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HALF-YEAR REPORT 2017

SOLID SALES GROWTH IN LOCAL CURRENCIES

OPERATING AND GROUP PROFIT BEFORE
ONE-OFF COSTS HIGHER THAN PRIOR YEAR

PROVISION FOR ONGOING ANTITRUST PROCEEDINGS
AT FLOORING SYSTEMS IN FRANCE IMPACTS RESULT

GUIDANCE BEFORE ONE-OFF COSTS
FOR 2017 CONFIRMED

SALE OF TREASURY SHARES FOR
TAX LAW-RELATED REASONS

The Forbo Group – a leading manufacturer of floor coverings, building and construction adhesives, as well as power transmission and conveyor belt solutions – reported net sales of CHF 606.3 million in the first half of 2017 (prior-year period: CHF 590.9 million). In local currency terms, this equates to a growth of 4.1% (+ 2.6% in the corporate currency). Operating profit (EBIT) before one-off costs rose by 5.6% to CHF 67.9 million (prior-year period: CHF 64.3 million). The EBIT margin before one-off costs improved to 11.2% (prior-year period: 10.9%). Forbo increased Group profit from continuing operations before one-off costs by 4.3% to CHF 53.9 million (prior-year period: CHF 51.7 million). A provision for one-off costs for the antitrust proceedings at Flooring Systems in France has impacted the operational result.

Dear shareholders

The Forbo Group can again look back on an operationally strong and solid first half in 2017 overall. Both divisions and all three regions factored into this success. Flooring Systems launched a number of innovative floor covering collections along with the newly developed product range of homogeneous vinyl floor coverings. Movement Systems convinced major customers in a number of customer segments with its application-specific products and services.

Conversion of local results into the corporate currency resulted in a negative currency effect compared with the first half of 2016 with respect to both sales and earnings. The main culprit in this trend was the weakness of the pound sterling. Given their geographic weighting, this currency effect affected Flooring Systems more than Movement Systems.

A provision for one-off costs arising from the antitrust proceedings at Flooring Systems in France, announced on July 20, 2017, has impacted the operational result.

Good organic sales growth in local currencies

In the first half of 2017, Forbo generated higher net sales of CHF 606.3 million (prior-year period: CHF 590.9 million), reflecting an increase of 4.1% in local currencies (+ 2.6% in the corporate currency). Both divisions contributed to this growth and succeeded in continuing the local-currency growth rates achieved the previous year. Flooring Systems reported sales growth in local currencies of 3.6% (+ 1.7% in the corporate currency), while Movement Systems was up 5.3% (+ 4.6% in the corporate currency).

Innovative product developments and capacity expansion strengthen profitability

In the first half again, both divisions invested in growth-oriented projects, enhancing their attractive portfolios with product innovations, expanding their sales and service structures, and growing capacity along with the corresponding headcount. The Group once more succeeded in raising profitability, thanks to investments that were again higher, especially compared with the first half of 2016. Streamlining of various operational processes as well as productivity increases along the entire value chain were the two factors instrumental in this uptrend.

Operating profit before depreciation and amortization (EBITDA) before one-off costs came to CHF 86.3 million (prior-year period: CHF 82.8 million), corresponding to an increase of 4.2%. The EBITDA margin before one-off costs improved to 14.2% (prior-year period: 14.0%). Operating profit (EBIT) before one-off costs increased by 5.6% from CHF 64.3 million to CHF 67.9 million. The EBIT margin before one-off costs improved to 11.2% (prior-year period: 10.9%).

It has emerged that as a result of antitrust proceedings in France initiated in 2013 against Flooring Systems and some competitors, Flooring Systems has to expect one-off costs. We have therefore made a provision for one-off costs in the amount of CHF 85.0 million in this year's half-year financial statement. After factoring in these one-off costs, operating profit (EBIT) came to CHF – 17.1 million.

Increase in Group profit before one-off costs

Group profit from continuing operations before one-off costs amounted to CHF 53.9 million (prior-year period: CHF 51.7 million). This equates to an increase of 4.3%. Following the partial release of provisions from the sale of the industrial adhesives activity in 2012 owing to the expiry of warranty periods, Group profit before one-off costs came to CHF 56.1 million (prior-year period: CHF 51.7 million). After factoring in the provision for one-off costs, Group profit from continuing operations came to CHF – 31.1 million and Group profit to CHF – 28.9 million.

Earnings per share from continuing operations (undiluted) before one-off costs rose by 4.0% to CHF 31.49 (prior-year period: CHF 30.28).

Equity ratio remains high

Shareholders' equity declined by CHF 56.7 million to CHF 564.7 million owing to the one-off costs. The equity ratio remained high at 56.3% (year-end 2016: 62.8%) despite the one-off costs.

Liquidity solid

Net cash came to CHF 163.2 million as at June 30, 2017. This marked a decrease of CHF 46.0 million compared with the beginning of the year, which was due mainly to the payment of the dividend and to investments in the expansion of capacity. In addition, Forbo held treasury shares worth CHF 137.4 million, based on the share price at the end of June 2017. In the near future, for tax law-related reasons, Forbo plans to sell about 60,000 treasury shares towards the end of the six-year holding period.

Performance of the divisions

The **Forbo Flooring Systems** division reported net sales of CHF 415.9 million in the first half of 2017 (prior-year period: CHF 408.9 million), which is equivalent to a solid sales increase of 3.6% in local currencies (+ 1.7% in the corporate currency). Almost all markets in Europe reported moderate to above-average growth, especially our core markets in France and the Netherlands. North America reported slightly higher growth, while Asia/Pacific posted a marginal decrease in sales following various major projects that were completed the previous year. After a number of difficult years during the down cycle, the building and construction adhesives activity posted a strong recovery and reported very satisfactory sales growth overall. The newly completed production facility for high-quality homogeneous vinyl floor coverings came on stream at the end of 2016, and the corresponding collections – along with other product innovations – were launched at the start of 2017.

Despite negative currency effects and higher raw-material prices, operating profit (EBIT) before one-off costs rose by 4.0% to CHF 52.3 million (prior-year period: CHF 50.3 million). The EBIT margin before one-off costs increased to 12.6% (prior-year period: 12.3%). After factoring in the one-off costs, operating profit (EBIT) came to CHF – 32.7 million. The focus in the coming months will remain on systematic implementation of the strategy: we will concentrate on further developing our attractive product portfolio for customers in the relevant target segments and on custom-tailoring the portfolio to a range of applications along with supporting marketing activities. We are counteracting the negative impact of currency effects and raw-material price trends with a consistent cost management.

The **Forbo Movement Systems** division reported net sales of CHF 190.4 million in the first half of 2017 (prior-year period: CHF 182.0 million), which is equivalent to a gratifying sales increase of 5.3% in local currencies (+ 4.6% in the corporate currency). All regions factored into this increase. Most European markets in particular showed above-average growth, owing to major projects in key customer segments. Contributing to this growth was also the takeover of an existing customer in northern Italy in mid-2016. North America reported slightly higher growth, but demand remained sluggish. Demand in Asia/Pacific, especially in our core markets, picked up speed again after an appreciable slowdown in the second half of 2016.

Operating profit (EBIT) increased strongly by 10.1% to CHF 22.8 million (prior-year period: CHF 20.7 million), driven by higher sales and operational improvements. The EBIT margin came to 12.0% (prior-year period: 11.4%). In the second half of the year, we will further pursue our strategic initiatives in all units on three fronts: driving sales of Prolink plastic modular belts and Extremultus power transmission belts in addition to our main product group Transilon conveyor belts; expanding our product offering; and growing our sales and service structures in specific areas.

Outlook for 2017

Our forecast for the full year 2017 has not changed. The overall environment remains challenging because the currency exchange situation and the trends on individual markets are still volatile.

As announced in the spring, barring any change in the foreign exchange situation and assuming a similar business environment, we continue to anticipate a slight increase in net sales and Group profit from continuing operations for the full year 2017 before one-off costs. However, Group profit will be reduced by the respective amount of the provision made therefore.



This E. Schneider
Executive Chairman



Stephan Bauer
CEO

Forbo Holding Ltd

Baar, July 28, 2017

Key figures at a glance

Unaudited, CHF m	First half 2017	First half 2016	Change
Net sales	606.3	590.9	+ 4.1% local currencies + 2.6% corporate currency
EBITDA	86.3	82.8	+ 4.2%
EBITDA adjusted ¹⁾	1.3	82.8	
EBIT margin	14.2%	14.0%	
EBIT	67.9	64.3	+ 5.6%
EBIT adjusted ¹⁾	-17.1	64.3	
EBIT margin	11.2%	10.9%	
Group profit from continuing operations	53.9	51.7	+ 4.3%
Group profit from continuing operations, adjusted ¹⁾	-31.1	51.7	
Earnings per share from continuing operations (undiluted)	CHF 31.49	CHF 30.28	+ 4.0%
Earnings per share from continuing operations (undiluted), adjusted ¹⁾	CHF -18.19	CHF 30.28	

1) Factoring in the provision for the one-off costs resulting from the antitrust proceedings against Flooring Systems in France.

Consolidated balance sheet and income statement

Condensed consolidated balance sheet		
Unaudited, CHF m	30.6.2017	31.12.2016
Assets		
Non-current assets	386.3	388.1
Property, plant, and equipment, intangible assets and goodwill	344.6	347.4
Deferred tax assets and other non-current assets	41.7	40.7
Current assets	616.0	601.2
Inventories	215.3	206.4
Trade and other receivables and accrued income and deferred expenses	237.2	185.1
Cash and cash equivalents	163.5	209.7
Total assets	1,002.3	989.3
Shareholders' equity and liabilities		
Shareholders' equity	564.7	621.4
Non-current liabilities	118.5	126.1
Non-current financial debt	0.2	0.4
Employee benefit obligations, non-current provisions, and deferred tax liabilities	118.3	125.7
Current liabilities	319.1	241.8
Trade payables	70.9	95.4
Current financial debt	0.1	0.1
Current provisions, accrued expenses and deferred income, current tax and other liabilities	248.1	146.3
Total liabilities	437.6	367.9
Total shareholders' equity and liabilities	1,002.3	989.3
Condensed consolidated income statement		
Unaudited, CHF m	First half 2017	First half 2016
<i>Continuing operations</i>		
Net sales	606.3	590.9
Cost of goods sold	-369.5	-357.8
Gross profit	236.8	233.1
Operating expenses	-253.9	-168.8
Operating profit	-17.1	64.3
Financial result	0.0	0.8
Group profit before taxes	-17.1	65.1
Income taxes	-14.0	-13.4
Group profit from continuing operations	-31.1	51.7
Group profit from discontinued operations after taxes	2.2	0.0
Group profit	-28.9	51.7
Group profit attributable to shareholders of Forbo Holding Ltd	-28.9	51.7
<i>Earnings per share, total</i>		
Basic earnings per share in CHF	-16.91	30.28
Diluted earnings per share in CHF	-16.91	30.27
<i>Earnings per share from continuing operations</i>		
Basic earnings per share in CHF	-18.19	30.28
Diluted earnings per share in CHF	-18.19	30.27

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

Consolidated comprehensive income statement and statement of changes in equity

Consolidated comprehensive income statement		
Unaudited, CHF m	First half 2017	First half 2016
Group profit	-28.9	51.7
Items that will not be reclassified to the income statement:		
Remeasurements of employee benefit obligations, net of taxes	3.6	-25.3
Items that are or may be subsequently reclassified to the income statement:		
Translation differences	-1.6	-17.3
Other comprehensive income, net of tax	2.0	-42.6
Total comprehensive income	-26.9	9.1
Total comprehensive income attributable to shareholders of Forbo Holding Ltd	-26.9	9.1

Consolidated statement of changes in equity first half 2017

Unaudited, CHF m	Share capital	Treasury shares	Reserves	Translation differences	Total
January 1, 2017	0.2	-0.1	941.4	-320.1	621.4
Group profit			-28.9		-28.9
Other comprehensive income, net of tax			3.6	-1.6	2.0
Total comprehensive income			-25.3	-1.6	-26.9
Share-based payments			2.5		2.5
Treasury shares		0.0	0.2		0.2
Dividend payment			-32.5		-32.5
June 30, 2017	0.2	-0.1	886.3	-321.7	564.7

Consolidated statement of changes in equity first half 2016

Unaudited, CHF m	Share capital	Treasury shares	Reserves	Translation differences	Total
January 1, 2016	0.2	-0.1	852.0	-292.9	559.2
Group profit			51.7		51.7
Other comprehensive income, net of tax			-25.3	-17.3	-42.6
Total comprehensive income			26.4	-17.3	9.1
Share-based payments			2.4		2.4
Treasury shares		0.0	1.3		1.3
Dividend payment			-29.1		-29.1
June 30, 2016	0.2	-0.1	853.0	-310.2	542.9

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

Consolidated cash flow statement

Condensed consolidated cash flow statement		
Unaudited, CHF m	First half 2017	First half 2016
Group profit	-28.9	51.7
Depreciation of property, plant, and equipment, and amortization of intangible assets	18.4	18.4
Increase in net operating working capital	-73.1	-47.1
Other adjustments for non-cash items	85.3	-5.8
Net cash flow from operating activities	1.7	17.2
Purchase/sale of property, plant, and equipment, and intangible assets	-15.3	-8.9
Purchase of business operations, less acquired cash and cash equivalents		-0.7
Proceeds from other current financial assets		
Other cash inflow from investing activities, net	0.4	0.3
Net cash flow from investing activities	-14.9	-9.3
Dividend payment	-32.5	-29.1
Cash inflow from transactions with treasury shares, net	0.3	
Other cash flows from financing activities, net	-0.2	0.0
Net cash flow from financing activities	-32.4	-29.1
Decrease in cash and cash equivalents	-45.6	-21.2
Translation differences on cash and cash equivalents	-0.6	-2.0
Cash and cash equivalents at beginning of year	209.7	116.3
Total cash and cash equivalents as at June 30	163.5	93.1

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

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

01 General information

This condensed consolidated interim report of Forbo Holding Ltd and its subsidiaries (hereinafter 'the Group') covers the six-month period from January 1, 2017, to June 30, 2017 (hereinafter 'reporting period'), and was drawn up in accordance with International Accounting Standard 34 (IAS 34) 'Interim Financial Reporting'. The consolidated half-year financial statements do not include all information reported in the consolidated full-year financial statements and should therefore be read in conjunction with the consolidated financial statements as at December 31, 2016.

The consolidated half-year financial statements have not been audited by the auditors. They were approved for publication by the Board of Directors on July 27, 2017.

02 Group accounting principles

The accounting principles applied in the consolidated Half-Year Report are in line with the accounting policies set out in the 2016 Annual Report with the following exceptions:

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

- Disclosure Initiative (amendments to IAS 7)
- Recognition of deferred tax assets for unrealized losses (amendment to IAS 12)
- Annual improvements to IFRS 2014 – 2016 cycle

The first-time adoption of the before-mentioned new or revised standards and interpretations had no significant impact on the Half-Year Report presented here.

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

The preparation of the consolidated half-year financial statements requires management to use estimates and assumptions that may affect reported revenues, expenses, assets, liabilities, and contingent liabilities at the date of the financial statements. If the estimates and assumptions used by management to the best of its knowledge at the date of the financial statements happen to differ from subsequent actual facts, the original estimates and assumptions will be adjusted in the reporting period in which the facts have changed. The consolidated half-year financial statements do not contain any significant new estimates and assumptions used by management (with the exception of the provisions for the antitrust proceedings against Flooring Systems in France described under '04 Balance sheet' and '08 Contingent liabilities') compared with the consolidated financial statements as at December 31, 2016.

Income tax expenditure is estimated on the basis of actual average actual tax rates during the current business year.

03 Segment information

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

Flooring Systems develops, produces, and sells linoleum, vinyl floorings, entrance matting systems, carpet tiles, and needle felt floor coverings as well as the various accessory products required for installing, 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 which are not directly attributable to a specific business.

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

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

First half 2017

Unaudited, CHF m	Flooring Systems	Movement Systems	Corporate/ Elimination	Total
Total net sales	415.9	190.5	-0.1	606.3
Inter-segment sales		-0.1	0.1	
Net sales to third parties	415.9	190.4		606.3
EBIT before provision for anti-trust proceedings France	52.3	22.8	-7.2	67.9
Provision for anti-trust proceedings France	-85.0			-85.0
EBIT	-32.7	22.8	-7.2	-17.1
EBITDA	-19.2	27.4	-6.9	1.3
Operating assets	537.0	240.4	19.8	797.2
Investments	6.8	8.5	0.0	15.3
Number of employees (June 30)	3,225	2,320	41	5,586

First half 2016

Unaudited, CHF m	Flooring Systems	Movement Systems	Corporate/ Elimination	Total
Total net sales	409.2	182.0	-0.3	590.9
Inter-segment sales	-0.3		0.3	
Net sales to third parties	408.9	182.0		590.9
EBIT	50.3	20.7	-6.7	64.3
EBITDA	64.2	25.1	-6.5	82.8
Operating assets	537.0	225.4	16.3	778.7
Investments	7.0	2.3	0.0	9.3
Number of employees (June 30)	3,125	2,194	41	5,360

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

Unaudited, CHF million	First half 2017	First half 2016
Segment result (EBIT)	- 17.1	64.3
Financial result	0.0	0.8
Group profit before taxes	- 17.1	65.1
Unaudited, CHF million	30.6.2017	31.12.2016
Total operating assets	797.2	738.9
Non-operating assets	205.1	250.4
Total assets	1,002.3	989.3

04 Balance sheet

Property, plant, and equipment was virtually unchanged at CHF 15.1 million in the first half, with investments in property, plant, and equipment coming to CHF 227.5 million versus depreciations of CHF 15.5 million. Intangible assets declined by CHF 2.7 million to CHF 117.1 million. Investments in intangible assets, at CHF 0.2 million, were lower than the amortization of CHF 2.9 million.

The CHF 8.9 million increase in inventories at June 30 versus year-end 2016 plus the CHF 52.1 million increase in trade and other receivables were mainly timing-related.

Financial liabilities consist of leasing obligations for fixed assets carried in the balance sheet.

In 2013, the French antitrust authorities instituted an investigation of Forbo Flooring Systems on suspicion of possible antitrust practices among leading manufacturers. Until now, the Group has reported this case as a contingent liability because there was no way of estimating the risks and the potential financial implications. As the investigations have progressed, the subject of the investigation and the possible financial costs have become clearer, although the ultimate figure will not be known until the proceedings have been concluded. As reported in the media release of July 20, 2017, Forbo has set aside a provision of CHF 85.0 million. The provision was created in the Flooring Systems division as a non-tax-deductible operating expense and is reported under current liabilities.

In the reporting period, provisions of CHF 2.8 million accrued from the sale of the industrial adhesives activity in 2012 were released owing to the expiry of warranty periods.

Compared with December 31, 2016, shareholders' equity decreased by CHF 56.7 million to CHF 564.7 million. The decline in shareholders' equity is due to the Group profit of CHF -28.9 million and to payment of the dividend of CHF 32.5 million. The equity ratio decreased to 56.3% as at June 30, 2017.

The cash value of pension liabilities declined by a total of CHF 4.7 million owing to slightly higher discount rates in Switzerland, Germany, and Japan. The income recognized in the comprehensive income statement after deferred taxes was CHF 3.6 million.

05 Income statement

Net sales of CHF 606.3 million were 2.6% higher than in the prior-year period. The sales increase came to 4.1% in local currencies.

The cost of goods sold increased owing to higher raw-material prices proportionate to net sales.

Operating profit (EBIT) in the reporting period was negative at CHF – 17.1 million owing to the provision of CHF 85.0 million resulting from the antitrust proceedings in France. Factoring out this effect, operating profit (EBIT) in the period under review would have been CHF 67.9 million and therefore CHF 3.6 million or 5.6% higher than in the prior-year period.

Factoring out the positive currency effects in the prior-year period, financial income broke even in the reporting period.

If the effect of the provision for the antitrust proceedings in France is factored out, the income tax of CHF 14.0 million corresponds to a tax rate of 20.6%, unchanged from the previous year. The provision for the antitrust proceedings in France is not tax-deductible.

The resulting Group profit from continuing operations came to CHF – 31.1 million. The resulting Group profit from continuing operations without the effect of the provision for the antitrust proceedings in France came to CHF 53.9 million, which was CHF 2.2 million or 4.3% higher than the prior-year period.

Owing to the release of provisions that had been accrued for risks in connection with the sale of the industrial adhesives activity (note '04 Balance sheet'), a profit of CHF 2.8 million before tax, or CHF 2.2 million after tax, was generated in the reporting year from discontinued operations.

Undiluted earnings per share on the basis of the average number of shares outstanding amounted to CHF – 16.91 in the reporting period (prior-year period: CHF 30.28). Diluted earnings per share came to CHF – 16.91 (prior-year period: CHF 30.27).

In the previous year, diluted earnings per share were adjusted for the dilution effect of outstanding options. In the reporting period, no further options were outstanding, and the consideration of shares granted in the course of the Long-Term Incentive Plan (LTI) did not produce any dilution effect.

06 Cash flow statement

Owing to the timing-related increase in net operating working capital, cash flow from operating activities was only slightly positive at CHF 1.7 million. The item 'Other adjustments for non-cash items', amounting to CHF 85.3 million in cash flow from operating activities, comprises the creation of a provision of CHF 85.0 million for the antitrust proceedings in France.

Cash flow from investing activities consists mainly of the cash outflow of CHF 15.3 million for investments in property, plant, and equipment and in intangible assets.

Cash flow from financing activities reflects primarily the payment of the dividend of CHF 32.5 million.

07 Main exchange rates applied

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

Exchange rates			Income statement		Exchange rate	
			average exchange rate, 6 months		on balance-sheet date	
			2017	2016	30.6.2017	31.12.2016
Euro countries	EUR	1	1.0766	1.0962	1.0936	1.0719
USA	USD	1	0.9948	0.9821	0.9559	1.0184
United Kingdom	GBP	1	1.2522	1.4096	1.2433	1.2576
Japan	JPY	100	0.8851	0.8792	0.8521	0.8709

08 Contingent liabilities

It has emerged that as a result of antitrust proceedings in France initiated in 2013 against Flooring Systems and some competitors, Forbo Flooring Systems France can expect to have to pay costs in the range of CHF 85.0 million.

The Group has always reported the antitrust investigation in France as a contingent liability. Since some indication of the expected costs has now emerged, a provision of CHF 85.0 million has been made against operating profit in 2017. A definitive estimate of the costs can only be made once the proceedings have been concluded.

09 Events after the balance sheet date

Between the balance sheet date and the date of publication of this Half-Year Report, no events occurred – with the exception of the provision described under '04 Balance sheet' and '08 Contingent liabilities' for the antitrust proceedings against Flooring Systems in France – that could have a significant effect on the 2017 half-year financial statements.

Calendar

Media and financial analysts' conference for the 2017 business year:	Tuesday, March 6, 2018
Ordinary General Meeting 2018:	Friday, April 6, 2018
Half-Year Report 2018:	Friday, July 27, 2018

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

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