

SUSTAINABILITY REPORT 2016 FORBO FLOORING SYSTEMS



**COMMITTED
TO THE HEALTH
OF ONE**

With this program we express our ambition in creating floor covering that is to the benefit of each individual by providing safe, hygienic and comfortable living and working spaces that make a positive contribution to the quality of the indoor environment

creating better environments

forbo
FLOORING SYSTEMS

ABOUT THIS REPORT

The 2016 report is our fifth Sustainability Report and, as previously, is based on GRI's sustainability reporting framework. As a result, it provides a transparent overview of our environmental, social, and economic performance, as defined by the Global Reporting Initiative. We see the compilation of this report not only as a reporting tool, but also as a way to account for our activities and as a support to help us improve our sustainability performance over time.

This report provides an overview of Forbo Flooring Systems' performance for the 2016 calendar year, in line with our financial reporting cycle. The 2016 financial report is available at www.forbo.com/en/investors

Please feel free to let us know your thoughts about our 2016 Sustainability Report; you can do so by contacting us at contact@forbo.com.

Finally, we would like to thank everyone who helped with the compilation of this report. Your contributions have been invaluable.

REPORT BOUNDARY

Unless otherwise stated, environmental data published in this report is limited to our 12 floor covering manufacturing sites in the United Kingdom, the Netherlands, Russia, France, and Switzerland, as these entities are considered the most material in terms of environmental impact. The environmental data in this report does not cover our worldwide sales offices and warehouses in Europe, North and South America, Russia, and Asia/Pacific. Unless otherwise stated, the social and economic information within this report covers all sites and offices worldwide. There have been no changes from the previous reporting period in the scope, boundary, or measurement methods applied in this report. Unless otherwise stated, Forbo Flooring Systems' Building & Construction Adhesives subsidiary, including its three manufacturing sites, does not form part of this report.

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MESSAGE FROM MATTHIAS HUENERWADEL

EXECUTIVE VICE PRESIDENT FORBO FLOORING SYSTEMS

Our floor coverings are installed in the spaces that are from part of your indoor environment, and we aim to provide safe, hygienic, and comfortable floors that contribute to your well-being. This is why we introduced our 'Committed to the health of one' program to focus on the safety, hygiene, and comfort of the individual. We do this by designing our floors to be durable and long-lasting products and we strive to provide the best and most sustainable solution for every environment, whether this is your office, an education or a healthcare institution, your hospitality or leisure facilities, special industry environments or your private home. The floors you choose from and that we advise upon, one by one represent high quality products, each with their own specific features.

Linoleum, as for example, in which we are the world's leading producer with a global market share of over 65%, is not only the world's most sustainable resilient floor, made from all natural raw materials, it is also a floor which is produced with a net CO₂ emission of below zero. Our newest linoleum collection, which features textured surfaces, was awarded the iF Design Award.

In our carpet tile textile offer, we use recycled yarn as well as natural and modified bitumen backing, and all our textile collections contain the largest recycled content levels in the industry. In addition, Flotex, our unique flocked flooring textile is universally regarded as the most hygienic textile solution, delivering an excellent performance even in sensitive environments such as health and age care facilities.

Our vinyl operations, like all our other manufacturing locations, are operated on 100% green electricity and this year we added homogeneous vinyl as part of our portfolio. This is produced on a new line combining the latest technologies that result in a zero waste

production environment. This newest edition to our portfolio shows minimal emissions and forms part of our phthalate free portfolio, the largest in the industry.

While our tagline 'creating better environments' expresses our ambition to improve and maintain the high standards and sustainable character of our operations, 'committed to the health of one' is aimed at the sustained health and well-being of everyone who, in their respective environments, uses our products.

Looking ahead we will see new collections and innovations entering the market in 2017 and 2018 with even better results. The future of our products and the sustained environmental character of our operations are crucial to us. With this report we are pleased to inform you of our progress and activities in 2016. The report is drafted in line with the GRI guidelines.



Matthias P. Huenerwadel
Executive Vice President
Forbo Flooring Systems

"Our newest linoleum collection won a coveted German iF Design Award"



OUR BUSINESS ENVIRONMENT

MARKET DEVELOPMENTS AND TRENDS

During 2016, we significantly upgraded our product portfolio, strengthened our collections with attractive new products, particularly for private sector customers, and expanded our sales resources where appropriate in order to drive growth.

Our new production facility for high quality homogeneous vinyl flooring came on stream at the end of the year, with the three collections produced on the line launching in 2017. We also invested in new technologies, in expansion, and in efficiency-boosting measures across a wide range of operational areas. Our focus on implementing our strategy is reflected in an upturn in sales and earnings in 2016. With our current product portfolio, plus the initiatives to boost growth, customer focus, and cost consciousness, we are reinforcing our market position as a leading systems supplier in the commercial flooring segment.

SOLID SALES GROWTH

We saw an upturn in our markets in the USA and France, which are major core markets for us, along with signs of a recovery in the Netherlands. In Europe as a whole, market conditions remained very mixed. In Eastern Europe, especially in Russia, demand developed well in 2016, while Southern Europe reported firmer demand, and Northern Europe and the DACH region (Germany, Austria, Switzerland) saw sales increase slightly overall. In the UK, demand remained muted owing to the economic environment, especially in the public sector and office segment, and specifically in the banking sector. In the Asia/Pacific region, China, Japan, Southeast Asia, and South Korea performed well on the back of major installation projects in various customer segments.

In linoleum, we expanded our already varied range by adding new formats, special effects, and a host of new, fresh colors and designs for applications in both the public and private market segments. In the DACH region, we

introduced an attractive new linoleum with a printed top layer that features both realistic wood designs and stone effects.

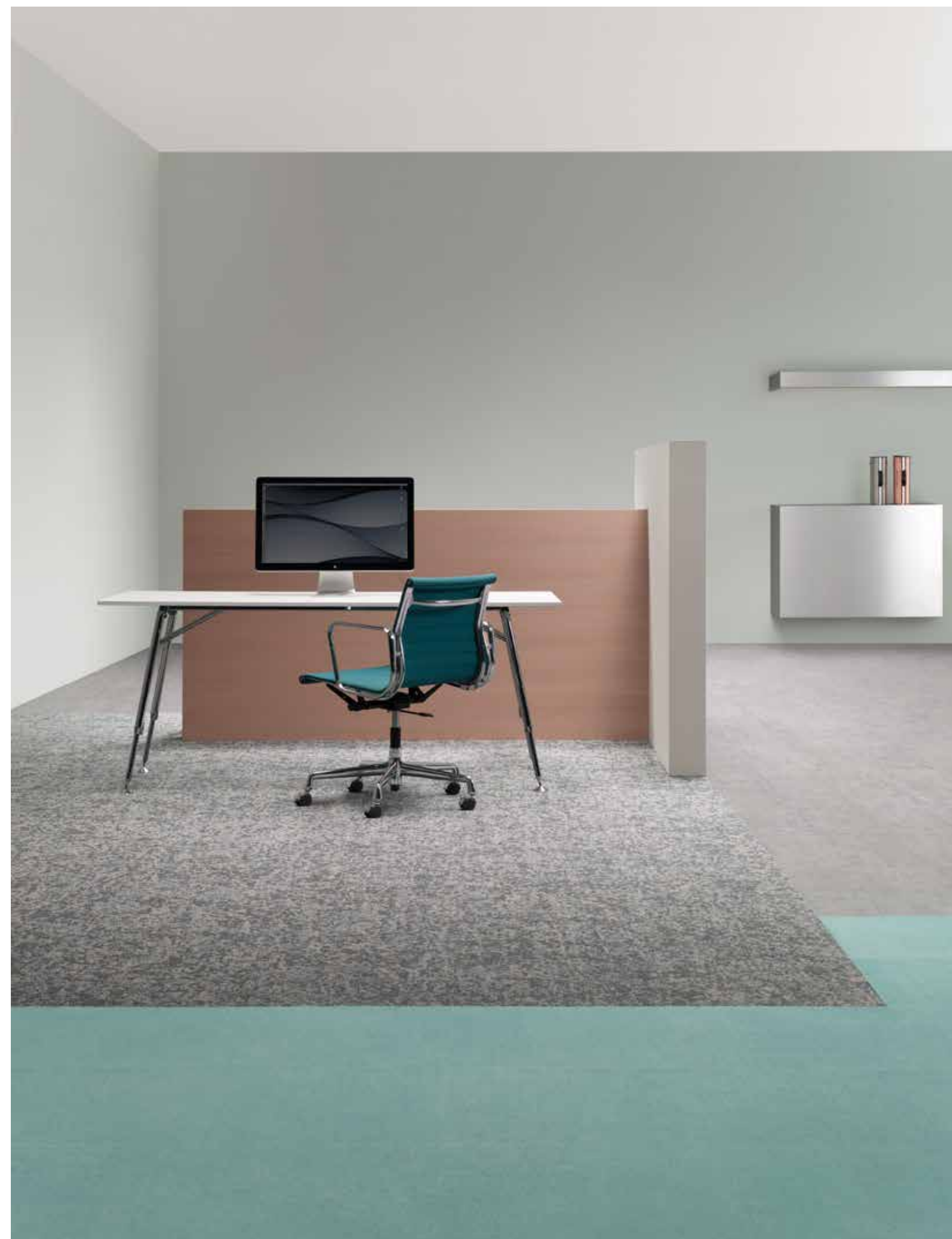
In carpet tiles, we invested in new collections plus combined concepts of loose-lay vinyl tiles and carpet tile plank formats for the office segment. We enhanced our Flotex print capabilities by investing in a new printing line in our Chateaux Renault site, where we also introduced a new product concept of Flotex in plank formats.

Our range of luxury vinyl tiles was completely revamped as we introduced new click and loose-lay formats alongside a collection of adhesive 'dry back' products. The collections feature numerous innovative designs and a wide variety of plank and tile formats. They also include 14 realistic embossing structures.

Besides driving growth through changes and additions to the portfolio, we also focused on expanding sales resources for private sector customer segments. In Southeast Asia, China, and Turkey, we selectively strengthened sales structures, whilst in the United Arab Emirates we set up a local company to serve as a base for expansion in the Middle East.

Finally, Sphera, our new homogeneous vinyl, will be an important addition to our portfolio of resilient floor coverings in both the public and private market sectors.

With our activities and growth initiatives over the year, we are creating a solid foundation for profitable growth, a more sustainable portfolio, stronger market focus, and ongoing cost optimization.



ORGANIZATIONAL PROFILE

Forbo Flooring Systems has 12 production facilities in six countries, plus distribution companies in over 20 countries. The division has sales offices in Europe, the Middle East, North, Central, and South America as well as Asia/Pacific. The headquarters of the Flooring Systems division is in Assendelft, the Netherlands. The Flooring Systems division includes a Building & Construction Adhesives activity with production facilities in three countries and sales activities concentrated in Europe.

MARKETS

Flooring Systems manufactures floor covering which are predominantly directed at the commercial professional (contract) market. To a limited extent products are also used for consumers such as Novilon LVT and Marmoleum click where easy installation is a typical characteristic.

For the commercial market, Flooring Systems has a total solutions system in place. This covers both resilient and textile product lines. The commercial market is divided into a public sector of utility architecture, such as health care institutions, educational facilities, and public buildings, and a private sector covering market segments like retail, corporate office, and leisure and hospitality that is governed by property owners and construction companies. Among the special market segments Flooring Systems covers are transportation (mainly floor coverings for rail carriages, marine, and coach) and industry, for which we offer a variety of special purpose floor coverings, such as conductive and static dissipative flooring solutions.

MANUFACTURING

All 12 Forbo Flooring Systems manufacturing facilities are ISO-9001 and ISO-14001 certified.

LINOLEUM, A SUSTAINABLE CHAMPION

Flooring Systems has been the world leader in linoleum for over 30 years. Linoleum, which we market as Marmoleum, is one of the most sustainable floor coverings available today. It is a resilient floor covering but, unlike rubber or vinyl, it is made from almost 100% natural materials. Once perhaps seen as an oddball characteristic, today it means that Marmoleum can be truly positioned as an environmental front runner.

The Paris Climate Agreement, adopted by consensus on December 12, 2015, and which went into effect on November 4, 2016, aims to reduce and constrain CO₂ emissions to limit the impact of climate change. The agreement, ratified by 167 countries, is an ambitious and balanced plan that, according to Laurent Fabius (then French Foreign Minister and Head of the Paris Conference), presents a 'historic turning point' in the goal of reducing global warming.

The building and construction industry, reflecting population growth and the continuous migration of people to urbanized areas, is one of the largest contributors

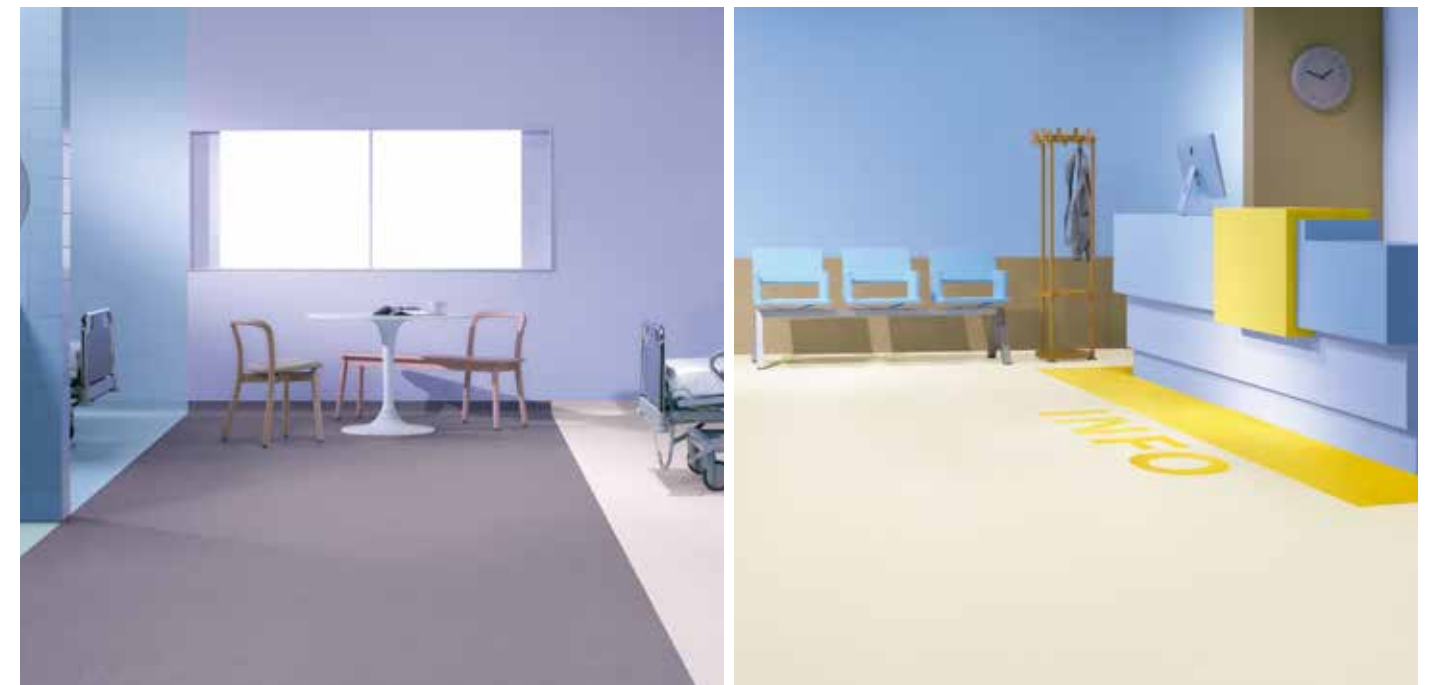
to human-induced global warming. Some 95% of all private and institutional buildings feature floor covering as a finishing material. As such, the building and construction industry has a responsibility to look out for and invest in sustainable materials and technologies.

Sometimes the solution is simple and easy to apply. For energy, it is wind or solar power, for floor covering it is linoleum. Linoleum is made from natural renewable materials that can be harvested from annual crops such as flax or jute, or obtained as recycled wood from controlled forestry plantations. The result is a natural, durable floor covering whose manufacturing process is 100% CO₂ neutral. Linoleum production, which is a manufacturing technique that involves mixing and calendering raw materials that, in essence, cure over time, produces limited amounts of CO₂ and, in the case of Forbo, is supported by the use of green electricity to power our operations. The CO₂ intake of flax, jute, and trees more than compensates for the production and transportation of the raw materials. As such, Forbo's environmental product declarations (EPD) for Linoleum claim a CO₂ neutral floor covering which, at the end of its useful life (a lifespan that can cover up to 30 to 40 years) can be returned to nature because its key components are biodegradable.

Linoleum is the answer for reversing global warming within the flooring product category. This makes an investment in linoleum an investment in the future of our planet and the next generations. Linoleum floor covering is contributing to more sustainable buildings of the kind encouraged by international standards like LEED and BREEAM. Forbo linoleum is manufactured in the Netherlands and Scotland. Forbo's key linoleum brands are **Marmoleum** for sheet, tile, and plank options, **Marmoleum Click** for floating floor panels, **Marmoleum Sport** for sports applications, and **Marmoleum Ohmex** for anti-static floors. **Furniture Linoleum** is a surfacing material and **Bulletin Board** is used for pin wall/pinboard applications.

SUSTAINED VINYL INNOVATION

Perhaps the largest improvement in reducing indoor emissions and removing harmful substances from floor coverings has been made in vinyl floor coverings. Large changes over time to substrate, backing, and finishing layers have both benefited the environment as well as the product's indoor emissions profile. Forbo is a leading player in vinyl innovation. With the introduction of our new Sphera production line, we have succeeded in creating a homogeneous vinyl collection with very low levels of



indoor air emissions. Overall, we can boast that we have the largest phthalate-free portfolio in the industry. Our manufacturing sites are modern, run on 100% green electricity, and are close to achieving zero waste. In nearly all cases, we use waste material to make the backing of our products. Where we cannot use this waste as a backing material (as with our vinyl portfolio), we direct waste streams to our textile operations, where they are used to make a tile backing material for our flocked flooring portfolio. Another way we reduce waste is through precision. Our increasingly popular luxury vinyl tiles are produced from a 4-meter-wide calendered sheet that is cut to size by ultrasonic knives. This reduces waste offcuts to an absolute minimum, and so reduces overall waste streams.

Recently we invested in a greenfield plant to manufacture homogeneous vinyl. This plant uses the latest technology. Through this, all production stages use as little energy as possible, and generate as little waste as possible. PVC miniature spheres in various shapes and colors are created from a dry blend mixture. These are then mixed and dispersed on a Teflon belt. An ingenious sequence of belt pressing and relaxation creates a homogeneous sheet floor covering that is dimensionally stable and ready to use. This process creates no waste streams, and the result is a PVC product that can be recycled at the end of its life. Forbo's vinyl brands comprise **Allura** for luxury vinyl tiles and planks, **Eternal** for heterogeneous vinyl, **Sphera** for homogeneous vinyl, **Step** for slip resistant vinyl, **Sarlon** for acoustic vinyl, **Colorex** for static dissipative vinyl floors, and **Novilon** and **Novilux** for residential applications in vinyl flooring.

A BROAD AND COMPREHENSIVE TEXTILE FLOOR COVERING PORTFOLIO

Whether in product type or application, Flooring Systems offers a wide choice of textile floor covering. For office and leisure applications, our Tessera and Westbond carpet tile collections offer a broad range of colors and designs that allow for mixing and matching. Through this, we can offer customers an extensive choice without having to manage a huge number of collections that risk falling out of fashion and so going to waste. Another way we avoid waste in our carpet tile portfolio is to use it – waste – by employing yarn regenerated from old fishing nets and PET bottles. As a result, our portfolio has, measured by weight, the highest content of recycled material at over 56%.

Textile floor covering is an often-desired but not always optimal solution. This is certainly the case in high traffic areas, and areas where frequent cleaning and maintenance are needed to ensure a hygienic environment. Forbo's unique flocked flooring, Flotex, available in sheet, tiles, or planks, squares the circle. Flotex is a high-density, high-

tech product made of millions of fine nylon fibers that are injected into an impermeable vinyl base. Because of this, Flotex dries quickly. This in turn means it can be scrubbed and cleaned with water and returned to use quickly to ensure maximum use time. Flotex is the only textile floor covering to be approved by the British Allergy Foundation. Thanks to its unlimited bespoke and digital printing opportunities, Flotex works in a designer environment just as well as it does in high-traffic areas and senior care facilities where hygiene is paramount.

Needlefelt is another textile floor covering within the Forbo offer. It is a non-woven that is known universally for its hard wearing and indestructible character. It is typically found in hotels, offices, and public buildings. Besides a coarse fiber needlefelt, Forbo produces a fine fiber one with a velour-like surface and striking colors. This can be digitally printed to meet the requirements of the leisure and hospitality sector.

Finally, our textile floor covering offer encompasses a range of high quality tufted and rigid aluminum strip entrance flooring. Coral, the Forbo brand for textile entrance flooring, combines brush and scraper yarns with moist-absorbing open yarns. Together, they remove 95% of all dirt and moisture walked into a building before people arrive at the main floor covering. This keeps the building cleaner and more hygienic, and reduces slip accidents. Coral uses various recycled yarns, including recycled aluminum for ridged entrance floors. Alternatively, we can deliver ridged entrance floors that combine bamboo scraper bars with buffed or unbuffed prime rubber and polyamide fiber composite wiper strips.

Forbo's textile floor covering brands are: **Tessera** for tufted carpet tiles and planks, **Westbond** for fusion-bonded carpet tiles, **Flotex** for flocked flooring in sheet, tile or plank formats, **Forte** for needlefelt, **Coral** for textile entrance floors, and **Nuway** for ridged entrance floors.



Sphera Element



Tessera



Allura



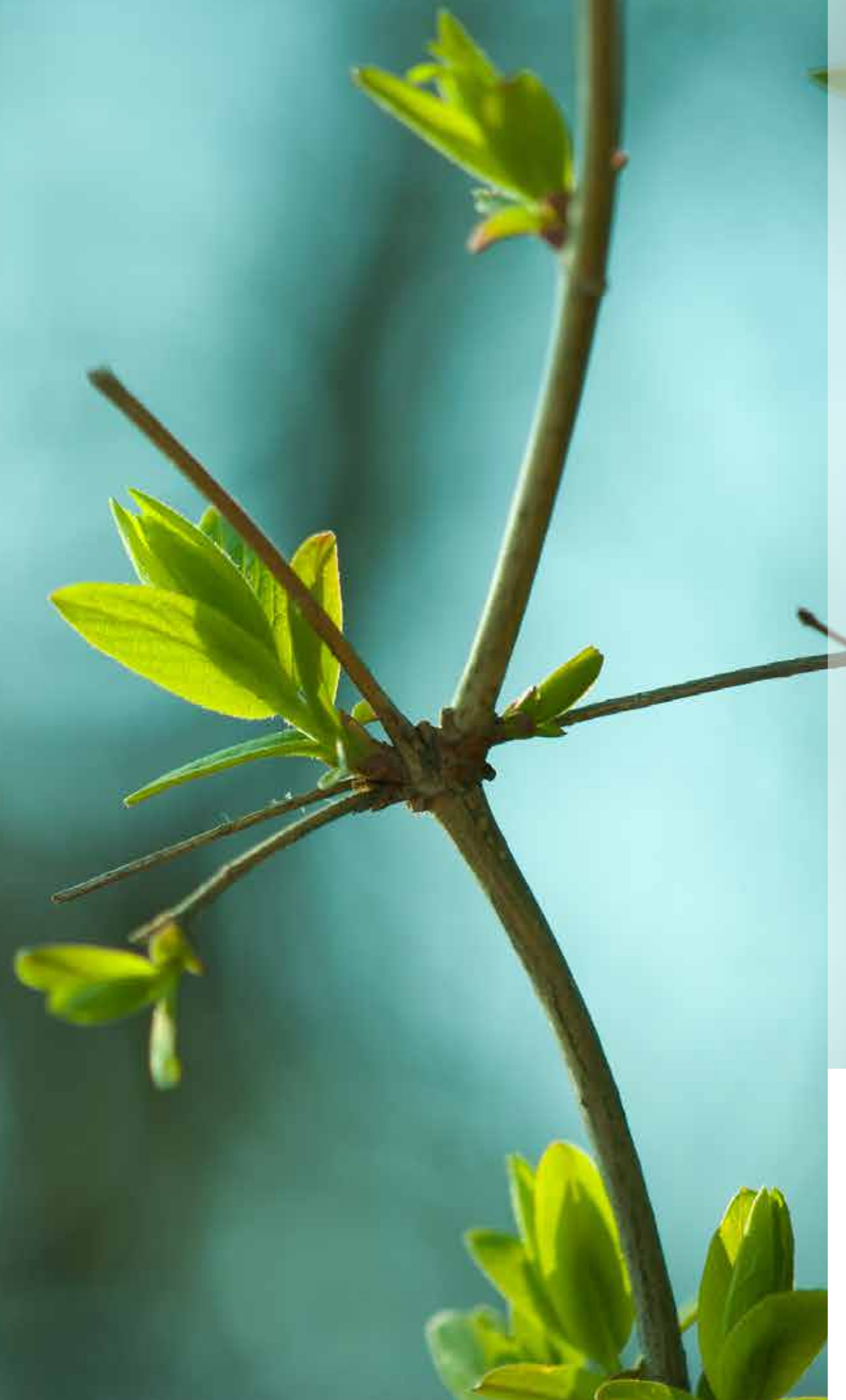
Sarlon



Tessera & Westbond

OUR SUSTAINABILITY POLICY

In the Flooring Systems mission we state that, "as a global leader in flooring systems, we have a responsibility to all our stakeholders to create a better environment. The way we serve and drive the market sets the pace and standard for world-class flooring solutions. Sustainable development and 'creating better environments' is an integral part of all of Flooring Systems' activities."



Flooring Systems has a long history in manufacturing sustainable floor covering solutions. In fact, our legacy goes back 150 years, with linoleum the first product to be made by the companies that would become Forbo. As a natural product made from renewable natural raw materials that are fully biodegradable and environmentally friendly, we have effectively been at the forefront of sustainability since the 1860s. Our Flooring Systems tagline, 'creating better environments,' expresses the awareness, commitment, and effort we make to contribute to a better world for people and the environment in which we live.

As a company, we are committed to meeting our obligations to future generations. We do this by acting as a sustainable company. Forbo underwrites the broad and all-inclusive definition of sustainable development as accepted by the United Nations Commission on Environment and Development, General Assembly Resolution, 1987, which states that sustainable developments are those:

The United Nations' definition of sustainability recognizes three individual dimensions that together form a sustainable policy. These are:

- **THE ENVIRONMENTAL DIMENSION** – planet: the way in which measures specific to improving the environmental impact of the processes and products of the company are regulated and executed.
- **THE SOCIAL DIMENSION** – people: the way in which social equity and corporate governance are defined and followed within the company.
- **THE ECONOMIC DIMENSION** – profit: the way in which the company organizes its position in the market place to actively develop its sustainable profile by using its economic stability and profitability for continuous improvement.

Flooring Systems supports these three dimensions, also called the 'triple bottom line' or 'people, planet, profit,' in a constructive and consistent manner through the following principles:

- 'Compliance-plus' – a commitment to go above and beyond government regulations and requirements
- Integrating sustainability considerations into all our business decisions
- Regularly monitoring and reviewing progress in sustainability performance
- A commitment to continuous improvement
- Promoting sustainability throughout our value chain, and expecting our suppliers and customers to comply with this
- Ensuring that all staff are fully aware of our sustainability policy and are committed to implementing and improving it
- 'Committed to the health of one' – our focus on the health and well-being of the individual.

COMMITTED TO THE HEALTH OF ONE

With 'committed to the health of one' (CHO) Flooring Systems introduced a program with the ambition and commitment to make a positive contribution to the quality of the indoor environment. The CHO program, begun in 2015, is based on the belief that the quality of our products, our continuous product innovation and state of the art manufacturing processes can deliver a flooring portfolio that enhances the quality of the indoor environment.

In creating a healthy indoor environment, we focus on all aspects that contribute positively to the safety, hygiene, and well-being of our customers. And we focus on the following aspects in particular:

- Indoor air emissions
- Asthma and allergy triggers
- Light reflectance
- Acoustics
- Cleaning and maintenance

'Committed to the health of one' is also Flooring Systems' commitment to our employees. It involves providing a safe and hygienic environment in our manufacturing facilities and offices through focusing on the continuous improvement of our processes and working conditions by:

- Regularly monitoring and reviewing progress on safety awareness
- Continually improving the safety of our production processes
- Offering health improvement programs
- Regularly monitoring and reviewing the well-being of all our employees.

'Committed to the health of one,' just like 'creating better environments,' is the result of an internal drive and leadership behavior that sets clear goals for the next phase in our market transformation. This drive comes from both the top down and the bottom up.

The impact of our CHO program is now becoming visible in the changes to, and innovations in, our product portfolio. For Flotex, our high-tech textile floor covering, we are now close to offering a zero emissions portfolio. Sphera, our new homogeneous product collections, also has emissions levels that are near zero. And we see that our focus on a healthy interior is being adopted by the building and construction industry, and that attitudes regarding the quality of the indoor environment are shifting to a focus on the quality of life for the individual.

IDENTIFIED MATERIAL ASPECTS

Effective and ongoing stakeholder engagement is the foundation of both our business and our sustainability reporting initiatives. We engage with our stakeholder groups on an ongoing basis to ensure we maintain our social license to operate. The selection of stakeholders with

Why it's important to have a sustainable attitude

"When discussing our attitude towards sustainability, I always like to explain why, as a floor covering manufacturer, sustainability matters," says Willem Burmanje, Marketing & Communication Director at Forbo Flooring Systems. "First of all, with well over half of the world's population now living in cities, the building and construction industry that is creating these cities is, as a category, the largest contributor to the rise in CO2 levels. Floor covering is part of the building and construction sector and so, by definition, mirrors what happens in the industry. What is important to realize is that the largest proportion of total floor covering sales are made to 'renovation projects;' in other words, to projects in which the building already exists and a floor covering is already in place. The old floor covering needs to be removed before a new one can be installed. What is removed becomes waste. Of course, this is part of a product's lifecycle, but at Forbo we understand that this is a key moment for sustainability. The end-of-life phase in a product's lifecycle is the point at which its sustainability can be judged. At its end-of-life phase, linoleum can be put to landfill, where it biodegrades as the natural products from which linoleum is made return to nature. This is why I think the story of linoleum is so fascinating. In fact, I really believe that if we were to invent a sustainable floor covering solution today, linoleum would probably be the invention we marvel at..."

"Developments that meet present needs without compromising the ability of future generations to meet their needs."



which we engage reflects the relevance of those things that have a direct or indirect impact on our everyday business. In particular, we consult local and national government environmental organizations regularly, because of the material impact of our environmental activities. Likewise, the social and economic dimensions of our business mean we talk with unions and organizations related to the floor covering industry.

- Our stakeholder engagement involves a range of activities:
- Internal stakeholders – through regular meetings and surveys
 - Customers – through customer feedback mechanisms and surveys
 - Government (national, state, and local) – through representation on committees and other regular contact regarding environmental and safety compliance
 - Environmental non-governmental organizations – through meetings, representation on committees, and other regular contact
 - Suppliers – through regular meetings and audits
 - Unions – through meetings and representation on committees
 - Communities – through representation on committees, open days at our manufacturing plants, and involvement with charities and schools
 - Industry and trade associations – through meetings, representation on committees, and other regular contacts.

For the 2015 report, we conducted a materiality assessment for the first time. Our goal was to validate the importance of specific sustainability topics and examine the relevance of these topics for our stakeholders. For the 2016 report, we repeated the assessment with the same internal working group composed of senior people from relevant disciplines with knowledge of, and access to, data on stakeholder priorities.

- The workgroup:
- Confirmed the sustainability topics that had been identified as specific to Flooring Systems
 - Confirmed the main stakeholder groups that had been identified
 - Assessed the level of stakeholder concern per sustainability topic for main stakeholder groups based on:
 - Data (feedback, complaints, questionnaires, global media)
 - Internal or external surveys or interviews
 - Own experience
 - Assessed the impact on Flooring Systems’ success (essential to fulfilling our strategy) for each of the sustainability topics

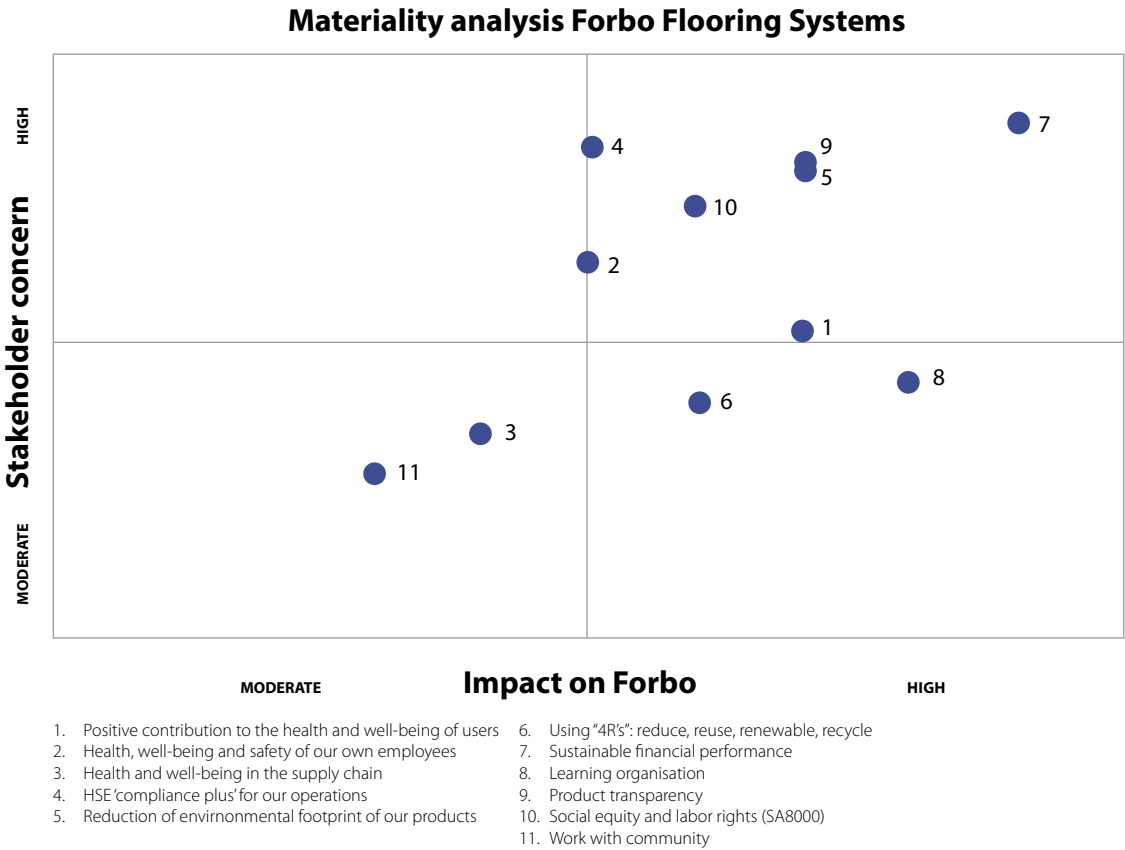
Based on previous sustainability reports and Forbo Group and Flooring Systems’ principles and strategies, the same sustainability themes and related topics as in 2015 were confirmed for 2016:

- PROMOTING HEALTH AND WELL-BEING**
- A positive contribution to the health and well-being of users of our products
 - Health, safety, and well-being of our employees
 - Health, safety, and well-being in the supply chain
- REDUCING ENVIRONMENTAL IMPACT**
- HSE ‘compliance plus’ for our operations
 - Reducing the environmental footprint of our products
 - Employing the ‘4R’s: reduce, renewable, reuse, recycle
- ORGANIZATIONAL DEVELOPMENT**
- Sustainable financial performance
 - Learning organization
- SOCIAL RESPONSIBILITY**
- Product transparency
 - Social equity and labor rights (SA8000)
 - Working with the community

We have identified our material sustainability topics by thoroughly analyzing the resulting data and assessing the topics that are most important to our stakeholders and to Flooring Systems’ business. This analysis will help us to focus our sustainability strategy and reporting in the coming year and further in the future. This report includes a significant focus on those material issues as mapped in the upper right quadrant of the materiality matrix. For 2016, the materiality matrix was confirmed as being unchanged.



MATERIALITY MATRIX

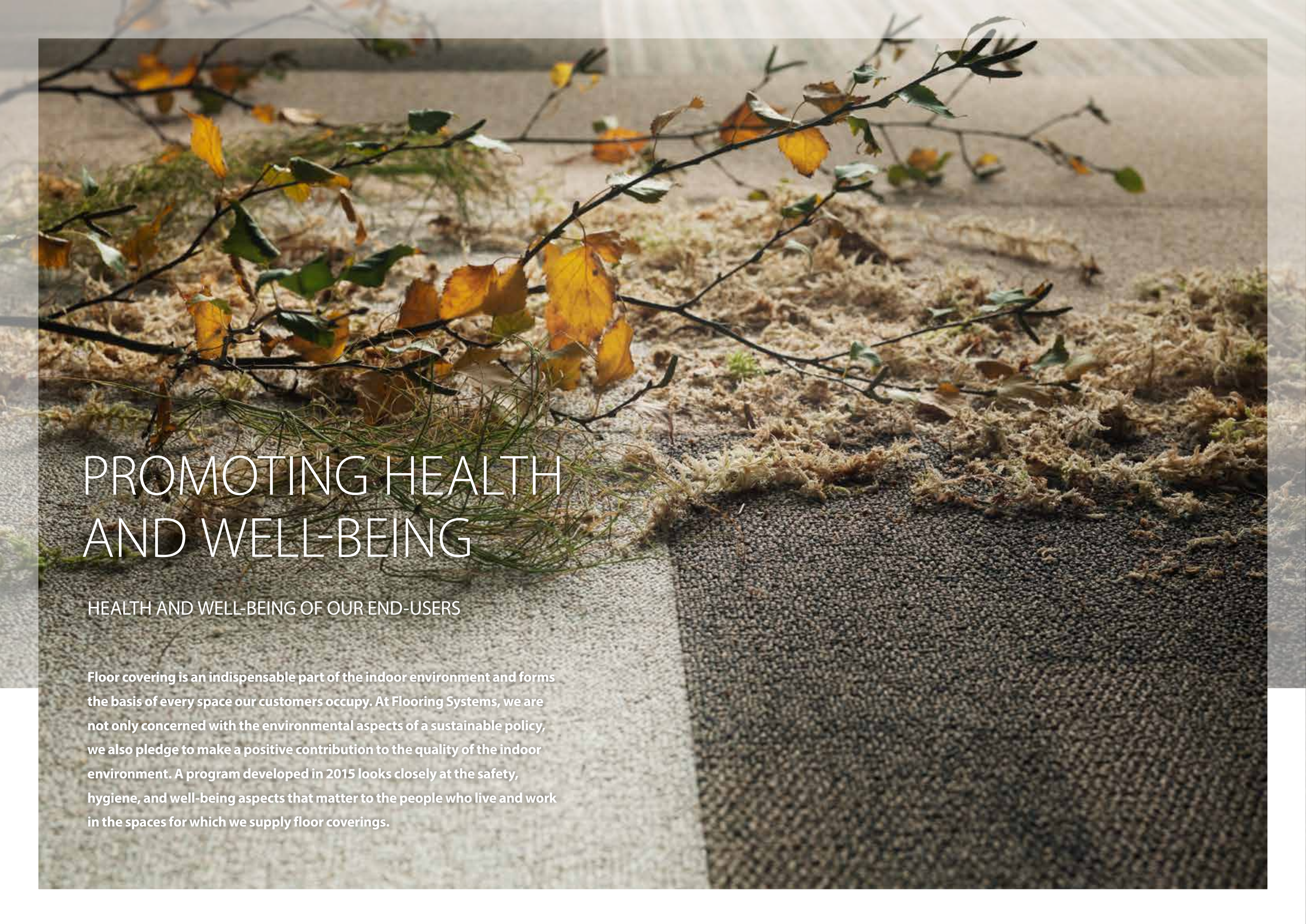


In 2016, Flooring Systems was a member of the following associations:

- European Resilient Flooring Manufacturers’ Institute (ERFMI)
- European Carpet and Rug Association (ECRA)
- Multilayer Modular Flooring Association (MMFA)
- Global Reporting Initiative (GRI)
- Various national industry and trade associations
- The Floorcovering Committee of the International Organization for Standardization (ISO) and the European Committee for Standardization (CEN) through national member committees.

CONNECTIVITY

The Forbo organization and its two divisions are proud that our activities form part of everyday life. Our products and services connect with people in professional and private environments to contribute to their lives. Where floor covering is concerned, we create exceptionally good products that go beyond simply feeling nice underfoot. Floor coverings must be robust and functional, while also creating a three-dimensional experience for all senses. As stated in our annual report for 2016, where sustainability is concerned, Flooring Systems is committed to the triple bottom line of people, product, and profit.



PROMOTING HEALTH AND WELL-BEING

HEALTH AND WELL-BEING OF OUR END-USERS

Floor covering is an indispensable part of the indoor environment and forms the basis of every space our customers occupy. At Flooring Systems, we are not only concerned with the environmental aspects of a sustainable policy, we also pledge to make a positive contribution to the quality of the indoor environment. A program developed in 2015 looks closely at the safety, hygiene, and well-being aspects that matter to the people who live and work in the spaces for which we supply floor coverings.

SAFETY

Floor covering products can help promote safe environments by, for example, showing reduced product emissions that are well below official limits – at times even close to zero. Using the right kind of floor covering can help reduce and prevent accidents that would otherwise arise from slipping and tripping. Our Step safety vinyl ranges offer various degrees of slip resistance so that even on ramps and in places where spillages can occur, like professional kitchens, the floor remains slip-proof. Preventing dirt coming into a building is also a safety measure, as slip accidents occur in dry as well as wet conditions. A dry floor that is covered with fine sand and dust can be as treacherous as a wet floor. In health care, manufacturing, and technology, safe floors are essential for operating theaters, clean rooms, and IT environments, for example, with the definition of safe ranging from hygienic or non-slip, to conductive flooring systems that prevent short circuits and equipment malfunctions. In patient rooms and corridors, naturally bacteriostatic Marmoleum floors prevent the growth of bacteria such as MRSA. This same property also creates floors that are safe to play on in kindergartens and day care centers.

HYGIENE

Forbo's floor covering products are constructed in such a way that coatings and lacquering systems repel dirt and resist scratches and scuffs. Resilient floors such as linoleum and vinyl are easy to clean through daily or weekly cleaning cycles, either manually or mechanically. Resilient floors are also advised when allergies such as asthma or other dust mite related allergies are an issue. Forbo's flocked floor covering range is a special product that feels like a carpet but performs like a resilient when it comes to cleaning and maintenance. All Forbo floors maintain their appearance for a long time when cared for under a regular cleaning regime. Such regimes also promote good looking and hygienic environments. We also take care to ensure that the cleaning and maintenance properties of a floor are always the first concern when developing the look and feel of a new product. All our embossing techniques, for example, whether wood, stone, or all-over embossing, are designed to avoid creating dirt-trapping grooves or cavities on the surface. A simple cleaning action with a broom, mop, and detergent should always deliver a clean floor.

WELL-BEING

A third aspect, related to our 'committed to the health of one' program, concerns well-being. When an indoor environment 'feels good,' people are more productive, more comfortable, and happier. A floor can help in various ways.

Noise: Using the right type of floor covering can help control and reduce noise, whether it is contact noise from the floor above, or ambient sound created in the space itself. Textile flooring obviously generates lower noise levels than hard floors, but even our resilient floors can be equipped with sound-dampening qualities in their backing or sublayers.

Design: This is one of the most important factors when it comes to creating a sense of well-being. Floor designs not only express the image and dynamics of a work or living space, design can also be used to make institutional buildings look and feel more like a home. When an age care facility looks like home, people are more likely to feel well. When a school looks fresh and bright, it inspires learning. Workplaces can be designed for concentration or for conversation, and the type of floor covering design you choose can play a major part in creating these spaces.

HEALTH, WELL-BEING, AND SAFETY OF OUR EMPLOYEES

The 'committed to the health of one' program also covers our own employees. Safety is paramount. While we invest resources to improve our work systems and upgrade equipment, we also recognize that behavioral factors often cause accidents. Sustainable behavioral change is therefore key to our long-term OHS strategy, and the focus of many of our training programs. All our sites operate safety awareness programs to reduce the number of accidents.

The key indicators of our safety performance are:

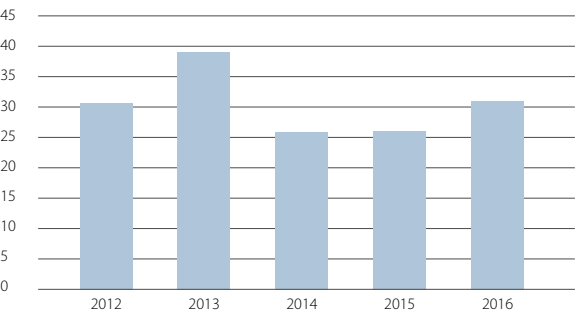
- Lost Time Accidents
- Lost Days Injury
- Total Accident Frequency Rate
- Safety Concerns Frequency Rate

These key performance indicators are measured and reported at all sites every month. The number of Lost Time Accidents increased slightly in 2016, so did the Lost Days Injury rate. Improvement programs have been launched at the relevant sites to reverse these upward trends.

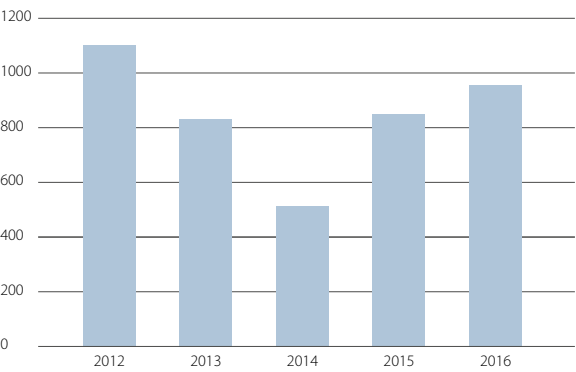
DESIGN PHILOSOPHY

All these aspects are brought together under our 'committed to the health of one program' that considers not only green design principles, but also the role and function of a particular environment or space. Design at Forbo either follow trends or focuses on the needs of the specific segment for which a floor covering is to be used, such as in retail or care environments, for example. Today, we see that environments that once had their own particular character are increasingly borrowing ideas from elsewhere. Shops are increasingly becoming 'experience environments,' with the in-store running track in a sports store as common as the café in a bookstore. The same is true of hospitals and offices as reception areas morph into open public spaces and receiving areas whose role is to guide people to other parts of the building. Considered this way, design forms part of whatever activity is taking place, rather than simply a backdrop to it. It's no longer about designing for a segment, but designing for usage. Receiving, Moving, Connecting, Concentrating, and Relaxing are key words we have created around people behavior and the indoor experience. The result is that the user and end-use scenarios inspire and shape what 'committed to the health of one' means in any given context from the moment we start designing a new collection.

LOST TIME ACCIDENTS

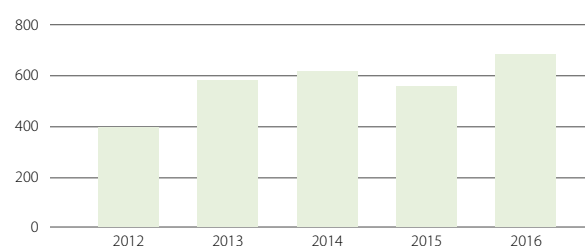


LOST DAYS INJURY

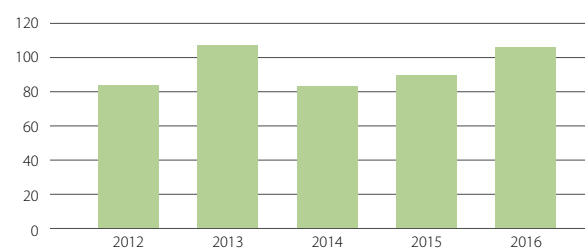


We began reporting our Total Accident Frequency Rate and Safety Concern Frequency Rate in 2012. Total accidents are defined as all accidents, including those with no injuries. A safety concern is defined as all reported unsafe situations and near misses. These two indicators are reported to management every month to improve our overall safety performance. The growing safety awareness of our workforce is key to lowering the Total Accident Frequency Rate. Better reporting of safety concerns also supports a safer working environment. We consider the consolidated reporting of gender-specific data on safety incidents to be immaterial from a safety management point of view in our operations; we therefore do not compile such figures centrally or include them in our divisional figures.

SAFETY CONCERN FREQUENCY RATE



TOTAL ACCIDENT FREQUENCY RATE



In addition to the safety aspects mentioned above, we also take care of the physical and emotional well-being of our employees by stimulating active working for desk workers, lunchtime walking exercise, and organized sports and fitness in which we support a discount at local work-out centers.

JOINT MANAGEMENT-WORKER HEALTH AND SAFETY COMMITTEES

All our manufacturing sites have joint management and worker health and safety committees that help monitor and advise on health and safety programs. Our sales entities in Europe, Australia, and Russia also have similar committees. Altogether, these committees covered more than 85% of our employees at the end of 2016.

OFFERING HEALTH IMPROVEMENT PROGRAMS

Although it is imperative to have a good absenteeism protocol, prevention is increasingly important, too,

especially with an aging workforce in our production facilities. We therefore run a number of programs to promote the health and well-being of our employees. These may differ per entity and/or country. Some examples:

Healthy lifestyle programs:

- Stop-smoking programs
- Sponsored fitness activities
- Facilitating sports activities
- Promoting healthy food

Regularly monitoring and reviewing the well-being of our employees:

- Offering regular medical check-ups and assessments for well being
- Employee surveys
- Concerns and grievances reporting procedures

CONCERNS AND GRIEVANCES PROCEDURE

With the rolling out of the SA8000 accountability standard in the Netherlands, France, Russia, and the UK, at least 80% of our employees are now covered by a grievance procedure. This provides a way for employees to report, anonymously or otherwise, any concerns or examples of non-conformance to an SA8000 worker representative. The SA8000 worker representative is an employee chosen by non-management personnel to facilitate communication with senior management on matters related to SA8000. SA8000 therefore provides another confidential means of communication that fosters exchanges on issues which are sensitive or hard to express. This approach is only sustainable if every single concern or non-conformance is addressed quickly and systematically. In order to do so, we have implemented a standardized procedure to handle complaints. It is important to note that this SA8000 procedure is not intended to replace other legal committees or procedures. In countries not yet covered by the SA8000 certification, other legal and voluntary procedures are sometimes available that are not covered in this report.

HEALTH, WELL-BEING, AND SAFETY IN THE SUPPLY CHAIN

We purchase a wide range of raw materials, products, and services to support our business locally, regionally, and globally. These raw materials and products include our principal constituents – linseed oil, gum rosin, PVC granules, and nylon yarn – as well as other materials and services such as chemicals, fillers, energy, fuels, spare parts, maintenance, logistics, and IT services. Our supply networks encompass various kinds of suppliers from small-scale local service providers to large multinational companies.



that involve audits conducted by our purchasers or QHSE managers. These assessments ensure that our suppliers properly observe human and labor rights, occupational health and safety requirements, environmental performance goals, and responsible business practices in their daily business. In practice, our responsible sourcing work is implemented by our purchasers, who meet suppliers regularly to discuss related issues. As part of our Supplier Requirements program, our purchasers also visit our suppliers' production sites to see where the products we use actually come from, and to get a first-hand impression of suppliers' operations. At the end of 2016, approximately 90% of all our suppliers had been assessed.

SUPPLIER ASSESSMENTS AND AUDITS

In addition to conducting supplier visits, we evaluate and monitor our suppliers electronically and via audits. Supplier companies are selected for auditing based on a pre-evaluation of their social and environmental risk profile, taking into account their geographical location, the nature of their own supply chain, the product category, our purchasing power, and the spend volume.

In 2016, all new raw material, packaging, and product suppliers, plus a selection of existing suppliers, were assessed and/or audited in accordance with the Supplier Requirements program. The audits revealed non-conformances relating to occupational health and safety in particular, as well as working hours, safety procedures, and environmental performance. In some cases, they also indicated that suppliers' own management systems were inadequate. None of the non-conformances identified during these audits involved child labor or forced labor.

The conclusions and recommendations of all audits were reported to the suppliers involved and, when deemed necessary, discussed with them. These reports and discussions resulted in corrective action plans, specific schedules for the implementation of the necessary improvements, and agreements on any practical support that the supplier might need to undertake remedial actions.

The progress made on implementing corrective action plans is followed up by our purchasing department and, if it is felt to be appropriate, we conduct a follow-up audit. If we find that a supplier is failing to meet our requirements and expectations, we first offer guidance specifying which issues need to be corrected or improved. The supplier must then take the corrective actions requested by Flooring Systems. During 2016, all the suppliers we assessed either complied directly with our requirements, or did so after taking corrective actions.

RESPONSIBLE SOURCING

For Flooring Systems, responsible sourcing means showing true commitment to global responsibility, addressing the concerns of our key stakeholders, complying with regulatory frameworks, adhering to best practices, and managing supply risks.

In 2012, we launched our Supplier Requirements program to build further on the sustainability requirements that were already in place. These requirements are an integral part of the contract between Flooring Systems and our suppliers, and require the management and control of:

- Quality
- Environment
- Anti-corruption
- Raw materials
- Social accountability (SA8000 standard)
- Community relations

The requirements related to quality, environment, and responsible sourcing practices were also reviewed and updated.

SOCIAL ACCOUNTABILITY

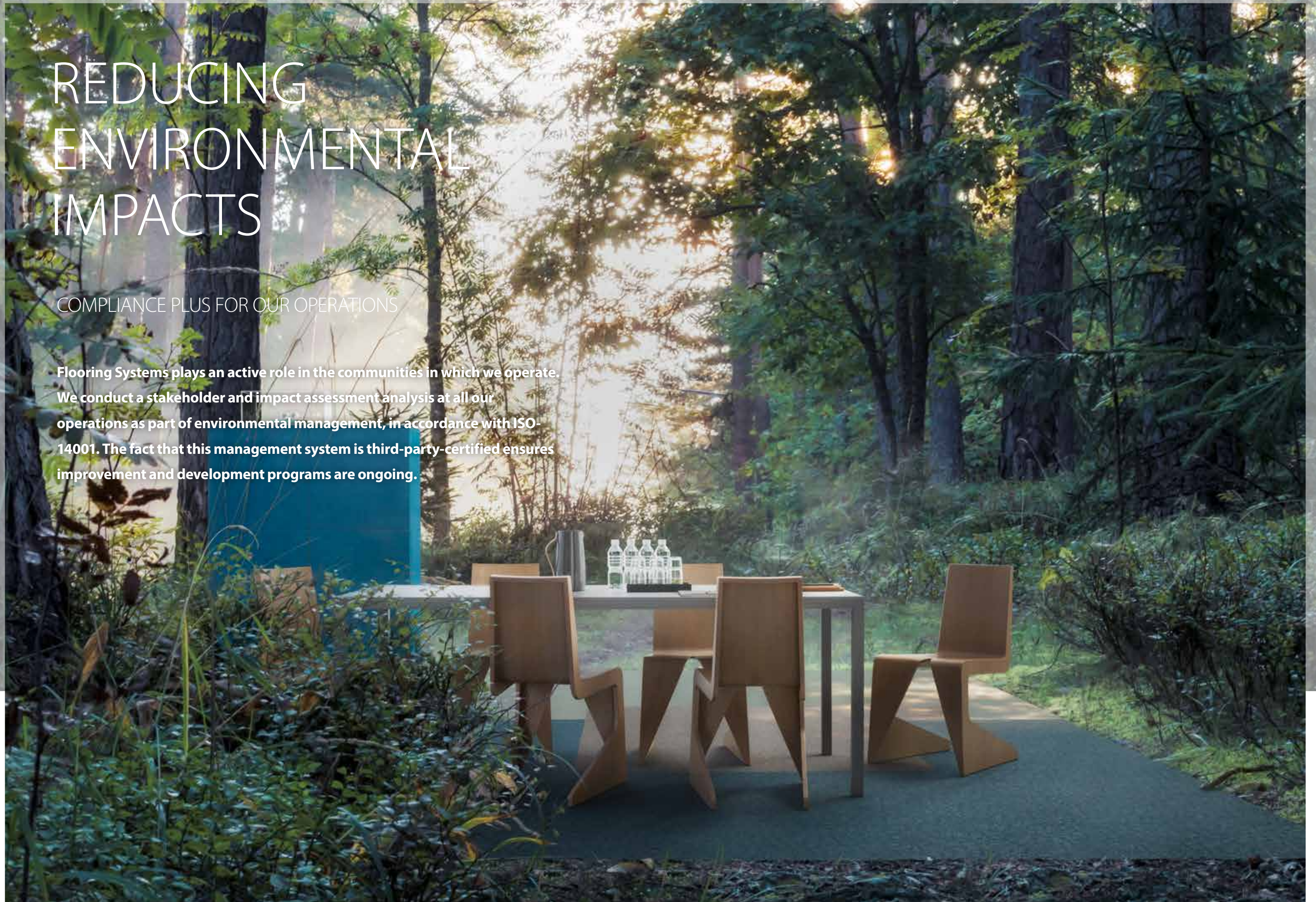
Flooring Systems expects its business partners to commit to the SA8000 social accountability requirements. We not only require a written commitment; local audits can also form part of our supplier approval procedures. In fact, suppliers in countries with weak labor protection are always monitored via local audits. We treat the SA8000 standard as the key performance indicator for measuring our progress in responsible sourcing.

Our Supplier Requirements program imposes minimum requirements on our suppliers as a legally binding document. However, our approach also involves close cooperation with individual suppliers. This is realized through meetings, onsite visits, and supplier assessments

REDUCING ENVIRONMENTAL IMPACTS

COMPLIANCE PLUS FOR OUR OPERATIONS

Flooring Systems plays an active role in the communities in which we operate. We conduct a stakeholder and impact assessment analysis at all our operations as part of environmental management, in accordance with ISO-14001. The fact that this management system is third-party-certified ensures improvement and development programs are ongoing.



Through proactive engagement, we support local economies and contribute to the social fabric. Flooring Systems understands that to operate in our communities, we must minimize any potential negative impact of our operations. We do this by operating transparently and communicating clearly with these communities, mitigating our environmental impacts where possible, monitoring our environmental performance, and engaging in community consultation.

All our production units register and monitor complaints from stakeholders that relate to that unit’s environmental performance. This forms an integral part of their respective environmental management systems. In 2016, our production units’ environmental management systems across Flooring Systems recorded six stakeholder complaints. All complaints were investigated and the root causes identified and resolved. Measures were taken to prevent any recurrence of the complaints.

REDUCING THE ENVIRONMENTAL IMPACT OF OUR PRODUCTS

We take two kinds of results into account when calculating our cradle-to-gate environmental footprint: the development and production of our floor coverings, and the production of the raw materials used to make them. Together, we look at:

- Changes in the use of raw materials
- Changes in yields
- The recycling or reuse of waste
- The energy usage of all our suppliers of those materials

We have integrated the raw materials results. The results for most of our raw materials have developed very positively over the last five years, which has helped to improve our environmental footprint. Main contributors have been wood-flour, PVC, and plasticizer supplies. Wood-flour is

produced using green electricity generated from biomass or wind, while the PVC and plasticizer supplied to all our sites today requires less energy to produce. Compared with our baseline year of 2009, the weighted energy consumption for the production of PVC fell by 11% and energy consumption for the production of plasticizer was reduced by 6%.

EMPLOYING THE 4R’S: REDUCE, REUSE, RECYCLE & RENEW

The 4R principle lies at the heart of our drive to reduce the environmental impact of our products both during their working life and at the end of life phase. As such, the four R’s are important indicators in our quest to continuously improve our sustainable profile through the complete lifecycle of our products.

The four R’s help us to identify where we can make sustainable choices in each stage of the product lifecycle. This starts at the very beginning of the sustainable lifecycle, in the conception and design phase, when we use Green Design principles to help us choose types and quantities of raw materials, and find alternatives. *Reducing* this way minimizes the product’s environmental impact without compromising functionalities and performance.

Where we must use raw materials, the preference and goal is to opt for either natural *renewable* materials, or materials that are both abundantly available and not used for any other primary purpose, such as feeding people or animals.

In the production phase, we aim to not create any waste and to ensure that any waste that is generated is *reused* in in our products.

Recycling can be facilitated by identifying secondary products that could be made using waste material generated during the production of the original product. This can also be taken a step further to include the recycling of left-over material from flooring installations, and even the post-consumer recycling of old floors that are being replaced.

DESIGN AND INNOVATION

We mainly use the LCA methodology to measure our environmental performance. We believe that, in environmental terms, the starting point for the creation of a new product and the adoption of new and innovative approaches in construction and design play a very important role in improving our LCA result. Most companies approach LCA reactively – they look back, set a baseline, and then trust that the improvements they make will have a positive impact. We take a different view, which can be seen in the emphasis we place on Green Design and innovation. We recognize that we have to do things

differently if we are to achieve our goal of becoming a sustainable and environmental leader.

REDUCE

We consider ‘reduce’ to be the most important of the 4R principles as reducing our consumption of materials, energy, and waste has the biggest impact both environmentally and financially. In particular, reducing raw material usage and improving waste reduction significantly impact and lower our overall environmental footprint – right to the end-of-life phase of our products. Many of our manufacturing sites made a positive contribution in 2016 by reducing raw material usage and packaging, and increasing the recycled content of our products.

Increasing product sales resulted in a slight increase in the overall amount of raw materials we used in 2016. The share of the various raw materials categories we used remained more or less unchanged compared to 2015.

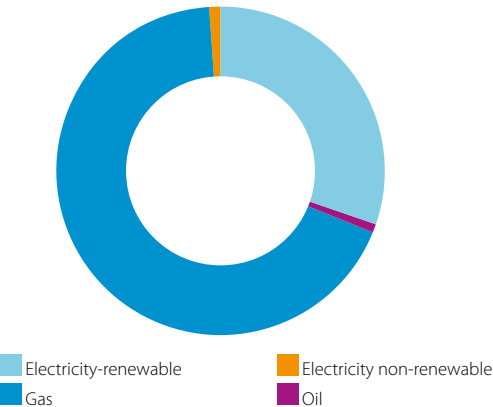
Renewable (inclusive recycled)	44,520
Non-renewable	104,390
Recycled	13,331
Reused	13,656

Packaging	
Renewable	5,486
Non-renewable	394

The increased production volume in 2016 led to higher energy consumption than in 2015. Within the overall mix, the share of renewable sustainable energy rose slightly.

Renewable electricity	340,041 (GJ)
Non-renewable electricity	9,255 (GJ)
Gas	753,832 (GJ)
Diesel	9,154 (GJ)

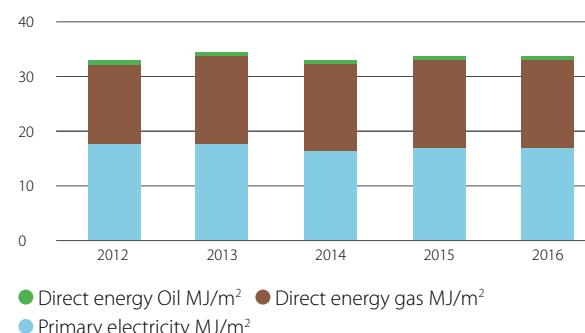
ENERGY CONSUMPTION IN 2016



Electricity is generated from various primary energy sources including coal, oil, natural gas, and wind. We use an energy index to measure our energy consumption per square meter of floor covering produced. This energy index calculates the primary energy consumption for all energy carriers.

Our energy consumption has remained virtually unchanged over the years 2012 to 2016. This is actually a good result considering the gradual shift in our sales from consumer to more commercial products. Commercial floor coverings generally weigh more per square meter and so require more energy to produce. When you consider the combined-weight throughput in our manufacturing sites, we actually reduced our average energy consumption by implementing better monitoring systems and energy saving programs.

PRIMARY ENERGY INDEX



REDUCE ENERGY USED IN TRANSPORTATION TO THE CUSTOMER

One of our logistical goals is to create more efficient transport flows: between plants; from plants to our overseas distribution centers; from our overseas distribution centers to our end-customers.

In this case, 'more efficient' means combining different products in one truck movement so that, in total, we use fewer trucks. Using cross-dock locations in Assendelft (NL), Reims (F) and Ripley (UK) to combine product flows improves overall lead times and reliability, and makes it easier to plan full trucks with more frequent deliveries. Combining different products in one truck also means that the customer receives (and therefore has to handle) only one Flooring Systems delivery, instead of several by different trucks.

Cross-docking further helps our overseas distribution centers to optimize their incoming containers. Instead of shipping small volumes from each manufacturing site, volumes are combined to create full trucks and container loads. By monitoring all shipping volumes of all plants, and comparing prices and shipping lead-times, we can determine the optimum cross-docking warehouse and harbor to use to get the container onto the ship.

The main cross-dock center, in Assendelft, has reduced our energy consumption even further by shipping containers to the ports of Rotterdam or Antwerp by barge instead of truck.

TRANSPORT BY TRAIN

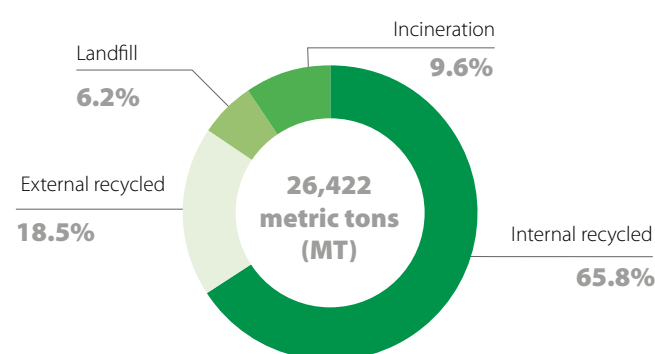
Shipping product by train is our latest step in making our transportation more sustainable. In 2015, we started shipping containers daily from our cross-dock center in Assendelft to our distribution center in Gothenburg, Sweden. In France, too, we do long distance distribution partly by train.

In 2016, we started feasibility studies into the possibilities for transporting product from Europe to China by train.

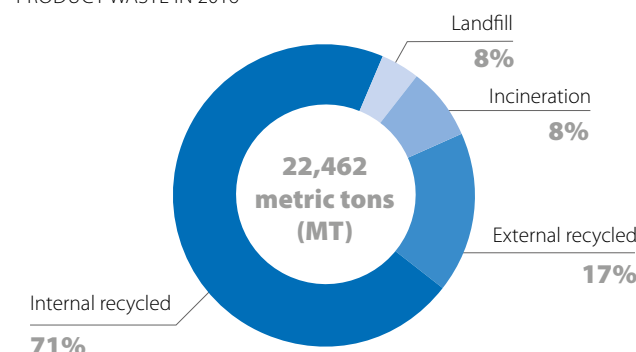
REDUCE MANUFACTURING WASTE

The main target for all our manufacturing sites is to reduce waste by maximizing both yields and product reuse. Most sites began doing this more than 10 years ago. In 2016, the total amount of waste we created increased slightly compared to 2015. This was caused by starting a new production line in Coevorden, the Netherlands. Nevertheless, the total amount of waste that was incinerated or sent to landfill fell by 3.3%. If waste is produced, the strategy is to first maximize reuse and recycling within Flooring Systems, and, secondly, to then maximize external recycling.

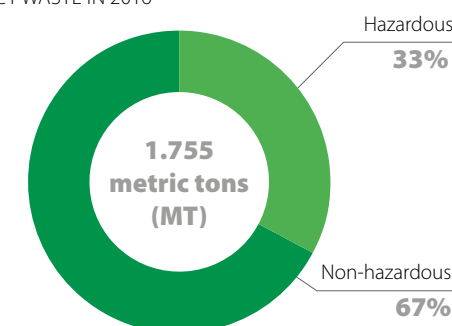
TOTAL WASTE IN 2016



PRODUCT WASTE IN 2016



NON-PRODUCT WASTE IN 2016



ALTERNATIVE ADHESIVE SOLUTIONS

Within our product portfolio, we are growing the share of so-called loose lay products. These employ a tackified solution and require no other adhesives to stick them down. Examples are our carpet tile offer, our Allura flex tile and plank offer, and our new Module'up loose lay vinyl sheet offer. None of these require the use of any adhesives.

Where adhesives form part of the floor covering installation, we are continuously developing and introducing new flooring installation systems at our Forbo Eurocol plants. These are based on new techniques, plus new types of adhesives that improve the installation sustainability of our floor coverings. As part of our 'committed to the health of one' program, we ensure that these new types of adhesives, primers, and levelling compounds show low or no emissions into the indoor air of buildings, and are in compliance with EMICODE® EC1PLUS.

The EMICODE® classification system makes it possible to compare and evaluate the emission characteristics of flooring installation products. This trademark-protected classification system has become the key international quality benchmark for a wide range of product groups. Since EMICODE® was introduced in 1997, more than 4,500 products from all over the world have been awarded the EMICODE® label. It offers consumers, craftspeople, and architects guidance to decide which materials offer maximum security against indoor air pollution, guaranteeing the best health protection and high environmental compatibility. To receive the EMICODE® label, manufacturers need to submit their products for extensive testing at recognized institutions. Based on scientifically determined measurement data, EMICODE® categorizes flooring installation materials, adhesives, and building products into three emission classes: • EMICODE® EC1PLUS, • EMICODE® EC1, • EMICODE® EC2

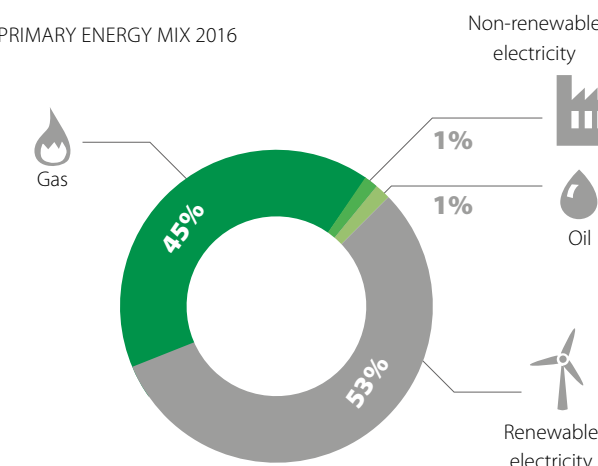
Forbo Eurocol produces and sells adhesives, primers, and levelling compounds that comply with EMICODE® EC1PLUS – the highest class. Our levelling compounds also show very low dust emissions. See also: www.emicode.com/en/, www.forbo.com/eurocol/en-gl and www.forbo.com/flooring/en-us

RENEWABLE

RENEWABLE ENERGY

We have an ongoing policy of obtaining electricity from renewable sources. In 2016, renewables accounted for 53% of all the energy consumed in our manufacturing facilities, equal to our 2015 consumption. This is helping us to reduce our carbon footprint by lowering the amount of CO₂ we emit into the environment. We continue to believe that limiting environmental impact at source is far better than offsetting.

PRIMARY ENERGY MIX 2016

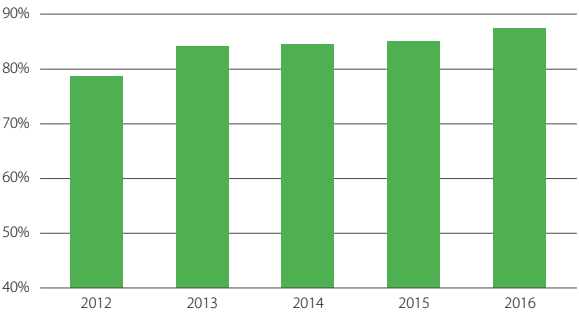


REUSE AND RECYCLING

Forbo defines reuse as "waste that, after reprocessing, can be fed back as a raw material into the same manufacturing processes." Our definition of recycling is "material diverted from the waste stream during a manufacturing process that is sent to a third party for them to use as a raw material." That third party can be another Forbo site or external recyclers.

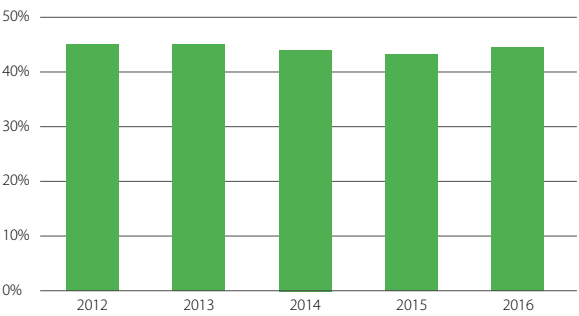
Having leveraged all our quick wins by upgrading our state of the art processes, we now focus on taking measures to increase product reuse. We have therefore invested in equipment that makes it possible to reuse more product waste. Not only have we invested in greater capacity, we have also developed new techniques to process waste into usable materials that can replace raw materials. This has enabled us to greatly increase the recycled content of our products. As a result, we reused and recycled, on average, 88% of all our product waste in 2016, a further 3% more than in 2015.

% REUSED & RECYCLED PRODUCT WASTE

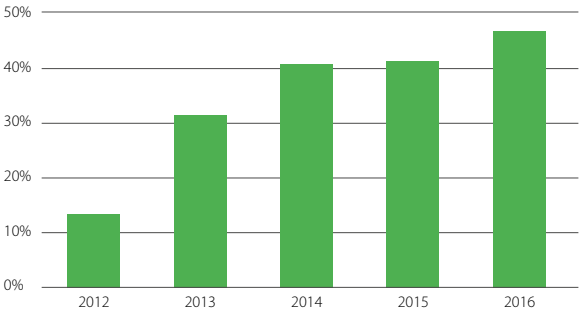


In 2016, the weighted average amount of recycled and reused content in our products was 28%. This is positive in every aspect. Marmoleum has long contained the most reused and recycled material of all resilient floor coverings. In 2016, our focus on reusing and recycling waste led to good results by again increasing the recycled content in our Allura, Eternal, Flotex, Coral, and Tessera product ranges. We have a broad portfolio of products that contain recycled content, and this portfolio will continue to grow.

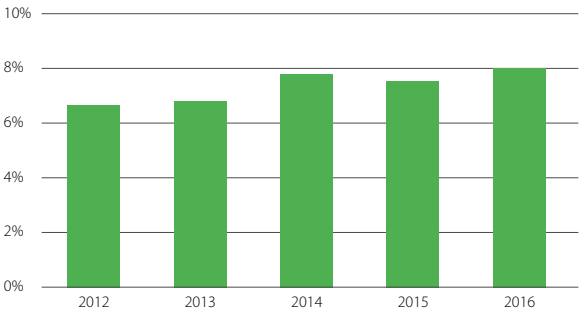
LINOLEUM - % RECYCLED & REUSED



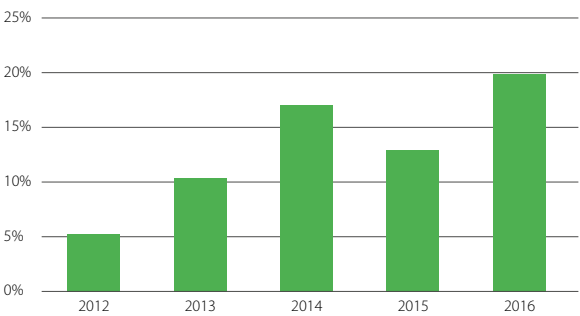
TEXTILE FLOOR COVERING - % RECYCLED & REUSED



VINYL - % RECYCLED & REUSED



ENTRANCE FLOORING SYSTEMS - % RECYCLED & REUSED



Flotex: With the most sustainable tile format, Flotex features a recycled and reused content of up to 59% by weight.



Entrance Flooring Systems: Coral Welcome, Coral Welcome Brush Blend, and Coral Welcome Brush Pure are available in 100% post-consumer recycled yarn. Coral Duo is available in 75% post-consumer recycled yarn.



Tessera and Westbond carpet tiles: Tessera is available in 100% post-consumer recycled yarn, with a backing of 78% recycled and reused content. Westbond tiles have a recycled PVC backing.



Vinyl: Vinyl is available with up to 48% recycled and reused content in the backing.



Luxury Vinyl Tile (LVT): Allura is available with up to 20% recycled and reused content in the backing.



Linoleum: Marmoleum, our linoleum brand, contains up to 43% recycled and reused content.

POST-INSTALLATION WASTE RECYCLING: TAKE-BACK PROGRAMS

Over the last few years, manufacturers have begun to pay significant attention to post-industrial waste. They have invested heavily to reduce, reuse, and recycle waste generated in the manufacturing process.

Installation waste, however, continued to be neglected – as both waste and as a potential resource. Given that we already invest in internal recycling solutions – plus the increasing cost of raw materials – we are now turning our attention to installation waste.

Installation waste can account for up to 6% of an installation. Moreover, from a recycling perspective, it is as good to process as post-industrial waste because we know what is in it and we know that it is clean and safe to use. The difficulty has always lain in creating a sustainable logistics infrastructure to make the collection of post-installation waste economically viable.

Flooring Systems is one of the leaders in installation-waste take-back programs. We have schemes for vinyl in Sweden, the UK, and France, and for linoleum in the USA, the Netherlands, and the UK.

Collected and recycled installation waste in 2016:

- 30 tons of linoleum in the Netherlands
- 48 tons of vinyl in Sweden
- 17 tons of vinyl in France
- 10 tons of linoleum in the UK
- 6 tons of carpet in the UK
- 15 tons of vinyl in the UK
- 112 tons of linoleum in the USA

A total of 238 tons, which is an increase of more than 18% over 2015.

POST-CONSUMER WASTE

Post-consumer waste is an even greater challenge to recycle. Not only are collection and transport an issue, but selection and processing are also very difficult. Flooring Systems participates in different European programs for the post-consumer recycling of vinyl floor covering. The main program is in France, as part of which we sell loose-lay acoustic vinyl. This uses a tackifier adhesive solution that supports 'clean' post-consumer recycling. Using a tackifier means there will be no traces of glue on the back of the tiles should you remove them.



A modern office interior featuring glass-walled meeting rooms and perforated metal partitions. The space is bright and open, with a yellow carpeted area in the foreground and a dark grey carpeted area in the background. A person is visible sitting at a desk on the left, and another person is visible inside one of the glass-walled rooms. The overall design is clean and professional.

ORGANIZATIONAL DEVELOPMENT

SUSTAINABLE FINANCIAL PERFORMANCE

Maintaining a strong financial position is central to our objective of being a sustainable organization. This is enhanced by continuous improvement and innovation in the design, service, performance, scope, and quality of our offer to all our stakeholders. We aim to achieve this while respecting the responsibilities covered by corporate governance, risk and crisis management, code of conduct, and compliance with international laws and regulations.

BUSINESS INTEGRITY

Flooring Systems insists on integrity, honesty, and equality in all aspects of our business, and we seek the same from those with whom we do business, both directly and indirectly. No employee may directly or indirectly offer, pay, solicit, or accept a bribe or other such payment that may be construed as such, in any form. Forbo’s Code of Conduct applies to all our employees and clearly stipulates that the company will not engage in or tolerate any questionable or corrupt business practices. The Code of Conduct is part of Forbo’s education program.

RISK MANAGEMENT

Risk management and risk assessment are an integral part of Forbo’s organizational processes, and are included in every decision-making process. Periodically, financial and hazard risks are identified and assessed internally or by third parties. Once risks have been identified and assessed, we manage the risk by applying techniques that fall under one or more of the following major categories:

- Avoidance (eliminate)
- Reduction (mitigate)
- Sharing (outsource or insure)
- Retention (accept and budget)

RISK ASSESSMENT

Forbo Group conducts an annual risk assessment that analyzes all business areas within the company and its divisions. The assessment covers internal controls and business risk, and includes targeted questions concerning fraud and corruption. It is conducted by independent third party assessment. An additional and more focused risk assessment devoted entirely to fraud and corruption is conducted annually with key executives and senior management. This risk assessment addresses corruption in business areas on a materiality basis.

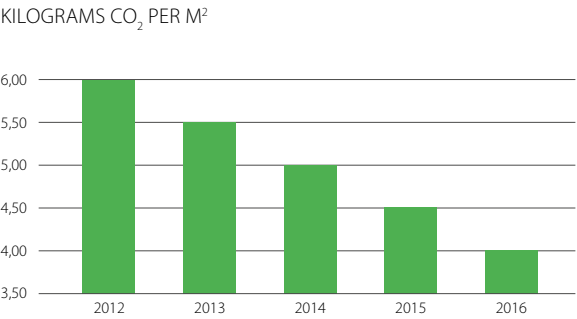
RISK AND OPPORTUNITIES DUE TO CLIMATE CHANGE

Due to the energy-intensive nature of the operations in our supply chain, we are subject to risks related to climate change and to costs related to energy and climate regulations. Global efforts to combat climate change also present certain strategic opportunities for Flooring Systems. Our Marmoleum products are based on renewable materials with a zero-carbon footprint. This helps our customers and society at large to reduce CO₂ emissions by offering them a favorable alternative to floor coverings based on fossil fuels and non-renewable materials. The European Union Emissions Trading System (ETS) is a cornerstone of the EU’s efforts to combat climate change, and a key tool for the cost-effective reduction of industrial greenhouse gas emissions. The ETS in effect imposes a cost on Flooring Systems’ CO₂ emissions within

the EU, and indirectly increases the cost of our raw materials as well as energy generation costs for our electricity suppliers. Our environmental footprint reduction program has helped us reduce our energy and raw material consumption. This is both sustainable with respect to the environment and reduces our CO₂ emissions and related taxation costs. We plan to further reduce the CO₂ emissions of our entire product portfolio in the years ahead by challenging conventional production methods and focusing on innovation at each production location.

TOTAL DIRECT AND INDIRECT GREENHOUSE GASES BY WEIGHT

Total greenhouse gas emissions are calculated using lifecycle analysis (LCA) for the production stage from ‘cradle to gate’ for all our products. This includes the entire chain from raw material extraction and processing, through transportation to the manufacturing site, manufacturing and finishing the product to the point it is ready to install on the floor.



OUR ECONOMIC PERFORMANCE

You can find the significant indicators covering value generation and distribution, plus the organization’s total capitalization, with breakdowns in debt and equity in the Forbo Group Annual Financial report 2016: www.forbo.com/en/investors

LEARNING ORGANIZATION

We support our employees in realizing their potential and exceling in their work. We do this by helping them to continuously improve their knowledge, skills, and abilities. Because we see developing our people as a way to develop our organization, we have made our active and rigorous employee development program the core of our performance management system.

Everybody deserves to be recognized for his or her contribution, and our performance appraisal system is the formal process for doing so. The performance appraisal is the starting point for further development actions, such as training, coaching, or job enlargement. The performance appraisal is also used for our internal succession planning

process and is documented at both local and central levels of the organization.

Flooring Systems is committed to offering flexibility so our employees can balance their work and family responsibilities. Flexible start and finish times, part-time work, and return to work after parental leave are all part of the way we ensure that work-life balance is integral to being employed by Flooring Systems. Our reward system is based on our belief that people should be fairly rewarded for their individual contribution.

EMPLOYEE TRAINING

The division-wide annual performance appraisal provides a starting point and an appraisal for training. In this appraisal, individual training requirements are matched with the training needs indicated in the Flooring Systems strategy as well as any legal training requirements that are in place. Flooring Systems operates a wide range of training formats, from management development to the enhancement of factory floor skills. For specialist training, our employees can attend seminars and conferences, or follow one of the educational courses offered by expert institutions and learning centers. Finally, on-the-job training for our production and warehousing operators includes:

- Site and company introduction
- Hazard identification, control, and risk assessment
- Job safety analysis
- Job-specific training

Several local and international training programs are in place. In 2016, we provided the following international programs:

- Forbo (Group) leadership and management courses
- Divisional Flooring Systems management training programs
- Divisional Flooring Systems sales training program
- Divisional Forbo Academy product training programs
- Introduction to ‘committed to the health of one’ program
- Induction training: introduction to Flooring Systems and its portfolio
- Forbo Code of Conduct (e-learning)

The development of learning and training programs is evaluated every year, with improvements implemented whenever we see opportunities to do so.

E-LEARNING USAGE IN 2016

- 1,973 Flooring Systems’ users accessed Forbo’s learning management system
- 2,971 completions were made

SA8000 E-LEARNING IN FRANCE, THE NETHERLANDS, AND THE UK

The SA8000 e-learning module was developed to improve our understanding of the SA8000 standard, its people-focused management system, and to help answer questions. People are our most valuable asset and this standard and module are centered on our employees and how we treat them within the workplace.

The rollout in the UK and France has been completed and all employees at sites with SA8000 certification in France, the Netherlands, and the UK are now invited to complete the module as part of their induction program. The rollout will be extended to Russia.

CODE OF CONDUCT E-LEARNING

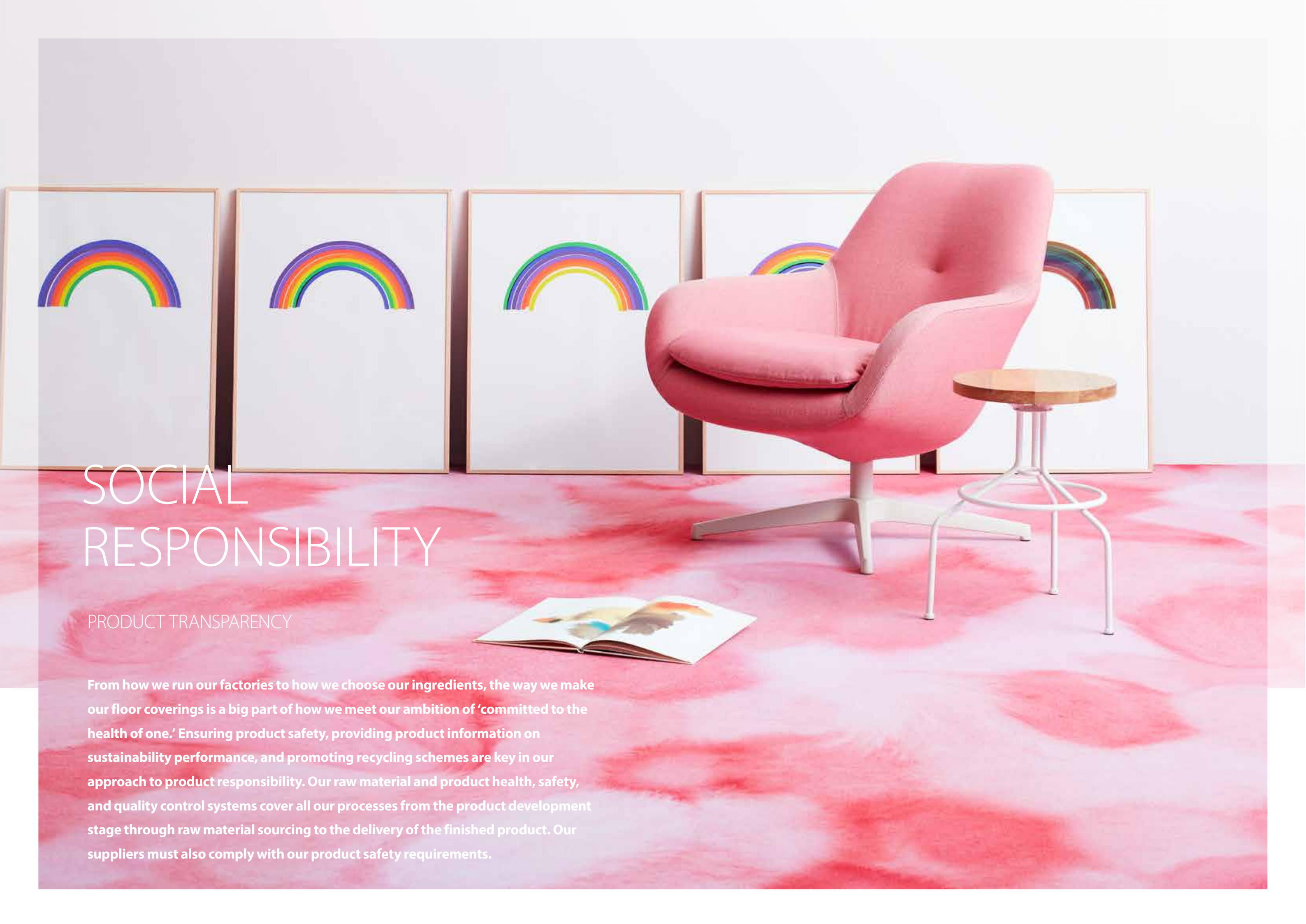
In 2016, the Forbo Code of Conduct e-learning module was rolled-out to the complete target audience and is now part of the introduction program for new employees.

‘COMMITTED TO THE HEALTH OF ONE’ E-LEARNING

The ‘committed to the health of one’ e-learning module was also rolled out to a broad management group in 2016. Developed to provide insight into the context of ‘committed to the health of one,’ it targets our sales people (sales, customer service, and marketing) with essential information about this program.

PRODUCT E-LEARNING

The majority of product e-learning modules completed dealt with homogeneous vinyl and, specifically, the new Sphera range.



SOCIAL RESPONSIBILITY

PRODUCT TRANSPARENCY

From how we run our factories to how we choose our ingredients, the way we make our floor coverings is a big part of how we meet our ambition of 'committed to the health of one.' Ensuring product safety, providing product information on sustainability performance, and promoting recycling schemes are key in our approach to product responsibility. Our raw material and product health, safety, and quality control systems cover all our processes from the product development stage through raw material sourcing to the delivery of the finished product. Our suppliers must also comply with our product safety requirements.

RAW MATERIAL SAFETY

Ensuring the safety of our products starts with the purchase of raw materials and their subsequent processing and manufacture. We only use raw materials that have been specifically approved for purpose and we always check their safety and legal compliance. In this, we follow relevant legislation including the European Union’s REACH regulations and building regulations. These regulations have been designed to protect public health and the environment by comprehensively identifying the safety properties of chemical substances and determining how chemicals can be used safely.

INFORMATION ON SUSTAINABILITY PERFORMANCE

We use Lifecycle Assessment (LCA) to identify and continuously improve our sustainability performance. But while we perform our LCA calculations to international standards, we also believe that the element of human health and ecology should also feature in this assessment. In 2000, Flooring Systems was the first global floor covering company to commit to providing information about eco-toxicity and human toxicity impacts in our LCAs. In 2016, we were still the only flooring company to include these impacts in our environmental product declarations. We use the internationally recognized USEtox method to calculate and assess our products’ toxicity performance.

ENVIRONMENTAL PRODUCT DECLARATION (EPD)

- An EPD presents quantified environmental data about a product. It is based on information from a lifecycle assessment. The following lifecycle stages are assessed:
- Production stage (raw material extraction, transportation to factory, and manufacturing)
 - Transporting manufactured goods from factory gate to user
 - Installation stage
 - Use stage
 - End of life stage

An EPD, which is third-party verified and follows a uniform and internationally standardized format, communicates verifiable, accurate, and non-misleading environmental information about products and their applications. EPDs are in increasing demand from architects and planners as they can be directly incorporated into sustainable building design tools, such as carrying out a building lifecycle assessment. Flooring Systems continues to publish third-party-certified EPDs for our individual floor covering products. For 2016, 21 Flooring Systems products had been EPD certificated and published. All the LCA calculations were third-party verified by UL Environment. www.forbo-flooring.com/epd.



Our EPDs are based on the product category rules (PCR) set out in the EN-15804 and ISO-14025 standards. Product category rules define how to conduct a lifecycle assessment for a product group and what data to include in the resulting report. In this way, they support scientifically based fair choices and stimulate the potential for market-driven continuous environmental improvement. In principle, the benchmark when using EPDs to compare products is the contribution they make to the environmental performance of a building. As a result, EPD-driven comparisons of alternative floor covering products reflect how the product is used in real life, and the impact this has on the building.

SOCIAL EQUITY AND LABOR RIGHTS

Corporate sustainability starts with a company’s value system and a principled approach to doing business. This means operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labor, environment, and anticorruption. Responsible businesses enact the same values and principles wherever they have a presence and know that good practices in one area do not offset harm in another. Flooring Systems supports the 10 principles of the UN Global Compact, a United Nations initiative to encourage businesses worldwide to embed responsibility into their business operations. We respect and promote these principles throughout our operations. The table below lists the 10 principles and specifies where information on them can be found in this report.

UN global compact principles

Human rights	Page
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights.	23-24
Principle 2: Businesses should make sure that they are not complicit in human rights abuses.	23-24
Labor	
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	23-24
Principle 4: Businesses should support the elimination of all forms of forced and compulsory labor.	23-24
Principle 5: Businesses should support the effective abolition of child labor.	23-24
Principle 6: Businesses should support the elimination of discrimination in respect of employment and occupation.	23-24
Environment	
Principle 7: Businesses should support a precautionary approach to environmental challenges.	27-33, 41-42
Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility.	27-33, 41-42
Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies.	27-33, 41-42
Anti-corruption	
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.	24, 47, 37-38

WORKING WITH THE COMMUNITY

We believe it is good business practice to build meaningful, long-term relationships with employees, customers, suppliers, and communities. This is, and always has been, the founding principle of our commitment to social equity. Flooring Systems plays an active role in the communities in which we operate. We conduct a stakeholder and impact assessment analysis at all our operations as part of environmental management, in accordance with ISO-14001. The fact that this management system is third-party-certified ensures improvement and development programs are ongoing.

REIMS (FRANCE)
HELPING UNEMPLOYED PEOPLE TO GET A JOB

Over the past 15 years, Flooring Systems in Reims has given unemployed people the opportunity to train as professional floor installers. This takes place during various sessions in an 18-month, work-linked apprenticeship training program. The program is open to people of all ages. Trainees receive a testimonial at the end of each session, and finishing the complete training course qualifies them for the title of ‘floor installer.’ This is the only title for this type of skill that is recognized by both the French state and the building industry.

ASSEDELFT (NETHERLANDS)
HELPING DISABLED PEOPLE TO GET A JOB

De Bolder produces and supplies its customers with tens of thousands of square meters of Forbo Quickfit every year. Forbo Quickfit are MDF panels that are produced from natural raw materials and which can be recycled easily. De Bolder is a sheltered workshop, one of 90 in the Netherlands. As such, it enables physically or mentally disabled residents of the community of Texel to get a job, something they cannot get at a regular company as they are too expensive to employ without subsidies.

Separately, we support a regional ‘zero’ waste project that involves supplying jute cut offs from the beginning and end of a production run from our linoleum factory in Assendelft. The jute mesh, which would normally be qualified as waste, as it cannot be recycled, is now being used to make durable multi-use carrier bags that provide an alternative to one-way plastic bags. The jute bags have become fashionable items that, bearing the logos of the stores that offer them, are seen as ‘want to have, want to (re)use’ items for daily use. The initiative for free-free-charge jute carrier bags is to be extended to fairs and exhibitions.

COEVORDEN (NETHERLANDS)
EDUCATION AND ENTREPRENEURSHIP PROGRAM

Forbo Novilon BV is continuing its support and engagement in a regional program in Coevorden to help alleviate unemployment in the region. As part of the

education program, pupils visit the factory to learn about the town's industrial capabilities and the working environment inside a modern production plant.

CHARITY

Flooring Systems wants to make a sustainable contribution to improving people's quality of life. We therefore support various charity projects with products, expertise, and financial contributions. The focus is on small, locally initiated projects and partnerships. Examples from 2016 include:

HABITAT FOR HUMANITY (GLOBAL)

In 2015, Forbo Flooring Systems started to work with Habitat for Humanity. Previously, we had made donations in kind to this worldwide organization.

Today, Flooring Systems is part of the Habitat for Humanity Business Club in the Netherlands, and Habitat for Humanity is one of the charities we promote throughout our organization. Habitat strives to provide everybody with the basics of a 'roof and a floor.' The organization funds and builds affordable dwellings all over the world and each year organizes special house-building events. Flooring Systems actively supports the work of Habitat in the Netherlands, USA, Canada, and Australia.

L'ASSOCIATION LAZARE (FRANCE)

In France, Flooring Systems teamed up with L'association Lazare to offer care for the homeless by providing the means and the materials to decorate newly built homes for the organization's at-risk occupants.

UNHCR (NORWAY, SWEDEN)

In Norway and Sweden, Flooring Systems supported UNHCR in providing floor covering for the premises used to care for the influx and relocation of migrants and refugees from Syria, Africa, and Asia.

RONALD MCDONALD HOUSE (USA, NETHERLANDS, SWEDEN)

The Ronald McDonald House provides support and housing for families with sick children. Flooring Systems continued its ongoing support in 2016 with donations in kind and financial contributions in the USA, the Netherlands, and Sweden.

MARKLUND (USA)

Marklund continued to be one of the major sponsorship activities of Flooring Systems in the USA. Marklund is a home and school non-profit organization that supports infants, children, teens, and adults with profound developmental disabilities and special health care needs.

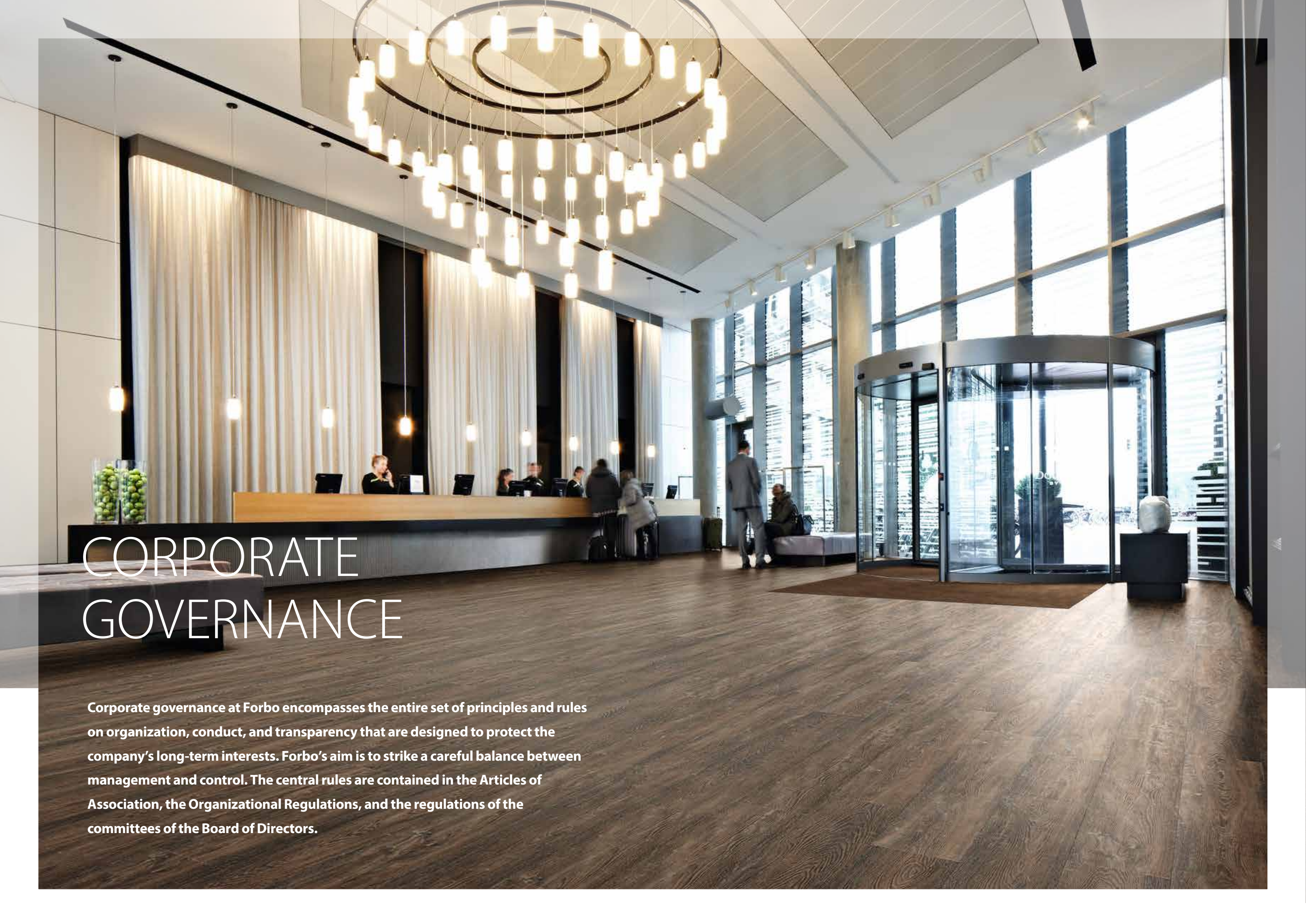
OUTWARD BOUND (UK)

Flooring Systems in the UK continued its long-standing sponsorship of the Outward Bound Trust. This educational charity helps young people in the UK to discover their potential by placing them in challenging yet supportive outdoor environments far away from home.

SANITATION AND WATER PROJECT (BANGLADESH)

Bangladesh and the Indian state of West Bengal together form the historic former state of Bengal, a distinct geographical and ethno-linguistic region in South Asia. Jute is an important crop for the farmers in this region, and the fibers of the jute plant are spun into yarn and woven into cloth locally; they are also used as backing for our linoleum products. Clean drinking water and good sanitation are essential for good health and preventing the spread of disease. Some years ago we started a project with our local supplier, Janata jute mills, to give everyone who works in the mill a domestic toilet, a tube well for drinking water, and in some cases both. Janata made all the local arrangements, such as hiring a contractor and inspecting the potential installation sites, and completed the installations.



A wide-angle photograph of a modern office lobby. The ceiling is high with a large, circular chandelier made of many small, glowing lights. A long, curved reception desk is in the center, with several people standing behind it. The walls are covered in large, vertical panels of light-colored wood or stone. Large windows on the right side offer a view of the city. A glass revolving door is visible on the right. The floor is made of dark wood.

CORPORATE GOVERNANCE

Corporate governance at Forbo 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 the SIX Swiss Exchange. The Forbo corporate governance report is available on our corporate website www.forbo.com/en/investors

ORGANIZATION OF SUSTAINABILITY

Sustainability is one of the policies that governs our operations within Flooring Systems. Our Sustainability Policy document, which is endorsed by the Flooring Systems Executive Vice President, sets out the triple bottom line under which we strike a balance between the environmental, social, and economic aspects of sustainability, as described in this report. Our operations and sales organizations comply with both ISO-9001 and ISO-14001. As part of this, they are obliged to continually raise their sustainable performance by formulating annual programs for improvement. Goal-setting and improvement are measured internally by our QA director for the division.

Product management, which has the leading role in the development of new collections and products, has a clear directive to improve on the sustainable aspects of our products as part of a continuous process. This process is monitored by the Vice President Business Development who, together with internal stakeholders, approves the release of new collections. We also set goals for our R&D departments regarding product improvement programs based on the three fundamentals of our Sustainability Policy.

CODE OF CONDUCT

Throughout the reporting year, we maintained our efforts to further develop our conscious awareness of what we do. We did this by again repeating and reinforcing awareness of the contents of the Code of Conduct (by means of an e-learning module), competition law, and anti-corruption principles, and through the uncompromising implementation of the risk management process.

The Forbo Code of Conduct sets out our most important business principles and basic values. It is central to the way we protect and develop our reputation. It is founded on the principles of integrity, transparency, and fairness, and describes how we are to behave. It not only ensures compliance with the applicable laws and regulations wherever we do business, it also goes beyond compliance by demonstrating our commitment to acting ethically and with integrity in every situation, while at the same time respecting people's rights as individuals. We expect this of every single employee, everywhere, every day. We also expect this of all our business partners. High standards in our relationships are the foundation for lasting success.

CORE VALUES

Forbo Group culture is embedded in the Forbo Way to Win values program. This covers the entire organization and has been developed by the senior management of the two Forbo divisions and Forbo headquarters. The program has been rolled out within the organization and today forms part of the induction program for new employees at Flooring Systems. In the Forbo Way to Win, we have defined three core values that each encompass three guiding principles:



INSPIRING

- Developing ideas and seizing opportunities
- Knowing what matters and focusing on it
- Raising enthusiasm and convincing others



DARING

- Taking bold and decisive action
- Giving our all with power and passion
- Achieving goals with determination and stamina



CARING

- Challenging and encouraging oneself and others
- Taking responsibility and making a difference
- Leading by example to shared success

ORGANIZATIONAL STRUCTURE

Our flooring products are divided into product categories that include linoleum, project vinyl, cushion vinyl, acoustic vinyl, luxury vinyl tiles, entrance flooring systems, flocked flooring, carpet tiles, and needlefelt. Each of our sales organizations defines the product mix for the country or region it represents. The focus is to sell a segment-oriented product portfolio worldwide, with local adaptations.

In 2016, the Flooring Systems organization was remodeled into a matrix organization. Under this model, core central functions service and work with our sales regions: Northern Europe (including Central and Eastern Europe and Russia),

Southern Europe (including markets in the Middle East, Africa, India, and Brazil), and North America and the Asia/Pacific region. The Division Board has been extended to include the Vice Presidents of the four sales regions.

MANAGEMENT TEAM

Flooring Systems comprises an eight-person management team who are responsible for Sales & Marketing, Supply Chain, Business Development, Finance, and Building & Construction Adhesives respectively. The management team is led by Matthias Huenerwadel, Executive Vice President Flooring Systems.

THE FLOORING SYSTEMS MANAGEMENT TEAM

