

Forbo Creates Value for Customers

In the development and manufacture of its products Forbo focuses on the needs and wishes of its customers and end-users. The diversity of these needs is matched only by the uniqueness of the solutions Forbo provides – products that are designed to meet a broad range of exacting requirements in a variety of sectors around the world. The pictures in this Annual Report show just some of the ways in which Forbo products are used, giving the reader a brief but representative impression of the broad spectrum of products the company offers.

Page 8 With the modern Novilon® floorcovering there are almost no limits to individual choice. In the kitchen-cum-living area of a new single-family home in Frankfurt am Main Novilux® marquetry borders add a special note.

Page 14 Amsterdam's former planetarium today serves as a conference center and meeting place for architects. It was designed by the architects Van den Oever, Zaaijer, Roodbeen & Partners. P. Zeegers was responsible for the original design of the Linoleum floor using Artoleum® Scala.

Page 18 Siegling's Transilon® conveyor belts transport the luggage at Hong Kong's new Chek Lap Kok airport where they demonstrate the robustness and hardwearing qualities for which they are renowned.

Page 22 Marmoleum® Real was used for the floor of the sports center Pabellon Deportivo Colegio Manuel Peleteiro in Santiago de Compostela in Spain – an ideal and attractive choice.

Page 28 The wooden elements of the new bridge in the Sihltal valley near Zurich, Switzerland, were glued together with Forbo CTU's weatherproof polyurethane wood adhesive Balcaton®.

Page 32 At the Lance factory in Charlotte (USA) Transilon® conveyor belts by Siegling are used for the processing and packaging of cookies and crackers.

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Forbo

- Forbo is an internationally active industrial company which has grown steadily since it was established in 1928. The Group now operates 30 manufacturing companies in 12 countries and 73 marketing organizations in 25 countries. The Head Office is located in Eglisau/Zurich (Switzerland).
- The Group develops, produces and markets products and systems in its two Divisions, **Flooring** and **Industry Specialties**, each of which is made up of several business units. These business units are focused on specific product groups and carry responsibility for sales and income. The various business units are linked by numerous synergies.
- Forbo has an excellent store of product, manufacturing and market expertise which it employs to the full in order to exploit existing synergy potential, innovative thrust and to selectively expand its market activities.
- Thanks to the Group's attractive product portfolio and brand names that are well-established worldwide, Forbo occupies leading positions in its chosen markets.
- Forbo's goal is to achieve a sustained increase in shareholder value by focusing on profitable core products, through organic growth and acquisitions and by systematically gearing its activities to market requirements.
- The Forbo Group has approximately 7,000 employees worldwide.

Key Figures¹⁾

| Forbo Group | 1999 | 1998 | 1999 |
|---|---------------------|---------|---------------------|
| | m CHF | m CHF | m EUR ²⁾ |
| Gross sales | 1,874.4 | 1,832.2 | 1,169.8 |
| Change on previous year (%) | +2.3 | -9.7 | |
| Flooring | 1,088.3 | 1,066.0 | 679.2 |
| Industry Specialties | 786.1 | 766.2 | 490.6 |
| Net sales | 1,754.5 | 1,714.5 | 1,095.0 |
| Operating profit before specific provisions | 123.0 | 112.2 | 76.8 |
| Change on previous year (%) | +9.6 | +16.5 | |
| As % of net sales | 7.0 | 6.5 | |
| Operating profit after specific provisions | 53.0 | 112.2 | 33.1 |
| Cash flow | 191.6 | 178.0 | 119.6 |
| Change on previous year (%) | +7.6 | +1.4 | |
| As % of net sales | 10.9 | 10.4 | |
| Consolidated profit before specific provisions | 86.1 | 76.7 | 53.7 |
| Change on previous year (%) | +12.3 | +23.5 | |
| As % of net sales | 4.9 | 4.5 | |
| As % of average shareholders' equity | 10.8 | 9.8 | |
| Consolidated profit | 16.1 | 76.7 | 10.0 |
| Capital investment, net | 119.4 | 148.4 | 74.5 |
| As % of cash flow | 62.3 | 83.4 | |
| Total assets | 1,727.4 | 1,580.3 | 1,078.1 |
| Shareholders' equity | 794.8 | 798.3 | 496.0 |
| Equity ratio (%) | 46.0 | 50.5 | |
| | | | |
| | Number | Number | |
| Employees (at 31.12.) | 6,829 | 6,781 | |
| | | | |
| | m CHF | m CHF | m EUR ²⁾ |
| Economic value added (EVA®)³⁾ | 18.5 | 10.1 | 11.5 |
| Stock market capitalization (at 31.12.) | 1,105.1 | 884.0 | 689.7 |
| | | | |
| | CHF | CHF | EUR ²⁾ |
| Per share data | | | |
| Earnings per share ⁴⁾ | 58.44 | 52.06 | 36.47 |
| Shareholders' equity per share | 539.43 | 541.80 | 336.66 |
| Dividend per share | 22.00 ⁵⁾ | 22.00 | 13.73 |
| Payout ratio ⁴⁾ (%) | 37.6 | 42.3 | |

¹⁾For explanatory notes, see Financial Report

²⁾CHF values translated at year-average exchange rate of CHF 1.6023/1 EUR (Bloomberg)

³⁾Registered trademark of Stern, Stewart & Co.

⁴⁾relating to consolidated profit before specific provisions

⁵⁾Proposal of the Board of Directors

Report of the Chairman of the Board of Directors

Ladies and Gentlemen,

following the 1999 General Meeting of Shareholders the Board of Directors reconstituted itself, replacing the previous Board Committee with three new ones: an Audit and Finance Committee, a Corporate Development Committee and a Committee for Human Resources and Remuneration. This reorganization ensures that the work of the Board of Directors is dealt with efficiently. As previously announced, we conducted a thorough review of our company's overall business strategy in the year under review. This process resulted in the formulation and adoption of a new strategy, whose overarching objective is to bring about a sustained enhancement of enterprise value. In the next few pages Werner Kummer, CEO, gives an in-depth report on the Group's strategic renewal.

Well-Equipped for the Future

Impressive increase in earnings

The results for the 1999 business year tell a clear story: we are approaching the future with greater strength. On sales of CHF 1,874.4 million, 2.3% up on the previous year, we achieved an impressive 12.3 % increase in consolidated profit, taking it to a total of CHF 86.1 million (before specific provisions for the strategic reorganization amounting to CHF 70 million after tax). The restructuring measures introduced in previous years and the Group's efforts to keep costs under control made an important contribution towards this positive result. In addition, we can safely say that our product portfolio is well-positioned in our major markets, finding strong and widespread acceptance in the face of stiff competition. Forbo is well-equipped to vigorously pursue new and ambitious objectives.

Unchanged dividend

Net profit for 1999 reported by Forbo Holding SA totalled CHF 33.5 million (previous year: CHF 33.0 million). In the light of this result the Board of Directors proposes that the General Meeting of Shareholders approve payment of a dividend of CHF 22 per registered share, unchanged from the previous year. The total dividend distribution thus amounts to CHF 32.4 million (previous year: CHF 32.4 million), with the number of shares in circulation remaining the same as in the previous year.

Personnel Changes

Board of Directors

The term of office of Dr. Ivo Gerster will expire with effect from the date of the forthcoming Annual General Meeting of Shareholders. Dr. Ivo Gerster is standing for re-election for a one-year term of office, at the end of which he will have reached the age limit according to organizational regulations. The Annual General Meeting will also be asked to elect Michael Pieper, Hergiswil, for a term of office of four years.

Group Executive Management

In parallel with the formulation of Forbo's strategic renewal, the Group's management structure was reorganized with effect from January 1, 2000. The company's core business is now divided into four Strategic Business Units: Linoleum, Cushion Vinyls, Belting and Adhesives. Each of these units is under the responsibility of one of the members of the Group Executive Board.

This made it necessary to expand the Group Executive Board from five to seven members with the appointment of Marien A. G. Weijenberg and Dr. Jan Lipton. Marien A. G. Weijenberg has been with Forbo Krommenie B.V. in Holland for the past four years, where he was in charge of production. He now assumes responsibility for the Linoleum business unit with effect from January 1, 2000. Dr. Jan Lipton, formerly a Member of the Group Executive Board of the Laufen Group, with responsibility for sanitary ware products in Europe/Asia, ceramic tiles business in the USA and technology and innovation, will become head of the Belting business unit as of April 1, 2000.

Well Set to Tackle the Changes

Concentrating on our strengths

All the prerequisites for the process of change initiated by the Group's strategic renewal are in place. We command outstanding product and market expertise. We can count on business units whose performance capabilities compare favourably with our competitors. And we aim to build on these strengths. Our focused approach will enable us to deploy our human and financial resources efficiently and effectively. The changes that lie ahead are a great challenge for all our managers and staff.

Profit-Driven Growth

Dynamic management of the product portfolio

Our aim is to consolidate and further reinforce our leading positions in the most attractive markets. We will be striving not just for strong profitability but also for sales growth, since the two need to be successfully combined if enterprise value is to be enhanced. This will require dynamic, profit-driven management of the Group's product portfolio, a process for which all the necessary prerequisites have now been created.

Forbo on the Move

A word of thanks

We can look back on a good business year and I would like to express our sincerest gratitude to everyone in the organization for their impressive commitment, for all the hard work they have put in and for the results they have achieved. I would also like to thank our customers for choosing the products and services we offer. And of course we also owe a debt of gratitude to our shareholders for the confidence they have shown in us through their investment in the company. Our Group is now moving forward. With the strategic review we have plotted a new course, to which all our activities will be harnessed. I am entirely confident that we will achieve the objectives we have set ourselves.

Karl Janjóri
Chairman of the
Board of Directors



A handwritten signature in dark ink, appearing to read 'K. Janjóri', written in a cursive style.

Report of the Chief Executive Officer

Building on our Strengths – Creating Shareholder Value

In the year under review we succeeded in further improving our operational profitability. In a world of rapid change we aim to build on this strength to create a corporate entity that is constantly evolving with dynamism and flexibility. Technological advances have generated scope for innovation. Globalization is providing access to new markets. Mounting competitive pressures call for adaptability. Our task is to engage in an unrelenting and intensive search for appropriate and effective responses to these challenges. In the year under review we have conducted a thorough analysis of the Group and its markets and, based on the results of this analysis, have plotted a course for the future. The new approach is based on four principles.

The Four Cornerstones of Forbo's Future Strategy

Our business

Forbo will focus more intensely than before on its core businesses which offer strong and sustained potential for strong profitability, sales growth, market leadership and synergies. The sectors that we have designated as Strategic Business Units are Linoleum and Cushion Vinyls in the Flooring Division, Belting (conveyor and drive belts made from synthetic materials) and Adhesives in the Industry Specialties Division. The future role to be played by the other business units will depend on whether they strengthen our strategic core business or show the necessary potential for development into autonomous Strategic Business Units in their own right.

Our goals

All Strategic Business Units must secure leading positions either worldwide or in their most important markets. This can be achieved by organic growth and through well-targeted acquisitions. At the same time we will focus on achieving earnings-driven growth. Capital investments will be channelled into areas with strong and clearly identifiable earnings potential. Accordingly, every business unit must measure itself in terms of performance against its external competitors in the marketplace as well as against the other units within the Group.

Our assets

Our most important assets are satisfied customers and employees with strong capabilities and motivation. To achieve the former we must systematically gear our market performance to the needs of our customers, ensuring their complete satisfaction through the unrivalled quality of our products and of the associated services. And, in this, the all-important factor will be our managers and staff, whose dedication and commitment, sense of responsibility and ability to act on their own initiative will play a key role in moulding the customer's perception of the company. And, for our part, we aim to do everything in our power to ensure that all our employees can work as successfully and effectively as possible, by providing for a corporate culture, which is open, straightforward and performance-oriented, and which recognizes the importance of training, career development and performance-driven remuneration systems.

Our mission

Our mission is to achieve a sustained increase in enterprise value, for which the best guarantee is a combination of strong earnings power and growth. Our business strategy is closely and consistently geared to the creation of value. Each and every operational unit must satisfy this requirement. At the same time, this strategy is the main criterion for the future allocation of human and financial resources. The objective of systematically enhancing the value of our company is an important underlying factor in all our planning and decision-making processes, as well as providing the key parameters for performance assessment. A vital task for Forbo is to ensure that employees at all levels display the necessary understanding of and commitment to the process of change in which we find ourselves, so that they may play a part in actively shaping this process.

Target

Ambitious yet realistic

Our objective is to achieve a sustained increase in earnings and sales. The Group's mid-term target is to raise the return on sales before depreciation (EBDIT as percentage of net sales) from today's level of 13% to 16% and to increase the return on assets (EBIT as percentage of operating assets) from today's figure of 8% to 15%. Over the same period we will seek to achieve a significant increase in sales by means of internal growth and carefully targeted acquisitions.

By drawing on the combined resources of all Forbo employees we believe we can rise to the challenge of securing a successful future for the Group.

Werner Kummer
President and Chief
Executive Officer



W. Kummer





We create atmosphere.

Forbo Group: Promising Business Performance

In the 1999 business year Forbo's total sales rose by 2.3% to CHF 1,874.4 million. This increase was attributable to both the Flooring and Industry Specialties Divisions in equal measure. Considerable growth was achieved in Asia, North and South America, regions of increasing importance for the Group. Promising sales growth was recorded in the core products linoleum, belting and adhesives.

Successful Performances in our Core Businesses

Number one in linoleum

In the flooring business, sales of the core product linoleum expanded to account for a 40.7% share of the total. Forbo is the world leader in this area, with a market share of around 60%. In 1999 the Group's linoleum sales grew by 4.0% to CHF 443.1 million, helped by new collections, which were successfully introduced in a number of markets. The market for cushion vinyl floor coverings is suffering from overcapacities and price erosion. Even so, thanks to highly effective marketing aimed at selected customer segments the Group posted sales of CHF 370.7 million, a mere 1.2% below the previous year's figure.

Strengthening market position

The two core products of the Industry Specialties Division, belting (conveyor and drive belts) and adhesives, put in a positive performance. Sales of belting products were up 8.0% to CHF 339.5 million. The introduction of new products and the expansion into attractive new segments enabled us to further reinforce our leading market position. Our Adhesives Business benefited from rising demand in its major markets, with the result that sales were up 6.9% to CHF 223.7 million.



Vigorous Growth in USA and Asia

Europe remains the principal market

The Group's business in Asia recovered from last year's downswing, enabling sales to soar by 23.5%. This was due in part to the new belting manufacturing company in China. Sales in North and South America were boosted by 8.2%. The healthy state of the US economy led to a marked increase in sales, especially in the belting area. Nevertheless, Europe continues to account for more than 80% of group sales. In the important market regions of Benelux and Scandinavia Forbo registered slightly above-average sales growth rates. In the United Kingdom, France and Germany sales were slightly down on the previous year, more heavily so in Eastern Europe.

Sales by geographic area

| | % | Change 98/99 % | m CHF 1999 |
|-----------------|------|-------------------|---------------|
| Benelux | 19.9 | 3.6 | 372.8 |
| Germany | 19.1 | -0.9 | 358.2 |
| America | 10.6 | 8.2 | 198.6 |
| Scandinavia | 9.9 | 3.2 | 184.8 |
| France | 9.3 | -1.0 | 175.0 |
| United Kingdom | 9.1 | -3.6 | 170.1 |
| Asia/Africa | 7.1 | 22.2 | 133.0 |
| Switzerland | 6.6 | 1.5 | 124.6 |
| Southern Europe | 6.0 | 0.5 | 112.8 |
| Eastern Europe | 2.4 | -12.9 | 44.5 |

Capital Investments

Consolidation

Following the heavy investments effected in the period 1997/98 in large-scale production facilities in the Netherlands, Germany and the United Kingdom, the Group's capital spending was at a much lower level in the year under review, all investment projects combined amounting to CHF 125 million. This figure includes the sum of CHF 37 million relating to projects from previous years, which affected liquidity in 1999.

Our budgeted investment spending for the current business year is approximately CHF 100 million and will be focused on the Strategic Business Units.

Staff

Structural adjustments

At the end of 1999, Forbo had 6,829 employees worldwide, representing an increase of 0.7 % on the previous year (6,781). This rise is largely attributable to the expansion of operations in China and the growth achieved in the USA. The strategic renewal process may bring a reduction in the headcount by up to 200 jobs in 2000, mainly in the Carpets and Belting Business Units where structural adjustments are required. At the same time, however, the planned expansions in other areas will create new jobs.

Earnings

Above-average profit growth

Following a somewhat weak performance in the first half of 1999, business picked up in the latter half of the year under review and, in particular, in the fourth quarter. Thanks to this upturn and consistent efforts to cut costs, together with a greater emphasis on our more profitable core products, the Group's operating profit grew at a faster rate than its sales. At CHF 5.6 million, (net) financial expenses were by CHF 2.2 million below the previous year's level, due to higher financial income and lower interest cost. Consolidated profit rose by 12.3% to CHF 86.1 million on a comparable basis to the previous year. As part of the strategic renewal initiative, specific provisions for restructuring and valuation adjustments were created, e.g. for the Carpets and Belting Business Units, where structural adjustments are being carried out. To this end the sum of CHF 70 million after tax was charged to consolidated profit for 1999. Details on how these funds are to be applied will be given once they have been allocated and used. After deduction of these specific provisions consolidated profit amounted to CHF 16.1 million.

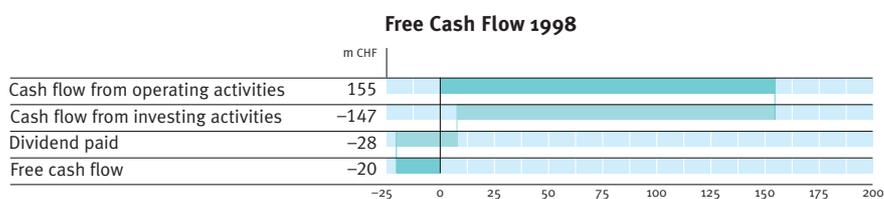
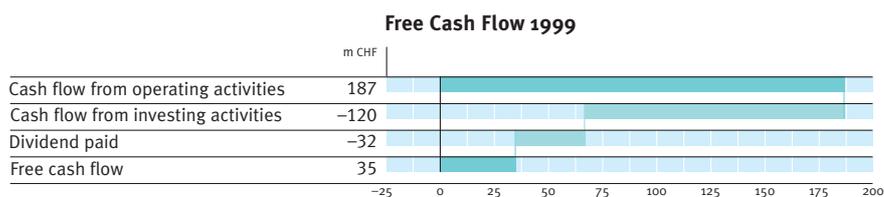
The improvement in group operating profitability in 1999 is also demonstrated by the increase in the return on assets (operating profit as a percentage of operating assets) to 8.2% and in particular by the Group's economic value added. This is expressed on an EVA[®] basis as the excess over the weighted average cost of capital. EVA[®] increased in 1999 by CHF 8.4 million (83.2%) to CHF 18.5 million.

Through the targeted deployment of funds we succeeded in increasing the free cash flow from a negative amount of 20.0 million in 1998 to CHF 35.3 million. This positive development is also visible in the balance sheet where net financial liabilities were down by CHF 39.6 million to 205.1 million.

Outlook

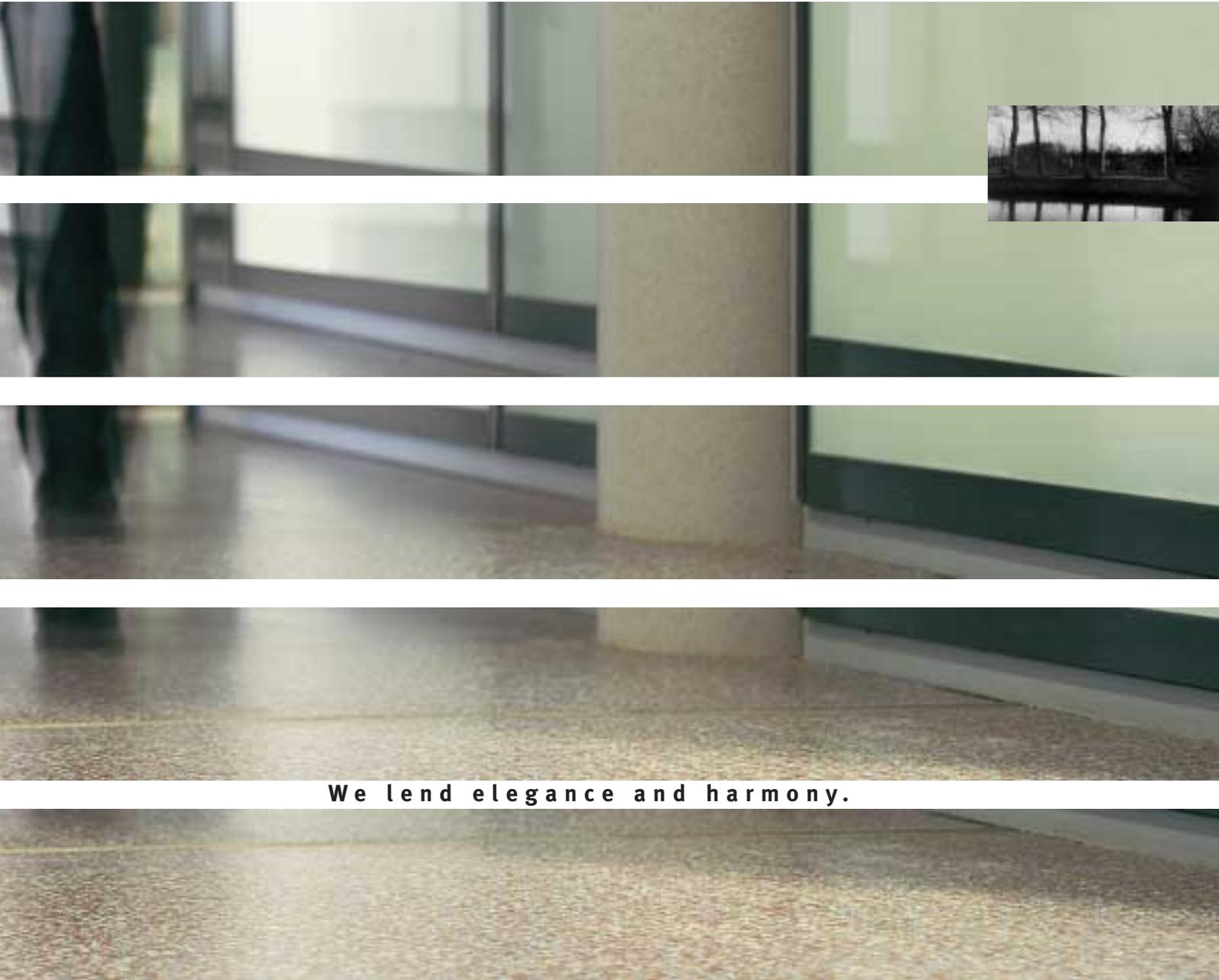
On course

We expect to see a continuation of the revival in business activity in our main markets that set in towards the end of 1999. This, together with the strategic measures designed to focus our operations more sharply, to gear our activities more closely to the market and to promote growth in our core businesses, means that we should already move a step closer in the current year to achieving our mid-term objectives.



See Consolidated Cash Flow Statement in the Financial Report, page 4





We lend elegance and harmony.

Flooring: Market Position Strengthened

In 1999, Forbo strengthened its position in the flooring market. Despite stagnating volumes and falling prices in important markets, the Group's considerable marketing efforts enabled it to increase sales by 2.1% to CHF 1,088.3 million and operating profit (EBIT) to CHF 103.5 million (previous year: CHF 97.1 million).

Linoleum

Successful marketing drive

With a market share of more than 60%, Forbo is the world's leading supplier of linoleum, one of the Group's core products. Total sales in the year under review amounted to CHF 443.1 million, 4.0% up on the previous year. Our substantial marketing efforts were one major factor behind this encouraging result. The new Artoleum® 2 design collection launched in 1999 met with a very positive response on the market. And the Forbo collections attracted great attention at Europe's leading trade fairs, Domotex in Hanover and Bâtimat in Paris.

A very promising performance was recorded by our activities in North America, where linoleum, still commanding a relatively small share of the market, is now achieving greater acceptance. The Forbo range is excellently positioned in this market: in early January it was ranked number one by the Design Journal, and Artoleum® received the highly prestigious 1999 Platinum Award for Design Excellence in the flooring category. In the USA Forbo has a highly effective sales and marketing team. The two existing training centres for flooring techniques will be supplemented by a third one to be opened this year. To mark its 100th anniversary, the Dutch company Forbo Krommenie B. V. organized an exhibition of linoleum art prints in the Cobra Museum in Amstelveen, Netherlands. The exhibition, entitled 'From Kandinsky to Corneille', enjoyed public and critical acclaim.

Cushion Vinyls

Success in spite of difficult market conditions

Like the previous year, 1999 was characterized by difficult market conditions. The problem of excess capacities was aggravated further. Despite these conditions Forbo succeeded in maintaining its positions in the major European markets. Thanks to its extraordinary design and the excellent benefits it offers, the inlay chips technology of Forbo Novilon® made further headway in terms of market popularity. Total sales of cushion vinyl floor coverings in 1999 stood at CHF 370.7 million, 1.2% below the previous year, which is substantially less than the decrease of the total market.

At Forbo Novilon produktiebedrijven bv in Coevorden (Netherlands) the first phase of a new production line was brought on stream. In the current business year the second phase of the new plant will be completed. This will give Forbo the necessary production technology to manufacture innovative cushion vinyls, which will be ready for market launch in the next few months. Forbo Sarlino SA in Reims (France) vigorously expanded its market position in vinyl floor coverings that offer strong sound insulation characteristics. In Colorex® Shape, Forbo Giubiasco SA (Switzerland) has developed a new generation of halogen-free vinyl floor coverings for special applications.

Carpets

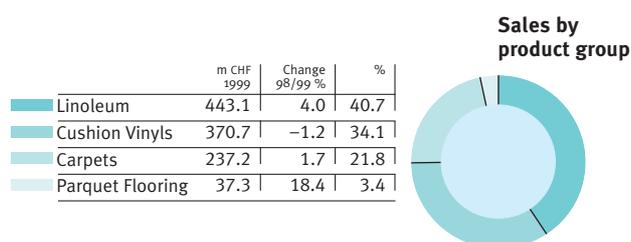
Forbo does well in declining market

Although the market for textile flooring continued to contract, Forbo achieved a slight growth in sales, raising it by 1.7% from the previous year to CHF 237.2 million. The business performance in this segment was helped by investments in new collections and rationalization measures. According to plan, we completed the closure of the needlefelt production facility in Lachen (Switzerland) and the transfer of production to Reims (France) and Wermelskirchen (Germany) together with the concentration of all Swiss-based textile floorcovering operations in Ennenda (Switzerland). In the current business year we plan to carry out a restructuring of our European carpet operations. To that end the Carpets Business Unit was reorganized.

Parquet Flooring

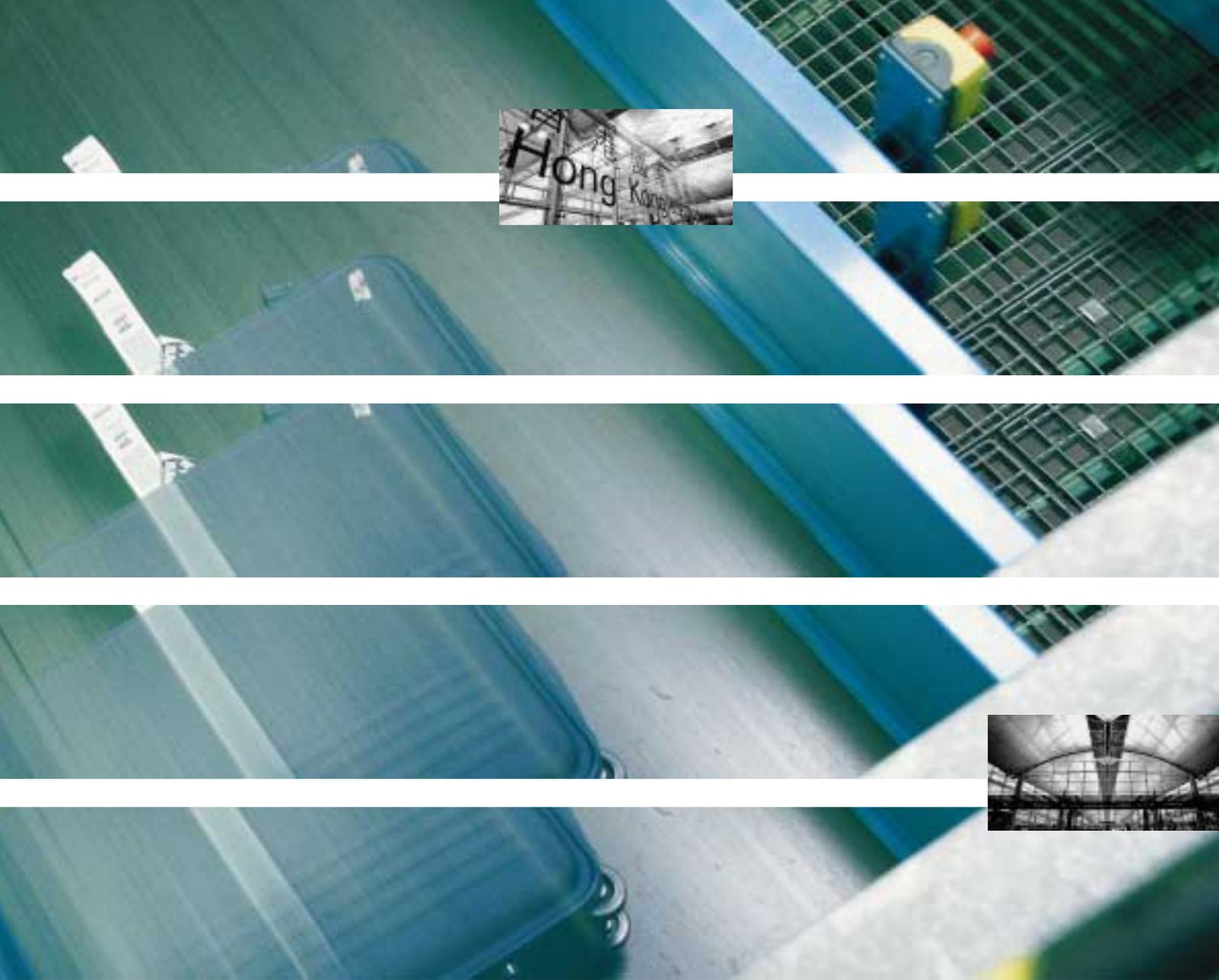
Gratifying rise in sales

The Group's sole remaining parquet flooring factory, located in Sweden, successfully boosted its sales to CHF 37.3 million, due to the extraordinarily high-quality design of the ready-to-lay parquet flooring produced there. In the Group's new management structure this local parquet business will be assigned to the Linoleum Strategic Business Unit. Its main function is to strengthen the Group's market position in Scandinavia.



We keep the world in motion.





Industry Specialties: Products that Set Standards

Forbo's Industry Specialties division raised its sales by 2.6% to CHF 786.1 million. Above average growth in sales was achieved in both core products: belting and adhesives. Operating profit (EBIT) came to CHF 44.5 million and was higher than in the previous year (CHF 35.7 million) by 24.6%.

Belting

Largest order ever

Belting as a core product comprises conveyor and processing belts, drive and machine belts and is produced by the Siegling group. In the year under review sales generated by belting products increased – in spite of heavy pressure on prices – by 8.0% to CHF 339.5 million. The recovery of Europe's mechanical engineering industry made it possible to expand business volume in this segment. Siegling's American operation took advantage of the buoyant state of the US economy to strengthen its market presence. In the year under review Siegling succeeded in winning the largest order in its history for conveyor belts to equip a new package-handling center in the USA. The Siegling Group also achieved higher sales in the Far East, and especially in Japan where the economy saw a slight improvement. The Group's Chinese business partner is set to sell Forbo its 20% minority stake in Forbo Siegling (Shenyang), thereby enabling the company to be converted into a wholly-owned Forbo subsidiary in January 2000.

In the 1999 business year, Siegling as leader in industry developed new products, which will allow the company to further expand sales in selected market segments. These products include, amongst others, a new range of drive and machine belts for the textile and paper industries and new processing belts for the textile printing industry.

The large-scale investment in the new production plant in Hanover (Germany) was completed in the year under review. Further funds were invested in renewing and extending the drive and machine belts production facilities at Siegling (Schweiz) SA in Wallbach.

To counter falling prices in the belting markets, operations in the year 2000 will aim to reduce costs in targeted areas.

Adhesives

Flourishing growth

In the adhesives segment Forbo stayed on its positive course in the year under review, achieving total sales of CHF 223.7 million and thereby outstripping the previous year's result by 6.9%. The increase in demand stems from the construction and industrial sectors. In the Far East sales were considerably higher, whilst brisk sales growth was also registered in Germany, the Netherlands and France. By contrast, in Eastern Europe sales were down, as a consequence of the general state of the region's economy. Sales of Forbo hot-melt adhesives for industrial applications recorded above-average growth.

Forbo managed to make very good progress in the flooring segment, mainly thanks to its systematic customer training in floor laying techniques and its new, environmentally friendly product range. An innovative welding rod range was launched for the Artoleum® product line. At Eurocol B.V. in Wormerveer (Netherlands), the new development and training center came on stream.

In 1999, Forbo set up a distribution company by way of expanding the Group's presence in Poland. The German distribution company Forbo Uli-Chemie GmbH was integrated into Forbo Erfurt GmbH at the end of 1999.

Coated Textiles

Downturn in sales

The internationally active group company Forbo Stamoid SA, based in Eglisau/Zurich (Switzerland), was able to maintain its market position in its most important customer segments and, in particular, made significant progress with products for the construction industry and outdoor advertising. Nevertheless, sales for the year were 7.1% down at CHF 43.1 million, primarily owing to a sharp drop in orders in the military sector.

Extruded Profiles

Subdued demand

The market for window profiles, in which we attained total sales of CHF 32.8 million, continued to be characterized by subdued demand in Germany, Europe's largest market. The decrease in sales in Germany was made up by successful sales in Eastern Europe. In 2000 we expect to see a slight recovery in the German market and a further expansion of business in other countries.

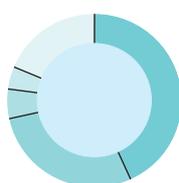
Decorative Films and Wallcoverings

Strong industrial demand

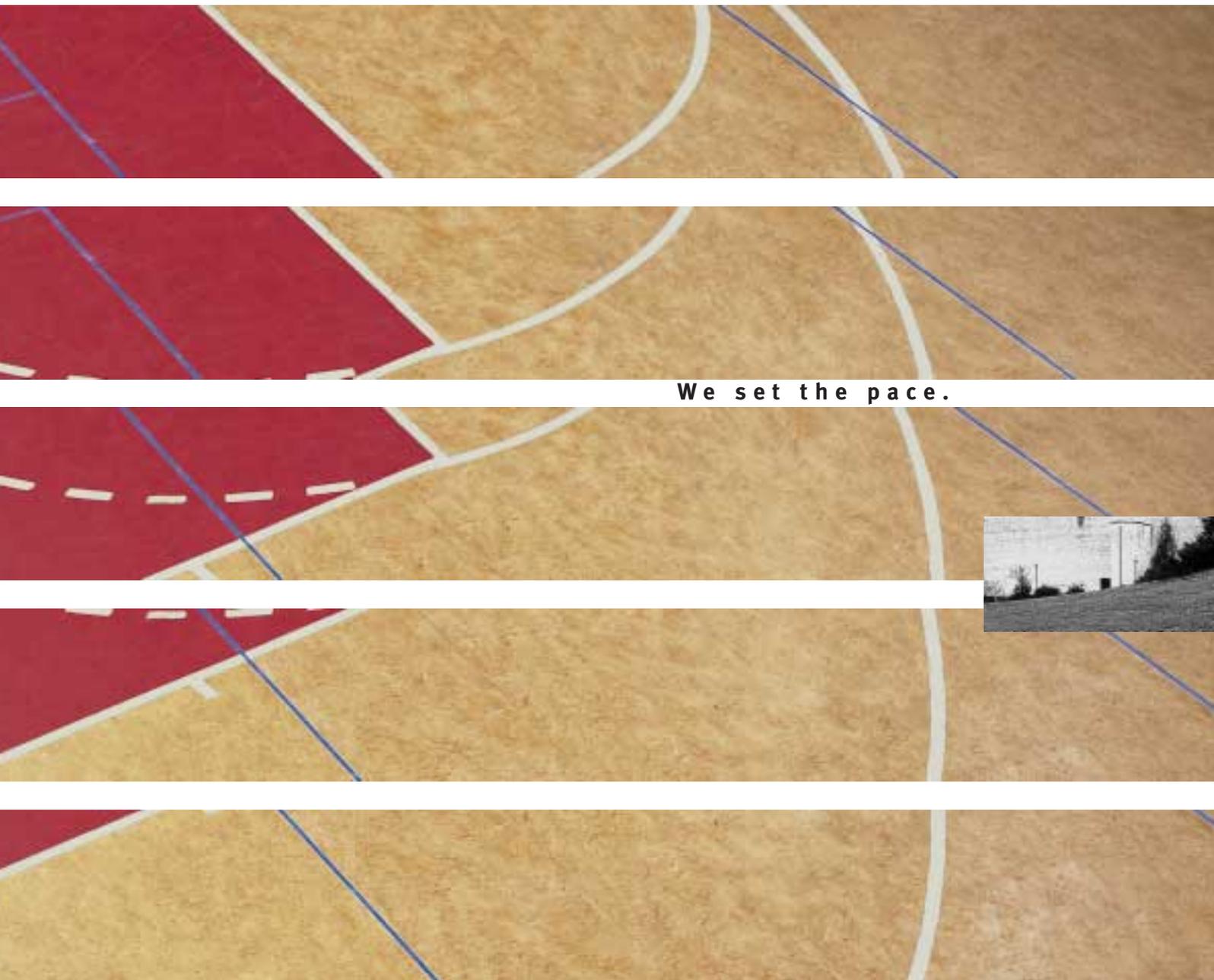
Business in decorative films for industrial applications continued to expand in 1999 as it has done in recent years, whereas the products in the consumer goods sector, including wallcoverings, were impacted by difficult market conditions. The measures taken in 1998 to restructure the Group's wallcoverings operations and the ongoing drive to rationalize the product range helped to improve profitability, although the progress was not as pronounced as expected. Not only because of these measures, total sales decreased by 10.1% to CHF 147.0 million. The new production facilities came on stream at the end of 1999, thereby removing the capacity bottlenecks afflicting business with industrial customers and paving the way for the development of new products.

| | m CHF 1999 | Change 98/99 % | % |
|--------------------------------|---------------|-------------------|------|
| Belting | 339.5 | 8.0 | 43.2 |
| Adhesives | 223.7 | 6.9 | 28.4 |
| Coated Textiles | 43.1 | -7.1 | 5.5 |
| Extruded Profiles | 32.8 | 0.6 | 4.2 |
| Decorative Films/Wallcoverings | 147.0 | -10.1 | 18.7 |

Sales by
product group







We set the pace.



Shaping the Future

Forbo pursues a systematic and carefully targeted investment strategy to expand and further develop its existing product range. To provide further encouragement for innovation, a new body is being set up at group level. The Forbo Group attaches great importance to quality assurance, quality enhancement and environmental compatibility. Forbo's belief in the importance of treating natural resources in an ecologically responsible manner is reflected in its environmental management system.

Innovation and Product Development

Attractive
development
projects

In the 1999 business year, the Group continued to work intensively on the development projects currently in progress such as the manufacture of the world's first 4.5 meter-wide conveyor belts, further expansion of the high-quality linoleum collection Artoleum® and the preparation of new collections for its Carpets and Cushion Vinyls Business Units (Novilon®). At present the top priority projects include a new kind of halogen-free vinyl floorcovering and new adhesives for demanding applications such as wood composite constructions.

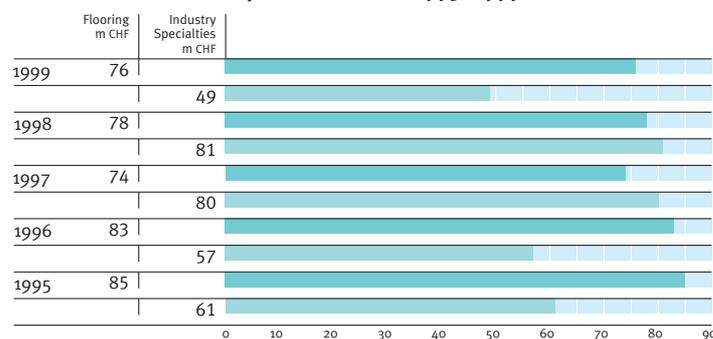
Our declared objective for the next few years is to devote greater time and energy to devising and developing new products and market services and to make the necessary funds available. We also intend to force the pace on new e-commerce applications and more generally on state-of-the-art IT solutions with which we can support our more traditional business processes. At group level a newly constituted committee will devote itself to identifying scope for, initiating and controlling group-wide innovation projects. Forbo's project work is to be carried out increasingly by cross-unit teams and through interdisciplinary networks of employees. The range of products offered in our core businesses is to be expanded at a faster innovative pace, with the objective of setting new market standards and consolidating our leading market positions. This will also include the provision of customer-oriented services, such as training programs, information documents and user instructions.

Investments

Investing in new product generations

In the year under review the large-scale investment projects initiated in previous years were brought to completion. These include the new state-of-the-art production plant at Forbo Novilon produktiebedrijven bv in Coevorden (Netherlands), the world's first production unit for manufacturing belting products up to 4.5 meters wide, installed at Siegling GmbH, Hanover (Germany), and the cast film line and gravure printer at Forbo CP Ltd. in Cramlington (United Kingdom), which will support the manufacture of a new generation of decorative film products. Thanks to these capital investments we now have the necessary production technology in place to bring new product generations to the stage of market maturity. Total investment spending in the year under review was down from the year-earlier level to total CHF 125 million.

Capital investments 1995–1999



Quality, Environmental Protection and Safety

Certification

Nearly all Forbo Group companies now satisfy the ISO 9001 quality standard. This reflects the great importance that the Group attaches to quality control at every level of business conduct and performance. In the year under review a number of Forbo companies were once again subjected to ISO 9001 re-examination.

It is likewise Forbo policy to ensure that all manufacturing companies in the Group meet the criteria set out in the ISO standard 14001 on environmental protection. The Dutch adhesives manufacturer Eurocol B. V. in Wormerveer (Netherlands) and Forbo Werke GmbH in Paderborn (Germany) both achieved ISO 14001 certification in the year under review, thereby taking the number of Forbo production facilities which have attained this objective to 12.

Environmentally Friendly Use of Resources

Responsibility toward environment

As a matter of high priority, all Forbo business units take a careful and environmentally responsible approach to the use of natural resources. In doing so, our aim is not merely to discharge our responsibilities toward the environment; we also gain valuable knowledge and experience of measures to cut consumption of resources and hence lower production costs. Our 'Resource Management Reporting' system is implemented throughout the Group.

Formula for Success: Highly Committed People

The performance of the Forbo Group is largely shaped by the 7,000 people who work for us. Because of the need to achieve a sustained increase in shareholder value, combined with stiff global competition and the rapid spread of new technology, our employees face increasingly heavy demands in terms of their commitment, ability to learn and openness to change. Forbo has a variety of programs in place that form a basis for successful performance and exceptional motivation on the part of all the company's employees.

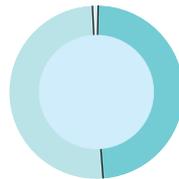
Change at Forbo

Forbo's staff training program was continued and expanded throughout the Group in 1999, offering a total of more than 1,900 hours of training to in-house course participants – this in addition to the external training courses which Forbo companies offer their employees.

The Group's focus on its core business activities, its earnings-driven approach, the shift of emphasis away from production towards marketing, the extra encouragement given to innovation and, last but not least, the clear commitment to enhancing enterprise value as the company's overarching strategic objective – all these factors call for fresh ways of thinking and imply a fundamental change in the way Forbo employees are expected to work. This transformation requires both an understanding of the need for change and an openness to new ways of doing things.

| | 1999 | Change 98/99 % | % |
|----------------------|-------|-------------------|------|
| Flooring | 3,334 | -1.1 | 48.8 |
| Industry Specialties | 3,462 | 2.5 | 50.7 |
| Group HQ | 33 | -2.9 | 0.5 |

Breakdown of employees by division



Breakdown of employees by geographic area

| | % | Change 98/99 % | 1999 |
|----------------|------|-------------------|-------|
| Benelux | 22.8 | -0.3 | 1,560 |
| Germany | 19.2 | -2.6 | 1,311 |
| United Kingdom | 17.1 | 3.2 | 1,168 |
| Switzerland | 9.5 | -4.3 | 649 |
| Scandinavia | 8.1 | -0.9 | 550 |
| France | 7.1 | 0.6 | 486 |
| Rest of Europe | 3.0 | 4.1 | 205 |
| Rest of World | 13.2 | 9.0 | 900 |

We intend to actively promote this process of change by means of a comprehensive communications policy, a corresponding training program and the creation of performance-based remuneration systems. At the same time we must systematically cultivate the next generation of managers and hence put in place a suitable group-wide staff development policy. The function of Corporate Human Resources was set up with the aim to implement these initiatives.

In the year under review two conferences attended by managers from all the business units were organized for the purpose of preparing and then presenting the Group's strategic renewal program. In mid-June some 150 Forbo managers gathered for the Group's traditional annual conference, where the topics included value-based company management, corporate culture and corporate change, and e-commerce. The speakers were leading international figures from both the theoretical and practical spheres. In December, an information event was held in Zurich for senior management. At this gathering the company's strategic renewal initiative was presented and the plans to implement it were rounded out in the subsequent discussions. The main objective of both events was to get management actively involved in shaping the process of change and to ensure that the Group's new strategy was communicated to the different organizational levels in all group companies in the most effective and appropriate manner.

Forbo Trophy

Rewarding exceptional achievements

In future, the Forbo Trophy will be awarded to promote the pursuit of our shared objectives. It will be presented every year – commencing this year – to the group company which achieved the most exceptional performance in the previous year. In addition, each year six employees or teams will be awarded medals for their outstanding contributions to the Group.

We combine functionality with security.





The Forbo Share

With the adoption of its strategic renewal program, Forbo has made a clear undertaking to manage the Group in the interests of its shareholders and thus to attach the highest priority in all its activities to maintaining and enhancing shareholder value.

Investor Relations

Forbo pursues an open communications policy, which provides capital market investors with regular, up-to-date information. In addition to the annual and interim business reports issued to shareholders, financial analysts and the financial press, Forbo cultivates contacts with its investors through presentations and discussions.

Share price performance

The Forbo share price advanced in the year under review from CHF 600 to CHF 750. This 25% rise means that the Forbo share clearly outperformed the Swiss Performance Index (SPI), which gained 11.7% in the same period. The trading volume continued to be on a high level, which reflects not only the stock's strong performance but also the increased level of investor interest in the Forbo share. The stock's performance certainly also reflects the raised expectations amongst investors following the announcement of the Group's new strategic thrust to the business world on December 7, 1999.

Forbo share price and SPI performance 1999



Profile of shareholders

At the end of December 1999 2,563 shareholders were registered in the Forbo Holding SA share register. To the company's best knowledge, no shareholder owns more than 5% of the voting rights. In accordance with the Articles of Association of Forbo Holding SA, no single shareholder is allowed to vote for more than 8% of all voting rights.

Diary dates

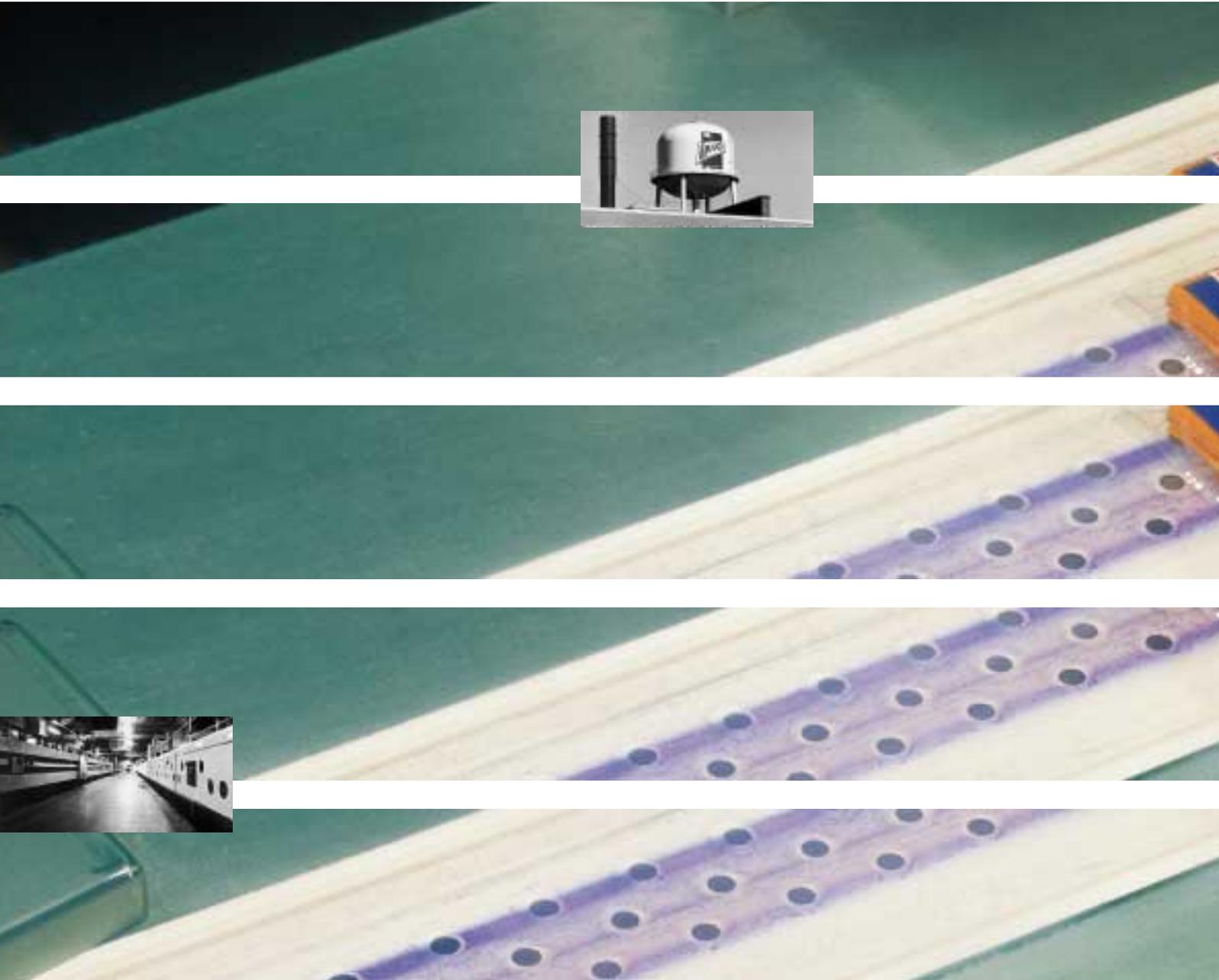
General Meeting of Shareholders: May 3, 2000
 Autumn press conference: November 7, 2000
 Financial analysts' meeting: November 7, 2000

| | 1999 | 1998 | 1997 | 1996 | 1995 |
|--|------------------|------------|------------|------------|------------|
| Share capital | | | | | |
| | Number | Number | Number | Number | Number |
| Issued registered shares in circulation (of CHF 50) | 1,473,416 | 1,473,416 | 1,473,416 | 1,465,800 | 1,465,800 |
| of which held by Forbo | 9,894 | 18,592 | 9,247 | 9,127 | 10,907 |
| Reserve shares (without voting and dividend rights) | | | | | |
| Registered shares (of CHF 50) | 40,134 | 40,134 | 40,134 | 46,134 | 46,134 |
| Nominal capital | | | | | |
| | CHF | CHF | CHF | CHF | CHF |
| Total | 75,677,500 | 75,677,500 | 75,677,500 | 75,596,700 | 75,596,700 |
| of which issued and outstanding shares ¹⁾ | 73,670,800 | 73,670,800 | 73,670,800 | 73,290,000 | 73,290,000 |
| of which issued and non-outstanding shares | 2,006,700 | 2,006,700 | 2,006,700 | 2,306,700 | 2,306,700 |
| Data per share | | | | | |
| | CHF | CHF | CHF | CHF | CHF |
| Shareholders' equity Group | 539 | 542 | 517 | 522 | 467 |
| Cash flow Group | 130 | 121 | 119 | 116 | 109 |
| Consolidated profit before specific provisions ¹⁾ | 58 | 52 | 42 | 42 | 38 |
| Gross dividend | 22 ²⁾ | 22 | 19 | 19 | 19 |
| Gross dividend return (%) | | | | | |
| High | 3.9 | 5.1 | 3.7 | 4.1 | 4.3 |
| Low | 2.9 | 2.4 | 2.9 | 3.5 | 3.1 |
| Payout ratio ³⁾ (%) | 38 | 42 | 45 | 46 | 50 |
| Stock market statistics | | | | | |
| | CHF | CHF | CHF | CHF | CHF |
| Share prices | | | | | |
| High | 764 | 900 | 654 | 550 | 610 |
| Low | 569 | 435 | 514 | 462 | 443 |
| Stock market capitalization (m) | | | | | |
| High | 1,126 | 1,326 | 959 | 806 | 894 |
| Low | 838 | 641 | 753 | 677 | 649 |
| Year-end | 1,105 | 884 | 880 | 792 | 723 |

¹⁾ See also Financial Report, 'Notes to the Consolidated Financial Statements', page 8, 'Earnings per share', page 9

²⁾ Proposal of the Board of Directors to the General Meeting of Shareholders

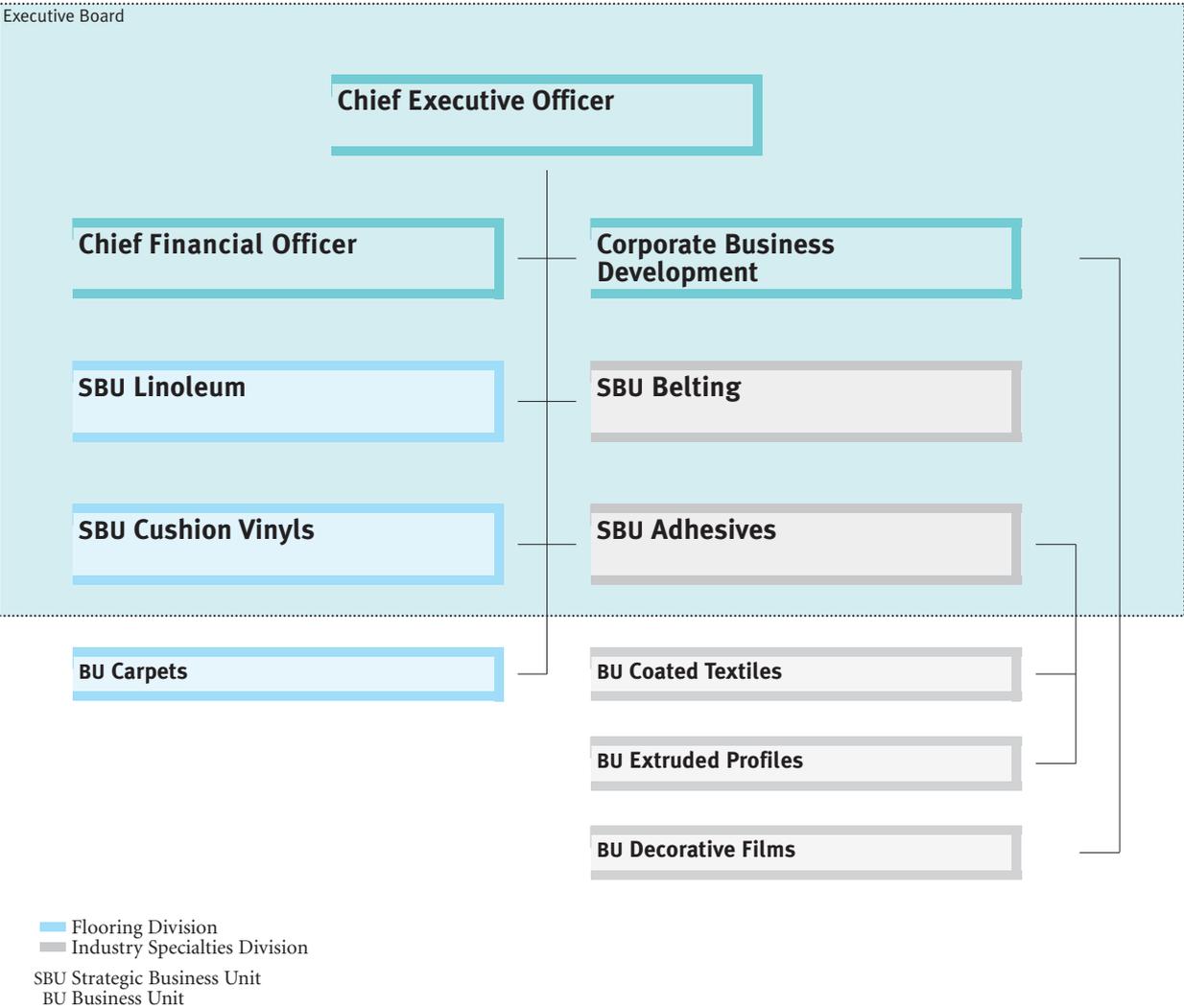
³⁾ Gross dividend as % of consolidated profit before specific provisions





We get things moving.

Organizational Structure (as per 1.1.2000)



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