# Half-year report
2002

## Adhesives Business Helps to Improve First Half-Year Results

### Dear shareholders

The positive development of the adhesives business and the unsatisfactory market situation in Flooring and Belting mark the first half-year of 2002. In the last quarter, the improvement of business against the previous quarter continued for the second time. Total sales of CHF 721.9 million were reached, corresponding with a 3.4 % increase (related to the continued operations, excluding the divested Carpets Business). This includes sales of the acquired Swift Adhesives Business as of April 19, 2002.

Compared with the strong first half-year 2001, the consolidated profit of CHF 24.5 million (previous year CHF 33.1 million) is weaker not least due to unfavorable exchange rates. Negative influences could be partly compensated by measures initiated already last year for cost reduction and productivity improvement. The acquisition of the Swift Adhesives Business in April 2002 with its attractive profit margins has had a clearly positive impact on the business result.

### Development of results

The 2002 half-year results also comprise the Swift Adhesives Business acquired on April 19, 2002. Net sales are at CHF 721.9 million, including CHF 75.0 million of the Swift activities. Based on the continued activities, this corresponds with a 3.4 % increase in Swiss Francs or 7.6 % in local currencies. The operating profit before depreciation and amortization (EBITDA) is CHF 4.4 million or 4.7 % below the previous year, with some CHF 4 million being due to unfavorable exchange rates. With CHF 11.1 million, the EBITDA contribution of the Swift activities is clearly above expectations. The return on sales (EBITDA / net sales) is at 12.2 % (previous year 13.3 %). The operating profit after depreciation and amortization (EBIT) is at CHF 44.4 million, CHF 6.2 million or 12.3 % below the previous year's level. This includes the Swift Business with CHF 7.8 million after deduction of CHF 1.6 million amortization for goodwill paid.

Based on the continued activities and excluding the Swift activities, net sales decreased by 7.8 % to CHF 644.3 million, in currency-adjusted terms 4 %, compared with the first half of the previous year. As a result, the corresponding operating profit (EBIT) declined by CHF 14.2 million (of which CHF 2.3 million alone relate to exchange rates) to CHF 36.4 million. This decrease of the operating profit in the first half-year is due to reduced sales as a result of a difficult economic situation. Except for Adhesives, all the Businesses suffered from these conditions. Also, the contribution margin declined slightly because of shifts in the product mix. Substantial cost savings were implemented in response to the result development.

Summary of income statement[1]

| | First six months | | % change on 2001 | |
|---|---|---|---|---|
| | 2002 m CHF | 2001 m CHF | effective | currency adjusted |
| Net sales of continued activities | 721.9 | 698.5 | 3.4 | 7.6 |
| Net sales of divested acitvities | | 93.5 | | |
| Net sales of Group | 721.9 | 792.0 | –8.9 | –5.1 |
| Operating profit before depreciation and amortization (EBITDA) | | | | |
| Continued activities | 88.3 | 92.7 | –4.7 | –0.1 |
| Divested activities | | 10.1 | | |
| Operating profit (EBIT) | | | | |
| Continued activities | 44.4 | 50.6 | –12.3 | –6.9 |
| Divested activities | | 5.8 | | |
| Consolidated profit | 24.5 | 33.1 | –26.0 | –20.2 |

[1] unaudited

The consolidated profit after tax for the first half-year 2002 is CHF 24.5 million. Including the respective financing costs, the profit of the divested Carpet Business was more than compensated by the two and a half months profit contribution of the Swift Business in the half-year results 2002.

**Financial situation**

The balance sheet total as per June 30, 2002 increased by CHF 361.3 million compared with the end of the previous year. This is the result of the inclusion of the operating assets of the Swift Adhesives Business of CHF 362.3 million. As per end of June 2002, some CHF 160 million of these additions to assets relate to goodwill and acquired trademark rights. The assigned values in intangible assets and tangible assets should be considered as preliminary and can slightly vary in the audited financial statements for the year 2002.

Current assets rose slightly for seasonal reasons compared with the end of the previous year. On a comparable basis, however, they are some CHF 7 million below the level at the end of June 2001. In the period under review, investments in fixed assets were only CHF 16.2 million (previous year CHF 27.1 million) i.e. they are clearly below depreciation. Net financial debt increased by CHF 322.6 million to CHF 557.8 million, compared with the end of the previous year, mainly as a result of borrowings for the Swift acquisition. The company’s liquidity is at CHF 133.6 million still good, associated with a solid equity basis. The decrease of the shareholder’s equity, compared to the end of 2001, is mainly due to currency exchange rates and the dividend payment. The gearing (net financial debt as a percentage of equity) is 92 % at the end of June. We are expecting a substantial improvement of this key financial ratio by the end of 2002 as a result of an anticipated free cash flow on previous year’s level.

Summary of balance sheet

| | 30.6.2002[1] m CHF | 31.12.2001 m CHF | 30.6.2001[1] m CHF |
|---|---|---|---|
| **Long-term assets** | **930.5** | **716.4** | **764.9** |
| Tangible assets | 628.4 | 576.1 | 665.4 |
| Intangible assets | 181.6 | 23.2 | 15.1 |
| Deferred taxes, investments in associates and other long-term assets | 120.5 | 117.1 | 84.4 |
| **Current assets** | **762.4** | **615.2** | **761.9** |
| Inventories | 265.9 | 227.0 | 291.8 |
| Receivables, prepaid expenses and deferred charges | 362.9 | 261.7 | 341.2 |
| Marketable securities and cash | 133.6 | 126.5 | 128.9 |
| **Total assets** | **1 692.9** | **1 331.6** | **1 526.8** |
| | | | |
| **Shareholders' equity** | **605.0** | **652.2** | **703.8** |
| **Liabilities** | **1 087.9** | **679.4** | **823.0** |
| Financial debt | 691.4 | 361.7 | 440.7 |
| Trade payables | 121.9 | 79.4 | 100.3 |
| Other liabilities and provisions | 274.6 | 238.3 | 282.0 |
| **Total shareholders' equity and liabilities** | **1 692.9** | **1 331.6** | **1 526.8** |

[1] unaudited

**Business development by geographic areas and product groups***

Excluding acquisitions, business was declining in the major European countries reflecting the development of the overall economy. This was particularly true for Germany and Switzerland, but also for Scandinavia and Great Britain. In France, a labor conflict in January had an additional negative impact on sales. The activities in Eastern Europe continued their dynamic development with a sales plus of nearly 20 %. Their share in total Group sales is more than 4 %. Including the acquisitions made over the last 12 months, an essential strengthening of business can be noticed in Southern Europe and especially in North America. The share of the North American business in Group sales of the first half-year is more than 19 % (previous year 14 %) and will further increase.

**Linoleum** could once again slightly increase its relative share in the total floor covering market which was declining in most important European countries, especially so in Germany. The sales decrease could be limited to 3.3 % in Europe. Despite the maintained market shares within this product category, noticeable lower sales were recorded especially in Germany, Switzerland, and France. However, linoleum sales could be kept up in Scandinavia, Great Britain, and particularly in the United States. There, sales could even be further increased despite a difficult economic situation, and the second half-year can be started with good order books thanks to the development of additional sales channels. All in all, total Linoleum sales in the period under review were CHF 187.5 million, or 3.9 % less than in the previous year.

The situation with **Vinyl** proves to be more difficult. The Western European market was under pressure. Our efforts to position our branded products in the premium price segment were only partly successful in the past six months. Despite the fact that prices could be maintained and market shares could be improved, considerable declines in sales had to be recorded due to the general market situation – especially in Germany, Switzerland, and the Benelux countries. This development is in contrast to the successful further expansion of business activities with cushion vinyls in Great Britain, Eastern Europe, and Asia. Business with specialized floor coverings produced in Giubiasco (Switzerland) for applications in the high-tech industry remained as difficult as before. All in all, the Vinyl Business suffered a 5.9 % decline to CHF 156.0 million.

* all percentages are currency-adjusted.

Net sales Flooring

| | First six months | | % change to 2001 | |
|---|---|---|---|---|
| | 2002 m CHF | 2001 m CHF | effective | currency adjusted |
| Linoleum | 187.5 | 202.5 | –7.4 | –3.9 |
| Vinyl | 156.0 | 171.9 | –9.2 | –5.9 |
| Others | 27.8 | 33.7 | –17.5 | –13.9 |
| **Total continued activities** | **371.3** | **408.1** | **–9.0** | **–5.5** |
| Divested activities | | 93.5 | | |

The **Adhesives** Business recorded internal growth of 3 %, with industrial applications and adhesives for floor and wall applications contributing more or less to the same extent. Forbo gained additional market shares especially in the Benelux countries and in France. With the acquisition of Spanish adhesives producer Carzuh in September 2001, the share in the European adhesives business for car applications could be expanded substantially, and the position in Southern Europe was strengthened considerably. Including all the acquisitions made in 2001, the resulting sales growth is more than 14 %.

The global **Belting** Business, which essentially depends on original equipment manufacturers (OEM) and investments in the logistics infrastructure, continues to suffer from the general economic conditions. The OEM business is particularly hard hit by this development, whereas the business with direct customers for belting replacement was somewhat more positive. Compared with a very strong first half-year 2001, the total decline in local currencies is 11.5%, with Europe, Asia and America being affected to more or less the same extent. Signs of a recovery in the USA cannot yet be confirmed with certainty. The great efforts made in recent years to improve the service offer and the cost situation are paying off and allow a strengthening of our leading global market position.

Net sales Industry Specialties

| | First six months | | % change to 2001 | |
|---|---|---|---|---|
| | 2002 m CHF | 2001 m CHF | effective | currency adjusted |
| Adhesives [1] | 197.8 | 108.7 | 82.0 | 89.0 |
| Belting | 152.8 | 181.7 | –15.9 | –11.5 |
| **Total** | **350.6** | **290.4** | **20.7** | **26.1** |

[1] thereof Swift April 19 to June 30, 2002 CHF 75.0 m

## Growth through acquisitions

The expansion in the adhesives business that started already in 2001 was continued consistently in the first half-year 2002. With the acquisition of SABA Klebstoff- und Abdichtungssysteme GmbH (Germany) in March 2002, Forbo strengthened its position in the adhesives market for car interior trims. The take-over of the Swift adhesives business from Reichhold Inc. in April 2002 was an important strategic step in that it gave Forbo access to the attractive North American market. Besides, the Forbo Group is expanding with this acquisition its market position in Europe both geographically and technologically while using numerous synergies. So far, Forbo has been a producer of mainly adhesives for floor/wall applications, shoes, car interior trims, assembly and furniture. With Swift the Group is now more strongly entering the paper, packaging and labeling adhesives segments. All in all, the business with industrial adhesives is gaining considerably in importance. With this move, Forbo turns into a global market player also in the adhesives industry and enters the top league of adhesives producers. At the same time the focus of the Forbo product portfolio is shifting in favor of these activities.

The Integration of Swift is making good progress. Today, the Forbo Adhesives Business is classified into two main segments, i.e. adhesives for floor/wall applications, and adhesives for industrial uses. Geographically speaking, the latter is spread over five regions, one in North America and four in Europe. In North America, the carving out of the business from the Reichhold Group and the optimization of the production sites are in process. In Europe, the integration of the Swift sites into the existing Forbo organization has priority. The necessary integration and restructuring measures are progressing with the goal of intensifying the customer relationships, strengthening the market positions, and thus reaching a further profit improvement.

As reported earlier, the purchase price for the Swift activities was about USD 210 million. This includes the acquisition and integration costs. The purchase price was financed by means of a bridging loan from two banks. It is our intention to replace this short-term credit by long-term financing.

Summary of income statement Swift Adhesives

| | 19.4.–30.6.2002 |
|---|---|
| | m CHF |
| Net sales | 75.0 |
| Operating profit before depreciation and amortization (EBITDA) | 11.1 |
| Operating profit (EBIT) | 7.8 |
| EBIT in % of net sales | 10.4 |

In the period from April 19 to June 30, 2002, the Swift Adhesives Business recorded net sales of CHF 75.0 million. The operating profit before depreciation and amortization (EBITDA) at CHF 11.1 million was clearly above the expectations. The operating profit after depreciation on tangible assets of CHF 1.7 million and amortization on goodwill of CHF 1.6 million is CHF 7.8 million. As a result, return on sales amounts to 10.4 %, but this ratio for the entire year 2002 is likely to be somewhat lower due to the additional costs and the adverse currency development.

**Employees**

As per June 30, 2002 Forbo employed 5 677 people, 652 of them at Swift. On a comparable basis, this is a decrease of 132 employees compared to the end of 2001.

**Outlook**

We are convinced that the strategy of focus and growth we have embarked on is correct. In spite of difficult conditions in our key markets, we firmly keep to our objective of achieving an operating profit that is above the previous year's level. The successful integration of the Swift activities will make an essential contribution to this objective, since in the second half year this business will impact the sales and profits of the entire period. However, reaching this goal will essentially depend on the further general economic development.

**Forbo Holding AG**

Karl Janjöri
Chairman of the Board of Directors

Werner Kummer
Chief Executive Officer

Eglisau/Zurich, July 25, 2002

| | | |
|---|---|---|
| Issued and outstanding shares | 30.6.2002 | 1 306 640 |
| Market prices | High | CHF 585 |
| | Low | CHF 453 |
| | 30.6.2002 | CHF 546 |
| Stock market capitalization | 30.6.2002 | m CHF 713 |

**Dates**

Media release on the results of the first nine months: October 28, 2002 (after stock exchange closure)
Annual results media conference: March 25, 2003
Financial analysts presentation: March 25, 2003
Annual General Meeting: April 29, 2003