2005

Forbo Annual Report

Forbo is on the way back to success.

The Board of Directors, the Executive Board and our members of staff are consistently implementing our strategy to continue the development of all three businesses flooring, adhesives and belting under a single umbrella.

A prerequisite for long-term success is adaptation to markets that are constantly changing. The consequence is that new products and services must constantly be developed, and processes have to be optimized. This is the only way to deal with the challenge of change and to stay ahead of competitors. In order to make rapid progress on the route to a successful future, it is decisive that all the members of staff work with an identical understanding of what needs to be done and share the same values.

In 2005, Forbo intensively reviewed the values to which it felt committed. At a management meeting, approximately sixty managers set the initial foundations for guidelines which determine the collaboration between themselves and the co-operation with customers and clients in the future. By mid-2006, all the employees of Forbo will have been included into this process.

The illustrations in this Annual Report show how Forbo makes use of the self-initiative and expertise of its employees in order to develop innovative products. Versatile and easy-care flooring, high quality adhesives for textile lamination and high-performance belting for the transportation of baggage at the most modern of airports are just three selected examples which show how Forbo implements its guiding principles in its everyday work and therefore contributes to the success of its customers.

Our Annual Report
is published in German and
in an English translation.

Annual Report 2005

– Strategy of the three businesses confirmed
– Sales increased in all the businesses
– Restructuring measures successfully implemented according to plan
– New and innovative products developed
– Foundation created for sustainable improvement of profitability

Contents

Forbo is a leading producer of floor coverings, adhesives, and beltings. The company employs some 5,500 people and has an international network of 31 production companies and 46 sales organizations in a total of 32 countries. Forbo's Head Office is in Baar near Zug.

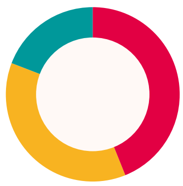
In the flooring business, the focus is on environmentally friendly linoleum, high-quality vinyls, and parquet. The excellent technical properties and the attractive design make Forbo flooring coverings the first choice for applications in public buildings, in the commercial business and in the residential market. Forbo is the world leader with linoleum having a market share of more than 60%.

The adhesives business is worldwide among the top ten suppliers. Forbo's high-performance products ensure the stable and durable bonding of a wide range of materials in essential market segments such as paper processing and packaging, shoe and textile manufacture, the production of car interior trims, furniture, and building applications.

The belting business has a leading position worldwide. Under the 'Siegling' brand, Forbo offers high-grade drive, conveyor and processing belts. They are used in diverse industries, e.g. conveyor and processing belts for the food industry, treadmill belts for fitness applications, and conveyor belts in logistics operations.

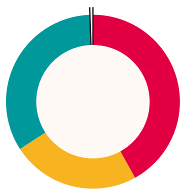
Net sales by Businesses

	m CHF 2005	Change on previous year effective %	currency adj. %	%
Flooring	747.0	1.3	1.0	43.9
Adhesives	628.5	8.8	8.1	36.9
Belting	326.5	6.4	5.9	19.2
Total	1,702.0	4.9	4.4	100.0



Employees by Businesses

	2005	Change 2004/2005 %	%
Flooring	2,319	−6.1	41.9
Adhesives	1,319	2.2	23.8
Belting	1,861	6.8	33.6
Headquarters	39	0.0	0.7
Total	5,538	0.0	100.0



Financial Overview Group

	2005	2004	2005	2004
	m CHF	m CHF	m EUR 2)	m EUR 2)
Income statement				
Net sales	1,702.0	1,622.3	1,097.4	1,050.7
Flooring	747.0	737.6	481.6	477.7
Adhesives	628.5	577.7	405.2	374.2
Belting	326.5	307.0	210.5	198.8
EBITDA before special charges	135.1	143.1	87.1	92.7
EBITDA	109.3	126.2	70.5	81.7
EBIT before special charges and impairment	64.7	55.9	41.7	36.2
EBIT	23.9	–44.5	15.4	–28.8
Special charges and impairment	–40.8	–161.9	–26.3	–104.9
Net loss for the year	–16.5	–157.4	–10.6	–101.9
Balance sheet				
Total assets	1,591.0	1,516.6	1,025.8	982.3
Operating assets	1,156.1	1,144.1	745.4	741.0
Shareholders' equity	558.1	543.7	359.8	352.1
Net debt	109.3	131.0	70.5	84.8
Cash flow statement				
Cash flow from operating activities	134.9	117.8	87.0	76.3
Capital investments	49.3	54.8	31.8	35.5
Free cash flow (before securities)	88.5	66.8	57.1	43.3
	%	%		
Key figures				
ROS, gross (EBITDA before special charges/ net sales)	7.9	8.8		
ROA (EBIT before special charges/ operating assets)	5.6	4.9		
Equity ratio (shareholders' equity/total assets)	35.1	35.8		
Gearing (Net debt/shareholders' equity)	19.6	24.1		
	Number	Number		
Employees (as of December 31)	**5,538**	**5,540**		
	CHF	CHF	EUR 2)	EUR 2)
Details per share				
Loss	–6.26	–106.56	–4.04	–69.02
Equity	211.81	206.42	136.62	133.69
Cash distribution	0 1)	0		
	m CHF	m CHF	m EUR 2)	m EUR 2)
Stock market capitalization (as of December 31)	750.9	652.9	484.1	422.9

1) Proposal of the Board of Directors to the General Shareholders' Meeting
2) CHF values translated at the annual average rate of CHF 1.551/1 EUR (2005) and 1.544/1 EUR (2004)

Changes of the accounting principles (IFRS) mainly have an impact on Goodwill amortization and the reporting of pension liabilities within equity.

To our Shareholders

Dear Ladies and Gentlemen

Concentration on operational duties

After a challenging start to the 2005 financial year due to operational difficulties and the continuing auction process, the situation improved in the second half of the year. In the spring, following the failed takeover attempt by CVC Capital Partners, important decisions were made and measures implemented at both the strategic and the operational levels. On the one hand, the Board of Directors and Executive Board confirmed the existing strategy of further developing the three businesses (flooring, adhesives and belting) under the Forbo umbrella. On the other hand, the restructuring projects and measures to increase profitability which had been introduced in autumn 2004 and then had to be postponed because of the auction process were immediately taken up again.

In the past few months, Forbo has adapted its production capacities to the changed demand and reduced its overcapacities. The product portfolio has been revised and significantly rationalized. At the same time, Forbo has optimized the administration and the marketing and sales organizations and adapted them to the new needs. All three businesses developed new, innovative products and introduced them successfully to the market. Market shares were gained particularly in the USA with a new collection of flooring products.

Significant increase in sales in the second half of the year

Strong growth in the USA and Asia

Following a decline in sales in the first quarter of 2005, they grew more strongly than expected in the second half of the year. Primarily the robust development of the economy in the USA and the dynamism of growth in the Asian markets generated the pleasing growth in sales. The intensified presence in key markets proved to be very successful; new, innovative products provided additional support to the positive development. Sales in 2005 rose by CHF 79.7 million to CHF 1,702.0 million. This equates to an increase of 4.9%, or 4.4% in local currency.

Profit in line with expectations

Improvement in profit despite higher raw material prices

After a first half-year that was weaker in comparison with the first half of 2004, the ordinary profit in the second half was considerably better despite raw material prices that had risen significantly. The main reasons were the successful implementation of the restructuring projects and the measures to increase revenues. The operating result before depreciation and amortization (EBITDA) and prior to special charges declined from CHF 143.1 million to CHF 135.1 million. Included in this result are non-recurrent costs of CHF 7.1 million for the auction process.

The overall result was affected not only by the one-time costs for the auction process but also by special charges for restructuring amounting to CHF 40.8 million. In comparison with the previous year, a significant improvement is nevertheless visible: The loss including special charges could be significantly reduced and amounted to only CHF 16.5 million.

Restructuring concluded

Plan and costs complied with

After sliding into the loss zone, Forbo announced in 2004 comprehensive restructuring measures in order to improve the profitability of the organization. The restructuring measures and the programs to increase profitability were implemented in accordance with plan and the anticipated exceptional costs were not exceeded. At the same time, the existing management was strengthened so that the challenges of the future can be successfully mastered. Today, we have the foundations for healthy, profitable growth.

Dividend recommendation to the Annual General Meeting

Waiver of dividend

The dividend policy of the Forbo Group is orientated to the development of net profit. Despite the improved income position, Forbo again recorded in 2005 a consolidated loss – albeit significantly reduced – of CHF 16.5 million. The Board of Directors therefore recommends to the Annual General Meeting of April 28, 2006 that no dividend be distributed for the 2005 financial year.

Changes in the Board of Directors

Comprehensive renewal

In spring 2005, following the unsuccessful takeover bid from CVC Capital Partners, the Board of Directors, with the exception of This E. Schneider, announced that it would step down as at the Annual General Meeting in 2005. Those members were Dr. Willy Kissling (previously the Chairman), Dr. Anton H. Bucher, Drs. Pieter P.A.I. Deiters, Dr. Paul Tanos and Prof. Dr. Rolf Watter. The new members of the Board, elected at the extraordinary General Meeting of March 24, 2005 are Dr. Peter Altorfer, Dr. Albert Gnägi, Hans-Beat Gürtler, Dr. Rudolf Huber and Michael Pieper. The Board elected Dr. Albert Gnägi as its Chairman, Michael Pieper as its Vice-Chairman and confirmed This E. Schneider as its Delegate. Hans-Beat Gürtler has announced that he will step down from the Board of Directors of Forbo Holding AG as at the next Annual General Meeting. The Board thanks him for his valuable support in last year's successful turnaround.

Move of domicile to Baar

Move of Forbo International S.A.

On November 14, 2005 the staff of Forbo International S.A. – about 30 people in total – moved to their new workplaces in Baar (ZG). It will be proposed to the Annual General Meeting of April 28, 2006 that the domicile of Forbo Holding AG is also moved to Baar.

Outlook: confirmation of the turnaround

The corporate culture at Forbo has suffered in recent years from the rapid succession of changing strategy decisions, the slide into the loss zone and the struggle for control of the organization. Although a great deal of progress has been achieved on all levels in the last two years, there are still several challenges to be confronted.

In autumn 2005, Management drafted a mission statement for the organization and defined the core values which should serve in the future as a guideline for the decisions and actions of all members of staff. It is the responsibility of Forbo's management to live these values and to underlay the words with acts so that the new spirit becomes quickly noticeable at all levels of the Group.

In 2006, the turnaround achieved in the reporting year should be confirmed. Management expects an increase in profitability for all three business units.

Thanks

We express our thanks to all our members of staff for their great commitment, especially during the eventful and draining days and months that were experienced last year. The positive result of that difficult time is the knowledge that Forbo is capable of outstanding performance. A team that is strengthened by this knowledge and the experience that came with it will find it easier to reach the high targets and overcome the challenges of the future.

We also thank our shareholders and customers for their trust, loyalty and support in a turbulent phase of Forbo's history.

Eglisau, March 15, 2006

Dr. Albert Gnägi
Chairman of the Board

This E. Schneider
Delegate of the Board and CEO

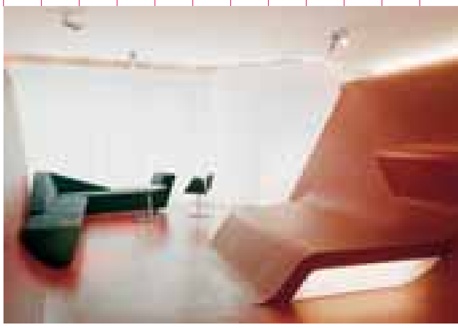
Jointly striving for

The determination to proceed on the road to success and to support others in doing so requires the courage to be satisfied with nothing but the best solution. Being open for new ideas at any time is the starting point for a high degree of innovative power. The alertness and creative potential of each one are requested to recognize the needs of the customers and to bring them extra value.

The versatility of Marmoleum is nearly unlimited. The functional and easy-to-care floor covering made of natural and renewable resources is used worldwide in hospitals, schools, and many private and public buildings. Marmoleum is particularly suitable for rooms that demand a high level of hygiene and dust-free surfaces. It inhibits the propagation of methicillin-resistant staphylococcus aureus (MRSA) and other bacteria thanks to its smooth surface and the oxidizing effect of the lineseed oil. Especially in public buildings, such as in the Johanniter hospital in Geesthacht (Germany), Marmoleum makes a decisive contribution to a friendly and clean room atmosphere.

success

Made from natural raw materials, Marmoleum with the new surface finish Topshield is a suitable covering for all floors that require an easy-to-care and hygienic surface. The picture shows the entrance area of the Wajiro hospital in Fukuoka City (Japan).



Marmoleum is the perfect choice also for striking designs – here in the form of a wall cladding of a special kind in the new Hotel Q in Berlin. At the Contract World 2005 fair, the project was awarded the first prize in the category of floor coverings as an integral design element.

Excellence through

Top performance and unrestricted experience in nature make ever higher requirements on clothing and equipment. They must be functional, comfortable, and safe. Forbo is at the forefront of adhesives development for the manufacture of sports and leisure wear, ensuring its functionality over the entire useful life.

Functional textiles are made of layers with most different properties. Wovens, knitwear, non-wovens and foams are used for lamination, e. g. composite manufacture, depending on the requirements made on the end product. The different clothing layers are dot-laminated ensuring the breathing properties and the moisture transfer of the textiles.

A further Forbo speciality is textile coating with Lyons Coat™. The coating makes rucksacks and travelling-bags impermeable to water and wind.

courage and determination

New techniques allow the production of lighter and more comfortable sports shoes that are wheatherproof and stable all the same. Today the shoes are usually produced and bonded mechanically, with up to nine different adhesives being used as a function of the material mix.

The protective clothing of fire brigades and other emergency services must meet highest requirements. For instance, the laminate bonding must permanently survive extreme temperatures.

Recognize what matt

International networking and the worldwide exchange of goods continue to grow dramatically. Advanced and efficient logistic systems are required to support this growth. They are made available by equipment manufacturers (OEMs) and suppliers who believe in this trend and who use every possibility for transporting industrial goods, parcels and pieces of baggage to their destinations – faster and more reliably.

The call for higher mobility also demands faster handling of a large number of baggage items by ever more efficient and sophisticated conveying and sorting systems. Safety, efficiency, and reliability are the special assets of Transilon baggage conveyor belts made by Siegling. With these properties, Transilon is the preferred choice for the construction and extension of international airports and many other logistics centers.

ers

One of the biggest buildings is being created in London today: the new Terminal 5 (T5) at Heathrow Airport to be opened in March 2008. The terminal is designed for some 30 million passengers per year. Siegling has been asked to supply the belting for the baggage conveyors. The order is handled jointly by the Siegling subsidiaries in the Netherlands, Germany, and Great Britain.

Siegling has a product range on offer that meets the customers' needs for ever higher efficiency and reliability – from check-in through to aircraft loading.

Forbo Group: Restructuring Measures Beginning to Bring Results

In 2005, the measures to reduce costs and improve profitability were implemented successfully and according to plan. Group sales rose – particularly thanks to a significant improvement in the second half of the year – by 4.9% to CHF 1702.0 million. The increase in local currencies was 4.4%. The operating profit after depreciation and amortization (EBIT) and before special charges improved by 15.7% to CHF 64.7 million (previous year: CHF 55.9 million). A pleasing enlivenment of the markets in the USA and the Asia/Pacific region was partly counteracted by sharply rising raw material prices, especially in the case of adhesives. The consolidated Group result of CHF –16.5 million includes special charges of CHF 40.8 million which were significantly lower than in the previous year. In addition, there were non-recurring costs of CHF 7.1 million for the auction process which ran over a number of months. The free cash flow amounted to CHF 88.5 million, 32.5% more than in the previous year due to fewer investments and a clearly higher cash flow from operating activities.

After termination of the unsuccessful takeover bid in the spring of 2005, the restructuring projects and measures that had been introduced in the autumn of 2004 were taken up again and implemented very intensively. Initial positive effects are reflected in these annual financial statements.

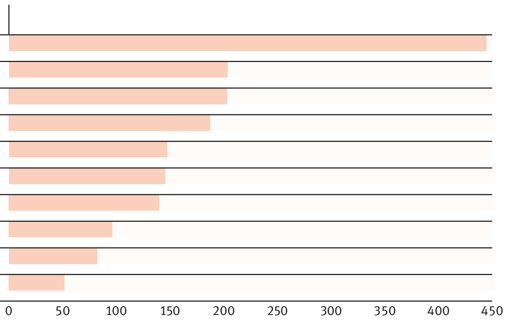
Strong growth in the second half of the year

Higher sales in all three businesses

After several years of declining sales in the flooring business, 2005 brought a return to growing turnover. Sales of linoleum developed very positively, particularly in the USA. The vinyl segment enjoyed an upswing in the commercial business although lower sales had to be recorded in the residential business in a few Western European markets. In the adhesives business, contributions to a positive course of business were made by industrial adhesives, particularly for the automobile and textile industries, as well as building adhesives and synthetic polymers. The increase in sales is partly due to higher sales prices as a consequence of higher raw material costs. The belting business benefited from higher investment activity in the logistics industry and a strong demand for running belts used in fitness equipment. The strong growth in the USA and Asia compensated for the hesitant development in Western Europe. Particularly Germany suffered under the continuation of sluggish investment activity by public authorities.

Net sales by geographic areas

	%	Change on previous year effective %	currency adj. %	m CHF 2005
North, Central and South America	26.1	14.3	13.2	444.5
Germany	12.0	–4.3	–4.7	203.6
Benelux	12.0	0.4	0.0	203.3
France	11.0	4.0	3.6	187.6
Southern Europe	8.7	0.1	–0.3	147.4
Scandinavia	8.5	1.3	2.0	145.4
Asia/Australia/Africa	8.2	8.9	8.3	140.0
Great Britain/Ireland	5.7	1.0	1.4	96.4
Eastern Europe	4.8	13.1	12.2	82.1
Switzerland	3.0	2.2	2.0	51.7



Ordinary result considerably better in the second half

Slight decline of gross profit margin

Despite sharply higher raw material prices, the various measures introduced to improve efficiency and profitability led to only a slight decline of the gross profit margin. At the same time, the special charges were considerably lower than in the previous year. The overall result was an operating result before depreciation and amortization (EBITDA, before special charges) of CHF 135.1 million (previous year: CHF 143.1 million). Included are non-recurring costs of CHF 7.1 million for the auction process. The ongoing restructuring measures led, as already mentioned, to further special charges of CHF 40.8 million (previous year: CHF 161.9 million). The operating profit (EBIT, after special charges) at CHF 23.9 million was well above the previous year's result of CHF –44.5 million. Of this, CHF 9,5 million are attributable to goodwill amortization as planned which is no longer permissible under the regulations of IFRS.

Due to strong growth in the second half of the year, the flooring business – for the first time in several years – was able to record an increase in sales on an annual basis of 1.3% to CHF 747.0 million. The operating result before depreciation and amortization (EBITDA, before special charges) increased by 9.1% in comparison with the previous year to CHF 86.2 million. The prime contributor to this result was the successful implementation of restructuring projects and measures to enhance profitability.

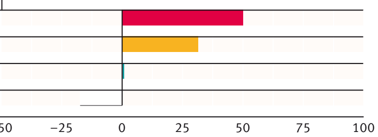
The adhesives business was able to increase sales by 8.8% to CHF 628.5 million, partly due to higher volumes and sales prices. However, the sharply increased cost of raw materials, particularly in the second half of the year, as well as costs for market development in Russia and China led to a decline in the operating result before depreciation and amortization (EBITDA, before special charges) of 21.6% to CHF 46.4 million.

A gradual enlivening of the market led in the belting business to sales which were 6.4% higher at CHF 326.5 million. The higher raw material prices and market development costs led to a decline of the operating result before depreciation and amortization (EBITDA, before special charges) by 19.2% to CHF 16.8 million.

The return on operating assets (ROA, before special charges) increased from 4.9% in the previous year to 5.6% in 2005. The return on sales before special charges amounted to 3.8% compared with 3.4% in the previous year.

EBIT (before special charges and impairment) by Businesses

	m CHF 2005	Change 2004/2005 %	ROA* 2005 %
Flooring	50.1	18.2	11.8
Adhesives	31.4	–10.0	7.0
Belting	0.6	–75.0	0.2
Headquarters/consolidation	–17.4	n/a	n/a



*Return on Assets (EBIT, before special charges and impairment in % of operating assets)

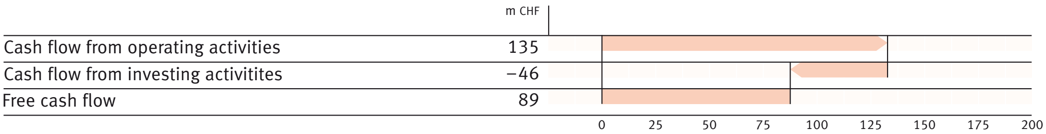
Lower net financing expenser and tax charges

Included in the Group loss of CHF 16.5 million (previous year: a loss of CHF 157.4 million) are restructuring expenses of CHF 40.8 million (previous year: CHF 161.9 million) and non-recurring costs of CHF 7.1 million for the auction process. Before special charges and tax effects a net income of the Group of CHF 16.1 million would have resulted. The net financing expenses developed positively. They fell by CHF 26.8 million to CHF 18.8 million due to higher interest income and the value adjustments for securities which were taken into the figures of the previous year. The tax charges were reduced too, from CHF 44.8 million in the previous year to CHF 21.6 million.

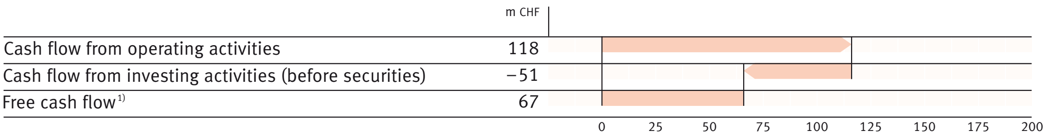
Increase in free cash flow

The free cash flow in the reporting period amounted to CHF 88.5 million (previous year: CHF 66.8 million). The increase of CHF 21.7 million arose on the one hand from an increase of CHF 17.1 million in cash inflow from operating activities and on the other hand from a decrease of CHF 4.6 million in investing activities.

Free cash flow 2005



Free cash flow 2004



[1] Before cash distribution, purchase and sale of activities

Balance sheet – financial basis for further growth

Further reduction of net debt

The balance sheet total increased by CHF 74.4 million to CHF 1,591.0 million in comparison with the 2004 year-end.

The reason is mainly in a higher level of cash and cash equivalents (CHF +57.8 million) and higher trade receivables (CHF +30,9 million) due to increased sales in November and December. At the same time, fixed assets were reduced by CHF 21.1 million in comparison with the previous year. The bond of CHF 150.0 million which falls due on June 8, 2006 was restated from a long-term to a short-term financial liability. The financial derivatives acquired in connection with long-term financing in US Dollars recorded a negative value of CHF 52.5 million (previous year: CHF 83.7 million) as at 31.12.2005. Net debt at the end of the year was CHF 109.3 million (previous year CHF 131.0 million). This represents a reduction of CHF 21.7 million, even though the higher translation rate for the US Dollar had the effect of a significant increase of the debt expressed in Swiss Francs. For the first time, actuarial losses in the pension fund liabilities were recorded in the balance sheet. This led to a reduction in equity of CHF 25.6 million to CHF 558.1 million at the end of the year. The equity ratio at the end of the reporting year therefore amounted to 35.1% (previous year: 35.8%).

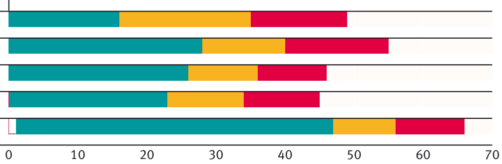
Product improvements, enhancement of efficiency, development of new markets

Investments in long-term margin improvement

In 2005, the Forbo Group invested CHF 49 million (previous year: around CHF 55 million). The investments were aimed primarily at projects with regard to product improvement, enhancement of efficiency and development of new markets. The investments in the adhesives business, which were significantly above those of the previous year, are primarily attributable to expansion of the facilities for higher quality products and include the equipment bought as well as acquisitions. The relatively high investments in the belting business were slightly lower than those of the previous year, whilst those of the flooring business fell considerably by CHF 12 million to CHF 16 million due to the high investments that had been made in earlier years.

Capital investments 2001 – 2005

	Flooring m CHF	Adhesives m CHF	Belting m CHF	Divested activities m CHF	Total m CHF
2005	16	19	14		49
2004	28	12	15		55
2003	26	10	10		46
2002	23	11	11		45
2001	46	9	10	1	66



Flooring
Adhesives
Belting
Divested activities

Jörg Riboni
new CFO

Strengthening of Group management

As at October 1, 2005, Matthias P. Huenerwadel took over management of the belting business from Dr. Jan Lipton who left the company. Gerold A. Zenger, a member of Executive Board, has been responsible for the Corporate Services since January 1, 2006 and has also been appointed as the Deputy CEO. His previous function as CFO has been taken over by Jörg Riboni as at the beginning of 2006. In the expanded Executive Board, Urs Christen, who was previously the Corporate Treasurer, has taken over responsibility for Strategic Planning and Projects as of January 1, 2006. In addition, Karin Marti will take over responsibility as the Head of Human Resources and Communication as of May 1, 2006.

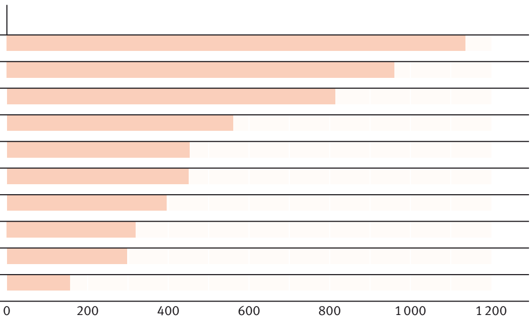
New jobs
in the USA
and Asia

Headcount at the same level of the previous year

The Forbo Group was employing 5,538 people at the end of the year. That is merely two people fewer than in the previous year. As in 2004, the reduction of jobs continued in Western Europe due to the economic downturn, but it was compensated by a strong increase in North America, Eastern Europe and the Asia/Pacific region.

Employees by geographic areas

	%	Change 2004/2005 %	2005
Benelux	20.5	−5.3	1,136
North, Central and South America	17.3	7.6	960
Germany	14.7	2.9	813
France	10.1	0.9	560
Scandinavia	8.2	−3.6	452
Asia/Australia/Africa	8.1	3.0	450
Great Britain/Ireland	7.1	−15.2	395
Southern Europe	5.8	−3.6	319
Switzerland	5.4	−7.2	297
Eastern Europe	2.8	92.6	156




KEMPEL

Flooring: Results on a Positive Trend

'The Forbo employees world-wide are delighted with the enthusiasm that our customers have shown for numerous new products launched in 2005. This spurs us on to expand the specific segments with persistence and focus. The careful inclusion of customer wishes when we develop new products enables us to achieve competitive advantages. Innovations such as the Topshield surface protection for Marmoleum are the proof.'

Tom Kaiser, Executive Vice President Flooring

In 2005, the flooring business was again able to record an increase in sales for the first time in several years. Sales reached CHF 747.0 million, an increase of 1.3% compared to the previous year. The increase in local currencies amounted to 1.0%. The share of overall Group sales was 44% (previous year: 45%). Sales of linoleum were particularly pleasing in North America and Eastern Europe. Whilst the business with vinyl floor coverings for the commercial business continued to grow on the whole, the residential business in Western Europe recorded a decline in turnover. The operating profit (EBIT, before special charges) was CHF 50.1 million, an increase of CHF 7.7 million or 18.2% in comparison with the previous year.

Market circumstances: dynamism in the core markets

Cost savings

The market circumstances were largely characterized by sharp increases in raw material and energy prices. The additional costs were able to be compensated by means of savings and selective increases of sales prices. A positive effect in the second half of the year was the dynamism that began to show itself in most of the core markets. On the other hand, the development in Germany and Holland was disappointing.

Measures and investments: process optimization

Foundations for further growth

The consistent implementation of the strategy took place in various partial projects with three points of focus: optimization of the core processes, development of new market strategies and cost savings through the use of synergy potential. The measures undertaken will increase our competitiveness in forthcoming years and create the foundations for further growth. The flooring business began a successful offensive with its products. In total, about 70% of the collections were replaced or updated. At the same time, the range of products was rationalized which, among other things, led to the closure of the cushion vinyl production in Kirkcaldy (Scotland) at the end of 2005. This meant that overcapacities could be reduced and the factory in Coevorden (Holland) was able to make better use of its production capacity. Moreover, the processes at the Dutch factories were optimized. In Scandinavia, the sales organization was restructured. A comprehensive program of investments in production technology led to significant improvements in the manufacturing process.

Products: offensive for linoleum and vinyl flooring

Easier care

In the linoleum segment, Forbo Flooring introduced a comprehensive, worldwide campaign for its collection 'Marmoleum global 2'. With Topshield, it offers a unique, dual-layer protection of the surface which simplifies care of the flooring and therefore leads to a reduction in maintenance costs. The innovative floor covering is particularly suitable for floors which have to comply with high standards of hygiene.

More functionality and better design

In the vinyl segment, Forbo expanded the Sarlon Traffic, Step and ColoRex® product ranges at the end of the year. In order to satisfy all the wishes of end-users, the new Step collection offers various levels of slip-resistance and varying, attractive designs in color-tones which are tastefully attuned to each other. The new, homogeneous ColoRex® Concept tile can be used everywhere, for example in schools, offices or retail shops. It offers a broad variety with 4 color-palettes and 29 colors in total. Another success at the end of 2005 was the completion of development of the new products Design, Traffic, Natura and Compacta within the Novilux® line. They are aimed for use in the residential business and for specific areas of building properties and reflect state-of-the-art furnishing and fitting trends. All the new vinyl flooring products combine a noble look with durability. The initial reactions from the market have been extremely positive. In January 2006, the luxury vinyl tile collection Allura was launched as another innovation for business premises that require a highly representative look, but also for shop construction and restaurants.

Progress of business – linoleum: growth on a broad basis

Significant increase in sales

The linoleum product group recorded sales that increased by 3.2% to CHF 364.4 million, representing 48.8% of overall sales in the flooring business. Particularly pleasing was the development in North America as well as in Eastern Europe with an increase of 10%. Growth was also recorded in most of the European core markets.

Progress of business – vinyl: a pleasing commercial market

Rationalization of product scope

Sales of the vinyl flooring product group declined slightly to CHF 304.5 million (previous year: CHF 306.7 million). This equates to a decline of 0.7%. The share of sales for the overall flooring business reached 40.8%. The construction market reflected gratifying development, particularly in the French, Scandinavian and Eastern European markets, in which there was growth that was well above the average. In the residential business, Forbo accepted a fall in sales due to rationalizing the product scope.

Targeted investments

Outlook: expansion of market position

The flooring business will concentrate even more strongly on the commercial market in the future, whilst supplementing the product portfolio with all-inclusive solutions and expanding its geographic presence. In the linoleum sector, Forbo is currently expanding its world-wide leadership with targeted investments in marketing and sales activities in Eastern Europe, Asia and the USA. For 2006 too, the flooring business is optimistic that the positive development will continue.

Adhesives: Double-digit Growth in the USA

'In the USA, together with Industrial Adhesives Inc. we developed reinforcing tapes impregnated with adhesive for the production of cardboard packaging – another example of how Forbo Adhesives provides innovative solutions in order to enter new market segments with attractive margins.'

Michel Riva, Executive Vice President Adhesives

The adhesives business increased its sales in 2005 by 8.8% to CHF 628.5 million or 8.1% in local currencies. The share of Group sales therefore reached 37% (previous year: 36%). Whilst the European market only began to develop positively in the second half of the year, sales in the USA and exports to Asia experienced generally impressive growth. The sharply increased raw material prices in 2005 and the costs of entry into new markets and product development had a negative effect on the operating profit (EBIT, before special charges) which declined by 10.0% to CHF 31.4 million.

Market circumstances: sharply increased raw material prices

Dynamism in North America and Asia

In the field of adhesives, the markets in North America and Asia were particularly dynamic compared with the general market development elsewhere in the world. The market in North America benefited in 2005 from positive economic circumstances while Asia recorded an additional upswing due to the move of numerous manufacturing operations into the region. Market opportunities arise in selected segments with adhesives that require specific know-how for their production and offer the customer new, comprehensive processing solutions.

Pressure on margins

The sharply higher prices of raw materials had a major effect on the adhesives business. After having risen in the first half of the year at a double-digit level, the prices rose significantly once again after the Katrina and Rita hurricanes, particularly in North America. The additional costs could only be passed on to a limited extent and intensified the pressure on margins.

Measures and investments: preparation for new growth

Central processing of strategic segments

The focus on strategic market segments which was introduced in the previous year has proven itself. The segments of paper and packaging, woodworking/furniture, textile lining and the automobile industry are served consistently with global teams. The field of adhesives for the construction industry similarly has its own central departments for marketing, as well as research and development, in Europe. In Eugene, on the west coast of America (Oregon), Forbo inaugurated its operations in the new factory for water-based adhesives.

Strengthening of geographic presence

With the acquisition of the US-American Industrial Adhesives Inc., Forbo continued to develop its position in the packaging sector. In addition, the business developed its own sales organization in Turkey. It enables the targeted processing of strategic market segments and therefore participation in the economic boom of that region.

Capacity expansions for all product groups

Further growth projects should show their effects in 2006. For the industrial adhesives, the focus continues to be on Asia. At the beginning of 2006, the market position in China was decisively strengthened with the acquisition of Victa Technologies Ltd. For building adhesives, the marketing efforts are focused on selected countries in Europe, and particularly in Russia. The construction of a new factory is planned there. At the same time, Forbo Adhesives is investing in additional capacities for synthetic polymers in the USA. In Seneca, south of Chicago, a third reactor will be built in 2006 for approximately CHF 20 million.

Products: added value for customers as a prime target

Solutions for many kinds of bonding

Forbo offers its customers a broad spectrum of adhesive categories based on various kinds of polymer. In the reporting period, particularly the range of adhesives based on Polyurethane (PU) was significantly expanded, either in the form of dispersions, hot-melt adhesives or the one- and two-component reactive adhesives. With its own possibilities for synthesis in the field of polyurethane binders, Forbo can react quickly and effectively to customer requirements. The PU adhesives which can be produced from a broad range of raw materials are universally usable and are easy to process as well as being environmentally friendly. They therefore comply with the maximum demands made of today's adhesive systems. Whilst PU dispersions such as Thermonex® are used for the interior trimmings of motor vehicles or the lamination of furniture fronts, the reactive hot-melts are gaining importance in, among other things, the production of sandwich elements for doors or caravan walls. In contrast, the PU reactive adhesives are used primarily in the textile and packaging industries.

Innovative carriers

Together with Industrial Adhesives Inc., Forbo developed, in addition to the existing applications for Packstrings® and Packtapes® in the woodworking and packaging industries, special reinforcing tapes for corrugated packing and folding carton industries. They enable the integration of comfortable carriers or reinforce ment at the sides at low cost. This opens for Forbo a further, attractive market segment in the packaging industry with the potential of global marketing.

Course of business: strong demand in the automotive and construction industries

All product groups significantly above the previous year

The strongest product group in terms of sales – industrial adhesives – generated sales growth of 9.6%. The segments of the automotive, textile, paper and paper processing industries recorded the highest growth. The good progress of business was further supported by building adhesives and the product group of synthetic polymers.

USA ahead of Europe and Asia

The strongest growth in sales (15.2%) was in USA, attributable primarily to the overproportional increase in sales of synthetic polymers. Related to the business as a whole, Forbo achieved 56% of its sales in Europe, 41% in North America and 3% in Asia.

Focus on Russia and China

Outlook: entry into new markets

The adhesives business wants to make better global use of the potential of locally successful products. In 2006, the priorities are entry into the markets in Russia and integration of the Chinese adhesives company Victa Technologies Ltd. The manufacturer of hot-melt adhesives and water-based adhesive materials, acquired at the beginning of January 2006, will enable a targeted service and supply in accordance with the specific needs of customers in the Chinese region.

Targeted expansion of range of products

On the strategic level, 2006 will bring an acceleration of organic growth and expansion of the existing range of products by means of acquisitions. At the forefront are companies with complementary product ranges and manufacturing locations in regions that are enjoying strong growth. With additional projects for enhancement of efficiency and targeted price increases, the adhesives business aims to improve its overall profitability.

Belting: Improvement of Efficiency in Production

'Sales in the USA were a bright spot in 2005. The operational structure of the business is good. In future, we want to grow more quickly with clear focal points in product lines and market segments.'

Matthias P. Huenerwadel, Executive Vice President Belting

The belting business increased its sales in 2005 by 6.4% to CHF 326.5 million. Growth in local currencies reached 5.9%. The share of Group sales amounted to 19%, as in the previous year. Contributions to growth were made by sales in all the regions, but particularly in the USA. The rising raw material prices applied pressure on the margins but were able to be partly compensated by means a continual move to the use of alternative materials and increasing efficiency in production. The operating profit (EBIT, before special charges) at CHF 0.6 million was lower than that of the previous year (CHF 2.4 million) due primarily to higher market entry costs and costs for raw material.

Market circumstances: a clear enlivenment of projects in the logistics industry

Growing business with end-users and OEMs

The business activity in industrial projects has experienced a revival. This trend was a global phenomenon in 2005, except in a few individual countries. Companies in the logistics industry were among the leaders in renewing their infrastructure and investing in new equipment. The Forbo belting business benefited not only in terms of direct sales to end-users but also with the OEM business, particularly in Europe. The general pressure on prices continued in 2005. It will increase in the future, particularly for applications which do not require specific know-how for the production and assembly of belts. There are numerous challenges at the moment in the Asian markets. In this region, Forbo has further potential, e.g. in the strengthening of its distribution network.

Measures and investments: development of the distribution network

Production facilities of high technical quality

In 2005, the belting business again increased its operating efficiency in the production and assembly centers. Competitive advantages are still being provided by production facilities with high technical quality. They enable the generation of further benefits for customers and the more efficient production of belts.

New sales centers in Romania and Moscow

Entry into the Eastern European markets and the development of an assembly centre in Slovakia were pushed forward as planned in 2005. At the new location in Slovakia, the training program is currently running at full power. Full operational performance should be achieved by the end of 2006. In addition, Forbo opened new sales centers in Romania and Moscow as supplements to the existing team in St. Petersburg. With the acquisition of Caron Vector, a former distribution partner domiciled in Belgium, Forbo has further strengthened its presence in Belgium and Luxembourg.

Products: a boom for tread mills

Fitness rooms as an obligatory fitting

There were no signs of tiring in the American fitness boom in 2005. On the contrary, fitness machinery, particularly running bands, were selling better than ever before. This development is generated primarily by the hotel business, in which fitness rooms have become an obligatory part of the fittings. In addition, running bands are increasingly being used for targeted stamina training as a supplement to and balance for outdoor activities. Forbo has now become one of the leading providers of bands for running machines and has benefited significantly from these favorable market circumstances.

Development of conveyor facilities

Forbo was also able to benefit from the increasing tendency of logistical companies to invest. They are searching for solutions to the increasingly strong demands for high-performance transport equipment. One example is at the airport in Seoul where the annual number of passengers, currently 30 million, is expected to rise to 44 million by 2008. Forbo is one of the beneficiaries of this growth at the international hub and will be delivering sixty kilometers of transport belting for the project by the end of 2008.

Progress of business: further potential in Asia

Exemplary US sales team

The strong sales in the USA made a particularly important contribution to the increase of 6.4 % in turnover. The growth was helped along by the good economic circumstances and the exemplary orientation of the US sales team to market needs. Further impulses for growth came mostly from individual large projects in Europe and Asia. The markets in Asia developed positively but remained below expectations in terms of income.

Outlook: setting of focal points

Evaluation of supplementary distribution channels

The task in the belting business at the moment is to strengthen management and identify potential for further growth. For this purpose, points of focus will be defined in marketing within individual segments and product groups and supplementary distribution channels will be evaluated. In addition, research and development, production technologies and marketing activities around the globe will be more strongly coordinated. The belting business expects an increase in sales and results for 2006.

Group Structure

This E. Schneider
Delegate of the Board and CEO

Tom Kaiser
Flooring

- **Regional Sales and Marketing**
- **Supply Chain Management**
- **Services**

Michel Riva
Adhesives

- **North America**
- **Northern Europe**
- **Western Europe**
- **Central Europe**
- **Southern Europe**
- **Asia/Pacific**
- **Building and Construction**

Matthias P. Huenerwadel
Belting

- **North and South America**
- **Europe**
- **Asia/Pacific**

Jörg Riboni
Corporate Finance

- Controlling
- Treasury
- IT
- Tax
- Investor Relations

Gerold A. Zenger
Corporate Services

- Internal Audit
- Legal Services
- Pensions
- Projects
- Corporate Governance

Tom Kaiser
Executive Vice President
Flooring

Michel Riva
Executive Vice President
Adhesives

This E. Schneider
President and CEO

Gerold A. Zenger
Deputy CEO,
Head Corporate Services

Matthias P. Huenerwadel
Executive Vice President
Belting

Jörg Riboni
Executive Vice President,
CFO

President and CEO

This E. Schneider, Swiss
Born in 1952, studied economics at St. Gallen University and Graduate School of Business, Stanford University, California, USA. After various management functions in Europe and the USA, he was a member of the Executive Board of Schmidt-Agence (kiosk business of S. Schmidheiny) from 1984 to 1990, with responsibility for strategic planning, operations and logistics. From 1991 to 1993 he was Chairman and CEO of the publicly listed company SAFAA, Paris. In 1994, he became a member of the Executive Board of Valora with responsibility for the canteen and catering division. From 1997 to 2002 he was President and Vice Chairman of the Board of Directors of the Selecta Group. Since March 2004, This E. Schneider has been Delegate of the Board of Directors and CEO of the Forbo Group. In addition, This E. Schneider is a member of the Board of Directors of Galenica SA and Minibar AG.

Deputy CEO, Head Corporate Services

Gerold A. Zenger, Swiss
Born in 1945, he worked from 1968 to 1970 with Crown Life Insurance in Toronto, Canada, in the Group Accounting Services. From 1970 to 1973, he studied at the Advanced School of Economics and Business Administration in Zurich and worked part-time with Swiss Aluminium Ltd. in various functions. From the end of 1973, he was responsible for Group reporting and consolidation. In October 1976, Gerold A. Zenger joined Forbo as an Assistant Corporate Controller, and he assumed responsibility for the corporate treasury in 1979. From 1987 to December 2005 he was the Group's Chief Financial Officer and has become a member of the Executive Board in 1998. Since January 2006 he has been Deputy of the CEO and is responsible for Corporate Services of the Group.

Executive Vice President, CFO

Jörg Riboni, Swiss
Born in 1957, studied economics at St. Gallen University and is a Swiss certified public accountant. After various positions in the auditing and consultancy sector, Jörg Riboni joined the Cosa Liebermann Group in 1991 where he worked with the European Division as Head of Controlling and Finances. In 1995 he was appointed Chief Financial Officer of Jelmoli AG which was sold at the end of 1996. From 1997 to December 2005 he was Chief Financial Officer of Sarna Kunststoff Holding AG in Sarnen. At the beginning of 2006, Jörg Riboni joined the Forbo Group. He is a member of the Executive Board and Chief Financial Officer.

Executive Vice President Flooring

Tom Kaiser, German
Born in 1956, completed his apprenticeship in 1978 as Gross- und Handelskaufmann at Stahlwerke Südwestfalen. In 1992, he attended the International Executive Programme INSEAD, Fontainebleau. From 1979 to 1988, he worked for Krupp Handel, among other areas in North and South America. From 1988 to 1998, he held various management positions with Vaillant GmbH. In 1998, he joined the Wolf Group as Managing Director. In March 2004, Tom Kaiser was appointed Executive Vice President Flooring and member of the Executive Board.

Executive Vice President Belting

Matthias P. Huenerwadel, Swiss
Born in 1968, studied engineering at Federal School of Technology (ETHZ), Zurich, spezializing on manufacturing technologies and technology management. He started his professional career as assistant of the Executive Board of Franke Holding AG. In 1997 he moved to the USA where he was responsible for logistics, information technology and customer service with Federal Home Products, Ruston. From 1999 he held various managerial positions for Franke Foodservice Systems, and he managed its European activities over the last three years. Matthias P. Huenerwadel took over the responsibility for the Belting Business effective October 1, 2005, and he is a member of the Executive Board.

Executive Vice President Adhesives

Michel Riva, Swiss
Born in 1964, studied economics at a HWV/FH and then completed his MBA at the IMD in Lausanne. From 1989 to 1994 he held various positions at Hoffmann-La Roche. Subsequently, he led the Strapex Corporation, Charlotte, USA. He worked with the chemical group DuPont from 1998 to 2004. In his latest assignment he was Business Director Europe, Middle East and Africa and was responsible for the DuPont Powder Coatings business. In October 2004, Michel Riva was appointed Executive Vice President Adhesives and member of the Executive Board.

Corporate Governance

At Forbo, the concept of corporate governance encompasses the entire set of principles and rules designed to protect shareholder interests with regard to organization, conduct and transparency. Forbo's aim is to strike a good balance between management and control. The central rules are contained in the Articles of Association, the Organizational Regulations, and in the Charters of the Committees of the Board of Directors. The following information is set out in line with the Directive on Information relating to Corporate Governance ('DCG') drawn up by the SWX Swiss Exchange and, where applicable, the Swiss Code of Best Practice.

Based on DCG, reference is made in the following text to information in the Annual Report in order to avoid repetition. In cases where no information has been provided, it can be assumed that the corresponding sections of DCG are not applicable or immaterial in Forbo's case.

Group structure and shareholders

Group structure

An organizational chart depicting the operational Group structure is given on page 31 of this Annual Report. The scope of consolidation of Forbo Holding AG with registered office in Eglisau (securities No. 000354151/ISIN CH0003541510) does not include any listed companies. The relevant details relating to the companies that belong to the scope of consolidation of Forbo Holding AG are given on pages 90 to 93 of the Financial Report in the list entitled 'Group Companies'. Information relating to the allocation of the Group companies to their respective businesses is also included in this list.

Significant shareholders

As of the end of December 2005, 2,679 shareholders were listed in the share register of Forbo Holding AG, 389 or 12.7% less than in the previous year.

According to the publications in the Swiss Official Gazette of Commerce in the reporting year, the following major shareholders or groups of shareholders have exceeded or fallen below the thresholds as per Art. 20 Stock Exchange Act.

The shareholders' group of Michael Pieper, Hergiswil, Franke Holding AG, Aarburg and Artemis Beteiligungen I AG, Hergiswil announced on January 28, 2005 that it had crossed the threshold of 20 %. Rudolf Maag, Binningen, announced on March 8, 2005 that the threshold of 5 % had been exceeded. The Capital Group Inc., Los Angeles and Brandes Investment Partners LLC, San Diego, announced on March 17, 2005 and January 17, 2005 respectively that they had fallen below the threshold of 5%.

According to an earlier publication dated December 24, 2004, Tweedy Browne Company LLC, New York, fell below the threshold of 10 % at that time.

The status on December 31, 2005 is shown on page 102 of this Annual Report.

Cross-shareholdings

Forbo Holding AG has not entered any cross-shareholdings with capital shareholdings or voting rights on both sides.

Capital structure

Capital, authorized and conditional capital

As of December 31, 2005, the ordinary capital was CHF 54,263,040, and the conditional capital CHF 3,329,000 maximum. There is no authorized capital. Further information is contained on page 101 of the present Annual Report and in the following table.

Changes in capital, 2003 to 2005

The following table shows the changes in capital over the last three years:

Year [1]	Share capital CHF	Shares (units)	Nominal value CHF	Conditional capital CHF	Reserves [2] CHF	Available Earnings [2] CHF
2003	37,984,128	1,356,576	28	4,660,600	170,976,142	78,075,456 [3]
2004	27,131,520	1,356,576	20	3,329,000	–	– [4]
2004	54,263,040	2,713,152	20	3,329,000	337,033,544	557,980 [5]
2005	54,263,040	2,713,152	20	3,329,000	337,253,218	7,263,983 [6]

[1] Changes in capital 2002: see Annual Report 2004
[2] As per December 31 of the corresponding year
[3] Capital reduction as a result of the nominal value reduction according to the resolution passed by the Annual General Meeting on April 29, 2003
[4] Capital reduction as a result of the nominal value reduction according to the resolution passed by the Annual General Meeting on April 27, 2004
[5] Capital increase according to the resolution passed by the Extraordinary General Meeting on December 2, 2004
[6] No change in capital 2005

Shares

The share capital of Forbo Holding AG is CHF 54,263,040, divided into 2,713,152 registered shares with a nominal value of CHF 20 each. Further details are given in the Notes to the Financial Statements on page 101 of the present Annual Report. Each share entitles its holder to one vote. The economic and participatory rights of those shareholders entered in the share register as having voting rights are stipulated by law and in the Articles of Association. The participation rights encompass the right to attend the General Meeting and the right to table motions and to vote. Further information on the participation rights of shareholders can be found on page 46.

Limitations on transferability and nominee registrations

With regard to relations with the company, only the party entered in the share register shall be recognized as the holder of registered shares or usufructuary. The entry of shares with voting rights shall always require the consent of the Board of Directors. Such consent may only be withheld in case the acquirer of the shares does not expressly declare at the company's request that the shares arebeing bought and shall be held in his own name and for his own interests. The party acquiring registered shares shall submit a written application for approval of the share transfer and shall declare that he acquired and shall hold the shares for his own account.

The registered shares of Forbo Holding AG are not evidenced by certificate. However, a shareholder may request that a one-way certificate be printed and made available free of charge. Registered shares that are not evidenced by certificates, including the rights associated with such shares, may only be transferred by means of assignment. The company must be duly notified of any such assignment for the process to be valid. If registered shares not evidenced by certificate are held by a bank on the shareholder's behalf, such shares may only be transferred with the involvement of the bank. Resolutions on the amendment or deletion of the clause on the entry of registered shares shall require a majority of two-thirds of the votes represented at the General Meeting and the absolute majority of the par value of shares represented.

Convertible bonds and warrants/options

There are no outstanding convertible bonds. Information on the option programs available to the Board of Directors and the Executive Board is contained on page 45 of the Annual Report.

Board of Directors

Members of the Board of Directors

The key date for the following information is December 31, 2005. An overview of the members who retired from the Board of Directors during the business year under review as well as of the new and additional members elected to the Board is provided on pages 40 and 41 of the Annual Report 2004.

Except for This E. Schneider, Delegate of the Board of Directors and CEO, none of the members of the Board of Directors listed below has or had any operational management tasks for Forbo Holding AG or its consolidated companies. Except for This E. Schneider, none of the members was part of the Executive Board of Forbo Holding AG or its consolidated companies in the three business years preceding the period under review. There are no essential business relationships between the members of the Board of Directors and Forbo Holding AG or its consolidated companies.

Dr. Albert Gnägi, Chairman

Albert Gnägi, Swiss, was born in 1944. He graduated in jurisprudence (Dr. iur.) after studies at Zurich University and in Rome. He practices law in Zurich, specializing in commercial law, company law and inheritance law. From the IPO in 1997 till the takeover by the British Compass Group in 2001, he was Chairman of the Board of Directors of the Selecta Group. From 1982 to 1997 he was a member and Chairman of the Board of Directors of Immuno International AG, a manufacturer of biological pharmaceuticals that was listed at the Zurich Stock Exchange in 1989. Since 1980 Albert Gnägi has been a member of the Board of Trustees of the Sanitas hospital in Kilchberg near Zurich and its president since 2002. He holds additional board memberships in other companies and foundations. Since March 2005 he has been acting as Chairman of the Board of Directors of Forbo Holding AG.

Michael Pieper, Vice Chairman

Michael Pieper, Swiss, was born in 1946. Michael Pieper studied economics at St. Gallen University. He has been with Franke Group since 1988 and its owner and CEO since 1989. He is a member of the Board of Directors of Hero AG, advalTech Holding AG and of the Supervisory Board of ThyssenKrupp Stainless AG (Germany). His first election as a member of the Board of Directors of Forbo Holding AG took place in the year 2000.

This E. Schneider, Delegate und CEO

For the curriculum vitae of This E. Schneider, see page 33.

Dr. Peter Altorfer

Peter Altorfer, Swiss, was born in 1953. He studied at Zurich University and graduated in law (Dr. iur.). He attended the PED at the IMD, Lausanne. He is a partner of the law firm Wenger & Vieli in Zurich and concentrates on bank and company law. Peter Altorfer is a member of the Board of Directors of various companies, for example Huber + Suhner AG, Herisau, agta record ag, Fehraltorf, and Abegg Holding AG, Zurich, and of several private and foreign banks in Switzerland. He has been a member of the Board of Directors of Forbo Holding AG since March 2005.

Hans-Beat Gürtler

Hans-Beat Gürtler, Swiss, was born in 1946. Following his commercial education he worked with Ciba Geigy and Novartis in various executive roles in Switzerland and abroad. From 1990 to 2002 he was CEO of the Novartis Animal Health Division. Since autumn 2002 Hans-Beat Gürtler has been a partner of private equity company Varuma AG. Hans-Beat Gürtler is also a member and Chairman of the Board of Directors of various start-up companies. He has announced that he will step down from the Board of Directors of Forbo Holding AG as at the next Annual General Meeting.

Dr. Rudolf Huber

Rudolf Huber, Swiss, was born in 1955. He studied and graduated at Zurich University (Dr. oec. publ.). From 1987 to 1992 he led the Finance and Information Technology departments of Bucher Guyer AG and the Finance Group Staff of Bucher Holding AG. In 1992 he joined the Geberit Group where he was a member of the Executive Board and CFO until 2004. Today, he runs his own company. Rudolf Huber has been a member of the Board of Directors of Swiss Prime Site AG since 2002 as well as of Kardex AG since May 2005. He was elected as member of the Board of Directors of Forbo Holding AG in March 2005. He will be recommended to the General Meeting of Georg Fischer AG on March 22, 2006 for election as a new member of the Board of Directors.

Cross-involvement

There is no cross-involvement between the Board of Directors of Forbo Holding AG and any other listed company.

Elections and terms of office

The individual members are elected by the General Meeting for four years and may be reelected several times. This E. Schneider's mandate will end in 2008; the mandates of the other members of the Board of Directors will expire in 2009. Information in this regard is provided on page 40 of this Annual Report. In accordance with the Organizational Regulations of Forbo Holding AG, members who have reached the age of 70 resign from the Board of Directors at the General Meeting of the following year. The average age of the incumbent members of the Board is around 56. With regard to the composition of the Board of Directors, value is attached to the election of independent individuals with international experience in industrial companies as well as in the financial and consultancy sectors.

Board of Directors of Forbo Holding AG
as of December 31, 2005

	Member since	Elected until	AFC	HRC
Chairman				
Dr. Albert Gnägi Non executive member	2005	2009	M	C
Vice Chairman				
Michael Pieper Non executive member	2000	2009	–	M
Members				
This E. Schneider Delegate of the Board of Directors and executive member	2004	2008	–	–
Hans-Beat Gürtler Non executive member	2005	2009	M	–
Dr. Peter Altorfer Non executive member	2005	2009	–	M
Dr. Rudolf Huber Non executive member	2005	2009	C	–
Secretary General to the Board of Directors				
Nicole Häfeli Non member				

AFC: Audit and Finance Committee
HRC: Committee for Human Resources and Remuneration
C: Chair
M: Member

Internal organizational structure

The allocation of tasks within the Board of Directors and the composition of the two Board committees are listed above.

The Board of Directors is the company's supreme managerial body. The Chairman of the Board of Directors convenes its meetings in accordance with the Organizational Regulations as business dictates, but at least four times per year. Meetings are convened with notification of the agenda at least five working days in advance or with shorter notice being given in urgent cases.

The Chairman and the CEO may invite executive employees to meetings of the Board of Directors. Regular use is made of this option. The Board of Directors is informed in each meeting by the CEO or other members of the Executive Board about current business and important business events.

Two committees composed of members of the Board of Directors deal with well-defined subject areas of overriding importance. These committees consisting of three Board members advise the Board of Directors and draw up proposals. The members of these standing committees are elected by the Board of Directors on a yearly basis and can be dismissed at any time.

Audit and Finance Committee

The Audit and Finance Committee (AFC) advises the Board of Directors in terms of financial reporting, the accounting standards and systems used, and significant financial decisions. The AFC also stipulates the tasks of the internal auditing function and the selection and proposal of the audit mandates to the General Meeting. The CEO and CFO are regularly requested to attend meetings in an advisory capacity, whilst the involvement of representatives of internal auditing or external auditors may also be requested by special invitation. The AFC convenes as often as business requires but at least two times per year.

Committee for Human Resources and Remuneration

The Committee for Human Resources and Remuneration (HRC) advises the Board of Directors in relation to its human resources responsibilities for the Group, notably as far as the Board itself and the senior executives are concerned. The HRC prepares human resources policy proposals to the attention of the Board of Directors with regard to the Board of Directors' and the CEO's employment and judges and approves the CEO's proposals regarding the Executive Boards employment. It prepares recommendations for the Board of Directors in relation to the remuneration of the Board of Directors, the Chairman, the Committee members and the CEO.

Definition of areas of responsibility

The Board of Directors is the supreme managerial body within the Forbo Group. It is responsible for the ultimate management of the company and exercises the supervision over and control of the management and is responsible for the corporate strategy. The Board of Directors issues guidelines for the business policy and is regularly briefed on the current state of business.

The Board of Directors has fully delegated operational management of the company to the CEO in the absence of any provisions to the contrary set out in the relevant statutory regulations, Articles of Association, or Organizational Regulations. The Chairman of the Board of Directors is the CEO's direct superior and he is in regular contact with him.

The Executive Board is comprised of the CEO, the Head of Corporate Services, the Chief Financial Officer (CFO) and the Heads of the three businesses. It is responsible for the long-term successful and market-focused management of the Group and shares the responsibility for the protection of the Group's interests and overall financial success. The members of the Executive Board support the CEO in his managerial functions and are his direct reports.

The Executive Board meets as often as necessary, normally once a month.

Information and control instruments

In addition to the external auditors, internal auditing is available to support the Board of Directors and the Executive Board in the implementation of their supervisory duties. The internal auditing is independent, autonomous and reports directly to the AFC. In the context of internal audits the subsidiaries are audited periodically. The audit is tailor-made in line with the size and risk potential of a company. Basically the internal audit includes the examination of essential business processes, management reporting, and IT security. Besides, it covers the identification of possible efficiency improvements, compliance with internal guidelines, and it covers the review of the risk management procedures adopted by the subsidiary companies.

The risks identified during these audits are minimized or eliminated, as necessary, and continuously monitored through the action plans initiated by the company management.

Executive Board

Members of the Executive Board, activities and vested interests

The names of the members of the Executive Board, alongside their nationalities, functions, qualifications, and professional backgrounds, as well as their activities and interests are listed on page 33 of this Annual Report.

Management agreements

Forbo Holding AG has not entered into any management contracts with third parties.

Compensations, shareholdings and loans

Content and method of determining the compensations and the shareholding programs

The compensation of the Board of Directors is defined by the HRC and submitted to the Board of Directors for approval.

The compensation and shareholding programs applicable to the Executive Board are stipulated by the HRC at the last meeting before the end of the year for the next year. When the annual accounts are produced in March, performance is reviewed in light of the stipulated target agreements and in consideration of the prevailing market conditions, and a decision is made on bonus payments and the issuance of options.

The members of the Board of Directors receive a fixed remuneration on the basis of a graduated scale applicable to the Chairman and the members. 40% of this consideration is paid to the members in the form of Forbo shares. These shares are subject to a block period of three years. The average share price during ten share trading days after the distribution of the dividend, or nominal value repayment, is used as the basis of calculation for shares. The average share price during ten trading days is used as the basis of calculation starting June 1 of the business year, in case no dividend should be distributed.

The remuneration paid to the Executive Board consists of a fixed base salary and a performance-related component, determined in each case at the end of the financial year. As part of a stock option plan, the Board of Directors issued to members of the Executive Board options of Forbo Holding AG for the first time in 2000. The basis of calculation was the theoretical market value on the issue date in each case, subject to a maximum of 10% of the total remuneration payable.

Compensation for current members

The total compensation to all non executive members of the Board of Directors within the Forbo Group in 2005 was CHF 618,740, CHF 370,322 of which to the members who retired before or during the General Meeting 2005. The Delegate of the Board of Directors, who is at the same time chairing the Executive Board and who came into office in the course of March 2004, received a total compensation of CHF 1,446,803 in the period under review. This amount includes all the remunerations, i. e. base salary, bonus, contributions to pension funds in excess of obligatory levels and payments in kind. In addition, as a member of the Executive Board he received a total of 2100 options in accordance with the option plan, page 45.

The compensation to six Executive Board members in 2005 amounted to CHF 4,823,274, with one member retiring in the period under review. This amount includes base salary, bonus and payments in kind, and the Delegate's remuneration.

Payments due to termination of employment arrangements amount to CHF 1,673,750.

Compensation for former members of governing bodies

During the period under review, a former member of the Executive Board who had retired in August 2003 received a sum of CHF 452,000 for consultancy services.

Share allotment in the period under review

590 shares were allotted to the members of the Board of Directors in the period under review as a component of their remuneration. No shares were allocated to parties (natural persons or legal entities) with close links to the Board of Directors/Executive Board.

Share ownership

The total number of shares held by the non executive members of the Board of Directors as of December 31, 2005 was 772,172. The Executive Board held in total 10,373 shares on the key-date. These figures include any shares held by natural persons and legal entities with close links to the Board of Directors/Executive Board.

Options

As of December 31, 2005 the Board of Directors and Executive Board held the following options:

Year allotted	Number	Term	Frozen until	Subscription	Exercise price CHF
Board of Directors					
2001	235	08.05.2001–07.05.2006	07.05.2004	1:2	442
2002	356	07.05.2002–07.05.2007	06.05.2005	1:2	330
Executive Board					
2001	1,085	08.05.2001–07.05.2006	07.05.2004	1:2	442
2002	1,260	07.05.2002–07.05.2007	06.05.2005	1:2	330
2003	1,700	31.07.2003–30.07.2008	30.07.2006	1:2	251
2004	3,600	01.08.2004–31.07.2009	31.07.2007	1:2	212
2005	5,250	15.06.2005–14.06.2010	14.06.2008	1:1	235

Additional fees and remunerations

All transactions with companies and persons having close links to the Forbo Group are based on customary agreements at market conditions.

In the period under review, a total of CHF 447,135 was paid for consultancy services to lawyers Bär & Karrer in Zurich. Prof. Dr. Rolf Watter, who retired from the Board of Directors in the business year under review, has been a partner of that lawyers' office for several years.

For supplies from business relationships which were obtained from Franke Group in the period under review Forbo paid a total of CHF 328,926. Michael Pieper, Vice-Chairman of the Board of Directors, is the owner and CEO of Franke Group.

Furthermore, CHF 31,694 in total were paid to lawyers Wenger & Vieli in Zurich for consultancy services. Dr. Peter Altorfer, a member of the Board of Directors, has been a partner of that lawyers' office for several years.

Loans granted to governing bodies

As of December 31, 2005, Forbo Holding AG had not awarded any securities, loans, credits, or advances to any members of the Board of Directors or Executive Board, or to any persons with close links to these members.

Highest total compensation

The Delegate of the Board of Directors, who is at the same time chairing the Executive Board and who came into office in the course of March 2004, received a total compensation of CHF 1,446,803 in the period under review. This amount includes all the remunerations, i. e. base salary, bonus, contributions to pension funds in excess of obligatory levels, and payments in kind. In addition, as a member of the Executive Board he received a total of 2,100 options in accordance with the option plan, see page 45.

Shareholders' rights of participation

Voting right restriction and representation

Entry of shares with voting rights in the share register requires in any case the Board of Directors' consent. Such consent may be withheld if the acquiring party of the shares in question fails to expressly declare that he shall acquire and hold the shares on his own behalf and for his own interests. Resolutions on the amendment or deletion of the clause on the entry of registered shares require a majority of two-thirds of the votes represented at the General Meeting, in addition to an absolute majority of the par value of shares represented.

Deviating from Article 689, Paragraph 2 Swiss Code of Obligations, shareholders who are unable to attend the General Meeting in person may be represented by a member of a corporate body of the company, an independent proxy or another shareholder who is entered in the share register.

Statutory quorums

In accordance with the Articles of Association, resolutions on the amendment and cancellation of provisions regarding the conversion of registered shares into bearer shares, the entry of registered shares, the representation of shares at the General Meeting, and the dissolution of the company, or a merger require the approval of two thirds of the votes represented at the General Meeting and the absolute majority of the par value of shares represented.

Convocation of the General Meeting

The General Meeting is convened in accordance with the statutory provisions.

Agenda

General Meetings are convened at least 20 days prior to the meeting date. The agenda, as well as any motions tabled by the Board of Directors and any shareholder motions, are announced together with the invitation to attend the meeting. Deviating from Article 699 Paragraph 3 Swiss Code of Obligations, shareholders representing shares in the nominal value of CHF 400,000 can demand, in writing and within a period of time published by the company, that relevant issues be put on the agenda.

Registration in the share register

In accordance with Section 4 of the Articles of Association, the share register entries as at the 20th day prior to the General Meeting apply with regard to determining the participation and representation rights of shareholders at General Meetings. In order to accommodate (new) shareholders and to enable them to attend the General Meeting, Forbo Holding AG deviates from this provision in practice if entries are made where possible up to approximately seven days prior to the meeting date.

Changes of control and defense measures

Duty to make an offer

The Articles of Association of Forbo Holding AG contain neither an opting-up clause (clause according to which the 33⅓% threshold stipulated in Article 32, Paragraph 1 of Stock Exchange Act is raised) nor an opting-out clause (clause according to which an acquiring party is released from a purchase offer). However, the Articles of Association modify the determination of the minimum price stipulated in Article 32 Paragraph 4 of Stock Exchange Act in that, in case of a compulsory offer, the offer price must at least correspond with the share price and must not be lower than the highest price which the bidder paid in the last twelve months for shares of the company.

Clauses on changes of control

Two members of the Executive Board are entitled to claim a severance payment in the event that certain conditions arise due to a change in the controlling shareholder. This involves payment of a settlement corresponding with an annual salary at most.

Auditors

Duration of the mandate and term of office of the head auditor

PricewaterhouseCoopers have been the Forbo Group's auditors since 1987. The predecessor company of PricewaterhouseCoopers had been Forbo's auditors since 1928. The current head auditor, Stefan Räbsamen, has been in office since 2002. The auditors are appointed each year by the General Meeting.

Auditing fees

The auditing fees levied by the Group auditor for the audit of the consolidated financial statements, including the statutory audit of the individual financial statements of the Holding and consolidated subsidiaries, amounted to CHF 1.9 million in the period under review.

Additional fees

Total additional consultancy fees (e. g. costs incurred for tax and legal advice, consultancy costs in connection with acquisitions, mergers and divestments), as invoiced by the audit company, amount to CHF 1.1 million for 2005.

Supervisory and control instruments pertaining to the audit

The Audit and Finance Committee (AFC) of Forbo Holding AG is responsible for supervising and monitoring the work of the external auditors. Ultimate responsibility lies, however, with the Group's Board of Directors. At the AFC's invitation, representatives of the external auditors attend AFC meetings in an advisory capacity. For the purposes of assessing the external audit, the Chairman of the Board of Directors holds discussions on a yearly basis with the head auditor, dealing with critical aspects of the auditing activity.

Internal auditing

Ernst & Young AG, Basle, has been responsible for internal auditing since 2002. The remit of the internal auditors includes, among other tasks, verifying that internal guidelines and requirements have been implemented and monitoring the efficiency of internal processes. Furthermore, checks are carried out to assess whether appropriate control systems are in place from a financial and operational perspective. In 2005, five internal audits took place, which covered every business unit at least once. Various aspects of a Group function were also examined for their application in the business units.

Information policy

Transparency for investors

Forbo aims to provide comprehensive, objective, and timely information on business developments and commercially relevant events. To this end, it publishes annual and half-year reports, summary reports for shareholders and regular media releases. This target-group oriented information is also made available to interested parties via E-Mail. Both the Chairman of the Board of Directors and the CEO can be contacted directly for further information.

Direct communication with different target groups

All up-to-date information is available on the Forbo website at www.forbo.com. Most information is also available to order in hard copy. This ensures that shareholders, the media, and financial analysts can access required information as and when necessary.

In addition, Forbo is involved in several activities designed to foster direct communication with different target groups. The primary measure as far as shareholders are concerned is the General Meeting, whilst conferences and news releases are used to brief the media and the financial analysts.

To view the financial calendar with key dates, and for further information on the Forbo share, see also page 54 of this Annual Report.

Publications may be ordered via e-mail, fax or phone:

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The contact address for Investor Relations is:

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CH-6341 Baar
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Relocation of the registered office

On the occasion of the Annual General Meeting on April 28, 2006 the Board of Directors shall propose the shareholders to relocate the registered office of Forbo Holding AG to Baar, Canton Zug.

Risk Management

Important control and working tool

The continuous and systematic evaluation of current and future risks always includes the identification and exploitation of chances. Risk management is seen by Forbo as a control and working tool for safeguarding the tangible and intangible assets of the Group, among others.

Forbo has a riskadequate insurance coverage in line with industry practice, especially against operational risks such as property damage, business interruptions, and product liability. The specific risks in terms of property damage, business interruptions and liability are studied in the context of periodic risk engineering reports by external subject matter experts. In addition, production companies are visited on a regular basis, and comprehensive questionnaires are completed with the local management. Action plans are developed and implemented based on the risks identified. Forbo has been preparing such risk engineering reports since 1990. As far as business risks are concerned, Forbo deals with both strategic risks as well as with market and financial risks. As to market risks, interest and currency risks are monitored and controlled centrally (see pages 85 and 86 in this report). The liquidity and financing of subsidiaries are also controlled centrally. In order to avoid losses through debtor failures, credit insurance policies are taken out in specific cases, notably for business activities in difficult markets.

The Forbo Share

Upswing in the second half-year

At the start of November 2004, the private equity house CVC Capital Partners for the first time expressed an interest in a takeover of Forbo. After completion of the due diligence procedure in March 2005, CVC submitted a public offer of CHF 260 per share to the Forbo shareholders. On April 6, 2005, CVC withdrew their bid as only 16% of the shares had been offered.

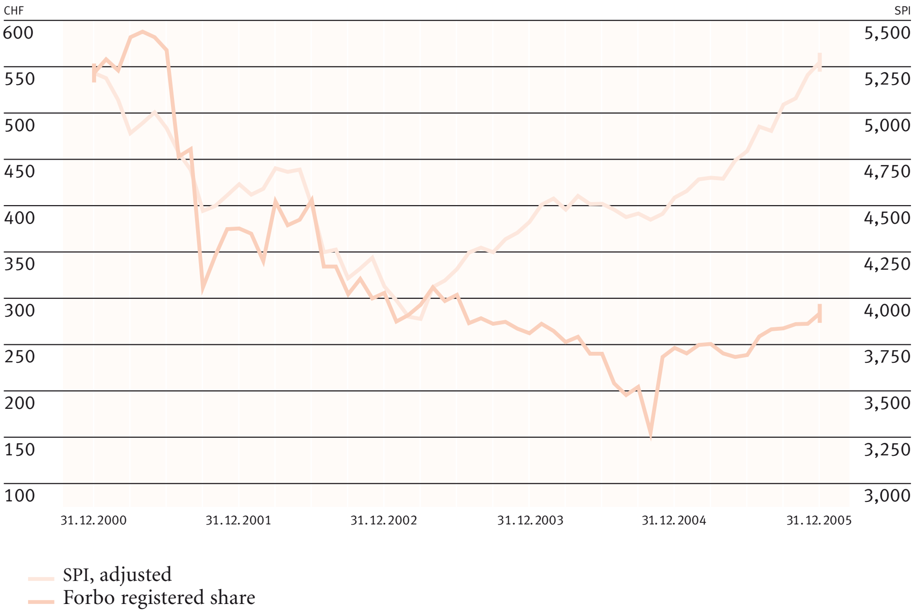
At the occasion of the publication of the sales figures for the first quarter 2005 at the end of April, Forbo pointed out that the takeover attempt would have a negative impact on the operative result in the business year 2005. In August 2005 with the publication of the half-year results, Forbo reported that the restructuring measures were again making progress as planned and that the sales goals could be reached in spite of adverse impacts during the first quarter. With the publication of the figures for the third quarter in October, Forbo announced a slight sales growth over the corresponding period of the previous year thanks to the generally positive economic development.

Share price development reflects business trend

In the first half-year 2005, the share price moved in a narrow range between CHF 240 and CHF 252. By mid-year it was about 3% below the 2004 year-end price. In the second half of 2005 the price moved between CHF 260 and CHF 285. At the end of the year it was about 19% higher than mid-year. Related to the entire year, the price of the Forbo share rose by roughly 15%.

Compared with Forbo share's historical low of CHF 155 immediately before the first announcement of CVC's takeover interest at the end of 2004, the price of CHF 285 at year-end 2005 corresponds to a growth of approximately 84% or CHF 343 million. Compared with CVC's public offer, the shareholders benefited from a higher valuation of the Forbo share of about 10%, or a value growth of some CHF 68 million in absolute figures.

The Forbo Share in comparison to the SPI



Share capital

	2005	2004	2003	2002	2001
	Number	Number	Number	Number	Number
Issued registered shares[1]	2,713,152	2,713,152	1,356,576	1,356,576	1,513,550
Thereof:					
Shares outstanding	2,634,849	2,633,897	1,314,986	1,305,207	1,305,052
Shares from buy-back program 2001	–	–	–	–	156,974
Other own shares	56,884	57,836	20,171	25,489	11,390
Reserve shares (without dividend right)	21,419	21,419	21,419	25,880	40,134

Nominal capital

	2005	2004	2003	2002	2001
	CHF	CHF	CHF	CHF	CHF
Total	54,263,040	54,263,040	37,984,128	67,828,800	75,677,500
Thereof:					
Shares outstanding	52,696,980	52,677,940	36,819,608	65,260,350	65,252,600
Shares from buy-back program 2001	–	–	–	–	7,848,700
Other own shares	1,137,680	1,156,720	564,788	1,274,450	569,500
Reserve shares (without dividend right)	428,380	428,380	599,732	1,294,000	2,006,700

Data per share

		2005	2004	2003	2002	2001
		CHF	CHF	CHF	CHF	CHF
Shareholders' equity Group[2]		212	206	435	453	500
Consolidated loss/profit[3]		–17	–107	12	33	38
Gross dividend and cash distribution, respectively		0[4]	0	8	22	22
Gross dividend return (in %)	High	0.0	0.0	2.4[5]	6.3[5]	5.3
	Low	0.0	0.0	1.8[5]	3.8[5]	2.6
Payout ratio[6] (in %)		0	0	65	67	58

Stock market statistics

		2005	2004	2003	2002	2001
		CHF	CHF	CHF	CHF	CHF
Share prices[7]	High	285	301	326	437	626
	Low	233	155	250	261	311
	Year-end	285	248	264	307	377
Market capitalization (m)[8]	High	751	794	575	764	1,228
	Low	614	408	441	457	544
	Year-end	751	653	465	538	659

[1] Nominal value per share 2004–2005: CHF 20, 2003: CHF 28, 2001–2002: CHF 50
[2] Adjustment from 2004 according to IAS 19 for actuarial losses
[3] See also the Financial Report, Notes to the Consolidated Financial Statements, page 72, 'Earnings per share'
[4] Proposal of the Board of Directors to the Shareholders' General Meeting
[5] Calculated on the basis of a cash distribution by reducing the nominal value
[6] Gross cash distribution as a percentage of Group profit
[7] Adjusted by the capital increase in 2004
[8] Based on shares outstanding

Financial calendar

Annual General Meeting:	April 28, 2006
Letter to shareholders:	August 22, 2006
Media release on the results of the first half-year 2006:	August 22, 2006

Forbo Group
Financial Report

Consolidated Income Statement

	Notes	2005 m CHF	2004 m CHF
Net sales	1/2	**1,702.0**	**1,622.3**
Cost of goods sold		−1,151.8	−1,092.5
Gross profit		**550.2**	**529.8**
Development costs	3	−32.4	−32.1
Marketing and distribution costs		−286.9	−285.1
Administrative costs	4	−143.5	−143.6
Other operating expenses	5	−63.5	−113.5
Operating profit/loss		**23.9**	**−44.5**
Financial income	7	9.5	4.2
Financial expenses	8	−28.3	−49.8
Share of results of associated companies	12	0.0	−22.5
Profit/loss before taxes		**5.1**	**−112.6**
Income taxes	23	−21.6	−44.8
Net loss for the year		**−16.5**	**−157.4**

	Notes	2005 CHF	2004 CHF
Loss per share (basic/diluted)	9	−6.26	−106.56

Consolidated Balance Sheet

		31.12.2005	31.12.2004
Assets			
	Notes	m CHF	m CHF
Non-current assets		**597.3**	**612.2**
Tangible assets	10	422.4	443.5
Intangible assets	11	144.6	143.0
Deferred taxes	23	28.1	23.5
Investments in associates and other long-term assets	12	2.2	2.2
Current assets		**993.7**	**904.4**
Inventories	13	257.0	255.2
Trade receivables	14	273.8	242.9
Other receivables		22.8	28.7
Prepaid expenses and deferred charges		35.5	30.8
Cash and cash equivalents		404.6	346.8
Total assets		**1,591.0**	**1,516.6**

		31.12.2005	31.12.2004
Shareholders' equity and liabilities			
	Notes	m CHF	m CHF
Shareholders' equity	26	**558.1**	**543.7**
Share capital	15	54.3	54.3
Treasury shares	15	–1.6	–1.6
Reserves and retained earnings [1]		505.4	491.0
Non-current liabilities		**512.9**	**604.7**
Long-term financial debt	16	358.4	459.7
Employee benefit obligations [1]	17	101.1	112.1
Non-current provisions	18	40.7	26.9
Deferred taxes	23	12.7	6.0
Current liabilities		**520.0**	**368.2**
Trade payables	19	131.8	108.8
Current provisions and accrued expenses	20	189.0	200.3
Short-term financial debt	21	155.5	18.1
Current tax liabilities		10.6	6.1
Other current liabilities		33.1	34.9
Total liabilities		**1,032.9**	**972.9**
Total shareholders' equity and liabilities		**1,591.0**	**1,516.6**

[1] Adjustment from 2004 according to IAS 19
for actuarial losses

Consolidated Cash Flow Statement

Cash flow from operating activities	2005 m CHF	2004 m CHF
Net loss for the year	–16.5	–157.4
Depreciation and impairment of tangible assets	78.5	154.8
Amortization and impairment of intangible assets	6.9	15.9
Share of results of associated companies	0.0	22.5
Net financial expenses	18.8	45.6
Tax expense	21.6	44.8
Taxes paid	–18.9	–15.9
Share-based payments	0.6	0.0
Increase (+)/decrease (–) in provisions and employee benefit obligations	13.7	–2.5
Increase (+)/decrease (–) in current liabilities (excl. short-term debt)	30.9	14.6
Increase (–)/decrease (+) in current assets [1)]	–0.7	–4.6
Total cash flow from operating activities	**134.9**	**117.8**

Cash flow from investing activities	2005 m CHF	2004 m CHF
Acquisitions	–8.8	0.0
Purchases of non-current assets	–43.6	–54.8
Proceeds from sale of non-current assets	6.0	3.8
Total cash flow from investing activities (before securities)	**–46.4**	**–51.0**
Proceeds from sale of marketable securities	0.0	18.7
Dividends received [2)]	0.0	0.3
Total cash flow from investing activities	**–46.4**	**–32.0**

Cash flow from financing activities	2005 m CHF	2004 m CHF
Repayment of long-term financial debt	0.0	–65.9
Increase (+)/decrease (–) in short-term financial debt	–13.2	5.2
Interest paid [2)]	–27.7	–27.9
Interest received [2)]	4.5	3.9
Change in treasury shares	0.0	0.7
Cash distribution to shareholders	0.0	–10.5
Capital increase	0.0	186.7
Total cash flow from financing activities	**–36.4**	**92.2**

Change in cash and cash equivalents	2005 m CHF	2004 m CHF
Increase in cash and cash equivalents	52.1	178.0
Translation differences	5.7	–1.0
Cash and cash equivalents at the beginning of the year	346.8	169.8
Cash and cash equivalents at the end of the year [3)]	**404.6**	**346.8**

[1)] Excluding cash and marketable securities
[2)] Interest paid and interest received were reallocated from cash flow from operating activities to cash flow from financing activities, dividends received were reallocated to cash flow from investing activities.
[3)] A considerable part of the cash position is invested in the money market.

Consolidated Statement of Recognized Income and Expenses

	Notes	2005 m CHF	2004 m CHF
Net loss for the year		**–16.5**	**–157.4**
Fair value adjustments of financial instruments	26	–3.1	6.5
Actuarial profits (losses) from defined benefit plans, net	17	10.8	–8.4
Translation differences		22.3	–18.4
Total income and expenses recognized in shareholders' equity		13.5	–177.7

Consolidated statement of changes in shareholders'equity, see note 26 on page 87.

Accounting Policies

Basis of preparation
The consolidated financial statements and the information provided in the notes to the financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) and in compliance with Swiss law. These financial statements were approved and released for publication by the Board of Directors on March 15, 2006.

Changes of accounting policies in 2005
Effective January 1, 2005, the International Accounting Standard Board (IASB) implemented various new standards or revised existing International Accounting Standards (IAS) (IASB Improvements Project). Reference to such changes is made in the following explanations provided they have an essential influence on the consolidated statements.

Since January 1, 2005, share-based payments have been included in the income statement in accordance with IFRS 2. This change was not material for the previous year, meaning that the previous year's figures were not restated.

Planned amortization of goodwill is no longer admissible pursuant to IFRS 3. Instead, all goodwill items are by means of an impairment test assessed annually beginning January 1, 2005 on the level of cash-generating unit and adjusted to the recoverable amount, if necessary. This also applies to intangible assets with an indefinite useful life time pursuant to IAS 38.

For pension liabilities, IAS 19 has been offering an alternative since January 1, 2005 for booking of actuarial gains and losses. With this early adoption, all actuarial gains and losses are now stated as pension liabilities in the balance sheet with a corresponding movement in the statement of recognized income and expense. The previous year's figures were restated in the shareholders' equity and in the pension liabilities. The effect on the previous year's income statement is immaterial.

Changes of accounting policies from 2006
New standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods which Forbo has not early adopted as they are not regarded as relevant for the Group's operations

– IAS 39 (Amendment), 'The Fair Value Option'
– IAS 39 and IFRS 4 (Amendment), 'Financial Guarantee Contracts'
– IFRS 6 (Amendment), 'Exploration for and Evaluation of Mineral Recources'
– IFRIC 6, 'Liabilities arising from Participating in a Specific Market – Waste Electric and Electronic Equipment'

Management is currently assessing the relevance of following amendments to existing standards to the financial results

– IAS 39 (Amendment), 'Cash flow hedge Accounting of Forecast Intragroup Transactions'
– IFRIC 4, 'Determining whether an Arrangement contains a Lease'
– IFRS 7, 'Financial Instruments: Disclosures'

Above mentioned amendments were not applied to the financial statements 2005. The future application will first and foremost require additional disclosures.

Judgements and estimates

The preparation of the consolidated financial statements requires management to make judgements and estimates to the extend that actual outcomes and results may differ from these assumptions and estimates. This applies to the reported assets, liabilities, disclosure of contingent assets and receivables at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

For assessing the fair value of tangible and intangible assets, including goodwill, estimates are used for impairment tests. The estimates relate to future cash flows from the use of assets to determine the enterprise value and their possible sale. The management's planning documentation is the basis of such calculations.

The Group has made various provisions for environmental remediation projects or legal proceedings, for instance. The expected costs and the probability of occurrence of such possible cash outflows are estimated by experts. The management considers the existing provisions adequate, but it can not exclude any effects on the operational results because of the uncertainty of the point of time and amount of such payments.

Scope of consolidation

The consolidated financial statements include Forbo Holding AG and all subsidiaries over which the Group has a controlling influence. A controlling influence normally exists when the Group owns more than 50 % of the voting rights in a company. Intra-group transactions, balances and unrealized profits on transactions between Group companies are eliminated.

Companies acquired during the reporting year are included in the consolidated financial statements as of their acquisition date, and all companies disposed of are eliminated from the accounts as of the date the Group ceases to have control. The companies included in the consolidated financial statements are listed under 'Group companies'. Joint ventures in which the Group has a direct or indirect participation of 50 %, and where Forbo exercises joint control, are included in the consolidated financial statements using the proportionate consolidation method. Companies over which the Group has a significant influence but not control (normally between 20 % and 50 % of the voting rights) are included in the consolidated financial statements using the equity method of accounting and are presented as investments in associates. Investments below 20 % are valued at their fair value.

Capital consolidation

The purchase method is used, whereby goodwill is capitalized and was amortized over its estimated useful life, but over a period not exceeding twenty years until December 31, 2004. Under IFRS 3 (applicable to Forbo as from January 1, 2005) goodwill is considered to have an indefinite life and is not amortized, but is subject to annual impairment testing.

Foreign currency translation

The consolidated financial statements are presented in Swiss Francs (presentation currency). Items included in the financial statements of each Group company are measured using the currency of the primary economic environment in which that company operates (the functional currency). The assets and liabilities of Group companies which do not report in Swiss Francs as their functional currency are translated at year-end exchange rates and their income statements are translated at weighted average exchange rates for the year. Currency translation differences arising from changes in exchange rates between the beginning of the year and the end of the year and the difference in net income translated at weighted average and year-end exchange rates are taken directly to shareholders' equity. Exchange gains and losses arising from long-term intra-group financings with equity character denominated in foreign currencies are likewise taken to shareholders' equity. On the disposal of a company, the cumulative amount of these exchange differences is recognized in the income statement together with the disposal gain or loss.

Exchange gains and losses arising in Group companies from transactions in foreign currencies are taken to the income statement.

Tangible assets

Tangible assets are stated at their acquisition or production cost less depreciation over their estimated useful lives. Depreciation is charged on a straight-line basis over thirty years for buildings and over a period of three to ten years for machinery, equipment and other tangible assets. The same depreciation rules apply for leased assets where the Group companies assume all the risks and rewards of ownership (financial leasing). These assets are capitalized at the present value of the underlying lease payments. The corresponding payment obligations, excluding the associated financing costs, are shown in the balance sheet as short- and long-term loans, depending on their due date. The interest element of the financing is charged to the income statement over the lease period. Investment objects are stated at their acquisition cost less depreciation and impairment.

Expenditures for maintenance and repairs are charged directly to the income statement, whereas expenditures which enhance the value of assets, are capitalized.

Intangible assets

Intangible assets, other than goodwill, comprise mainly patents, licenses and trademarks acquired from third parties. The amortization of intangible assets with indefinite lifetime has no longer been admissible since January 1, 2005. By analogy to goodwill treatment, such intangible assets are subject to an annual impairment test. Intangible assets having an indefinite useful lifetime are amortized on a straight-line basis over their estimated useful life (but over a period not exceeding twenty years).

Impairment of tangible and intangible assets
When there is evidence that an asset may be impaired, the recoverable amount of the asset is calculated and an impairment assessment is carried out. When the recoverable amount of an asset, being the higher of its net selling price and its value in use, is less than its carrying amount, then the carrying amount is reduced to its recoverable value. Value in use is calculated using estimated cash-flows, generally over a period of five to ten years, with extrapolating projections for subsequent years. These are discounted using an appropriate long-term pretax interest rate.

Inventories
Inventories of raw materials, work in progress and finished goods are valued at the lower of their average acquisition cost or, where applicable, group production cost and their market (net realizable) value. The valuation of work in progress and finished goods includes related production overheads. Appropriate allowance is made for excess and obsolete inventories and reductions in sales prices. Unrealized profits on inventories resulting from intra-group transactions have been eliminated in the income statement and balance sheet.

Trade receivables
Trade receivables are stated at their nominal value less necessary allowance for doubtful receivables. The allowance for doubtful receivables is established based upon the difference between the receivable value and the estimated net collectible amount.

Marketable securities
The Group classifies its marketable securities as available-for-sale. Available-for-sale marketable securities are initially recorded at cost and subsequently carried at fair value, with all changes in fair value recorded in equity. When available-for-sale marketable securities are sold, the cumulative gains and losses previously recognized in equity are included in financial income or expense for the current period. Unrealized losses are included in financial expense, already before the marketable securities are sold, when there is objective evidence that they are permanently impaired.

Except for treasury shares, the Group has not held any securities since January 1, 2005.

Cash and cash equivalents
Cash and cash equivalents include highly liquid investments with original maturities of three months or less. This position is readily convertible to known amounts of cash.

Income taxes
Income taxes include all taxes based upon the taxable profits of the Group, including withholding taxes payable on the distribution of retained earnings within the Group. Other taxes not based on income, such as capital taxes, are included within other operating expenses.

Deferred income taxes are accounted for using the 'balance sheet liability' method. Provisions for deferred taxes are established in respect of all temporary differences between the tax values of assets and liabilities and their values in the consolidated financial statements. Deferred taxes are calculated on the basis of standard local tax rates, with immediate adjustment for any changes in the relevant tax law. Deferred tax assets arising from a reduction of future tax liability due to the carry forward of allowable losses and valuation differences are shown as assets only if levels of forecast profits make it likely that such tax assets will be realized.

Financial debt
Financial debt instruments are initially reported at cost, which is the proceeds received, net of transaction costs. Subsequently they are reported at amortized cost using the effective interest method.

Borrowing costs are recognized in the income statement as incurred.

Pension plans
For defined contribution plans, the expenses charged to the income statement corresponds with the contributions made by the Group companies.

For defined benefit plans, the pension obligations are assessed on an annual basis by independent actuaries according to the 'Projected Unit Credit Method'. They correspond with the present value of the excpected future cash out flows. In the income statement, the pension costs less employee contributions incurred in the relevant period are stated as personnel expenses. The pension plan assets are stated at fair value. Additional expenses for service costs resulting from changes in pension plans are distributed on a straight-line basis over the remaining average period until an active employee has a vested pension right, or they are immediately charged to the income statement in case the employee has already retired. Profits resulting from pension plan reductions or compensations are immediately taken to the income statement.

Since January 1, 2005, with retrospective application all unrecognized actuarial profit and losses resulting from changes in actuarial assumptions and experience adjustments used for valuing the assets and liabilities of defined benefit plans at fair value at the balance sheet date are immediately recognized in the balance sheet with the corresponding movement in the statement of recognized income and expenses.

Provisions
Provisions are recognized when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Warranties
On the basis of past experience, provision is made for warranty costs at the time the sales revenue is recognized.

Treasury shares

The Group's holding in its own equity instruments are recorded as a deduction from equity. The original cost of acquisition, consideration received for subsequent resale of these instruments and other movements are reported as changes in equity.

Share-based payments

Until December 31, 2004 the allocation of share options to employees did not result in an expense in the income statement. Since January 1, 2005 share-based payments have been stated in the income statement at their fair market value.

As part of a Stock Opion Plan, options are granted to members of the Executive Board. Until 2004, the members of the Board of Directors also had an Option Plan. The options have a term of five years and are blocked for three years. The value of the options corresponds with the market value on the day they are granted and is determined according to the 'Black-Scholes' method on the basis of the share price at the time of issue. The corresponding pro rata expense is stated under personnel expenses during the blocking period. Shares allocated to the Board of Directors are stated at market value and charged to personnel expenses during the corresponding period.

Revenue recognition

Revenues from the sale of goods are recognized at the time of transfer of the risks and rewards of ownership to the buyer. All costs incurred in connection with sales are appropriately accrued.

Research and development

All research costs are charged directly to the income statement. Development costs are recognized only when the recognition criteria of IAS 38 are met.

Derivative financial instruments

Derivative financial instruments held to hedge the Group's exposure to financial risks are initially recognized at cost and subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss is dependent on the nature of the item being hedged. On the date a derivative contract is entered into, the Group defines certain derivatives as either a hedge of the fair value of a recognized asset or liability or a firm commitment (fair value hedge) or a hedge of a highly probable forecast transaction (cash flow hedge). Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognized in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the same periods during which the hedged firm commitment or forecasted transaction affects the income statement.

The Group hedges certain net investments in foreign entities with foreign currency borrowings. All foreign exchange gains or losses arising on translation of these borrowings are recognized in equity and included in cumulative translation differences.

Fair value
Fair value is the amount for which a financial asset, liability or instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. It is determined by reference to quoted market prices or by the use of established estimation techniques as for example estimated discounted values of cash flows.

Changes in the scope of consolidation
In the period under review, the scope of consolidation was expanded through the establishment of new subsidiaries in Turkey (Forbo Adhesives Ticaret Limited Şirketi) and in Russia (Forbo Stroitech OOO). Furthermore, the assets of Industrial Adhesives Inc. were acquired in the USA.

Notes to the Consolidated Financial Statements

1 **Segment information**

By business segments 2005	Flooring m CHF	Adhesives m CHF	Beltings m CHF	Corporate and consolidation m CHF	Total m CHF
Net sales to third parties	747.0	628.5	326.5	0.0	1,702.0
Inter-segment sales	0.1	21.4	0.0	–21.5	0.0
Total net sales	747.1	649.9	326.5	–21.5	1,702.0
EBITDA before special charges	86.2	46.4	16.8	–14.3	135.1
Special charges	–17.5	–4.4	–3.9	0.0	–25.8
EBITDA	68.7	42.0	12.9	–14.3	109.3
Depreciation and amortization	–36.1	–15.0	–16.2	–3.1	–70.4
Impairment of tangible and intangible assets	–4.6	–10.4	0.0	0.0	–15.0
EBIT before special charges and impairment	50.1	31.4	0.6	–17.4	64.7
Operating profit (EBIT)	28.0	16.6	–3.3	–17.4	23.9
Operating assets	425.2	447.6	261.2	22.1	1,156.1
Operating liabilities	153.8	121.9	63.4	156.2	495.3
ROS, gross (EBITDA before special charges/net sales)	11.5 %	7.1 %	5.1 %		7.9 %
ROS, net (EBITA before special charges/net sales)	6.7 %	4.8 %	0.2 %		3.8 %
ROA (EBIT before special charges/operating assets)	11.8 %	7.0 %	0.2 %		5.6 %
Capital investments	14.9	19.1	13.7	1.6	49,3
Goodwill	0.0	118.1	2.7	0.0	120,8
Number of employees (at 31. 12.)	2,319	1,319	1,861	39	5,538

By business segments 2004	Flooring m CHF	Adhesives m CHF	Beltings m CHF	Corporate and consolidation m CHF	Total m CHF
Net sales to third parties	737.6	577.7	307.0	0.0	1,622.3
Inter-segment sales	0.1	18.1	0.0	–18.2	0.0
Total net sales	737.7	595.8	307.0	–18.2	1,622.3
EBITDA before special charges	79.0	59.2	20.8	–15.9	143.1
Special charges	–16.3	0.0	–0.6	0.0	–16.9
EBITDA	62.7	59.2	20.2	–15.9	126.2
Depreciation and amortization	–36.6	–24.3	–18.4	–7.9	–87.2
Impairment of tangible and intangible assets	–37.1	–6.7	–34.9	–4.8	–83.5
EBIT before special charges and impairment	42.4	34.9	2.4	–23.8	55.9
Operating profit (EBIT)	–11.0	28.2	–33.1	–28.6	–44.5
Operating assets	449.8	419.5	241.3	33.5	1,144.1
Operating liabilities	162.0	98.1	51.8	136.2	448.1
ROS, gross (EBITDA before special charges/net sales)	10.7 %	9.9 %	6.8 %		8.8 %
ROS, net (EBIT before special charges/net sales)	5.7 %	5.9 %	0.8 %		3.4 %
ROA (EBIT before special charges/operating assets)	9.4 %	8.3 %	1.0 %		4.9 %
Capital investments	26.3	10.3	14.3	3.9	54.8
Goodwill	0.0	115.5	2.7	0.0	118.2
Number of employees (at 31.12.)	2,468	1,291	1,742	39	5,540

Forbo is a global producer of floor coverings, adhesives and belts for conveying and power transmission. In the flooring business, Forbo develops, produces and sells linoleum, vinyl and other floor coverings as well as the various accessory products required for laying, processing, cleaning, and care. The adhesives business develops, manufactures and sells adhesives for industrial applications as well as floor and wall adhesives. The belting business develops, produces and sells high quality belts of modern synthetics for use in power transmission or as conveyor and process belts. 'Corporate' includes the costs of the Group headquarter and certain items of income and expenses which are not directly attributable to a specific business.

By geographical segments 2005	Europe (Eurozone) m CHF	Switzerland m CHF	Rest of Europe m CHF	America m CHF	Asia/ Africa m CHF	Total m CHF
Net sales	741.9	51.7	323.9	444.5	140.0	1,702.0
Operating assets	554.9	102.5	170.0	252.8	75.9	1,156.1
Capital investments	18.2	4.5	10.4	14.9	1.3	49.3
Number of employees (at 31.12.)	2,828	297	1,003	960	450	5,538

By geographical segments 2004	Europe (Eurozone) m CHF	Switzerland m CHF	Rest of Europe m CHF	America m CHF	Asia/ Africa m CHF	Total m CHF
Net sales	742.9	50.6	311.5	388.8	128.5	1,622.3
Operating assets	587.0	119.8	160.9	200.5	75.9	1,144.1
Capital investments	25.0	7.4	13.5	5.0	3.9	54.8
Number of employees (at 31.12.)	2,875	320	1,016	892	437	5,540

Net sales are based on the country in which the customer is located.

2 Changes in net sales by businesses

	2005	2004						
Net sales to third parties								
			Total change		Of which due to exchange rate changes		Due to volume and price changes	
	m CHF	m CHF	m CHF	%	m CHF	%	m CHF	%
Flooring	747.0	737.6	9.4	1.3	2.2	0.3	7.2	1.0
Adhesives	628.5	577.7	50.8	8.8	4.2	0.7	46.6	8.1
Belting	326.5	307.0	19.5	6.4	1.3	0.5	18.2	5.9
Total	**1,702.0**	**1,622.3**	**79.7**	**4.9**	**7.7**	**0.5**	**72.0**	**4.4**

3 **Development and production overhead costs**

Development costs, which include product development as well as sampling activities, amounted to CHF 32.4 million (2004: CHF 32.1 million).

Production overhead costs totaled CHF 150.3 million (2004: CHF 152.7 million) and are included in 'Cost of goods sold'.

4 **Administrative costs**

This item consists of the usual expenses related to administrative activities. The Group has no significant costs for license fees or royalties.

5 **Other operating expenses**

	2005	2004
	m CHF	m CHF
Impairment	15.0	83.5
Restructuring	25.8	16.9
Other expenses	33.5	26.2
Other income	–10.8	–13.1
Total other operating expenses	**63.5**	**113.5**

Impairment relates to tangible assets (CHF 9.0 million) and goodwill (CHF 6.0 million); see the explanations in notes 10 and 11.

The restructuring expenses incurred during the period under review reflect the cost associated with the implementation of the strategy agreed in the previous year. The expenses include all the costs of running restructuring projects (mainly production optimization and segment concentration) in all the three businesses.

Major projects include the process optimization in the Dutch flooring factories concluded in 2005, and the relocation of adhesives production from Switzerland to an existing plant in France.

Other expenses (such as extraordinary maintenance costs, warranty costs, consultancy and auditing costs and insurance costs) and other income (such as license fees) include costs and income that can not clearly be attributed to the other categories.

6 **Personnel expenses**

	2005	2004
	m CHF	m CHF
Salaries and wages	355.8	346.0
Employer's social security contributions	98.0	95.3
Total personnel expenses	**453.8**	**441.3**

The Group's headcount at December 31, 2005 was 5,538 (2004: 5,540). The average headcount over the year was 5,536 (2004: 5,582). Salaries and wages include share-based payments worth CHF 0.6 million. About 120 managers participate in a bonus plan, which is linked to the achievement of financial targets by the Group as well as individually determined objectives. Up to 30% of the bonus payment consists of shares of Forbo Holding AG. The participants can dispose of these shares after a period of at least three years.

As part of a Stock Opion Plan, options are granted to members of the Executive Board. Until 2004, the members of the Board of Directors also had an Option Plan. By December 31, 2005 the following options have been allotted (including retired members of the Board of Directors and the Executive Board):

Year allotted	Number 31.12.2005	Term	Frozen until	Subscription ratio	Exercise price CHF
2001	2,962	08.05.01–07.05.06	07.05.04	1:2	442
2002	4,012	07.05.02–07.05.07	06.05.05	1:2	330
2003	3,856	31.07.03–30.07.08	30.07.06	1:2	251
2004	3,600	01.08.04–31.07.09	31.07.07	1:2	212
2005	5,250	15.06.05–14.06.10	14.06.08	1:1	235

Associated with call options, CHF 491,172 were for the first time stated as personal expenses in the year 2005. Personnel expenses of the previous year amounted to CHF 229,384 and were not restated.

The cost of the options was calculated in accordance with the 'Black-Scholes' model, with the share price being calculated at the time of issue and assuming a volatility of approx. 30%.

See also note 27 'Related party transactions' on page 88.

7 **Financial income**

	2005	2004
	m CHF	m CHF
Interest income	6.8	3.9
Dividend income	0.0	0.3
Foreign exchange gains, net	2.7	0.0
Total financial income	**9.5**	**4.2**

8 **Financial expenses**

	2005	2004
	m CHF	m CHF
Interest expense	27.2	27.5
Amortization of issuance costs of bonds and private placements	0.9	0.9
Amortization of costs syndicated bank facility	0.2	0.2
Realized losses on available-for-sale securities	0.0	12.0
Impairment of other financial assets	0.0	5.6
Foreign exchange losses, net	0.0	3.6
Total financial expenses	**28.3**	**49.8**

The average interest rate on interest-bearing debt (bonds, private placements, long- and short-term bank loans) in 2005 was 5.1% (2004: 4.5%).

9 **Earnings per share**

Basic earnings per share is calculated by dividing net loss/profit for the year by the weighted average number of shares outstanding.

	2005	2004
Net loss for the year (m CHF)	–16.5	–157.4
Weighted average number of shares outstanding	2,634,049	1,476,890
Loss per share (basic) (CHF)	–6.26	–106.56

Diluted earnings per share in addition take into account the potential dilution effects which would result if all share options were exercised. Based on the negative result, the dilution effect would not lead to a reduction of earnings per share so that diluted earnings were not stated.

The Board of Directors proposes to the General Shareholder's Meeting no cash distribution in 2006.

10 **Tangible assets**

The tangible assets also include leased assets with a net book value of CHF 1.7 million (2004: CHF 2.2 million) as well as investment property with a net book value of CHF 3.4 million (2004: CHF 0.0 million). The net book value of the investment property represents the market value.

Cost	Land and buildings m CHF	Machinery and Equipment m CHF	Other tangible assets m CHF	Assets under construction m CHF	Total tangible assets m CHF
At 31.12.2003, gross	**486.1**	**858.3**	**162.0**	**25.6**	**1,532.0**
Additions	5.7	10.6	10.3	28.1	54.7
Disposals	−14.0	−18.8	−8.6	−0.3	−41.7
Transfers	1.0	19.1	10.8	−30.9	0.0
Translation differences	−10.3	−16.3	−2.8	−1.1	−30.5
At 31.12.2004, gross	**468.5**	**852.9**	**171.7**	**21.4**	**1,514.5**
Additions [1]	6.4	24.5	5.8	12.6	49.3
Disposals	−10.2	−7.1	−8.3	−0.4	−26.0
Transfers	3.9	18.4	−1.3	−21.0	0.0
Translation differences	13.3	23.7	4.0	−0.7	40.3
At 31.12.2005, gross	**481.9**	**912.4**	**171.9**	**11.9**	**1,578.1**

Accumulated depreciation	Land and buildings m CHF	Machinery and Equipment m CHF	Other tangible assets m CHF	Assets under construction m CHF	Total tangible assets m CHF
At 31.12.2003, gross	**196.8**	**653.4**	**122.4**	**0.6**	**973.2**
Depreciation	15.2	44.7	13.4	0.0	73.3
Impairment	38.1	38.7	4.7	0.0	81.5
Disposals	−12.2	−17.9	−8.0	0.0	−38.1
Translation differences	−4.3	−12.4	−2.1	−0.1	−18.9
At 31.12.2004, gross	**233.6**	**706.5**	**130.4**	**0.5**	**1,071.0**
Depreciation	13.1	39.0	17.4	0.0	69.5
Impairment	4.4	4.6	0.0	0.0	9.0
Disposals	−5.2	−7.2	−7.6	0.0	−20.0
Translation differences	5.7	17.4	3.1	0.0	26.2
At 31.12.2005, gross	**251.6**	**760.3**	**143.3**	**0.5**	**1,155.7**
Total tangible assets at 31.12.2004, net	234.9	146.4	41.3	20.9	443.5
Total tangible assest at 31.12.2005, net	230.3	152.1	28.6	11.4	422.4

[1] Additions to tangible assets include CHF 5.7 million from acquisitions.

The fire insurance value of buildings, machinery and factory equipment of CHF 2,109 million (2004: CHF 2,062 million) covers the replacement cost. The business interruption risk arising from fire and the production and product liability risks are covered by a group-wide policy.

Maintenance and repair costs amounted to CHF 31.8 million (2004: CHF 31.6 million). The depreciation expense is included in 'Cost of goods sold', 'Development costs', 'Marketing and distribution costs' and 'Administrative costs'.

The impairment charge is included in 'Other operating expenses'. In connection with the relocation of adhesives production from Switzerland to France, an impairment charge had to be recognized at the Swiss production site Forbo-CTU. Furthermore, an impairment charge had to be taken in the flooring business as a result of impairment tests. The calculated value in use or sale of production sites was below their carrying amount.

11 Intangible assets

Cost	Goodwill m CHF	Trademarks/ patents m CHF	Other intangible assets m CHF	Total m CHF
At 31.12.2003, gross	**160.8**	**54.2**	**7.1**	**222.1**
Additions	0.0	0.0	0.1	0.1
Disposals	–0.1	0.0	–1.1	–1.2
Translation differences	–5.8	0.0	0.0	–5.8
At 31.12.2004, gross	**154.9**	**54.2**	**6.1**	**215.2**
Elimination of accumulated amortization				
Goodwill	–36.7			–36.7
At 1.1.2005, gross	**118.2**	**54.2**	**6.1**	**178.5**
Disposals	0.0	0.0	–0.2	–0.2
Translation differences	8.6	0.4	–0.2	8.8
At 31.12.2005, gross	**126.8**	**54.6**	**5.7**	**187.1**

Accumulated amortization	Goodwill m CHF	Trademarks/ patents m CHF	Other intangible assets m CHF	Total m CHF
At 31.12.2003, gross	**26.0**	**29.9**	**2.3**	**58.2**
Amortization	9.5	2.1	2.3	13.9
Impairment	2.0	0.0	0.0	2.0
Disposals	0.0	0.0	–1.1	–1.1
Translation differences	–0.8	0.0	0.0	–0.8
At 31.12.2004, gross	**36.7**	**32.0**	**3.5**	**72.2**
Elimination of accumulated amortization				
Goodwill	–36.7			–36.7
At 1.1.2005, gross	**0.0**	**32.0**	**3.5**	**35.5**
Amortization	0.0	0.0	0.9	0.9
Impairment	6.0	0.0	0.0	6.0
Disposals	0.0	0.0	–0.2	–0.2
Translation differences	0.0	0.3	0.0	0.3
At 31.12.2005, gross	**6.0**	**32.3**	**4.2**	**42.5**
Total intangible assets at 31.12.2004, net	118.2	22.2	2.6	143.0
Total intangible assets at 31.12.2005, net	120.8	22.3	1.5	144.6

The intangible assets with an indefinite useful life are subject to an impairment test every year on the basis of the cash-generating unit. The test is carried out in line with a standardized method with discounted cash flow for calculating the value in use. The sales figures are estimated by management for the first five years; sales growth for the remaining useful life is between 0% and 2%. The discounting rate corresponds with the weighted average costs of capital before taxes plus an extra risk charge; it is in the range of 7.7% and 8.2%.

The impairments of CHF 6.0 million in the period under review relate to the adhesives business. In this particular case, the value of minor goodwill items was adjusted to the calculated value in use.

With 95%, the acquisition of Swift in 2002 is the main goodwill item; it was classified as recoverable.

12 Investments in associates and other long-term assets

	2005	2004
	m CHF	m CHF
Other investments	1.6	1.6
Other long-term receivables	0.6	0.6
Total investments in associates and other long-term assets	**2.2**	**2.2**

13 Inventories

	2005	2004
	m CHF	m CHF
Raw materials and supplies	65.4	62.2
Work in progress	80.5	70.9
Finished goods	137.3	141.7
Allowance for product risks	–26.2	–19.6
Total inventories	**257.0**	**255.2**

14 Trade receivables

	2005	2004
	m CHF	m CHF
Accounts receivable	263.7	233.4
Notes receivable	28.2	26.6
Allowance for doubtful receivables	–18.1	–17.1
Total trade receivables	**273.8**	**242.9**

The increase in trade receivables from the previous year to the period under review is due to higher sales towards the end of 2005 compared with 2004.

15 Share capital

The share capital of Forbo Holding AG was unchanged at December 31, 2005, amounting to CHF 54,263,040. It is divided into 2,713,152 registered shares with a nominal value of CHF 20 each. Of these, 21,419 registered shares without voting and dividend rights are at the disposition of the Board of Directors. Consequently, 2,691,733 registered shares carried dividend rights for the 2005 financial year. Changes in shares outstanding were as follows:

Changes in shares outstanding	1.1.2005 Number	Change Number	31.12.2005 Number
Total shares	**2,713,152**	**0**	**2,713,152**
Treasury shares			
Shares with dividend right	57,836	−952	56,884
Shares without dividend right	21,419	0	21,419
Total treasury shares	**79,255**	**−952**	**78,303**
Total shares outstanding	**2,633,897**	**952**	**2,634,849**

16 Long-term financial debt

	2005 m CHF	2004 m CHF
Outstanding bonds	150.0	150.0
Outstanding private placements	360.3	312.1
Unamortized issuance cost	−2.3	−2.9
Total outstanding bonds and private placements	**508.0**	**459.2**
Unsecured bank loans	0.0	0.0
Unamortized cost syndicated bank facility	−0.3	−0.5
Lease obligations	1.3	1.7
Less current portion	−150.6	−0.7
Total long-term financial debt	**358.4**	**459.7**

Maturities of long-term financial debt	2005 m CHF	2004 m CHF
After 1 year	135.3	150.5
After 2 years	0.3	117.2
After 3 years	159.8	0.1
After 4 years	0.1	138.5
After 5 and more years	65.5	56.8
Unamortized cost	−2.6	−3.4
Total	**358.4**	**459.7**

The costs of bonds, private placements and the syndicated bank facility are amortized over the respective terms. As in previous years, derivatives established in connection with long-term financing are included in accrued expenses.

Outstanding bonds and private placements at 31.12.2005

Company	Currency	m	Term	Interest Rate
Forbo Holding AG	CHF	150.0	2001–2006	4.125 %
Forbo NL Holding B.V. (guaranteed by Forbo Holding AG)	USD	103.0	2002–2007	5.120 %
Forbo NL Holding B.V. (guaranteed by Forbo Holding AG)	USD	122.0	2002–2009	5.790 %
Forbo NL Holding B.V. (guaranteed by Forbo Holding AG)	USD	50.0	2002–2012	6.290 %

The bond and the private placements have no early redemption clause.

Outstanding syndicated bank facilities at 31.12.2005

Company	Currency	Utilized m	Term	Available m
Forbo Holding AG	CHF	0.0	2003–2007	150.0

The syndicated bank facility has the character of a club deal facility whereby eight international banks have granted credit accommodation allowing Forbo Holding AG to draw funds in various currencies. The facility was undrawn as of 31.12.2005, thereby causing commitment fee costs only.

Covenants related to long-term financial debt

The private placements (CHF 275.0 million) and the syndicated bank facility (CHF 150.0 million) contain general covenants customary for such type of facilities and further contain financial covenants, i.e. a debt coverage test (not allowing the ratio of consolidated total net borrowings to consolidated EBITDA, as defined, to be greater than 3 to 1), an interest cover test (not allowing the ratio of consolidated EBITDA to consolidated net interest payable to be less than 4 to 1) and a consolidated net worth test (not allowing the shareholders' equity of Forbo as it would be reflected on a consolidated balance sheet to fall below CHF 535.5 million).

The bond (CHF 150.0 million) does not include any financial covenants but includes general covenants customary for such type of facility.

Each of the three aforementioned financing arrangements (the private placements, the syndicated bank facility and the bond) includes events of default customary for such type of arrangements. Each of said financing arrangements is unsecured (save for guarantees provided by Forbo Holding AG for obligations of subsidiaries).

17 **Employee benefit obligations**

The Group has established several pension plans on the basis of the specific requirements of the countries in which the Group operates. The Group has both defined contribution and defined benefit plans. The obligations and assets under all the essential defined benefit plans are assessed annually by independent actuaries according to the 'Projected Unit Credit Method'.

Details of the pension expense related to the major defined benefit plans are as follows:

	2005 m CHF	2004 m CHF
Current service cost (net)	16.5	14.0
Interest cost on obligation	34.4	34.1
Expected return on plan assets	–33.6	–33.6
Curtailment loss	–0.6	–0.1
Net periodic pension cost	**16.7**	**14.4**

The actual return on plan assets was CHF 88.8 million (2004: CHF 43.3 million). Current service cost include special termination benefits of CHF 2.2 million.

Movements in liabilities under defined benefit pension plans are as follows:

	2005 m CHF	2004 m CHF
Beginning of the year	**706.0**	**660.5**
Total pension cost (gross)	21.2	18.8
Interest cost on obligation	34.4	34.1
Benefits paid	–29.6	–26.0
Actuarial losses	44.5	26.7
Translation differences	13.1	–8.1
End of the year	**789.6**	**706.0**

The actuarial loss in 2005 includes a gain of CHF 26.2 million resulting from the experience adjustments and a loss of CHF 70.7 million due to change in assumptions.

Movements of planned assets at fair market value are as follows:

	2005 m CHF	2004 m CHF
Beginning of the year	**593.9**	**543.8**
Expected return on plan assets	33.6	33.6
Employer contributions	18.5	25.8
Employee contributions	4.8	4.8
Actuarial profits	55.3	18.4
Benefits paid	–29.6	–26.0
Translation differences	12.0	–6.5
End of the year	**688.5**	**593.9**

The movement of gross values of pension obligations and plan assets was as follows at the end of the year:

	2005 m CHF	2004 m CHF
Present value of defined benefit obligation	789.6	706.0
Fair value of plan assets	–688.5	–593.9
Net liabilities recognized in the balance sheet	**101.1**	**112.1**

For the first time in 2005, actuarial gains and losses in actuarial assumptions as well as experience adjustments used for valuing the assets and liabilities are recognized in the balance sheet under pension obligations and directly charged to shareholders' equity. As of January 1, 2004, the resulting adjustment of CHF 28 million led to an increase in pension liability and a corresponding reduction of shareholders' equity. There is no adjustment to the net periodic pension costs in the 2004 income statement since the related pension cost effect is considered as immaterial.

Most of the pension plans are financed wholly or partly via a fund. Pension obligations worth CHF 25.9 million (of a total of CHF 789.6 million) are not financed by a fund.

Movements in the net liability recognized in the balance sheet are as follows:

	2005 m CHF	2004 m CHF
Net liability at the beginning of the year	**112.1**	**116.7**
Total pension expenses included in personnel expenses	16.7	14.4
Employer contributions	–18.5	–25.8
Actuarial (profits)/losses	–10.8	8.4
Translation differences	1.6	–1.6
Net liability at the end of the year	**101.1**	**112.1**

Profits and losses charged to shareholders' equity are as follows (booked in 2005 for the first time):

	2005 m CHF	2004 m CHF
Accumulated returns and expenses recognized		
Actuarial loss on January 1	–36.4	–28.0
Actuarial profits (losses) in the current period	10.8	–8.4
Total actuarial loss on December 31	**–25.6**	**–36.4**

The principal actuarial assumptions used for accounting purposes were (expressed as weighted averages):

	2005 %	2004 %
Discount rate	4.3	4.8
Expected return on plan assets	5.7	6.1
Future salary increases	2.8	2.9

The expected return on plan assets is derived from long-term government loans in the respective currency zones.

The weighted average distribution of the plan assets as of December 31, 2005 and 2004 is shown below by investment categories:

	2005 %	2004 %
Shares	47	43
Fixed-interest bonds	44	44
Real estate	2	2
Cash and other investments	7	11
Total	**100**	**100**

The pension plans do not hold any Forbo shares.

Future contributions to defined pension benefit plans are estimated in the consecutive year on the level of the period under review.

The expense for contributions to defined contribution plans, which is included in personnel expenses, amounted to CHF 5.2 million (2004: CHF 5.2 million).

18 Non-current provisions

	Warranty provisions m CHF	Environmental provisions m CHF	Provisions legal cases m CHF	Personnel provisions m CHF	Other provisions m CHF	Total provisions m CHF
At 31.12.2004	**7.9**	**5.0**	**3.3**	**4.3**	**6.4**	**26.9**
Charges to the income statement	0.3	3.9	7.7	–0.2	5.2	16.9
Utilized during the year	–0.5	0.0	0.0	0.0	–0.1	–0.6
Transfers to short-term provisions	–1.7	0.0	0.0	0.0	–0.3	–2.0
Translation differences	–0.1	0.2	–0.6	–0.1	0.1	–0.5
At 31.12.2005	**5.9**	**9.1**	**10.4**	**4.0**	**11.3**	**40.7**

Warranty provisions are made in connection with the sale of products and are based on past experience. As experience shows, the respective cash flows will occur evenly over the warranty period of five to ten years. The environmental provisions cover the expected remediation costs related to operations of previous years. The provisions for legal cases relate to product liability cases in which the Group is involved in the course of its normal conduct of business. The personnel provisions reflect long-term obligations to employees. The environmental provisions, as well as the provisions for legal cases, personnel and the other provisions, are expected to result in a cash outflow in the medium term.

19 Trade payables

	2005	2004
	m CHF	m CHF
Accounts payable	121.3	101.3
Notes payable	10.5	7.5
Total trade payables	**131.8**	**108.8**

20 Current provisions and accrued expenses

	2005	2004
	m CHF	m CHF
Provisions for restructuring projects	15.9	13.7
Accrued expenses for compensation and benefits to employees	59.9	51.9
Fair market value of financial derivatives	52.5	83.7
Other accrued expenses	60.7	51.0
Total current provisions and accrued expenses	**189.0**	**200.3**

The use of provisions for restructuring projects in the period under review was primarily associated with the closure of the production site for cushion vinyls in Scotland. Additional provisions for personnel costs were made in the period under review in relation to further restructuring projects.

Other accrued expenses include accrued volume rebates, commissions, premiums, interest and accrued warranty cost and similar items.

Accrued expenses for compensation and benefits to employees mainly include holidays and overtime accruals as well as bonus provisions.

Provisions for restructuring projects changed as follows:

	m CHF
At 31.12.2004	**13.7**
Charged to the income statement	18.3
Utilized during the year	–16.1
At 31.12.2005	**15.9**

21 **Short-term financial debt**

	2005 m CHF	2004 m CHF
Short-term bank loans and overdrafts	4.9	17.4
Plus current portion of long-term debt	150.6	0.7
Total short-term debt	**155.5**	**18.1**

22 **Commitments and contingent liabilities**

	2005 m CHF	2004 m CHF
Commitments and contingent liabilities	0.8	1.1

Contingent liabilities relate to sureties and guarantees in favor of third parties. The effects on the Group's earnings of changes in legal, fiscal and political conditions are not predictable and therefore not quantifiable. There are no significant lawsuits pending.

23 **Income taxes**

	2005 m CHF	2004 m CHF
Current taxes	19.5	7.5
Deferred taxes	2.1	37.3
Total income taxes	**21.6**	**44.8**

Analysis of tax expense

The following main elements explain the difference between the expected and the actual tax expense.

	2005 m CHF	2004 m CHF
Profit/(loss) before taxes	5.1	–112.6
Tax expense/(income) at the expected tax rate:	–1.3	–20.0
Tax effects of:		
Non tax-deductible expenses and tax-exempt income	14.6	2.1
Non tax-deductible goodwill amortization	0.0	2.4
Tax losses and temporary differences for which no deferred tax assets have been recognized	11.5	29.2
Write-off of deferred tax assets	2.0	34.9
Recognition/utilization of tax losses not capitalized in prior years	–6.8	–4.2
Changes of applicable deferred tax rates	–0.1	–0.3
Prior year adjustments	1.0	0.3
Other items	0.7	0.4
Total income taxes	**21.6**	**44.8**

Since the Group operates across the world, it is subject to income taxes in many different tax jurisdictions. Consequently, the expected and the actual tax expense will vary from year to year according to the origin of earnings or losses by country. The expected tax income/tax expense is the sum of the expected, individual tax incomes/tax expenses of all subsidiaries abroad. The expected, individual tax income/tax expense in a single country results from the multiplication of the individual profit/loss with the tax rate applicable in the country concerned. Since in the business year 2005 losses accrued in countries that tend to have higher tax rates, and profits in countries that tend to have lower tax rates, the resulting sum is an expected tax income. In the period under review, this led to an expected negative tax rate (2005: –26 %, 2004: 18 %, 2003: 35 %).

The gross value of unused tax loss carry forwards which have, or have not, been capitalized as deferred tax assets, with their expiry dated is as follows:

2005	Not capitalized m CHF	Capitalized m CHF	Total m CHF
Expiry after:			
One year	4.0	0.0	4.0
Two years	3.2	0.0	3.2
Three years	14.1	0.0	14.1
Four years	27.2	0.0	27.2
Five years	29.2	0.0	29.2
More than five years	410.1	19.6	429.7
Total	**487.8**	**19.6**	**507.4**

2004	Not capitalized m CHF	Capitalized m CHF	Total m CHF
Expiry after:			
One year	3.6	1.1	4.7
Two years	4.2	0.5	4.7
Three years	10.3	0.1	10.4
Four years	14.5	0.0	14.5
Five years	24.8	1.6	26.4
More than five years	448.9	37.2	486.1
Total	**506.3**	**40.5**	**546.8**

CHF 3.4 million of unused operating tax loss carry forwards expired during 2005 (2004: CHF 1.9 million).

Deferred income tax assets and liabilities are offset when they relate to the same fiscal authority. The following amounts are shown in the balance sheet:

	2005 m CHF	2004 m CHF
Deferred tax assets	28.1	23.5
Deferred tax liabilities	–12.7	–6.0
Deferred tax assets, net	**15.4**	**17.5**

Deferred tax assets and liabilities and deferred tax charges and credits are attributable to the following items:

Deferred tax assets	Inventories m CHF	Tangible assets m CHF	Provisions m CHF	Tax loss carry forwards m CHF	Other m CHF	Total m CHF
At 31.12.2004	**8.6**	**5.7**	**13.1**	**12.4**	**7.9**	**47.7**
Credited (+), charged (–) to the income statement	4.3	2.6	3.6	–5.1	13.0	18.4
At 31.12.2005	**12.9**	**8.3**	**16.7**	**7.3**	**20.9**	**66.1**

Deferred tax liabilities	Inventories m CHF	Tangible assets m CHF	Provisions m CHF	Tax loss carry forwards m CHF	Other m CHF	Total m CHF
At 31.12.2004	**–5.4**	**–14.2**	**–2.6**	**0.0**	**–8.0**	**–30.2**
Credited (+), charged (–) to the income statement	–2.2	0.7	1.2	0.0	–20.2	–20.5
At 31.12.2005	**–7.6**	**–13.5**	**–1.4**	**0.0**	**–28.2**	**–50.7**
Deferred tax assets at 31.12.2004, net	3.2	–8.5	10.5	12.4	–0.1	17.5
Deferred tax assets at 31.12.2005, net	5.3	–5.2	15.3	7.3	–7.3	15.4

24

Translation of foreign currencies

Currency			2005	2004 Income statement (average rates for the year)		2005	2004 Balance sheet (year-end-rates)	
			CHF	CHF	Change %	CHF	CHF	Change %
Euro countries	EUR	1	1.55	1.54	1	1.56	1.55	1
Sweden	SEK	100	16.66	16.91	–1	16.53	17.17	–4
United Kingdom	GBP	1	2.27	2.28	–	2.27	2.18	4
USA	USD	1	1.25	1.24	1	1.31	1.14	15
Canada	CAD	1	1.03	0.96	7	1.13	0.94	20
Japan	JPY	100	1.13	1.15	–2	1.12	1.09	3

Financial risk management

In its international operations and financial activities the Forbo Group is exposed to various types of financial risks. In order to steer potential risks and benefits arising from fluctuations in both exchange rates of foreign currencies and interest rates the Group selectively uses derivative instruments. The various risks involved in existing assets and liabilities, planned transactions and expected transactions are monitored and managed centrally – taking into account the consolidated risk exposure of the Group. In adherence to the Group's financial risk management policy (established through the issuance of written guidelines and policies), Corporate Treasury continuously monitors both the risk exposure and the effectiveness of the applied hedging instruments. Also, Corporate Treasury advises the Finance Managers of the Group companies on the management of identified risks and recommends both the extent of a potential hedge transaction and the appropriate type of financial instrument. The Group's financial risk management policy does not allow the use of derivate instruments neither for the purpose of trading nor for the purpose of speculation. The counterparties of derivate transactions are cautiously selected and thus hedging transactions are concluded with strong financial institutions only (based on the assessments of the leading rating agencies).

At Forbo, 'derivative instruments' are related to either management of currency risks or management of interest rate risks (or a combination of both).

Management of currency risks

Risks arising from short-term currency exposures created by purchases and sales of goods and services (transaction risks) are identified and selective hedging strategies are implemented in the light of an ongoing assessment of exchange rate movements. As a rule, the Group uses forward and option contracts with maturities of up to twelve months only.

Financial derivatives	Number of contracts	Gross value hedged m CHF	Unrealized gain/loss m CHF
Forward contracts 31.12.2004	5	2.1	−0.1
Forward contracts 31.12.2005	12	9.8	−0.2

In accordance with IAS 39 the above instruments are recognized in the balance sheet at fair value. The accumulated fair value (total of all negative and positive market values) at December 31, 2005 amounts to CHF −0.2 million (CHF −0.1 million at December 31, 2004).

Furthermore, risks associated with the conversion of assets and liabilities denominated in foreign currencies (translation risks) are taken into account by establishing an appropriate financing structure.

Management of interest rate risks
The market values of interest-bearing assets and liabilities are subject to fluctuations of interest rates. The Group makes use of financial derivatives in order to steer potential risks and benefits arising from interest rate movements and in order to manage the duration of the interest rate fixings. As a rule, the Group uses the interest rate swaps and cross-currency interest rate swaps shown below with maturities of up to seven years only.

Financial derivatives	Number of contracts	Gross value hedged m CHF	Unrealized gain/loss m CHF
Interest rate swaps and cross-currency interest rate swaps 31. 12. 2004	6	222.5	–83.7
Interest rate swaps and cross-currency interest rate swaps 31. 12. 2005	6	256.8	–52.2

In accordance with ISA 39 the above instruments are recognized in the balance sheet at fair value. The accumulated fair value (total of all negative and positive market values) at December 31, 2005 amounts to CHF –52.5 million (CHF –83.7 million at December 31, 2004).

Management of liquidity risks
Group companies need a sufficient availability of cash to meet their obligations. Individual companies are responsible for the management of their own cash surpluses and the raising of funds to cover liquidity needs, subject to guidance by the Group and in certain cases, for approval by Corporate Treasury. The Group maintains sufficient reserves of cash and unused credit lines to meet its liquidity requirements at all times.

Management of credit loss risks
Credit risks arise from the possibility that customers may not be able to settle their obligations as agreed. To manage this risk the financial reliability of customers is continuously assessed. The credit risk is limited due to wide diversification among various business segments and geographical regions. Counterparties to financial instruments consist of a respective number of major financial institutions. The Group does not expect any counterparties to fail to meet their obligations, given their high credit ratings.

Consolidated Statement of Changes in Shareholders' Equity

2005

	Share capital m CHF	Treasury shares m CHF	Reserves m CHF	Actuarial profits/(losses) m CHF	Translation differences m CHF	Total m CHF
At 1.1.2005	**54.3**	**–1.6**	**692.1**	**–36.4**	**–164.7**	**543.7**
Net loss for the year			–16.5			–16.5
Actuarial profits/(losses)				10.8		10.8
Share-based payments			0.6			0.6
Fair value adjustments:						
Cash flow hedges			–3.1			–3.1
Translation differences					22.3	22.3
Others			0.3			0.3
At 31.12.2005	**54.3**	**–1.6**	**673.4**	**–25.6**	**–142.4**	**558.1**

2004

	Share capital m CHF	Treasury shares m CHF	Reserves m CHF	Actuarial profits/(losses) m CHF	Translation differences m CHF	Total m CHF
At 1.1.2004 before adjustments	**38.0**	**–7.7**	**688.5**		**–146.3**	**572.5**
Recognition of actuarial losses according to IAS 19; Change 'Treasury shares' to nominal value		6.5	–6.5	–28.0		–28.0
At 1.1.2004 after adjustments	**38.0**	**–1.2**	**682.0**	**–28.0**	**–146.3**	**544.5**
Net loss for the year			–157.4			–157.4
Actuarial profits/(losses)				–8.4		–8.4
Share-based payments		0.1	0.6			0.7
Fair value adjustments:						
Marketable securities			12.3			12.3
Cash flow hedges			–5.8			–5.8
Translation differences					–18.4	–18.4
Nominal value reduction	–10.8	0.3				–10.5
Capital increase [1)]	27.1	–0.8	160.4			186.7
At 31.12.2004	**54.3**	**–1.6**	**692.1**	**–36.4**	**–164.7**	**543.7**

[1)] The expenses incurred in connection with the capital increase were debited directly to equity.

27 Related party transactions

	Executive Board 2005 CHF	Executive Board 2004 CHF	Non-executive members of the Board of Directors 2005 CHF	Non-executive members of the Board of Directors 2004 CHF	Total 2005 CHF	Total 2004 CHF
Payments due in the short term	4,823,274	4,450,567	618,740	773,714	5,442,014	5,224,281
Payments due in the long term	222,564	0	0	0	222,564	0
Payments upon termination of employment	1,673,750	840,000	0	0	1,673,750	840,000
Share-based compensations	409,278	169,371	220,323	210,105	629,601	379,476
Total	**7,128,866**	**5,459,938**	**839,063**	**983,819**	**7,967,929**	**6,443,757**

The compensations paid to the Executive Board, as shown above, relate to six members including the Delegate of the Board of Directors. One member of the Executive Board retired in the course of the period under review.

Payments to all non-executive members of the Board of Directors within Forbo Holding AG amounted to CHF 618,740 in 2005; they include payments of CHF 370,322 to members who retired in the period under review.

Share-based compensations were stated for the first time on the basis of the rules of IFRS 2 (Share-based payments). They include Forbo shares at a fair market value of CHF 138,429 (CHF 150,092 in 2004) allotted to the Board of Directors in 2005, and the fair market value of the share options issued during the last three years (see Note 6). In the income statement, an amount of CHF 491,172 was recognized for option programs relating to the members of the Board of Directors and the Executive Board who were in office during the year under review (CHF 229,384 in 2004). These amounts correspond with the value distributed over the blocking period of all current options, and they originate from the programs 2003 to 2005.

In the period under review, CHF 447,135 were paid in total to lawyers Bär & Karrer in Zurich for consultancy services. Prof. Dr. Rolf Watter has been a partner of this law office for several years. He has been a member of the Board of Directors until April 29, 2005.

For supplies from business relationships which were obtained from Franke Group in the period under review Forbo paid a total of CHF 328,926. Michael Pieper, Vice-Chairman of the Board of Directors, is the owner and CEO of Franke Group.

The Group has a 33.33 % interest in Enia Carpet Group. In 2005, the Forbo Group bought products from Enia Carpet Group worth CHF 4.7 million (2004: CHF 5.7 million), whilst the latter bought products from the Forbo Group worth CHF 3.8 million(2004: CHF 4.5 million).

28 Events after balance sheet date

On January 8, 2006 the Chinese adhesives company Victa Technology Holdings Limited was acquired at 100 %. The company founded in 1996 had sales of some CHF 17 million in the year 2004.

Group Companies (December 31, 2005)

Company	Registered office		Currency	Share capital	Equity interest	Flooring	Adhesives	Belting	Holding/Services
Australia									
Forbo Floorcoverings PTY. Ltd.	Wetherill Park, NSW	D	AUD	1,400,000	100 %	S			
Siegling Australia PTY. Ltd.	Wetherill Park, NSW		AUD	3,000,000	100 %			S	
Austria									
Forbo-Contel Handelsgesellschaft m.b.H.	Vienna		EUR	73,000	100 %	S			
Forbo Industrieprodukte Ges.m.b.H.	Vienna		EUR	72,700	100 %		S		
Siegling-Austria Ges.m.b.H.	Vienna		EUR	330,000	100 %			S	
Belgium									
Forbo-Balco BVBA	Dendermonde		EUR	61,000	100 %		S		
N.V. Forbo Linoleum S.A.	Dilbeek		EUR	250,000	100 %	S			
Brazil									
Forbo Linoleum LTDA.	Itapevi (São Paulo)		BRL	10,000	100 %	S			
Siegling Brasil LTDA.	Itapevi (São Paulo)	N	BRL	7,168,000	50 %			MS	
Canada									
Forbo Adhesives (Canada) Ltd.	St. John		CAD	3,500,157	100 %		MS		
Forbo Linoleum Inc.	Toronto		CAD	500,000	100 %	S			
Siegling Canada Ltd.	Toronto		CAD	501,000	100 %			S	
Czech Republic									
Forbo s.r.o.	Prague		CZK	500,000	100 %	S			
Denmark									
Forbo Flooring A/S	Glostrup		DKK	500,000	100 %	S			
Siegling Danmark A/S	Brøndby		DKK	1,000,000	100 %			MS	
Finland									
Oy Forbo Swift Ab	Esbo		EUR	25,253	100 %		MS		
France									
Forbo Helmitin SAS	Surbourg		EUR	3,050,000	100 %		MS		
Forbo Participations SAS	Surbourg	D	EUR	11,524,800	100 %				H
Forbo Sarlino SAS	Reims		EUR	6,400,000	100 %	S			
Forbo Swift Adhesives SAS	Blois		EUR	800,000	100 %		MS		
Siegling France SAS	Lomme		EUR	819,000	100 %			S	
Sté. de Production de Sols Textiles-P.S.T.	Reims		EUR	3,092,000	100 %	MS			
Sté. de Production de Sols Vinyls-P.S.V.	Reims		EUR	3,447,000	100 %	MS			

Company	Registered office		Currency	Share capital	Equity interest	Flooring	Adhesives	Belting	Holding/Services
Germany									
Forbo Adhesives Automotive GmbH	Mannheim		EUR	30,000	100 %		S		
Forbo Beteiligungen GmbH	Waldshut-Tiengen	D	EUR	15,400,000	100 %				H
Forbo Erfurt GmbH	Erfurt		EUR	2,050,000	100 %		MS		
Forbo Flooring GmbH	Paderborn		EUR	500,000	100 %	S			
Forbo-Helmitin GmbH	Pirmasens		EUR	5,193,000	100 %		MS		
Forbo-Novilon GmbH	Waldshut-Tiengen		EUR	1,030,000	100 %	S			
Paul Heinicke GmbH & Co KG	Pirmasens	D	EUR	1,023,000	100 %				H
Realbelt GmbH	Velen		EUR	100,000	100 %			S	
Siegling GmbH	Hanover		EUR	10,230,000	100 %			MS	
Greece									
Forbo Swift Adhesives Greece S.A.I.C.	Kallithea (Athens)		EUR	895,000	100 %		MS		
Hungary									
Forbo Swift Adhesives Hungary Kft.	Budapest		HUF	3,000,000	100 %		S		
Siegling Hungária Kft.	Budapest		HUF	30,000,000	100 %			S	
Ireland									
Forbo Ireland Ltd.	Dublin		EUR	125,000	100 %	S			
Siegling Ireland Ltd.	Dublin		EUR	25,400	100 %			S	
Waller & Wickham Ltd.	Dublin		EUR	2,540	100 %		S		
Italy									
Forbo Adhesives Italia SPA	Pianezze (Vicenza)		EUR	416,000	100 %		MS		
Forbo Resilienti SRL	Segrate (Milan)		EUR	60,000	100 %	S			
Siegling Italia SPA	Paderno Dugnano (Milan)		EUR	104,000	100 %			S	
Japan									
Siegling (Japan) Ltd.	Tokyo		JPY	330,000,000	100 %			MS	
Jersey, C.I.									
Forbo Invest Ltd.	St. Helier	D	GBP	25,000	100 %				H
Malaysia									
Siegling Malaysia SDN. BHD.	Johor Bahru		MYR	2,500,000	100 %			S	
Mexico									
Siegling Mexico S.A. de C.V.	Tlalnepantla		MXP	19,335,000	100 %		S	MS	
Netherlands									
Eurocol B.V.	Zaanstad		EUR	454,000	100 %		MS		
Forbo Linoleum B.V.	Krommenie		EUR	11,350,000	100 %	MS			
Forbo NL Holding B.V.	Krommenie		EUR	13,500,000	100 %				H
Forbo-Novilon B.V.	Coevorden		EUR	3,630,000	100 %	MS			
Forbo Swift Adhesives Nederland B.V.	Genderen		EUR	27,000	100 %		MS		
Siegling Nederland B.V.	Driebergen		EUR	113,000	100 %			S	

Company	Registered office		Currency	Share capital	Equity interest	Flooring	Adhesives	Belting	Holding/Services
New Zealand									
Siegling Stedar Belting Ltd.	Auckland		NZD	650,000	100%			S	
Norway									
Forbo Flooring A/S	Asker	D	NOK	1,000,000	100%	S			
People's Republic of China									
Forbo Siegling (Shenyang) Belting Co. Ltd.	Shenyang		CNY	146,391,000	100%			MS	
Poland									
Forbo Swift Adhesives Poland Sp. z o.o.	Warsaw		PLZ	50,000	100%		S		
Forbo Techniki Budowlane Polska Sp. z o.o.	Warsaw		PLZ	2,100,000	100%		S		
Portugal									
Forbo-Revestimentos, S.A.	Leça da Palmeira (Porto)		EUR	75,000	100%	S			
Siegling (Portugal) Lda.	Gemunde (Porto)		EUR	500,000	100%			S	
Romania									
Forbo Helmitin Romania S.R.L.	Oradea		ROL	70,770,000	100%		S		
Siegling Romania S.R.L.	Bucharest		ROL	380,000,000	100%			S	
Russia									
Siegling (ZAO)	St. Petersburg		RUB	411,000	100%			S	
Forbo Stroitech (OOO)	Stary Oskol		RUB	181,000	100%		MS		
Slovakia									
Siegling, s.r.o.	Malacky		SKK	200,000	100%			S	
Spain									
Forbo Adhesives Spain S.L.	Mos (Pontevedra)		EUR	15,006	100%		MS		
Forbo Pavimentos S.A.	Barcelona		EUR	60,000	100%	S			
Siegling Iberica S.A.	Montcada i Reixac (Barcelona)		EUR	1,533,000	100%			S	
Sweden									
Forbo Flooring AB	Gothenburg	D	SEK	8,000,000	100%	S			
Forbo Parquet AB	Tibro		SEK	20,000,000	100%	MS			
Forbo Project Vinyl AB	Gothenburg	D	SEK	50,000,000	100%	MS			
Forbo Swift Sweden AB	Gothenburg		SEK	100,000	100%		S		
Siegling Svenska AB	Mölndal		SEK	1,000,000	100%			S	
Switzerland									
Enia Carpet Group AG	Ennenda	N	CHF	3,000,000	33%				H
FJK Carpet D GmbH	Ennenda	N	CHF	20,000	25%				H
Forbo Finanz AG	Baar	D	CHF	10,000,000	100%				H
Forbo-Giubiasco SA	Giubiasco	D	CHF	10,000,000	100%	MS			
Forbo Immob AG	Baar		CHF	1,700,000	100%				H
Forbo International SA	Baar	D	CHF	100,000	100%		MS	MS	H

Company	Registered office		Currency	Share capital	Equity interest	Flooring	Adhesives	Belting	Holding/Services
Turkey									
Forbo Adhesives Ticaret Limited Şirketi	Istanbul		YTL	725,000	**100%**		S		
United Kingdom									
Forbo Nairn Ltd.	London		GBP	8,000,000	**100%**	MS			
Forbo Swift Adhesives Ltd.	Chatteris		GBP	100	**100%**		MS		
Forbo UK Ltd.	London	D	GBP	49,500,000	**100%**				H
Siegling (UK) Ltd.	London		GBP	126,000	**100%**			S	
USA									
Forbo Adhesives LLC	Durham, NC		USD	100	**100%**		MS		
Forbo America Inc.	Wilmington, DE	D	USD	19,957,258	**100%**				H
Forbo America Services Inc.	Wilmington, DE		USD	50,000	**100%**				H
Forbo Finance Inc.	Wilmington, DE		USD	100,000	**100%**				H
Forbo Linoleum Inc.	Hazleton, PA		USD	3,517,000	**100%**	S			
Siegling America LLC	Huntersville, NC		USD	15,455,100	**100%**			MS	

S Sales
MS Manufacturing and Sales
H Holding/Services
N Not included in the consolidation
D Direct participation of Forbo Holding AG

Report of the Group Auditors

PricewaterhouseCoopers

Report of the group auditors
to the general meeting
of Forbo Holding AG, Eglisau

As auditors of the group, we have audited the consolidated financial statements (consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of recognised income and expense and notes to the consolidated financial statements – pages 57 to 93) of Forbo Holding AG for the year ended December 31, 2005.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Stefan Räbsamen Gerhard Siegrist

Zurich, March 15, 2006

Consolidated Income Statements 2001–2005

	2005	2004	2003	2002	2001
	m CHF	m CHF	m CHF	m CHF	m CHF
Net sales	**1,702.0**	**1,622.3**	**1,598.9**	**1,531.1**	**1,485.1**
Cost of goods sold	–1,151.8	–1,092.5	–1,091.3	–1,017.4	–962.7
Gross profit	**550.2**	**529.8**	**507.6**	**513.7**	**522.4**
Development costs	–32.4	–32.1	–28.9	–24.2	–22.0
Marketing and distribution costs	–286.9	–285.1	–287.5	–277.2	–288.6
Administrative costs	–143.5	–143.6	–122.2	–119.6	–116.6
Other operating expenses	–63.5	–113.5	–8.6	–4.3	–6.3
Operating profit/loss	**23.9**	**–44.5**	**60.4**	**88.4**	**88.9**
Financial income	9.5	4.2	7.9	5.0	3.4
Financial expenses	–28.3	–49.8	–37.3	–29.2	–19.4
Share of result of associated companies	0.0	–22.5	0.8	–0.7	0.0
Profit/loss before taxes	**5.1**	**–112.6**	**31.8**	**63.5**	**72.9**
Income taxes	–21.6	–44.8	–15.7	–20.9	–21.1
Net loss/profit for the year	**–16.5**	**–157.4**	**16.1**	**42.6**	**51.8**

Consolidated Balance Sheets 2001–2005

Assets	2005 m CHF	2004 m CHF	2003 m CHF	2002 m CHF	2001 m CHF
Non-current assets	**597.3**	**612.2**	**812.9**	**875.1**	**716.4**
Tangible assets	422.4	443.5	558.8	586.9	576.1
Intangible assets	144.6	143.0	163.9	178.6	23.2
Deferred taxes	28.1	23.5	61.5	65.6	72.7
Investments in associates and other long-term assets	2.2	2.2	28.7	44.0	44.4
Current assets	**993.7**	**904.4**	**750.9**	**725.5**	**615.2**
Inventories	257.0	255.2	247.9	255.9	227.0
Trade receivables	273.8	242.9	251.6	254.8	202.6
Other receivables	22.8	28.7	34.9	27.0	30.1
Prepaid expenses and deferred charges	35.5	30.8	27.8	35.4	29.0
Marketable securities	0.0	0.0	18.9	23.9	33.8
Cash and cash equivalents	404.6	346.8	169.8	128.5	92.7
Total assets	**1,591.0**	**1,516.6**	**1,563.8**	**1,600.6**	**1,331.6**

Shareholders' equity and liabilities	2005 m CHF	2004 m CHF	2003 m CHF	2002 m CHF	2001 m CHF
Shareholders'equity	**558.1**	**543.7**	**572.5**	**590.6**	**652.2**
Share capital	54.3	54.3	38.0	67.8	75.7
Treasury shares	–1.6	–1.6	–7.7	–11.7	–155.2
Reserves and retained earnings	505.4	491.0	542.2	534.5	731.7
Non-current liabilities	**512.9**	**604.7**	**670.7**	**638.6**	**252.8**
Long-term financial debt	358.4	459.7	554.2	539.3	164.5
Employee benefit obligations	101.1	112.1	88.7	68.9	69.8
Non-current provisions	40.7	26.9	21.3	22.6	16.4
Deferred taxes	12.7	6.0	6.5	7.8	2.1
Current liabilities	**520.0**	**368.2**	**320.6**	**371.4**	**426.6**
Trade payables	131.8	108.8	114.9	107.3	79.4
Current provisions and accrued expenses	189.0	200.3	140.8	102.7	80.9
Short-term financial debt	155.5	18.1	13.8	98.5	197.2
Current tax liabilities	10.6	6.1	7.9	14.0	14.1
Other current liabilities	33.1	34.9	43.2	48.9	55.0
Total liabilities	**1,032.9**	**972.9**	**991.3**	**1,010.0**	**679.4**
Total shareholders' equity and liabilities	**1,591.0**	**1,516.6**	**1,563.8**	**1,600.6**	**1,331.6**

Adjustments were made to shareholders' equity and employee benefit obligations for the year 2004 in accordance with the changes in the accounting principles 2005. No adjustment was made for the years 2001–2003.

Financial Statements of Forbo Holding AG

Income Statement of Forbo Holding AG

Income	Notes	2005 CHF	2004 CHF
Income			
from investments in and advances to Group companies	1	27,103,747	23,842,964
from securities and short-term investments	2	1,138,783	649,349
Income from services and other sources		6,931	197,022
Total income		**28,249,461**	**24,689,335**

Expenses	Notes	2005 CHF	2004 CHF
Administrative expenses	3	12,614,177	4,799,275
Financial expenses	4	8,746,281	10,308,878
Taxes		183,000	276,810
Valuation adjustments		0	86,821,848
Total expenses		**21,543,458**	**102,206,811**
Net profit/loss for the year		**6,706,003**	**–77,517,476**

Balance Sheet of Forbo Holding AG (before appropriation of available earnings)

	Notes	31.12.2005 CHF	31.12.2004 CHF
Assets			
Long-term assets		**502,915,191**	**408,174,057**
Investments in Group companies	5	309,013,375	255,015,375
Advances to Group companies	6	193,901,816	153,158,682
Current assets		**155,154,543**	**203,065,647**
Other receivables from Group companies		6,022,903	1,917,592
Other receivables from third parties		77,966	26,358
Prepaid expenses and deferred charges	7	513,420	1,175,058
Cash	8	148,540,254	199,946,639
Total assets		**658,069,734**	**611,239,704**

	Notes	31.12.2005 CHF	31.12.2004 CHF
Shareholders' equity and liabilities			
Shareholders' equity		**398,780,241**	**391,854,564**
Share capital	9/10	54,263,040	54,263,040
Statutory reserves:			
General reserves		15,600,000	15,600,000
Reserve for own shares	11	14,245,526	14,543,317
Other reserves	12	307,407,692	306,890,227
Available earnings:			
Profit carried forward		557,980	78,075,456
Net profit/loss for the year		6,706,003	–77,517,476
Liabilities		**259,289,493**	**219,385,140**
Long-term provisions	13	28,000,000	28,000,000
Bond issues	14	150,000,000	150,000,000
Advances from Group companies		32,697,000	32,466,000
Other liabilities to Group companies		38,546,970	726,148
Current liabilities to third parties		25,978	32,536
Accrued expenses		10,019,545	8,160,456
Total shareholders' equity and liabilities		**658,069,734**	**611,239,704**

Notes to the Financial Statements of Forbo Holding AG

1
Income from investments in and advances to Group companies

Income from investments in and advances to Group companies amounts to CHF 27.1 million (previous year: CHF 23.8 million) and consists of interest, dividend income, and exchange rate gains with foreign currency loans.

2
Income from securities and short-term investments

In the year under review, this item includes income from short-term investments of CHF 1.1 million (previous year: CHF 0.6 million) exclusively.

3
Administrative expenses

Administrative expenses amount to CHF 12.6 million, including costs of CHF 7.1 million in connection with the public purchase offer for all the shares of Forbo Holding AG from CVC Capital Partners.

4
Financial expenses

Financial expenses of CHF 8.7 million relate to the 4 1/8 % bond issue 2001–2006 of CHF 150.0 million and the amortization of capitalized issuance costs. Furthermore, interest expenses arose from loans drawn in the context of a syndicated bank facility and from a loan from a Group company.

5
Investments in Group companies

As of December 31, 2005 Forbo Holding AG held the following direct investments:

Company		Activity	Currency	Share capital in 1,000	Equity interest
Forbo Floorcoverings PTY. Ltd.	AU-Wetherill Park, NSW	Sales	AUD	1,400	100%
Forbo Participations SAS	FR-Surbourg	Holding/Services	EUR	11,525	100%
Forbo Beteiligungen GmbH	DE-Waldshut-Tiengen	Holding/Services	EUR	15,400	100%
Paul Heinicke GmbH & Co KG	DE-Pirmasens	Services	EUR	1,023	72%
Forbo Invest Ltd.	CI-St. Helier	Services	GBP	25	50%
Forbo Flooring A/S	NO-Asker	Sales	NOK	1,000	100%
Forbo Flooring AB	SE-Gothenburg	Sales	SEK	8,000	100%
Forbo Project Vinyl AB	SE-Gothenburg	Manufacturing and Sales	SEK	50,000	100%
Forbo Finanz AG	CH-Baar	Holding/Services	CHF	10,000	100%
Forbo-Giubiasco SA	CH-Giubiasco	Manufacturing and Sales	CHF	10,000	100%
Forbo International SA	CH-Baar	Services, Manufacturing and Sales	CHF	100	100%
Forbo UK Ltd.	GB-London	Holding/Services	GBP	49,500	100%
Forbo America Inc.	US-Wilmington, DE	Holding/Services	USD	19,957	100%

The increase in investments in Group companies compared to the previous year amounts to CHF 54.0 million and is attributable to a capital investment in Forbo Beteiligungen GmbH and a capital increase of Forbo UK Ltd.

6
Advances to Group companies

Advances to Group companies are denominated in Swiss Francs and foreign currencies. There was a CHF 40.7 million net increase over the previous year's figure.

7 **Prepaid expenses and deferred charges**

Prepaid expenses and deferred charges mainly include capitalized cost of CHF 0.4 million (previous year: CHF 1.0 million) incurred in connection with the 4 1/8 % bond issue 2001–2006 and the syndicated bank facility. These costs are amortized over the respective terms.

8 **Cash**

This item consists of cash and cash equivalents with original maturities of three months or less.

9 **Share capital**

At the end of 2005 the Company's share capital is unchanged at CHF 54,263,040 and is divided into 2,713,152 registered shares with a nominal value of CHF 20 each. 21,419 shares without voting and dividend rights are at the disposition of the Board of Directors. Accordingly, 2,691,733 registered shares carry dividend rights for the 2005 financial year. The shares are listed on the SWX Swiss Exchange with security number 354 151.

10 **Conditional capital increase**

CHF 8,500,000 of conditional capital reserved for the exercise of shareholder options and warrants in connection with an option bond issue was created by resolution of the Annual General Meeting of Shareholders held on April 27, 1994. Following the exercise of options and warrants in 1994, 1995 and 1997 and reductions of the nominal value of CHF 22 per share in 2003 and CHF 8 per share in 2004 the conditional capital at December 31, 2005 is unchanged at CHF 3,329,000.

11 **Reserve for own shares**

The CHF 14,245,526 included at year end under 'Reserve for own shares' refer to own shares held by Forbo Holding AG and its subsidiaries valued at cost. Details of own shares are as follows:

Own shares	Cost CHF	No. of registered shares nominal CHF 20
Total at 1.1.2005	**14,543,317**	**79,255**
Disposals	–297,791	–952
Total at 31.12.2005	**14,245,526**	**78,303**

12 **Other reserves**

Other reserves rose by CHF 0.5 million, which is mainly attributable to a transfer to 'Reserve for own shares'.

13 **Long-term provisions**

The CHF 28.0 million stated under this heading serve as a precautionary provision against general risks.

14 **Bond issues**

The 4 ⅛ % bond issue 2001–2006 of CHF 150.0 million is due for redemption on June 8, 2006.

15 **Long-term bank debt**

The mid-term syndicated bank facility of totally CHF 150.0 million was undrawn as of December 31, 2005.

16 **Contingent liabilities**

Guarantees and letters of support issued to third parties in favor of Group companies amount to CHF 531.0 million at year end, of which CHF 412.9 million (previous year: CHF 395.8 million) are utilized. Most of this relates to guarantees to investors in connection with funds raised by a Group company in the form of a US private placement (CHF 360.3 million) and guarantees in connection with utilized swap facilities.

17 **Significant shareholders**

From information made available to the Board of Directors, the following shareholders or groups of shareholders with restricted voting rights were major investors in the company in the sense of Art. 663c Swiss Code of Obligations as at the balance sheet date: Michael Pieper, Hergiswil, Franke Holding AG, Aarburg and Artemis Beteiligungen I AG, Hergiswil with a total of 27.73 % or 752,472 shares, Rudolf Maag, Binningen, with 8.1 % or 220,000 shares and Tweedy Browne Company LLC, New York, with more than 5 %.

Proposal for Appropriation of Available Earnings Forbo Holding AG

The Board of Directors proposes to the Annual General Meeting of Shareholders that the available earnings, consisting of:

	2005 CHF	2004 CHF
Net profit/loss for the year	6,706,003	–77,517,476
Profit carried forward from the previous year	557,980	78,075,456
Total available earnings	**7,263,983**	**557,980**

be appropriated as follows:

	2005 CHF	2004 CHF
To be carried forward to the following year	7,263,983	557,980
Total available earnings	**7,263,983**	**557,980**

Report of the Statutory Auditors

PRICEWATERHOUSECOOPERS

Report of the statutory auditors
to the general meeting of
Forbo Holding AG, Eglisau

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes – pages 98 to 103) of Forbo Holding AG for the year ended December 31, 2005.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Stefan Räbsamen　　Reto Tognina

Zurich, March 15, 2006

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Forbo Annual Report

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