FINANCIAL REPORT

Forbo Group financial report	**93**
Consolidated balance sheet	94
Consolidated income statement	95
Consolidated comprehensive income statement	96
Consolidated statement of changes in equity	97
Consolidated cash flow statement	98
Notes – accounting principles	99
Notes	109
Group companies	136
Report of the statutory auditor	140
Consolidated balance sheets 2014 – 2018	146
Consolidated income statements 2014 – 2018	147
Financial statements for Forbo Holding Ltd	**149**
Balance sheet	150
Income statement	151
Notes to the financial statements	152
Proposal for appropriation of available earnings	157
Report of the statutory auditor	158

Consolidated balance sheet

		31.12.2018	31.12.2017
Assets			
CHF m	Note		
Current assets		**567.3**	**638.2**
Cash and cash equivalents		127.4	195.4
Current financial assets	24	0.1	
Trade receivables	12	168.9	169.2
Other receivables		26.0	27.6
Accrued income and deferred expenses		14.8	19.4
Inventories	13	230.1	226.6
Non-current assets		**412.7**	**429.3**
Non-current financial assets	24	0.3	0.3
Deferred tax assets	10	39.9	39.0
Property, plant, and equipment	14	259.4	267.6
Intangible assets and goodwill	15	113.1	122.4
Total assets		**980.0**	**1,067.5**
Shareholders' equity and liabilities			
CHF m	Note		
Current liabilities		**261.9**	**275.3**
Current financial debt	24	0.1	0.2
Trade payables	24	109.2	105.9
Other current liabilities		28.7	32.4
Current tax liabilities	10	16.2	26.5
Accrued expenses and deferred income	16	87.7	91.5
Current provisions	17	20.0	18.8
Non-current liabilities		**126.5**	**131.0**
Non-current financial debt	24	0.0	0.2
Deferred tax liabilities	10	12.1	10.8
Non-current provisions	17	40.7	32.3
Employee benefit obligations	18	73.7	87.7
Total liabilities		**388.4**	**406.3**
Shareholders' equity		**591.6**	**661.2**
Share capital	20	0.2	0.2
Treasury shares	20	–0.1	–0.1
Reserves and retained earnings		591.5	661.1
Total shareholders' equity and liabilities		**980.0**	**1,067.5**

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

Consolidated income statement

CHF m	Note	2018	2017
Continuing operations			
Net sales	5	**1,327.0**	**1,246.4**
Cost of goods sold		– 824.9	– 764.5
Gross profit		**502.1**	**481.9**
Development costs	6	– 16.6	– 15.5
Marketing and distribution costs		– 198.1	– 195.8
Administrative costs		– 96.1	– 94.7
Other operating expenses	7	– 23.5	– 106.5
Other operating income	8	7.5	10.5
Operating profit		**175.3**	**79.9**
Financial income		0.9	0.9
Financial expenses		– 0.6	– 0.8
Group profit before taxes		**175.6**	**80.0**
Income taxes	10	– 38.0	– 43.5
Group profit for the year from continuing operations		**137.6**	**36.5**
Group profit for the year from discontinued operations after taxes	21		**2.2**
Group profit for the year		**137.6**	**38.7**
Group profit attributable to shareholders of Forbo Holding Ltd		137.6	38.7
Earnings per share, total			
CHF			
Basic earnings per share	11	82.38	22.36
Diluted earnings per share	11	82.38	22.36
Earnings per share from continuing operations			
CHF			
Basic earnings per share	11	82.38	21.10
Diluted earnings per share	11	82.38	21.10
Earnings per share from discontinued operations			
CHF			
Basic earnings per share	11		1.26
Diluted earnings per share	11		1.26

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

Consolidated comprehensive income statement

CHF m	Note	2018	2017
Group profit for the year		**137.6**	**38.7**
Items that will not be reclassified to the income statement:			
Remeasurements of employee benefit obligations, net of taxes	10	11.5	5.7
Items that are or may be subsequently reclassified to the income statement:			
Translation differences		– 29.6	36.1
Other comprehensive income for the year, net of tax		**– 18.1**	**41.8**
Total comprehensive income		**119.5**	**80.5**
Total comprehensive income attributable to the shareholders of Forbo Holding Ltd		119.5	80.5

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

Consolidated statement of changes in equity

2018

CHF m	Share capital	Treasury shares	Reserves	Translation differences	Total
December 31, 2017 (before application of IFRS 9)	**0.2**	**–0.1**	**945.1**	**–284.0**	**661.2**
Effect of application of IFRS 9 (net of tax)			–0.4		–0.4
January 1, 2018 (restated)	**0.2**	**–0.1**	**944.7**	**–284.0**	**660.8**
Group profit for the year			137.6		137.6
Other comprehensive income for the year, net of tax			11.5	–29.6	–18.1
Total comprehensive income			**149.1**	**–29.6**	**119.5**
Share-based payments			4.6		4.6
Treasury shares		0.0	–160.9		–160.9
Dividend payment			–32.4		–32.4
December 31, 2018	**0.2**	**–0.1**	**905.1**	**–313.6**	**591.6**

2017

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

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

Consolidated cash flow statement

		2018	2017
Cash flow from operating activities			
CHF m	Note		
Group profit for the year		**137.6**	**38.7**
Profit from disposal of discontinued operations after taxes	21		– 2.2
Tax expense	10	38.0	43.5
Financial result		– 0.3	– 0.1
Depreciation of property, plant, and equipment	14	35.3	31.8
Amortization of intangible assets	15	6.2	5.9
Loss from the sale of non-current assets		0.3	
Share-based payments	26	4.8	4.4
Income tax paid		– 39.5	– 37.9
Increase in provisions and employee benefit obligations		10.8	7.4
Increase in net operating working capital[1]		– 9.8	– 15.9
Increase (–)/Decrease in other current assets		– 12.2	3.2
Net cash flow from operating activities		**171.2**	**78.8**
Cash flow from investing activities			
CHF m			
Purchase of business operations net of cash acquired		– 1.3	
Purchase of non-current assets		– 38.7	– 57.8
Proceeds from the disposal of non-current assets		0.1	0.5
Purchase of non-current financial assets			– 0.1
Interest received		0.8	0.9
Net cash flow from investing activities		**– 39.1**	**– 56.5**
Cash flow from financing activities			
CHF m			
Decrease (–)/Increase of current financial debt		– 0.1	0.1
Repayment of non-current financial debt		– 0.2	– 0.2
Interest paid		0.0	0.0
Purchase of treasury shares		– 161.0	– 103.3
Proceeds from sale of treasury shares		1.1	90.9
Dividend payment		– 32.4	– 32.5
Net cash flow from financing activities		**– 192.6**	**– 45.0**
Change in cash and cash equivalents			
CHF m			
Decrease in cash and cash equivalents		– 60.5	– 22.7
Translation differences on cash and cash equivalents		– 7.5	8.4
Total cash and cash equivalents at beginning of year		195.4	209.7
Total cash and cash equivalents at year-end		**127.4**	**195.4**

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

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

Notes – accounting principles

1 General information

Forbo Holding Ltd and its subsidiaries (together constituting the 'Group') manufacture floorings, construction adhesives, and drive and conveyor technology. The Group has a global network of locations with production and distribution as well as pure sales companies.

Forbo Holding Ltd is a public limited company under Swiss law, domiciled in Baar, Switzerland. It is listed on the SIX Swiss Exchange (FORN).

These financial statements were approved by the Board of Directors on February 27, 2019, and released for publication on March 5, 2019. This financial report is subject to approval by the Ordinary General Meeting of April 5, 2019.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation
The consolidated financial statements of Forbo Holding Ltd were prepared in accordance with the International Financial Reporting Standards (IFRS) and in compliance with Swiss law.

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

The consolidation was done on the basis of the audited financial statements of the subsidiaries prepared according to uniform corporate accounting policies. The reporting date for all Group companies is December 31.

The consolidated financial statements were prepared in accordance with the principle of historical costs, with the exception of derivatives measured at fair value and pension fund liabilities measured at the net value of the discounted defined benefit obligations less the fair value of the plan assets.

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

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

The purchase method of accounting is used to account for business combinations. The value of the transferred consideration in a business combination and the acquired identifiable net assets are recognized at the fair value on the acquisition date. The consideration includes cash payments and the fair value of the assets transferred, liabilities incurred or acquired, and equity instruments issued by the acquirer on the transaction date. Liabilities dependent on future events, which are based on agreements on contingent considerations are accounted for at their fair value in the accounting treatment of the acquisition. Acquisition costs are reported as expenditure in the income statement. Non-controlling interests are measured at the acquisition date with their proportionate share in the identifiable net assets of the acquired entity.

Goodwill is the excess of the consideration of the business combination and the amount of the non-controlling interest over the identifiable net assets assessed at fair value.

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

Associates are all entities over which the Group has significant influence but not control, generally accompanied by a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition changes in reserves is recognized in reserves. The cumulative post-acquisition movements are offset against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Changes in the scope of consolidation
Forbo Finanz AG acquired 100% of the capital of Transmeca AS in Oslo, Norway, effective May 2, 2018. Transmeca AS was an existing customer of Forbo that sells and distributes fabric conveyor belts. Transmeca AS is now an additional service point for the Movement Systems division in Norway. Additionally, the dormant company Forbo Project Vinyl AB in Gothenburg, Sweden, was liquidated in the period under review.

The subsidiaries included in the group of consolidated companies are listed under 'Group companies' (from page 136 of this report).

Foreign currency translation
Transactions in foreign currencies
The individual companies prepare their financial statements in their functional currency. The functional currency is the currency of the primary economic environment in which the company operates and generally corresponds to the local currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Foreign operations
The annual statements of foreign Group companies stated in foreign currencies are translated into Swiss francs as follows: assets and liabilities at year-end exchange rates; the income statement and cash flow statement at average exchange rates for the year. Currency translation differences arising from the different translation of balance sheets and income statements and from equity capital transactions are recognized in other comprehensive income and taken to profit or loss for the period (reclassified) in the event the foreign Group company is disposed of.

On consolidation, exchange differences arising from the translation of net investments in independent foreign operations are recognized in other comprehensive income. When a foreign operation is disposed of, these exchange differences are transferred to the income statement as part of the gain or loss on sale.

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

			Income statement (average exchange rates for the year)		Balance sheet (year-end exchange rates)	
			2018	2017	2018	2017
Exchange rates						
Euro zone	EUR	1	1.1552	1.1117	1.1275	1.1705
USA	USD	1	0.9786	0.9847	0.9853	0.9763
Great Britain	GBP	1	1.3058	1.2686	1.2596	1.3203
Japan	JPY	100	0.8860	0.8779	0.8959	0.8674
China	CNY	100	14.8000	14.5800	14.3200	15.0100
Sweden	SEK	100	11.2673	11.5360	11.0117	11.9018

Discontinued operations

Discontinued operations are recognized separately if a component of the Group has either already been discontinued or been classified as 'held for sale'. The previous-year figures affecting the income statement are adjusted accordingly and are also presented separately.

Net sales and revenue recognition

Revenue from contracts with customers is recognized when the control of the goods or services is transferred to the customer. The revenue is based on the contractually agreed transaction price, in other words, the amount to which the Group can be expected to be entitled in return for the transfer of the goods or services to a customer.

Type of product or service	*Type and time of the fulfillment of performance obligation, significant terms of payment*
Flooring Systems	The revenue is generated by the sale of goods that are recorded at a point in time, in accordance with the agreed terms. The sale of goods is based on fixed prices. In some cases, goal-oriented, variable volume discounts are granted. Volume rebates are deducted from sales in the same amount as expected cash outflows. The payment terms are in line with general business terms and conditions, with payment due dates ranging from 30 to 60 days. The warranty periods granted for goods are in line with the general business terms and conditions in the sector; in some cases, these may be longer than prescribed by law. Provisions are made on the basis of the expected cash outflow for known warranty claims and those expected in future.
Movement Systems	The type and time of the fulfillment of the performance obligation and the terms of payment are identical with those for Flooring Systems. In addition, a small portion of the services provided by Movement Systems concerns the seamless connection of belting products. These services are recognized separately as revenue at the time the service is provided.

In contrast, the determining factor for recognition of revenue in the previous year was still the transfer of risks and opportunities. On the basis of the business models applied by the Group, the time of the transfer of control of the goods is identical with the transfer of the risks and opportunities.

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

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

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

Share-based payments
Equity-settled share-based payments to employees are valued at the fair value of the equity instrument on the date on which the instruments are granted. The fair value determined on granting equity-settled share-based payments is recognized in the income statement over the vesting period and is included in personnel expenses.

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

Income taxes
Income taxes constitute the total of current and deferred income taxes.

Current income taxes are determined on the basis of taxable profits and the applicable tax laws of the individual countries. They are recognized as an expense in the accounting period in which the profits are made.

Deferred tax liabilities are recognized for temporary differences between assets and liabilities in the balance sheet, and their tax bases if they will result in taxable income in future. Deferred tax assets are reported for temporary differences that will result in deductible amounts in future periods and for tax effects from unused tax losses and tax credits, but only to the extent as it is probable that sufficient taxable profits will be available against which these differences can be offset. Deferred tax liabilities are not recognized if temporary differences arise from the initial recognition of goodwill.

Deferred tax assets and tax liabilities are measured at the tax rates that are expected to be enacted in the period in which the asset will be realized or the liability will be settled. Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting group, relate to the same tax authority, the legal right to offset exists, and they are intended to be settled net or realized simultaneously.

Current and deferred income taxes are recognized as an income tax benefit or expense in the income statement, with the exception of items posted directly to equity or recognized in other comprehensive income. In this case, the corresponding tax effect is also to be recognized directly in shareholders' equity or in other comprehensive income.

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

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

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

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

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

Assets which are held in financial leasing arrangements are depreciated over their estimated useful life in the same way as assets belonging to the company or, if this is shorter, over the life of the underlying lease agreement. The costs of short-term leasing are charged directly to the income statement. The corresponding liabilities are disclosed in the notes (see note 23 'Leasing').

Intangible assets and goodwill

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

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

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

Trademarks with an indefinite useful life are not subject to amortization but are tested for impairment at least annually. Any impairment is recognized as an expense in the income statement.

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

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

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

Financial instruments

Recognition and initial measurement

Trade receivables are recognized when they occur. All other financial instruments are recognized when the Group becomes a contracting party. Financial assets (with the exception of trade receivables with no essential financing component) and financial liabilities are recognized at fair value the first time. Transaction costs, which are directly attributable to acquisition or issuance, are added in addition for financial instruments that are not measured at fair value through profit or loss. Trade receivables with no essential financing components are recognized at the transaction price the first time.

Classification and subsequent measurement of financial assets

STANDARD APPLIED AS OF JANUARY 1, 2018

Financial assets are classified in one of the following categories:

– 'Amortized cost'
– 'Fair value through other comprehensive income'
– 'Fair value through profit or loss'

A financial asset is measured at amortized cost if the business model provides for the asset to be held in order to receive contractual cash flows on contractually agreed dates. The payments consist only of the nominal value plus interest. Essentially, the financial assets in the Group consist of cash and cash equivalents and trade receivables that are reported at amortized cost using the effective interest method less valuation allowances for expected credit losses. Cash and cash equivalents are stated at nominal value. It includes cash on hand, bank accounts, and fixed-term deposits with maturities up to three months from the date of acquisition.

Derivatives are valued at their fair value. The derivatives used are accounted for on the day the trade is conducted. Derivative financial instruments are recognized in the balance sheet in 'Current financial assets' or in 'Current financial debt'.

The Group recognizes allowances for expected credit losses on financial instruments that are reported at amortized cost. The Group employs a permissible, simplified model of valuation allowances ('provision matrix') for trade receivables. In this valuation allowance table, expected losses on receivables are determined on the balance sheet date on the basis of past experience of default probability and of future-oriented expectations based on experience with the customers and market conditions.

The Group considers a financial asset to be in default if it is unlikely that the borrower can pay his obligation to the Group in full without the Group having to take recourse to measures such as the realization of collateral.

STANDARD APPLIED PRIOR TO JANUARY 1, 2018

Financial assets are classified in one of the following categories:

– 'Loans and receivables'
– 'Fair value through profit or loss'

Loans and receivables are loans and receivables granted by the Group with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for maturities greater than 12 months after the end of the reporting year, in which case they are classified as non-current assets. After initial recognition, loans and receivables are carried at amortized cost using the effective interest method. Trade receivables are carried in the balance sheet at their nominal value less valuation allowances.

Financial assets measured at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it was acquired principally for the purpose of selling in the short term. Derivatives also belong to this category. The derivatives used are accounted for on the day the trade is conducted. Derivative financial instruments are recognized in the balance sheet under 'Current financial assets' or in 'Current financial debt'.

Allowances for doubtful risks are established based on the maturity structure and discernible solvency risks. In addition to individual allowances for specific identifiable risks, allowances are also made on the basis of statistically determined default risks.

Classification and subsequent measurement of financial liabilities
Financial liabilities are classified in one of the following categories:

- 'Amortized cost'
- 'Fair value through profit or loss'

The Group's financial liabilities consist mainly of liabilities from trade payables and, to a lesser extent, of leasing liabilities that are reported at amortized cost using the effective interest method. With the exception of derivatives, the Group does not have any financial liabilities that are classified as 'fair value through profit or loss'.

Debt is assigned to current debt, except if the Group has to settle the obligation earliest 12 months after the reporting date or enjoys an unlimited right to postpone payment of the debt by at least 12 months after the reporting date. Trade payables are non-interest-bearing and are disclosed at nominal value.

Inventories
Inventories are stated at the lower of cost or net realizable value. Cost includes direct material and, if applicable, other direct costs and related production overheads to the extent that they are incurred in bringing the inventories to their present location and condition. The net realizable value constitutes the estimated sales price less all estimated costs up to completion, as well as the costs of marketing, sales, and distribution.

Inventories are for the greater part measured at average cost. Adjustments are made for unsaleable inventories and inventories with insufficient turnover. Inter-company profits on intra-Group deliveries are eliminated in the income statement.

Shareholders' equity
Registered shares are classified as share capital at their par value. Payments by shareholders above the par value are credited to reserves.

Treasury shares are deducted at their par value from share capital. The acquisition costs in excess of par value arising on the acquisition of treasury shares are debited to reserves. On the sale of treasury shares, gains or losses compared with the par value are credited or debited to reserves.

Dividends are debited to equity in the period in which the resolution on their distribution is adopted.

Employee pension plans
The Group maintains various pension plans designed as defined contribution and defined benefit plans. These pension plans are established in accordance with the local conditions in each country. The plans are funded either by contributions to legally autonomous pension funds and insurance plans or by recognition of the pension plan liabilities in the financial statements of the respective companies.

For defined contribution plans, the costs incurred in the relevant period correspond to the agreed employer contributions.

For defined benefit plans, the pension costs and liabilities are assessed annually on the basis of various economic and demographic assumptions by independent actuaries according to the 'projected unit credit method'. The liabilities correspond to the present value of the expected future cash flows. The plan assets are stated at market value and deducted from the pension liabilities. Pension costs, consisting of current service costs incurred in the relevant period and net interest expense, less employee contributions, are stated as personnel expenses in the income statement. Past service costs resulting from changes in pension plans are posted directly to the income statement. Profits or losses resulting from pension plan curtailments or settlements are immediately taken to the income statement.

Revaluation components include actuarial gains and losses due to changes in the present value of the pension obligations arising from changes in assumptions and experience adjustments plus the return on plan assets less the contributions contained in net interest expense. Revaluation components are recognized in other comprehensive income, taking deferred taxes into account, and are never subsequently reclassified to the income statement.

Provisions
Provisions are recognized if the Group has a current legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The provision is the best estimate on the reporting date of the amount required to meet the current obligation, taking into account the risks and uncertainties underlying the obligation.

3 Critical judgements, estimates and appraisals by management

The application of the measurement and accounting principles requires that circumstances and estimates be assessed and assumptions be made with respect to the carrying amounts of assets and liabilities. The estimates and the underlying assumptions are based on past experience and other factors regarded as relevant, including expectations of future events that appear reasonable in the given circumstances. The actual results may, of course, deviate from the estimates and assumptions of management.

Estimates and the underlying assumptions are reviewed continuously. Revised estimates are recognized prospectively. The following are the main areas in which a significant risk exists in the coming business year involving a significant adjustment of the carrying value of assets and liabilities.

Impairment tests
Along with the regular periodic review of goodwill and intangible assets with an indefinite useful life, the carrying amounts of fixed and intangible assets with a finite useful life are also always reviewed if due to changed circumstances or other triggering events these amounts can possibly no longer be realized. If such a situation occurs, the recoverable amount is determined based on expected future revenues. This corresponds to either the discounted expected cash flows or the expected net sales price.

Important assumptions in the calculations underlying these impairment tests include growth rates, margins, estimates and management's expectations of the future development of net working capital, and discount rates. The actual cash flows may deviate from the planned discounted future values. Likewise, the useful lives may be shortened or non-current assets impaired in the event of a change in the use of buildings, machinery and facilities, change or abandonment of locations, or lower-than-expected revenues over the medium term. Further information on this topic can be found in note 14 'Property, plant, and equipment' and note 15 'Intangible assets and goodwill'.

Valuation of pension plan liabilities
Various employee pension plans exist for employees of the Group. In the valuation of defined benefit plans, actuarial assumptions are made to estimate future developments. These include assumptions and estimates relating to the discount rate, the inflation rate as well as assumptions for future wage trends. In their actuarial calculations for determining employee benefit obligations, the actuaries also use statistical information such as mortality tables and staff turnover rates. If these parameters change owing to a change in the economic situation or market conditions, the subsequent results may deviate considerably from the actuarial reports and calculations. These deviations may have a significant medium-term effect on expenses and income from the employee pension schemes and on the comprehensive income statement. Further information on this topic can be found in note 18 'Employee benefit obligations'.

Recognition and measurement of provisions
In the conduct of ordinary business activities, a liability of uncertain timing and/or amount may arise. Provisions are determined using available information based on reasonably expected cash outflows. Claims against the Group may arise that may not be covered, or are covered only in part, by provisions or insurance benefits. Further information on this topic can be found in note 17 'Provisions'.

Income taxes
The Group is obliged to pay income taxes in various countries. Certain key assumptions are necessary in order to determine income tax in the relevant countries. There are business events which have an impact on taxation and taxable profit. Hence, the amount of the final taxation cannot be determined definitively. The measurement of current tax liabilities is subject to the interpretation of tax regulations in the relevant countries. The adequacy of this interpretation is assessed by the tax authorities in the course of the final assessment or tax audits. This may result in material changes to tax expenses. Where the definitive taxation of these business events deviates from the previous assumptions, this will have an impact on the current and deferred taxes in the period in which the taxation is definitively determined. Furthermore, determining whether tax losses carried forward can be capitalized requires a critical estimate of the probability that they can be offset against future profits. This assessment is based on planning information. Further information on this topic can be found in note 10 'Income taxes'.

4 Application of new or revised accounting standards

Applied new and revised standards and interpretations
The Group applied IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers' for the first time as of January 1, 2018. In addition, some other new or amended standards were applied, which, however, do not have any significant impact on the financial statements. Information from the previous year has not been restated owing to the transition approaches that have been chosen.

The impact of the application of IFRS 9 and IFRS 15 is explained below.

IFRS 9 'Financial instruments'
The standard IFRS 9 'Financial instruments' includes new standards for classification and measurement of financial assets and liabilities, the recognition of impairment allowances, and for the accounting of derivatives used for hedging. The standard replaces IAS 39 'Financial instruments: Recognition and Measurement'.

The implementation of IFRS 9 had no impact on equity or debt instruments since the Group does not employ such instruments. The application of IFRS 9 affected only the calculation and presentation of the allowance for doubtful receivables because the 'incurred loss' model in IAS 39 was replaced by an 'expected credit' loss model, which means that credit losses are recognized earlier under IFRS 9 than under IAS 39.

Owing to the transition approach that has been chosen, IFRS 9 does not require any restatement of the previous year. The reassessment of the valuation of trade receivables resulted in an increase in the allowance for doubtful receivables of CHF 0.5 million as per January 1, 2018. This amount was taken to equity (CHF 0.4 million after tax).

IFRS 15 – 'Revenue from contracts with customers'
The Group implemented IFRS 15 with effect on January 1, 2018, using the cumulative effect method. Accordingly, information for the previous year was not restated and is reported, as heretofore, under the standards IAS 18 'Revenue', IAS 11 'Construction contracts', and the relevant interpretations. IFRS 15 replaces the current standards and contains a comprehensive approach to determine whether, when, and to what extent revenue from contracts with customers are to be reported.

The implementation of IFRS 15 had no effect on the consolidated balance sheet, the consolidated income statement or the consolidated statement of changes in equity since the business models employed by the Group, in particular the time of the transfer of control of the goods, is identical with the transfer of risks and opportunities.

Introduction of new standards in 2019 and beyond

The following new and revised standards and interpretations that were published by end-2018 but are not yet mandatory were not applied in advance in the present consolidated financial statements.

Standards		Date effective	Planned application
New standards or interpretations:			
IFRS 16 – 'Leases'	*	January 1, 2019	2019 business year
IFRIC 23 'Uncertainty over income tax treatments'	**	January 1, 2019	2019 business year
Revisions and amendments of standards and interpretations:			
Amendments to IAS 28 'Long-term interests in associates and joint ventures'	**	January 1, 2019	2019 business year
Amendments to IAS 19 'Plan amendment, curtailment or settlement'	**	January 1, 2019	2019 business year
Amendments to IFRS 3 'Definition of a business'	**	January 1, 2020	2020 business year
Amendments to IAS 1 und IAS 8 'Definition of material'	**	January 1, 2020	2020 business year
Amendments to 'References to the conceptual framework in IFRS standards'	**	January 1, 2020	2020 business year
Annual improvements to the IFRS 2015 – 2017 cycle:			
Amendments to IFRS 3 'Business combinations' and IFRS 11 'Joint arrangements'	**	January 1, 2019	2019 business year
Amendments to IAS 12 'Income taxes'	**	January 1, 2019	2019 business year

* See the note on the impact on the consolidated financial statements in the next section.

** No significant impact on the consolidated financial statements is expected.

IFRS 16 'Leases'

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

The management has made an assessment of the impact on the financial statements, which shows that the Group will have to book new assets and debts for its operational leases, in particular for vehicles and property.

From the current perspective, the balance sheet will be extended by a good CHF 40 million by the first-time adoption of IFRS 16, because right-of-use assets and leasing liabilities will be reassessed by this amount. The depreciations and hence operating profit before depreciation and amortization (EBITDA) will increase by somewhat more than CHF 10 million, while financing costs and hence operating profit (EBIT) will increase by about CHF 1 million. The impact on the Group profit for the year is negligible.

The Group has applied the new standard as of January 1, 2019, and recognized a cumulative adjustment in equity at the time of the first application.

Notes

5 Segment reporting

The Group is a global producer of Flooring Systems and Movement Systems. The divisions correspond to the internal management structure and are run separately because the products they manufacture, distribute, and sell differ fundamentally in terms of production, distribution, and marketing.

In the Flooring Systems division, the Group develops, produces, and sells linoleum, vinyl floorings, entrance flooring systems, carpet tiles, needle felt floor coverings, Flotex, the washable textile flooring, and building and construction adhesives as well as various accessory products required for laying, processing, cleaning, and care of flooring. In the Movement Systems division, the Group develops, produces, and sells high-quality conveyor and processing belts, as well as plastic modular belts, and drive, timing and flat belts made of synthetic materials. Corporate includes the costs of the Group headquarters and certain items of income and expenses that are not directly attributable to a specific business.

The Flooring Systems and the Movement Systems divisions are reportable segments. The identification of the reportable segments is based on internal management reporting to the Executive Chairman of the Board of Directors and to the Chief Executive Officer of the Group and hence on the financial information used to review the performance of the operational units in order to reach a decision on the allocation of resources.

Segment information on the reportable segments for the reporting year:

2018

CHF m	Flooring Systems	Movement Systems	Corporate/ Elimination	Total
Total sales	913.2	414.0	– 0.2	1,327.0
Inter-segment sales	0.0	– 0.2	0.2	0.0
Net sales to third parties	913.2	413.8		1,327.0
Operating profit (EBIT)	136.5	49.4	– 10.6	175.3
EBITDA	166.0	60.6	– 9.8	216.8
Operating assets	523.1	275.4	13.9	812.4
Capital expenditure	25.4	13.2	0.1	38.7
Number of employees (December 31)	3,194	2,503	42	5,739

Segment information on the reportable segments for the prior year:

2017

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

Management reporting is based on the same accounting principles as external reporting.

The Executive Chairman of the Board of Directors and the Chief Executive Officer assess the performance of the reportable segments based on their operating result (EBIT). The net financial result is not allocated to the segments since it is Corporate Treasury that mainly exercises central control over the financial result. Inter-segment sales are transacted at arm's length. The segments apply the same accounting principles as the Group. Sales to third parties, as they are reported to the Executive Chairman of the Board of Directors and the Chief Executive Officer, are identical with the sales reported in the income statement.

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

	2018	2017
CHF m		
Total segment result (EBIT)	**175.3**	**79.9**
Financial result	0.3	0.1
Group profit before taxes	**175.6**	**80.0**

	31.12.2018	31.12.2017
CHF m		
Total operating assets	**812.4**	**832.8**
Non-operating assets	167.6	234.7
Total assets	**980.0**	**1,067.5**

Operating assets include 'Trade receivables', 'Other receivables', 'Accrued income and deferred expenses', 'Inventories', 'Property, plant, and equipment', and 'Intangible assets and goodwill'. Non-operating assets include 'Cash and cash equivalents', 'Current financial assets', 'Non-current financial assets' and 'Deferred tax assets'.

The following table shows revenue broken down by geographic region and by the two product groups that are identical with the reportable segments.

	Flooring Systems		Movement Systems	
CHF m	2018 Third-party sales	2017 Third-party sales	2018 Third-party sales	2017 Third-party sales
Regions				
Europe	693.8	656.0	163.8	150.2
Americas	136.3	124.1	138.9	135.4
Asia/Pacific and Africa	83.1	76.5	111.1	104.2
Total net sales to third parties	**913.2**	**856.6**	**413.8**	**389.8**

Third-party net sales by destination were generated in the following regions:

CHF m	2018 Third-party sales	2017 Third-party sales
Switzerland (domicile)	28.4	26.0
Germany	167.0	150.5
France	165.6	158.3
Benelux	134.2	124.5
Scandinavia	103.7	105.2
Great Britain and Ireland	92.7	97.8
Other countries Europe	166.0	143.9
Europe	**857.6**	**806.2**
USA	223.2	212.3
Other countries Americas	52.0	47.2
Americas	**275.2**	**259.5**
Asia/Pacific and Africa	**194.2**	**180.7**
Total net sales to third parties	**1,327.0**	**1,246.4**

In the period under review, sales to no single customer exceeded 10% of total Group sales.

Operating assets are distributed over the following regions:

CHF m	31.12.2018 Operating assets	31.12.2017 Operating assets
Switzerland (domicile)	25.9	30.6
Germany	82.9	85.6
France	68.4	72.1
Benelux	207.1	211.8
Scandinavia	29.5	28.2
Great Britain and Ireland	117.4	121.3
Other countries Europe	48.1	49.0
Europe	**579.3**	**598.6**
USA	94.3	91.6
Other countries Americas	11.3	11.1
Americas	**105.6**	**102.7**
Asia/Pacific and Africa	**127.5**	**131.5**
Total operating assets	**812.4**	**832.8**

6 Development costs

'Development costs', which mainly comprise product development, amounted to CHF 16.6 million in the reporting year (2017: CHF 15.5 million).

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

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

7 Other operating expenses

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

The decrease versus the previous year is due to the one-off costs of CHF 83.4 million arising from the now concluded antitrust proceedings brought against leading flooring manufacturers in France.

8 Other operating income

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

In the reporting year, government grants in connection with the construction of the Movement Systems plant in Pinghu, China, amounting to CHF 1.7 million (2017: CHF 1.7 million) were recognized in the income statement.

9 Personnel expenses

	2018	2017
Personnel expenses		
CHF m		
Salaries and wages	315.1	297.2
Social security contributions	78.8	71.7
Employee benefit expenses for defined benefit plans	6.0	5.7
Total personnel expenses	**399.9**	**374.6**

As at December 31, 2018, the headcount was 5,739 (2017: 5,559). The average headcount over the year was 5,718 (2017: 5,534).

Salaries and wages include share-based payments expenses of CHF 4.6 million (2017: CHF 4.4 million). A bonus program is available for around 130 managers, which is linked to achieving financial targets set for the Group, the divisions, and individual objectives (see also note 19 'Employee participation plan').

The cost of the contributions to defined contribution plans, which is included in personnel expenses, amounted to CHF 14.6 million (2017: CHF 13.6 million).

10 Income taxes

	2018	2017
Income taxes		
CHF m		
Current income taxes	40.1	44.6
Deferred income taxes	– 2.1	– 1.1
Total income taxes	**38.0**	**43.5**

Analysis of tax expense

The following reconciliation explains the difference between the expected and the effective tax expense:

	2018	2017
CHF m		
Group profit before taxes	175.6	80.0
Tax expense at the expected tax rate	**– 43.4**	**– 19.4**
Tax effects of:		
Non-tax-deductible expenses	– 1.9	– 29.2
Tax-exempt income	3.4	4.2
Recognition of previously unrecognized tax losses	0.5	1.1
Utilization of previously unrecognized tax losses	1.3	0.8
Income taxes from sale of treasury shares		– 5.8
Previous-year taxes and other positions	2.1	4.8
Effective income tax expenses	**– 38.0**	**– 43.5**

Since the Group operates in various countries with different tax laws and rates, the expected and effective tax expense depends every year on the origin of the profits or losses in each country. The expected tax expense is the sum of the expected individual tax income/expense of all subsidiaries. The expected individual tax income/expense in a country is calculated by multiplying the individual profit/loss by the tax rate applicable in the country concerned. The expected tax rate in the year under review was 24.7% (2017: 24.2%).

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

2018

CHF m	Not capitalized	Capitalized	Total
Expiry after:			
1 year	0.0	0.0	0.0
2 years	0.0	0.0	0.0
3 years	1.1	0.0	1.1
4 years	2.2	0.3	2.5
5 years	4.5	0.0	4.5
More than 5 years	39.3	37.3	76.6
Total tax loss carry-forwards	**47.1**	**37.6**	**84.7**

2017

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

In 2018, no tax loss carry-forwards expired unused (2017: CHF 1.0 million).

Deferred income tax assets and liabilities are offset when they relate to the same tax jurisdiction, provided that the legal right to offset exists, and they are intended either to be settled net or to be realized simultaneously.

The following amounts are shown in the balance sheet:

CHF m	31.12.2018	31.12.2017
Deferred tax assets	39.9	39.0
Deferred tax liabilities	– 12.1	– 10.8
Deferred tax assets, net	**27.8**	**28.2**

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

Deferred tax assets

CHF m	Inventories	Property, plant, and equipment	Provisions	Loss carry-forwards	Employee benefit obligations	Other	Total
As at December 31, 2017	**7.7**	**1.4**	**7.7**	**13.6**	**17.5**	**5.9**	**53.8**
Changes recognized in income statement	– 0.3	0.0	2.5	– 2.8		– 1.1	– 1.7
Changes recognized in other comprehensive income					– 2.5		– 2.5
Translation differences	0.1	0.0	0.0	0.0	– 0.1	0.0	0.0
As at December 31, 2018	**7.5**	**1.4**	**10.2**	**10.8**	**14.9**	**4.8**	**49.6**
Netting							– 9.7
As at December 31, 2018, net							**39.9**

Deferred tax liabilities

CHF m	Inventories	Property, plant, and equipment	Provisions	Intangible assets	Employee benefit obligations	Other	Total
As at December 31, 2017	**3.2**	**3.6**	**3.7**	**13.4**	**0.0**	**1.7**	**25.6**
Changes in scope of consolidation	0.1			0.3			0.4
Changes recognized in income statement	– 0.6	– 0.5	– 1.6	– 1.2			– 3.9
Translation differences	0.0	0.0	0.0	– 0.3	0.0	0.0	– 0.3
As at December 31, 2018	**2.7**	**3.1**	**2.1**	**12.2**	**0.0**	**1.7**	**21.8**
Netting							– 9.7
As at December 31, 2018, net							**12.1**

Decrease in deferred tax assets, net	**– 0.4**

As at December 31, 2018, no deferred tax liabilities on undistributed profits from consolidated companies have been recognized, since this income is deemed to have been reinvested for an indefinite period.

Should there be a distribution, withholding and other taxes might be incurred, which upon decision may be provided for accordingly.

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

	2018			2017		
CHF m	Before tax	Tax expense	After tax	Before tax	Tax expense	After tax
Actuarial gains/losses (–) on employee benefit obligations	14.0	– 2.5	11.5	6.9	– 1.2	5.7
Translation differences	– 29.6	0.0	– 29.6	36.1	0.0	36.1
Other comprehensive income	**– 15.6**	**– 2.5**	**– 18.1**	**43.0**	**– 1.2**	**41.8**

11 Earnings per share

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

The figure for diluted earnings per share also takes into account the potential dilution effects if all issued and in-the-money share entitlements (Long-Term Incentive Plan) were to be exercised.

The calculations are based on the following information:

	2018	2017
Group profit for the year from continuing operations in CHF million	137.6	36.5
Group profit for the year from discontinued operations after taxes in CHF million		2.2
Group profit for the year in CHF million	137.6	38.7
Weighted average number of shares	1,670,473	1,728,259
Amount of shares adjusted for long-term incentive plans (LTI)	96	
Weighted average number of shares used to calculate diluted earnings per share	1,670,569	1,728,259

12 Trade receivables

The application of IFRS 9 affected the calculation and presentation of the allowance for doubtful receivables because the 'incurred loss' model in IAS 39 was replaced by an 'expected credit loss' model, which means that credit losses are reported earlier under IFRS 9 than under IAS 39. Owing to the transition approach that has been chosen, IFRS 9 does not require any restatement of the previous year. The reassessment of the valuation of trade receivables resulted in an increase in the allowance for doubtful receivables of CHF 0.5 million as per January 1, 2018. This amount was taken to equity (CHF 0.4 million after tax).

	31.12.2018	31.12.2017
Trade receivables		
CHF m		
Accounts receivable	160.0	157.4
Notes receivable	15.4	18.7
Allowance for doubtful trade receivables	– 6.5	– 6.9
Total trade receivables	**168.9**	**169.2**

The Group's credit and market risks and allowances for doubtful receivables are found in Note 25 'Risk Assessment and Financial Risk Management'.

13 Inventories

	31.12.2018	31.12.2017
Inventories		
CHF m		
Raw-materials and supplies	46.4	48.6
Work in progress	73.6	73.3
Finished goods	138.7	135.7
Valuation allowance for inventories	– 28.6	– 31.0
Total inventories	**230.1**	**226.6**

Expenses for inventories recognized in the reporting year came to CHF 519.6 million (2017: CHF 487.4 million).

14 Property, plant, and equipment

Cost on acquisition CHF m	Land and buildings	Machinery and equipment	Other property, plant, and equipment	Assets under construction	Total property, plant, and equipment
As at January 1, 2017	**112.0**	**655.3**	**113.6**	**17.4**	**898.3**
Additions	0.9	6.6	1.8	48.1	57.4
Disposals	– 0.9	– 7.7	– 7.0		– 15.6
Transfers	0.5	17.2	1.4	– 19.1	
Translation differences	16.1	47.6	7.8	2.0	73.5
As at December 31, 2017	**128.6**	**719.0**	**117.6**	**48.4**	**1,013.6**
Changes in scope of consolidation		0.1			0.1
Additions	1.2	9.9	1.6	25.5	38.2
Disposals	– 0.3	– 12.2	– 1.2		– 13.7
Transfers	18.6	31.3	2.8	– 53.5	– 0.8
Translation differences	– 9.4	– 26.7	– 4.3	– 1.2	– 41.6
As at December 31, 2018	**138.7**	**721.4**	**116.5**	**19.2**	**995.8**

Accumulated depreciation and impairments CHF m	Land and buildings	Machinery and equipment	Other property, plant, and equipment	Assets under construction	Total property, plant, and equipment
As at January 1, 2017	**10.8**	**553.6**	**106.3**	**0.0**	**670.7**
Depreciation	6.5	21.9	3.4		31.8
Disposals	– 0.9	– 7.3	– 6.9		– 15.1
Translation differences	11.0	40.3	7.3		58.6
As at December 31, 2017	**27.4**	**608.5**	**110.1**	**0.0**	**746.0**
Depreciation	7.6	24.2	3.5		35.3
Disposals		– 12.1	– 1.2		– 13.3
Translation differences	– 5.7	– 22.1	– 3.8		– 31.6
As at December 31, 2018	**29.3**	**598.5**	**108.6**	**0.0**	**736.4**
Net carrying amount					
As at January 1, 2017	101.2	101.7	7.3	17.4	227.6
As at December 31, 2017	101.2	110.5	7.5	48.4	267.6
As at December 31, 2018	109.4	122.9	7.9	19.2	259.4

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

Maintenance and repair costs amounted to CHF 23.1 million (2017: CHF 21.7 million). The depreciation expense of CHF 35.3 million (2017: CHF 31.8 million) is included in the items 'Cost of goods sold', 'Development costs', 'Marketing and distribution costs', and 'Administrative costs'.

In the previous year, 'Property, plant, and equipment' included leased assets with a net book value of CHF 0.2 million. The leasing liability for fixed assets carried in the balance sheet amounted to CHF 0.2 million in the previous year.

As at December 31, 2018, there were no assets for which interest on borrowed capital was capitalized during the preparation phase.

As at December 31, 2018, the Group had outstanding purchase orders for capital goods amounting to CHF 3.1 million (2017: CHF 4.0 million).

15 Intangible assets and goodwill

Cost on acquisition CHF m	Goodwill	Trademarks	Other intangible assets	Total
As at January 1, 2017	**83.7**	**32.8**	**77.2**	**193.7**
Additions			0.4	0.4
Disposals			– 0.1	– 0.1
Translation differences	4.7	0.3	3.9	8.9
As at December 31, 2017	**88.4**	**33.1**	**81.4**	**202.9**
Changes in scope of consolidation			1.6	1.6
Additions			0.5	0.5
Transfers			0.8	0.8
Translation differences	– 2.6	– 0.4	– 3.5	– 6.5
As at December 31, 2018	**85.8**	**32.7**	**80.8**	**199.3**

Accumulated amortization and impairments CHF m	Goodwill	Trademarks	Other intangible assets	Total
As at January 1, 2017	**8.7**	**26.0**	**39.2**	**73.9**
Amortization		0.2	5.7	5.9
Disposals			– 0.1	– 0.1
Translation differences	0.6		0.2	0.8
As at December 31, 2017	**9.3**	**26.2**	**45.0**	**80.5**
Amortization		0.2	6.0	6.2
Translation differences	– 0.3	– 0.1	– 0.1	– 0.5
As at December 31, 2018	**9.0**	**26.3**	**50.9**	**86.2**
Net carrying amount				
As at January 1, 2017	75.0	6.8	38.0	119.8
As at December 31, 2017	79.1	6.9	36.4	122.4
As at December 31, 2018	76.8	6.4	29.9	113.1

The position 'Brands' consists mainly of the trademarks acquired in connection with the acquisition of Bonar Floors in 2008. 'Other intangible assets' consists primarily of the customer relations and technologies, as well as software, acquired as part of the acquisition of Bonar Floors.

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

	31.12.2018	31.12.2017
Flooring Systems	72.6	74.8
Movement Systems	4.2	4.3
	76.8	**79.1**

The goodwill in Flooring Systems comprises primarily the goodwill acquired in connection with the acquisition of Bonar Floors. The annual impairment test of goodwill yielded a value in use that was greater than the carrying amount.

Intangible assets with an indefinite useful life (goodwill and trademarks) are subject to an annual impairment test at cash-generating unit level. The test is carried out using a standardized method with discounted cash flow for calculating the value in use. Cash flow for the first five years is estimated on the basis of the plan approved by management (detailed planning period).

Cash flows beyond the detailed planning period are extrapolated to the terminal value by means of using sustainable earnings. The growth rate underlying the terminal value equals the expected inflation. During the detailed planning period, relatively constant EBITDA margins are assumed, which are around 18% (2017: 18%) for Flooring Systems and around 16% (2017: 16%) for Movement Systems.

The discount rate corresponds to the total weighted cost of capital before taxes including an average risk charge estimated by management, and is 9.1% (previous year: 9.4%). The intangible assets with an indefinite useful life were subject to impairment testing also in the form of sensitivity analyses.

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

16 Accrued expenses and deferred income

Accrued expenses and deferred income	31.12.2018	31.12.2017
CHF m		
Accrued expenses for compensation and employee benefits	41.5	42.1
Other accrued expenses	46.2	49.4
Total accrued expenses and deferred income	**87.7**	**91.5**

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

17 Provisions

Provisions CHF m	Warranty provisions	Environmental provisions	Provisions for legal claims	Personnel provisions	Other provisions	Total
As at January 1, 2018	**5.3**	**8.4**	**20.3**	**12.4**	**4.7**	**51.1**
Additions	1.5		10.3	4.4	0.7	16.9
Used during the year	– 1.5		– 0.6	– 1.8	– 0.7	– 4.6
Released during the year			– 0.2	– 1.8	– 0.2	– 2.2
Translation differences	– 0.1	– 0.2		– 0.1	– 0.1	– 0.5
As at December 31, 2018	**5.2**	**8.2**	**29.8**	**13.1**	**4.4**	**60.7**
Of which current provisions	3.2	0.0	0.9	12.8	3.1	20.0
Of which non-current provisions	2.0	8.2	28.9	0.3	1.3	40.7

Warranty provisions are linked to product sales and are based on past experience. The provisions for legal claims relate in part to product liability claims in which the Group is involved in the course of its normal business. The personnel provisions include in particular the bonus programs, provisions for paid leave, and potential labor law issues.

Provisions for expected cash outflows arising in connection with the sale of the industrial adhesives activity, including synthetic polymers, which was part of the previous Bonding Systems division, to H.B. Fuller on March 5, 2012, exist for risks in the areas of environmental protection (CHF 4.2 million), litigation (CHF 3.0 million), and others (CHF 1.0 million).

18 Employee benefit obligations

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

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

Pension plans in the United Kingdom

The Group has two defined benefit pension plans in the United Kingdom. The main one is the Forbo Superannuation Fund (the FSF), which accounts for about 61% of the Group's total pension liabilities. The FSF is a pension plan whose benefits are based on the final salary and which pays out a guaranteed pension for life to its members. The FSF is closed to new entrants. The composition of the pension liabilities is as follows: 2% to active employees, 32% to deferred members and 66% to current beneficiaries. New employees in the United Kingdom who meet certain criteria are now offered a defined contribution plan.

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

The pension plan follows an investment strategy that is geared to the structure of the pension liabilities ('liability-driven investment' approach).

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

Pension plan in Switzerland

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

The pension liabilities of the Swiss Group companies account for about 17% of the Group's entire pension liabilities. 96% of the liabilities are to active members and 4% to retired beneficiaries.

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

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

Other pension plans

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

The latest actuarial valuations of the present values of defined benefit liabilities and of service costs were performed as at December 31, 2018, by independent actuaries using the projected unit credit method. The fair value of the plan assets was determined as at December 31, 2018, based on the information available when the annual financial statements were prepared. The weighted average duration of the pension plans ('plan duration') is 13.4 years for the United Kingdom, 19.4 years for Switzerland, and 15.4 years for the other countries.

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

Actuarial assumptions	2018				2017			
	Switzerland	UK	Other	Weighted	Switzerland	UK	Other	Weighted
Discount rate (in %)	0.9	2.7	1.8	2.2	0.7	2.4	1.8	2.0
Future increases in salaries (in %)	1.9	3.9	2.8	2.4	1.8	4.1	2.7	2.4
Inflation rate (in %)	1.3	3.2	1.9	2.8	1.3	3.4	1.8	2.9
Life expectancy at age of 65 (in years)								
Year of birth 1953								
Men	23	21	20	21	22	22	20	21
Women	25	23	24	23	24	24	23	24
Year of birth 1968								
Men	24	23	22	23	24	23	21	23
Women	26	25	25	25	26	25	25	25

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

Pension costs	2018				2017			
CHF m	Switzerland	UK	Other	Total	Switzerland	UK	Other	Total
Service cost	1.9	0.6	2.2	4.7	1.9	0.5	2.4	4.8
Interest costs	0.4	5.8	1.0	7.2	0.4	6.0	1.0	7.4
Interest income on plan assets	–0.3	–5.5	–0.1	–5.9	–0.3	–5.6	–0.1	–6.0
Curtailments and settlements					–0.5			–0.5
Total actuarial net periodic pension costs	**2.0**	**0.9**	**3.1**	**6.0**	**1.5**	**0.9**	**3.3**	**5.7**

Changes in pension liabilities under the defined benefit plans:

Benefit obligations	2018				2017			
CHF m	Switzerland	UK	Other	Total	Switzerland	UK	Other	Total
As at January 1	**59.9**	**250.5**	**59.0**	**369.4**	**63.7**	**243.2**	**55.3**	**362.2**
Service cost	1.9	0.6	2.2	4.7	1.9	0.5	2.4	4.8
Employee contributions	0.9		0.0	0.9	1.0		0.0	1.0
Interest costs	0.4	5.8	1.0	7.2	0.4	6.0	1.0	7.4
Benefits paid	– 4.5	– 10.4	– 2.4	– 17.3	– 2.6	– 10.7	– 1.8	– 15.1
Actuarial gains (–)/losses	– 1.5	– 24.7	0.2	– 26.0	– 0.8	– 0.4	– 1.3	– 2.5
Curtailments and settlements			– 0.1	– 0.1	– 3.7			– 3.7
Translation differences		– 10.5	– 1.7	– 12.2		11.9	3.4	15.3
As at December 31	**57.1**	**211.3**	**58.2**	**326.6**	**59.9**	**250.5**	**59.0**	**369.4**

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

Plan assets	2018				2017			
CHF m	Switzerland	UK	Other	Total	Switzerland	UK	Other	Total
As at January 1	**39.5**	**236.3**	**5.9**	**281.7**	**42.2**	**225.6**	**5.7**	**273.5**
Interest income on plan assets	0.3	5.5	0.1	5.9	0.3	5.6	0.1	6.0
Employer contributions	1.6	0.3	2.3	4.2	1.7	0.1	1.9	3.7
Employee contributions	0.9		0.0	0.9	1.0		0.0	1.0
Return on pension assets (excluding amounts in interest income)	0.0	– 11.9	– 0.1	– 12.0	0.1	4.5	– 0.2	4.4
Benefits paid	– 4.5	– 10.4	– 2.4	– 17.3	– 2.6	– 10.7	– 1.8	– 15.1
Curtailments and settlements			– 0.1	– 0.1	– 3.2			– 3.2
Translation differences		– 10.3	– 0.1	– 10.4		11.2	0.2	11.4
As at December 31	**37.8**	**209.5**	**5.6**	**252.9**	**39.5**	**236.3**	**5.9**	**281.7**

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

Most of the pension plans are financed in full or in part via outsourced funds. Pension liabilities amounting to CHF 40.2 million (2017: CHF 40.3 million) out of a total of CHF 326.6 million (2017: CHF 369.4 million) are unfunded.

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

Net liabilities				2018				2017
CHF m	Switzerland	UK	Other	Total	Switzerland	UK	Other	Total
As at January 1	**20.4**	**14.2**	**53.1**	**87.7**	**21.5**	**17.6**	**49.6**	**88.7**
Net pension cost	2.0	0.9	3.1	6.0	1.5	0.9	3.3	5.7
Employer contributions	– 1.6	– 0.3	– 2.3	– 4.2	– 1.7	– 0.1	– 1.9	– 3.7
Actuarial gains (–)/losses	– 1.5	– 12.8	0.3	– 14.0	– 0.9	– 4.9	– 1.1	– 6.9
Translation differences		– 0.2	– 1.6	– 1.8		0.7	3.2	3.9
Net liabilities as at December 31	**19.3**	**1.8**	**52.6**	**73.7**	**20.4**	**14.2**	**53.1**	**87.7**

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

Recognized gains and losses in the comprehensive income statement				2018				2017
CHF m	Switzerland	UK	Other	Total	Switzerland	UK	Other	Total
Actuarial gains/losses (–) in the current period:	**1.5**	**24.7**	**– 0.2**	**26.0**	**0.8**	**0.4**	**1.3**	**2.5**
Based on adjustment of demographic assumptions		10.2	– 0.3	9.9		1.9		1.9
Based on adjustment of financial assumptions	1.4	12.2	– 1.2	12.4	– 0.8	– 1.8	0.4	– 2.2
Experience adjustment	0.1	2.3	1.3	3.7	1.6	0.3	0.9	2.8
Return on pension assets (excluding amounts in interest income)	0.0	– 11.9	– 0.1	– 12.0	0.1	4.5	– 0.2	4.4
Total gains/losses (–) recognized in the comprehensive income statement before taxes	**1.5**	**12.8**	**– 0.3**	**14.0**	**0.9**	**4.9**	**1.1**	**6.9**

Change in the present value of defined benefit liabilities:

	2018			2017		
Sensitivities + 50bp			+ 50bp			+ 50bp
CHF m	Switzerland	UK	Other	Switzerland	UK	Other
Discount rate	– 5.2	– 13.2	– 4.2	– 5.6	– 16.5	– 4.2
Rate of salary increase	1.6	0.1	2.6	1.6	0.2	2.7
Inflation rate	1.2	7.8	3.7	1.3	9.8	3.8
Interest credits on retirement assets	1.3			1.4		
Sensitivities – 50bp			– 50bp			– 50bp
CHF m	Switzerland	UK	Other	Switzerland	UK	Other
Discount rate	5.9	14.7	4.7	6.4	18.4	4.8
Rate of salary increase	– 1.6	– 0.1	– 2.4	– 1.7	– 0.2	– 2.4
Inflation rate	– 1.2	– 7.2	– 3.3	– 1.2	– 8.9	– 3.3
Interest credits on retirement assets	– 1.3			– 1.4		

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

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

	2018	2017
%		
Shares	1.9	2.0
Bonds	43.8	46.2
Insurance contracts	15.0	15.4
Other securities	37.2	35.9
Cash and cash equivalents	2.1	0.5
Total plan assets as at December 31	**100.0**	**100.0**

'Shares', 'Bonds' and 'Other securities' were all quoted investments. 'Insurance contracts' reflects the plan assets of the fully insured companies in Switzerland. As of January 1, 2019, all Swiss companies have moved to a semi-autonomous insurance scheme. The plan assets do not include any direct shares or other securities of the Forbo Group.

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

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

19 Employee participation plan

As of December 31, 2018, there existed the following share-based remuneration elements:

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

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

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

The number of shares of Forbo Holding Ltd issued in the year under review under the MIP was 437 (2017: 1,039). A further 228 shares (2017: 320) were allocated to Executive Board members in the reporting year as part of the fix base salary. The share price at measurement date was CHF 1,568 (2017: CHF 1,356).

Remuneration of the Board of Directors
The remuneration of the Executive Chairman of the Board of Directors is mainly in locked-up shares. The details and figures for this remuneration model are to be found on page 135 of this Financial Report and on pages 81, 82 and 88 of the Remuneration Report. The number of shares with a three-year vesting period allocated to the non-executive members of the Board of Directors came to 241 in the reporting year (2017: 212).

The amount charged to the income statement in application of IFRS 2 for shares issued came to CHF 4.6 million in the year under review (2017: CHF 4.4 million).

20 Share capital and capital management

Share capital
As at December 31, 2018, the share capital of Forbo Holding Ltd stood at CHF 180,000 (2017: CHF 180,000), divided into 1,800,000 registered shares with a par value of CHF 0.10 each. Of this amount 21,419 registered shares without voting or dividend rights are unchanged at the disposal of the Board of Directors. Consequently, 1,778,581 registered shares were still eligible for dividends as at December 31, 2018.

Change of shares issued and outstanding:

	31.12.2018 Number	Change Number	31.12.2017 Number
Total shares outstanding	**1,800,000**	**0**	**1,800,000**
Treasury shares			
Shares with dividend rights:			
Treasury shares	26,863	15,831	11,032
Share buyback programs	150,000	86,895	63,105
Own shares with no dividend rights	21,419		21,419
Total treasury shares	**198,282**	**102,726**	**95,556**
Total shares issued and outstanding	**1,601,718**	**– 102,726**	**1,704,444**

Capital management
By capital management, the Group means management of consolidated shareholders' equity as well as optimization of the capital employed. The former includes the fully paid up share capital, the positions 'Treasury shares', 'Reserves', and 'Translation differences' and, as per December 31, 2018, it amounted to CHF 591.6 million (2017: CHF 661.2 million).

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

As reported in note 17 'Provisions', there are still provisions amounting to CHF 8.2 million that arise in connection with the sale of the industrial adhesives activity, including synthetic polymers, of the former Bonding Systems division. This division was sold to H.B. Fuller on March 5, 2012, for CHF 384.7 million.

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

22 Contingent liabilities

The antitrust proceedings originally brought against leading flooring manufacturers in France in 2013 and carried since then as a contingent liability were concluded. The one-off costs for Forbo, which were booked to Operating profit in 'Other operating expenses' in 2017, came to CHF 83.4 million.

23 Leasing

	31.12.2018	31.12.2017
Leasing		
CHF m		
Operating leasing liabilities:		
Up to 1 year	8.0	7.3
2 – 5 years	19.2	17.1
More than 5 years	1.1	2.4
Total operating leasing liabilities	**28.3**	**26.8**

Expenses for operating leasing and rentals charged to the 2018 income statement totaled CHF 20.8 million (2017: CHF 19.7 million). The Group has no individually significant operating leasing contracts.

24 Financial instruments

The effect of the first-time adoption of IFRS 9 is described in Note 4 'Application of new or revised accounting standards' and Note 12 'Trade receivables'.

Classification and fair values

The table below shows the carrying amounts and fair values of financial assets and financial liabilities. It does not contain any information on the fair value of financial assets and financial liabilities if the book value constitutes an appropriate approximate value for their current fair value.

Classification of financial instruments

				Carrying amount
CHF m	Fair value through profit or loss	Fair value through OCI	Amortized cost	Total
31.12.2018				
Financial assets valued at fair value:				
Derivative financial instruments	0.1			0.1
Financial assets valued at amortized costs:				
Non-current financial assets			0.3	0.3
Trade receivables			168.9	168.9
Other receivables			5.2	5.2
Cash and cash equivalents			127.4	127.4
Financial liabilities valued at fair value:				
Derivative financial instruments				
Financial liabilities valued at amortized costs:				
Non-current financial debt				
Trade payables			109.2	109.2
Current financial debt			0.1	0.1
Other current liabilities			15.0	15.0

The item 'Derivate financial instruments' contains open foreign exchange hedging and swap transactions with a contract value at December 31, 2018 totaling CHF 56.9 million. The foreign exchange rates can be directly observed or determined. The derivatives are therefore assigned to hierarchy level 2. 'Current financial debt' consists of checks issued but not cashed.

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

The carrying amount of the financial assets and financial liabilities valued at amortized cost is a reasonable approximation for the fair value. The Group did not hold any significant financial instruments measured at recurring fair value nor was there any regrouping between the levels of the fair value hierarchy.

25 Risk assessment and financial risk management

The tasks of the Board of Directors include identifying risks, determining suitable measures, and implementing those measures or having them implemented. The Board of Directors of Forbo Holding Ltd conducted a Group-wide risk assessment in the reporting year and also determined the risks to be managed by particular management levels. The Board of Directors is closely involved in the assessment of strategic risks and, in consultation with the Executive Board, ensures that operational risks are dealt with appropriately and that they are duly reported. This approach gives the Board a complete overview of the key risks and measures. This broad overview enables the Group to set priorities and allocate the necessary resources.

The Group is exposed to the following risks arising from the use of financial instruments:

– Market risk
– Liquidity risk
– Default risk

Market risk
In its day-to-day operations, the Group uses derivative and non-derivative financial instruments to manage the risks and opportunities arising from fluctuations in exchange rates and interest rates. The various risks associated with existing assets and liabilities as well as planned and anticipated transactions are monitored and managed centrally – with due regard to the Group's overall risk exposure. In line with the Group's hedging policy, Corporate Treasury constantly monitors both the risk exposure and the effectiveness of the hedging instruments and issues recommendations with regard to partial or complete hedging of existing risks.

The Group uses derivative financial instruments solely to manage financial risks and not for the purpose of speculation. To hedge its currency risks, the Group uses mainly currency cash transactions, forward currency contracts, and currency swap transactions. In order to manage counterparty risk, derivative financial transactions are concluded only with first-class banks. The creditworthiness of these institutions is assessed on the basis of evaluations by leading rating agencies.

No hedge accounting was used in this context in 2018 or 2017.

Foreign exchange risk management
Risks arising from short-term currency exposure created by purchases and sales of goods and services (transaction risks) are identified, and selective hedging strategies are implemented in line with an ongoing assessment of exchange rate movements. The Group uses foreign exchange forward and option contracts with maturities of up to 15 months to hedge against transaction risk.

Furthermore, risks associated with the translation of assets and liabilities denominated in foreign currencies (translation risks) are managed by establishing an appropriate financing policy.

A realistic assessment of changes in interest rates for the US dollar, the euro, the pound sterling and the Swiss franc has no significant impact on the result and the equity of the Group from the valuation of transactions with financial instruments.

Interest rate risks
Interest rate risks arise from changes in the fair value of interest-bearing assets and liabilities caused by fluctuations in interest rates. Since these risks may have a negative effect on net financial profit and shareholders' equity, the Group uses derivatives to manage them on a case-by-case basis. A realistic assessment of changes in interest rates for the US dollar, the euro, the pound sterling and the Swiss franc has no significant impact on the result and the equity of the Group from the valuation of transactions with financial instruments.

Liquidity risk
Liquidity risk is the risk that the Group may possibly be unable to meet contractually agreed financial obligations that are settled by delivering cash or other financial assets. Group companies need sufficient cash in order to meet their commitments. Corporate Treasury is responsible for managing liquidity. The share of the aggregate cash and cash equivalents managed by Corporate Treasury was around 55% on December 31, 2018. At present, the Group regards a cash level of roughly CHF 60 million as sufficient to meet its payment obligations at all times.

The maturity structure of the existing financial liabilities is shown in the following table. These liabilities correspond to contractually agreed maturities and represent nominal payment outflows. Inflows and outflows of funds from derivative financial instruments are shown separately.

As at December 31, 2018

CHF m	Remaining term to maturity up to 1 year	Remaining term to maturity 1 – 2 years	Remaining term to maturity 2 – 5 years	Remaining term to maturity over 5 years
Interest-free liabilities	124.3			
Liabilities from finance leasing	0.0			

As at December 31, 2017

CHF m	Remaining term to maturity up to 1 year	Remaining term to maturity 1 – 2 years	Remaining term to maturity 2 – 5 years	Remaining term to maturity over 5 years
Interest-free liabilities	122.5			
Liabilities from finance leasing	0.0	0.2		

Default risk

Default risk is the risk of financial losses in the event that a customer or the counterparty in a financial instrument fails to meet his or its obligations. The risk consists mainly of trade receivables and bank accounts or short-term deposits with banks. The maximum amount of the default risk is the book value of the financial assets.

The Group recognizes allowances for expected credit losses on financial instruments that are reported at amortized costs. It assesses at the end of each reporting period whether there is an objective basis for further impairment of a financial asset and whether the allowances made are still appropriate.

The Group considers a financial asset to be in default if it is unlikely that the borrower can pay his obligation to the Group in full without the Group having to take recourse to measures such as the realization of collateral.

Cash and cash equivalents

With regard to counterparty risk exposure to banks, Group-wide directives stipulate that financial investments and other financial transactions are to be made only with first-class banks. Given the credit ratings of these counterparties, the Group does not anticipate any defaults.

Trade receivables

The Group's default risk is affected mainly by the individual characteristics of its customers. Management, however, also takes into account the characteristics of the customer base as a whole, including the default risk of the sector and of the countries in which the customers operate, since these factors may also affect the default risk.

To manage this risk adequately, the financial creditworthiness of various customers is constantly monitored. Credit risks are diversified by the company's broad customer base in various business segments and geographic regions.

Carrying amounts of trade receivables by currency:

	31.12.2018	31.12.2017
CHF m		
CHF	1.3	1.6
EUR	82.2	85.6
USD	26.4	25.7
JPY	14.2	13.1
GBP	9.8	10.4
CNY	8.5	8.2
SEK	4.4	5.2
Other	28.6	26.3
Total trade receivables, gross	**175.4**	**176.1**

The Group employs a permissible, simplified model of valuation allowances ('provision matrix') for trade receivables. In this valuation allowance table, expected losses on receivables are determined on the balance sheet date on the basis of past experience of default probability and of future-oriented expectations based on experience with the customers and market conditions.

As at December 31, 2018 CHF m	Gross carrying amount	Loss allowance	Weighted average loss rate	Credit impaired
Not due	147.8	2.0	1.4%	0.2
Overdue ≤ 30 days	14.7	0.5	3.4%	0.1
Overdue 31 – 90 days	6.5	0.3	4.6%	0.1
Overdue 91 – 180 days	3.6	0.9	25.0%	0.3
Overdue > 180 days	2.8	1.5	53.6%	0.6
Total	**175.4**	**5.2**	**3.0%**	**1.3**

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

	2018	2017
CHF m		
As at January 1 (before application of IFRS 9)	**–6.9**	**–5.6**
Effect of application of IFRS 9	–0.5	
January 1, restated	**–7.4**	
Additions	–0.4	–1.5
Release	0.4	0.1
Use	0.8	0.4
Translation differences	0.1	–0.3
As at December 31	**–6.5**	**–6.9**

Information on the previous year (2017) according to IAS 39

The age structure of the receivables was as follows at December 31, 2017:

CHF m	31.12.2017
Total trade receivables, gross	**176.1**
Not due	148.6
Overdue ≤ 30 days	14.8
Overdue 31 – 90 days	6.2
Overdue 91 – 180 days	3.1
Overdue > 180 days	3.4
Allowance for doubtful trade receivables	– 6.9
Total trade receivables	**169.2**

Of the total of CHF 27.5 million in trade receivables past due as at December 31, 2017, CHF 23.1 million was not subject to a valuation allowance. Allowances of CHF 2.1 million were made for trade receivables not yet due and of CHF 4.8 million for trade receivables past due.

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

26 Related party transactions

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

	Executive Board		Board of Directors		Total	
CHF m	2018	2017	2018	2017	2018	2017
Remuneration	1.47	1.79	1.03	0.99	2.50	2.78
Employer contributions to the pension scheme	0.22	0.24	0.18	0.18	0.40	0.42
Share-based payments	0.96	1.10	2.60	2.60	3.56	3.70
Total payments	**2.65**	**3.13**	**3.81**	**3.77**	**6.46**	**6.90**

The compensation paid to the Executive Board consists of a fixed gross base salary, short-term variable remuneration in cash, private use of the company car, and social security payments made by the company. Employer contributions to the pension fund are reported separately. The share-based remuneration paid to the Executive Board consists of the following elements: a fixed base salary portion, which is paid in shares of Forbo Holding Ltd; short-term variable remuneration under the Management Investment Plan (MIP) for the reporting year; and the future subscription rights, awarded in the form of performance share units for the long-term incentive plans 2017 – 2019 and 2018 – 2020 (see note 19 'Employee participation plan').

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

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

As at December 31, 2018 and 2017, the Group had no significant receivables due from or liabilities to related parties.

27 Events after the balance sheet date

Between the balance sheet date and the date of publication of this annual report no event occurred that could have a significant effect on the 2018 annual financial statements.

Group companies (as at December 31, 2018)

Group company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Movement Systems	Holding/ Services
Australia								
Forbo Floorcoverings Pty. Ltd.	Wetherill Park, NSW		AUD	1,400,000	100%	S		
Forbo Siegling Pty. Ltd.	Wetherill Park, NSW		AUD	7,100,000	100%		S	
Austria								
Forbo Flooring Austria GmbH	Vienna		EUR	73,000	100%	S		
Forbo Siegling Austria Ges.m.b.H.	Vienna		EUR	330,000	100%		S	
Belgium								
Forbo Flooring N.V.	Groot-Bijgaarden		EUR	250,000	100%	S		
Brazil								
Forbo Pisos Ltda.	São Paulo		BRL	16,564,200	100%	S		
Forbo Siegling Brasil Ltda.	São Paulo	N	BRL	7,008,746	50%		MS	
Canada								
Forbo Flooring Canada Corp.	Halifax		CAD	500,200	100%	S		
Forbo Siegling Canada Corp.	Halifax		CAD	501,000	100%		S	
Chile								
Forbo Siegling Chile S.A.	Santiago	N	CLP	313,090,945	50%		S	
Czech Republic								
Forbo Siegling Česká republika s.r.o.	Liberec		CZK	100,000	100%		S	
Forbo s.r.o.	Prague		CZK	500,000	100%	S		
Denmark								
Forbo Flooring A/S	Glostrup		DKK	500,000	100%	S		
Forbo Siegling Danmark A/S	Brøndby		DKK	32,300,000	100%		MS	
Finland								
Forbo Flooring Finland Oy	Helsinki		EUR	33,638	100%	S		
France								
Forbo Château-Renault S.A.S.	Château-Renault		EUR	1,000,000	100%	MS		
Forbo Participations S.A.S.	Reims	D	EUR	5,000,000	100%			H
Forbo Reims SNC	Reims		EUR	3,879,810	100%	MS		
Forbo Sarlino S.A.S.	Reims		EUR	6,400,000	100%	S		
Forbo Siegling France S.A.S.	Lomme		EUR	819,000	100%		S	

S Sales
MS Manufacturing and Sales
H Holding/Services
N Not consolidated as at December 31, 2018
D Direct participation of Forbo Holding Ltd

Group company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Move-ment Systems	Holding/ Services
Germany								
Forbo Beteiligungen GmbH	Lörrach	D	EUR	15,400,000	100%			H
Forbo Eurocol Deutschland GmbH	Erfurt		EUR	2,050,000	100%	MS		
Forbo Flooring GmbH	Paderborn		EUR	500,000	100%	S		
Forbo Siegling GmbH	Hanover		EUR	10,230,000	100%		MS	
Realbelt GmbH	Lörrach		EUR	100,000	100%		S	
Great Britain								
Forbo Flooring UK Ltd.	Derbyshire		GBP	22,000,000	100%	MS		
Forbo Floors UK Ltd.	Kirkcaldy		GBP	4	100%			H
Forbo-Nairn Ltd.	Derbyshire		GBP	8,000,000	100%			H
Forbo Siegling (UK) Ltd.	Dukinfield		GBP	50,774	100%		S	
Forbo UK Ltd.	Derbyshire		GBP	49,500,000	100%			H
Westbond Ltd.	Derbyshire		GBP	400,000	100%			H
Hong Kong								
Forbo International Hong Kong Ltd.	Hong Kong		HKD	1	100%			H
India								
Forbo Flooring India Pvt. Ltd.	Delhi		INR	15,000,000	100%	S		
Forbo Siegling Movement Systems India Pvt. Ltd.	Pune		INR	26,000,000	100%		S	
Indonesia								
PT Forbo Siegling Indonesia	Kabupaten Bandung		IDR	6,344,580,000	100%		S	
Ireland								
Forbo Ireland Ltd.	Dublin		EUR	125,000	100%	S		
Italy								
Forbo Resilienti S.r.l.	Segrate (Milan)		EUR	60,000	100%	S		
Forbo Siegling Italia S.p.A.	Paderno Dugnano (Milan)		EUR	120,000	100%		S	
Tema S.r.l.	Parma		EUR	50,000	100%		S	
Japan								
Forbo Siegling Japan Ltd.	Tokyo		JPY	330,000,000	100%		MS	
Malaysia								
Forbo Siegling SDN. BHD.	Johor Bahru		MYR	2,500,002	100%		S	
Mexico								
Forbo Siegling, S.A. de C.V.	Tlalnepantla	D	MXN	24,676,404	100%		MS	

S Sales
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H Holding/Services
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D Direct participation of Forbo Holding Ltd

Group company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Move-ment Systems	Holding/Services
Netherlands								
Forbo Eurocol Nederland B.V.	Zaanstad		EUR	454,000	100%	MS		
Forbo Flooring B.V.	Krommenie		EUR	11,350,000	100%	MS		
Forbo Flooring Coral N.V.	Krommenie		EUR	1,944,500	100%	MS		
Forbo NL Holding B.V.	Krommenie		EUR	13,500,000	100%			H
Forbo-Novilon B.V.	Coevorden		EUR	3,624,000	100%	MS		
Forbo Siegling Nederland B.V.	Spankeren		EUR	113,445	100%		S	
New Zealand								
Forbo Siegling Ltd.	Auckland		NZD	650,000	100%		S	
Norway								
Forbo Flooring AS	Asker		NOK	1,000,000	100%	S		
Transmeca AS	Oslo		NOK	100,000	100%		S	
People's Republic of China								
Forbo Movement Systems (China) Co., Ltd.	Pinghu		USD	25,000,000	100%		MS	
Forbo Shanghai Co., Ltd.	Shanghai		CHF	4,000,000	100%	S		
Forbo Siegling (China) Co., Ltd.	Shenyang		USD	16,221,000	100%		MS	
Portugal								
Forbo-Revestimentos, S.A.	Maia (Porto)		EUR	74,850	100%	S		
Romania								
Forbo Siegling Romania S.R.L.	Bucharest		RON	38,000	100%		S	
Russia								
OOO 'Forbo Flooring'	Moscow		RUB	500,000	100%	S		
OOO 'Forbo Kaluga'	Moscow		RUB	158,313,780	100%	MS		
OOO 'Forbo Siegling CIS'	Saint Petersburg		RUB	400,000	100%		S	
OOO 'Forbo Eurocol RUS'	Stary Oskol		RUB	187,181,000	100%	MS		
Slovakia								
Forbo Siegling s.r.o.	Malacky		EUR	15,281,639	100%		MS	
South Korea								
Forbo Korea Ltd.	Seoul		KRW	900,000,000	100%	S	S	

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D Direct participation of Forbo Holding Ltd

Group company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Move-ment Systems	Holding/ Services
Spain								
Forbo Pavimentos, S.A.	Barcelona		EUR	60,101	100%	S		
Forbo Siegling Iberica, S.A.U.	Montcada i Reixac (Barcelona)		EUR	1,532,550	100%		S	
Sweden								
Forbo Flooring AB	Gothenburg		SEK	8,000,000	100%	S		
Forbo Siegling Svenska AB	Kållered (Gothenburg)		SEK	1,000,000	100%		S	
Switzerland								
Forbo Financial Services AG	Baar	D	CHF	100,000	100%			H
Forbo Finanz AG	Baar	D	CHF	10,000,000	100%			H
Forbo Finanz II AG	Baar		CHF	250,000	100%			H
Forbo-Giubiasco SA	Giubiasco		CHF	100,000	100%	MS		
Forbo International SA	Baar	D	CHF	100,000	100%		MS	H
Thailand								
Forbo Siegling (Thailand) Co. Ltd.	Samut Prakan	D	THB	13,005,000	100%		S	
Turkey								
Forbo Hareket ve Zemin Sistemleri Ticaret Limited Şirketi	Istanbul		TRY	5,500,000	100%	S	S	
United Arab Emirates								
Forbo Flooring Middle East DMCC	Dubai		AED	499,000	100%	S		
USA								
Forbo America Inc.	Wilmington, DE	D	USD	19,957,259	100%			H
Forbo America Services Inc.	Wilmington, DE		USD	50,000	100%			H
Forbo Flooring, Inc.	Wilmington, DE		USD	3,517,000	100%	S		
Forbo Siegling, LLC	Wilmington, DE		USD	15,455,000	100%		MS	

S Sales
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Report of the statutory auditor

KPMG

Statutory Auditor's Report

To the General Meeting of Forbo Holding Ltd, Baar

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Forbo Holding Ltd and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018 and the consolidated income statement, consolidated comprehensive income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 94 to 139) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

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

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

Key Audit Matters

Revenue recognition

Valuation of inventories

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

Revenue recognition

Key Audit Matter

Total consolidated net sales of the financial year 2018 amounted to CHF 1,327.0 million (2017: CHF 1,246.4 million). The segment Flooring Systems contributed CHF 913.2 million (2017: CHF 856.6 million) or 68.8% (2017: 68.7%) to total net sales, while the segment Movement Systems realized CHF 413.8 million (2017: CHF 389.8 million), representing 31.2% of total net sales (2017: 31.3%).

Net sales are a key performance indicator for Forbo and therefore in the focus of internal and external stakeholders. Consequently, when performing the audit we had a focus on existence of revenue transactions and their recognition in the appropriate period.

In both segments, sales arrangements are based on standardized commercial terms and conditions, which govern the transfer of risk and rewards. In the light of the implementation of IFRS 15, Forbo has analyzed the business models applied and concluded that the timing of the transfer of control is identical with the transfer of risk and rewards. Specific terms of contracts may be used depending on the region and the industry of the buyer. Owing to the types of products sold by either segment of the Group, the contractual sales arrangements are not complex. Due to the large number of transactions, the proper recognition of revenue nevertheless depends on a functioning internal control system, adapted to local circumstances. Furthermore, accurate data on volumes and prices are central to revenue recognition.

Our response

We mainly performed the following audit procedures:

— We analyzed the process from the purchase order to the receipt of payment and assessed whether transactions are completely and accurately recorded in the accounts.

— Considering the diverse design of internal control and IT systems of individual subsidiaries, we tested the operating effectiveness of identified key controls relating to the proper recognition of revenue.

— Based on a statistical sample of delivery notes and payments received, we assessed the existence of revenues and their recognition in the correct period in compliance with IFRS 15.

— We furthermore performed analytical procedures on a segment level as well as on the level of specific individual entities. These included analyses of price and volume deviations, margin development, the largest clients and the most-sold products as well as analyses of the distribution of sales throughout the year and specific months.

For further information on revenue recognition refer to the following:

— Note 2 – Summary of significant accounting policies: net sales and revenue recognition, page 101

— Note 4 – Application of new or revised accounting standards, page 107

— Note 5 – Segment reporting, page 109 – 111

Report of the statutory auditor

Valuation of inventories

Key Audit Matter

Inventory as at 31 December 2018 amounted to CHF 230.1 million (31 December 2017: CHF 226.6 million) and represents one of the most material asset positions. Valuation of inventories is consequently of significance to an understanding of the financial statements.

Inventory is recognized at acquisition or manufacturing costs and periodically assessed in terms of recoverability. For work in progress and finished goods that include a significant value added, the determination of manufacturing costs partly requires judgment.

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

Furthermore, determining valuation allowances involves a degree of judgment.

Our response

We mainly performed the following audit procedures:

— We obtained an understanding of the process related to controls on incoming and outgoing goods and related to the identification of obsolete inventories. Based on this we critically assessed whether transactions are completely and accurately recorded in the accounts.

— Considering the diverse design of internal control and IT systems of individual subsidiaries, we tested the operating effectiveness of identified key controls relating to existence and valuation of inventories.

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

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

For further information on inventories refer to the following:

— Note 2 – Summary of significant accounting policies: inventories, page 105

— Note 16 – Inventories, page 116

Other Information in the Annual Report

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

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

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

Responsibility of the Board of Directors for the Consolidated Financial Statements

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Report of the statutory auditor

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Regula Tobler
Licensed Audit Expert

Zurich, 27 February 2019

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

Consolidated balance sheets 2014 – 2018

	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Assets					
CHF m					
Current assets	**567.3**	**638.2**	**601.2**	**509.3**	**677.1**
Cash and cash equivalents	127.4	195.4	209.7	116.3	205.1
Current financial assets	0.1	0.0	0.0	0.0	49.5
Trade receivables	168.9	169.2	151.4	147.3	150.6
Other receivables	26.0	27.6	19.8	18.8	24.0
Accrued income and deferred expenses	14.8	19.4	13.9	12.4	17.3
Inventories	230.1	226.6	206.4	214.5	230.6
Non-current assets	**412.7**	**429.3**	**388.1**	**402.8**	**418.5**
Non-current financial assets	0.3	0.3	0.2	0.3	0.3
Deferred tax assets	39.9	39.0	40.5	39.5	37.2
Property, plant, and equipment	259.4	267.6	227.6	227.3	234.9
Intangible assets and goodwill	113.1	122.4	119.8	135.7	146.1
Total assets	**980.0**	**1,067.5**	**989.3**	**912.1**	**1,095.6**

	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Shareholders' equity and liabilities					
CHF m					
Current liabilities	**261.9**	**275.3**	**241.8**	**232.2**	**244.2**
Current financial debt	0.1	0.2	0.1	0.1	0.6
Trade payables	109.2	105.9	95.4	77.4	86.5
Other current liabilities	28.7	32.4	24.2	36.5	30.0
Current tax liabilities	16.2	26.5	20.4	20.3	18.9
Current provisions, accrued expenses, and deferred income	107.7	110.3	101.7	97.9	108.2
Non-current liabilities	**126.5**	**131.0**	**126.1**	**120.7**	**112.6**
Non-current financial debt	0.0	0.2	0.4	0.9	1.4
Deferred tax liabilities	12.1	10.8	10.9	24.0	26.5
Non-current provisions	40.7	32.3	26.1	25.7	24.2
Employee benefit obligations	73.7	87.7	88.7	70.1	60.5
Total liabilities	**388.4**	**406.3**	**367.9**	**352.9**	**356.8**
Shareholders' equity	**591.6**	**661.2**	**621.4**	**559.2**	**738.8**
Share capital	0.2	0.2	0.2	0.2	0.2
Treasury shares	–0.1	–0.1	–0.1	–0.1	–0.1
Reserves and retained earnings	591.5	661.1	621.3	559.1	738.7
Total shareholders' equity and liabilities	**980.0**	**1,067.5**	**989.3**	**912.1**	**1,095.6**

Consolidated income statements 2014 – 2018

	2018	2017	2016	2015	2014
CHF m					
Net sales	**1,327.0**	**1,246.4**	**1,185.5**	**1,139.1**	**1,226.8**
Cost of goods sold	– 824.9	– 764.5	– 715.2	– 698.3	– 765.8
Gross profit	**502.1**	**481.9**	**470.3**	**440.8**	**461.0**
Development costs	– 16.6	– 15.5	– 15.1	– 15.1	– 16.5
Marketing and distribution costs	– 198.1	– 195.8	– 190.7	– 181.1	– 196.6
Administrative costs	– 96.1	– 94.7	– 95.0	– 89.8	– 94.2
Other operating expenses	– 23.5	– 106.5	– 16.7	– 16.6	– 13.2
Other operating income	7.5	10.5	4.4	4.6	8.9
Operating profit	**175.3**	**79.9**	**157.2**	**142.8**	**149.4**
Financial income	0.9	0.9	2.0	2.0	5.9
Financial expenses	– 0.6	– 0.8	– 0.1	– 0.4	– 1.0
Group profit before taxes	**175.6**	**80.0**	**159.1**	**144.4**	**154.3**
Income taxes	– 38.0	– 43.5	– 31.5	– 28.7	– 30.9
Group profit for the year from continuing operations	**137.6**	**36.5**	**127.6**	**115.7**	**123.4**
Group profit for the year from discontinued operations after taxes	**0.0**	**2.2**	**0.0**	**0.0**	**0.2**
Group profit for the year	**137.6**	**38.7**	**127.6**	**115.7**	**123.6**

FINANCIAL REPORT

Financial statements for Forbo Holding Ltd 149
Balance sheet 150
Income statement 151
Notes to the financial statements 152
Proposal for appropriation of available earnings 157
Report of the statutory auditor 158

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

		31.12.2018	31.12.2017
Assets			
CHF	Note		
Current assets		**42,144,461**	**16,659,198**
Cash and cash equivalents		3,127,948	1,793,619
Other receivables from Group companies	2	38,921,310	14,832,406
Current tax receivables	5	62,670	
Accrued income and deferred expenses		32,533	33,173
Non-current assets		**423,948,017**	**423,964,089**
Loans to Group companies	3	118,938,014	118,938,256
Investments in Group companies	4	305,010,003	305,025,833
Total assets		**466,092,478**	**440,623,287**

		31.12.2018	31.12.2017
Shareholders' equity and liabilities			
CHF	Note		
Current liabilities		**482,103**	**16,105,779**
Current liabilities to third parties		157,503	143,509
Other liabilities to Group companies	2		11,992,390
Accrued expenses and deferred income		324,600	324,047
Current tax liabilities	5		3,645,833
Shareholders' equity		**465,610,375**	**424,517,508**
Share capital	6	180,000	180,000
Statutory reserves:			
General reserves		15,600,000	15,600,000
Capital contribution reserves		15,302	15,302
Reserves for treasury shares	8	5,669,005	1,008,066
Available earnings:			
Retained earnings		475,362,702	420,047,659
Net profit for the year		225,439,863	91,248,219
Treasury shares	8	– 256,656,497	– 103,581,738
Total shareholders' equity and liabilities		**466,092,478**	**440,623,287**

Income statement for Forbo Holding Ltd

		2018	2017
Income			
CHF	Note		
Financial income:			
From investments in and loans to Group companies	9	231,822,143	54,679,844
From securities and current investments	10	252,298	47,234,377
Total income		**232,074,441**	**101,914,221**

		2018	2017
Expenses			
CHF	Note		
Administrative expenses	11	5,832,570	6,001,204
Financial expenses:		1,097,828	440,710
From investments in and loans from Group companies	12	1,097,828	440,710
Other expenses	3		578,255
Taxes	5	– 295,820	3,645,833
Total expenses		**6,634,578**	**10,666,002**
Net profit for the year		**225,439,863**	**91,248,219**

Notes to the financial statements for Forbo Holding Ltd

1 Accounting

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

2 Other receivables from and liabilities to Group companies

'Other receivables from Group companies' contained mainly credit balances on the cash pool accounts in the reporting year and the outstanding claim from the intercompany sale of the subsidiary Forbo Project Vinyl AB in the previous year. In connection with the cash pool, Forbo Holding Ltd had a liability to Forbo Finanz Ltd the previous year under 'Other liabilities to Group companies'.

3 Loans to Group companies

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

4 Investments in Group companies

Investments in Group companies are measured at the cost of acquisition less necessary valuation allowances. Investments in Group companies decreased in the reporting year due to intercompany sale of the subsidiary Forbo Flooring AB to Forbo Finanz Ltd at book value. Furthermore, the investment in Forbo Flooring UK Ltd. was transferred to Forbo Finanz Ltd at book value by means of a contribution in kind.

As at December 31, 2018, Forbo Holding Ltd held the following direct investments:

Investments in Group companies

Company	Registered office	Activity	Currency	Share capital (in 1,000)	Equity interest
Forbo America Inc.	US-Wilmington, DE	Holding/Services	USD	19,957	100%
Forbo Beteiligungen GmbH	DE-Lörrach	Holding/Services	EUR	15,400	100%
Forbo Financial Services AG	CH-Baar	Services	CHF	100	100%
Forbo Finanz AG	CH-Baar	Holding/Services	CHF	10,000	100%
Forbo International SA	CH-Baar	Services, Manufacturing, and Sales	CHF	100	100%
Forbo Participations S.A.S.	FR-Reims	Holding/Services	EUR	5,000	100%
Forbo Siegling, S.A. de C.V.	MX-Tlalnepantla	Manufacturing and Sales	MXN	24,676	< 0.1%
Forbo Siegling (Thailand) Co. Ltd.	TH-Samut Prakan	Sales	THB	13,005	69.1%

5 Taxes

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

6 Share capital

As at December 31, 2018, the share capital of Forbo Holding Ltd totaled CHF 180,000 (2017: CHF 180,000), divided into 1,800,000 registered shares with a par value of CHF 0.10 each. 21,419 registered shares without voting or dividend rights are at the disposal of the Board of Directors.

At the Ordinary General Meeting of Forbo Holding Ltd of April 6, 2017, the Board of Directors was authorized to buy back the company's own shares up to a maximum of 10% of the share capital over a period of three years for the purpose of subsequent cancelation. Under this share buy-back program 150,000 shares have been repurchased at a fixed price and via the second trading line.

7 Conditional capital

Originally, conditional capital of CHF 8.5 million for the exercise of shareholder options and warrants in connection with a bond issue was created by a resolution of the Annual General Meeting held on April 27, 1994. Following the exercise of options in 1994, 1995 and 1997 and reductions in the par value by CHF 22 per share in 2003, CHF 8 per share in 2004, CHF 6 per share in 2007, CHF 10 per share in 2008, and CHF 3.90 per share in 2009, the conditional capital on December 31, 2018, remained unchanged against the previous year at CHF 16,645.

8 Treasury shares

The treasury shares directly held in Forbo Holding Ltd amounting to CHF 256.7 million on the balance sheet date correspond to the value of all treasury shares valued at cost. The item 'Reserve for treasury shares' reflects the carrying amount of the treasury shares held by subsidiaries of Forbo Holding Ltd, amounting to CHF 5.7 million (measured at cost of acquisition CHF 6.0 million). Overall, the treasury shares held directly and indirectly developed as follows over the period under review:

Treasury shares	Cost CHF	Number of registered shares
As at January 1, 2018	104,591,945	95,556
Additions	162,415,700	105,926
Disposals	– 4,376,683	– 3,200
As at December 31, 2018	**262,630,962**	**198,282**

9 Financial income from investments in and loans to Group companies

Financial income from investments in and loans to Group companies amounting to CHF 231.8 million (2017: CHF 54.7 million) consists of dividend income of CHF 231.6 million (2017: CHF 52.2 million) and interest of CHF 0.2 million (2017: CHF 0.2 million). The previous year also included exchange rate gains of CHF 2.3 million on foreign exchange loans.

10 Financial income from securities and current investments

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

11 Administrative expenses

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

12 Financial expenses from investments in and loans from Group companies

Financial expenses from investments in and loans from Group companies in the year under review contained in particular losses on current loans in foreign currencies of CHF 0.8 million, interest expenditure for liabilities to Group companies of CHF 0.2 million (2017: 0.1 million) and – in the previous year – securities transfer tax on the sale of treasury shares amounting to CHF 0.4 million.

13 Contingent liabilities

Guarantees and letters of support to third parties in favor of Group companies amounted to CHF 6.1 million at year-end 2018 (2017: CHF 9.9 million), of which as in the previous year none were utilized.

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

14 Significant shareholders

According to information available to the Board of Directors, the following shareholders or groups of shareholders with restricted voting rights constituted significant shareholders in the company pursuant to Article 663c Swiss Code of Obligations as at the reporting date:

	Number of shares	As percentage
Michael Pieper, Hergiswil, and Artemis Beteiligungen I AG, Hergiswil	486,764	27.04%
Forbo Holding Ltd, Baar, together with its two subsidiaries Forbo International SA, Baar, and Forbo Finanz AG, Baar	198,282	11.02%

Shareholdings

IN 2018

As at December 31, 2018, the individual members of the Board of Directors and the Executive Board (including related parties) held the following number of shares in Forbo Holding Ltd:

Shareholdings 2018

Name and function	Shares
This E. Schneider, Executive Chairman	54,611
Michael Pieper, Vice Chairman	486,764
Dr. Peter Altorfer, Vice Chairman	1,287
Claudia Coninx-Kaczynski, member	212
Dr. Reto Müller, member	632
Vincent Studer, member	916
Total Board of Directors	**544,422**
Stephan Bauer, Chief Executive Officer	2,969
Marc Deimling, Executive Vice President Movement Systems	3
Urs Uehlinger, Chief Financial Officer	104
Jean-Michel Wins, Executive Vice President Flooring Systems	104
Total Executive Board	**3,180**

IN 2017

As at December 31, 2017, the individual members of the Board of Directors and the Executive Board (including related parties) held the following number of shares in Forbo Holding Ltd:

Shareholdings 2017

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

15 Events after the balance sheet date

Between the balance sheet date and the date of publication of this annual report no event occurred that could have a significant effect on the 2018 annual financial statements.

Proposal for appropriation of available earnings of Forbo Holding Ltd

The Board of Directors proposes to the Ordinary General Meeting that the available retained earnings, consisting of:

CHF	2018
Net profit	225,439,863
Retained earnings	475,362,702
Treasury shares	– 256,656,497
Total at the shareholders' meeting's disposal[1)]	**444,146,068**

be appropriated as follows:

CHF	2018
Distribution ordinary dividend	33,636,078
To be carried forward	410,509,990
Total at the shareholders' meeting's disposal[1)]	**444,146,068**

1) At the Ordinary General Meeting of April 5, 2019, the Board of Directors will propose an ordinary gross dividend of CHF 21.00 per registered share (2017: CHF 19.00). No distribution will be made for treasury shares held by Forbo Holding Ltd or any of its subsidiaries on the record date, which explains why the amount of ordinary dividends may therefore still change.

Report of the statutory auditor

KPMG

Statutory Auditor's Report

To the General Meeting of Forbo Holding Ltd, Baar

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Forbo Holding Ltd, which comprise the balance sheet as at 31 December 2018, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 150 to 156) for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

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

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

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

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

Responsibility of the Board of Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

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

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

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

Report of the statutory auditor

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Regula Tobler
Licensed Audit Expert

Zurich, 27 February 2019

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