Half-year report

Turnaround confirmed
Pleasing growth
Back in the profit-zone

Dear shareholders

The turnaround that was achieved in 2005 has been confirmed. In the first half of 2006, the Forbo Group is clearly back in the profit-zone and on course for growth.

The strategies and measures that were defined last year have been implemented with determination in all three businesses. The activities to raise sales as well as those for improvement of profitability were effective and made a decisive contribution to the financial success of the first half-year. All three businesses contributed their share to the positive result.

The investments made last year in the development of new markets have already produced positive results. Innovative new products were successfully introduced to the market in all three businesses. Rapidly changing market conditions will continue to force us to constantly review our product portfolio and production capacities and adapt them as necessary in the future.

A further challenge are the sharply higher raw material prices. The increased costs can only be charged on to some extent and are having to be compensated by way of improved efficiency.

The integration of the Chinese adhesives company Victa (Guangzhou) Chemicals Co. Ltd., which has belonged to the Forbo Group since January 2006, is progressing as planned. With the acquisition of today's Forbo Adhesives (Guangzhou) Co. Ltd., Forbo has established an industrial platform from which it can more strongly serve the Chinese adhesives market.

Development of sales and profit
In the first half of the year, Forbo achieved net sales of CHF 933.1 million, 12.5% above those of the previous year (10.0% in local currency). The acquisition of Victa (Guangzhou) Chemicals Co. Ltd. in China within the Adhesives business contributed 1.7% to this increase. The growth in sales adjusted for exchange rate effects and acquisitions amounted to 8.3%. Robust economic development in the USA, the continued high level of dynamism in the Asian markets and an improved economic situation in Europe strongly supported the growth in all three businesses.

A significant growth in volume, successfully implemented measures to improve efficiency and profitability as well as the falling away of special charges led in the reporting period to a strongly improved profit for the Forbo Group.
The operating profit (EBIT) amounts to CHF 55.1 million and represents an EBIT margin on sales of 5.9%, an improvement in comparison with the previous year (before special charges) of 2.2 percentage points. All three businesses contributed to this increase in profit.

The consolidated net profit was raised to CHF 26.8 million (previous year: CHF –6.1 million).

Consolidated half-year financial statements

Summary of consolidated income statement

	1st half-year 2006 million CHF	1st half-year 2005 million CHF
Net sales	**933.1**	**829.4**
Cost of goods sold	−624.6	−552.7
Gross profit	**308.5**	**276.7**
Operating expenses	−253.4	−261.3
Operating profit	**55.1**	**15.4**
Financial expenses, net	−13.4	−13.1
Profit before taxes	**41.7**	**2.3**
Taxes	−14.9	−8.4
Group profit/−loss	**26.8**	**−6.1**
Operating profit before depreciation and amortization (EBITDA)	**86.7**	**47.9**

	CHF	CHF
Profit / Loss per share (undiluted)	10.36	−2.33
Profit / Loss per share (diluted)*	10.31	−2.33

* Due to the Group loss, there was no dilution effect in 2005.

Financial situation

The balance sheet total fell by CHF 127.5 million compared with the end of the previous year. This reduction equates mainly the repayment of the bond amounting to CHF 150.0 million due on June 8, 2006, the purchase of treasury shares and the seasonally required increase in working capital.

Investments in tangible assets of CHF 19.1 million are below the depreciation of CHF 31.6 million. The income from the sale of non-current assets amounts to CHF 1.3 million.

Net debt at the end of June 2006 was CHF 131.3 million and increased by CHF 22.0 million compared with the end of 2005. The credit conditions agreed with the lenders were fully respected. The gearing (net financial liabilities/equity) amounted to 24.0% at the end of June (previous year-end: 19.6%).

Summary of consolidated balance sheet

	30.6.2006 million CHF	31.12.2005 million CHF
Non-current assets	**583.1**	**597.3**
Tangible assets	407.4	422.4
Intangible assets	143.4	144.6
Investments in associates, deferred taxes and other non-current assets	32.3	30.3
Current assets	**880.4**	**993.7**
Inventories	281.2	257.0
Accounts receivable, prepaid expenses and deferred charges	383.5	332.1
Marketable securities, cash and cash equivalents	215.7	404.6
Total assets	**1,463.5**	**1,591.0**
Shareholders' equity	**546.7**	**558.1**
Long-term liabilities	**494.9**	**512.9**
Long-term financial liabilities	342.6	358.4
Employee benefit obligations, provisions and deferred taxes	152.3	154.5
Current liabilities	**421.9**	**520.0**
Trade payables	134.9	131.8
Short-term financial liabilities	4.3	155.5
Other current liabilities and accrued expenses	282.7	232.7
Total shareholders' equity and liabilities	**1,463.5**	**1,591.0**

Summary of consolidated cash flow statement

	1st half-year 2006 million CHF	1st half-year 2005 million CHF
Cash flow from operating activities*	**25.3**	**1.5**
Cash flow from investing activities	**–18.8**	**–13.5**
Cash flow from financing activities*	**–194.9**	**–24.3**
Decrease in cash and cash equivalents	–188.4	–36.3
Translation differences	–0.5	4.2
Cash and cash equivalents at January 1	404.6	346.8
Cash and cash equivalents at June 30	**215.7**	**314.7**

* Interest paid and interest received have been restated out of cash flow from operating activities to cash flow from financing activities.

Consolidated summary of all recorded income and expenses in equity

	1st half-year 2006 million CHF	1st half-year 2005 million CHF
Half-year profit/–loss	26.8	–6.1
Fair value adjustment of financial instruments	–0.1	–2.7
Translation differences	–10.8	13.3
Recorded income and expenses	**15.9**	**4.5**

Consolidated summary of statement of changes in shareholders' equity

	1st half-year 2006 million CHF	1st half-year 2005 million CHF
Equity at January 1	**558.1**	**543.7**
Recorded income and expenses	15.9	4.5
Share-based remuneration	0.1	0.2
Changes in treasury shares	–27.4	–1.6
Equity at June 30	**546.7**	**546.8**

Supplementary notes to the consolidated half-year financial statements

The half-year consolidated financial statements encompass Forbo Holding AG and all domestic and foreign companies in which the Group's holding company controls, directly or indirectly, more than 50% of the voting rights or carries responsibility for operational management, as well as joint ventures and associated companies (hereinafter collectively referred to as "Forbo"). The financial statements cover the six-month period from January 1, 2006 to June 30, 2006 (hereinafter "reporting period") and were prepared in accordance with the International Accounting Standard 34 (IAS 34) "Interim Reporting". The half-year consolidated financial statements do not include all the details which are shown in the annual consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements as at December 31, 2005.

The half-year consolidated financial statements have not been examined by the Group's statutory auditors. They were approved for publication by the Board of Directors on August 16, 2006.

The accounting and reporting principles applied in the half-year consolidated financial statements are in accordance with the principles described in the 2005 Annual Report for Group accounting and reporting with the following exceptions:

As at January 1, 2006, Forbo applied the adaptations of the following standards which did not impact to any significant extent on these half-year consolidated financial statements compared with the accounting and reporting principles applied in the past:

- IAS 21 "Effects of changes in exchange rates"
- IAS 39 "Financial instruments"
- IFRS 6 "Exploration and evaluation of mineral resources"
- IFRIC 4 "Determination whether an agreement includes a leasing relationship"
- IFRIC 6 "Obligations arising from business activity in a specific market – disposal of electrical and electronic devices"

Since 2005, in accordance with IAS 19, actuarial profits and losses in pension obligations are offset in equity. The actuarial valuation of pension obligations and asset values takes place at the end of each year. The half-year financial statements do not include a description of the effects on equity. For this reason, no actuarial profits or losses are shown in the reporting period.

The preparation of the half-year consolidated financial statements requires that management provides estimates and assumptions which influence the recorded income, expenses, asset values, liabilities and contingent liabilities at the balance sheet date. If, at a later point in time, those estimates and assumptions which management made in good faith at the balance sheet date deviate from the facts, the original estimates and assumptions are adjusted accordingly in the reporting period in which the circumstances change.

On January 9, 2006, Forbo acquired 100% of the adhesives company Victa (Guangzhou) Chemicals Co. Ltd. in China. The final purchase price will only be determined at the end of this year. The goodwill arising in the first half-year is regarded as immaterial within the framework of the consolidated financial statements.

The position "changes in treasury shares" of CHF 27.4 million in the statement of changes in shareholders' equity includes, among other things, the purchase of 56 285 own (treasury) shares.

Comments on individual businesses

Results by business at June 30

	Flooring million CHF	Adhesives million CHF	Belting million CHF	Corporate & consolidated million CHF	Total million CHF
Net sales 2006	393.8	367.5	171.8		933.1
Net sales 2005	370.8	302.7	155.9		829.4
Change in %, actual	6.2	21.4	10.2		12.5
Change in %, currency adjusted	4.8	17.4	7.9		10.0
Operating profit (EBIT) 2006*	30.8	25.8	4.6	–6.1	55.1
Operating profit (EBIT) 2005	7.2	17.4	2.8	–12.0**	15.4
Operating profit (EBIT) 2005 before special charges	20.0	19.1	3.4	–12.0**	30.5

* As already mentioned, there were no further special charges in 2006.
** The previous year included direct costs of CHF 5.9 million for the auction process.

Development by business

The **flooring** business achieved sales of CHF 393.8 million. This represents a growth of 6.2% compared to the previous year. In local currencies, the increase amounted to 4.8%. The share of total Group sales was 42% (previous year: 45%).
The implementation of the strategic reorientation with focus on optimization of the core processes, development of new market strategies and reduction of costs through use of synergy potential has produced positive effects. The investments made in new markets in the past 24 months and new innovations have also produced positive results.
The operating profit was significantly increased by 54% (CHF 10.8 million) to CHF 30.8 million in comparison with the previous year.
The flooring business will, in future, focus more strongly on the commercial market and increase its presence in growth markets.

The **adhesives** business increased its sales by 21.4% to CHF 367.5 million. Victa (Guangzhou) Chemicals Co. Ltd., which was acquired in the reporting period, contributed CHF 15.2 million to that increase in sales. The growth in turnover adjusted by exchange rate effects and acquisitions was 12.8%. The share of total Group sales amounted to 40% (previous year: 36%).
Thanks to the improved management of increases in raw material prices, the profit in this business was also significantly raised, despite higher raw material and energy costs.
Compared with the previous year, the operating profit rose significantly by 35% (CHF 6.7 million) to CHF 25.8 million.
We must nevertheless presume that due to the global political and economic situation, raw material costs will continue to rise and that this could affect our results.

The **belting** business increased its sales by 10.2% to CHF 171.8 million. In local currency, the growth was 7.9%. The share of total Group sales equated to 18% (previous year: 19%). The new management has reviewed and adapted the strategies and introduced the necessary measures. The initial, positive effects are already reflected in the profit.
In comparison with the previous year, the operating profit was increased by 35% (CHF 1.2 million) to CHF 4.6 million.
We are focusing in the belting business on those segments that are attractive for us and intend to intensify our measures for cost reduction and enhanced profitability.

Employees
At the end of June 2006, Forbo had 5,874 employees. This represents an increase in comparison with the end of 2005 of 336 employees, mainly attributable to the acquisition of Victa (Guangzhou) Chemicals Co. Ltd. in China.

Outlook
If the economic framework conditions remain as positive as they are at the moment, we expect for the year 2006 a consolidated net profit of approximately CHF 50 million.

Yours faithfully

Dr. Albert Gnägi
Chairman of the Board

This E. Schneider
Delegate of the Board and CEO

Forbo Holding AG
Baar, August 22, 2006

Stock exchange information

Number of issued shares in circulation	30.6.2006	2,578,564
Market prices	Half-year high	CHF 338
	Half-year low	CHF 291
	30.6.2006	CHF 315
Market capitalization*	30.6.2006	million CHF 812

* Based on shares in circulation.

Dates
Media and financial analysts' conference: March 20, 2007
Annual General Meeting of Shareholders: April 27, 2007