

## MEDIA RELEASE

### HALF-YEAR REPORT 2011

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#### **Good sales growth of 8.8% in local currencies – strong Swiss franc affects on sales and earnings in the Group presentation currency – increase in currency-adjusted operating profit despite steep rise in raw material prices**

The Forbo Group – a leading manufacturer of floor coverings, adhesives, as well as power transmission and conveyor belt solutions – reported net sales of CHF 880.6 million in the first half of 2011, which equates a solid growth of 8.8% in local currencies versus the prior-year period. Exchange rates again had a huge impact on the Forbo Group's results in this reporting period. In addition, further rises in raw material prices negatively impacted on margins. The EBIT margin came to 8.6% (prior-year period: 9.1%). Operating profit (EBIT) came to CHF 75.5 million (prior-year period: CHF 83.9 million), corresponding to a decline of 10.0% in the Group presentation currency. After adjustment for currency effects, however, operating profit (EBIT) was up by 6.1%. Net income from operations came to CHF 52.2 million (prior-year period: CHF 58.7 million), equivalent to a decrease of 11.1% in the Group presentation currency. After adjustment for currency effects, however, the result improved by 6.1%. In addition, Forbo achieved an extraordinary financial income of CHF 22.4 million after tax from the sale of Rieter shares and brought Group profit to CHF 74.6 million (prior-year period: CHF 90.9 million, including an extraordinary financial income of CHF 32.2 million after tax from the sale of Rieter shares).

Baar, August 16, 2011

**The first half of 2011 was impacted by the strong Swiss franc and by further rises in raw material prices. In local currency terms, the results in most business activities and regions were pleasing. Forbo is a global company with about 98 percent of its business taking place outside Switzerland. About 80 percent of turnover is produced and sold in the euro, dollar or pound currency areas. Since these currencies devalued massively against the Swiss franc, both sales and earnings were reduced when translated into the Group presentation currency. The impact on sales came to around CHF 120 million and on operating profit (EBIT) to around CHF 13.5 million. In addition, margins were negatively impacted by further steep increases in raw material prices. Nevertheless, after adjustment for currency effects, Forbo once more lifted both sales and earnings.**

#### **Strong negative currency impact on sales growth**

In the first half of 2011, Forbo generated net sales of CHF 880.6 million (prior-year period: CHF 918.8 million), which in local currencies was 8.8% higher than the same period in 2010. However, the strong Swiss franc reduced this by 13.0% so that net sales in the Group presentation currency decreased by 4.2%. In local currencies, Bonding Systems and Movement Systems reported strong increases of 14.3% and 9.5% respectively, while Flooring Systems generated more moderate growth of 4.7%.

#### **Profitability spoiled by negative currency development and higher raw material prices**

The weakness of the core currencies – the euro, US dollar, and pound sterling – along with the steep rises in raw material prices ate into profits, despite higher sales in local currencies. Operating profit before depreciations and amortizations (EBITDA) came to CHF 101.5 million (prior-year period: CHF 113.6 million),

corresponding to a decline of 10.7% in the Group presentation currency. After adjustment for currency effects, however, growth was 4.0%. Operating profit (EBIT) stood at CHF 75.5 million, compared with CHF 83.9 million in the same period the previous year. After adjustment for currency effects, though, operating profit (EBIT) was up by 6.1%. The three divisions reported mixed trends. Thanks to strong sales growth, Movement Systems and Bonding Systems lifted operating profit (EBIT) after adjustment for currency effects, while Flooring Systems reported a decline in earnings owing to modest growth and raw material price increases, only some of which were passed on.

#### **Margins hit by steep rises in raw material prices**

The steep rises in raw material prices impacted negatively on operating profit margins in the first half of 2011. The EBITDA margin declined from 12.4% in the prior-year period to 11.5%, while the EBIT margin declined from 9.1% to 8.6%. At Flooring Systems and Bonding Systems, the to some extent quite significant raw material price increases could not always be passed on to customers without a delay in time, and this led to a slight margin reduction. Movement Systems, on the other hand, expanded its margins remarkably due to structural adjustments made in earlier years and to buoyant demand.

#### **Net income from operations increased after adjustment for currency effects**

Net income from operations stood at CHF 52.2 million, a decrease of 11.1% versus the prior-year period (CHF 58.7 million). After adjustment for currency effects, though, this represents an increase of 6.1%. In addition, Forbo generated an extraordinary financial income of CHF 29.1 million before tax (CHF 22.4 million after tax) from the sale of Rieter shares. Overall, Group profit in the period under review amounted to CHF 74.6 million (prior-year period: CHF 90.9 million, including an extraordinary financial income of CHF 32.2 million after tax from the sale of Rieter shares).

#### **Performance of the three divisions**

The **Flooring Systems** division reported net sales of CHF 418.3 million in the first half of

2011 (prior-year period: CHF 449.1 million), equivalent to an increase of 4.7% in local currencies versus the same period the previous year (however, sales declined by 6.9% in Swiss franc terms). There are two reasons for this muted sales growth. Firstly, the division has not yet fully exploited the distribution synergies of the expanded product portfolio stemming from the acquisition of Bonar Floors about two years ago. Secondly, public spending on hospitals, schools, and other public buildings is being curtailed in view of government debt levels. Generally speaking, America and Asia posted strong sales growth. In Europe, demand was mixed, because in some countries the construction industry is still in the doldrums. Operating profit (EBIT) lowered by 18.0% to CHF 50.2 million (prior-year period: CHF 61.2 million), but three quarters of this decline was due to currency effects. One quarter of the decline can be ascribed to higher production costs in the wake of raw material price increases. The EBIT margin decreased to 12.0% (prior-year period: 13.6%).

The **Bonding Systems** division achieved net sales of CHF 302.6 million in the first half of 2011 (prior-year period: CHF 304.6 million), equivalent to an increase of 14.3% in local currencies versus the same period the previous year (but a slight decrease of 0.7% in Swiss francs). This good growth was driven by all three business units, with industrial adhesives posting double-digit sales growth in all regions. Building and construction adhesives reported above-average growth in Germany and Eastern Europe, whereas the Netherlands is still feeling the effect of the slump in the construction industry. Synthetic polymers in America maintained its sales level well by expanding into new customer segments. Operating profit (EBIT) for the whole division declined by 12.5% to CHF 17.5 million (prior-year period: CHF 20.0 million). The decline is due entirely to currency effects; operating profit (EBIT) in local currencies showed an increase of 2.5%. The huge raw material price increases were passed on to customers to a large extent, while bottlenecks in raw material supplies were largely offset by means of new formulations. Nevertheless, the EBIT margin contracted slightly from 6.6% to 5.8%.

The **Movement Systems** division reported net sales of CHF 159.7 million in the first half of 2011 (prior-year period: CHF 165.1 million), equivalent to an increase of 9.5% in local currencies versus the same period the previous year (in Swiss francs it amounted to a decline of 3.3%). In Europe, Germany performed particularly well, while demand in America remained very volatile. Despite the disaster that hit Japan in spring 2011, sales in Asia were stable on the whole. Following a brief decline in Japan, this market recovered again by and large. Although raw material prices for this division also rose strongly, Movement Systems significantly increased operating profit (EBIT) in the Group presentation currency by 44.8% to CHF 15.2 million (prior-year period: CHF 10.5 million) thanks to the structural adjustments made in earlier years and to strong sales growth. After adjustment for currency effects, the increase was even more pronounced. The EBIT margin rose considerably from 6.4% to 9.5%.

#### **Outlook for 2011**

Due to the further substantial deterioration in the exchange rate development over recent weeks and the increasing volatility on the financial markets with the associated effects on the real economy, it is difficult to make any reliable forecast for the business year 2011 as a whole.

Forbo is assuming that demand in all three divisions will be sluggish and will vary considerably depending on the region and customer segment. The sharp increase in raw material prices, the uncertain general economic situation and the exchange rate trend will have a major influence on the full-year result in 2011. Provided that these factors do not change substantially compared with the first half of 2011, Forbo expects net income from operations in the second half to be more or less in line with the result in the first half of 2011.

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You can find further information in the electronic version of the 2011 Half-Year Report published this morning on the Internet:

[www.forbo.com](http://www.forbo.com) – Investor Relations – Financial Publications

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Forbo is a leading producer of floor coverings, adhesives, as well as power transmission and conveyor belt solutions. The company employs some 6,000 people and has an international network of 41 sites with production and distribution as well as 47 sales organizations in a total of 35 countries. Forbo is headquartered in Baar in the canton of Zug, Switzerland.

Forbo Holding AG is listed on SIX Swiss Exchange (security number 354151, ISIN CH0003541510, Bloomberg FORN SW, Reuters FORN.S).

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