Half-Year Report 2008

Double-digit earnings growth
Substantial improvement in margins
Sales affected by exchange rates

flooring.bonding.movement.

Forbo posts double-digit earnings increase and strengthens profitability

Forbo – a leading manufacturer of flooring, adhesives as well as power transmission and conveyor belt solutions – again reported strong earnings growth following the record result of the previous year. Operating profit (EBIT) increased by 10.4 % and Group profit by 15.7 % compared with the prior-year period. Despite the strong rise in raw material prices, the EBIT margin increased from 7.3 % in the same period the previous year to 8.4 %. The unfavorable exchange rate trend and more difficult market conditions, especially in the USA, had an adverse impact on net sales, which at CHF 961.2 million were 4.2 % lower than in the first half of 2007. In local currencies, organic sales growth came to 0.9 %.

Dear shareholders,

In the first half of 2008, the Forbo Group repeated the success of the previous year. Despite more difficult market conditions, a weak dollar and strongly rising prices for raw materials and energy, the Group succeeded in strengthening its profitability and again substantially increased earnings. This success was driven by the long-term view we take in decision-making, the consistent implementation of strategies and our unceasing efforts to adapt to the changing market environments. Our strategy of engaging only in those activities that are profitable long-term led to our relinquishing of certain customer segments and products in the wake of the strong increase in raw material prices.

Sales growth affected by exchange rates

In the first half of 2008, Forbo generated net sales of CHF 961.2 million, which was 4.2 % lower than in the same period the previous year. In local currencies, organic sales growth came to 0.9 %. The three divisions showed mixed trends. While Flooring Systems grew by 6.1 % and Movement Systems by 6.9 % in local currencies, Bonding Systems reported a decline of 7.6 %. The reason can be sought in the difficult market conditions in the USA, where Bonding Systems generates 40 % of its sales, and in the termination of the synthetic fuel business activities.

Substantial margin improvement and stronger profitability

Despite the strong rise in raw material and energy prices, the operating profit (EBIT) margin increased from 7.3 % in the prior-year period to 8.4 %. Forbo took measures early on to secure earnings, optimize processes, cut costs, rationalize its range to focus on high-margin products and exit unprofitable activities. All these steps together further strengthened profitability.

Double-digit earnings growth

Forbo increased operating profit (EBIT) from CHF 73.1 million to CHF 80.7 million, equivalent to a growth of 10.4 %. Group profit improved by CHF 7.3 million compared with the same period the previous year to CHF 53.9 million, corresponding to a rise in profits of 15.7 %.

Solid equity base and close to 10 % of treasury shares, with low net debt

At the end of June 2008, equity stood at CHF 691.3 million. This represents an equity ratio of 44.3 %. Moreover, Forbo held close to 10 % of its treasury shares, which had a market value of CHF 122.2 million on June 30, 2008. Net debt came to CHF 76.3 million.

Performance of the three divisions

Forbo Flooring Systems reported net sales of CHF 437.8 million in the first half of 2008, corresponding to a growth of 1.8 % versus the same period in the previous year. The increase came to a pleasing 6.1 % in local currencies. Whereas business in the German-speaking markets fell short of expectations, performance in the Eastern and Southern Europe regions was very satisfactory. New vinyl collections in the commercial market gave sales a fresh boost. The strong rise in raw material prices was again compensated by efficiency gains and selective price adjustments, with the result that operating profit (EBIT), which came to CHF 54.2 million, was once more substantially higher (30.3 %) than in the prior-year period. This increase brought the EBIT margin to 12.4 %. Preparations for the launch of a new linoleum collection in the spring of 2009 are the focal point of activities in the second half of the year.

Investment spending will concentrate on the modernization of production in France and the development of a new manufacturing facility in Russia for the commercial market.

Forbo Bonding Systems reported net sales of CHF 338.8 million in the first half of 2008. This represents a decrease of 13.1 % versus the prior-year period. The drop in revenues came to 7.6 % in local currencies. The termination of the synthetic fuel business activities in the USA at the end of 2007 led, as expected, to a substantial fall in sales of synthetic polymers. In addition, demand for industrial adhesives in North America for consumer durable goods, an important customer segment for this division, dropped sharply. The decline in sales, coupled with a significant increase in raw material prices (only part of which could be passed on owing to the difficult business conditions), eroded profitability. Successful sales of the division’s strong and well established building and construction adhesives products, especially in Western and Eastern Europe, only partially offset the negative impact of the two other business activities. The division posted operating profit (EBIT) of CHF 22.6 million; a 23.1 % decrease compared with the prior-year period. The EBIT margin came to 6.7 %. In the second half, the division will focus on systematic margin management and measures to improve efficiency and cut costs. Furthermore, new customer segments for synthetic polymers along with new formulations and product improvements in industrial adhesives are expected to safeguard margins.

Forbo Movement Systems reported net sales of CHF 184.6 million in the first half of 2008, corresponding to a growth of 0.7 % versus the prior-year period. The increase came to a pleasing 6.9 % in local currencies. Growth was driven by sales in all regions, with the fast-growing markets in China and Eastern Europe being the strongest. Rising raw material prices and the more sluggish economy were offset by continuous switchovers to different materials, efficiency gains in production and the launch of diverse product innovations, especially in the logistics and food market segments. Operating profit (EBIT) again increased by a strong 26.4 % to CHF 11.5 million versus the prior-year period. The EBIT margin came to 6.2 %. The division is maintaining its strategy of focusing on growth markets and profitable market segments. At the same time, the products and services are to be rounded off to ensure optimum coverage for selected core segments.

Outlook for 2008

We expect market conditions to be more difficult in the second half of the year. It is possible that the economy will slow down further. The major imponderables are, on the one hand, the direction of raw material and energy prices and, on the other, exchange rate movements. Forbo is well positioned to meet these challenges. We are confident that we can increase earnings in the second half again by a combination of innovative products, range rationalizations and efficiency improvements as well as by proactively taking the necessary measures.

Dr. Albert Gnägi
Chairman of the Board of Directors

This E. Schneider
Delegate of the Board of Directors and CEO

Forbo Holding Ltd
Baar, August 19, 2008

Consolidated Income Statement and Consolidated Balance Sheet

Summary of consolidated Income Statement

Unaudited, CHF m	First half 2008	First half 2007
Net sales	**961.2**	**1,003.5**
Cost of goods sold [1)]	– 650.2	– 677.1
Gross profit	**311.0**	**326.4**
Operating expenses[1)]	– 230.3	– 253.3
Operating profit	**80.7**	**73.1**
Financial expense, net	– 4.9	– 5.8
Group profit before tax	**75.8**	**67.3**
Income taxes	– 21.9	– 20.7
Group profit	**53.9**	**46.6**
Earnings per share in CHF (basic)	22.04	18.12
Earnings per share in CHF (diluted)	21.98	18.06

1) In the period under review, sales commissions and logistics costs are shown for the first time as part of cost of goods sold (previous year: operating expenses) and sampling costs as operating expenses (previous year: cost of goods sold). To ensure comparability, the previous year's report has been restated accordingly (net effect CHF 15.2 million).

Summary of consolidated Balance Sheet

Unaudited, CHF m	30.6.2008	31.12.2007
Non-current assets	**561.9**	**601.7**
Tangible and intangible assets	536.1	575.6
Employee benefit assets, deferred taxes, investments in associates and other non-current assets	25.8	26.1
Current assets	**997.4**	**803.5**
Inventories	325.9	286.3
Trade and other receivables, prepaid expenses and deferred charges	372.4	339.7
Marketable securities	148.5	-
Cash and cash equivalents	150.6	177.5
Total assets	**1,559.3**	**1,405.2**
Shareholders' equity	**691.3**	**713.1**
Non-current liabilities	**276.9**	**254.7**
Non-current financial debt	205.5	194.9
Employee benefit obligations, non-current provisions and deferred taxes	71.4	59.8
Current liabilities	**591.1**	**437.4**
Trade payables	128.8	138.1
Current financial debt	169.9	24.2
Current provisions and accrued expenses, tax and other liabilities	292.4	275.1
Total shareholders' equity and liabilities	**1,559.3**	**1,405.2**

Consolidated Cash Flow Statement and Consolidated Statement of Changes in Equity

Summary of consolidated Cash Flow Statement

Unaudited, CHF m	First half 2008	First half 2007
Cash flow from operating activities	**– 10.7**	**43.2**
Cash flow from investing activities	**– 177.8**	**– 36.5**
Cash flow from financing activities	**165.7**	**– 18.6**
Decrease in cash and cash equivalents	– 22.8	– 11.9
Translation differences	– 4.1	5.9
Cash and cash equivalents at January 1	177.5	294.1
Cash and cash equivalents at June 30	**150.6**	**288.1**

Summary of consolidated Statement of recognized Income and Expenses

Unaudited, CHF m	First half 2008	First half 2007
Fair value adjustments of cash flow hedges	– 0.3	1.2
Fair value adjustments of net investment hedges	9.0	– 4.1
Fair value adjustments on available-for-sale financial assets	– 13.1	0.0
Actuarial loss from defined benefit plans, net	– 12.3	0.0
Translation differences	– 52.3	21.5
Net income recognized directly in equity	**– 69.0**	**18.6**
Group profit	53.9	46.6
Total recognized income and expenses	**– 15.1**	**65.2**

Summary of consolidated Statement of Changes in Equity

Unaudited, CHF m	Share capital	Treasury shares	Reserves	AFS asset	Cash flow hedge reserve	Net investment hedge reserve	Translation differences	Total
At 1.1.2008	**38.0**	**– 4.0**	**821.3**	**0.0**	**– 5.9**	**– 7.7**	**– 128.6**	**713.1**
Group profit			53.9					53.9
Net income and expenses recognized in equity			– 12.3	– 13.1	– 0.3	9.0	– 52.3	– 69.0
Share-based compensation		0.1	– 0.1					0.0
Treasury shares		– 0.2	– 6.5					– 6.7
At 30.6.2008	**38.0**	**– 4.1**	**856.3**	**– 13.1**	**– 6.2**	**1.3**	**– 180.9**	**691.3**

Unaudited, CHF m	Share capital	Treasury shares	Reserves	AFS asset	Cash flow hedge reserve	Net investment hedge reserve	Translation differences	Total
At 1.1.2007	**54.3**	**– 3.5**	**735.4**	**0.0**	**– 8.3**	**– 9.2**	**– 130.1**	**638.6**
Group profit			46.6					46.6
Net income and expenses recognized in equity			0.0	0.0	1.2	– 4.1	21.5	18.6
Share-based compensation		0.1	1.2					1.3
Treasury shares		– 0.4	– 13.5					– 13.9
At 30.6.2007	**54.3**	**– 3.8**	**769.7**	**0.0**	**– 7.1**	**– 13.3**	**– 108.6**	**691.2**

Notes to the consolidated half-year Financial Statements (unaudited)

01 Group accounting principles

This summary of the consolidated interim financial statement covers the six-month period from January 1, 2008 to June 30, 2008 (hereinafter 'reporting period') and was drawn up in accordance with the 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 at December 31, 2007.

The consolidated half-year financial statements have not been audited by the Group auditors. They were approved for publication by the Board of Directors on August 12, 2008.

The accounting policies applied in the consolidated half-year financial statements are in line with the accounting policies set out in the Annual Report 2007 with the following exceptions: since January 1, 2008, the Forbo Group applies the new standards IFRIC 11 'Group and Treasury Share Transactions', IFRIC 12 'Service Concession Arrangements' and IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' as far as these interpretations are relevant to the Group’s business activities. The application of these standards has no significant effect on the Group’s equity, profits or cash flows.

The preparation of the consolidated half-year financial statements requires management to make estimates and assumptions that can affect reported revenues, expenses, assets, liabilities and contingent liabilities at the date of the financial statements. If the estimates and assumptions made to the best of their knowledge by management at the date of the financial statements differ from the 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 new estimates and assumptions by management compared with the consolidated financial statements at December 31, 2007. Earnings and expenses which are not incurred on a straight-line basis during the business year are only deferred if such deferral was justified at year-end. Income tax expenditure is estimated on the basis of actual average tax rates during the current business year.

02 Changes in scope of consolidation

There were no significant changes in the scope of consolidation in the reporting period.

03 Segment information

	Flooring Systems		Bonding Systems		Movement Systems		Group	
CHF m	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Net sales	**437.8**	430.2	**338.8**	390.0	**184.6**	183.3	**961.2**	1,003.5
Operating profit (EBIT)	**54.2**	41.6	**22.6**	29.4	**11.5**	9.1	**80.7**	73.1
EBIT margin in %	**12.4**	9.7	**6.7**	7.5	**6.2**	5.0	**8.4**	7.3
Group profit							**53.9**	46.6
Number of employees							**6,059**	5,839

Information on the segments can be found on pages 2 and 3 of this Report.

04 Balance sheet

The total assets grew by 11.0 % to CHF 1,559.3 million mainly because of the seasonal increase in operating working capital and investments in securities. Plant, property and equipment and intangible assets declined by CHF 39.5 million compared with December 31, 2007. While intangible assets were largely unchanged, investments in plant, property and equipment came to CHF 18.1 million, which was substantially lower than the depreciation of CHF 26.8 million. Changes in exchange rates, furthermore, resulted in plant, property and equipment declining by about CHF 31 million. The investments in plant, property and equipment were used primarily to finance projects designed to expand production capacity, improve efficiency, and develop new markets.

Equity decreased by CHF 21.8 million to CHF 691.3 million compared with December 31, 2007. The Group profit of CHF 53.9 million for the first half of 2008 was set off against a number of factors: the actuarial losses recognized in equity in connection with defined benefit pension plans (CHF 12.3 million), the losses arising from the translation of subsidiaries' half-year reports into the Group accounting currency (CHF 52.3 million), the costs incurred in connection with the purchase of treasury shares (CHF 6.7 million), the effects of hedging cash flows and net investments (CHF 8.7 million), and the negative fair value changes, recognized directly in equity, of securities classified as 'available for sale' (CHF 13.1 million). As per June 30, 2008, the equity ratio stood at 44.3 %.

Net debt increased by CHF 34.7 million from CHF 41.6 million to CHF 76.3 million compared with December 31, 2007. The increase in interest-bearing debt compared with the end of the previous business year corresponds roughly to investments in securities. Accordingly, the increase in net debt is due primarily to the seasonal increase in net working capital. Gearing (net debt/equity) stood at 11.0 % as per end of June 2008.

05 Income statement

Financial expenses in the reporting period were CHF 4.9 million. Income tax came to CHF 21.9 million, corresponding to a tax rate of 28.9 %. In the prior-year period, the tax rate had been 30.8 %. Structural measures to optimize taxes are bringing about a steady decrease in the tax rate. Group profit rose by 15.7 % versus the prior-year period and stood at CHF 53.9 million. The undiluted profit per share came to CHF 22.04.

06 Free cash flow

Free cash flow was negative at CHF –188.5 million. The key factors leading to this result were investments in securities (CHF 164.9 million), investments in plant, property and equipment (CHF 18.1 million) and the seasonal increase in working capital, which in the year under review was due mainly to the launch of new global collections for Flooring Systems.

07 Main exchange rates applied

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

		Income statement Average rate, 6 months		Balance sheet Rate on balance-sheet date	
CHF		2008	2007	30.6.2008	30.6.2007
Euro countries	EUR 1	1.61	1.63	1.61	1.65
USA	USD 1	1.05	1.23	1.02	1.23
Japan	JPY 100	1.00	1.02	0.96	1.00

08 Events after the balance sheet date

On April 25, 2008, the Annual General Meeting of Forbo authorized the Board of Directors to buy back a maximum of 10 % of the share capital entered in the Commercial Register over a period of three years. This corresponds to a maximum of 271,315 registered shares at CHF 14 each. The shares to be acquired will be repurchased via a second trading line after deduction of withholding tax and are (without exception) to be extinguished by means of a reduction of capital. As at the balance sheet date, Forbo Holding Ltd held 213,152 such treasury shares, directly and indirectly via its subsidiary Forbo International SA, Baar; this was equivalent to 7.9 % of the share capital entered in the Commercial Register.

On July 9, 2008, Forbo Holding Ltd informed Rieter Holding AG, Winterthur, that it possessed 445,530 registered shares of Rieter directly and indirectly through its subsidiary Forbo International SA, Baar. This corresponds to 10.01 % of the voting rights. It passed the threshold of 10 % of the voting rights on July 3, 2008.

As per July 11, 2008, the Forbo Group acquired the lightweight PVC conveyor belting business of Fenner Dunlop (Charlotte) Inc. In connection with this acquisition, moreover, Forbo concluded an agreement for the distribution of lightweight rubber belting products that are manufactured by Fenner Dunlop Americas, Inc. The sales volume of PVC and rubber belting products was about USD 30 million in the 2007 business year. As part of the acquisition, Forbo Movement Systems will take over about 40 employees.

For the 2007 business year, shareholders received a reduction in par value instead of a dividend distribution. This was approved by the Annual General Meeting of Forbo Holding Ltd on April 25, 2008. CHF 10 per registered share was paid out to shareholders. Unlike a dividend distribution, this payout is not subject to withholding tax. The payout was made to shareholders in Switzerland on July 21, 2008 (value date) free of charge.

The Forbo Group announced the acquisition of Bonar Floors on July 28, 2008. Bonar Floors is the Flooring division of Low & Bonar PLC, a company listed on the London Stock Exchange. The acquisition of Bonar Floors will enable Forbo Flooring Systems to complement and strengthen its product portfolio of high quality flooring solutions for the global commercial market. Bonar Floors maintains seven manufacturing sites in France, the Netherlands and the United Kingdom. The products are marketed in more than 40 countries. Bonar Floors generates annual net sales of about CHF 230 million and has more than 800 employees. The transaction is subject to the satisfaction of prior conditions, including the approval by the Low & Bonar PLC shareholders and certain antitrust authorities in Europe. The transaction is expected to close by the end of October 2008. The agreed purchasing price is £ 123 million.

Dates
Media and financial analysts' conference: March 17, 2009
Annual General Meeting: April 24, 2009

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