directors
The cut-off date for the following information is December 31, 2017.

With the exception of This E. Schneider, Executive Chairman of the Board of Directors, none of the members of the Board of Directors listed below holds or has held any operational management positions 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.

This E. Schneider, Executive Chairman
This E. Schneider, born in 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 holding various management functions in Europe and the USA, he joined the Executive Board of Schmidt Agency, where he was responsible for strategic planning, operations and logistics from 1984 to 1990. From 1991 to 1993, he was 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. From March 2004 to December 2013, This E. Schneider was Delegate of the Board of Directors and CEO, and from January to April 2014 Delegate of the Board of Directors of the Forbo Group. He has been the Executive Chairman of the Board of Directors since the Ordinary General Meeting of 2014. This E. Schneider is also a member of the Board of Directors of Rieter Holding AG and Autoneum Holding AG.

Michael Pieper, Vice Chairman
Michael Pieper, born in 1946, is a Swiss citizen. He studied economics (lic. oec. HSG) at the University of St. Gallen. He has been with the Artemis Group (formerly the Franke Group) since 1988 and has been its owner and CEO since 1989. Among others, he is a member of the Board of Directors of Arbonia AG, Berenberg Bank (Schweiz) AG, Rieter Holding AG and Autoneum Holding AG. He was first elected to the Board of Directors of Forbo Holding Ltd in 2000.

Dr. Peter Altorfer, Vice Chairman
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. He subsequently joined the law firm Wenger & Vieli in Zurich, where he is now a partner, specializing in bank and company law as well as estate planning. Peter Altorfer sits on the Board of Directors of several companies, including agta record ag in Fehraltorf, BIH SA in Rapperswil-Jona, and various private and foreign banks, as well as 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.

Claudia Coninx-Kaczynski
Claudia Coninx-Kaczynski, born in 1973, is a Swiss citizen. She took a degree in law at the University of Zurich (lic. iur.) and earned her Master of Law (LL. M.) at the London School of Economics and Political Sciences. From 2006 to 2011, she managed the business of Faerbi Immobilien AG (subsequently Rietpark Immobilien AG) in Zurich as a member of the Board of Directors. Subsequently until 2014, she implemented various projects for P. A. Media AG and Swisscontent AG in Zurich (M & A among others). Between 2013 and 2016, she was a member of the Board of Directors of Tamedia AG, where in 2017 she was appointed Chairwoman of the Pool of Majority Shareholders. She is a member of the Board of Directors of Swisscontent AG and sits on other Boards of Trustees. She has been a member of the Board of Directors of Forbo Holding Ltd since April 2014.

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 of companies, for which he worked from 1984 to 2016. From 2000 to 2011, he was the CEO and Chairman of the Board and from 2011 to 2016, he was the full-time Chairman of the Board of Helbling Holding AG. Between 2002 and 2010, Reto Müller was either a member or Chairman of the Regional Economic Advisory Board (Zurich) of the Swiss National Bank. He was a member of the Council of SWISSMEM between 2008 and 2016. He is partner at BLR & Partners AG as well as Chairman of the Board of Directors of Utz Group, Riri Group and is on other Boards of Directors and Advisory Boards. He has been a member of the Board of Directors of Forbo Holding Ltd since April 2011.

Vincent Studer
Vincent Studer, born in 1962, is a Swiss citizen. He graduated from the University of Applied Sciences, Berne, and trained as a Swiss certified public accountant. In addition, he has completed various national and international training courses. From 1991 to 2008, Vincent Studer worked at Ernst & Young AG as an external auditor and was head auditor responsible for auditing 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 and since 2015 a member of the Board 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. He holds further directorships 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 as per December 31, 2017

	First elected at OGM	AFC	HRNC	RC
Executive Chairman				
THIS E. SCHNEIDER	2004	–	–	–
Executive Director				
Vice Chairmen				
MICHAEL PIEPER	2000	–	M	M
Non-executive Director				
DR. PETER ALTORFER	2005	M	C	C
Non-executive Director				
Members				
CLAUDIA CONINX-KACZYNSKI	2014	–	M	M
Non-executive Director				
DR. RETO MÜLLER	2011	M	–	–
Non-executive Director				
VINCENT STUDER	2009	C	–	–
Non-executive Director				
Secretary of the Board of Directors				
NICOLE GRAF				
Non-member				

GV: Ordinary General Meeting
AFC: Audit and Finance Committee
HRNC: Human Resources and Nomination Committee
RC: Remuneration Committee
C: Chair
M: Member

Statutory regulations governing the number of permissible activities pursuant to Article 12 Paragraph 1 Section 1 OaER

In accordance with Clause 22 of the Articles of Association, members of the Board of Directors may hold no more than five mandates in listed companies and twenty mandates in unlisted legal entities. A mandate is defined as any activity on the senior managerial or supervisory bodies of legal entities that are entered in the Swiss Commercial Register or comparable foreign registers and do not belong to the Forbo Group. Mandates with associated companies outside the Forbo Group are deemed to be a single mandate.

Election and term of office

The members of the Board of Directors are elected in individual votes for a one-year term of office, in accordance with the Ordinance against Excessive Remuneration in Listed Public Companies (OaER). A year is defined as the period between two Ordinary General Meetings. 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 Board may, however, approve exceptions. 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.

The Articles of Association of Forbo Holding Ltd do not contain any regulations that deviate from the statutory provisions for the appointment of the Chairman, the members of the Remuneration Committee, and the independent proxy.

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 61.

Decisions are as a general rule taken by the full Board of Directors. The Board constitutes three standing committees from its own ranks – the Audit and Finance Committee (AFC), the Human Resources and Nomination Committee (HRNC), and the Remuneration Committee (RC) – to deal with clearly defined subject areas of overriding importance. These three committees have mainly advisory and control functions. The members of the AFC and HRNC are elected by the Board of Directors on an annual basis and can be dismissed at any time. The members of the RC are elected annually by the Ordinary General Meeting.

As a rule, the Executive Chairman of the Board of 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 Executive Chairman. He monitors the execution of the measures adopted by the Board. He is the direct superior of the CEO, is in regular contact with him, and has an advisory and supervisory function. In addition, the Executive Chairman represents the Board and the Forbo Group vis-à-vis the public, the authorities, and the shareholders. The tasks of the Executive Chairman of the Board and the demarcation of responsibilities from those of the CEO are set out in the chapter 'Areas of responsibility'.

The Vice Chairmen are tasked with deputizing for the Executive Chairman should the latter be prevented from attending for any reason. In accordance with the Organizational Regulations and actual practice, the Vice Chairmen have no further duties.

The Vice Chairmen are elected by the Board of Directors.

The Board of Directors meets on being convened by the Executive Chairman as often as business requires but at least four times a year. 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 2017, the Board of Directors met five times, with meetings usually lasting a whole day.

The Executive Chairman 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, the RC or the HRNC 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 AFC advises the Board of Directors in respect of its duties on behalf of the Group 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 2017 business year, two 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 and at the meeting to discuss the scope of the audit and the audit fee. The Ernst & Young representatives responsible for internal auditing attended both meetings held to discuss the internal audit reports.

Human Resources and Nomination Committee
We refer to the explanations in the remuneration report on pages 74 and 75.

Remuneration Committee
We refer to the explanations in the remuneration report on page 75.

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
– overall supervision of the persons entrusted with managing the company, particularly with respect to compliance with the law, Articles of Association, regulations, and directives
– preparation of the Annual Report as well as of the General Meeting and implementation of its resolutions
– preparation of the remuneration report
– 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, HRNC, and RC, 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.

Tasks of the Executive Chairman of the Board of Directors:

– leading the Board of Directors
– preparing the decisions of the Board of Directors and ensuring they are executed
– representing and positioning the Group in the public
– overall management of strategy development and involvement in realizing key strategic projects
– management of relationships with key accounts and business, sector and capital market partners

Tasks of the Chief Executive Officer:

– operational management of the Group
– leading the Executive Board
– development and operational implementation of strategies
– implementation and monitoring of multi-year planning and budgets
– support for the Executive Chairman of the Board of Directors in preparing important projects relating to strategy, personnel, and finances for discussion and decision-taking by the Board of Directors

The CEO reports to the Executive Chairman of the Board of Directors and as a rule participates in all Board meetings dealing with topics that are relevant for the exercise of his function. He himself though is not a member of the Board of Directors. All business management tasks that are not allocated to the Board of Directors or the Executive Chairman of the Board and that do not require the approval of the Board of Directors are delegated to the CEO and are conducted by him on his own responsibility. The CEO is responsible for ensuring compliance with the provisions of the law, the Articles of Association, and regulations throughout the Forbo 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.

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

Information and control instruments vis-à-vis the Executive Board
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 Executive 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, the HRNC, and the RC report at the Board of Directors meetings on the activities of their committees and express the opinions and recommendations of the AFC, HRNC or RC 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, HRNC, and RC meetings. The Executive Board reports to the AFC through the CFO in consultation with the CEO; it reports to the HRNC and RC 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 Executive Chairman and the two Vice Chairmen are in regular contact when essential policy issues are involved. For important, particularly urgent events, the CEO informs the Executive Chairman of the Board of Directors immediately.

The Executive Board meets as often as business requires, normally once a month. In the 2017 business year, twelve meetings were held, with the meetings usually lasting half a day.

The 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 and on the AFC, HRNC, and RC on pages 62 and 63, as well as 74 and 75.

The Board of Directors furthermore fulfils 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 2017 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 normally 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 May and in a second estimate mid-October. 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 Executive Chairman of the Board of Directors, is functionally independent, and reports directly 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 2017, a total of six internal audits were conducted. The internal audits were restricted to selected business processes. In its review of audited Group companies, the 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 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.

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 132 to 136 of the financial report for more information on this subject.

With regard to the risk management process, the reader is referred to the relevant explanations on pages 132 to 136 (note 32 'Risk assessment and financial risk management') of the financial report.

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 page 45 of this Annual Report.

Statutory regulations governing the number of permissible activities pursuant to Article 12 Paragraph 1 Section 1 OaER
In accordance with Clause 22 of the Articles of Association, members of the Executive Board may hold no more than two mandates in listed companies and seven mandates in unlisted legal entities. The acceptance of mandates by members of the Executive Board is subject to prior approval by the Board of Directors. A mandate is defined as any activity on the senior managerial or supervisory bodies of legal entities that are entered in the Swiss Commercial Register or comparable foreign registers and do not belong to the Forbo Group. Mandates with associated companies outside the Forbo Group are deemed to be a single mandate.

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

Compensation, shareholdings, and loans

For the relevant information we refer to the remuneration report from page 73.

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 the 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 the legal representative, the independent proxy, or another shareholder who is registered in the share register.

Electronic participation in the General Meeting
Clause 12 of the Articles of Association defines the rules for electronic issuing of instructions to the independent proxy; the precise modalities for this are defined by the Board of Directors. In accordance with Clause 14 of the Articles of Association, voting and elections at the General Meeting are in principle conducted electronically, unless the General Meeting decides that the ballot should be in writing or by a show of hands or the Chairman orders such a ballot procedure.

Statutory quorums
The Articles of Association of Forbo Holding Ltd do not provide for quorums that are larger than those stipulated by law for decisions of the General Meeting.

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
In accordance with Clause 12 of the Articles of Association, the Board of Directors, in its invitation to the General Meeting, announces the cut-off date for entries in the share register authorizing shareholder participation and voting.

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 Articles 135 and 125 of the Financial Market Infrastructure Act.

Clause on changes of control
As per year-end 2017, 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 Auditor in Charge
KPMG has been the Forbo Group's auditors since 2015. The auditors are elected every year by the Ordinary General Meeting on a proposal by the Board of Directors. Rolf Hauenstein has been the Auditor in Charge since April 24, 2015.

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 0.1 million in 2017. These fees consist in the main of general tax advice as well as general advice.

Information instruments of the external auditors
The external auditors prepare as needed for the Executive Chairman of the Board of Directors, 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, if required, 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, punctual delivery of audit reports, 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 a timely fashion on business trends and activities relevant to the company. The Executive Chairman of the Board of Directors 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, and road shows are further information tools for the media and the capital market.

Ad hoc communication
Registration for the automated dissemination of ad hoc releases in accordance with the guideline on ad hoc publicity of the SIX Swiss Exchange is available at the following addresses:

www.forbo.com → Medien → Medienmitteilung 'Subscription Service'
www.forbo.com → Media → Media releases 'subscription service'

Notification to shareholders takes place through publication in the company's official publication provided no other form of information is stipulated. Written notification to shareholders takes place through a simple letter to the addresses listed in the share register.

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:
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REMUNERATION REPORT

REMUNERATION REPORT

Introduction

The report meets the provisions of the Ordinance against Excessive Remuneration in Listed Public Companies (OaER), which came into effect on January 1, 2014, and consequently fulfils the requirements of the Swiss Code of Obligations.

Once a year, in a separate and binding ballot, the Ordinary General Meeting approves the maximum sum for the total remuneration to be paid to the Board of Directors for the business year following the Ordinary General Meeting. In addition, a vote is taken on the maximum total amount of fixed remuneration to be paid to the Executive Board for the business year following the Ordinary General Meeting, the amount of short-term variable remuneration (bonus/short-term incentive) to be paid to the Executive Board for the business year preceding the Ordinary General Meeting, as well as the maximum total amount of the long-term participation (long-term incentive) for the Executive Board for the year of the respective Ordinary General Meeting.

The variable remuneration model for the Executive Board with the short-term incentive was supplemented by a long-term participation (long-term incentive) component, effective as of January 1, 2017. This long-term incentive consists of a performance share unit plan. Its aim is to link a significant portion of the Executive Board's remuneration even more closely with the company's long-term success and to make it more responsive to shareholders' interests. Details on the long-term incentive can be found in the chapter 'elements of remuneration of the Executive Board' on pages 80 to 82.

In this context, the Ordinary General Meeting of April 6, 2017, approved by a large majority a relevant amendment to the Articles of Association and also approved the maximum total sum of the long-term incentive paid to the Executive Board for the year 2017.

Owing to this change in the remuneration system effective as of 2017, shareholders will vote individually at the 2018 Ordinary General Meeting on the following four remuneration payments:

- Maximum total remuneration for the Board of Directors for 2019
- Maximum fixed remuneration for the Executive Board for 2019
- Short-term variable remuneration of the Executive Board for 2017 (bonus/short-term incentive)
- Maximum total amount of the long-term participation for the Executive Board for 2018 (long-term incentive plan 2018 – 2020)

The total remuneration was approved by a large majority in a consultative vote on the 2016 remuneration report at the Ordinary General Meeting of April 6, 2017 (agenda item 6.1). Participants in the 2018 Ordinary General Meeting will also be invited to vote in a consultative ballot on the entire 2017 remuneration report.

Content and methodology for determining the remuneration

The Human Resources and Nomination Committee (HRNC): task and function
The Human Resources and Nomination Committee (HRNC) advises the Board of Directors in exercising its responsibilities for the Group in matters relating to human resources and nominations both for the Board of Directors and the most senior level of management. More specifically, the HRNC formulates personnel policy proposals for appointments to the Board of Directors and to the posts of Chairman, CEO, and other Executive Board members for submission to the Board of Directors. Furthermore, it assesses and approves the proposals of the Executive Chairman of the Board and the CEO regarding Executive Board appointments and employment contracts. It also approves the acceptance of mandates by members of the Executive Board in companies that are not part of the Forbo Group.

The Human Resources and Nomination Committee meets as often as business requires, but at least twice a year. In the 2017 business year, the HRNC held two meetings, both lasting a couple of hours.

The Human Resources and Nomination Committee consists of at least two members of the Board of Directors. The Ordinary General Meeting of April 6, 2017, elected Dr. Peter Altorfer (Chair), Claudia Coninx-Kaczynski and Michael Pieper to the HRNC for the 2017 business year.

The Remuneration Committee (RC): task and function

The Remuneration Committee supports the Board of Directors in defining the principles of remuneration policy and in determining the remuneration paid to members of the Board of Directors and the Executive Board out of the total sum of remuneration as approved by the Ordinary General Meeting. It supports the Board of Directors in drawing up participation programs and in all other tasks related to remuneration. The Remuneration Committee formulates appropriate recommendations for submission to the Board of Directors. The Board of Directors may delegate further duties and powers to the Remuneration Committee. The Executive Chairman of the Board of Directors is regularly invited to its meetings in an advisory capacity, as is the CEO in certain circumstances. Agenda items and matters directly affecting the function or the person of the Executive Chairman of the Board of Directors or the CEO are deliberated in their absence.

The Remuneration Committee meets as often as business requires, but at least twice a year. In the 2017 business year, the Remuneration Committee held two meetings, each lasting a couple of hours.

The Remuneration Committee consists of at least two members of the Board of Directors. The Ordinary General Meeting of April 6, 2017, elected Dr. Peter Altorfer (Chair), Claudia Coninx-Kaczynski and Michael Pieper to the Remuneration Committee for the 2017 business year. The members of the Remuneration Committee are independent (non-executive) members of the Board of Directors, i.e. they have never belonged to the management of Forbo and have no, or only negligible, business relations with the company, though they may be shareholders.

Decision-making process of the Remuneration Committee

The maximum amount of the total remuneration paid to the Board of Directors and the maximum fixed remuneration paid to the Executive Board are usually determined by the Remuneration Committee once a year in the spring for the following business year and are submitted to the Board of Directors for acceptance at its March meeting. The amount of the short-term variable remuneration (bonus/short-term incentive) and the definition and objectives of the long-term participation (long-term incentive) for the Executive Board are determined by the Remuneration Committee once a year in November for the following year.

	Proposal	Acceptance	Approval
Remuneration budget			
Maximum total remuneration of the Board of Directors	RC	BoD	Ordinary General Meeting for the following business year
Maximum fixed remuneration of the Executive Board	RC	BoD	Ordinary General Meeting for the following business year
Short-term variable remuneration of the Executive Board (bonus/short-term incentive)	RC	BoD	Ordinary General Meeting for the preceding business year
Maximum total amount of the long-term participation for the Executive Board for 2017 (long-term incentive)	RC	BoD	Ordinary General Meeting for the current business year
Performance targets			
Performance targets – Executive Board regarding short-term variable remuneration (bonus/short-term incentive)	RC	BoD	
Performance targets – Executive Board regarding long-term participation (long-term incentive)	RC	BoD	
Performance targets – CEO	RC	BoD	

Important changes in 2017

An important change was made to the Executive Board's remuneration system. The hitherto short-term variable remuneration (bonus/short-term incentive) was supplemented, effective as of January 1, 2017, by a long-term participation (long-term incentive plan). Its aim is to link a significant portion of the Executive Board's remuneration even more closely with the company's long-term success and to align it more closely with shareholders' interests. Details on the long-term incentive can be found in the chapter 'elements of remuneration of the Executive Board' on pages 80 to 82.

In 2017, however, there were no important changes in the remuneration system for the Board of Directors.

Principles of remuneration for the Board of Directors and the Executive Board

Forbo's remuneration strategy is geared to long-term and sustainable corporate development. The aim is to remunerate employees appropriately for their achievements, commitment, and performance, and thereby encourage their long-term loyalty to the company. The purpose of paying part of the remuneration in the form of shares is to link the interests of the managers to those of the shareholders. The portion of the remuneration paid in shares is derived from a fixed remuneration amount.

The members of the Board of Directors receive a fixed remuneration, the amount of which is determined based on whether the member is Board Chairman, a simple Board member or also a member of one of the Board committees. The remuneration is paid out to members of the Board of Directors partly in the form of locked-up shares in Forbo Holding Ltd.

The members of the Executive Board receive a fixed and a variable remuneration. The fixed remuneration is paid mainly in cash but may also include shares of Forbo Holding Ltd. The portion paid in shares is derived from a fixed remuneration amount. The variable remuneration consists of a short-term remuneration (bonus/short-term incentive) and a long-term participation (long-term incentive).

The bonus/short-term incentive is a short-term, performance-related remuneration, at least 50% of which must be taken in the form of locked-up shares of Forbo Holding Ltd (see the description of the management investment plan (MIP) on pages 80 and 81 of this Remuneration Report). The portion paid in shares is derived from a fixed remuneration amount. The bonus is derived from the achievement of individual (qualitative) targets by each Executive Board member and of financial (quantitative) targets by the company. Depending on the function and responsibilities of the Executive Board member in question, these financial targets may be derived from Group and/or divisional objectives. It may not exceed 200% of the fixed remuneration of the individual Executive Board member.

The long-term incentive is a long-term participation plan consisting of a performance share unit plan. At the start of the performance period, each member of the Executive Board is granted a given number of future subscription rights in the form of performance share units (PSUs). One PSU corresponds to a future subscription right to one share. The size of the PSU allocation corresponds to a defined percentage of the fixed remuneration. The PSUs are subject to a three-year vesting period. They are converted into vested shares only on condition that the Group's performance objectives are achieved. At the end of the performance period, the company will determine whether the objectives set by the Board of Directors at the start of the performance period for the performance indicators have been reached. Depending on the degree to which the objectives have been reached, a given percentage of the PSUs will be converted into shares, which are subject to a three-year vesting period.

The relevant statutory provisions governing the principles of performance-related remuneration, the distribution of shares, and the additional sum for remuneration of new members of the Executive Board who are appointed after the Ordinary General Meeting are set out in Chapter IV, pages 9 and 10 of the Articles of Association of Forbo Holding Ltd. These can be found at:
www.forbo.com → Investors → Ordinary General Meeting

Determining the remuneration of the Board of Directors

In order to determine the remuneration of the Board of Directors, the compensation paid to Board members of Forbo Holding Ltd is compared periodically with that paid to Board members of comparable industrial companies based on information that is available from publicly accessible sources and from respected market data providers or is known to Board members from their experience of office in similar companies. Industrial companies are regarded as comparable if they are similar to Forbo in terms of sector, structure, size (sales and number of employees), geographic presence, profitability, market capitalization, and complexity. As a general rule, no external consultants are co-opted for determining the remuneration.

The relevant statutory provisions governing the principles of performance-driven remuneration and the distribution of shares are set out in Chapter IV, pages 9 and 10 of the Articles of Association of Forbo Holding Ltd. These can be found at:
www.forbo.com → Investors → Ordinary General Meeting

Elements of remuneration for the Board of Directors

Non-executive members of the Board of Directors
The non-executive members of the Board of Directors receive a fixed remuneration, the amount of which is determined based on whether the member is Board Chairman, a simple Board member, or also a member of the Audit and Finance Committee (AFC), the Remuneration Committee (RC) or the Human Resources and Nomination Committee (HRNC). Of the remuneration, 40% is paid to the Board of Directors in shares of Forbo Holding Ltd. The portion paid in shares is derived from a fixed remuneration amount. These shares have a lock-up period of three years. The number of shares issued is determined on the basis of the average price in the ten stock market days after distribution of a dividend or repayment of par value. If no dividend is distributed or no par value repayment made, the average price during the first ten stock market days starting on June 1 of the relevant business year applies. The settlement or payment of the shares usually takes place in November.

For the purpose of reporting the remuneration, the shares issued are valued at fair value on the date of allocation. 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 usual social insurances.

The non-executive Board members do not participate in the management investment plan (MIP).

Executive Chairman of the Board of Directors
The compensation for the Executive Chairman of the Board of Directors is disclosed separately and included under total remuneration to the Board of Directors.

As the previous contract for the period from May 1, 2013, to December 31, 2016, had expired and the Ordinance against Excessive Remuneration in Listed Public Companies (OaER) had come into effect, a new contract was concluded with the Executive Chairman of the Board of Directors effective as of January 1, 2017 (details on the contract in effect from 2013 – 2016 can be found on pages 80 and 81 as well as 86 and 87), of the 2016 Annual Report.

The remuneration will again be paid mainly in locked-up shares, which have a lock-up period of three years. The annual cash payment of CHF 310,000 is used largely for employee contributions to the pension fund and social security (AHV and IV) and for other levies. The underlying share price used to calculate the number of shares is the weighted average price of the first ten days on which Forbo Holding Ltd shares were traded on the stock market in 2017, less the reduced value as a result of locking-up the shares (tax value of CHF 1,137.27 per share). The share package corresponds to annual compensation at fair value (excluding the reduction for the lock-up period) of CHF 2,263,404 (1,671 shares).

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 and can be sold in three years at the earliest. This compensation model is thus also geared to long-term and sustainable corporate development and is fully consistent with the interests of the company and its shareholders.

The total compensation for the Executive Chairman of the Board of Directors came to CHF 2,943,326 for the year under review. Contained in this amount and reported in the column 'Other payments' are employer contributions to the pension fund, other usual social insurances, private use of the company car, contributions for accident and health insurance, and location expenses. The Executive Chairman of the Board of Directors is not a party to the management investment plan (MIP) or the share-based compensation program of the Board of Directors.

Remuneration paid
For the remuneration paid to the Board of Directors in the year under review and the details concerning valuation of the shares, the reader is referred to pages 84 to 88 of this remuneration report.

Determining the remuneration of the Executive Board

Basic principles
In order to determine the remuneration of the Executive Board, criteria such as function, responsibility and experience are taken into account and the remuneration paid to Forbo Executive Board members is compared with that paid to Executive Board members in comparable industrial companies. This is based on information that is available from publicly accessible sources and from respected market data providers or is known to the members of the Remuneration Committee from their experience of office in similar companies. Industrial companies are regarded as comparable if they are similar to Forbo in terms of sector, structure, size (sales and number of employees), geographic presence, profitability, market capitalization, and complexity. As a general rule, no external consultants are co-opted for determining the remuneration.

Alignment of performance-based remuneration with the corporate strategy
The remuneration strategy of Forbo is geared to its current corporate strategy and linked to the relevant key ratios. This is reflected in the choice of performance criteria that are derived from Group and/or divisional objectives depending on the function of the individual Executive Board member; these include net sales, organic growth, EBIT, net working capital, return on net assets, free cash flow, and growth in earnings per share. The criteria for determining the remuneration paid to Executive Board members are thus transparent.

The Board of Directors is closely involved in the company's planning cycle. As a rule, the current corporate strategy is subjected to an in-depth review by the Board in the first half of the year. Once it has been confirmed or revised, the 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 examined and adopted by the Board of Directors in the fourth quarter.

The Board of Directors assesses the current business year by means of an initial estimate at the end of May and a second estimate in mid-October. On completion of the business year, the extent to which the budget has been reached is checked and deviations are analyzed. The actual amount of the variable remuneration paid out to the Executive Board is determined on the basis of the achievement of these individual targets. The Board of Directors defines the relation between budget target achievement and payment ratio.

The short-term, variable remuneration (bonus/short-term incentive) for the previous year is paid out on completion of the business year and after approval by the shareholders. In the case of the long-term participation (long-term incentive), the performance share units are allocated after approval by the Ordinary General Meeting; any entitlement arising therefrom is determined in March on completion of the three-year performance period and converted into vested shares.

The contributing factors/performance criteria determining the amount of the payout/share allocation of the variable remuneration components are linked directly to the company's success.

The chart below provides a detailed breakdown of the timeline and the interdependence of the corporate targets and the remuneration.

Planning cycle

	1st quarter	2nd quarter	3rd quarter	4th quarter
Ordinary General Meeting				
Corporate strategy				
Reviewing/amending strategy				
Establishing mid-term plan				
Establishing budget				
Working out remuneration				
Defining maximum total remuneration of Board of Directors				
Defining maximum total remuneration of Executive Board				
Approving total remuneration of Board of Directors and of fixed remuneration of Executive Board for following business year by the Ordinary General Meeting				
Setting targets for Executive Board				
Assessing target achievement and proposal for variable remuneration elements of Executive Board				
Approving short-term, variable remuneration of Executive Board for previous business year (bonus/short-term incentive)				
Approving maximum total amount of long-term participation of Executive Board for current business year (long-term incentive)				

Decision period

Elements of remuneration of the Executive Board

Remuneration of the members of the Executive Board consists of a fixed base salary and two variable compensation components, the bonus/short-term incentive and the long-term incentive.

Fixed remuneration
The fixed base remuneration paid to the Executive Board in the reporting year consists of the gross base salary, private company car use, and social security payments made by the company. The Remuneration Committee may also decide that part of the remuneration will be paid in the form of shares in Forbo Holding Ltd (lock-up period of five years).

Short-term variable remuneration (bonus/short-term incentive)
The bonus/short-term incentive is derived from qualitative (individual) and quantitative (financial) targets, which are defined in accordance with the operational responsibility of the Executive Board member in question. The Board of Directors defines and weights the individual and financial targets.

The qualitative targets are geared to the company's long-term sustainable development and may account for 10% of the bonus/short-term incentive. The remaining 90% depend on the achievement of the financial (quantitative) targets. The main targets for members of the Executive Board are: net sales of the Group and/or a division (25 to 30% of the variable remuneration), EBIT of the Group and/or a division (50 to 55% of the variable remuneration), net working capital of the Group and/or a division (5 to 10% of the variable remuneration), RONA of the Group (0 to 10% of the variable remuneration) and free cash flow of the Group (0 to 10% of the variable remuneration).

The defined objectives of the short-term variable remuneration are equivalent to 100% target achievement. The maximum target achievement is 150%. If a given threshold for a particular target is not reached, no bonus for that target is paid. Depending on the function, the variable remuneration may be as much as 140% of the fixed remuneration if targets are fully met. If the targets are exceeded, the variable remuneration may be as much as 200% of the fixed remuneration.

The amount of the short-term variable remuneration, which is based on achievement of the individual and Group targets, is set in March after completion of the business year and is submitted to shareholders for approval at the Ordinary General Meeting.

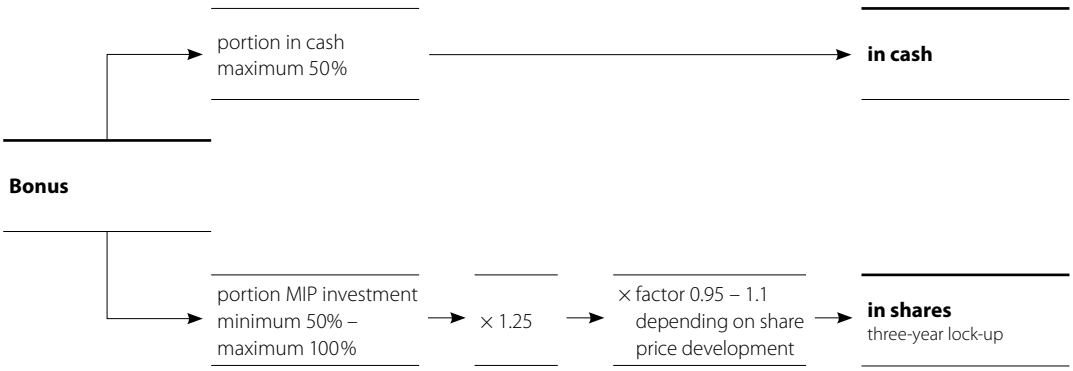
Conversion of remuneration into shares in the management investment plan (MIP)
The bonus payment from the bonus/short-term incentive is linked to the management investment plan (MIP), which was introduced in 2006 and amended in 2012. According to this plan, at least 50% of the annual short-term variable remuneration of Executive Board members must be paid into the MIP. The portion paid in shares is derived from a fixed remuneration amount.

As for the remaining 50% of the annual short-term variable remuneration, the Executive Board members may either draw all or part of it in cash or pay it into the MIP. The Executive Board members may redefine the allocation of this remaining 50% every year. The portion paid in shares is derived from a fixed remuneration amount.

Following the amendment of the MIP, all the sums paid into it will be invested solely in shares of Forbo Holding Ltd as of January 1, 2013. As a first step, the amount invested in the MIP will be increased by 25%, partly in order to take account of the three-year lock-up period. In addition, this amount will be multiplied by a factor that tracks the share price movement. This factor is calculated as follows:

((SPA – SPP)/SPP) + 1, where 'SPA' stands for the share price applicable for the allocation of shares in the year of allocation and 'SPP' for the applicable share price in the previous year. The upper limit for this factor is 1.1 and the lower limit is 0.95.

The relevant share price for the allocation of shares is calculated based on the unweighted average of the closing prices of the Forbo share in the first 14 trading days in January of the allocation year. The shares are locked-up for a period of three years. They cannot be sold or pledged during this time.



Foreign members of the Executive Board may acquire stock awards instead of shares. The stock in question will be transferred after three years.

Long-term participation plan (long-term incentive)
The previous variable model for remuneration of the Executive Board, consisting of a short-term performance-related remuneration (bonus/short-term incentive) was supplemented by a long-term participation plan (long-term incentive), effective from January 1, 2017. The amendment was approved by the Ordinary General Meeting of April 6, 2017.

The aim of the long-term incentive is to link part of the remuneration of the Executive Board even more closely with the company's long-term success.

The long-term incentive consists of a performance share unit plan. At the start of the performance period, each member of the Executive Board is granted a given number of future subscription rights in the form of performance share units (PSUs). One PSU corresponds to a future subscription right to one share. The size of the PSU allocation corresponds to a defined percentage of the Executive Board member's fixed remuneration; the percentage may vary from 10 to 30 percent. The PSUs are subject to a three-year vesting period. They are converted into vested shares only on condition that the Group's performance objectives are achieved. At the end of the performance period, the company will determine whether the objectives set by the Board of Directors at the start of the performance period for the performance indicators have been reached. Depending on the degree to which the objectives are reached, a given percentage of the PSUs will be converted into shares after the three-year vesting period. Converted shares are locked-up for a period of three years. They cannot be sold or pledged during this time. Immediately on termination of the plan participant's employment contract, regardless of whether the plan participant has terminated the contract or the company has terminated the contract with the plan participant, all PSUs are forfeited.

The relevant share price for the allocation of PSUs at the start of the performance period is calculated based on the unweighted average of the closing prices of the Forbo share in the first 14 trading days in January of the relevant year.

The performance indicators of the long-term incentive are geared to the long-term and sustainable development of the company and consist of three evenly weighted objectives. These are organic growth, the return on net assets (RONA) and growth in earnings per share (EPS).

The long-term incentive objectives are based on a target achievement of 100%. It is not possible to exceed the maximum target achievement level of 100%. If a member fails to reach a given threshold for an objective, no PSUs are converted into shares for this indicator.

Foreign members of the Executive Board may draw stock awards rather than shares when the PSUs are converted. The relevant shares are transferred after three years.

The degree to which objectives have been achieved is determined in March after conclusion of the three-year performance period.

Actual bonus payments
Readers are referred to pages 84 to 88 of this remuneration report for the amount of the actual short-term variable remuneration (bonus/short-term incentive) paid to the Executive Board in the year under review and for details on the valuation and allocation of shares. The number of future subscription rights in the form of performance share units for the Executive Board as part of the long-term incentive can also be found on these pages.

Employment contracts of the Executive Board members

The employment contracts of the Executive Board members are concluded for an indefinite duration with a maximum period of notice of twelve months.

The Board of Directors can order that lock-up periods stipulated in the employment contracts of Executive Board members in connection with the MIP or the long-term incentive may be revoked wholly or in part upon the occurrence of defined events (e.g. change of control, termination of employment, retirement or death).

Should changes in control of the company occur, no additional remuneration or benefits will be paid out.

No severance payments have been agreed with Executive Board members.

Remuneration elements allocated for previous years and still outstanding

Under the old MIP, which has been replaced, 25% of the payments was 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. The options issued in connection with the MIP came to maturity on April 21, 2017. Owing to the revision of the MIP, the sums paid into the MIP were 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 by either party to terminate the employment contract during the lock-up period, the MIP participants may either sell back the options (the reselling 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 death, 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 or from the date of death.

Details on MIP allocation

The shares and options issued in connection with the MIP are equity-settled. The options were issued on the basis of a valuation by an independent bank, with the valuation being based on the average market price of the shares in the first 14 trading days in January of the year the allocation was made. The last allocation of options was made in 2012. The shares that were distributed in connection with the MIP up to and including 2012 were issued at the average market price for the first 14 trading days in January of the corresponding year. The last options were exercised in 2017, and therefore no further options were outstanding as of December 31, 2017.

Disclosure of remuneration for the Board of Directors and the Executive Board

Remuneration of the Board of Directors
The total remuneration paid to the non-executive members of the Board of Directors came to CHF 811,293 in the year under review (previous year: CHF 813,772). This sum consists of the base salary in cash (60% of the remuneration), amounting to CHF 414,545 (previous year: CHF 415,414) and the base remuneration in shares (40% of the remuneration) of CHF 334,027 (previous year: CHF 332,987). This corresponds to 212 shares (previous year: 278 shares) at a market value of CHF 1,575.60 each (previous year: CHF 1,197.80). The portion paid in shares is derived from a fixed remuneration amount. This total remuneration includes a lump sum for expenses plus employer contributions to the usual social insurances, which are reported separately in the column 'Other remuneration'.

The remuneration paid to the Executive Chairman of the Board of Directors is explained in detail on pages 77 and 78 of this remuneration report.

Remuneration of the Executive Board
The total remuneration paid to the members of the Executive Board came to CHF 3,268,606 in the year under review (previous year: CHF 3,606,280), subject to approval of the variable portion by the 2018 Ordinary General Meeting. This sum includes a fixed base salary of CHF 1,791,179 (previous year: CHF 1,727,003) and short-term variable bonus remuneration (short-term incentive) of CHF 849,617 (previous year: CHF 1,386,787), a long-term participation (long-term incentive) of CHF 159,793 (previous year: introduced on January 1, 2017) plus the private use of the company car, and employer contributions to the pension fund and other usual social insurances, which are reported separately in the column 'Other remuneration'.

The fixed portion of the base salary paid in shares (lock-up period of five years) came to CHF 417,420 (previous year: CHF 404,478). The portion paid in shares is derived from a fixed remuneration amount. The portion of the variable remuneration (short-term incentive plan) paid in shares in connection with the MIP (lock-up period of three years) came to CHF 653,856 (previous year: CHF 1,300,125), which is subject to approval by the 2018 Ordinary General Meeting. The portion paid in shares is derived from a fixed remuneration amount.

For the long-term incentive plan 2017 – 2019, a total of 118 future subscription rights in the form of performance share units were issued for the first time in 2017.

Plan	Allocation of subscription rights	Performance period	Vesting Date (PSUs)	Unlocking of shares	Number of PSUs allocated	Value PSUs in CHF (allocation)	Payout factor	Number of shares (vesting)	Value of shares in CHF (vesting)
2017 – 2019	April 2017	2017 – 2019	April 2020	April 2023	118	159,793	to be determined	to be determined	to be determined

Disclosure of remuneration of the Board of Directors and Executive Board

Remuneration For the year 2017[1]	Base salary			Variable remunerations					Other remuneration[4]	Total
				Bonus/short-term incentive[2]			Long-term incentive[3]			
	Cash		Shares	Cash		Shares	Allocation performance share units			
Name and function	CHF	Number	CHF	CHF	Number	CHF	Number	CHF	CHF	CHF
This E. Schneider, Executive Chairman[5]	310,000	1,671	2,263,404						369,922	2,943,326
Michael Pieper, Vice Chairman	80,761	41	64,600						12,021	157,382
Dr. Peter Altorfer, Vice Chairman	104,886	53	83,507						17,641	206,034
Claudia Coninx-Kaczynski, member	71,053	37	58,297						13,464	142,814
Dr. Reto Müller, member	71,053	37	58,297						11,004	140,354
Vincent Studer, member	86,792	44	69,326						8,591	164,709
Board of Directors total[6]	**724,545**	**1,883**	**2,597,431**						**432,643**	**3,754,619**
Executive Board[7][8][9] total	**1,373,759**	**283**	**417,420**	**195,761**	**417**	**653,856**	**118**	**159,793**	**468,017**	**3,268,606**
Of whom highest paid-member of Executive Board	400,000	136	202,634	0	202	316,736	44	60,000	187,536	1,166,906

1) The remuneration of the Board of Directors and the Executive Board is reported gross before deduction of employee social insurance contributions. The amounts shown in the table are based on the valuation models used and disclosed in the consolidated financial statements.

2) The variable short-term remuneration of the Executive Board (bonus/short-term incentive) corresponds to the actual degree to which targets were reached in 2017 and will be submitted to the April 2018 Ordinary General Meeting for approval. The criterion for determining the number of shares issued for the variable remuneration is the unweighted average of the closing prices of the Forbo share in the first 14 trading days in January of the allocation year in connection with the MIP. The allocation takes place in April (subject to approval by the Ordinary General Meeting) for the period from January to December of the previous year. The value at allocation was CHF 1,568.00. The shares are locked up for a period of three years.

3) The long-term incentive for the Executive Board corresponds to the long-term participation plan for 2017 (long-term incentive plan 2017 – 2019) and to the number of future subscription rights allocated to the plan in the form of performance share units (PSUs). One PSU corresponds to a future subscription right to one share and is subject to a three-year vesting period.

4) 'Other remuneration' includes in particular employer contributions to the usual social insurances, private use of the company car, and lump-sum or on-site expenses.

5) Please refer to pages 77 and 78 of this remuneration report for details on the structure of the remuneration of the Executive Chairman of the Board of Directors. These details also contain the criterion for determining the number of shares issued and their lock-up periods.

6) The criterion for determining the number of shares issued for the non-executive members of the Board of Directors is the average share price in the ten trading days after payment of the dividend or repayment of the par value: CHF 1,575.60. The allocation is made at the discounted tax value of CHF 1,322.90. The shares are locked up for a period of three years and are reported at market value in the table above.

7) Remuneration of the entire Executive Board including the highest paid Executive Board member.

8) The criterion for determining the number of shares issued for the base salary is the unweighted average of the closing price of the Forbo share in the first 14 trading days in January of the allocation year. The shares are allocated in April for the period from May of the previous year to April of the year of allocation. The shares are locked up for a period of five years. The value of the shares allocated was CHF 1,355.71 in 2017and CHF 1,568,00 for 2018.

9) The criterion for determining the number of shares issued for the variable remuneration is the unweighted average of the closing price of the Forbo share in the first 14 trading days in January of the allocation year. The shares for the bonus for the business year 2017 will be allocated in April 2018, subject to approval by the 2018 Ordinary General Meeting. The shares are locked up for a period of three years. The value at allocation was CHF 1,568.00. Foreign members of the Executive Board may acquire stock awards instead of shares. The stock in question will be transferred after three years.

Remuneration
For the year 2016[1)]

	Base salary			Variable remuneration[2)] (bonus/short-term incentive)			Other remuneration[3)]	Total
	Cash		Shares	Cash		Shares		
Name and function	CHF	Number	CHF	CHF	Number	CHF	CHF	CHF
This E. Schneider, Executive Chairman[4)]	310,000	5,314	2,200,020				454,542	2,964,562
Michael Pieper, Vice Chairman	80,692	54	64,681				12,058	157,431
Dr. Peter Altorfer, Vice Chairman	104,601	70	83,846				17,695	206,142
Claudia Coninx-Kaczynski, member	71,726	48	57,494				13,500	142,720
Dr. Reto Müller, member	71,726	48	57,494				13,500	142,720
Vincent Studer, member	86,669	58	69,472				8,618	164,759
Board of Directors total[5)]	**725,414**	**5,592**	**2,533,007**				**519,913**	**3,778,334**
Executive Board[6)7)8)] total	**1,322,525**	**326**	**404,478**	**86,662**	**959**	**1,300,125**	**492,490**	**3,606,280**
Of whom highest paid-member of Executive Board	400,000	162	201,031	0	450	610,069	206,869	1,417,969

1) The remuneration of the Board of Directors and the Executive Board is reported gross before deduction of employee social insurance contributions. The amounts shown in the table are based on the valuation models used and disclosed in the consolidated financial statements.

2) The variable short-term remuneration of the Executive Board (bonus/short-term incentive) corresponds to the actual degree to which targets were reached in 2016 and will be submitted to the April 2017 Ordinary General Meeting for approval. The criterion for determining the number of shares issued for the variable remuneration is the unweighted average of the closing prices of the Forbo share in the first 14 trading days in January of the allocation year in connection with the MIP. The allocation takes place in April (subject to approval by the Ordinary General Meeting) for the period from January to December of the previous year. The value at allocation was CHF 1,355.71. The shares are locked up for a period of three years.

3) 'Other remuneration' includes in particular employer contributions to the usual social insurances, private use of the company car and lump-sum or on-site expenses.

4) This E. Schneider was Delegate of the Board of Directors until the 2014 Ordinary General Meeting. From this point on, he has had the function of Executive Chairman of the Board of Directors. Please refer to pages 80 and 81 as well as 86 and 87 of the 2016 Annual Report for details on the structure of his remuneration for the 2016 business year. These details also contain the criterion for determining the number of shares issued and their lock-up periods.

5) The criterion for determining the number of shares issued for the non-executive members of the Board of Directors is the average share price in the ten trading days after payment of the dividend or repayment of the par value: CHF 1,197.80. The allocation is made at the discounted tax value of CHF 1,005.70. The shares are locked up for a period of three years and are reported at market value in the table above.

6) Remuneration of the entire Executive Board including the highest paid Executive Board member.

7) The criterion for determining the number of shares issued for the base salary is the unweighted average of the closing prices of the Forbo share in the first 14 trading days in January of the allocation year. The shares are allocated in April for the period from May of the previous year to April of the year of allocation. The shares are locked up for a period of five years. The value of the shares allocated was CHF 1,060.57 in 2016 and CHF 1,355.71 for 2017.

8) The criterion for determining the number of shares issued for the variable remuneration is the unweighted average of the closing price of the Forbo share in the first 14 trading days in January of the allocation year. The shares for the bonus for the business year 2016 will be allocated in April 2017, subject to approval by the 2017 Ordinary General Meeting. The shares are locked up for a period of three years. The value at allocation was CHF 1,355.71. Foreign members of the Executive Board may acquire stock awards instead of shares. The stock in question will be transferred after three years.

Options
As of the 2013 business year, no more options have been issued in connection with the MIP. As of end-December 2017, there were no options outstanding anymore within the management investment plan (MIP) launched in 2006 and revised in 2012.

Advances and loans
As of December 31, 2017, no advances or loans to members of the Board of Directors or the Executive Board were outstanding.

The relevant statutory provisions concerning advances, loans and employee benefits for members of the Board of Directors and the Executive Board are set out in Chapter IV, pages 9 and 10 of the Articles of Association of Forbo Holding Ltd, which can be downloaded at:
www.forbo.com → Investors → Ordinary General Meeting

Disclosure of shareholdings pursuant to Article 663c CO

2017 business year
As at December 31, 2017, 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:

Shareholdings 2017

Name and function	Shares
This E. Schneider, Executive Chairman	47,892
Michael Pieper, Vice Chairman	486,217
Dr. Peter Altorfer, Vice Chairman	1,227
Claudia Coninx-Kaczynski, member	170
Dr. Reto Müller, member	590
Vincent Studer, member	866
Total Board of Directors	**536,962**
Stephan Bauer, Chief Executive Officer	2,639
Matthias P. Huenerwadel, Executive Vice President Flooring Systems	2,856
Urs Uehlinger, Chief Financial Officer	18
Jean-Michel Wins, Executive Vice President Movement Systems	195
Total Executive Board	**5,708**

As at December 31, 2016, 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:

Shareholdings 2016

Name and function	Shares	Options[1] 2012 series 1:1[2]
This E. Schneider, Executive Chairman[3]	46,221	
Michael Pieper, Vice Chairman	544,176	
Dr. Peter Altorfer, Vice Chairman	1,174	
Claudia Coninx-Kaczynski, member	133	
Dr. Reto Müller, member	553	
Vincent Studer, member	812	
Total Board of Directors	**593,069**	
Stephan Bauer, Chief Executive Officer	2,041	
Matthias P. Huenerwadel, Executive Vice President Flooring Systems	2,098	500
Andreas Spreiter, Chief Financial Officer	1,398	
Jean-Michel Wins, Executive Vice President Movement Systems	195	
Total Executive Board	**5,732**	**500**

1) Following the amendment of the MIP, all the sums paid into it are invested in shares of Forbo Holding Ltd starting as of January 1, 2013. As of the 2013 business year, no further options were issued in connection with the MIP. However, there are still options outstanding within the MIP, which was launched in 2006 and revised in 2012.

2) Subscription ratio.

3) The share portion for the Executive Chairman of the Board of Directors includes the 19,483 shares from the employment contract for the period from May 1, 2013, to December 31, 2016. The shares are subject to lock-up periods of three, four, and five years. The last third of the shares will be available on May 1, 2018, at the earliest.

Report of the statutory auditor

KPMG

Report of the Statutory Auditor

To the General Meeting of Shareholders of Forbo Holding Ltd, Baar

We have audited the accompanying remuneration report of Forbo Holding Ltd for the year ended December 31, 2017. The audit was limited to the information according to articles 14 – 16 of the Ordiance against Excessive Compensation in Stock Exchange Listed Companies (Ordiance) on pages 85 to 88 of the remuneration report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report for the year ended December 31, 2017 of Forbo Holding Ltd complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Regula Tobler
Licensed Audit Expert

Zurich, February 28, 2018

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

FINANCIAL REPORT

Consolidated balance sheet

		31.12.2017	31.12.2016
Assets			
CHF m	Note		
Current assets		**638.2**	**601.2**
Cash and cash equivalents	14	195.4	209.7
Trade receivables	15	169.2	151.4
Other receivables		27.6	19.8
Accrued income and deferred expenses		19.4	13.9
Inventories	16	226.6	206.4
Non-current assets		**429.3**	**388.1**
Other non-current financial assets		0.3	0.2
Deferred tax assets	12	39.0	40.5
Property, plant, and equipment	17	267.6	227.6
Intangible assets and goodwill	18	122.4	119.8
Total assets		**1,067.5**	**989.3**
Shareholders' equity and liabilities			
CHF m	Note		
Current liabilities		**275.3**	**241.8**
Current financial debt	20	0.2	0.1
Trade payables		105.9	95.4
Other current liabilities		32.4	24.2
Current tax liabilities		26.5	20.4
Accrued expenses and deferred income	21	91.5	81.5
Current provisions	22	18.8	20.2
Non-current liabilities		**131.0**	**126.1**
Non-current financial debt	23	0.2	0.4
Deferred tax liabilities	12	10.8	10.9
Non-current provisions	22	32.3	26.1
Employee benefit obligations	24	87.7	88.7
Total liabilities		**406.3**	**367.9**
Shareholders' equity		**661.2**	**621.4**
Share capital	26	0.2	0.2
Treasury shares	26	–0.1	–0.1
Reserves and retained earnings		661.1	621.3
Total shareholders' equity and liabilities		**1,067.5**	**989.3**

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

Consolidated income statement

CHF m	Note	2017	2016
Continuing operations			
Net sales	5	**1,246.4**	**1,185.5**
Cost of goods sold		– 764.5	– 715.2
Gross profit		**481.9**	**470.3**
Development costs	6	– 15.5	– 15.1
Marketing and distribution costs		– 195.8	– 190.7
Administrative costs		– 94.7	– 95.0
Other operating expenses	7	– 106.5	– 16.7
Other operating income	8	10.5	4.4
Operating profit		**79.9**	**157.2**
Financial income	10	0.9	2.0
Financial expenses	11	– 0.8	– 0.1
Group profit before taxes		**80.0**	**159.1**
Income taxes	12	– 43.5	– 31.5
Group profit for the year from continuing operations		**36.5**	**127.6**
Group profit for the year from discontinued operations after taxes	27	**2.2**	**0.0**
Group profit for the year		**38.7**	**127.6**
Group profit attributable to shareholders of Forbo Holding Ltd.		38.7	127.6
Earnings per share, total			
CHF			
Basic earnings per share	13	22.36	74.66
Diluted earnings per share	13	22.36	74.65
Earnings per share from continuing operations			
CHF			
Basic earnings per share	13	21.10	74.66
Diluted earnings per share	13	21.10	74.65
Earnings per share from discontinued operations			
CHF			
Basic earnings per share	13	1.26	0.00
Diluted earnings per share	13	1.26	0.00

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

Consolidated comprehensive income statement

CHF m	Note	2017	2016
Group profit for the year		**38.7**	**127.6**
Items that will not be reclassified to the income statement:			
Remeasurements of employee benefit obligations, net of taxes	12	5.7	– 14.6
Items that are or may be subsequently reclassified to the income statement:			
Translation differences		36.1	– 27.2
Other comprehensive income for the year, net of tax		**41.8**	**– 41.8**
Total comprehensive income		**80.5**	**85.8**
Total comprehensive income attributable to the shareholders of Forbo Holding Ltd.		80.5	85.8

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

Consolidated statement of changes in equity

2017

CHF m	Share capital	Treasury shares	Reserves	Translation differences	Total
December 31, 2016	**0.2**	**– 0.1**	**941.4**	**– 320.1**	**621.4**
Group profit for the year			38.7		38.7
Other comprehensive income for the year, net of tax			5.7	36.1	41.8
Total comprehensive income			**44.4**	**36.1**	**80.5**
Share-based payments			4.4		4.4
Treasury shares		0.0	– 12.6		– 12.6
Dividend payment			– 32.5		– 32.5
December 31, 2017	**0.2**	**– 0.1**	**945.1**	**– 284.0**	**661.2**

2016

CHF m	Share capital	Treasury shares	Reserves	Translation differences	Total
December 31, 2015	**0.2**	**– 0.1**	**852.0**	**– 292.9**	**559.2**
Group profit for the year			127.6		127.6
Other comprehensive income for the year, net of tax			– 14.6	– 27.2	– 41.8
Total comprehensive income			**113.0**	**– 27.2**	**85.8**
Share-based payments			4.8		4.8
Treasury shares		0.0	0.7		0.7
Dividend payment			– 29.1		– 29.1
December 31, 2016	**0.2**	**– 0.1**	**941.4**	**– 320.1**	**621.4**

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

Consolidated cash flow statement

		2017	2016
Cash flow from operating activities			
CHF m	Note		
Group profit for the year		**38.7**	**127.6**
Profit from disposal of discontinued operations after taxes	27	– 2.2	0.0
Tax expense	12	43.5	31.5
Financial result		– 0.1	– 1.9
Depreciation of property, plant, and equipment	17	31.8	29.9
Amortization of intangible assets	18	5.9	5.9
Share-based payments	25	4.4	4.8
Income tax paid		– 37.9	– 29.9
Increase in provisions and employee benefit obligations		7.4	0.4
Increase (–)/Decrease in net operating working capital[1)]		– 15.9	19.2
Decrease/Increase (–) in other current assets		3.2	– 21.0
Net cash flow from operating activities		**78.8**	**166.5**
Cash flow from investing activities			
CHF m	Note		
Purchase of business operations net of cash acquired		0.0	– 1.7
Purchase of non-current assets		– 57.8	– 40.0
Proceeds from the disposal of non-current assets		0.5	0.9
Purchase of other non-current financial assets		– 0.1	0.0
Interest received	10	0.9	0.5
Net cash flow from investing activities		**– 56.5**	**– 40.3**
Cash flow from financing activities			
CHF m	Note		
Increase of current financial debt		0.1	0.0
Repayment of non-current financial debt	23	– 0.2	– 0.5
Interest paid	11	0.0	0.0
Purchase of treasury shares		– 103.3	0.0
Proceeds from sale of treasury shares		90.9	0.0
Dividend payment		– 32.5	– 29.1
Net cash flow from financing activities		**– 45.0**	**– 29.6**
Change in cash and cash equivalents			
CHF m	Note		
Decrease (–)/Increase in cash and cash equivalents		– 22.7	96.6
Translation differences on cash and cash equivalents		8.4	– 3.2
Total cash and cash equivalents at beginning of year	14	209.7	116.3
Total cash and cash equivalents at year-end	**14**	**195.4**	**209.7**

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

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

Notes – accounting principles

1 General information

Forbo Holding Ltd and its subsidiaries (together 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.

Forbo Holding Ltd 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 February 28, 2018, and released for publication on March 6, 2018. This financial report is subject to approval by the Ordinary General Meeting of April 6, 2018.

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.

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.

The consolidated financial statements are prepared in Swiss francs. The Swiss franc is both the functional currency and the reporting currency of the company. Unless otherwise noted, all sums are stated in millions of Swiss francs (CHF m) and are generally rounded to one decimal place.

The consolidation was done 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 costs with the exception of available-for-sale financial assets and derivative financial instruments, which are measured at fair value.

The preparation of the consolidated financial statements requires management to make discretionary judgements, estimates and assumptions that can affect the application of accounting methods and reported revenues, expenses, assets, liabilities, and contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates and assumptions. Estimates and the underlying assumptions are being reviewed continually. Revised versions of estimates and assumptions are recognized prospectively. Information about discretionary judgements as well as assumptions and uncertainty involved in estimates are contained in note 3 'Critical judgements, estimates and appraisals by management'.

Scope and principles of consolidation
Subsidiaries are companies that are controlled by the Group. The Group exercises control over a company if it is exposed to variable returns from its involvement in the company or possesses rights to the returns and is able to influence these returns by means of its discretionary control over the company. The financial statements of subsidiaries are included in the consolidated financial statements from the point at which control begins.

The purchase method of accounting is used to account for business combinations. The value of the transferred consideration in a business combination and the acquired identifiable net assets are 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 acquired, 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. Acquisition costs are reported as expenditure in the income statement. Non-controlling interests are measured at the acquisition date with their proportionate share in the identifiable net assets of the acquired entity.

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.

Inter-company transactions, balances, and unrealized gains or losses on transactions between Group companies are eliminated.

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 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.

Changes in the scope of consolidation
There were no significant changes in the scope of consolidation in the year under review.

The previous year, effective June 28, 2016, Forbo Siegling Italia S.p.A. acquired the entire share capital of Tema S.r.l. in Parma, Italy. Tema S.r.l. was an existing customer of Forbo that sold fabric conveyor belts and plastic modular belts and is now an additional service point for the Movement Systems division in northern Italy.

In addition, in the previous year Forbo Finanz AG established a new production facility belonging to Forbo Movement Systems (China) Co. Ltd in Pinghu and a new sales company Forbo Flooring Middle East DMCC in Dubai.

The subsidiaries included in the group of consolidated companies are listed under 'Group companies' (from page 138 of this report).

Foreign currency translation
Transactions in foreign currencies
The individual companies prepare their financial statements in their functional currency. The functional currency is the currency of the primary economic environment in which the company operates and generally corresponds to the local currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transaction. 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.

Foreign operations
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 foreign Group company is disposed of.

On consolidation, exchange differences arising from the translation of net investments 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 are transferred to the income statement as part of the gain or loss on sale.

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

			Income statement (average exchange rates for the year)		Balance sheet (year-end exchange rates)	
			2017	2016	2017	2016
Exchange rates						
Euro zone	EUR	1	1.1117	1.0901	1.1705	1.0719
USA	USD	1	0.9847	0.9853	0.9763	1.0184
Great Britain	GBP	1	1.2686	1.3354	1.3203	1.2576
Japan	JPY	100	0.8779	0.9071	0.8674	0.8709
China	CNY	100	14.5800	14.8300	15.0100	14.6600
Sweden	SEK	100	11.5360	11.5216	11.9018	11.1963

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'. The prior-year figures affecting the income statement are adjusted accordingly and are also presented separately.

Net sales and revenue recognition
Net sales include the fair value of the consideration received or to be received for the sale of goods and services as part of ordinary business activity. Net sales are reported net of revenue reductions such as sales tax, returns, discounts, and rebates.

Revenue from the sale of goods and services is recognized in the income statement if the risks and rewards of ownership have been transferred to the buyer, the amount of the revenue can be reliably determined, and payment is deemed to be likely.

Appropriate provisions are made for expected warranty claims.

Government grants
Government grants are recognized only when there is reasonable assurance that the related conditions are met and the grants will be received. Grants are deducted when arriving at the carrying amount of the asset concerned and they are recognized in profit or loss over the period of the depreciable asset by means of a reduced depreciation charge.

Government grants that compensate the company for expenses incurred are recognized in the income statement in the periods in which the expenses to be compensated accrue.

Research and development
All research costs are posted directly to the income statement in the period in which they are incurred. Development costs are capitalized only if these costs can be reliably measured, the product or process is technically feasible and commercially viable, a future economic benefit is likely, and the Group has sufficient resources and intends to complete the development and exploit the asset. Other development expenses that do not meet these criteria are taken to the income statement as soon as they are incurred. Capitalized development costs are measured at the cost of acquisition or production less cumulative amortizations and impairments.

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 determined on granting equity-settled share-based payments is recognized in the income statement over the vesting period and is included in personnel expenses.

Earnings per share
The number of shares used for calculating earnings per share is determined on the basis of the weighted average number of the shares issued less the weighted average number of treasury shares held. To calculate diluted earnings per share, an adjusted number of shares is determined from the total number of shares used to calculate earnings per share plus the potentially dilutive effects of shares from employee incentive plans. To take account of the dilutive effect of employee incentive plans, the number of shares is determined that could have been purchased at the market price on the basis of the cumulative difference between the market price and the strike price of the future subscription rights. The market price used for this purpose corresponds to the average price of the shares in the business year under review. The earnings or diluted earnings per share is the quotient obtained by dividing the distributable net profit by the relevant number of shares.

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.

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.

Deferred tax assets and tax liabilities are measured at the tax rates that are expected to be enacted in the period in which the asset will be realized or the liability will be settled. 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.

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.

Property, plant, and equipment
Property is recognized at cost on acquisition. Land is not depreciated, but allowances are set aside for impairments that have occurred. All other fixed assets such as machines, vehicles and operational assets are reported at cost on acquisition less accrued depreciation and impairments.

Betterments that increase the useful lives of the assets, significantly improve the quality of the output or enable a substantial reduction in operating costs are capitalized and depreciated over the remaining useful lives.

Depreciation is calculated according to the straight-line method over the following estimated useful life:

Land and buildings	
Land	no depreciation
Buildings	20 to 40 years
Modifications and installations	5 to 10 years or duration of rental contract
Machinery and equipment	
Machines, equipment and tools	5 to 10 years
Other property, plant, and equipment	
IT	3 to 5 years
Vehicles	5 years
Other operational assets	3 to 10 years
Assets under construction	
Assets under construction	no depreciation

If there are signs of an impairment, the recoverable amount of the asset is determined. If the carrying amount exceeds the recoverable value, the carrying amount of the asset is reduced accordingly and the difference charged to the income statement.

Assets which are held in financial leasing arrangements are depreciated over their estimated useful life in the same way as assets belonging to the company or, if this is shorter, over the life of the underlying lease agreement. The costs of short-term leasing are charged directly to the income statement. The corresponding liabilities are disclosed in the notes (see note 29 'Leasing').

Intangible assets and goodwill
The goodwill generated in connection with business combinations is measured at the cost of acquisition less cumulative impairment losses.

Goodwill is not amortized but tested for impairment at least at each reporting date or earlier if there are signs of a potential impairment.

The acquisition costs of trademarks, licenses, customer relationships, and technologies acquired in a business combination correspond to the fair value at the date of acquisition.

Trademarks 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.

Other intangible assets that are acquired by the Group and have a finite useful life are carried at acquisition or production costs less cumulative amortizations and impairments. The amortization of other intangible assets with a finite useful life uses the straight-line method; the following estimated useful lives are applied:

Customer relations	5 to 15 years
Technologies	up to 30 years
Software	3 to 5 years

Amortization methods, useful lives, and residual values are reviewed annually at the reporting date and adjusted where necessary.

Financial instruments
Financial instruments can be classified as follows:

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

The Group uses derivative financial instruments solely to manage financial risks and not for the purpose of speculation. The derivatives used are accounted for on the day the trade is conducted. Derivative financial instruments are recognized at fair value in the balance sheet under 'Other current financial assets' or in 'Current financial debt'.

To hedge its currency risks, the Group uses mainly currency spot transactions, forward currency contracts, and currency swap transactions. The fair values of various derivative instruments used for hedging purposes are disclosed in note 30 'Additional information on financial instruments'.

(b) Loans and receivables
Loans and receivables are loans and receivables granted by the Group with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for maturities greater than 12 months after the end of the reporting year, in which case they are classified as non-current assets.

Trade receivables are carried in the balance sheet at their nominal value less allowances for doubtful risks. 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.

(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.

(d) Financial liabilities at amortized costs
Financial liabilities are recognized at fair value less direct transaction costs the first time they are reported. Subsequent valuations are generally done at the amortized cost, applying the effective interest method.

Current and non-current financial debt comprise bank loans and finance lease obligations. It is stated at amortized costs.

Financial debt is assigned to current debt, except if the Group has to settle the obligation earliest 12 months after the reporting date or enjoys an unlimited right to postpone payment of the debt by at least 12 months after the reporting date.

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

RECOGNITION AND MEASUREMENT
Purchases and sales of financial assets are basically recognized as soon as the Group becomes a contractual party. In the case of regular purchases or sales, the settlement date is relevant for the initial recognition and derecognition.

Financial assets not classified as being 'Financial assets 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 incidental 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 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 to the income statement.

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.

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. Inter-company profits on intra-Group deliveries are eliminated in the income statement.

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 maturities of up to three months from the date of acquisition.

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.

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 and 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 costs and liabilities are assessed annually on the basis of various economic and demographic assumptions 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 and deducted from the pension liabilities. Pension costs, consisting of current service costs incurred in the relevant period and net interest expense, less employee contributions, are stated as personnel expenses in the income statement. Past service costs resulting from changes in pension plans are posted directly to the income statement. Profits or losses resulting from pension plan curtailments or settlements are immediately taken to the income statement. Revaluation components include actuarial gains and losses due to changes in the present value of the pension obligations arising from changes in assumptions and experience adjustments plus the return on plan assets less the contributions contained in net interest expense. Revaluation components are recognized in other comprehensive income, taking deferred taxes into account, and are never subsequently reclassified to the income statement.

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. 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.

3 Critical judgements, estimates and appraisals by management

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 tests
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 due to changed circumstances or other triggering events these amounts can possibly no longer be realized. If such a situation occurs, the recoverable amount is determined based on expected future revenues. This corresponds to either the discounted expected cash flows or the expected net sales price.

Important assumptions in the calculations underlying these impairment tests include growth rates, margins, estimates and management's expectations of the future development of net working capital, and discount rates. The actual cash flows may deviate 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 17 'Property, plant, and equipment' and note 18 'Intangible assets and goodwill'.

Valuation of pension plan liabilities
Various employee pension plans exist for employees of the Group. In the valuation of defined benefit plans, actuarial assumptions are made to estimate future developments. These include assumptions and estimates relating to the discount rate, the inflation rate as well as assumptions for 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 24 'Employee benefit obligations'.

Recognition and valuation of 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 22 '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 is based on planning information. Further information on this topic can be found in note 12 'Income taxes'.

4 Application of new or revised accounting standards

Applied new and revised standards and interpretations

The following new or revised standards and interpretations of the International Accounting Standards Board (IASB) were applied for the first time in the business year that began on January 1, 2017:

- *Amendments to IAS 7 'Initiative on disclosure'*
- *Amendments to IAS 12 'Recognition of deferred tax assets for unrealized losses'*
- *Annual improvements to IFRS 2014 – 2016 cycle*

The first-time application of the before-mentioned new and revised standards and interpretations had no appreciable effect on the Annual Report presented here.

Introduction of new standards in 2018 and beyond

The following new and revised standards and interpretations that were published by end-2017 but are not yet mandatory were not applied in advance in the present consolidated financial statements. Since their impact on the consolidated financial statements has not yet been systematically analyzed, the anticipated effects shown in the corresponding note to the table below represent an estimate by management.

Standards		Date effective	Planned application
New standards or interpretations:			
IFRS 9 'Financial instruments'	**	January 1, 2018	Business year 2018
IFRS 15 'Revenue from contracts with customers' and related clarifications to IFRS 15 'Revenue from contracts with customers'	**	January 1, 2018	Business year 2018
IFRS 16 'Leases'	***	January 1, 2019	Business year 2019
IFRIC 23 'Uncertainty over income tax treatments'	*	January 1, 2019	Business year 2019
Amendments and changes to standards and interpretations:			
Amendments to IFRS 2 'Classification and measurement of share-based payment transactions'	*	January 1, 2018	Business year 2018
Amendments to IAS 28 'Long-term interests in associates and joint ventures'	*	January 1, 2019	Business year 2019
Annual improvements to IFRS 2014 – 2016 cycle:		January 1, 2018	Business year 2018
Amendments to IAS 28 'Investments in associates and joint ventures'	*		
Annual improvements to IFRS 2015 – 2017 cycle:		January 1, 2019	Business year 2019
Amendments to IFRS 3 'business combinations' and IFRS 11 'joint arrangements'	*		
Amendments to IFRS 12 'income taxes'	*		

* No significant impact on the consolidated financial statements is expected.
** Mainly additional disclosures in the consolidated financial statements are anticipated.
*** The impact on the consolidated financial statements cannot yet be fully assessed.

IFRS 9 Financial instruments
IFRS contains a new standard for recognition and measurement of financial instruments, which reflects the business model in which the instruments are held and the characteristics of their cash flows.

IFRS 9 contains three important categories for recognizing financial assets: 'measured at amortized cost', 'measured at fair value and reclassified in profit or loss (FVTPL)', and 'measured at fair value and reclassified in other comprehensive income (FVOCI)'. The standard eliminates the existing categories of IAS 39: 'hold to maturity', 'loans and receivables', and 'available for sale'.

IFRS 9 replaces the 'Incurred loss model' of IAS 39 by a future-oriented model of 'Expected credit losses'. This requires discretionary judgments as to how far the expected credit losses are influenced by changes in economic factors. Financial instruments at Forbo consist in particular of trade receivables in which a simplified model of valuation allowances is employed ('provision matrix').

The Group will apply the new standard as of January 1, 2018, and will take advantage of the possibility permitted by the standard of waiving any adjustment of comparative figures for 2017 in respect of classification and valuation.

Any effect of the application of the new provisions as per January 1, 2018, to financial instruments will be recognized in equity at the time of changeover, but are not expected to have any significant impact on the consolidated financial statements.

IFRS 15 – Revenue from contracts with customers
IFRS 15 provides a comprehensive framework for specifying whether, when, and to what extent sales revenues are recognized.

The Group has made detailed analyses of the impact of the new standard. They have shown that, in switching to the requirements of the new standard, the Group need not make any significant changes regarding the time and amount of revenue recognized compared with the current accounting practice under IAS 18; only the notes will have to be expanded to take account of the new recognition and disclosure provisions.

The Group will apply the new standard as of January 1, 2018; to comply with the transitional provisions of IFRS 15, the prospective method will be applied, with the effects being recognized in equity.

IFRS 16 – Leases
IFRS 16 introduces a uniform accounting model in which leases are to be recognized in the lessee's balance sheet. A lessee recognizes a 'right-of-use asset' that represents his right to use the underlying asset, plus a debt from the lease that represents his obligation to make leasing payments. Exceptions are made for short-term leases and for leases for low-value assets.

Forbo has made an initial assessment of the possible impact on its financial statements. The most significant impact identified to date is that the Group will have to book new assets and debts for its operational leases, in particular for vehicles and property. The type of expenditure associated with these leases will therefore change since IFRS 16 substitutes expenses for operational leases by depreciation charges for 'right-of-use assets' and interest expense for debts from the lease.

The Group will apply the new standard as of January 1, 2019, and recognize the cumulative adjustment in equity at the time of the first application.

Notes

5 Segment reporting

The Group 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.

In the Flooring Systems division, the Group develops, produces, and sells linoleum, vinyl floorings, entrance flooring systems, carpet tiles, needle felt floor coverings, Flotex, the washable textile flooring, and building and construction adhesives as well as various accessory products required for laying, processing, cleaning, and care of flooring. In the Movement Systems division, the Group develops, produces, and sells high-quality conveyor and processing belts, as well as plastic modular belts, and drive, timing and flat belts made of synthetic materials. Corporate includes the costs of the Group headquarters and certain items of income and expenses that 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 Executive Chairman of the Board of Directors and 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:

2017

CHF m	Flooring Systems	Movement Systems	Corporate/ Elimination	Total
Total net sales	856.6	390.0	– 0.2	1,246.4
Inter-segment sales	0.0	– 0.2	0.2	0.0
Net sales to third parties	856.6	389.8		1,246.4
Operating profit	42.1	49.3	– 11.5	79.9
EBITDA	69.7	58.7	– 10.8	117.6
Operating assets	539.8	275.7	17.3	832.8
Capital expenditure	22.3	35.5	0.0	57.8
Number of employees (December 31)	3,157	2,360	42	5,559

Segment information on the reportable segments for the prior year:

2016

CHF m	Flooring Systems	Movement Systems	Corporate/ Elimination	Total
Total net sales	818.3	367.7	– 0.5	1,185.5
Inter-segment sales	– 0.3	– 0.2	0.5	0.0
Net sales to third parties	818.0	367.5		1,185.5
Operating profit	122.7	45.3	– 10.8	157.2
EBITDA	149.1	54.4	– 10.6	192.9
Operating assets	498.6	223.4	16.9	738.9
Capital expenditure	20.5	16.5	3.0	40.0
Number of employees (December 31)	3,110	2,194	42	5,346

The management reporting is based on the same accounting principles as external reporting.

The Executive Chairman of the Board of Directors and the Chief Executive Officer assess 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 Executive Chairman of the Board of Directors and 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:

	2017	2016
CHF m		
Total segment result (EBIT)	**79.9**	**157.2**
Financial result	0.1	1.9
Group profit before taxes	**80.0**	**159.1**

	31.12.2017	31.12.2016
CHF m		
Total operating assets	**832.8**	**738.9**
Non-operating assets	234.7	250.4
Total assets	**1,067.5**	**989.3**

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

CHF m	2017 Third-party sales	2016 Third-party sales
Switzerland (domicile)	26.0	23.2
France	158.3	146.3
Germany	150.5	139.7
Benelux	124.5	116.6
Scandinavia	105.2	103.4
Great Britain and Ireland	97.8	108.6
Southern Europe	70.6	63.7
Eastern Europe	67.7	55.0
Europe	**800.6**	**756.5**
North, Central, and South America	**259.5**	**251.0**
Asia/Pacific and Africa	**186.3**	**178.0**
Total net sales to third parties	**1,246.4**	**1,185.5**

CHF m	31.12.2017 Operating assets	31.12.2016 Operating assets
Switzerland (domicile)	30.6	27.6
France	72.1	62.9
Germany	85.6	78.9
Benelux	211.8	192.9
Scandinavia	28.2	24.7
Great Britain and Ireland	121.3	123.5
Southern Europe	25.6	20.9
Eastern Europe	25.1	19.9
Europe	**600.3**	**551.3**
North, Central, and South America	**102.7**	**99.2**
Asia/Pacific and Africa	**129.8**	**88.4**
Total operating assets	**832.8**	**738.9**

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

6 Development costs

'Development costs', which mainly comprise product development, amounted to CHF 15.5 million in the reporting year (2016: CHF 15.1 million).

Costs for manufacturing trials, recipe optimization and new collections are not reported within 'Development costs'.

As in the previous year, no development costs were capitalized.

7 Other operating expenses

'Other operating expenses' comprise expenses of different kinds in connection with structural measures, legal costs, warranties, taxes on capital, levies based on local legislation, and allowances for doubtful trade receivables.

The increase versus the previous year is due to the one-off costs of CHF 83.4 million arising from the now concluded antitrust proceedings brought against leading flooring manufacturers in France (see note 28 'Contingent liabilities') and to higher provisions set aside for litigation.

8 Other operating income

'Other operating income' comprises a range of income, mainly in connection with the sale of tangible assets, the release of provisions for legal proceedings, insurance payments, rental income, the sale of material for recycling purposes, and the release of allowances for doubtful trade receivables.

In fiscal 2017, government grants in connection with the construction of the plant in Pinghu, China, amounting to CHF 1.7 million (2016: CHF 0.0 million) were recognized in the income statement.

9 Personnel expenses

	2017	2016
Personnel expenses		
CHF m		
Salaries and wages	297.2	281.0
Social security contributions	71.7	68.3
Employee benefit expenses for defined benefit plans	5.7	6.4
Total personnel expenses	**374.6**	**355.7**

As at December 31, 2017, the headcount was 5,559 (2016: 5,346). The average headcount over the year was 5,534 (2016: 5,336).

Salaries and wages include share-based payments expenses of CHF 4.4 million (2016: CHF 4.8 million). A bonus program is available for around 130 managers, which is linked to achieving financial targets set for the Group, the divisions, and individual objectives (see also note 25 'Employee participation plan').

10 Financial income

	2017	2016
Financial income		
CHF m		
Interest income	0.9	0.5
Foreign exchange gains, net	0.0	1.5
Total financial income	**0.9**	**2.0**

11 Financial expenses

	2017	2016
Financial expenses		
CHF m		
Interest expenditure from financial liabilities valued at amortized cost	0.0	0.0
Foreign exchange losses, net	0.7	0.0
Other financial expense	0.1	0.1
Total financial expenses	**0.8**	**0.1**

As in the previous year, the Group did not have any interest-bearing liabilities with the exception of some financial leasing arrangements.

12 Income taxes

	2017	2016
Income taxes		
CHF m		
Current income taxes	44.6	38.9
Deferred income taxes	– 1.1	– 7.4
Total income taxes	**43.5**	**31.5**

Analysis of tax expense
The following reconciliation explains the difference between the expected and the effective tax expense.

	2017	2016
CHF m		
Group profit before taxes	80.0	159.1
Tax expense at the expected tax rate	**– 19.4**	**– 40.1**
Tax effects of:		
Non-tax-deductible expenses	– 29.2	– 1.4
Tax-exempt income	4.2	1.2
Recognition of previously unrecognized tax losses	1.1	4.1
Utilization of previously unrecognized tax losses	0.8	2.0
Income taxes from sale of treasury shares	– 5.8	0.0
Previous-year taxes and other positions	4.8	2.7
Effective income tax expenses	**– 43.5**	**– 31.5**

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 profits 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 year under review was 24.2% (2016: 25.2%).

Capitalized and non-capitalized tax loss carry-forwards, by expiry date:

2017

CHF m	Not capitalized	Capitalized	Total
Expiry after:			
1 year	0.0	0.0	0.0
2 years	0.0	0.1	0.1
3 years	0.0	0.1	0.1
4 years	1.1	0.0	1.1
5 years	2.0	0.0	2.0
More than 5 years	42.8	50.2	93.0
Total tax loss carry-forwards	**45.9**	**50.4**	**96.3**

2016

CHF m	Not capitalized	Capitalized	Total
Expiry after:			
1 year	0.4	0.1	0.5
2 years	0.1	0.1	0.2
3 years	0.2	0.8	1.0
4 years	0.7	3.3	4.0
5 years	2.1	0.1	2.2
More than 5 years	44.0	49.5	93.5
Total tax loss carry-forwards	**47.5**	**53.9**	**101.4**

In 2017, tax loss carry-forwards amounting to CHF 1.0 million expired unused (2016: CHF 0.0 million).

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:

CHF m	31.12.2017	31.12.2016
Deferred tax assets	39.0	40.5
Deferred tax liabilities	– 10.8	– 10.9
Deferred tax assets, net	**28.2**	**29.6**

Deferred tax assets and liabilities, tax credits and tax charges from deferred taxes (gross):

Deferred tax assets

CHF m	Inventories	Property, plant, and equipment	Provisions	Loss carry-forwards	Employee benefit obligations	Other	Total
As at December 31, 2016	**8.8**	**2.3**	**5.5**	**13.9**	**17.6**	**7.2**	**55.3**
Decrease (–)/increase in deferred tax assets	– 1.1	– 0.9	2.2	– 0.3	– 0.1	– 1.3	– 1.5
As at December 31, 2017	**7.7**	**1.4**	**7.7**	**13.6**	**17.5**	**5.9**	**53.8**
Netting							– 14.8
As at December 31, 2017, net							**39.0**

Deferred tax liabilities

CHF m	Inventories	Property, plant, and equipment	Provisions	Intangible assets	Employee benefit obligations	Other	Total
As at December 31, 2016	**3.2**	**3.8**	**3.4**	**13.5**	**0.0**	**1.8**	**25.7**
Decrease (–)/increase in deferred tax liabilities	0.0	– 0.2	0.3	– 0.1		– 0.1	– 0.1
As at December 31, 2017	**3.2**	**3.6**	**3.7**	**13.4**	**0.0**	**1.7**	**25.6**
Netting							– 14.8
As at December 31, 2017, net							**10.8**

Decrease in deferred tax assets, net	**– 1.4**
Of which recognized in other comprehensive income	– 1.2
Of which recognized in the income statement	1.1
Of which due to currency translation	– 0.7
Of which deferred tax expense of discontinued operations	– 0.6

As at December 31, 2017, no deferred tax liabilities on undistributed profits from consolidated companies have been recognized, since this income is deemed to have been reinvested for an indefinite period. Should there be a distribution, withholding and other taxes might be incurred, which upon decision may be provided for accordingly.

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

	2017			2016		
CHF m	Before tax	Tax income	After tax	Before tax	Tax income	After tax
Actuarial gains/losses (–) on employee benefit obligations	6.9	– 1.2	5.7	– 18.1	3.5	– 14.6
Translation differences	36.1	0.0	36.1	– 27.2	0.0	– 27.2
Other comprehensive income	**43.0**	**– 1.2**	**41.8**	**– 45.3**	**3.5**	**– 41.8**

13 Earnings per share

Undiluted earnings per share are calculated by dividing the net profit or loss for the year attributable to shareholders of Forbo Holding Ltd by the weighted average number of registered shares issued and outstanding in the year under review.

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 information:

	2017	2016
Group profit for the year from continuing operations in CHF million	36.5	127.6
Group profit for the year from discontinued operations after taxes in CHF million	2.2	0.0
Group profit for the year in CHF million	38.7	127.6
Weighted average number of shares	1,728,259	1,709,233
Amount of shares adjusted for stock option plans		246
Weighted average number of shares used to calculate diluted earnings per share	1,728,259	1,709,479

14 Cash

	31.12.2017	31.12.2016
Cash and cash equivalents		
CHF m		
Petty cash	0.1	0.1
Bank accounts	150.9	164.8
Short-term deposits with banks	44.4	44.8
Total cash and cash equivalents	**195.4**	**209.7**

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

15 Trade receivables

	31.12.2017	31.12.2016
Trade receivables		
CHF m		
Accounts receivable	157.4	140.8
Notes receivable	18.7	16.2
Allowance for doubtful trade receivables	– 6.9	– 5.6
Total trade receivables	**169.2**	**151.4**

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. Valuation allowances are made in the form of specific valuation allowances. 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.

Trade receivables recognized as at the balance sheet date:

	31.12.2017	31.12.2016
CHF m		
Total trade receivables, gross	**176.1**	**157.0**
Not due	148.6	137.6
Overdue < 30 days	14.8	10.1
Overdue < 90 days	6.2	4.6
Overdue < 180 days	3.1	2.5
Overdue > 180 days	3.4	2.2
Allowance for doubtful trade receivables	– 6.9	– 5.6
Total trade receivables	**169.2**	**151.4**

Of the total of CHF 27.5 million in trade receivables past due as at December 31, 2017 (2016: CHF 19.4 million), CHF 23.1 million (2016: CHF 16.1 million) were not subjected to a valuation allowance.

Gross value of trade receivables by currency:

	31.12.2017	31.12.2016
CHF m		
CHF	1.6	1.0
EUR	72.9	75.9
USD	25.7	22.9
JPY	8.0	13.4
GBP	10.4	11.3
CNY	8.2	3.8
SEK	5.2	5.3
Other	44.1	23.4
Total trade receivables, gross	**176.1**	**157.0**

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

	2017	2016
CHF m		
As at January 1	**– 5.6**	**– 5.9**
Additions	– 1.5	– 0.8
Release	0.1	0.4
Use	0.4	0.6
Translation differences	– 0.3	0.1
As at December 31	**– 6.9**	**– 5.6**

Allowances of CHF 2.1 million (2016: CHF 1.9 million) were made for trade receivables not yet due and of CHF 4.8 million (2016: CHF 3.7 million) for trade receivables past due.

The creation and release of allowances for doubtful trade receivables are included in 'Other operating expense and income' in the income statement.

16 Inventories

	31.12.2017	31.12.2016
Inventories		
CHF m		
Raw materials and supplies	48.6	39.8
Work in progress	73.3	67.0
Finished goods	135.7	129.8
Valuation allowance for inventories	– 31.0	– 30.2
Total inventories	**226.6**	**206.4**

Expenses for inventories recognized in the reporting year came to CHF 487.4 million (2016: CHF 455.0 million).

17 Property, plant, and equipment

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 January 1, 2016	**108.0**	**645.4**	**116.5**	**29.9**	**899.8**
Change in scope of consolidation		0.6			0.6
Additions	1.3	5.5	1.3	28.9	37.0
Disposals	– 0.2	– 3.9	– 2.8		– 6.9
Transfers	9.0	30.4	1.4	– 41.0	– 0.2
Translation differences	– 6.1	– 22.7	– 2.8	– 0.4	– 32.0
As at December 31, 2016	**112.0**	**655.3**	**113.6**	**17.4**	**898.3**
Additions	0.9	6.6	1.8	48.1	57.4
Disposals	– 0.9	– 7.7	– 7.0		– 15.6
Transfers	0.5	17.2	1.4	– 19.1	
Translation differences	16.1	47.6	7.8	2.0	73.5
As at December 31, 2017	**128.6**	**719.0**	**117.6**	**48.4**	**1,013.6**

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 January 1, 2016	**7.9**	**557.0**	**107.6**	**0.0**	**672.5**
Depreciation	6.5	19.6	3.8		29.9
Disposals	– 0.1	– 3.4	– 2.5		– 6.0
Transfers		– 0.2			– 0.2
Translation differences	– 3.5	– 19.4	– 2.6		– 25.5
As at December 31, 2016	**10.8**	**553.6**	**106.3**	**0.0**	**670.7**
Depreciation	6.5	21.9	3.4		31.8
Disposals	– 0.9	– 7.3	– 6.9		– 15.1
Translation differences	11.0	40.3	7.3		58.6
As at December 31, 2017	**27.4**	**608.5**	**110.1**	**0.0**	**746.0**
Net carrying amount					
As at January 1, 2016	100.1	88.4	8.9	29.9	227.3
As at December 31, 2016	101.2	101.7	7.3	17.4	227.6
As at December 31, 2017	101.2	110.5	7.5	48.4	267.6

Property, plant, and equipment is recognized at amortized cost. As in the previous year, no impairments occurred in the year under review.

Maintenance and repair costs amounted to CHF 21.7 million (2016: CHF 20.1 million). The depreciation expense of CHF 31.8 million (2016: CHF 29.9 million) is included in the items 'Cost of goods sold', 'Development costs', 'Marketing and distribution costs', and 'Administrative costs'.

Property, plant, and equipment also includes leased assets with a net book value of CHF 0.2 million (2016: CHF 0.5 million). The leasing liability for fixed assets carried in the balance sheet amounts to CHF 0.2 million (2016: CHF 0.5 million) and is found in note 23 'Non-current financial debt'.

As at December 31, 2017 there were no assets for which interest on borrowed capital was capitalized during the preparation phase.

As at December 31, 2017 the Group had outstanding purchase orders for capital goods amounting to CHF 4.0 million (2016: CHF 22.1 million).

18 Intangible assets and goodwill

Cost on acquisition CHF m	Goodwill	Trademarks	Other intangible assets	Total
As at January 1, 2016	**85.9**	**34.0**	**84.1**	**204.0**
Acquisition			0.5	0.5
Additions			3.0	3.0
Disposals			– 0.2	– 0.2
Transfers			0.2	0.2
Translation differences	– 2.2	– 1.2	– 10.4	– 13.8
As at December 31, 2016	**83.7**	**32.8**	**77.2**	**193.7**
Additions			0.4	0.4
Disposals			– 0.1	– 0.1
Translation differences	4.7	0.3	3.9	8.9
As at December 31, 2017	**88.4**	**33.1**	**81.4**	**202.9**

Accumulated amortization and impairments CHF m	Goodwill	Trademarks	Other intangible assets	Total
As at January 1, 2016	**8.8**	**25.8**	**33.7**	**68.3**
Amortization		0.2	5.7	5.9
Disposals			– 0.2	– 0.2
Transfers			0.2	0.2
Translation differences	– 0.1	0.0	– 0.2	– 0.3
As at December 31, 2016	**8.7**	**26.0**	**39.2**	**73.9**
Amortization		0.2	5.7	5.9
Disposals			– 0.1	– 0.1
Translation differences	0.6		0.2	0.8
As at December 31, 2017	**9.3**	**26.2**	**45.0**	**80.5**
Net carrying amount				
As at January 1, 2016	77.1	8.2	50.4	135.7
As at December 31, 2016	75.0	6.8	38.0	119.8
As at December 31, 2017	79.1	6.9	36.4	122.4

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

	31.12.2017	31.12.2016
Flooring Systems	74.8	70.9
Movement Systems	4.3	4.1
	79.1	**75.0**

The goodwill in Flooring Systems as at December 31, 2017, comprises primarily the goodwill acquired in connection with the acquisition of Bonar Floors in 2008. 'Other intangible assets' consists mainly of the customer relations and technologies as part of the acquisition of Bonar Floors, as well as acquired software.

The annual impairment test of goodwill yielded a value in use that was greater than the carrying amount.

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 flow for calculating the value in use. Cash flow for the first five years is estimated on the basis of the plan approved by management (detailed planning period).

Cash flows beyond the detailed planning period are extrapolated to the terminal value by means of using sustainable earnings. The growth rate underlying the terminal value equals the expected inflation. During the detailed planning period, relatively constant EBITDA margins are assumed, which are around 18% (2016: 18%) for Flooring Systems and around 16% (2016: 15%) for Movement Systems. The discount rate corresponds to the total weighted cost of capital before taxes including an average risk charge estimated by management, and lies between 9.4% and 11.6% (2016: between 9.3% and 11.8%). The intangible assets with an indefinite useful life were subject to impairment testing also in the form of sensitivity analyses.

No change in the basic assumptions that can be regarded as reasonably realistic will result in the carrying amounts exceeding the recoverable amounts.

19 Pledged or assigned assets

There were no significant pledged or assigned assets.

20 Current financial debt

Current financial debt comprises the current portion of the financial lease liability and issued checks not yet cashed.

21 Accrued expenses and deferred income

	31.12.2017	31.12.2016
Accrued expenses and deferred income		
CHF m		
Accrued expenses for compensation and employee benefits	42.1	37.8
Other accrued expenses	49.4	43.7
Total accrued expenses and deferred income	**91.5**	**81.5**

Accrued expenses for compensation and employee benefits mainly comprise overtime accruals and commissions. Other accrued expenses include accrued volume rebates, commissions, premiums, interest and goods and services received but not yet invoiced.

22 Provisions

Provisions						
CHF m	Warranty provisions	Environmental provisions	Provisions for legal claims	Personnel provisions	Other provisions	Total 2016
As at January 1, 2017	**5.4**	**11.4**	**12.7**	**12.5**	**4.3**	**46.3**
Additions	3.1		96.3	5.5	1.6	106.5
Used during the year	– 3.3		– 84.9	– 3.1	– 0.3	– 91.6
Released during the year		– 3.4	– 3.8	– 2.1	– 1.6	– 10.9
Reclassification				– 0.7	0.7	0.0
Translation differences	0.1	0.4	0.0	0.3	0.0	0.8
As at December 31, 2017	**5.3**	**8.4**	**20.3**	**12.4**	**4.7**	**51.1**
Of which current provisions	3.4	0.0	0.0	12.0	3.4	18.8
Of which non-current provisions	1.9	8.4	20.3	0.4	1.3	32.3

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 include in particular the bonus programs, provisions for paid leave, and potential labor law issues.

Provisions for expected cash outflows arising in connection with the sale of the industrial adhesives activity, including synthetic polymers, exist for risks in the areas of environmental protection (CHF 4.2 million), litigation (CHF 3.0 million), and others (CHF 1.0 million). Provisions for environmental protection amounting to CHF 2.8 million, or CHF 2.2 million after tax, were released in the year under review owing to the expiry of warranty periods and were taken to Group profit from discontinued operations.

23 Non-current financial debt

The item 'Non-current financial debt' contains only financial leasing liabilities. The average interest rate on leasing liabilities was 3.5%.

24 Employee benefit obligations

The Group has established several pension plans on the basis of the specific requirements of the countries in which it operates. Both defined contribution and defined benefit plans exist in the Group that insure employees against the risks of death and invalidity and provide old-age pensions.

The liabilities and assets under the main defined benefit plans are assessed annually by independent actuaries using the projected unit credit method.

Pension plans in the United Kingdom
The Group has two defined benefit pension plans in the United Kingdom. The main one is the Forbo Superannuation Fund (the FSF), which accounts for about 63% of the Group's total pension liabilities. The FSF is a pension plan whose benefits are based on the final salary and which pays out a guaranteed pension for life to its members. The FSF is closed to new entrants. The composition of the pension liabilities is as follows: 3% to active employees, 33% to deferred members and 64% to current beneficiaries. New employees in the United Kingdom who meet certain criteria are now offered a defined contribution plan.

The FSF operates under trust law and is managed and administered by the trustees on behalf of the members in accordance with the terms of the Trust Deed and Rules and relevant legislation. The FSF's assets are held by the trust. Responsibility for governance of the FSF – including investment decisions and contribution schedules – lies jointly with the company and the trustees. The board of the trustees must be composed of representatives of the company and plan participants in accordance with the FSF's regulations and British pension law.

The pension plan follows an investment strategy that is geared to the structure of the pension liabilities (LDI – liability-driven investment approach). The core elements of this strategy are:

- Hedging of liabilities: 56% of the assets of the fund are held in physical form in corporate bonds and a further 18% in funds geared to the pension liabilities. This approach hedges a substantial portion of interest rate and inflation risks.
- Return-seeking assets: 26% of the assets of the FSF are held in the form of diversified growth investment funds.

The use of any surplus is not subject to any restriction under the FSF's articles of incorporation and may be used freely by the Group. These surpluses are therefore recognized in the balance sheet as assets in accordance with IAS 19 revised.

Pension plan in Switzerland
The Group pays contributions to an independent pension fund as part of the occupational pension provision (known in Switzerland as the 'second pillar'). As a minimum benefit, this independent pension fund must provide the beneficiary with an old-age pension at the time of retirement. This pension is paid out of the retirement savings capital at the start of the pension. The Group meets these liabilities through agreements with pension funds that cover the pension liabilities in full.

The pension liabilities of the Swiss Group companies account for about 16% of the Group's entire pension liabilities. 96% of the liabilities are to active members and 4% to retired beneficiaries.

The Swiss pension system includes guarantees that expose the company to the risk that it may have to provide additional financing, for instance, if the pension fund is unable to meet its obligations or decides to end the insurance relationship. The pension fund guarantees a minimum return and is responsible for the payment of a pension for life once the insurance benefits fall due. As a result of these guarantees, Swiss pension plans are treated as defined benefit plans under IFRS, even though they contain essential elements of defined contribution plans.

The company cannot participate in any surplus of the pension plan. According to Swiss pension law, all surpluses belong to the pension plan and hence to its members.

Others

Other notable defined benefit plans exist in France, Germany, Japan, Sweden, and the USA.

The latest actuarial valuations of the present values of defined benefit liabilities and of service costs were performed as at December 31, 2017, by independent actuaries using the projected unit credit method. The fair value of the plan assets was determined as at December 31, 2017, based on the information available when the annual financial statements were prepared. The weighted average duration of the pension plans (plan duration) is 13.9 years for the United Kingdom, 19.7 years for Switzerland, and 15.3 years for the other countries.

The principal assumptions underlying the actuarial calculations are summarized as follows.

	2017				2016			
Actuarial assumptions								
	Switzerland	UK	Other	Weighted	Switzerland	UK	Other	Weighted
Discount rate (in %)	0.7	2.4	1.8	2.0	0.7	2.5	1.7	2.1
Future increases in salaries (in %)	1.8	4.1	2.7	2.4	1.5	4.2	2.7	2.3
Inflation rate (in %)	1.3	3.4	1.8	2.9	1.0	3.5	1.8	2.9
Life expectancy at age of 65 (in years)								
Year of birth 1952								
Men	22	22	20	21	22	22	20	21
Women	24	24	23	24	24	24	23	24
Year of birth 1967								
Men	24	23	21	23	24	23	21	23
Women	26	25	25	25	26	25	25	25

The pension costs for defined benefit plans recognized in the consolidated income statement can be summarized as follows:

	2017				2016			
Pension costs								
CHF m	Switzerland	UK	Other	Total	Switzerland	UK	Other	Total
Service cost	1.9	0.5	2.4	4.8	2.1	0.9	2.2	5.2
Interest costs	0.4	6.0	1.0	7.4	0.6	8.0	1.1	9.7
Interest income on plan assets	– 0.3	– 5.6	– 0.1	– 6.0	– 0.4	– 7.9	– 0.2	– 8.5
Curtailments and settlements	– 0.5			– 0.5				
Total actuarial net periodic pension costs	**1.5**	**0.9**	**3.3**	**5.7**	**2.3**	**1.0**	**3.1**	**6.4**

Changes in pension liabilities under the defined benefit plans:

	2017				2016			
Benefit obligations								
CHF m	Switzerland	UK	Other	Total	Switzerland	UK	Other	Total
As at January 1	**63.7**	**243.2**	**55.3**	**362.2**	**65.4**	**244.0**	**51.0**	**360.4**
Service cost	1.9	0.5	2.4	4.8	2.1	0.9	2.2	5.2
Employee contributions	1.0		0.0	1.0	1.0		0.0	1.0
Interest costs	0.4	6.0	1.0	7.4	0.6	8.0	1.1	9.7
Benefits paid	– 2.6	– 10.7	– 1.8	– 15.1	– 4.0	– 10.9	– 3.0	– 17.9
Actuarial gains (–)/losses	– 0.8	– 0.4	– 1.3	– 2.5	– 1.4	39.7	3.9	42.2
Curtailments and settlements	– 3.7			– 3.7				
Translation differences		11.9	3.4	15.3		– 38.5	– 0.1	– 38.6
Changes in scope of consolidation							0.2	0.2
As at December 31	**59.9**	**250.5**	**59.0**	**369.4**	**63.7**	**243.2**	**55.3**	**362.2**

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

	2017				2016			
Plan assets								
CHF m	Switzerland	UK	Other	Total	Switzerland	UK	Other	Total
As at January 1	**42.2**	**225.6**	**5.7**	**273.5**	**43.0**	**241.5**	**5.8**	**290.3**
Interest income on plan assets	0.3	5.6	0.1	6.0	0.4	7.9	0.2	8.5
Employer contributions	1.7	0.1	1.9	3.7	1.8	0.1	2.9	4.8
Employee contributions	1.0		0.0	1.0	1.0		0.0	1.0
Return on pension assets (excluding amounts in interest income)	0.1	4.5	– 0.2	4.4	0.0	24.1	0.0	24.1
Benefits paid	– 2.6	– 10.7	– 1.8	– 15.1	– 4.0	– 10.9	– 3.0	– 17.9
Settlements	– 3.2			– 3.2				
Translation differences		11.2	0.2	11.4		– 37.1	– 0.2	– 37.3
As at December 31	**39.5**	**236.3**	**5.9**	**281.7**	**42.2**	**225.6**	**5.7**	**273.5**

Actuarial gains and losses are recognized in the balance sheet under 'Pension liabilities' and accounted for directly in the other comprehensive income.

Most of the pension plans are financed in full or in part via outsourced funds. Pension liabilities amounting to CHF 40.3 million (2016: CHF 37.2 million) out of a total of CHF 369.4 million (2016: CHF 362.2 million) are unfunded.

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

	2017				2016			
Net liabilities								
CHF m	Switzerland	UK	Other	Total	Switzerland	UK	Other	Total
As at January 1	**21.5**	**17.6**	**49.6**	**88.7**	**22.4**	**2.5**	**45.2**	**70.1**
Net pension cost	1.5	0.9	3.3	5.7	2.3	1.0	3.1	6.4
Employer contributions	– 1.7	– 0.1	– 1.9	– 3.7	– 1.8	– 0.1	– 2.9	– 4.8
Actuarial gains (–)/losses	– 0.9	– 4.9	– 1.1	– 6.9	– 1.4	15.6	3.9	18.1
Translation differences		0.7	3.2	3.9		– 1.4	0.1	– 1.3
Changes in scope of consolidation				0.0			0.2	0.2
Net liabilities as at December 31	**20.4**	**14.2**	**53.1**	**87.7**	**21.5**	**17.6**	**49.6**	**88.7**

Gains and losses of defined benefit pension plans offset in the comprehensive income statement for all segments:

	2017				2016			
Recognized gains and losses in the comprehensive income statement								
CHF m	Switzerland	UK	Other	Total	Switzerland	UK	Other	Total
Actuarial losses (–)/gains in the current period:	**– 0.8**	**0.1**	**0.4**	**– 0.3**	**0.6**	**– 42.3**	**– 3.9**	**– 45.6**
Based on adjustment of demographic assumptions	0.0	1.9	0.0	1.9	1.1	3.4	0.0	4.5
Based on adjustment of financial assumptions	– 0.8	– 1.8	0.4	– 2.2	– 0.5	– 45.7	– 3.9	– 50.1
Experience adjustment	1.6	0.3	0.9	2.8	0.8	2.6	0.0	3.4
Return on pension assets (excluding amounts in interest income)	0.1	4.5	– 0.2	4.4	0.0	24.1	0.0	24.1
Total gains/losses (–) recognized in the comprehensive income statement before taxes	**0.9**	**4.9**	**1.1**	**6.9**	**1.4**	**– 15.6**	**– 3.9**	**– 18.1**

Change in the present value of defined benefit liabilities:

	2017			2016		
Sensitivities + 50bp			+ 50bp			+ 50bp
CHF m	Switzerland	UK	Other	Switzerland	UK	Other
Discount rate	– 5.6	– 16.5	– 4.2	– 5.9	– 16.9	– 4.2
Rate of salary increase	1.6	0.2	2.7	1.8	0.2	2.7
Inflation rate	1.3	9.8	3.8	1.4	9.9	3.7
Interest credits on retirement assets	1.4			1.6		
Sensitivities – 50bp			– 50bp			– 50bp
CHF m	Switzerland	UK	Other	Switzerland	UK	Other
Discount rate	6.4	18.4	4.8	6.5	18.5	4.6
Rate of salary increase	– 1.7	– 0.2	– 2.4	– 1.8	– 0.2	– 2.4
Inflation rate	– 1.2	– 8.9	– 3.3	– 1.3	– 9.3	– 3.3
Interest credits on retirement assets	– 1.4			– 1.4		

The above table describes the effect of the principal actuarial assumptions on pension liabilities. The table shows the effect of an isolated change of a single parameter, assuming that all other parameters remain unchanged. The table illustrates the overall effect for each region. However, sensitivities may differ for individual plans within the regions. Sensitivity analysis aims to visualize the uncertainty in valuating pension liabilities under market conditions at the date of valuation. The results cannot be extrapolated owing to possible non-linear effects in the event of changes to the actuarial assumptions. Moreover, the analysis cannot say anything about the likelihood of these changes occurring, nor can it present the view of the Group regarding anticipated future changes in pension liabilities. Any measures taken by management to reduce the risks are also not taken into account in the analysis.

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

	2017	2016
%		
Shares	2.0	1.8
Bonds	46.2	46.2
Other securities	51.3	51.4
Cash and cash equivalents	0.5	0.6
Total plan assets as at December 31	**100.0**	**100.0**

Other securities amounting to 51.3% (2016: 51.4%) consisted of 37.2% listed investments (2016: 35.9%) and 14.1% unlisted investments (2016: 15.5%). The shares and bonds are all listed investments. The plan assets do not include any shares or other securities of the Forbo Group.

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

The expense for the contributions to defined contribution plans, which is included in personnel expenses, amounted to CHF 13.6 million (2016: CHF 13.1 million).

Other non-current benefits
The Group does not finance any other non-current benefits. The plans for long-service bonuses and other benefits related to years of service are negligible or do not qualify as plans for other non-current benefits.

25 Employee participation plan

As of December 31, 2017, there were two share-based remuneration elements:

Remuneration of the Executive Board
Long-term incentive plan
The long-term Incentive consists of a performance-share unit plan. At the start of the performance period, each member of the Executive Board is granted a given number of future subscription rights in the form of performance-share units (PSUs). One PSU corresponds to a future subscription right to one share. The PSUs are subject to a three-year vesting period, after which they are converted into vested shares. At the end of the performance period, the company will determine whether the objectives set by the Board of Directors at the start of the performance period for the performance indicators have been reached. Depending on the degree to which the objectives are reached, a given percentage of the PSUs will be converted into shares after the three-year vesting period. Converted shares are locked up for a period of three years. The relevant share price for the allocation of PSUs at the start of the performance period is calculated from the unweighted average of the closing prices of the Forbo share in the first 14 trading days in January of the year in which the PSUs were allocated.

Management investment plan 2012
Short-term variable compensation for the Executive Board is linked to the Management Investment Plan (MIP), which was amended in 2012. According to this plan, at least 50% of the annual short-term variable remuneration of Executive Board members is paid into the MIP. As for the remaining 50% of the annual short-term variable remuneration, the Executive Board members may either draw all or part of it in cash or pay it into the MIP. They may redefine the allocation of this remaining 50% every year. The shares are locked up for a period of three years.

The portion of variable remuneration that is settled in the form of equity instruments is recognized at fair value and reported as a corresponding increase in equity. The shares distributed under the MIP are issued at the unweighted average closing price of the Forbo share for the first 14 trading days in January of the year in which they were issued.

Management investment plan 2006
Until 2012, the variable short-term remuneration of the Executive Board was settled under the Management Incentive Plan (MIP 2006) introduced in 2006. Under this MIP, 25% of the sums paid into it was 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. The last options issued in connection with the MIP came to maturity on April 21, 2017. All 500 options that were outstanding as of December 31, 2016 were exercised in the year under review. No options were exercised the previous year. The exercise of the 500 options in the year under review resulted in the issue of

500 Forbo Holding Ltd shares at a weighted average strike price of CHF 616. The share price on the exercise date was CHF 1,524.

The number of shares of Forbo Holding Ltd issued in the year under review under the MIP was 1,039 (2016: 729). A further 320 shares (2016: 379) were allocated to Executive Board members in the reporting year as part of the fix base salary. The share price at measurement date was CHF 1,584 (2016: CHF 1,061).

Remuneration of the Board of Directors

The remuneration of the Executive Chairman of the Board of Directors is mainly in locked-up shares. The details and figures for this remuneration model are to be found on page 131 of this Financial Report and on pages 84 and 85 of the Remuneration Report.

The number of shares with a three-year vesting period allocated to the non-executive members of the Board of Directors came to 212 in the reporting year (2016: 278).

The amount charged to the income statement in application of IFRS 2 for shares issued came to CHF 4.4 million in the year under review (2016: CHF 4.8 million).

26 Share capital

As at December 31, 2017, the share capital of Forbo Holding Ltd stood at CHF 180,000 (2016: CHF 180,000), divided into 1,800,000 registered shares with a par value of CHF 0.10 each. Of this amount 21,419 registered shares without voting or dividend rights are unchanged at the disposal of the Board of Directors. Consequently, 1,778,581 registered shares were still eligible for dividends as at December 31, 2017.

Change of shares issued and outstanding:

	31.12.2017	Change	31.12.2016
	Number	Number	Number
Total shares outstanding	**1,800,000**	**0**	**1,800,000**
Treasury shares			
Shares with dividend rights:			
Treasury shares	11,032	– 57,705	68,737
Share buyback programs	63,105	63,105	
Own shares with no dividend rights	21,419		21,419
Total treasury shares	**95,556**	**5,400**	**90,156**
Total shares issued and outstanding	**1,704,444**	**– 5,400**	**1,709,844**

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

As reported in note 22 'Provisions', there are still risks from existing warranty deadlines that arise from the sale of the industrial adhesives activity, including synthetic polymers, of the former Bonding Systems division. This division was sold to H.B. Fuller on March 5, 2012, for CHF 384.7 million.

In this connection, provisions amounting to CHF 2.8 million, or CHF 2.2 million after tax, were released owing to the expiry of warranty periods.

28 Contingent liabilities

The antitrust proceedings originally brought against leading flooring manufacturers in France in 2013 and carried since then as a contingent liability were concluded. The one-off costs for Forbo, which were booked to Operating profit in 'Other operating expenses', came to CHF 83.4 million.

29 Leasing

	31.12.2017	31.12.2016
Leasing		
CHF m		
Operating leasing liabilities:		
Up to 1 year	7.3	6.0
2 – 5 years	17.1	17.9
More than 5 years	2.4	5.7
Total operating leasing liabilities	**26.8**	**29.6**

Expenses for operating leasing and rentals charged to the 2017 income statement totaled CHF 19.7 million (2016: CHF 19.1 million). The Group has no individually significant operating leasing contracts.

The liabilities arising from financial leasing are contained in the item 'Non-current financial debt'.

30 Additional information on financial instruments

Financial instruments that are valued at fair value are classified in a three-level hierarchy as follows:
- 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).

There were no material financial instruments in the fair value hierarchy levels nor was there any regrouping between the levels of the fair value hierarchy. The financial instruments held at the balance sheet date were all valued at amortized costs:

Classification of financial instruments				Carrying amount
CHF m	Fair value through profit or loss – held for trading	Loans and receivables	Other financial liabilities	Total
31.12.2017				
Financial assets valued at fair value				
Financial assets valued at amortized costs:				
Other non-current financial assets		0.3		0.3
Trade receivables		169.2		169.2
Other receivables		4.6		4.6
Cash and cash equivalents				195.4
Financial liabilities valued at fair value				
Financial liabilities valued at amortized costs:				
Non-current financial debt			0.2	0.2
Trade payables			105.9	105.9
Current financial debt			0.2	0.2
Other current liabilities			16.4	16.4

The carrying amount of the financial assets and financial liabilities valued at amortized cost is a reasonable approximation for the fair value.

Classification of financial instruments				Carrying amount
CHF m	Fair value through profit or loss – held for trading	Loans and receivables	Other financial liabilities	Total
31.12.2016				
Financial assets valued at fair value				
Financial assets valued at amortized costs:				
Other non-current financial assets		0.2		0.2
Trade receivables		151.4		151.4
Other receivables		3.5		3.5
Cash and cash equivalents				209.7
Financial liabilities valued at fair value:				
Derivative financial instruments				0.0
Financial liabilities valued at amortized costs:				
Non-current financial debt			0.4	0.4
Trade payables			95.4	95.4
Current financial debt			0.1	0.1
Other current liabilities			9.8	9.8

The carrying amount of the financial assets and financial liabilities valued at amortized cost is a reasonable approximation for the fair value.

31 Related party transactions

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

	Executive Board		Board of Directors		Total	
CHF m	2017	2016	2017	2016	2017	2016
Remuneration	1.79	1.66	0.99	1.05	2.78	2.71
Employer contributions to the pension scheme	0.24	0.24	0.18	0.20	0.42	0.44
Share-based payments	1.10	1.70	2.60	2.53	3.70	4.23
Total payments	**3.13**	**3.60**	**3.77**	**3.78**	**6.90**	**7.38**

The compensation paid to the Executive Board consists of a fixed gross base salary, short-term variable remuneration in cash, private use of the company car, and social security payments made by the company. Employer contributions to the pension fund are reported separately. The share-based remuneration paid to the Executive Board consists of the following elements: a fixed base salary portion, which is paid in shares of Forbo Holding Ltd; short-term variable remuneration under the Management Investment Plan (MIP) for the reporting year; and the future subscription rights, awarded for the first time in 2017, in the form of performance-share units for the long-term incentive plan 2017 – 2019 (see Note 25 'Employee participation plans').

This remuneration paid to the Board of Directors includes a gross base remuneration in cash, employer contributions to the usual social insurances, lump sum and on-site expenses, and private use of the company car (only for the Executive Chairman).

The share-based remuneration paid to the Board of Directors includes a gross base remuneration in shares, consisting on the one hand of a 40% portion of the remuneration in shares for the non-executive Board members and, on the other hand, of the share-based portion of the remuneration for the Executive Chairman.

As at December 31, 2017 and 2016, the Group had no significant receivables due from or liabilities to related parties.

32 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 15 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.

Sensitivity analysis of existing foreign exchange positions on the balance sheet date
The following table shows the sensitivity of profit before tax to changes in the exchange rate of the US dollar, the euro, and the pound sterling against the Swiss franc. The table only displays sensitivity in relation to transaction risks from financial instruments.

Translation risks and the effects of loans that qualify as net investments are not taken into account. Except for the effect on profit, the same change in exchange rates with a sensitivity of +/– 5% has no effect on equity.

Transaction risks from financial instruments
2017

CHF m	Net exposure	Change in exchange rate	Impact on profit before tax
EUR/CHF	– 20.3	5%	– 1.0
		– 5%	1.0
USD/CHF	8.6	5%	0.4
		– 5%	– 0.4
EUR/USD	10.9	5%	0.5
		– 5%	– 0.5
GBP/USD	0.5	5%	0.0
		– 5%	0.0

Transaction risks from financial instruments
2016

CHF m	Net exposure	Change in exchange rate	Impact on profit before tax
EUR/CHF	2.6	5%	0.1
		– 5%	– 0.1
USD/CHF	1.9	5%	0.1
		– 5%	– 0.1
EUR/USD	12.8	5%	0.6
		– 5%	– 0.6
GBP/USD	– 2.2	5%	– 0.1
		– 5%	0.1

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 only the sensitivity of profit before tax to the stated changes in interest rates for cash and cash equivalents, interest-bearing debt, and financial derivatives. Except for the effect on profit, the same change in interest rates of +/– 50 bp has no effect on equity.

Interest rate risks from cash and cash equivalents, interest-bearing debt and financial derivatives 2017

CHF m	Change in interest rate	Impact on profit before tax
EUR	50bp	0.3
	– 50bp	– 0.3
USD	50bp	0.1
	– 50bp	– 0.1
CHF	50bp	0.2
	– 50bp	– 0.2

Interest rate risks from cash and cash equivalents, interest-bearing debt and financial derivatives 2016

CHF m	Change in interest rate	Impact on profit before tax
EUR	50bp	0.2
	– 50bp	– 0.2
USD	50bp	0.1
	– 50bp	– 0.1
CHF	50bp	0.2
	– 50bp	– 0.2

Management of liquidity risks

Group companies need sufficient cash in order to meet their commitments. Corporate Treasury is responsible for managing liquidity surpluses. The share of the aggregate cash and cash equivalents managed by Corporate Treasury was around 56% on December 31, 2017. At present, the Group regards a cash level of roughly CHF 60 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, 2017

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	122.5			
Liabilities from finance leasing	0.0	0.2		

As at December 31, 2016

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	105.2			
Liabilities from finance leasing	0.1	0.1	0.3	

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, 2017, shareholders' equity stood at CHF 661.2 million (2016: CHF 621.4 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.

33 Events after the balance sheet date

Between the balance sheet date and the date of publication of this annual report no event occurred that could have a significant effect on the 2017 annual financial statements.

Group companies (as at December 31, 2017)

Group company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Movement Systems	Holding/ Services
Australia								
Forbo Floorcoverings Pty. Ltd.	Wetherill Park, NSW		AUD	1,400,000	100%	S		
Forbo Siegling Pty. Ltd.	Wetherill Park, NSW		AUD	7,100,000	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	16,564,200	100%	S		
Forbo Siegling Brasil Ltda.	São Paulo	N	BRL	7,008,746	50%		MS	
Canada								
Forbo Flooring Canada Corp.	Halifax		CAD	500,200	100%	S		
Forbo Siegling Canada Corp.	Halifax		CAD	501,000	100%		S	
Chile								
Forbo Siegling Chile S.A.	Santiago	N	CLP	313,090,945	50%		S	
Czech Republic								
Forbo Siegling Česká 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	32,300,000	100%		MS	
Finland								
Forbo Flooring Finland Oy	Helsinki		EUR	33,638	100%	S		
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, 2017
D Direct participation of Forbo Holding Ltd

Group company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Move-ment Systems	Holding/ Services
Germany								
Forbo Beteiligungen GmbH	Lörrach	D	EUR	15,400,000	100%			H
Forbo Eurocol Deutschland 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	
Great Britain								
Forbo Flooring UK Ltd.	Derbyshire	D	GBP	22,262,001	100%	MS		
Forbo Floors UK Ltd.	Kirkcaldy		GBP	3,609,990	100%			H
Forbo-Nairn Ltd.	Derbyshire		GBP	8,000,000	100%			H
Forbo Siegling (UK) Ltd.	Dukinfield		GBP	50,774	100%		S	
Forbo UK Ltd.	Derbyshire		GBP	49,500,000	100%			H
Westbond Ltd.	Derbyshire		GBP	400,000	100%			H
Hong Kong								
Forbo International Hong Kong Ltd.	Hong Kong		HKD	1	100%			H
India								
Forbo Flooring India Pvt. Ltd.	Delhi		INR	15,000,000	100%	S		
Forbo Siegling Movement Systems India Pvt. Ltd.	Pune		INR	26,000,000	100%		S	
Indonesia								
PT Forbo Siegling Indonesia	Kabupaten Bandung		IDR	6,344,580,000	100%		S	
Ireland								
Forbo Ireland Ltd.	Dublin		EUR	125,000	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	
Tema S.r.l.	Parma		EUR	50,000	100%		S	
Japan								
Forbo Siegling Japan Ltd.	Tokyo		JPY	330,000,000	100%		MS	
Malaysia								
Forbo Siegling SDN. BHD.	Johor Bahru		MYR	2,500,002	100%		S	
Mexico								
Forbo Siegling, S.A. de C.V.	Tlalnepantla	D	MXN	24,676,404	100%		MS	

S Sales
MS Manufacturing and Sales
H Holding/Services
N Not consolidated as at December 31, 2017
D Direct participation of Forbo Holding Ltd

Group company	Registered office	Currency	Share capital	Equity interest	Flooring Systems	Move-ment Systems	Holding/ Services
Netherlands							
Forbo Eurocol Nederland 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	
New Zealand							
Forbo Siegling Ltd.	Auckland	NZD	650,000	100%		S	
Norway							
Forbo Flooring AS	Asker	NOK	1,000,000	100%	S		
People's Republic of China							
Forbo Movement Systems (China) Co., Ltd.	Pinghu	USD	25,000,000	100%		MS	
Forbo Shanghai Co., Ltd.	Shanghai	CHF	4,000,000	100%	S		
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 Siegling CIS'	Saint Petersburg	RUB	400,000	100%		S	
OOO 'Forbo Eurocol RUS'	Stary Oskol	RUB	187,181,000	100%	MS		
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	

S Sales
MS Manufacturing and Sales
H Holding/Services
N Not consolidated as at December 31, 2017
D Direct participation of Forbo Holding Ltd

Group company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Move-ment Systems	Holding/ Services
Spain								
Forbo Pavimentos, S.A.	Barcelona		EUR	60,101	100%	S		
Forbo Siegling Iberica, S.A.U.	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		SEK	50,000,000	100%			H
Forbo Siegling Svenska AB	Kållered (Gothenburg)		SEK	1,000,000	100%		S	
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		CHF	250,000	100%			H
Forbo-Giubiasco SA	Giubiasco		CHF	100,000	100%	MS		
Forbo International SA	Baar	D	CHF	100,000	100%		MS	H
Thailand								
Forbo Siegling (Thailand) Co. Ltd.	Samut Prakan	D	THB	13,005,000	100%		S	
Turkey								
Forbo Hareket ve Zemin Sistemleri Ticaret Limited Şirketi	Istanbul		TRY	5,500,000	100%	S	S	
United Arab Emirates								
Forbo Flooring Middle East DMCC	Dubai		AED	499,000	100%	S		
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, 2017
D Direct participation of Forbo Holding Ltd

Report of the statutory auditor

Statutory Auditor's Report

To the General Meeting of Forbo Holding Ltd, Baar

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Forbo Holding Ltd and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017 and the consolidated income statement, consolidated comprehensive income statement consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 92 to 141) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Revenue recognition

Valuation of inventories

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG

Revenue recognition

Key Audit Matter	Our response
Total consolidated net sales of the financial year 2017 amounted to CHF 1,246.4 million (2016: CHF 1,185.5 million). The segment Flooring Systems contributed CHF 856.6 million (2016: CHF 818.3 million) or 68.7% (2016: 69.0%) to total net sales, while the segment Movement Systems realized CHF 390.0 million (2016: CHF 367.7 million), representing 31.3% of total net sales (2016: 31.0%). Net sales are a key performance indicator for Forbo and therefore in the focus of internal and external stakeholders. Consequently, when performing the audit we had a focus on existence of revenue transactions and their recognition in the appropriate period. In both segments, sales arrangements are based on standardized commercial terms and conditions (incoterms), which govern the transfer of risk and rewards. Different incoterms may be used depending on the region and the industry of the buyer. Owing to the types of products sold by either segment of the Group, the contractual sales arrangements are not complex. Due to the large number of transactions, the proper recognition of revenue nevertheless depends on a functioning internal control system, adapted to local circumstances. Furthermore, accurate data on volumes and prices are central to revenue recognition.	We mainly performed the following audit procedures: — We analyzed the process from the purchase order to the receipt of payment and assessed whether transactions are completely and accurately recorded in the accounts. — Considering the diverse design of internal control and IT systems of individual subsidiaries, we tested the operating effectiveness of identified key controls relating to the proper recognition of revenue. — Based on a statistical sample of delivery notes and payments received, we assessed the existence of revenues and their recognition in the correct period. — We furthermore performed analytical procedures on a segment level as well as on the level of specific individual entities. These included analyses of price and volume deviations, margin development, the largest clients and the most-sold products as well as analyses of the distribution of sales throughout the year and specific months.

For further information on revenue recognition refer to the following:

Note 2 – Summary of significant accounting policies: net sales and revenue recognition, page 99

Valuation of inventories

Key Audit Matter	Our response
Inventory as at 31 December 2017 amounted to CHF 226.6 million (31 December 2016: CHF 206.4 million) and represents one of the most material asset positions. Existence and valuation of inventories are consequently of significance to an understanding of the financial statements. Inventory is recognized at acquisition or manufacturing costs and periodically assessed in terms of recoverability. For work in progress and finished goods that include a significant value added, the determination of manufacturing costs partly requires judgment.	We mainly performed the following audit procedures: — We obtained an understanding of the process related to controls on incoming and outgoing goods and related to the identification of obsolete inventories. Based on this we critically assessed whether transactions are completely and accurately recorded in the accounts. — Considering the diverse design of internal control and IT systems of individual subsidiaries, we tested the operating effectiveness of identified key controls relating to existence and valuation of inventories.

Report of the statutory auditor

Additionally, there is a risk that for work in progress and finished goods the manufacturing costs exceed the actual sales price less selling, distribution and administrative costs (net realizable value).

Furthermore, determining valuation allowances involves a degree of judgment.

— We analyzed the valuation basis of individual inventory items by reference to the cost calculation of the inventory for different materials, assessed changes in the valuation basis and method and challenged changes in unit costs.

— We critically assessed the adequacy of the processes to identify, as well as the basis and the method to value, obsolete inventories. We recalculated the valuation allowance for obsolete inventories and, based on a sample, reconciled it to the underlying documentation. Furthermore, in testing the valuation of inventories at lower of cost or net realizable value, we compared costs and sales prices by reference to a sample.

For further information on inventories refer to the following:

— Note 2 – Summary of significant accounting policies: inventories, page 102

— Note 16 – Inventories, page 116

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report of the statutory auditor

KPMG

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the 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.

KPMG AG

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Regula Tobler
Licensed Audit Expert

Zurich, 28 February 2018

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

Consolidated balance sheets 2013 – 2017

	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Assets					
CHF m					
Current assets	**638.2**	**601.2**	**509.3**	**677.1**	**718.8**
Cash and cash equivalents	195.4	209.7	116.3	205.1	241.0
Other current financial assets	0.0	0.0	0.0	49.5	68.1
Trade receivables	169.2	151.4	147.3	150.6	148.8
Other receivables	27.6	19.8	18.8	24.0	29.2
Accrued income and deferred expenses	19.4	13.9	12.4	17.3	18.3
Inventories	226.6	206.4	214.5	230.6	213.4
Non-current assets	**429.3**	**388.1**	**402.8**	**418.5**	**408.2**
Other non-current financial assets	0.3	0.2	0.3	0.3	0.2
Deferred tax assets	39.0	40.5	39.5	37.2	29.3
Property, plant, and equipment	267.6	227.6	227.3	234.9	232.3
Intangible assets and goodwill	122.4	119.8	135.7	146.1	146.4
Total assets	**1,067.5**	**989.3**	**912.1**	**1,095.6**	**1,127.0**

	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Shareholders' equity and liabilities					
CHF m					
Current liabilities	**275.3**	**241.8**	**232.2**	**244.2**	**241.1**
Current financial debt	0.2	0.1	0.1	0.6	0.7
Trade payables	105.9	95.4	77.4	86.5	87.2
Other current liabilities	32.4	24.2	36.5	30.0	32.9
Current tax liabilities	26.5	20.4	20.3	18.9	14.5
Current provisions, accrued expenses, and deferred income	110.3	101.7	97.9	108.2	105.8
Non-current liabilities	**131.0**	**126.1**	**120.7**	**112.6**	**99.1**
Non-current financial debt	0.2	0.4	0.9	1.4	1.2
Deferred tax liabilities	10.8	10.9	24.0	26.5	20.0
Non-current provisions	32.3	26.1	25.7	24.2	26.1
Employee benefit obligations	87.7	88.7	70.1	60.5	51.8
Total liabilities	**406.3**	**367.9**	**352.9**	**356.8**	**340.2**
Shareholders' equity	**661.2**	**621.4**	**559.2**	**738.8**	**786.8**
Share capital	0.2	0.2	0.2	0.2	0.2
Treasury shares	– 0.1	– 0.1	– 0.1	– 0.1	– 0.1
Reserves and retained earnings	661.1	621.3	559.1	738.7	786.7
Total shareholders' equity and liabilities	**1,067.5**	**989.3**	**912.1**	**1,095.6**	**1,127.0**

Consolidated income statements 2013 – 2017

	2017	2016	2015	2014	2013
CHF m					
Net sales	**1,246.4**	**1,185.5**	**1,139.1**	**1,226.8**	**1,199.7**
Cost of goods sold	– 764.5	– 715.2	– 698.3	– 765.8	– 747.3
Gross profit	**481.9**	**470.3**	**440.8**	**461.0**	**452.4**
Development costs	– 15.5	– 15.1	– 15.1	– 16.5	– 16.4
Marketing and distribution costs	– 195.8	– 190.7	– 181.1	– 196.6	– 197.1
Administrative costs	– 94.7	– 95.0	– 89.8	– 94.2	– 90.7
Other operating expenses	– 106.5	– 16.7	– 16.6	– 13.2	– 19.3
Other operating income	10.5	4.4	4.6	8.9	6.8
Operating profit	**79.9**	**157.2**	**142.8**	**149.4**	**135.7**
Financial income	0.9	2.0	2.0	5.9	10.9
Financial expenses	– 0.8	– 0.1	– 0.4	– 1.0	– 5.7
Group profit before taxes	**80.0**	**159.1**	**144.4**	**154.3**	**140.9**
Income taxes	– 43.5	– 31.5	– 28.7	– 30.9	– 30.7
Group profit for the year from continuing operations	**36.5**	**127.6**	**115.7**	**123.4**	**110.2**
Group profit for the year from discontinued operations after taxes	**2.2**	**0.0**	**0.0**	**0.2**	**7.4**
Group profit for the year	**38.7**	**127.6**	**115.7**	**123.6**	**117.6**

FINANCIAL REPORT

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

		31.12.2017	31.12.2016
Assets			
CHF	Note		
Current assets		**16,659,198**	**31,524,484**
Cash and cash equivalents		1,793,619	24,806,790
Other receivables from Group companies	3	14,832,406	6,682,331
Accrued income and deferred expenses		33,173	35,363
Non-current assets		**423,964,089**	**437,685,610**
Loans to Group companies	2	118,938,256	117,539,378
Investments in Group companies	3	305,025,833	320,146,232
Total assets		**440,623,287**	**469,210,094**

		31.12.2017	31.12.2016
Shareholders' equity and liabilities			
CHF	Note		
Current liabilities		**16,105,779**	**24,070,499**
Current liabilities to third parties		143,509	47,050
Other liabilities to Group companies	4	11,992,390	23,702,949
Accrued expenses and deferred income		324,047	320,500
Current tax liabilities	5	3,645,833	0
Shareholders' equity		**424,517,508**	**445,139,595**
Share capital	6	180,000	180,000
Statutory reserves:			
General reserves		15,600,000	15,600,000
Capital contribution reserves		15,302	14,225,906
Reserves for treasury shares	8	1,008,066	8,367,183
Available earnings:			
Retained earnings		420,047,659	227,549,421
Net profit for the year		91,248,219	203,458,815
Treasury shares	8	– 103,581,738	– 24,241,730
Total shareholders' equity and liabilities		**440,623,287**	**469,210,094**

Income statement for Forbo Holding Ltd

		2017	2016
Income			
CHF	Note		
Financial income:			
From investments in and loans to Group companies	9	54,679,844	211,245,653
From securities and current investments	10	47,234,377	6
Total income		**101,914,221**	**211,245,659**

		2017	2016
Expenses			
CHF	Note		
Administrative expenses	11	6,001,204	5,573,164
Financial expenses:		440,710	2,213,680
From investments in and loans from Group companies	12	440,710	2,213,680
Other expenses	3	578,255	0
Taxes	5	3,645,833	0
Total expenses		**10,666,002**	**7,786,844**
Net profit for the year		**91,248,219**	**203,458,815**

Notes to the financial statements for Forbo Holding Ltd

1 Accounting

These financial statements have been prepared in accordance with the provisions on accounting and financial reporting of the Swiss Code of Obligations (32nd title of the Swiss Code of Obligations). Forbo Holding Ltd publishes consolidated financial statements according to a generally accepted accounting standard (IFRS). Therefore, in accordance with the provisions on accounting and financial reporting, the financial statements are presented without disclosure notes relating to audit fees or a cash flow statement.

2 Loans to Group companies

Loans to Group companies, amounting to EUR 97.8 million and CHF 12.7 million, are unchanged. The loans were valued at the rate prevailing on the balance sheet date; unrealized exchange losses were booked, while unrealized exchange gains were not recognized.

3 Investments in Group companies

Investments in Group companies are measured at the cost of acquisition less necessary valuation allowances. The investments in Group companies decreased in the reporting year due to the sale of the subsidiary Forbo Project Vinyl AB within the Group. The receivable arising from the sale, amounting to CHF 14.5 million, was still outstanding at year-end 2017 and is reported under 'Other receivables from Group companies'. The sale resulted in a book loss of CHF 0.6 million, reported under 'Other expenses'.

As at December 31, 2017, 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 Flooring AB	SE-Gothenburg	Sales	SEK	8,000	100%
Forbo Flooring UK Ltd.	UK-Derbyshire	Manufacturing and Sales	GBP	22,262	100%
Forbo International SA	CH-Baar	Services, Manufacturing, and Sales	CHF	100	100%
Forbo Participations S.A.S.	FR-Reims	Holding/Services	EUR	5,000	100%
Forbo Siegling, S.A. de C.V.	MX-Tlalnepantla	Manufacturing and Sales	MXN	24,676	< 0.1%
Forbo Siegling (Thailand) Co. Ltd.	TH-Samut Prakan	Sales	THB	13,005	69.1%

4 Other liabilities to Group companies

Other liabilities to Group companies as at December 31, 2017, include in particular advances from Forbo Finanz AG in connection with its cash pool.

5 Taxes

The tax burden rose in the year under review because gains on the sale of treasury shares reported in the financial statements of Forbo Holding Ltd under commercial law were subject to federal tax, thus reducing the participation deduction on dividend income.

6 Share capital

As at December 31, 2017, the share capital of Forbo Holding Ltd totaled CHF 180,000 (2016: CHF 180,000), divided into 1,800,000 registered shares with a par value of CHF 0.10 each. 21,419 registered shares without voting or dividend rights are at the disposal of the Board of Directors.

7 Conditional capital

Originally, conditional capital of CHF 8.5 million for the exercise of shareholder options and warrants in connection with a bond issue was created by a resolution of the Annual 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, 2017, remained unchanged against the previous year at CHF 16,645.

8 Treasury shares

The treasury shares in Forbo Holding Ltd amounting to CHF 103.6 million on the balance sheet date correspond to the value of all treasury shares valued at cost. The item 'Reserve for treasury shares' reflects the value of the treasury shares held by subsidiaries of Forbo Holding Ltd, amounting to CHF 1.0 million. Overall, the treasury shares held directly and indirectly developed as follows over the period under review:

Treasury shares	Cost CHF	Number of registered shares
As at January 1, 2017	32,608,913	90,156
Additions	103,344,465	72,142
Disposals	– 31,361,433	– 66,742
As at December 31, 2017	**104,591,945**	**95,556**

9 Financial income from investments in and loans to Group companies

Financial income from investments in and loans to Group companies amounting to CHF 54.7 million (2016: CHF 211.2 million) consists of dividend income of CHF 52.2 million (2016: CHF 211.1 million), exchange rate gains on foreign currency loans of CHF 2.3 million (2016: CHF 0.0 million), and interest of CHF 0.2 million (2016: CHF 0.2 million).

10 Financial income from securities and current investments

Financial income from securities and current investments is equivalent to the net proceeds from the sale of treasury shares. The Group placed 63,000 shares of Forbo Holding Ltd at a price of CHF 1,450 per share as part of an accelerated bookbuilding process. Of the shares sold, 48,000 treasury shares were held directly by Forbo Holding and 15,000 treasury shares were held indirectly by Forbo International SA.

11 Administrative expenses

Administrative expenses include Stewardship costs, the fees paid to the members of the Board of Directors, the auditor's fees, and usual administrative costs, mainly for the Ordinary General Meeting, the share register, insurance and legally required announcements. Forbo Holding Ltd does not employ any personnel.

12 Financial expenses from investments in and loans from Group companies

Expenditure comprises turnover taxes on the sale of treasury shares amounting to CHF 0.4 million and interest expenses for liabilities to Group companies amounting to CHF 0.1 million (2016: 0.9 million). The previous year there were in addition exchange rate losses of CHF 1.3 million.

13 Contingent liabilities

Guarantees and letters of support to third parties in favor of Group companies amounted to CHF 9.9 million at year-end 2017 (2016: CHF 9.0 million), of which as in the previous year none were utilized.

The Group companies in Switzerland are treated for purposes of value-added tax as a single-entity subject to value-added tax (group taxation regime, Article 13, Federal Act on Value-Added Tax). If one of the Group companies is unable to meet its payment obligations to the Federal Tax Administration, the other Group companies bear joint and several liability.

14 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	486,217	27.01%
Forbo Holding Ltd, Baar, together with its two subsidiaries Forbo International SA, Baar, and Forbo Finanz AG, Baar	95,556	5.31%

Shareholdings
IN 2017
As at December 31, 2017, 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:

Shareholdings 2017

Name and function	Shares
This E. Schneider, Executive Chairman	47,892
Michael Pieper, Vice Chairman	486,217
Dr. Peter Altorfer, Vice Chairman	1,227
Claudia Coninx-Kaczynski, member	170
Dr. Reto Müller, member	590
Vincent Studer, member	866
Total Board of Directors	**536,962**
Stephan Bauer, Chief Executive Officer	2,639
Matthias P. Huenerwadel, Executive Vice President Flooring Systems	2,856
Urs Uehlinger, Chief Financial Officer	18
Jean-Michel Wins, Executive Vice President Movement Systems	195
Total Executive Board	**5,708**

IN 2016
As at December 31, 2016, 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:

Shareholdings 2016	Shares	Options[1]
Name and function		2012 series 1:1[2]
This E. Schneider, Executive Chairman[3]	46,221	
Michael Pieper, Vice Chairman	544,176	
Dr. Peter Altorfer, Vice Chairman	1,174	
Claudia Coninx-Kaczynski, member	133	
Dr. Reto Müller, member	553	
Vincent Studer, member	812	
Total Board of Directors	**593,069**	
Stephan Bauer, Chief Executive Officer	2,041	
Matthias P. Huenerwadel, Executive Vice President Flooring Systems	2,098	500
Andreas Spreiter, Chief Financial Officer	1,398	
Jean-Michel Wins, Executive Vice President Movement Systems	195	
Total Executive Board	**5,732**	**500**

1) Following the amendment of the MIP, all the sums paid into it are invested in shares of Forbo Holding Ltd starting as of January 1, 2013. As of the 2013 business year, no further options were issued in connection with the MIP. However, there are still options outstanding within the MIP, which was launched in 2006 and revised in 2012.

2) Subscription ratio.

3) The share portion for the Executive Chairman of the Board of Directors includes the 19,483 shares from the employment contract for the period from May 1, 2013, to December 31, 2016. The shares are subject to lock-up periods of three, four, and five years. The last third of the shares will be available on May 1, 2018, at the earliest.

For further information regarding granted shares to the Board of Directors and the Executive Board we refer to pages 84 and 85 of the remuneration report.

15 Events after the balance sheet date

Between the balance sheet date and the date of publication of this annual report no event occurred that could have a significant effect on the 2017 annual financial statements.

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:

	2017
CHF	
Net profit	91,248,219
Retained earnings	420,047,659
Treasury shares	– 103,581,738
Total at the shareholders' meeting's disposal[1)]	**407,714,140**

be appropriated as follows:

	2017
CHF	
Distribution ordinary dividend	32,384,436
To be carried forward	375,329,704
Total at the shareholders' meeting's disposal[1)]	**407,714,140**

1) At the Ordinary General Meeting of April 6, 2018, the Board of Directors will propose an ordinary gross dividend of CHF 19.00 per registered share (2016: withholding-tax-free distribution from capital contribution reserves of CHF 8.30 per registered share, as well as an ordinary gross dividend of CHF 10.70 per registered share). No distribution will be made for treasury shares held by Forbo Holding Ltd. or any of its subsidiaries on the record date, which explains why the amount of ordinary dividends may therefore still change.

Report of the statutory auditor

KPMG

Statutory Auditor's Report

To the General Meeting of Forbo Holding Ltd, Baar

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Forbo Holding Ltd, which comprise the balance sheet as at 31 December 2017, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 152 to 158) for the year ended 31 December 2017, comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

KPMG

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit 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 internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report of the statutory auditor

KPMG

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the 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.

KPMG AG

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Regula Tobler
Licensed Audit Expert

Zurich, 28 February 2018

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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Our Annual Report appears in **German** language and in **English** translation and can be downloaded from our website www.forbo.com. The printed German version is authoritative.

All statements in this report that do not refer to historical facts are forward-looking statements which are no guarantee of future performance. They are based on assumptions and involve risks and uncertainties as well as other factors beyond the control of the company.

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