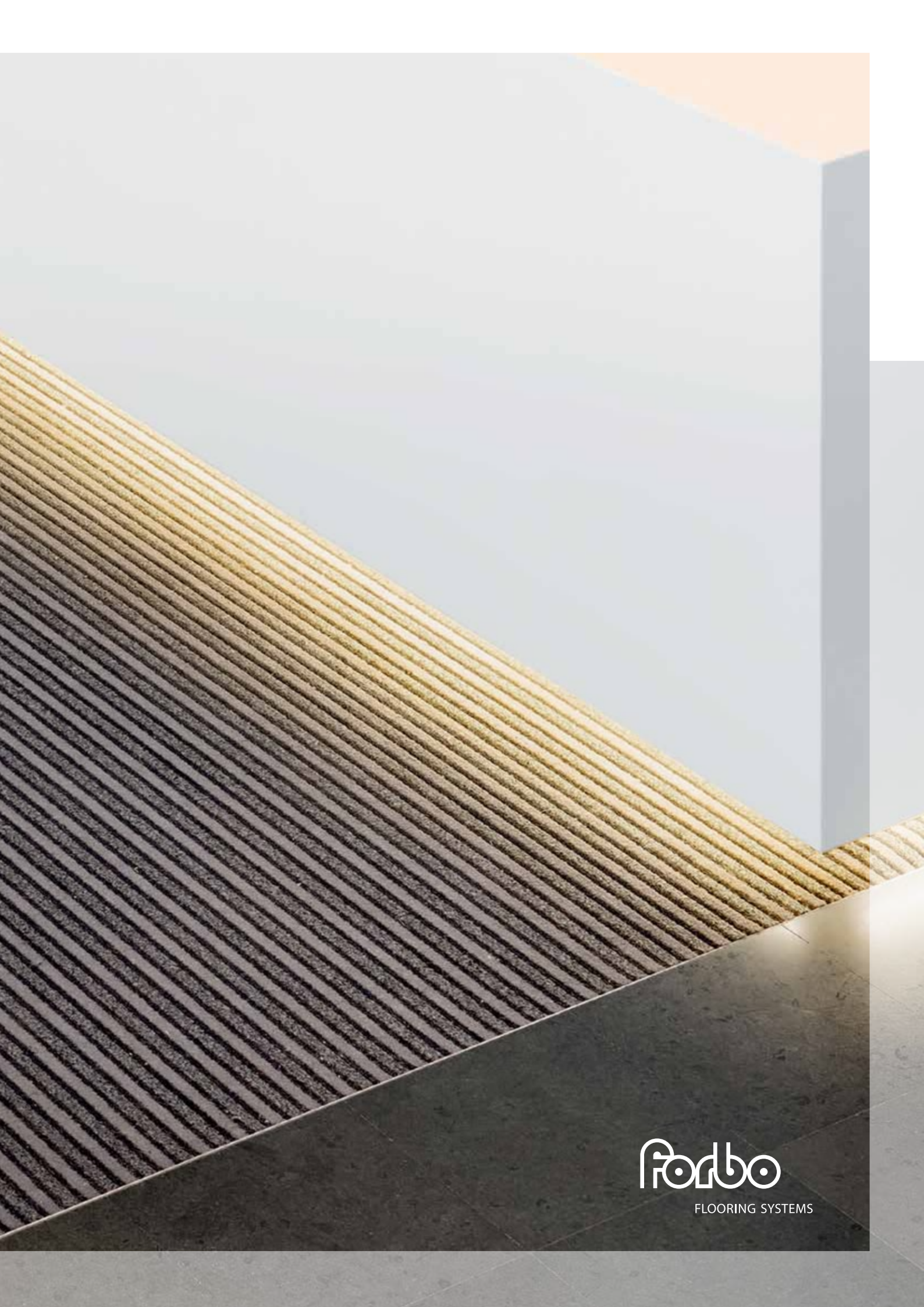




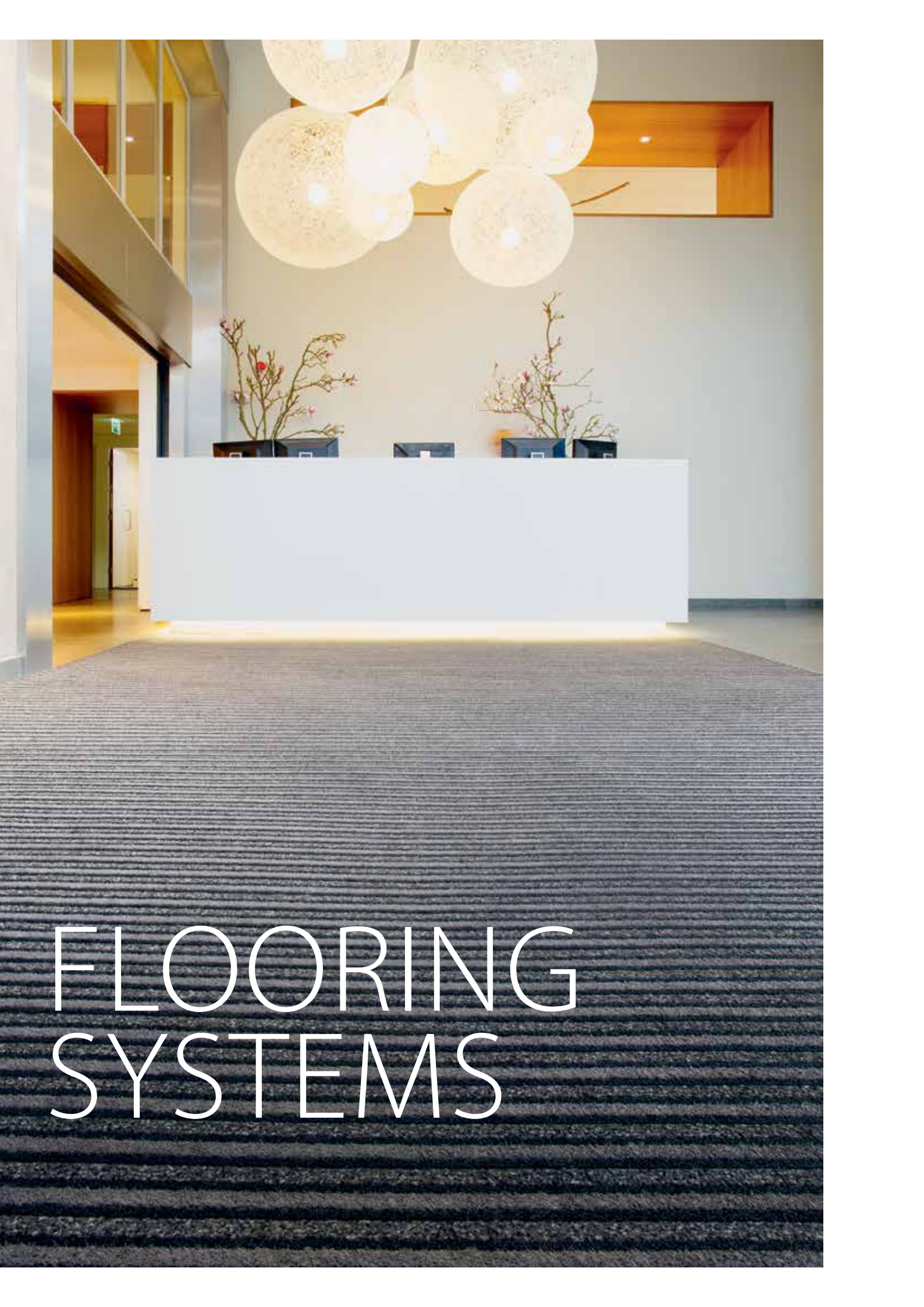
EYE-CATCHER.

An entrance says a lot about a building and extends a welcome to visitors. The first impression is decisive. Our entrance flooring systems make all the difference because they combine unique aesthetic qualities with a high level of functionality to make a stylish impression.



forbo

FLOORING SYSTEMS



FLOORING SYSTEMS



EYE-CATCHER

BEAUTIFULLY MAINTAINED

Our high-performance entrance flooring systems are not only eye-catching but keep entrance areas clean and well maintained. Their absorbent fibers and robust dirt-removal yarns prevent dirt and moisture from being tracked onto interior surfaces. This prolongs the life of the interior flooring and effectively reduces building and maintenance costs. Entrance flooring systems are rightly considered the perfect way to link functionality and aesthetics.

FLOORING SYSTEMS: SOLID FOUNDATION FOR FUTURE GROWTH

'The continuous increase in our sales since mid-year 2013 confirms that we are on the right track with the systematic implementation of our strategy in line with changing market conditions. In the year under review, we expanded our attractive product portfolio for private sector customer segments by adding appealing designs and coordinating the portfolio with various application areas. We also broadened our market know-how, strengthened our distribution structures, and made our customer contacts more interactive by means of mobile presentation and information tools. We boosted our operational performance by focusing investments on various steps in production and by further improving the supply chain. Taken together, all these activities have greatly improved our earnings situation once again, ensuring that we have a solid foundation for future growth and enabling us to reinforce our market position as the leading systems supplier in the commercial segment.'

The Flooring Systems division posted sales of CHF 884.6 million in the 2014 business year (previous year: CHF 873.5 million). In local currencies, this is a gain of 3.4%, but in the corporate currency the increase was only 1.3% owing to the negative impact of currency fluctuations. The division accounts for 72.1% of Group sales. The steady increase in sales since mid-year 2013 confirms that we are systematically implementing our strategy, which calls for strengthening of distribution channels especially in growth markets and targeted expansion of the product portfolio for private sector customer segments. These intensified activities are counteracting stubbornly weak public sector demand and making up for the decline in demand in certain markets where the construction industry is in the doldrums. The gratifying increase in sales, coupled with pro-



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Executive Vice President
Flooring Systems

ductivity gains along the entire value chain, had a positive impact on operating profit (EBIT), which climbed to CHF 123.4 million (previous year: CHF 113.3 million). This is equivalent to an increase of 8.9% over the previous year. The EBIT margin came to 14.0% (previous year: 13.0%), a year-on-year increase of 1.0 percentage points.

Sustainable sales growth

Our business received strong growth stimuli from the ongoing expansion of our private sector offering, for instance for shop fittings, offices, hotels, restaurants, and leisure facilities, and this more than made up for the weak demand in the public sector among our high-revenue customer segments.

The markets in which we do business are still mixed. Especially in Europe, demand in some markets such as the Netherlands and France has remained sluggish. In Russia, the economy suffered a sharp downturn in the course of 2014, although for the year as a whole, sales were still significantly higher than the previous year. The regions Germany/Austria/Switzerland, Scandinavia, Southern and Eastern Europe, and Great Britain all performed well compared with the previous year. In North America, market sentiment is by and large more upbeat than in earlier years, and the sales trend was correspondingly firm despite a few harsh winter months. We generated additional growth with a new service offering – a comprehensive solution for the commercial sector that enables us to deliver turnkey projects to customers with floors that are professionally laid by certified floor layers. The Asia/Pacific markets performed well on the whole. Some countries such as China and

South Korea reported above-average growth driven by major customer installations, whereas others such as Japan, Australia, and Southeast Asia saw stable demand.

The building and construction adhesives activity is still operating in a difficult economic environment and is not experiencing any genuine recovery in demand, particularly in the Netherlands, which accounts for the lion's share of sales. In contrast Germany and Russia showed some signs of growth, though the building and construction adhesives market in Russia has also weakened considerably in recent months. We anticipate positive growth stimuli from the launch of a new liquid floor finishing for various customer segments and from our recently developed do-it-yourself business in Russia.

Attractive product portfolio thanks to modular collections

In the reporting year, Flooring Systems enhanced its versatile and innovative product portfolio with attractive, new collections in all product groups. The high-quality, modular vinyl designer floorings again generated double-digit growth in a highly competitive market, gaining market share and delighting customers with new designs, structures, and installation methods. Vinyl floorings for the commercial sector, entrance flooring systems, carpet tiles and needle felt floor coverings along with Flotex – our washable, high-tech textile floor covering – played their part in driving sales growth. Linoleum is generally still facing fairly modest demand because it is widely used in the healthcare and educational sectors where investments in new builds and renovations often depend on public spending budgets. The downtrend is being offset by the modular linoleum floor coverings launched in 2014, especially for private sector customer segments, where customers are excited by the versatile design options and the impressive range of colors. Sales of vinyl floorings for the residential sector declined in the year under review in the wake of strategic portfolio adjustments.

Investments to drive future growth

In addition to these many new collections, we have been steadily strengthening distribution channels in the growth markets and have established a local sales team in Turkey.

Given the buoyant sales of high-quality, modular vinyl designer floorings, we have further automated and expanded production in the Netherlands. In addition to expanding our cutting capacity, we have invested in an additional packaging line, which will be extended again in the current year. We are now also producing vinyl designer floor coverings in Russia for the local market, with our own designs that are geared to local needs. To do so, we expanded the production line in Russia and built a new warehouse. We invested in new tools for modular linoleum production in Scotland and initiated an expansion of warehouse capacity for storage of large reels. In China we created additional warehouse capacity, which helps us streamline delivery and speed up delivery times in daily operations.

Solid foundation for further profitable growth

We have steadily increased net sales since mid-year 2013 amid a challenging market environment, thereby confirming that we are on course with our strategy. We will continue to focus our efforts on profitable growth in the year ahead as well. The growth drivers will be the varied and large collections launched in 2014, the new launches of vinyl floorings for the commercial sector and carpet tiles planned for 2015, and the ongoing expansion of our distribution channels in growth markets. In 2015, we will continue to step up investments in innovative and sustainable product portfolios and focus on achieving operational efficiency gains.

Three challenges we face are the renewed rise in volatility in some European markets, the modest resources available in the public sector and in healthcare, and the market conditions confronting the building and construction adhesives activity.

FLOOR COVERINGS WITH THEIR OWN IDENTITY

Making products and processes more sustainable and more environmentally friendly is a priority for Flooring Systems in every change and new development. Forbo floor coverings combine attractive and innovative design with long life and high product quality. In the reporting year Forbo again made its mark with new, diverse trends.

The current trend in floor coverings is moving increasingly in the direction of modular designer coverings. These offer a great diversity of designs and colors, thus allowing infinite combination options for the customer's own floor covering creations. Compared to roll material, these are easier to transport and easier to handle in the installation; they generate fewer sections and can be easily replaced if damaged.

The Flooring Systems product portfolio has been meeting these demands for several years, and now includes luxury vinyl designer tiles as well as carpet and Flotex tiles. This range was supplemented in the reporting year with a very versatile collection of modular linoleum.

Modular linoleum

This unique range corresponds to two trends: sustainability and modularity, namely because linoleum is manufactured almost exclusively from renewable raw materials such as linseed oil, natural resins, wood flour and limestone, as well as pigments. Instead of the jute backing, a polyester fleece ensures the necessary flexibility and dimensional stability of the modular coverings.

With various square and rectangular shapes and sizes, as well as countless colors, they offer a wide range of layout and design options and thus open up, alongside classical application areas such as the healthcare and



education sectors, new application surfaces in shop fitting, offices, hotels, restaurants, and in the leisure sector. One can play with subtle tonal color variations to create natural floor coverings that imitate natural stone or concrete. Or one can be more daring and colorful, taking up a dash of color from the environment and using it to create one's own design highlights. This gives rise to creative floor covering designs with their own identity.

New striped designs will be added to the collection in spring 2015.

Luxury vinyl tiles

Luxury vinyl tiles have been the fastest growing product group in the area of resilient floor coverings for some years now. Their extremely realistic wood, stone, and metal designs offer architects, interior designers, and planners an abundance of options for the most diverse room concepts. New collections were introduced in the reporting year to further extend the range and the diversity. The tiles and planks are available in new sizes and designs, with new textures and embossments, have very good shape stability, and are also available in different thicknesses of wear layer for optimized impact noise reduction as well as in a click version.

'DIVERSITY CREATES UNIQUE ROOMS'

These high-quality, modular vinyl designer floorings, which are 100% recyclable, fulfill a series of sustainable criteria: they are made of a phthalate-free vinyl from recycled raw materials, all printing processes are executed with water-based colors and they are produced using green energy in a state-of-the-art production environment.

