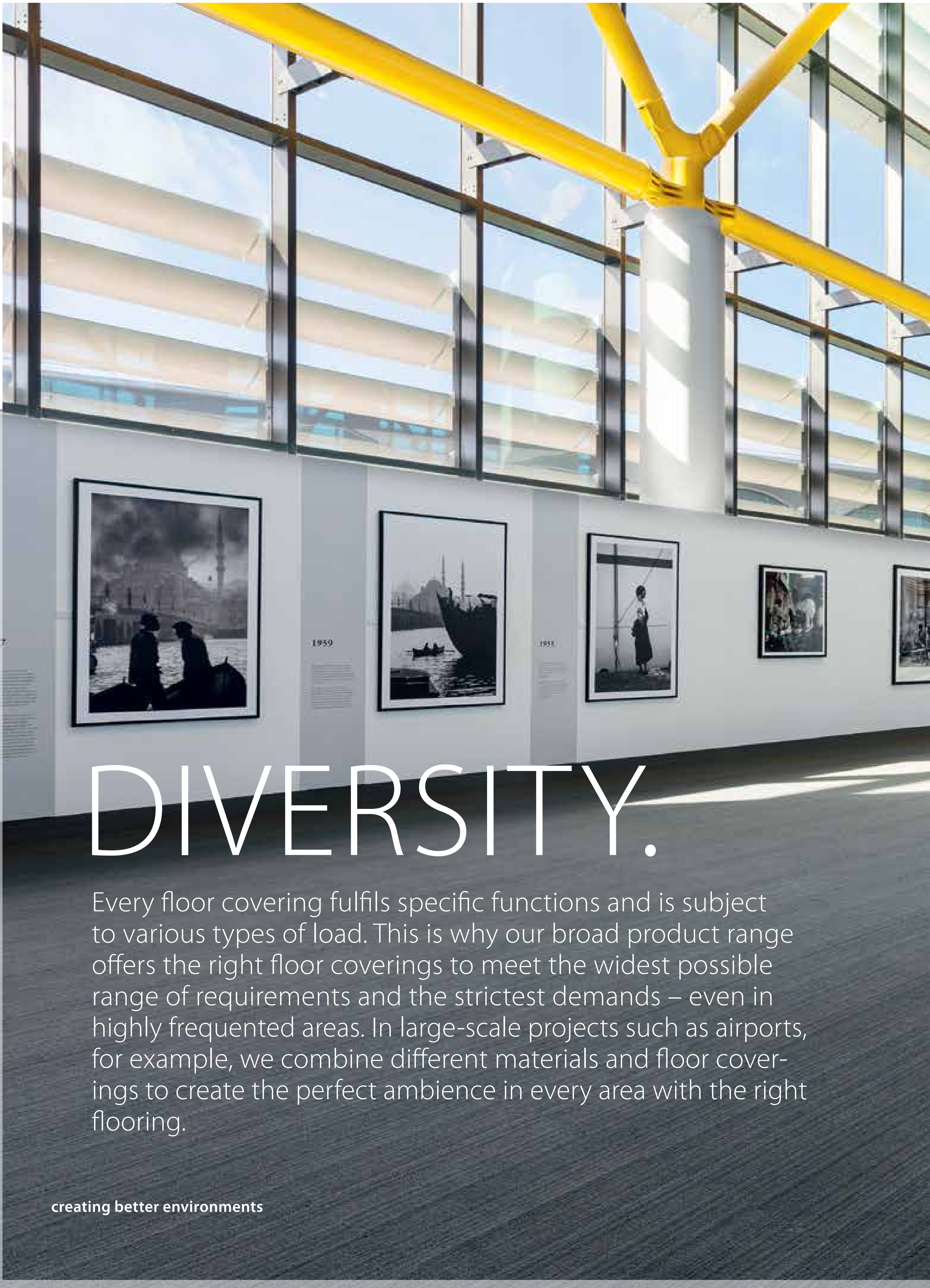
ANNUAL REPORT 2018

CONNECT.

DIVERSITY
EXCELLENCE

FORBO – IN EVERYDAY LIFE

flooring. movement.



DIVERSITY.

Every floor covering fulfils specific functions and is subject to various types of load. This is why our broad product range offers the right floor coverings to meet the widest possible range of requirements and the strictest demands – even in highly frequented areas. In large-scale projects such as airports, for example, we combine different materials and floor coverings to create the perfect ambience in every area with the right flooring.

creating better environments


forbo
FLOORING SYSTEMS

EXCELLENCE.

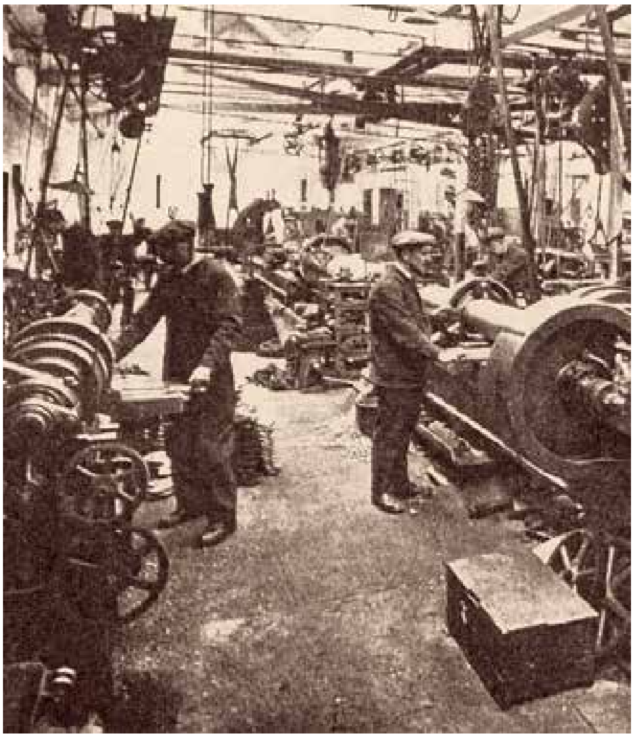
Due to their individual surface textures, our belts fulfill a wide range of different functions in the food processing industry, thus guaranteeing trouble-free production processes from A to Z: conveying, heating, cooling, drying, cutting, packing and lots more. The utmost priority and the key to success is compliance with worldwide hygiene standards.

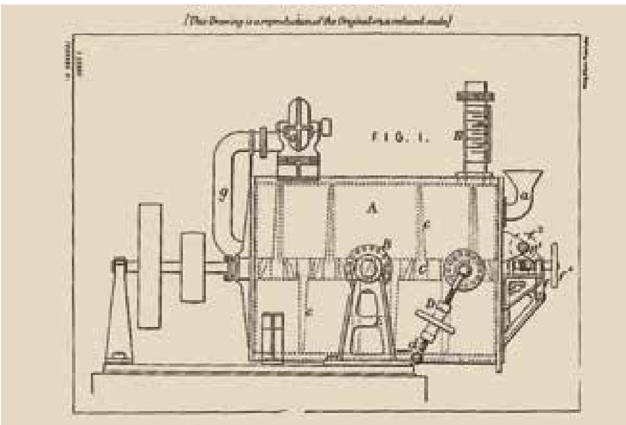

forbo
MOVEMENT SYSTEMS

90 YEARS

FORBO STANDS FOR 90 YEARS OF INNOVATION AND DIVERSIFICATION. IN OUR 91ST YEAR WE STILL FEEL A 100 PERCENT COMMITMENT TO VALUES SUCH AS RELIABILITY, QUALITY, INNOVATION AND CUSTOMER SATISFACTION.

In 1928, three leading linoleum manufacturers from Germany, Sweden and Switzerland founded the 'Continentale Linoleum Union', which later developed to become the Forbo Group. A lot of things have changed since then – technologically and socially. And things are going to continue changing. We have always kept our eye on the future in order to be equipped for any new challenges.





1928

The world was recovering from the First World War. During the 1920s, industrial production still largely involved manual work on heavy mechanical machines with massive flywheels. The energy required was generated locally in coal-fired furnaces. Nonetheless, with its focus on linoleum, Forbo was already at that time a very environmentally-friendly company. Back then, the ‘Continentale Linoleum Union’ had three production sites in Europe.

2018

With its wide product portfolio and its globally oriented, specialized and modern production locations, Forbo can today respond even more diversely to the needs of the customer. All of its locations use highly automated production processes that fulfill strict requirements in terms of quality, work safety, energy efficiency, innovation and sustainability. In view of Industry 4.0 as well as advancing digitalization, we are certain that change will remain our constant companion.

This E. Schneider
Executive Chairman

Stephan Bauer
CEO

‘We have maintained our strong organic sales growth by launching innovative collections in all product groups amid very mixed market conditions in Flooring Systems and by achieving considerable success among global key accounts in the private sector. At Movement Systems, we performed well, offering a wide range of customized solutions based on our strong application competence and technical know-how in thriving but highly competitive customer segments such as logistics and food processing.

We increased operating profit despite higher raw-material costs and the ongoing high level of investments.’

TO OUR SHAREHOLDERS

Dear Madam, dear Sir,

In 2018 – the 90th year of Forbo's history – the Group maintained its strong organic sales growth in a challenging and mixed market environment and again increased operating profit despite a steep rise in raw-material prices and a high level of investment in the company's further growth.

In the Movement Systems division, the various operational areas of our largest and most modern production site in Pinghu/China, got off to a successful start and have been up and running since autumn 2018. The qualification and certification of a wide range of product types on the large and complex coating machine should be completed in the coming months, followed by the production of large batches. This will free up additional capacity mainly for the Asia/Pacific area in order to cope with the planned growth.

We have systematically implemented our strategy, and both divisions have expanded their presence in targeted growth markets and distribution structures. This has enabled us to gain market share in key segments despite a challenging environment. At Flooring Systems, we have launched new collections but also strengthened our activities in the private sector; at Movement Systems, we have developed customized product applications with added value for clients in fast-growing segments. Efficiency gains in a number of operational areas plus some price adjustments enabled us to largely offset the steep rise in raw-material prices, higher depreciations, and increased personnel costs.

When the results in local currencies were translated into the corporate currency, the currency effect was slightly positive on balance compared with the previous year.

The one-off costs arising the previous year from the antitrust proceedings at Flooring Systems in France have been neutralized in this section of the report in the figures from the previous year to ensure better comparability ('previous year before one-off costs').

Continued strong organic sales growth

Both divisions report gratifying sales trends once again
In the year under review, Forbo generated net sales of CHF 1,327.0 million (previous year: CHF 1,246.4 million), representing a gain of 6.5%; this is reflected in a sales increase of 5.0% in local currencies, driven by positive currency effects. Both divisions contributed to this solid and continued strong growth in all regions.

Net sales of Flooring Systems rose by 6.6% to CHF 913.2 million (previous year: CHF 856.6 million). In local currencies, this comes to a sales increase of 5.0%. Innovative new collections in all product groups, major contributions from the development and expansion in growth markets, along with substantial success in global key account activities in the private sector again delivered solid and broad-based growth.

Movement Systems reported net sales of CHF 413.8 million (previous year: CHF 389.8 million), another encouraging increase of 6.2%, or 5.1% in local currencies. The factors driving this continued growth increase were once again strong contributions from growth markets along with application-specific product innovations for our competitive and thriving segments such as logistics and food processing.

Profitability remains strong

Increase in operating profit despite stronger headwind
Efficiency gains in a number of operational areas, additional sales, and some price adjustments enabled us to largely offset steeply rising raw-material prices, higher logistics costs, higher depreciations arising from an increased level of investment, and a rise in personnel costs.

Operating profit before depreciation and amortization (EBITDA) was up by CHF 15.8 million, or 7.9%, to CHF 216.8 million (previous year before one-off costs: CHF 201.0 million). Group operating profit (EBIT) rose by CHF 12.0 million, or 7.3%, to CHF 175.3 million (previous year before one-off costs: CHF 163.3 million). The EBITDA margin grew from 16.1% to 16.3% and the EBIT margin from 13.1% to 13.2%.

Double-digit increase in Group profit

Solid profit trend
After tax-related one-off effects in the previous year and based on the Group's solid operating income as well as a slight increase in financial income, Group profit from continuing operations rose by 14.9%, or CHF 17.8 million, to CHF 137.6 million (previous year before one-off costs: CHF 119.8 million). The tax rate in the year under review was 21.7%.

Balance sheet remains robust

High net liquidity
Net liquidity at year-end stood at CHF 127.4 million (previous year: CHF 195.0 million) despite the share buyback and the continuing high level of investment. In addition, as at December 31, 2018, Forbo held 198,282 of its own shares valued at year-end at CHF 273.8 million (previous year: CHF 143.8 million). Of this amount, the 150,000 shares repurchased to date (8.33% of the share capital) from the current 2017 – 2020 share buyback program are earmarked for a capital reduction.

The equity ratio still remains at a high level of 60.4% (previous year: 61.9%) despite the share buyback.

Undiluted earnings per share from continuing operations rose by 18.8% to CHF 82.38 (previous year before one-off costs: CHF 69.34); the increase was due to the Group's higher operating results coupled with the share buyback effected in the course of 2018.

Broad-based and healthy foundation for sustainable growth opportunities
We continue to steadily expand our global presence with focused activities in growth markets. This, along with our established market positions plus our healthy and solid financial situation, enables us to implement our strategy without swerving from our goal: we are driving expansion in growth markets, strengthening the focus of our distribution structures, targeting increases in capacity, constantly promoting innovation – including digitization – and potentially taking advantage of external growth opportunities. However, as in the past, we will make acquisitions only if we can thereby create added value for our shareholders.

Proposals to the Ordinary General Meeting

Re-elections to the Board of Directors
All the current members of the Board of Directors will stand for re-election for a further one-year term of office.

Increase in the dividend
In view of the solid balance sheet and higher earnings per share, the Board of Directors will propose to the Ordinary General Meeting that the dividend for the 2018 business year should be increased by about 10 percent versus the previous year to CHF 21 per share (previous year: CHF 19 per share).

Share buyback program
The Board of Directors will propose to the Ordinary General Meeting that the 150,000 treasury shares repurchased to date as part of the 2017 – 2020 share buyback program be canceled with a corresponding reduction in capital. It is further proposed that the Articles of Association be amended accordingly and the program terminated.

At the same time, the Board of Directors proposes that it be authorized, over a period of three years, to repurchase further treasury shares up to a maximum of 10 percent of the share capital via a second trading line on the SIX Swiss Exchange or by another means in order to reduce capital.

Outlook for 2019

Cautiously optimistic
We expect that the 2019 business year will be even more challenging. The complexity of our activities will continue to increase, and this demands carefully thought-out and yet flexible mechanisms for adjustment. Owing to our global presence, we stand to face increasingly volatile operating conditions on the economic and political fronts in many countries. We anticipate a generally tougher environment and we expect growth to slow down.

We are equipped with a strong brand, top-quality products and services, and technical know-how. This makes us confident that we can gain market share again in 2019 and post a good result despite the anticipated challenges.

Against this background – and provided that the currency situation remains unchanged and the economic environment remains similar – we anticipate a slightly lower increase in sales and Group profit from continuing operations for 2019.

Thank you

Thanks to employees, business partners, and shareholders
Thanks to the strong commitment and professionalism of our people, and their flexibility, Forbo enjoyed a successful year in 2018 despite the many challenges. Many thanks for this.

We also wish to thank our customers, business partners, and suppliers for the close cooperation and the confidence they have placed in our company.

On behalf of the Board of Directors and the Executive Board, we thank you too, dear shareholders, for the ongoing trust and loyalty you show to Forbo.

Baar, March 2019

This E. Schneider Executive Chairman	Stephan Bauer CEO

Financial calendar

Ordinary General Meeting	**April 5, 2019**
Publication of 2019 Half-Year Report	**July 26, 2019**
Publication of 2019 Annual Report	**March 3, 2020**

CONTENTS

AT A GLANCE

2018 AT A GLANCE

FORBO IS A LEADING PRODUCER OF FLOOR COVERINGS, BUILDING AND CONSTRUCTION ADHESIVES, AS WELL AS POWER TRANSMISSION AND CONVEYOR BELT SOLUTIONS.

The company employs more than 5,700 people and has an international network of 26 production and distribution companies, 6 assembly operations and 46 pure sales organizations in a total of 36 countries. Forbo is headquartered in Baar in the canton of Zug, Switzerland.

FORBO IN FIGURES

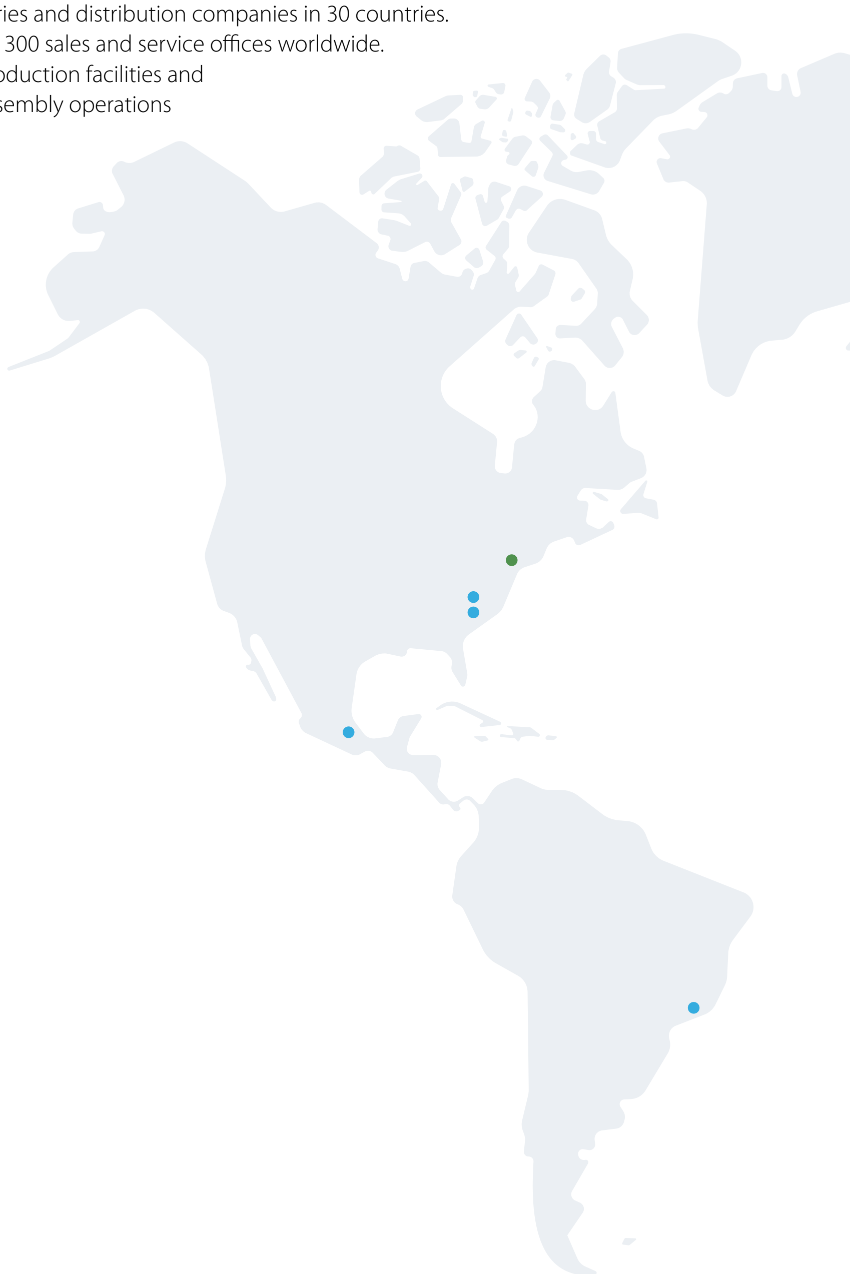
Forbo is a global player, and its two divisions supply a wide range of industries. The Group's global reach means that it is close to dynamic markets, making Forbo the first choice as a local partner for customers that have similar global requirements. The quality, longevity, and performance of our products and systems reflect the quality and stability of our relations with our business partners.

Flooring Systems
16 production facilities in 7 countries and distribution companies in 26 countries. Sales offices in Europe, North, Central, and South America as well as Asia/Pacific.

- Floor coverings
- Building and construction adhesives

Movement Systems
10 production sites and 6 assembly operations in 9 countries and distribution companies in 30 countries. About 300 sales and service offices worldwide.

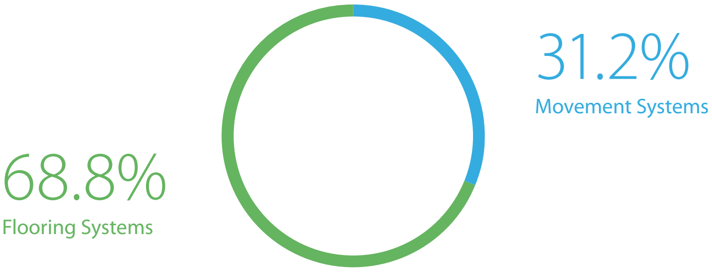
- Production facilities and assembly operations



Net sales	**CHF 1,327.0 million**
EBIT	**CHF 175.3 million**
EBIT margin	**13.2%**
Group profit from continuing operations	**CHF 137.6 million**
Earnings per share undiluted	**CHF 82.38**

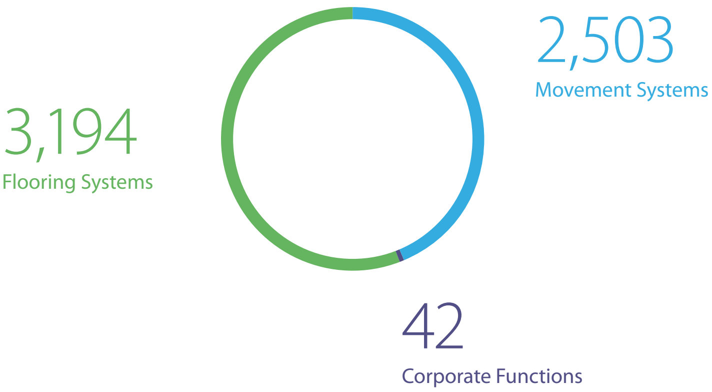
Net sales by division

	CHF m 2018	Change on previous year in %	Change on previous year in local currencies in %	In % of total
Flooring Systems	913.2	6.6	5.0	68.8
Movement Systems	413.8	6.2	5.1	31.2
Total	**1,327.0**	**6.5**	**5.0**	**100.0**



Employees by division

	Number 2018	Change on previous year in %	In % of total
Flooring Systems	3,194	1.2	55.7
Movement Systems	2,503	6.1	43.6
Corporate Functions	42	0.0	0.7
Total	**5,739**	**3.2**	**100.0**



Financial overview Forbo Group

	2018	2017	2018	2017
Income statement	CHF m	CHF m	EUR m[1]	EUR m[1]
Net sales	1,327.0	1,246.4	1,148.7	1,121.2
Flooring Systems	913.2	856.6	790.5	770.5
Movement Systems	413.8	389.8	358.2	350.6
EBITDA	216.8	117.6	187.7	105.8
EBITDA before one-off costs[6]	216.8	201.0	187.7	180.8
EBIT	175.3	79.9	151.7	71.9
EBIT before one-off costs[6]	175.3	163.3	151.7	146.9
Group profit from continuing operations	137.6	36.5	119.1	32.8
Group profit from continuing operations before one-off costs[6]	137.6	119.8	119.1	107.8
Group profit	137.6	38.7	119.1	34.8
Group profit before one-off costs[6]	137.6	122.0	119.1	109.7
Balance sheet	CHF m	CHF m	EUR m[1]	EUR m[1]
Total assets	980.0	1,067.5	848.3	960.2
Operating assets	812.4	832.8	703.3	749.1
Shareholders' equity	591.6	661.2	512.1	594.8
Net cash	127.4	195.0	110.3	175.4
Cash flow statement	CHF m	CHF m	EUR m[1]	EUR m[1]
Cash flow from operating activities	171.2	78.8	148.2	70.9
Cash flow from investing activities	– 39.1	– 56.5	– 33.8	– 50.8
Free cash flow	132.1	22.3	114.4	20.1
Key ratios	%	%		
ROS (EBITDA/net sales)	16.3	9.4		
Equity ratio (shareholders' equity/total assets)	60.4	61.9		
Gearing (net debt/shareholders' equity)	– 21.5	– 29.5		
Employees (as at December 31)	Number	Number		
Total employees	5,739	5,559		
Ratios per share	CHF	CHF	EUR[1]	EUR[1]
Earnings per share (undiluted)[2], from continuing operations	82.38	21.10	71.31	18.98
Earnings per share (undiluted)[2], from continuing operations before one-off costs[6]	82.38	69.34	71.31	62.37
Equity (undiluted)	354.18	382.60	306.59	344.16
Dividend	21.00[3]	19.00[4]	18.18[3]	17.10[4]
Stock market capitalization (as at December 31)	CHF m	CHF m	EUR m[1]	EUR m[1]
Stock market capitalization[5]	2,485.8	2,709.0	2,151.8	2,436.8

1) Euro values translated at the average annual exchange rate of CHF 1.1552/1 EUR (2018) and CHF 1.1117/1 EUR (2017).

2) See note 11 'Earnings per share' on page 116 of the financial report.

3) The Board of Directors proposes to the Ordinary General Meeting of April 5, 2019, the distribution of a dividend in the amount of CHF 21 per registered share.

4) Approval of a dividend of CHF 19 per registered share at the Ordinary General Meeting of April 6, 2018.

5) Total number of shares multiplied by year-end share price.

6) Not factoring in the one-off costs from the antitrust proceedings at Flooring Systems in France in 2017.

STRONG BASIS FOR A SOLID PERFORMANCE

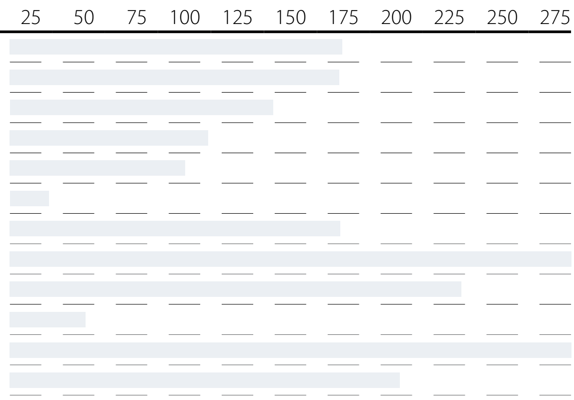
Forbo generated strong sales growth once again in the year under review. Both divisions contributed to the result in equal measure amid challenging and mixed conditions. The market forces in certain countries and customer segments differed greatly in some cases. The Group again increased operating profit despite the steep rise in raw-material prices, higher logistics costs, and increased outlays for investments designed to promote further growth.

Both divisions added innovative products for specific customer segments to their product portfolio; they expanded distribution and service structures in growth markets; and they streamlined operational processes by upgrading production and fabrication facilities to the state of the art in technology.

Given Forbo's global presence, its established market positions, the above-average investments in recent years, and its healthy and solid financial situation, the Group is well equipped to build on this sustainable success despite emerging new challenges and a general slowdown in the world economy.

Net sales by geographic area

		Change on previous year		
	%	in %	in local currencies in %	2018 CHF m
Germany	12.6	11.0	6.8	167.0
France	12.5	4.6	0.7	165.6
Benelux	10.1	7.8	3.8	134.2
Scandinavia	7.8	–1.4	–1.2	103.7
Great Britain/Ireland	7.0	–5.2	–8.0	92.7
Switzerland	2.1	9.2	9.2	28.4
Other countries Europe	12.5	15.4	13.6	166.0
Europe	***64.6***	***6.4***	***3.6***	***857.6***
USA	16.8	5.1	5.7	223.2
Other countries Americas	3.9	10.2	11.9	52.0
Americas	***20.7***	***6.1***	***6.8***	***275.2***
Asia/Pacific and Africa	***14.7***	***7.5***	***9.1***	***194.2***
Total	**100.0**	**6.5**	**5.0**	**1,327.0**



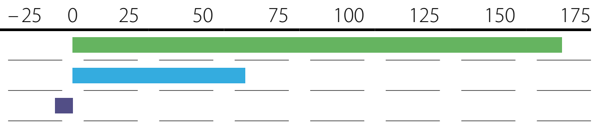
Continued strong organic sales growth
In the year under review, Forbo reported net sales of CHF 1,327.0 million (previous year: CHF 1,246.4 million), representing a gain of 6.5%; this is reflected in a sales increase of 5.0% in local currencies owing to slightly positive currency effects. Despite the challenging market conditions, both divisions contributed to this solid and continued strong growth in all regions and gained market share in key market segments.

The Flooring Systems division generated net sales of CHF 913.2 million in 2018 (previous year: CHF 856.6 million). This comes to a substantial increase of 6.6% in the corporate currency (+ 5.0% in local currencies). All three regions contributed to this satisfactory growth despite mixed market conditions, though with different inputs.

The Movement Systems division generated net sales of CHF 413.8 million in 2018 (previous year: CHF 389.8 million). The result equated to a strong sales increase of 6.2% (5.1% in local currencies). All three regions as well as most markets and customer segments contributed to varying degrees to this ongoing sales success.

EBITDA by division

	2018 CHF m	Change on previous year in %
Flooring Systems	166.0	8.4
Movement Systems	60.6	3.2
Corporate	– 9.8	– 9.3



Solid earnings trend
Forbo once again lifted its operating profit. Higher sales coupled with efficiency gains in various operational areas plus individual price adjustments on our part largely offset the continued steep rise in raw-material prices, increased logistics costs, higher depreciations owing to the large investments made in expanding capacity in recent years and, accordingly, higher personnel costs.

The Group reported higher operating profit before depreciation and amortization (EBITDA), which rose by 7.9% to CHF 216.8 million (previous year before one-off costs: CHF 201.0 million). EBITDA at Flooring Systems increased by 8.4% to CHF 166.0 million (previous year before one-off costs: CHF 153.1 million) owing to higher sales and operational efficiency gains, despite much higher raw-material prices. At Movement Systems, EBITDA rose in similar circumstances by 3.2% to CHF 60.6 million (previous year: CHF 58.7 million), despite the substantial build-up of capacity in China.

The EBITDA margin for the Group rose from 16.1% to 16.3%. At Flooring Systems, the EBITDA margin increased from 17.9% the previous year (before one-off costs) to 18.2% in the year under review, while at Movement Systems the EBITDA margin decreased by 0.5 percentage points to 14.6% (previous year: 15.1%).

Group operating profit (EBIT) increased by 7.4% to CHF 175.3 million (previous year before one-off costs: CHF 163.3 million). The Group EBIT margin improved from 13.1% the previous year to 13.2% in the year under review.

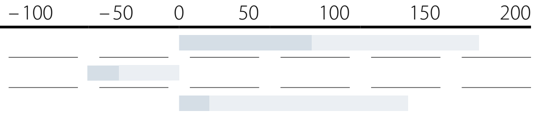
Owing to the solid operating income in the year under review, Group profit from continuing operations rose by 14.9% to CHF 137.6 million (previous year before one-off costs: CHF 119.8 million).

Taxes and financial income
The tax rate in the year under review was 21.7% (previous year: 54.4%), in line again with the long-term average. The tax rate in the previous year was influenced by one-off costs in connection with the antitrust proceedings at Flooring Systems in France plus the sale of treasury shares.

Financial expenses came to CHF 0.6 million in 2018 (previous year: CHF 0.8 million) and consisted in both years mainly of foreign exchange losses. Offsetting this was financial income of CHF 0.9 million (unchanged from the previous year), consisting of interest income. On balance, the financial result came to CHF 0.3 million (previous year: CHF 0.1 million).

Free cash flow

	2018 CHF m	2017 CHF m
Cash flow from operating activities	171.2	78.8
Cash flow from investing activities	– 39.1	– 56.5
Free cash flow	132.1	22.3



Solid cash flow performance

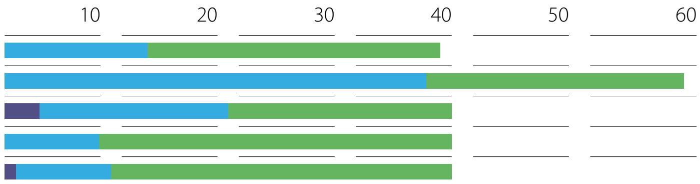
Cash flow from operating activities decreased the previous year especially owing to the one-off costs incurred in connection with the antitrust proceedings at Flooring Systems in France. However, in the reporting year, the cash flow performance was back at its usual solid level. In 2018, the Group generated cash flow from operating activities of CHF 171.2 million (previous year: CHF 78.8 million), equivalent to an increase of CHF 92.4 million. In the wake of exceptionally high capital spending for capacity expansion the previous year, cash flow from investing activities decreased by CHF 17.4 million and came to CHF – 39.1 million (previous year: CHF – 56.5 million). Free cash flow thus amounted to CHF 132.1 million (previous year: CHF 22.3 million).

Balance sheet remains robust

Total assets at December 31, 2018, came to CHF 980.0 million (previous year: CHF 1,067.5 million), a decline of CHF 87.5 million. The decrease was due to the share buybacks and to currency fluctuations in relation to the exchange rate on the balance-sheet date. Net liquidity remains at a comfortable level despite the share buyback program and the high level of capital spending. It decreased year-on-year by CHF 67.6 million to CHF 127.4 million (previous year: CHF 195.0 million). Shareholders' equity declined by CHF 69.6 million, coming to CHF 591.6 million at end-December 2018 (previous year: CHF 661.2 million). The equity ratio still remains at a high level of 60.4% (previous year: 61.9%).

Investments 2014 – 2018

	Flooring Systems CHF m	Movement Systems CHF m	Corporate CHF m	Total CHF m
2018	25	13	0	39
2017	22	36	0	58
2016	20	17	3	40
2015	31	9	0	40
2014	30	9	1	40



Efficiency-enhancing and sustainable investments

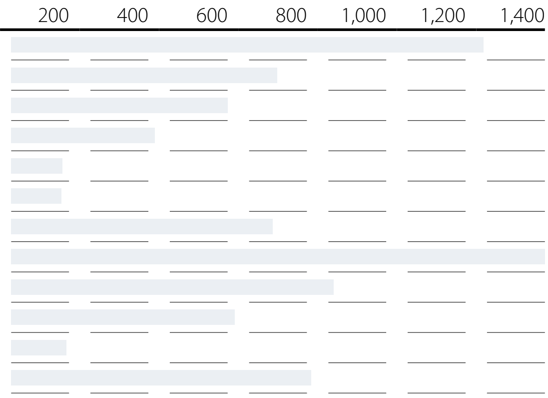
In addition to increasing efficiency and steadily streamlining processes, our focus is primarily on factors that are geared to promoting future growth. Capital expenditure in the year under review returned to the high comparable level of earlier years, following a steep rise the previous year, which was mainly due to the construction of the new Movement Systems plant in Pinghu/China. In the reporting year, Forbo concentrated its resources in both divisions on key activities and strategic projects in the areas of product portfolio, technology, production capacity, and market expansion. Total Group investments in property, plant, and equipment and intangible assets in 2018 came to CHF 38.7 million, which was CHF 19.1 million lower than the previous year (CHF 57.8 million).

In the reporting year, Flooring Systems invested CHF 25.4 million (previous year: CHF 22.3 million), an increase of 13.9%. This sum includes the installation of a new digital printing facility with UV ink technology for luxury vinyl tiles plus expanded cutting capacity at the same production facility in the Netherlands. In the UK, Forbo installed a new needle punch machine for the production of carpet tiles and replaced a large press for the manufacture of Flotex that recycles scrap material into granulates in order to produce new backings for modular floor coverings. There were improvements at other manufacturing sites as well, including oven presses with reduced energy consumption, the modernization of heating plants, exhaust air systems and filter installations, plus additional silos and tanks for more efficient processing of raw-materials.

At Movement Systems, investment in property, plant, and equipment came to CHF 13.2 million, a decrease of CHF 22.3 million versus the previous year (CHF 35.5 million). After two years of exceptionally high investments to complete the new plant in China, besides various new tools for the fabrication, there was a bigger investment made in the USA, where a new high-performance mixing plant for production pastes was installed, while for the fabrication center in Slovakia a state-of-the-art waterjet cutting machine for perforated belt types has been developed and built.

Employees by geographic area

	%	Change on previous year in %	2018
Benelux	21.7	2.6	1,245
Germany	12.6	6.9	724
Great Britain/Ireland	10.5	– 0.7	600
France	7.3	– 3.0	418
Scandinavia	3.2	15.1	183
Switzerland	3.1	2.9	180
Other countries Europe	12.4	3.8	712
Europe	***70.8***	***2.9***	***4,062***
Asia/Pacific and Africa	***15.1***	***3.1***	***867***
USA	10.8	5.5	617
Other countries Americas	3.3	3.2	193
Americas	***14.1***	***4.9***	***810***
Total	**100**	**3.2**	**5,739**



Selective expansion of headcount

At year-end 2018, the Forbo Group employed 5,739 people. This marks an increase of 180 employees compared with the end of 2017. The increase was mainly due to capacity expansion and specific team enlargements in operational areas. The minor individual percentage changes in employee levels by and large reflect market developments in the corresponding countries and regions and mirror the situation on the balance-sheet date at the end of the year.

The high increase in Germany was due to the capacity expansion at Movement Systems for an additional shift required for production of Transilon conveyor belts. The large increase in Scandinavia can be explained on the one hand by the acquisition by Movement Systems of a distribution partner in Norway and, on the other hand, by the filling of vacancies at Flooring Systems in Sweden. The above-average increase in the USA is due to the enlargement of the fabrication team at Movement Systems for special projects in the field of logistics for large key accounts.

SUSTAINABLE ENGAGEMENT

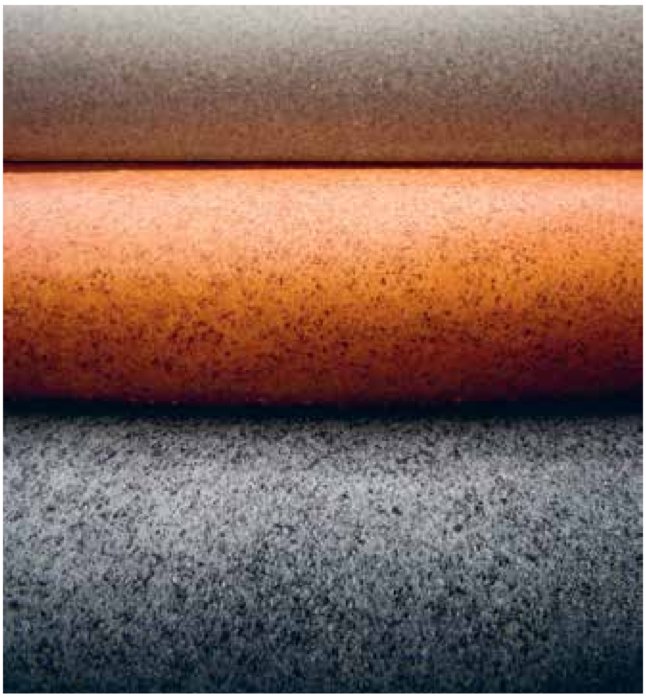
A responsible attitude toward the management of resources in all dimensions is one of the fundamental values at Forbo. We are committed to protecting the environment and continuously investing in a sustainable future. As a manufacturer and employer conscious of its responsibilities, Forbo sets very high standards for health, safety, the environment, and quality.

Social dimension

Forbo promotes a high-performance culture in order to meet the high demands of our customers and business partners as well as the requirements we impose on ourselves. This is why we promote the necessary capabilities and competences at all organizational levels, and support this internally with seminars and further training activities.

This means that the divisions provide internal training in a wide range of areas regarding products and applications, sales and marketing, finance, operations, project management, strategy implementation, and Forbo's values. Continuous intensive training in the area of health and safety includes measures on the topics of accident prevention, risk awareness, and occupational health and safety, as well as general ongoing preventive measures.

At the Group level, Forbo has established an internal management training program in collaboration with the University of St. Gallen as well as other external partners and internal experts. This practice-oriented advanced training program for senior managers and persons in key positions consists of a first training week that includes various modules in areas ranging from management and sales to marketing and operations. A second training week expands on this and includes leadership modules, focusing on strategic implementation and leadership topics such as dealing with organizational and team changes as well as performance management. A third training week that builds on the previous courses was introduced in 2016; it is devoted mainly to leadership topics that involve implementation of the strategy at various organizational levels. This is combined with relevant tools for communication challenges and cooperation in international, cross-cultural teams.



Ecological dimension
Protection of the environment and the generation of ecological added value are important factors in all of Forbo's development and investment decisions. Our customers also demand efficient and sustainable products and services. Both divisions are meeting these demands by offering purely natural products in their product portfolio.

With linoleum, Flooring Systems offers a floor covering made of 97% renewable raw-materials of which 72% are renewable within ten years. Linoleum is made from the natural raw-materials linseed oil, natural resin, wood flour and limestone as well as jute and pigments. A natural product through and through, which, in view of its long service life and positive ecological balance, is regarded as the most environmentally friendly resilient floor covering available. At the end of its long service life it can be composted, as it is 100% biodegradable. In addition to this, linoleum is made from about 45% recycled material, which lowers the consumption of primary raw-materials accordingly.

Vinyl floor coverings receive their elasticity, pliability, and flexibility from plasticizers. Flooring Systems is the leader in the use of phthalate-free plasticizers of the latest generation. Vinyl floor coverings also contain up to 45% recycled material in the substrate layer. Within the framework of our 'back to the floor' program, we collect off-cuts of our vinyl coverings as well as waste material from our own production and put these back into the production of new coverings, for example for the substrate layer of carpet tiles and Flotex – the washable textile flooring. Flooring Systems gets 100% of the electricity used at its production locations from renewable energy sources.

With the BioBelt, Movement Systems is the first-ever conveyor belt manufacturer to develop a biodegradable conveyor belt whose physical and dynamic properties are equal to standard belts. The same applies to its performance and long service life. In BioBelt products, oil-based raw-materials and synthetic-technical materials have been largely substituted by materials made from renewable, plant-based raw-materials.

In order to maximize environmental compatibility and at the same time increase the product advantages, Movement Systems has patented some years ago a special coating that significantly reduces the friction between the underside of the belt and the slider bed compared with conventional conveyor belts.

SUSTAINABLE ENGAGEMENT

In the meantime, Movement Systems launched new generations of these energy-saving conveyor belts that are even more efficient. These AmpMiser conveyor belts display their advantages most clearly where goods are being continuously conveyed and many belts are in use, for example at airports or in logistics and distribution centers. For this type of application, energy savings of up to 50% are achieved for the overall systems.

We have also made it our aim to continually make our own activities more sustainable and efficient. We do this by using less material and energy to realize equivalent or even better solutions. Both divisions are working constantly on the optimization of production processes in terms of water and energy consumption, reduction of emissions, reuse of heat generated in the production process, and the reduction and efficient recycling of waste material in order to reduce the burden on the environment. A wide range of certifications confirm these efforts. At the same time, we are working on innovative ideas regarding the materials used in the production process as well as new application techniques.

FLOORING SYSTEMS

Floor coverings are part of our everyday lives and define our living, leisure, and working spaces. Whether as a direct end customer, builder of a major project, architect or installer, for every stakeholder group the topic of sustainability plays an important role in the decision-making process. This is why it is important for Flooring Systems to differentiate itself from its competitors with comprehensible and convincing arguments, including in terms of sustainability.

With the approach 'committed to the health of one' Flooring Systems wants, alongside a fully transparent product declaration, to highlight the sustainability features more clearly than it has done up to now and place them in correlation to each individual. In creating a healthy interior space, we concentrate on all aspects of our installations that contribute positively to safety, hygiene, and well-being. These include avoiding asthma triggers and allergens, focusing on light-reflecting and acoustic properties, facilitating cleaning and maintenance, and ensuring the overall quality of the interior.

MOVEMENT SYSTEMS

Movement Systems' resource management is based on the continuous improvement of consumption efficiency through the development and the targeted implementation of measures for the optimization of electricity, gas, oil, and water consumption. Alongside ongoing energy-saving measures, energy recovery is an important factor, i.e. the use of energy released in the downstream incineration plant for the purposes of heating. In order to reduce water consumption and avoid unnecessary waste, Movement Systems is increasingly using closed water circulation systems. Some of the waste water can be used in another production step in order to minimize water requirements. The reduction and productive reuse of waste material is increasingly the focus of Kaizen and sustainability initiatives. Cut-offs from the belts we produce in certain countries are sold to other companies to be reused in their production. The locations in North America collect sanding dust in filters which is then processed as material by external partners in their production. Some of the waste from plastic modular belts and polyurethane cut-offs is recycled back into our own production.

Economic dimension

As a listed company, Forbo also engages intensively with the economic dimension of sustainability. Compliance is enormously important for the reputation and positioning of a company. We are successful as a company when we meet the expectations of customers, when employees are enthusiastic and committed, and when we create added value in the long term for our shareholders.

In the year under review, we constantly maintained our efforts in terms of a conscious attitude to what we do by reinforcing awareness, particularly regarding the contents of the code of conduct (by means of e-learning modules) as well as competition law and anti-corruption principles, and diligently implementing the risk management process.

ACTIVITY REPORT

TWO DIVISIONS WITH LEADING MARKET POSITIONS

Forbo aims to operate primarily in business areas in which it has or can achieve a leading global market position – something it has achieved for both Flooring Systems and Movement Systems.

Strategic directions

To be successful in the market place as a Group with differently aligned operations, the individual divisions act independently and flexibly, but always along the strategic directions defined for the Group as a whole:

- Based on a pronounced customer focus, a high level of service, innovation, digital transformation, and a strong global brand, we are creating global leadership positions in clearly defined market segments.
- Due to a strong market orientation, we shape markets and drive profitable growth.
- We are developing significant positions in growth markets.
- We are acquiring companies to extend our product range, to consolidate and/or reinforce market access.
- We are developing a high-performance culture and providing the relevant skills and competences at all levels.

Flooring Systems

The Flooring Systems division offers a broad and attractive range of environmentally friendly natural linoleum, high-quality vinyl floors, entrance matting systems for cleaning and drying shoes, carpet tiles, needle felt, and Flotex, the washable high-tech textile flooring. Thanks to their excellent technical properties and attractive designs, these flooring products are invariably the first choice for public buildings, department stores, hospitals, and other healthcare facilities, schools, libraries, commercial and office spaces, leisure centers, shops, hotels, restaurants, and cafeterias as well as for applications in the residential market. With a market share of about 70 percent, Forbo is the world leader in linoleum.

Flooring Systems also provides ready-made adhesives for floor covering installations, parquet flooring, and ceramic tiles, leveling compounds for the construction industry as well as liquid floors under the trade name Eurocol.

Movement Systems

Movement Systems is a global industry leader for sophisticated conveyor and processing belts, plastic modular belts, top-quality power transmission belts, as well as timing and flat belts made of synthetic materials. These products are known under the brand name Siegling. They are used in a wide range of applications in industry, trade, and the service sector, including conveyor and processing belts in the food industry, treadmill belts in fitness studios, and flat belts in mail distribution centers.


DIVERSITY.

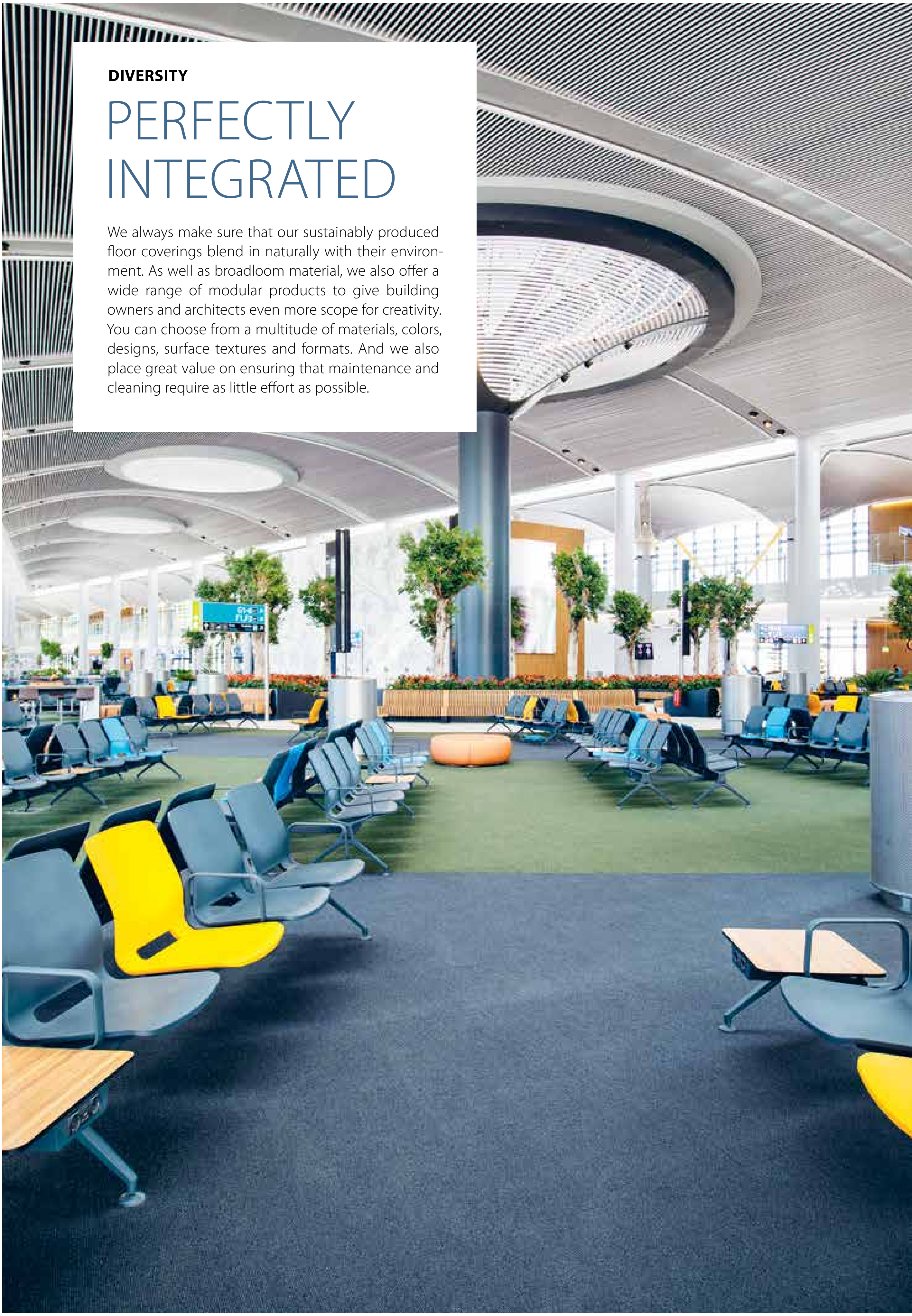

EXCELLENCE.

FLOORING SYSTEMS

DIVERSITY

PERFECTLY INTEGRATED

We always make sure that our sustainably produced floor coverings blend in naturally with their environment. As well as broadloom material, we also offer a wide range of modular products to give building owners and architects even more scope for creativity. You can choose from a multitude of materials, colors, designs, surface textures and formats. And we also place great value on ensuring that maintenance and cleaning require as little effort as possible.



FLOORING SYSTEMS:
TARGETED ACTIVITIES IN THE PRIVATE SECTOR ARE TAKING EFFECT

'We launched innovative and top-quality collections in all product groups that achieved significant sales success globally – particularly because we focused our global key account activities on the private sector commercial segment, on customer segments such as shop fittings, office facilities, railway companies as well as hotels and restaurants. We expanded our distribution structures for this area specifically as well as for development in growth markets. On the operational side, we invested in a range of technological improvements designed to increase both efficiency and capacity. Coupled with targeted measures in procurement plus some price adjustments, these have counteracted the higher costs for raw-materials. Overall, with our attractive portfolio, we have further strengthened our position as a leading systems supplier in the commercial segment.'

Jean-Michel Wins
Executive Vice President
Flooring Systems

The Flooring Systems division generated net sales of CHF 913.2 million in 2018 (previous year: CHF 856.6 million). This comes to a strong and solid increase of 6.6% in the corporate currency (+ 5.0% in local currencies). The division accounted for 68.8% of Group sales. All three regions contributed to this growth, though with different growth rates. Operating profit (EBIT) rose by 8.8% to CHF 136.5 million (previous year before one-off costs: CHF 125.5 million) despite the negative impact of higher raw-material prices. The EBIT margin increased by 0.2 percentage points to 14.9% (previous year before one-off costs: 14.7%).

Strong and solid sales development

The European markets showed a very mixed trend. Our important core markets, France and the Netherlands, recorded moderate growth, whereas Germany reported growing demand and registered strong growth also due to the changed market situation. Southern and Eastern Europe posted a gratifying trend, as did Switzerland, which successfully adapted its business model to the changed market structure. Apart from Norway, demand in northern Europe declined slightly on the whole. Great Britain reported a downturn in sales owing to the uncertainties surrounding Brexit and the recession in the construction industry.

The Americas region posted a significant increase in sales primarily due to the recovery in the main market, the United States, and in Canada. The upswing was driven by successful projects with increasing modular flooring solutions plus rising demand in the healthcare and nursing care segments. Brazil and other, smaller markets in South America turned in a positive performance after a rather restrained development in previous years.

In the Asia/Pacific region, Japan, South Korea, and Turkey made an above-average contribution to the sales upturn. Various growth initiatives drove this gratifying trend, and it was supported by the completion of some major projects in the healthcare, education, office facilities, and airports segments. China and Australia also contributed to this big jump in growth despite weakening demand.

The building and construction adhesives activity overall reported solid and strong growth in sales, due in particular to Russia – mainly driven by the expansion of the do-it-yourself business – and the Netherlands, where demand for liquid floors increased. Based on a streamlining of the offer, Germany reported a slight downturn in sales amid fierce market competition.

New and innovative collections in all product groups

In the year under review we introduced attractive and top-quality collections in all product groups that achieved significant sales success regionally and globally. Many of these new developments are geared to the private sector commercial segment and combine trendy designs, varied color palettes plus new production technologies and new effects employing sustainable materials.

For our new Flotex collection – our washable high-tech textile flooring – the successful French designer Philippe Starck created a range of design variations that show their full effect in large-scale installations.
We enlarged the carpet tile range with a collection for the office facilities segment; the design is inspired by clouds, and the carpet tiles use an innovative yarn in order to achieve this effect.
For the newest collection of luxury vinyl tiles, we combined the arrangement of several material layers with a special printing technology to generate unique gradients and a wide range of surface designs. The use of refurbished rest material from our homogenous vinyl production has given rise to a very trendy, colorful, and new collection of this product line.
The new global broadloom linoleum collection 'marmoleum marbled' will be offered as of 2019 in five updated design types and varied color shades and thicknesses, and will feature sound-absorbing properties.

Above-average growth in vinyl floor coverings

Our application-specific and versatile vinyl flooring collections all made their presence felt, posting solid growth rates. The homogenous vinyl flooring product line, introduced the previous year, has become firmly established, and the luxury vinyl tiles still report growth rates well into the double-digit range. Acoustic flooring coverings, primarily for social housing, have sold well, as have antistatic high-tech floorings for special applications in industry and hospitals.
Linoleum floor coverings reported solid growth in all the different styles and formats.
The textile floor coverings – carpet tiles, Flotex, and needlefelt floor coverings – made a larger contribution to sales growth due to increased private sector activities. Sales of the entrance matting systems remained at about the previous year's level.

Efficiency-enhancing and sustainable investments

In addition to the numerous activities to enrich our product portfolio, we invested in a range of improvements at our production sites. Of particular note were the oven presses with reduced energy consumption, the modernization of the heating plants, exhaust air systems and filter installations, plus additional silos and tanks for more efficient processing of incoming raw-materials.

For our luxury vinyl tiles, we installed a new digital printing facility with UV ink technology that creates additional capacity and at the same time offers options for customized design flexibility. We installed a new needle punch machine for the production of carpet tiles that reduces yarn consumption and also enables the manufacture of novel carpet tiles. A large press for the production of Flotex was replaced that recycles scrap material into granulates in order to produce new backings for modular floor coverings.

The ongoing expansion into growth markets took many forms. In China we increased the density of the distributor network in large cities by gaining new distribution partners; in South Korea we expanded our presence in the pharmaceutical segment; in Poland and Russia we began covering new areas outside Warsaw and within Moscow and we now service the Ukraine and Kazakhstan markets directly.

Tried and proven strategy

In 2019 we will consistently continue on our path: we will increase the attractiveness of our product portfolio even more for customers in the private sector commercial segment; we will proactively follow up the initiatives we have taken in the growth markets; and we will enhance these market activities with additional innovative and attractive offerings, in the digital sphere too. It is also key to keep a close watch on raw-material price trends and make any necessary price adjustments on our side.

VERSATILE AND TRENDY COLLECTIONS

Forbo floor coverings combine functionality and excellent product quality with innovative designs; they enhance interior spaces, whose character and appearance are geared to the needs of the people using these spaces. We make every new development of our products and production processes more sustainable and more environmentally friendly; that is how we meet the most demanding requirements. In the past year we again kept our attention on the pulse of technical innovation and design trends.

Many of these new developments are geared to the private sector commercial segment; they combine trendy designs, varied color palettes plus new production technologies and new embossing effects employing sustainable materials across all product groups.

Innovative carpet tiles

Carpet tiles give a room a special character, create an atmosphere of warmth, and are especially suitable for office premises or cozy hotel settings. We have added two innovative collections to our range of high-quality Tessera carpet tiles: 'Cloudscape', whose design is visually influenced by natural cloud formations and is available in 16 muted pastel shades. A novel yarn with a sophisticated tufting technology was used to achieve this visual effect. And 'Nexus' – the Latin word means 'connection' and stands for the design – which combines a metallic web overlay with a striated ground (the striation comes from different pile heights). The combination creates a visual network of connections. This trendy collection is available in nine colors, primarily light to dark gray, with a variety of metallic color effects. Carpet tiles offer flexible layout opportunities in modern open-plan offices and contrast with the current trend to near-natural designs in pastel shades.

TESSERA CARPET TILE 'NEXUS'

TESSERA CARPET TILE 'CLOUDSCAPE'

HOMOGENOUS VINYL FLOOR COVERINGS 'FABSCRAP'

LUXURY VINYL TILES 'ALLURA FUSION'

Unique and versatile vinyl floor coverings
For the newest collection of luxury vinyl tiles, we combined the arrangement of several material layers with a special printing technology partially mixed with a solid pvc color layer to generate unique color tones and a wide range of surface designs. 'Allura Fusion' received the Red Dot Design Award for 2018 as the best product design of the year. The jury praised the product's innovative manufacturing process, the color depth, and the realistic effects along with the natural, free-flowing design with no repetition of the patterns. The collection is available in three tile and plank formats. The planks are especially suitable for wider and open areas with little furniture where the floor itself can stand out as a design element – the relevant target groups are galleries or boutiques.

'AN ATTRACTIVE COMBINATION OF DESIGN AND FUNCTIONALITY'

The use of refurbished rest material from our homogenous vinyl production has given rise to a very trendy and colorful new collection of homogenous vinyl floor coverings. 'FabScrap' is made completely of recycled virgin materials. Granules in different colors and different quantities are left over from every production run. This material is remixed and then used exclusively for this collection. The colors are mixed in such a way as to produce four base shades: two gray, one blue, and one white. The left-over colored granules are mixed with the base shade of the customer's choice. That means that each roll is colorful and unique in its design and, what's more, exhibits the usual high quality of Forbo's homogenous vinyl floor coverings. And, special in so many ways, adds a unique touch and splashes of color to sales outlets, school buildings, cafeterias and canteens.

MOVEMENT SYSTEMS

EXCELLENCE

COMPLETELY FUNCTIONAL

Our belts guarantee smooth operation in every process step and ensure compliance with the most demanding hygiene standards. In the production of baked goods, the excellent release properties of the surface texture are especially important to ensure that the dough does not stick to the belt, thus saving the amount of flour needed for processing. Innovative belt edge seals, a smooth belt run to ensure gentle conveyance, as well as easy cleaning are what distinguish our belts from the others, thus ensuring decisive competitive advantages.

MOVEMENT SYSTEMS: SUCCESSFUL IN HIGHLY COMPETITIVE CUSTOMER SEGMENTS

'The construction of the new production site in Pinghu/China, dominated the reporting year, and it proved a challenge for many organizational areas locally and internationally. The operational departments of our largest and most modern production facility have been well-established since autumn 2018. The large and complex coating machine is also in operation. The qualification and certification of a wide range of product types should be completed in the coming months, followed by the production of large batches. Innovative products coupled with specific application know-how were the key to our cross-border success stories for all our product groups. At the same time, we continued to invest in the development and expansion of distribution and service locations, which has further strengthened our market position.'

Marc Deimling
Executive Vice President
Movement Systems

The Movement Systems division generated net sales of CHF 413.8 million in the year under review (previous year: CHF 389.8 million), which reflects strong year-on-year growth of 6.2% in the corporate currency (+ 5.1% in local currencies). The division accounted for 31.2% of Group sales. All three regions as well as most markets and all customer segments contributed to varying degrees to this gratifying rise in sales. Various factors, however, weighed on operating profit (EBIT), which came to CHF 49.4 million, roughly the previous year's level (previous year: CHF 49.3 million). A strong rise in raw-material prices and higher logistic costs were partly responsible, while the major capacity expansion in China and, to some extent, in Germany too increased depreciations and led to a build-up of personnel, which weighed disproportionately on the income statement in the initial start-up phase. The EBIT margin declined accordingly to 11.9% (previous year: 12.6%).

Strong sales growth once again
All three regions made a solid contribution to the very good growth again in the past year. Europe's share was slightly above-average. Special mention should be made of Southern and Eastern Europe. All the countries of Southern Europe turned in a convincing performance and gained market share despite a challenging environment. Eastern Europe too was positive across the board. The core market Germany reported solid growth. Northern Europe posted double-digit sales growth owing to the takeover of an existing distribution partner in Norway in early May 2018, a move that strengthened both our position in the local market in the food segment and our service structure.

The Americas region reported good sales growth overall, and this was backed up by satisfactory double-digit growth rates in Mexico and Canada in addition to the core market USA. USA itself performed solidly, with major projects in the logistics and food processing segments acting as important drivers.

The picture in Asia/Pacific was very positive. The core markets, China and Japan, reported satisfactory growth, while smaller markets in Southeast Asia and India registered double-digit sales gains. South Korea and Turkey were also positive performers. This growth was based on a broad array of customer segments, with major projects in logistics/airports, industrial manufacturing, and sports treadmills.

Highly competitive logistics segment booming worldwide

The individual trend in strategic customer segments is shaped in many cases by major projects and by the service and replacement business. Technical expertise and application know-how play a key role here. In the year under review, we reported better-than-average growth in all regions for the food processing and logistics segments; in the case of logistics this was due in particular to the boom in online commerce alongside local and international airport projects as well as courier service providers. New logistics centers are being built, and at the same time capacity at existing locations is being expanded to cope with ever shorter delivery deadlines. We enlarged our service teams to meet these changing demands and we expanded specialized training for maintenance personnel at customer sites.

Other customer segments that enjoyed above-average demand were raw-materials processing and industrial manufacturing, with major automotive industry projects playing a leading role. Sports treadmills and textiles were two further segments reporting solid growth. Demand in the tobacco and paper and printing industry segments was modestly positive; paper and printing was slightly in decline, in line with the general market trend.

Customer-specific innovations

Following versatile belt developments for the logistics segment the previous year, the division developed numerous innovative products in the year under review – particularly in the food sector – for very specific applications that offer significant benefits and increase efficiency in both production and processing.

A new antistatic belt type – used in the manufacture of biscuits and crackers on cutting lines – was developed for facilities in which the belt has to be especially cutting- and punching-resistant and is able to provide the necessary resistance (damping performance) as well as positional accuracy of the dough pieces for cutting. Another new series of stable and robust plastic modular belts ensures excellent stability and traction when conveying plastic containers in the meat and dough sectors. Another series is designed for packaging lines featuring smooth, enclosed surfaces for goods, for instance small fruits, that have to be conveyed across narrow transfer gaps.

A high-temperature and UV-resistant conveyor belt has been developed for the industrial manufacturing segment for use in paint drying on spraying lines. These systems ensure that UV paints and lacquers, as employed for instance in furniture manufacture, dry quickly.

Investments in technology and efficiency

While continuing to invest in development and expansion in growth markets, we also invested in new technologies and efficiency-enhancing measures in various fabrication and production facilities.

Our new high-performance mixing plant for production pastes came on stream at our main production site in the USA. This enabled us to increase both efficiency and capacity.
A state-of-the-art waterjet cutting machine for perforated operations was developed and built especially for our needs at our fabrication center in Slovakia. It is very flexible in use, can process belts up to four meters wide, but can also perforate small already endless belt types. Furthermore, perforations can now be made in any shape in addition to round perforations, according to the customer's need.
The biggest capital expenditure item of Movement Systems at present, however, is the new plant in Pinghu, which will provide additional production capacity for Transilon processing belts, mainly for the Asia/Pacific region.

Operational challenges persist

Putting the large and complex coating machine in Pinghu fully into operation will be the focus especially in the first half of 2019 so that we can make full use of the additional capacity for the Asia/Pacific region.
Global operational processes in the supply chain, fabrication, and manufacturing areas are being more harmonized in detail in order to further enhance effectiveness and efficiency. We will continue to focus our efforts on activities in growth markets.

At the same time we are working on innovative service concepts that will yield new options within the framework of Industry 4.0 as well as on expanding the product portfolio in order to gain access to new market segments. For this purpose, interdisciplinary project teams are working on new technologies for production and fabrication.

INDUSTRY-SPECIFIC INNOVATIONS

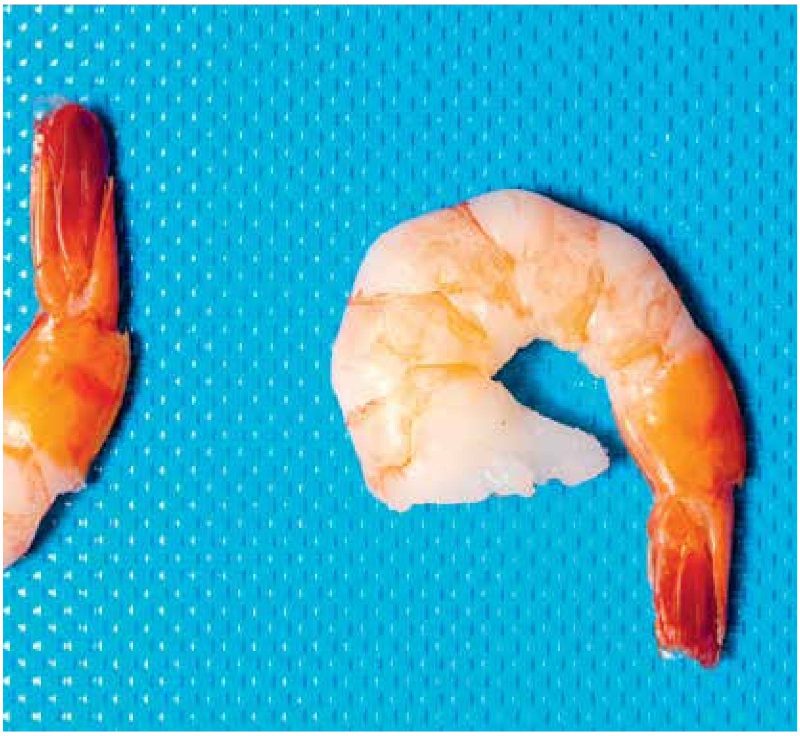
You will find Movement Systems present wherever power is transmitted and automated production and conveyor processes have to run smoothly. Our solutions for different configurations and requirements across a wide range of industries are renowned for innovation, precision, reliability, and cost effectiveness. In the year under review, Movement Systems again demonstrated that it is a professional partner in the development of industry-specific and customized solutions.

To match the variety of foodstuffs that are conveyed on conveyor belts for production, processing and packaging, belt solutions and surface coatings have to be specifically tailored to these individual requirements so as to ensure efficiency, quality, hygiene, and careful transmission of foods. The innovations Movement Systems launched in the year under review combine these advantages across various product lines.

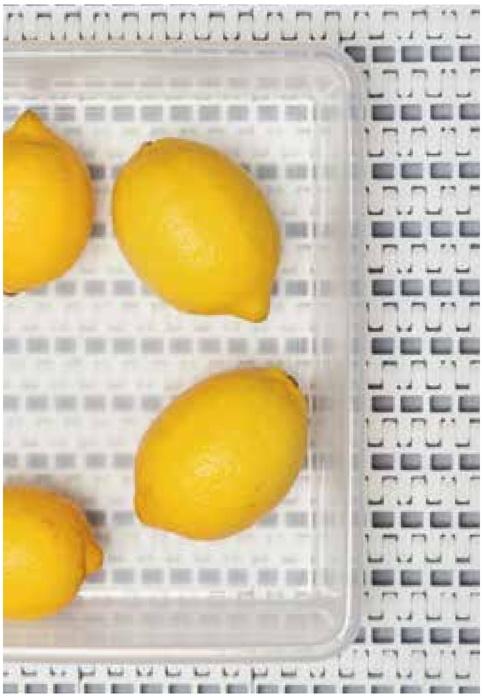
Belts are blue for a reason

We developed two new blue Transilon conveyor belts with the 'Diamond' top-face specifically for the bakery and fish-processing industries. The surface structure increases traction, or grip, for foodstuffs that do not lie flush with the belt surface but also ensures the easy release of softer foods such as dough products, pasta or thinly sliced fish or meats. Since the color blue does not occur in natural foods, blue-colored belts make it easier and quicker to spot contaminants than on the traditional white belts used in the food industry. The second belt is even more closely geared to the needs of the bakery and confectionery industries, for chocolate-coated delicacies. The low-shrinkage belt features good heat conductivity along with firmness in the cooling tunnel that guarantees flawless product quality.

TRANSILON BELT FOR CHOCOLATE COATINGS



TRANSILON BELT FOR FISH-PROCESSING INDUSTRY



PLASTIC MODULAR BELT SERIES 8

TRANSILON-HIGH-TEMPERATURE BELT

We developed two other blue elastic Extremultus flat belts specifically for packaging, measuring, and labelling of foods such as cheese slices, sliced meats, fish fillets, and sushi as well as noodles and pasta. One of the two belts is a little more elastic and versatile in use; it is more resilient against animal fats, oils and aggressive cleaning agents and prevents moisture build-up.

Extended line of plastic modular belts

A new Series 8 line of stable and robust plastic modular belts ensures excellent stability and traction when conveying empty or full plastic containers for processing and packaging of meat, fruit and vegetables, as well as bakery goods. With its rigid modular construction, goods can be conveyed over long distances. The new Series 13 features an enclosed, smooth top-face, making it ideal for the transport of light foods; it is versatile in use for conveying, drying, cooling and packaging of snacks such as croissants, bagels and donuts.

'BELT PROPERTIES ARE DECISIVE'

High-temperature belt for paint drying

A high-temperature and UV-resistant conveyor belt has been developed for the industrial manufacturing segment for use in paint drying on spraying lines. Special abrasion-resistant and easy-to-clean belts have great benefits in the drying tunnel for the automated production processes used in paint drying. These systems ensure that UV paints and lacquers, as employed for instance in furniture or window and door element manufacture, dry quickly.

ORGANIZATION

EXECUTIVE BOARD

Marc Deimling, Stephan Bauer, Urs Uehlinger, Jean-Michel Wins

Stephan Bauer
Chief Executive Officer

Stephan Bauer was born in 1961 and is a German citizen. He took a degree in Engineering and Management at the Munich University of Applied Sciences (FH) and began his professional career at BMW in Munich in 1987 as a project manager for the launch of new vehicle models. From 1991 to 2008 he worked for Siemens VDO Automotive AG (which became Continental Automotive in 2007) in various regional and global management positions in the field of sales and marketing and general management. In 2004 he was appointed CEO of Diesel Systems. From 2008 to 2013 Stephan Bauer was CEO and President Control Products & Systems at the Siemens Building Technologies division, where he was responsible for the entire product spectrum. He joined our company in September 2013 and took over the position of Chief Executive Officer and Chairman of the Executive Board of the Forbo Group as of January 2014.

Urs Uehlinger
Chief Financial Officer

Urs Uehlinger was born in 1966 and is a Swiss citizen. He completed his studies in economics at the University of Zurich with the degree lic. oec. publ. From 1994 to 2001, he worked for ABB Brown Boveri, where he was in audit and finance functions for almost three years before being appointed CFO in two Group companies, one for three years, the other for a year. From 2001 to 2004, he was self-employed as the owner of Uehlinger & Partner, with mandates relating to CFO tasks. From 2004 to 2016, he held various positions at Siemens Building Technologies: for four years he was head of Risk Management, in the three following years CFO of the HVP Heating & Ventilation Products business unit, and then for five years CFO of the CPS Control Products & Systems business unit. Urs Uehlinger joined the Forbo Group in January 2017 and, after an introduction period, took over the function of Chief Financial Officer and was appointed to the Executive Board effective May 2017.

Jean-Michel Wins
Executive Vice President Flooring Systems

Jean-Michel Wins was born in 1967 and is a Belgian as well as German citizen. He studied business administration and languages at the IPET in Nivelles, Belgium, and began his professional career in Germany at Calberson GmbH, where he held various specialist functions. He then moved to Simut Sicherheit GmbH for two years, where he was in charge of sales and marketing. From 1992 to 1996 he was Export Manager at Brabus GmbH and from 1996 to 2002 he held various sales and managerial functions at Hirschmann Electronics. In 2002 he switched to Grammer AG, headquartered in Germany, where he held a number of international sales and senior management positions; in 2009 he was appointed Vice President responsible for the Offroad Seating Business Unit. As a member of the Executive Board, Jean-Michel Wins took over management of the Movement Systems division in January 2013. He was appointed as Head of the Flooring Systems division in January 2018.

Marc Deimling
Executive Vice President Movement Systems

Marc Deimling was born in 1970 and is a German citizen. He holds a degree in economics from the Westphalian Wilhelm University in Münster, Germany, and launched his professional career as assistant to the management of M-Tec Textilmaschinenbau GmbH. In 1999 he moved to Dörries Scharmann Technologie GmbH for six years, where he was head of the Service Division. From 2005 to 2008 he was a member of management at Gehring GmbH, where he was responsible for the areas of distribution, project planning, project management, production, after sales and marketing. He was then Chief Executive Officer at TMS Turnkey Manufacturing Solutions GmbH in Austria until the end of 2017, where he was responsible for finance/controlling, IT, procurement, design, production, quality, after sales and marketing. Marc Deimling was appointed to head the Movement Systems division as a member of the Executive Board in January 2018.

GROUP STRUCTURE

Forbo has performed better than average in the last years compared with other exchange-listed companies. With its two focused divisions, the Group today is a world leader in its markets, free of debt, and in possession of considerable resources for further strategic development. In line with its strategy, Forbo is tasked with maintaining its successful performance of recent years, on the one hand, and – with the means available – of reinforcing and expanding its positions in the global market through strong organic growth and acquisitions, on the other hand.

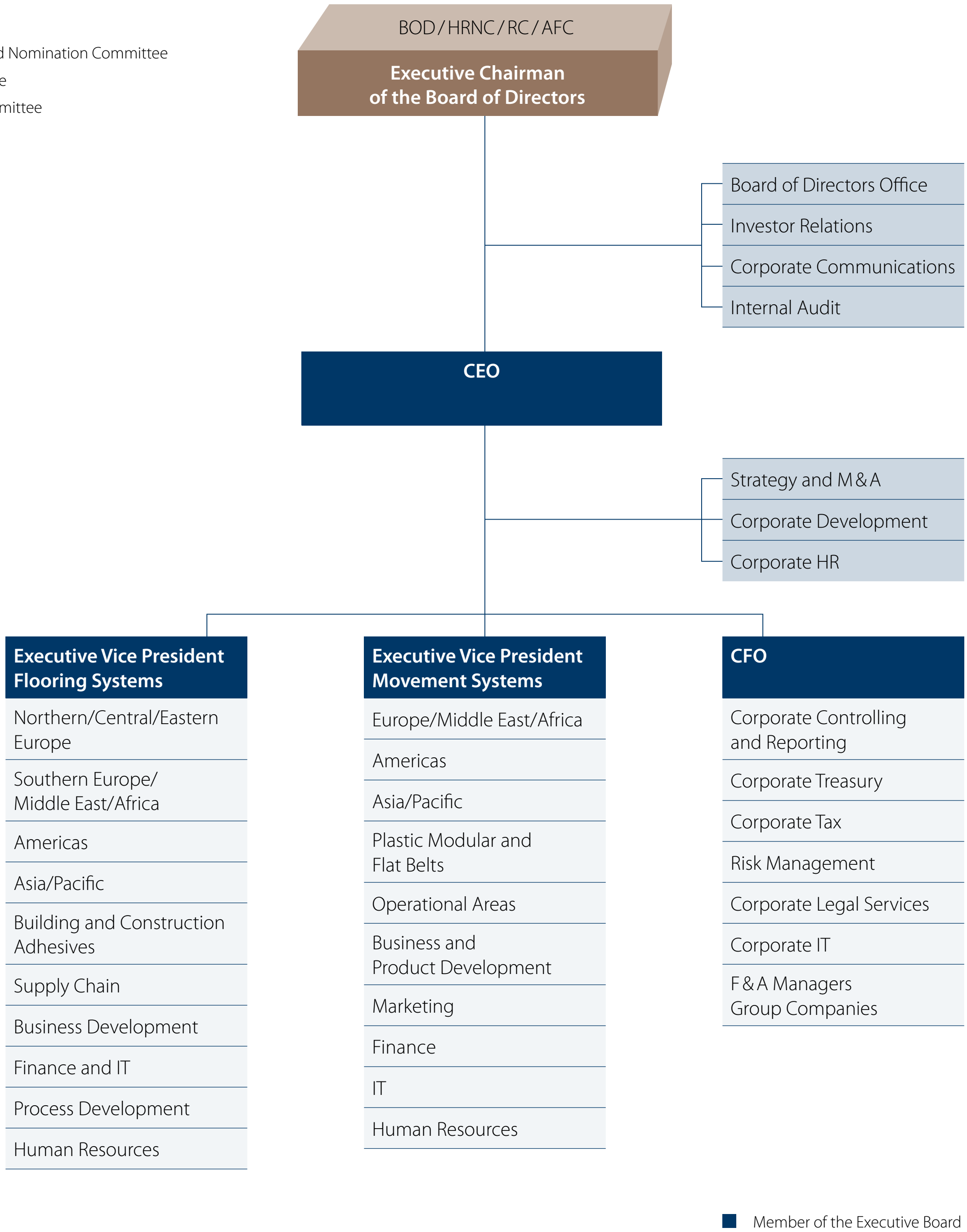
Tasks of the Executive Chairman of the Board of Directors

- Leading the Board of Directors
- Preparing the decisions of the Board of Directors and ensuring they are executed
- Representing and positioning the Group in the public
- Overall management of strategy development and involvement in realizing key strategic projects
- Management of relationships with key accounts and business as well as sector and capital market partners

Tasks of the Chief Executive Officer

- Operational management of the Group
- Leading the Executive Board
- Development and operational implementation of the strategies
- Implementation and monitoring of multi-year planning and budgets
- Supporting the Executive Chairman of the Board of Directors in preparing important projects relating to strategy as well as personnel and finances for discussion and decision-taking by the Board of Directors

BOD Board of Directors
HRNC Human Resources and Nomination Committee
RC Remuneration Committee
AFC Audit and Finance Committee



BOARD OF DIRECTORS

Dr. Reto Müller, Dr. Peter Altorfer, This E. Schneider, Claudia Coninx-Kaczynski, Michael Pieper, Vincent Studer

This E. Schneider
Executive Chairman

Member of the Board of Directors of Rieter Holding AG, Winterthur
Member of the Board of Directors of Autoneum Holding AG, Winterthur

Michael Pieper
Vice Chairman

Owner of the Artemis Holding AG, Hergiswil
Chairman of the Management Board of Artemis Group, Hergiswil
Member of the Board of Directors of various Artemis and Franke subsidiaries worldwide
Member of the Board of Directors of Arbonia AG, Arbon
Member of the Board of Directors of Bergos Berenberg AG, Zurich
Member of the Board of Directors of Rieter Holding AG, Winterthur
Member of the Board of Directors of Autoneum Holding AG, Winterthur
Member of the Board of Directors of Reppisch-Werke AG, Dietikon

Dr. Peter Altorfer
Vice Chairman

Partner at the law firm Wenger & Vieli AG, Zurich
Member of the Board of Directors of agta record ag, Fehraltorf
Member of the Board of Directors of BIH SA, Rapperswil-Jona
Member of the Board of Directors of the private bank Bellerive AG, Zurich
Further mandates with a foreign bank as well as non-listed investment and real-estate companies as well as charitable foundations in Switzerland

Claudia Coninx-Kaczynski
Member

Member of the Board of Directors of Swisscontent AG, Zurich
Member of other Boards of Trustees

Dr. Reto Müller
Member

Partner at BLR & Partners AG, Thalwil
Chairman of the Board of Directors of Utz Holding AG, Bremgarten
Member of other Boards of Directors and Advisory Boards

Vincent Studer
Member

Partner, member of the Board of Directors and of the management of T + R AG, Gümligen/Berne
Member of the Board of Directors of Bank EEK AG, Berne
Member of other Boards of Directors or Boards of Trustees

THE FORBO SHARE

THE FORBO SHARE

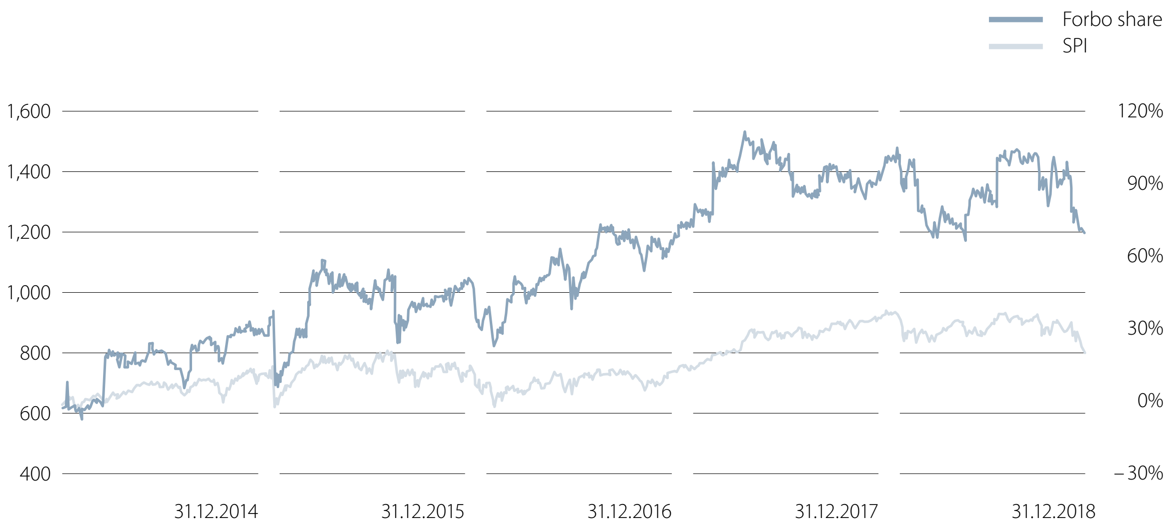
Following one of the longest uptrends in history, the international stock markets were still reaching new highs at the start of 2018, but by February they had run into serious turbulence. For the rest of 2018, the stock markets were subject to political uncertainty, rising interest rates in the USA, new trade tariffs, and a downturn in global economic growth.

Whereas the Swiss Performance Index (SPI) had reached a new all-time high of 11,041 points by January 2018, it had fallen about ten percent below this record by early March. The following months saw the market move up and down with slightly lower volatility. Geopolitical events had a negative impact on market performance especially in the fourth quarter, and December proved to be one of the weakest months ever. The SPI closed out the year at 9,830 points, equating to a performance of – 8.6% for the whole year.

For a number of years now the Forbo share has been steadily performing better-than-average. In 2018, the share tracked the performance of the SPI on the whole. The Forbo share price soared to over the CHF 1,600 mark in January 2018, but was unable to buck the trend of market volatility in the following months. The share price reached its high of CHF 1,620 for the year by mid-August when Forbo announced its half-year results end of July. The Forbo share had clearly outperformed the SPI at this point in time. The share price continued to hover around CHF 1,600 until early October, but then lost considerable ground in the wake of the general downturn on the stock markets in the fourth quarter. The share closed out the year at CHF 1,381. The performance for the year came to – 8.2%, which was slightly better than that of the SPI.

If the trend since the end of 2005 is taken into consideration, the Forbo share has outperformed the SPI by more than five-fold.

The Forbo share in comparison to the SPI



Share capital

		2018 number	2017 number	2016 number	2015 number	2014 number
Issued registered shares[1]		1,800,000	1,800,000	1,800,000	1,990,000	2,150,000
Thereof:						
Shares outstanding		1,601,718	1,704,444	1,709,844	1,708,458	1,888,850
Share buyback programs		150,000	63,105	0	190,000	158,467
Other treasury shares		26,863	11,032	68,737	70,123	81,264
Reserve shares (without dividend rights)		21,419	21,419	21,419	21,419	21,419

Issued nominal capital

		CHF	CHF	CHF	CHF	CHF
Total		180,000	180,000	180,000	199,000	215,000
Thereof:						
Shares outstanding		160,172	170,444	170,984	170,846	188,885
Share buyback programs		15,000	6,311	0	19,000	15,847
Other treasury shares		2,686	1,103	6,874	7,012	8,126
Reserve shares (without dividend rights)		2,142	2,142	2,142	2,142	2,142

Data per share

		CHF	CHF	CHF	CHF	CHF
Group shareholders' equity per share[2]		354	383	364	300	371
Group profit per share (undiluted)[2] [3]		82.4	22.4	74.7	62.1	62.0
Gross dividend and cash distribution		21.00[4]	19.00	19.00	17.00	16.00
Gross dividend yield (in %)	High	1.3[5]	1.1[5]	1.4[5]	1.4[5]	1.5[5]
	Low	1.6[5]	1.4[5]	2.0[5]	2.1[5]	2.2[5]
Payout ratio[6] (in %)		25	85	25	27	26

Stock market statistics

		CHF	CHF	CHF	CHF	CHF
Share price	High	1,620	1,669	1,367	1,255	1,043
	Low	1,302	1,313	960	811	719
	Year-end	1,381	1,505	1,313	1,182	995
Market capitalization (m)[7]	High	2,916	3,004	2,461	2,497	2,242
	Low	2,344	2,383	1,728	1,613	1,545
	Year-end	2,486	2,709	2,363	2,352	2,138

1) Par value per share in 2018, 2017, 2016, 2015 and 2014: CHF 0.10
2) Based on the weighted average of the number of shares as set out in note 11 'Earnings per share' on page 116 of the financial report.
3) See note 11 'Earnings per share' on page 116 of the financial report.
4) Proposal of the Board of Directors to the 2019 Ordinary General Meeting.
5) Calculated on the basis of a cash distribution in the form of a dividend.
6) Gross cash distribution as a percentage of Group profit.
7) Total number of shares multiplied by the corresponding share price.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

At Forbo, the concept of corporate governance encompasses the entire set of principles and rules on organization, conduct, and transparency that are designed to protect the company's long-term interests. Forbo's aim is to strike a careful balance between management and control. The central rules are contained in the Articles of Association, the Organizational Regulations, and the regulations 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') and the relevant publications of SIX Swiss Exchange.

Group structure and shareholders

Group structure

Forbo Holding Ltd, domiciled at Lindenstrasse 8, 6340 Baar, is a limited company under Swiss law. The holding company holds all subsidiaries, directly or indirectly, that belong to the Forbo Group. The operational structure of the Group is shown in the organizational chart on page 51. The scope of consolidation of Forbo Holding Ltd does not include any listed companies. The unlisted companies within the scope of consolidation of Forbo Holding Ltd are listed in the section 'Group companies' starting on page 136 of the financial report. The company name and domicile, share capital, and percentage of participation, along with information relating to the allocation of the Group company to the Group's businesses, can also be found in that section of this Annual Report.

Significant shareholders

As of December 31, 2018, 4,129 shareholders were listed in the share register of Forbo Holding Ltd, or 418 (11%) more than in the previous year. As of December 31, 2018, Forbo Holding Ltd knew of the following significant shareholders with a holding of more than 3%:

	31.12.2018 as a percentage
Michael Pieper[1)]	27.04
Forbo Holding Ltd[2)]	11.02
This E. Schneider	3.03
UBS Fund Management (Switzerland) AG	3 – 5
BlackRock Inc.	3 – 5

1) Michael Pieper holds his interest directly and indirectly through Artemis Beteiligungen I AG.
2) Forbo Holding Ltd holds its interest directly and indirectly through Forbo International SA and Forbo Finanz AG.

Disclosure of significant shareholders and significant shareholder groups and their holdings is effected in accordance with the disclosure notices made in the year under review pursuant to Article 120 of the Financial Market Infrastructure Act (FMIA) and the provisions of the Ordinance of the Swiss Financial Market Supervisory Authority on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FMIO-FINMA).

Below is a summary of the current notified shareholdings published in the year under review:

On April 12, 2018, This E. Schneider reported that he had exceeded the 3% threshold and that he held 54,285 shares, corresponding to 3.02% of the voting rights.

On October 23, 2018, Forbo Holding Ltd reported that it had exceeded the threshold of 10% and that it held 180,692 of its own shares, corresponding to 10.04% of the voting rights, directly or indirectly via Forbo International SA, Baar, Switzerland, and Forbo Finanz AG, Baar, Switzerland.

Full disclosure reports and all further published disclosure notices can be consulted on the publication platform of the disclosure office of the SIX Swiss Exchange (www.six-exchange-regulation.com → Publications → Significant shareholders).

For further information on significant shareholders or shareholder groups, we refer the reader to the table on page 60 and to page 154 of the financial report (duty of disclosure pursuant to Article 663c of the Swiss Code of Obligations (CO)).

Cross-shareholdings
Forbo Holding Ltd has not entered into any cross-shareholdings with mutual capital shareholdings or voting rights.

Capital structure

Share capital
As of December 31, 2018, Forbo Holding Ltd had a fully paid up share capital of CHF 180,000, divided into 1,800,000 listed registered shares, each with a par value of CHF 0.10. Of this amount:

– 65.97% were registered in the name of 4,100 shareholders with voting rights
– 29.46% were shares of banks or of SIX SIS AG pending registration of transfer
– 4.57% were registered in the share register without voting rights

The shares of Forbo Holding Ltd (security number 000354151/ISIN CH0003541510) are listed on SIX Swiss Exchange. No different categories of shares exist. Each share entitles the owner to one vote. Further information on the Forbo share can be found on pages 56 and 57. Further information on the rights of participation associated with the Forbo share can be found on pages 71 and 72 of this Annual Report.

Based on the authorization granted by the Ordinary General Meeting of Forbo Holding Ltd on April 6, 2017, the Board of Directors decided to continue the 2017 – 2020 share buyback program and on June 6, 2018, launched a buyback of a maximum of 116,895 registered shares via a second trading line. The program resulted in the repurchase of a total of 86,895 registered shares by December 31, 2018. Together with the fixed-price share buyback program concluded on November 29, 2017, a total of 150,000 shares have been therefore repurchased under the current 2017 – 2020 buyback program as of December 31, 2018. At the forthcoming Ordinary General Meeting of April 5, 2019, the Board of Directors will propose a capital reduction by cancelation of the registered shares repurchased under this share buyback program.

Conditional and authorized capital

Pursuant to Clause 4 of the Articles of Association, Forbo Holding Ltd has a maximum conditional capital of CHF 16,645, corresponding to 166,450 registered shares to be paid up in full with a par value of CHF 0.10 each. The capital increase takes place in accordance with the Articles of Association through the exercise of option and convertible rights granted in connection with the bonds issued by the company or one of its subsidiaries, or through the exercise of option rights granted to shareholders. Except for shareholder options, shareholders have no right of subscription. Holders of option or convertible rights are entitled to subscribe to new share issues. The registration of new shares is subject to the general restriction set out in Clause 6 of the Articles of Association, which stipulates that shareholders are entered in the share register with voting rights only if they declare expressly that they have acquired the shares in their own name and for their own account.

There is no authorized capital.

Changes in capital

No changes to the capital of Forbo Holding Ltd were made either in the year under review or in the previous year.

The Ordinary General Meeting of Forbo Holding Ltd on April 29, 2016, decided, based on the audit report of a licensed audit expert, to reduce the ordinary share capital of the company by CHF 19,000 from CHF 199,000 to CHF 180,000 by canceling 190,000 shares with a par value of CHF 0.10 each. It was further decided to amend the Articles of Association accordingly. The capital reduction was effected, and the new share capital of CHF 180,000 was entered in the Commercial Register on July 14, 2016.

Participation certificates and non-voting equity securities ('Genussscheine')

Forbo Holding Ltd has issued neither participation certificates nor non-voting equity securities.

Limitations on transferability and nominee registrations

Forbo Holding Ltd does not have any percentage limitations on voting rights. The Board of Directors may only refuse to register shares in the share register if the purchaser of the shares does not expressly declare at the company's request that he/she has acquired the shares in his/her own name and for his/her own account.

Pursuant to Clause 6 of the Articles of Association, nominees may be entered in the share register with voting rights for up to a maximum of 0.3% of the registered share capital entered in the Commercial Register. Over and above this limit, nominees are only entered provided the name, address, and shareholding of those persons are disclosed for whose account the nominee holds a total of 0.3% or more of the registered share capital entered in the Commercial Register.

No statutory privileges exist and there is no restriction on the transferability of the shares of Forbo Holding Ltd.

Convertible bonds and warrants/options

Forbo Holding Ltd has no outstanding convertible bonds nor has it issued any marketable warrants/options. Details on the long-term incentive plan for the Executive Board, introduced in the previous year, under which future subscription rights are outstanding, can be found on pages 85 to 89 as well as on pages 126 and 127 of this Annual Report.

Board of Directors

Members of the Board of Directors
The cut-off date for the following information is December 31, 2018.

With the exception of This E. Schneider, Executive Chairman of the Board of Directors, none of the members of the Board of Directors listed below holds or has held any operational management positions for Forbo Holding Ltd or its Group companies. In the three business years preceding the reporting period, no member of the Board of Directors was a member of the Executive Board of Forbo Holding Ltd and, with the exception of This E. Schneider, no Board of Directors member sat on the Executive Board of any of its subsidiaries. There are no significant business relationships between the members of the Board of Directors and Forbo Holding Ltd or its Group companies.

This E. Schneider, Executive Chairman
This E. Schneider, born in 1952, is a Swiss citizen. He studied economics at the University of St. Gallen (lic. oec. HSG) and at the Graduate School of Business, Stanford University, California, USA. After holding various management functions in Europe and the USA, he joined the Executive Board of Schmidt Agence AG, where he was responsible for strategic planning, operations and logistics from 1984 to 1990. 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 Delegate and Vice President of the Board of Directors of Selecta Group. From March 2004 to December 2013, This E. Schneider was Delegate of the Board of Directors and CEO, and from January to April 2014 Delegate of the Board of Directors of the Forbo Group. He has been the Executive Chairman of the Board of Directors since the Ordinary General Meeting of 2014. This E. Schneider is also a member of the Board of Directors of Rieter Holding AG and Autoneum Holding Ltd.

Michael Pieper, Vice Chairman
Michael Pieper, born in 1946, is a Swiss citizen. He studied economics (lic. oec. HSG) at the University of St. Gallen. He has been with the Artemis Group (formerly the Franke Group) since 1988 and has been its owner and CEO since 1989. Among others, he is a member of the Boards of Directors of Arbonia AG, Bergos Berenberg AG, Rieter Holding AG and Autoneum Holding AG. He was first elected to the Board of Directors of Forbo Holding Ltd in 2000.

Dr. Peter Altorfer, Vice Chairman
Peter Altorfer, born in 1953, is a Swiss citizen. He studied law at the University of Zurich and holds a doctorate in law (Dr. iur.). He attended the PED program at the IMD, Lausanne. Until 1988, he worked at Bank Leu AG. He subsequently joined the law firm Wenger&Vieli in Zurich, where he is now a partner, specializing in bank and company law as well as estate planning. Peter Altorfer sits on the Boards of Directors of several companies, including agta record ag in Fehraltorf, BIH SA in Rapperswil-Jona, and of a private and foreign bank, as well as unlisted investment and real estate companies as well as charitable foundations in Switzerland. He has been a member of the Board of Directors of Forbo Holding Ltd since March 2005.

Claudia Coninx-Kaczynski
Claudia Coninx-Kaczynski, born in 1973, is a Swiss citizen. She took a degree in law at the University of Zurich (lic. iur.) and earned her Master of Law (LL. M.) at the London School of Economics and Political Sciences. From 2006 to 2011, she managed the business of Faerbi Immobilien AG (subsequently Rietpark Immobilien AG) in Zurich as a member of the Board of Directors. Subsequently, until 2014, she implemented various projects for P. A. Media AG and Swisscontent AG in Zurich (M&A among others). Between 2013 and 2016, she was a member of the Board of Directors of Tamedia AG, where in 2017 she was appointed Chairwoman of the Pool of Majority Shareholders. She is a member of the Board of Directors of Swisscontent AG and sits on other Boards of Trustees. She has been a member of the Board of Directors of Forbo Holding Ltd since April 2014.

Dr. Reto Müller
Reto Müller, born in 1951, is a Swiss citizen. He took a first degree in economics and completed his doctorate (Dr. oec. HSG) at the University of St. Gallen. He also completed the Stanford Executive Program and additional training at IMD, INSEAD and the Harvard Business School. He is a founding partner of the Helbling group of companies, for which he worked from 1984 to 2016. From 2000 to 2011, he was the CEO and Chairman of the Board and from 2011 to 2016 the full-time Chairman of the Board of Helbling Holding AG. Between 2002 and 2010, Reto Müller was either a member or Chairman of the Regional Economic Advisory Board (Zurich) of the Swiss National Bank. He was a member of the Council of SWISSMEM between 2008 and 2016. He is partner at BLR& Partners AG as well as Chairman of the Board of Directors of Utz Group and is on other Boards of Directors and Advisory Boards. He has been a member of the Board of Directors of Forbo Holding Ltd since April 2011.

Vincent Studer
Vincent Studer, born in 1962, is a Swiss citizen. He graduated from the University of Applied Sciences, Berne, and trained as a Swiss certified public accountant. In addition, he has completed various national and international training courses. From 1991 to 2008, Vincent Studer worked at Ernst&Young AG as an external auditor and was head auditor responsible for auditing the statements of national and international companies in various industries. In 2001, he was appointed a partner in the area of Auditing. Since 2008, he has been a partner and member of the management and since 2015 a member of the Board of the accountancy and auditing firm T+R AG, Gümligen/Berne, where he heads the Auditing business unit. Vincent Studer is a member of the Board of Directors of Bank EEK AG in Berne. He holds further directorships in other companies and foundations. He has been a member of the Board of Directors of Forbo Holding Ltd since April 2009.

Board of Directors of Forbo Holding Ltd as per December 31, 2018

	First elected at OGM	AFC	HRNC	RC
Executive Chairman				
THIS E. SCHNEIDER	2004	–	–	–
Executive Director				
Vice Chairmen				
MICHAEL PIEPER	2000	–	M	M
Non-executive Director				
DR. PETER ALTORFER	2005	M	C	C
Non-executive Director				
Members				
CLAUDIA CONINX-KACZYNSKI	2014	–	M	M
Non-executive Director				
DR. RETO MÜLLER	2011	M	–	–
Non-executive Director				
VINCENT STUDER	2009	C	–	–
Non-executive Director				
Secretary of the Board of Directors				
NICOLE GRAF				
Non-member				

OGM: Ordinary General Meeting
AFC: Audit and Finance Committee
HRNC: Human Resources and Nomination Committee
RC: Remuneration Committee
C: Chair
M: Member

Statutory regulations governing the number of permissible activities pursuant to Article 12 Paragraph 1 Section 1 OaER

In accordance with Clause 22 of the Articles of Association, members of the Board of Directors may hold no more than five mandates in listed companies and twenty mandates in unlisted legal entities. A mandate is defined as any activity on the senior managerial or supervisory bodies of legal entities that are entered in the Swiss Commercial Register or comparable foreign registers and do not belong to the Forbo Group. Mandates with associated companies outside the Forbo Group are deemed to be a single mandate.

Election and term of office

The members of the Board of Directors are elected in individual votes for a one-year term of office, in accordance with the Ordinance against Excessive Remuneration in Listed Public Companies (OaER). A year is defined as the period between two Ordinary General Meetings. In accordance with the Organizational Regulations of Forbo Holding Ltd, members who have reached the age of 70 resign from the Board of Directors at the Ordinary General Meeting of the following year. The Board may, however, approve exceptions. In determining the composition of the Board of Directors, importance is attached to the election of independent individuals with international experience in industrial companies as well as in the financial and consultancy sectors.

The Articles of Association of Forbo Holding Ltd do not contain any regulations that deviate from the statutory provisions for the appointment of the Chairman, the members of the Remuneration Committee, and the independent proxy.

Internal organizational structure

The allocation of tasks within the Board of Directors and the composition of the Board committees are shown in the table on page 65.

Decisions are as a general rule taken by the full Board of Directors. The Board constitutes three standing committees from its own ranks – the Audit and Finance Committee (AFC), the Human Resources and Nomination Committee (HRNC), and the Remuneration Committee (RC) – to deal with clearly defined subject areas of overriding importance. These three committees have mainly advisory and control functions. The members of the AFC and HRNC are elected by the Board of Directors on an annual basis and can be dismissed at any time. The members of the RC are elected annually by the Ordinary General Meeting.

As a rule, the Executive Chairman of the Board of Directors chairs the meetings of the Board and the General Meeting. He plans and conducts the meetings of the Board and the General Meeting. The meetings of the Board and the relevant items on the agenda are prepared by the Executive Chairman. He monitors the execution of the measures adopted by the Board. He is the direct superior of the CEO, is in regular contact with him, and has an advisory and supervisory function. In addition, the Executive Chairman represents the Board and the Forbo Group vis-à-vis the public, the authorities, and the shareholders. The tasks of the Executive Chairman of the Board and the demarcation of responsibilities from those of the CEO are set out in the section 'Areas of responsibility'.

The Vice Chairmen are tasked with deputizing for the Executive Chairman should the latter be prevented from attending for any reason. In accordance with the Organizational Regulations and actual practice, the Vice Chairmen have no further duties.

The Vice Chairmen are elected by the Board of Directors.

The Board of Directors meets on being convened by the Executive Chairman as often as business requires but at least four times a year. The items on the agenda must be announced at least five working days before the day of the meeting. This notification period may be shortened in urgent cases. In 2018, the Board of Directors met six times, with meetings lasting between half a day and a whole day. Every Board member participated in all meetings.

The Executive Chairman may invite members of the Executive Board or other senior employees to attend Board meetings for individual items. Regular use is made of this option. External consultants may participate in the meetings of the Board of Directors, the AFC, the RC or the HRNC only in exceptional circumstances to deal with particular items. As a rule, however, the meetings are held without external consultants.

Audit and Finance Committee
The AFC advises the Board of Directors in respect of its duties on behalf of the Group in the areas of financial reporting, the accounting standards and systems used, and decisions with significant financial implications. The AFC monitors the activities of the internal auditors and the external auditors. Moreover, it establishes the audit program of the internal auditors and proposes to the Board of Directors the choice of the external auditors for the attention of the General Meeting. The CEO and the CFO are regularly requested to attend meetings in an advisory capacity, while representatives of the internal and external auditors may attend on special invitation.

The AFC convenes as often as business requires, but at least twice a year. In the 2018 business year, two meetings were held, each lasting about half a day. All members of the AFC were present at both meetings. The external auditors were present for some items on the agenda of the AFC's meeting on the financial statements and at the meeting to discuss the scope of the audit and the audit fee. The Ernst&Young representatives responsible for internal audit attended the discussions of the internal audit reports at both meetings.

Human Resources and Nomination Committee
We refer to the explanations in the remuneration report on pages 78 and 79.

Remuneration Committee
We refer to the explanations in the remuneration report on page 79.

Areas of responsibility
The Board of Directors bears ultimate responsibility for the management of Forbo Holding Ltd. The main duties of the Board of Directors are the following non-transferable and inalienable tasks pursuant to the Swiss Code of Obligations and the Articles of Association:

- overall management of the company and issuing of the necessary directives
- definition of the organizational structure
- determination of accounting, financial controlling, and financial planning principles
- appointment and dismissal of persons entrusted with the management of the company
- overall supervision of the persons entrusted with managing the company, particularly with respect to compliance with the law, Articles of Association, regulations, and directives
- preparation of the Annual Report as well as of the General Meeting and implementation of its resolutions
- preparation of the remuneration report
- notification of the court in the event of over-indebtedness

The Board of Directors bears ultimate responsibility for supervising and monitoring the management of the company and is responsible for the corporate strategy. It issues guidelines for business policy and is regularly briefed on the current state of business.

Business to be dealt with by the Board of Directors is regularly submitted in advance to the AFC, HRNC, and RC, ad hoc committees or individual members, depending on the subject, for review or an opinion. With the exception of its non-transferable and inalienable tasks, the Board of Directors may transfer tasks and responsibilities in full or in part to individual members of the Board or to third parties.

The Board of Directors is empowered to take decisions on all matters which are not reserved or transferred to the General Meeting or another body of Forbo by law, the Articles of Association, or regulations.

Tasks of the Executive Chairman of the Board of Directors:

- chairing of the Board of Directors
- preparation and monitoring of the execution of the decisions of the Board of Directors
- representation and positioning of the Group in the public
- overall management of strategy development and involvement in realizing key strategic projects
- management of relationships with key accounts and with business, sector and capital market partners

Tasks of the Chief Executive Officer:

- operational management of the Group
- chairing of the Executive Board
- development and operational implementation of strategies
- implementation and monitoring of multi-year planning and budgets
- supporting of the Executive Chairman of the Board of Directors in preparing important projects relating to strategy, personnel, and finances for discussion and decision-taking by the Board of Directors

The CEO reports to the Executive Chairman of the Board of Directors and as a rule participates in all Board meetings dealing with topics that are relevant for the exercise of his function. He is not a member of the Board of Directors, though. All business management tasks that are not allocated to the Board of Directors or the Executive Chairman of the Board and that do not require the approval of the Board of Directors are delegated to the CEO and are carried out by him on his own responsibility. The CEO is responsible for ensuring compliance with the provisions of the law, the Articles of Association, and regulations throughout the Forbo Group.

In carrying out his tasks, the CEO is supported by the members of the Executive Board, who report to him. The Executive Board comprises the CEO, CFO, and the Executive Vice Presidents of the two divisions; it is responsible for the long-term success and market-driven management of the Forbo Group.

The members of the Executive Board are responsible for their particular area of activity and also bear joint responsibility for safeguarding the interests of the Group and achieving the financial Group result.

Information and control instruments vis-à-vis the Executive Board

At the meetings of the Board of Directors, any member may request information about any matter concerning the Forbo Group. Outside the meetings, such requests for information are to be addressed to the Executive Chairman. The CEO and the other members of the Executive Board inform the Board of Directors at each regular meeting about the current state of business, important business events, and significant deviations from the budget.

The Chairmen of the AFC, the HRNC, and the RC report at the Board of Directors meetings on the activities of their committees and express the opinions and recommendations of the AFC, HRNC or RC on the business items on which decisions are to be taken. Each member of the Board of Directors has the right to inspect the minutes of the AFC, HRNC, and RC meetings. The Executive Board reports to the AFC through the CFO in consultation with the CEO; it reports to the HRNC and RC through the CEO.

The Board is also regularly briefed outside meetings about events and challenges the Group is facing and the general performance of the divisions. In addition, the Executive Chairman and the two Vice Chairmen are in regular contact when essential policy issues are involved. For important, particularly urgent events, the CEO informs the Executive Chairman of the Board of Directors immediately.

The Executive Board meets as often as business requires, normally once a month. In the 2018 business year, eleven meetings were held, with the meetings usually lasting half a day.

The CEO chairs the meetings of the Executive Board. For details concerning the participation of members of the Executive Board in meetings of the Board of Directors and its committees, refer to the sections on internal organization and on the AFC, HRNC, and RC on pages 66 and 67, as well as 78 and 79.

The Board of Directors fulfils its supervisory and monitoring obligations also by means of financial reporting and its role in the planning cycle. The internal and external auditors may assist the Board in this task. However, neither the external auditors nor the internal auditors were invited to any meetings of the Board of Directors in 2018 as there were no special incidents or topics for discussion.

As part of financial reporting, the Board of Directors is informed as a rule once a month in writing about the company's current business performance and earnings situation by means of annotated income statements, key ratios, and deviation analyses.

The Board of Directors is, moreover, involved in the company's planning cycle. As a rule, the existing strategy is subjected to a thorough review by the Board of Directors in the first half of the year. The revised strategy is quantified in the three-year medium-term plan, which is normally approved at mid-year by the Board of Directors. Based on the medium-term plan, the Board of Directors sets the budget objectives for the coming business year. These budget objectives form the basis of the detailed budget, which is discussed and adopted by the Board of Directors in the fourth quarter.

The current business year is assessed in a first estimate always at the end of May and a second estimate in mid-October. On completion of the business year, the extent to which the budget has been met is checked and deviations are analyzed. This analysis is used to derive appropriate measures, which are then implemented in the next planning cycle.

Internal audit is effected by Ernst & Young, which has been commissioned for this purpose. Internal audit is administratively subordinated to the Executive Chairman of the Board of Directors, is functionally independent, and reports directly to the AFC.

The audits are conducted in accordance with an annual plan approved by the AFC. A distinction is made between ordinary and special engagement audits. The latter consist of limited reviews, follow-up reviews, compliance audits, and other special engagements. Where necessary, the risks and weaknesses identified in these audits are minimized or eliminated by measures adopted by management and are constantly monitored.

In 2018, nine Group companies were audited by Ernst & Young on the occasion of six internal audits. The internal audits included, among others, the audit of control points defined in the framework of the internal control system (ICS) as well as various compliance reviews related to the audited business processes. Lastly, additional risks and controls in connection with the audited business processes were analyzed. At least four companies in each division were audited in the course of the internal audits.

By means of self-assessments and management controls by division management, the implementation and reliability of the controls introduced with the ICS were examined to ensure that deviations were identified and that appropriate corrective measures were implemented.

Risk management

The ongoing and systematic evaluation of current and future risks invariably involves identifying and capitalizing on opportunities. Forbo regards risk management as a managerial and working tool designed, among other things, to safeguard the tangible and intangible assets of the company.

Forbo has a risk-based insurance coverage in line with industry practice and has appropriately insured in particular operational risks such as property damage, business interruption and liability. The risks specifically in the areas of property damage and business interruption are examined in the context of periodic risk engineering reports by external experts. For this purpose, production companies are visited at regular intervals, and comprehensive surveys are worked through with local management. Action plans are drawn up and implemented based on the risks identified. These risk engineering audits have been prepared since 1990.

As regards business risks, Forbo addresses strategic risks as well as market and financial risks. In the area of market risks, interest and currency risks are centrally monitored and hedged in certain cases. The liquidity and financing of subsidiaries are also monitored centrally. For more information on this subject, refer to pages 131 to 134 of the financial report.

With regard to the risk management process, refer to the relevant explanations on pages 131 to 134 (note 25 'Risk assessment and financial risk management') of the financial report.

Executive Board

Members of the Executive Board, other activities, and vested interests
The members of the Executive Board, their nationality, function, training, and professional career, as well as other activities and vested interests, are set out on page 49 of this Annual Report.

Statutory regulations governing the number of permissible activities pursuant to Article 12 Paragraph 1 Section 1 OaER
In accordance with Clause 22 of the Articles of Association, members of the Executive Board may hold no more than two mandates in listed companies and seven mandates in unlisted legal entities. The acceptance of mandates by members of the Executive Board is subject to prior approval by the Board of Directors. A mandate is defined as any activity on the senior managerial or supervisory bodies of legal entities that are entered in the Swiss Commercial Register or comparable foreign registers and do not belong to the Forbo Group. Mandates with associated companies outside the Forbo Group are deemed to be a single mandate.

Changes on the Executive Board
Marc Deimling took over management of the Movement Systems division effective January 1, 2018. Jean-Michel Wins, former head of the Movement Systems division, has been heading the Flooring Systems division since the beginning of the year under review.

Management contracts
Forbo Holding Ltd has concluded no management contracts with third parties.

Compensation, shareholdings, and loans

For information on this subject, refer to the remuneration report from page 77.

Shareholders' participation rights

Voting right restriction and representation
The registration of shares with voting rights in the share register requires the consent of the Board of Directors. Such consent may be withheld if the purchaser does not expressly declare that he/she has acquired and is holding the shares in his/her own name and for his/her own account. Pursuant to the Articles of Association, nominees may be entered in the share register with voting rights for up to a maximum of 0.3% of the registered share capital entered in the Commercial Register. The restriction also applies to shares that are subscribed or acquired through the exercise of a subscription, option or convertible right. Resolutions on the amendment or abrogation of the clause on the registration of registered shares require a majority of two-thirds of the votes represented at the General Meeting and the absolute majority of the par value of the shares represented.

Deviating from Article 689 Paragraph 2 Swiss Code of Obligations, shareholders who are unable to attend the General Meeting in person may not be represented by any third party of their choosing. They may only be represented by the legal representative, the independent proxy, or another shareholder who is registered in the share register.

Electronic participation in the General Meeting
Clause 12 of the Articles of Association defines the rules for electronic issuing of instructions to the independent proxy; the precise modalities for this are defined by the Board of Directors. In accordance with Clause 14 of the Articles of Association, voting and elections at the General Meeting are in principle conducted electronically, unless the General Meeting decides that the ballot should be in writing or by a show of hands or the Chairman orders such a ballot procedure.

Statutory quorums
The Articles of Association of Forbo Holding Ltd do not provide for quorums that are larger than those stipulated by law for decisions of the General Meeting.

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

Agenda
Shareholders who represent at least 1% of the share capital may request that an item be placed on the agenda. This request must be communicated to the Board of Directors in writing, indicating the proposals, at least 45 days before the date of the General Meeting.

Entry in the share register
In accordance with Clause 12 of the Articles of Association, the Board of Directors, in its invitation to the General Meeting, announces the cut-off date for entries in the share register authorizing shareholder participation and voting.

Changes in control and defense measures

Duty to make an offer
The Articles of Association of Forbo Holding Ltd do not contain an 'opting-up' clause or an 'opting-out' clause pursuant to Articles 135 and 125 of the Financial Market Infrastructure Act.

Clause on changes of control
As per year-end 2018, no clauses on changes of control existed in agreements or plans involving members of the Board of Directors, the Executive Board or other members of management.

Auditors

Duration of the mandate and term of office of the Auditor in Charge
KPMG has been the Forbo Group's auditors since 2015. The auditors are elected every year by the Ordinary General Meeting on a proposal by the Board of Directors. Rolf Hauenstein has been the Auditor in Charge since April 24, 2015.

Auditing fees
The auditing fees levied by the Group's auditors for auditing the consolidated financial statements, including the statutory audit of the individual financial statements of the holding company and the consolidated subsidiaries, amounted to CHF 0.9 million in the year under review.

Additional fees
The additional consultancy fees that were invoiced by the auditing company amounted to CHF 0.1 million in 2018. These fees were charged mainly for the provision of tax advice and general advisory services.

Information instruments of the external auditors
Where required, the external auditors prepare for the Executive Chairman of the Board of Directors, the CEO, and the CFO an annual management letter reporting on their work and the results of their audit at Group level in the year under review. The key points are submitted to the Board of Directors in the form of a comprehensive report. The external auditors also prepare management letters on the subsidiaries they have audited. The AFC assesses and evaluates the proposals and statements thus received and appraises the corrective measures taken by management. At the AFC's invitation, representatives of the external auditors attend the AFC meetings in an advisory capacity. The Chairman of the AFC reports on the activities of the AFC and its assessment of the external auditors at the meetings of the Board of Directors. Any member of the Board of Directors may inspect the minutes of the AFC meetings.

At its meetings, the AFC assesses the performance and fees of the external auditors as well as their independence in both their auditing and their non-auditing capacities. This evaluation is based on the documents prepared by the external auditors and the discussions held with the external auditors in the meetings. It also draws on the evaluation of the CFO, who, if required, obtains the opinion of local management with regard to the audit work for the subsidiaries. The criteria for the evaluation of the external auditors include, in particular, their technical and operational competency, their independence and objectivity, punctual delivery of audit reports, the scope and focus of the audits, and the ability to provide effective and practical recommendations. The assessment by the AFC forms the basis of the proposal made by the Board of Directors to the Ordinary General Meeting regarding the choice of the external auditors.

Information policy

Transparency for investors
Forbo provides objective and periodic communication to its shareholders, the capital market, the media, and the public by reporting in a timely fashion on business trends and activities relevant to the company. The Executive Chairman of the Board of Directors can be contacted directly for such information.

Shareholders receive summary reports on the business year as well as half-year reports. The Annual Report, like all other published documents, is available in printed form as well as online at www.forbo.com. The General Meeting is an additional source of information. Periodic publication of media releases, the annual media and analysts' conference, and road shows are further information tools for the media and the capital market.

Ad hoc communication

Registration for the automated dissemination of ad hoc releases in accordance with the guideline on ad hoc publicity of the SIX Swiss Exchange is available at the following addresses:

www.forbo.com → Media → Media releases 'subscription service'

Notification to shareholders takes place through publication in the company's official publication provided no other form of information is stipulated by law. Written notification to shareholders takes place through a simple letter to the addresses listed in the share register.

A financial calendar with the key dates can be found on page 12 of this Annual Report. Further information on the Forbo share is printed on pages 56 and 57 of this Annual Report.

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REMUNERATION REPORT

REMUNERATION REPORT

Introduction

The report meets the provisions of the Ordinance against Excessive Remuneration in Listed Public Companies (OaER), which came into effect on January 1, 2014, and consequently fulfils the requirements of the Swiss Code of Obligations.

Once a year, in a separate and binding ballot, the Ordinary General Meeting approves the maximum sum for the total remuneration to be paid to the Board of Directors for the business year following the Ordinary General Meeting. In addition, a vote is taken on the maximum total amount of fixed remuneration to be paid to the Executive Board for the business year following the Ordinary General Meeting, the amount of short-term variable remuneration (bonus/short-term incentive) to be paid to the Executive Board for the business year preceding the Ordinary General Meeting, as well as the maximum total amount of the long-term participation (long-term incentive) for the Executive Board for the year of the respective Ordinary General Meeting.

The variable remuneration model for the Executive Board with the short-term incentive was supplemented by a long-term participation (long-term incentive) component, effective as of January 1, 2017. This long-term incentive consists of a performance share unit plan. Its aim is to link a significant portion of the Executive Board's remuneration even more closely with the company's long-term success and to make it more responsive to shareholders' interests. Details on the long-term incentive can be found in the chapter 'Elements of remuneration of the Executive Board' on pages 84 to 86. An amendment to the Articles of Association concerning this matter was approved by a large majority at the Ordinary General Meeting on April 6, 2017.

Owing to this change in the remuneration system effective since 2017, shareholders will vote individually at the 2019 Ordinary General Meeting on the following four remuneration payments:

- Maximum total remuneration for the Board of Directors for 2020
- Maximum fixed remuneration for the Executive Board for 2020
- Short-term variable remuneration of the Executive Board for 2018 (bonus/short-term incentive)
- Maximum total amount of the long-term participation for the Executive Board for 2019 (long-term incentive plan 2019 – 2021)

The total remuneration was approved by a large majority in a consultative vote on the 2017 remuneration report at the Ordinary General Meeting of April 6, 2018 (agenda item 4.1). Participants in the 2019 Ordinary General Meeting will also be invited to vote in a consultative ballot on the entire 2018 remuneration report.

Content and methodology for determining the remuneration

The Human Resources and Nomination Committee (HRNC): task and function
The Human Resources and Nomination Committee (HRNC) advises the Board of Directors in exercising its responsibilities for the Group in matters relating to human resources and nominations both for the Board of Directors and the most senior level of management. More specifically, the HRNC formulates personnel policy proposals for appointments to the Board of Directors and to the posts of Chairman, CEO, and other Executive Board members for submission to the Board of Directors. Furthermore, it assesses and approves the proposals of the Executive Chairman of the Board and the CEO regarding Executive Board appointments and employment contracts. It also approves the acceptance of mandates by members of the Executive Board in companies that are not part of the Forbo Group.

The Human Resources and Nomination Committee meets as often as business requires, but at least twice a year. In the 2018 business year, the HRNC held three meetings, each lasting a couple of hours.

The Human Resources and Nomination Committee consists of at least two members of the Board of Directors. The Ordinary General Meeting of April 6, 2018, elected Dr. Peter Altorfer (Chair), Claudia Coninx-Kaczynski and Michael Pieper to the HRNC for the 2018 business year.

The Remuneration Committee (RC): task and function
The Remuneration Committee supports the Board of Directors in defining the principles of remuneration policy and in determining the remuneration paid to members of the Board of Directors and the Executive Board out of the total sum of remuneration as approved by the Ordinary General Meeting. It supports the Board of Directors in drawing up participation programs and in all other tasks related to remuneration. The Remuneration Committee formulates appropriate recommendations for submission to the Board of Directors. The Board of Directors may delegate further duties and powers to the Remuneration Committee. The Executive Chairman of the Board of Directors is regularly invited to its meetings in an advisory capacity, as is the CEO in certain circumstances. Agenda items and matters directly affecting the function or the person of the Executive Chairman of the Board of Directors or the CEO are deliberated in their absence.

The Remuneration Committee meets as often as business requires, but at least twice a year. In the 2018 business year, the Remuneration Committee held three meetings, each lasting a couple of hours.

The Remuneration Committee consists of at least two members of the Board of Directors. The Ordinary General Meeting of April 6, 2018, elected Dr. Peter Altorfer (Chair), Claudia Coninx-Kaczynski and Michael Pieper to the Remuneration Committee for the 2018 business year. The members of the Remuneration Committee are independent (non-executive) members of the Board of Directors, i.e. they have never belonged to the management of Forbo and have no, or only negligible, business relations with the company, though they may be shareholders.

Decision-making process of the Remuneration Committee
The maximum amount of the total remuneration paid to the Board of Directors and the maximum fixed remuneration paid to the Executive Board are usually determined by the Remuneration Committee once a year in the spring for the following business year and are submitted to the Board of Directors for acceptance at its March meeting. The amount of the short-term variable remuneration (bonus/short-term incentive) and the definition and objectives of the long-term participation (long-term incentive) for the Executive Board are determined by the Remuneration Committee once a year in November for the following year.

	Proposal	Acceptance	Approval
Remuneration budget			
Maximum total remuneration of the Board of Directors	RC	BoD	Ordinary General Meeting for the following business year
Maximum fixed remuneration of the Executive Board	RC	BoD	Ordinary General Meeting for the following business year
Short-term variable remuneration of the Executive Board (bonus/short-term incentive)	RC	BoD	Ordinary General Meeting for the preceding business year
Maximum total amount of the long-term participation for the Executive Board for 2017 (long-term incentive)	RC	BoD	Ordinary General Meeting for the current business year
Performance targets			
Performance targets – Executive Board regarding short-term variable remuneration (bonus/short-term incentive)	RC	BoD	
Performance targets – Executive Board regarding long-term participation (long-term incentive)	RC	BoD	
Performance targets – CEO	RC	BoD	

Important changes in 2018

In the business year 2018, no important changes to the remuneration system were made either for the Board of Directors or for the Executive Board.

Principles of remuneration for the Board of Directors and the Executive Board

Forbo's remuneration strategy is geared to long-term and sustainable corporate development. The aim is to remunerate employees appropriately for their achievements, commitment, and performance, and thereby encourage their long-term loyalty to the company. The purpose of paying part of the remuneration in the form of shares is to link the interests of the managers to those of the shareholders. The portion of the remuneration paid in shares is derived from a fixed remuneration amount.

The members of the Board of Directors receive a fixed remuneration, the amount of which is determined based on whether the member is Board Chairman, a simple Board member or also a member of one of the Board committees. The remuneration is paid out to members of the Board of Directors partly in the form of locked-up shares in Forbo Holding Ltd.

The members of the Executive Board receive a fixed and a variable remuneration. The fixed remuneration is paid mainly in cash but may also include shares of Forbo Holding Ltd. The portion paid in shares is derived from a fixed remuneration amount. The variable remuneration consists of a short-term remuneration (bonus/short-term incentive) and a long-term participation (long-term incentive).

The bonus/short-term incentive is a short-term, performance-related remuneration, at least 50% of which must be taken in the form of locked-up shares of Forbo Holding Ltd (see the description of the management investment plan (MIP) on pages 84 and 85 of this Remuneration Report). The portion paid in shares is derived from a fixed remuneration amount. The bonus is derived from the achievement of individual (qualitative) targets by each Executive Board member and of financial (quantitative) targets by the company. Depending on the function and responsibilities of the Executive Board member in question, these financial targets may be derived from Group and/or divisional objectives. It may not exceed 200% of the fixed remuneration of the individual Executive Board member.

The long-term incentive is a long-term participation plan consisting of a performance share unit plan. At the start of the performance period, each member of the Executive Board is granted a given number of future subscription rights in the form of performance share units (PSUs). One PSU corresponds to a future subscription right to one share. The size of the PSU allocation corresponds to a defined percentage of the fixed remuneration. The PSUs are subject to a three-year vesting period. They are converted into vested shares only on condition that the Group's performance objectives are achieved. At the end of the performance period, the company will determine whether the objectives set by the Board of Directors at the start of the performance period for the performance indicators have been reached. Depending on the degree to which the objectives have been reached, a given percentage of the PSUs will be converted into shares, which are subject to a three-year vesting period.

The relevant statutory provisions governing the principles of performance-related remuneration, the distribution of shares, and the additional sum for remuneration of new members of the Executive Board who are appointed after the Ordinary General Meeting are set out in Chapter IV, pages 9 and 10 of the Articles of Association of Forbo Holding Ltd. These can be found at:
www.forbo.com → Investors → Ordinary General Meeting

Determining the remuneration of the Board of Directors

In order to determine the remuneration of the Board of Directors, the compensation paid to Board members of Forbo Holding Ltd is compared periodically with that paid to Board members of comparable industrial companies based on information that is available from publicly accessible sources and from respected market data providers or is known to Board members from their experience of office in similar companies. Industrial companies are regarded as comparable if they are similar to Forbo in terms of sector, structure, size (sales and number of employees), geographic presence, profitability, market capitalization, and complexity. As a general rule, no external consultants are co-opted for determining the remuneration.

The relevant statutory provisions governing the principles of performance-driven remuneration and the distribution of shares are set out in Chapter IV, pages 9 and 10 of the Articles of Association of Forbo Holding Ltd. These can be found at:
www.forbo.com → Investors → Ordinary General Meeting

Elements of remuneration for the Board of Directors

Non-executive members of the Board of Directors
The non-executive members of the Board of Directors receive a fixed remuneration, the amount of which is determined based on whether the member is Board Chairman, a simple Board member, or also a member of the Audit and Finance Committee (AFC), the Remuneration Committee (RC) or the Human Resources and Nomination Committee (HRNC). Of the remuneration, 40% is paid to the Board of Directors in shares of Forbo Holding Ltd. The portion paid in shares is derived from a fixed remuneration amount. These shares have a lock-up period of three years. The number of shares issued is determined on the basis of the average price in the ten stock market days after distribution of a dividend or repayment of par value. If no dividend is distributed or no par value repayment made, the average price during the first ten stock market days starting on June 1 of the relevant business year applies. The settlement or payment of the shares usually takes place in November.

For the purpose of reporting the remuneration, the shares issued are valued at fair value on the date of allocation. The total compensation for the non-executive members of the Board of Directors also includes a lump sum for expenses plus employer contributions to the usual social insurances.

The non-executive Board members do not participate in the management investment plan (MIP).

Executive Chairman of the Board of Directors
The compensation for the Executive Chairman of the Board of Directors is disclosed separately and included under total remuneration to the Board of Directors.

The remuneration is mainly paid in locked-up shares, which have a lock-up period of three years. The annual cash payment for the year under review of CHF 310,000 (previous year: CHF 310,000) is used largely for employee contributions to the pension fund and social security (AHV and IV) and for other levies. The underlying share price used to calculate the number of shares is the weighted average price of the first ten days on which Forbo Holding Ltd shares were traded on the stock market in 2018, less the reduced value as a result of locking-up the shares (tax value 2018: CHF 1,313.08 per share; previous year: CHF 1,137.27 per share). The share package corresponds to annual compensation at fair value (excluding the reduction for the lock-up period) of CHF 2,262,960 (1,447 shares); previous year: CHF 2,263,404 (1,671 shares).

With this share package and this cash remuneration, all compensations such as bonuses, inflation, salary adjustments, options, etc. are settled. This share package may not be either pledged or assigned and can be sold in three years at the earliest. This compensation model is thus also geared to long-term and sustainable corporate development and is fully consistent with the interests of the company and its shareholders.

The total compensation for the Executive Chairman of the Board of Directors came to CHF 2,999,902 for the year under review (previous year: CHF 2,943,326). Contained in this amount and reported in the column 'Other payments' are employer contributions to the pension fund, other usual social insurances, private use of the company car, contributions for accident and health insurance, and location expenses. The Executive Chairman of the Board of Directors is not a party to the management investment plan (MIP) or the share-based compensation program of the Board of Directors.

Remuneration paid
For the remuneration paid to the Board of Directors in the year under review and the details concerning valuation of the shares, the reader is referred to pages 87 to 89 of this remuneration report.

Determining the remuneration of the Executive Board

Basic principles
In order to determine the remuneration of the Executive Board, criteria such as function, responsibility and experience are taken into account and the remuneration paid to Forbo Executive Board members is compared with that paid to Executive Board members in comparable industrial companies. This is based on information that is available from publicly accessible sources and from respected market data providers or is known to the members of the Remuneration Committee from their experience of office in similar companies. Industrial companies are regarded as comparable if they are similar to Forbo in terms of sector, structure, size (sales and number of employees), geographic presence, profitability, market capitalization, and complexity. As a general rule, no external consultants are co-opted for determining the remuneration.

Alignment of performance-based remuneration with the corporate strategy
The remuneration strategy of Forbo is geared to its current corporate strategy and linked to the relevant key ratios. This is reflected in the choice of performance criteria that are derived from Group and/or divisional objectives depending on the function of the individual Executive Board member; these include net sales, organic growth, EBIT, net working capital, return on net assets, and growth in earnings per share. The criteria for determining the remuneration paid to Executive Board members are thus transparent.

The Board of Directors is closely involved in the company's planning cycle. As a rule, the current corporate strategy is subjected to an in-depth review by the Board in the first half of the year. Once it has been confirmed or revised, the strategy is quantified in the three-year medium-term plan, which is approved at mid-year by the Board of Directors. Based on the medium-term plan, the Board of Directors sets the budget objectives for the coming business year. These budget objectives are the basis for the detailed budget, which is examined and adopted by the Board of Directors in the fourth quarter.

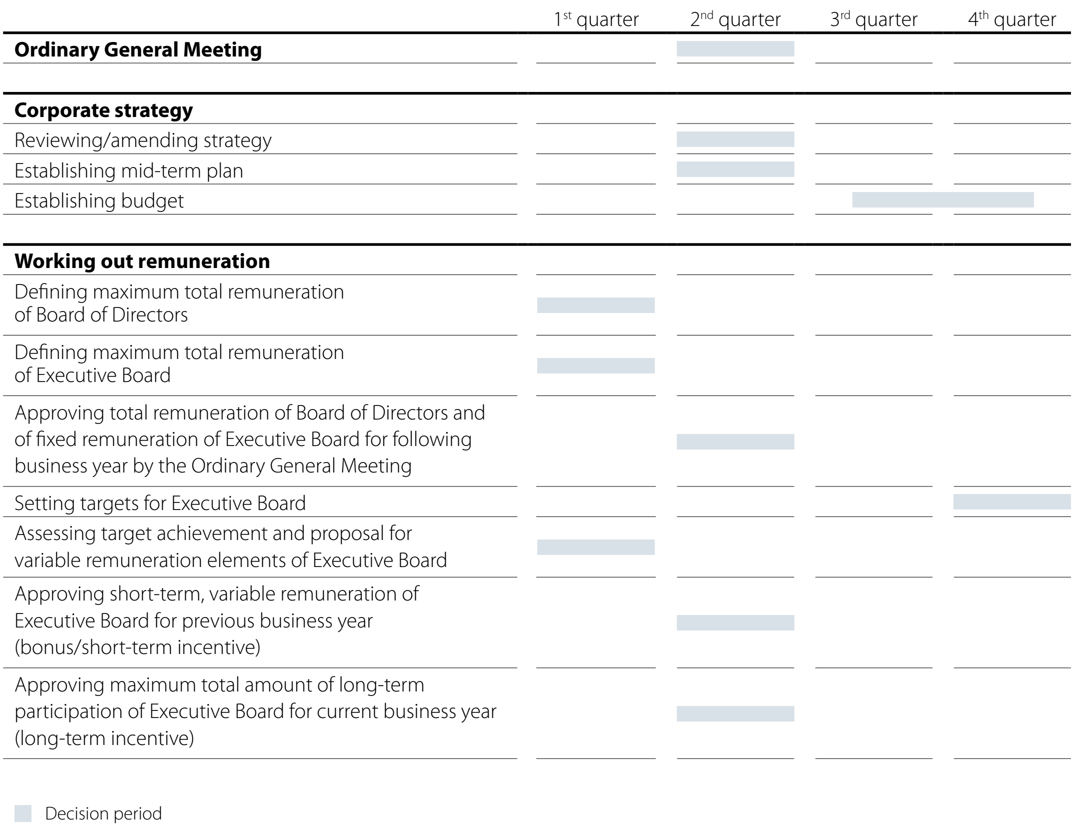
The Board of Directors assesses the current business year by means of an initial estimate at the end of May and a second estimate in mid-October. On completion of the business year, the extent to which the budget has been reached is checked and deviations are analyzed. The actual amount of the variable remuneration paid out to the Executive Board is determined on the basis of the achievement of these individual targets. The Board of Directors defines the relation between budget target achievement and payment ratio.

The short-term, variable remuneration (bonus/short-term incentive) for the previous year is paid out on completion of the business year and after approval by the shareholders. In the case of the long-term participation (long-term incentive), the performance share units are allocated after approval by the Ordinary General Meeting; any entitlement arising therefrom is determined in March on completion of the three-year performance period and converted into vested shares.

The contributing factors/performance criteria determining the amount of the payout/share allocation of the variable remuneration components are linked directly to the company's success.

The chart below provides a detailed breakdown of the timeline and the interdependence of the corporate targets and the remuneration.

Planning cycle



Elements of remuneration of the Executive Board

Remuneration of the members of the Executive Board consists of a fixed base salary and two variable compensation components, the bonus/short-term incentive and the long-term incentive.

Fixed remuneration
The fixed base remuneration paid to the Executive Board in the reporting year consists of the gross base salary, private company car use, and social security payments made by the company. The Remuneration Committee may also decide that part of the remuneration will be paid in the form of shares in Forbo Holding Ltd (lock-up period of five years).

Short-term variable remuneration (bonus/short-term incentive)
The bonus/short-term incentive is derived from qualitative (individual) and quantitative (financial) targets, which are defined in accordance with the operational responsibility of the Executive Board member in question. The Board of Directors defines and weights the individual and financial targets.

The qualitative targets are geared to the company's long-term sustainable development and may account for 10% of the bonus/short-term incentive. The remaining 90% depend on the achievement of the financial (quantitative) targets. The main targets for members of the Executive Board are: net sales of the Group and/or a division (25 to 40% of the variable remuneration), EBIT of the Group and/or a division (50 to 55% of the variable remuneration), and net working capital of the Group and/or a division (5 to 10% of the variable remuneration).

The defined objectives of the short-term variable remuneration are equivalent to 100% target achievement. The maximum target achievement is 150%. If a given threshold for a particular target is not reached, no bonus for that target is paid. Depending on the function, the variable remuneration may be as much as 140% of the fixed remuneration if targets are fully met. If the targets are exceeded, the variable remuneration may be as much as 200% of the fixed remuneration.

The amount of the short-term variable remuneration, which is based on achievement of the individual and Group targets, is set in March after completion of the business year and is submitted to shareholders for approval at the Ordinary General Meeting.

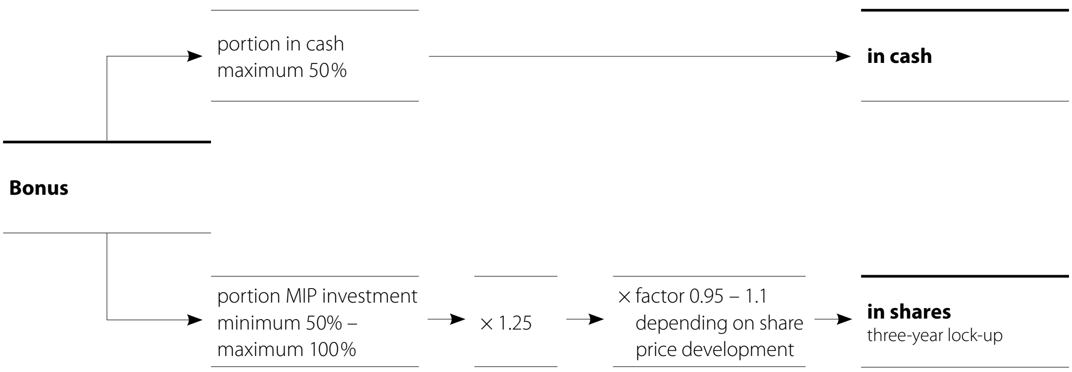
Conversion of remuneration into shares in the management investment plan (MIP)
The bonus payment from the bonus/short-term incentive is linked to the management investment plan (MIP), which was introduced in 2006 and amended in 2012. According to this plan, at least 50% of the annual short-term variable remuneration of Executive Board members must be paid into the MIP. The portion paid in shares is derived from a fixed remuneration amount.

As for the remaining 50% of the annual short-term variable remuneration, the Executive Board members may either draw all or part of it in cash or pay it into the MIP. The Executive Board members may redefine the allocation of this remaining 50% every year. The portion paid in shares is derived from a fixed remuneration amount.

Following the amendment of the MIP, all the sums paid into it will be invested solely in shares of Forbo Holding Ltd as of January 1, 2013. As a first step, the amount invested in the MIP will be increased by 25%, partly in order to take account of the three-year lock-up period. In addition, this amount will be multiplied by a factor that tracks the share price movement. This factor is calculated as follows:

$((SPA - SPP)/SPP) + 1$, where 'SPA' stands for the share price applicable for the allocation of shares in the year of allocation and 'SPP' for the applicable share price in the previous year. The upper limit for this factor is 1.1 and the lower limit is 0.95.

The relevant share price for the allocation of shares is calculated based on the unweighted average of the closing prices of the Forbo share in the first 14 trading days in January of the allocation year. The shares are locked-up for a period of three years. They cannot be sold or pledged during this time.



Foreign members of the Executive Board may acquire stock awards instead of shares. The stock in question will be transferred after three years.

Long-term participation plan (long-term incentive)
The previous variable model for remuneration of the Executive Board, consisting of a short-term performance-related remuneration (bonus/short-term incentive) was supplemented by a long-term participation plan (long-term incentive), effective from January 1, 2017. The amendment was approved by the Ordinary General Meeting of April 6, 2017.

The aim of the long-term incentive is to link part of the remuneration of the Executive Board even more closely with the company's long-term success.

The long-term incentive consists of a performance share unit plan. At the start of the performance period, each member of the Executive Board is granted a given number of future subscription rights in the form of performance share units (PSUs). One PSU corresponds to a future subscription right to one share. The size of the PSU allocation corresponds to a defined percentage of the Executive Board member's fixed remuneration; the percentage may vary from 10 to 30 percent. The PSUs are subject to a three-year vesting period. They are converted into vested shares only on condition that the Group's performance objectives are achieved. At the end of the performance period, the company will determine whether the objectives set by the Board of Directors at the start of the performance period for the performance indicators have been reached. Depending on the degree to which the objectives are reached, a given percentage of the PSUs will be converted into shares after the three-year vesting period. Converted shares are locked-up for a period of three years. They cannot be sold or pledged during this time. Immediately on termination of the plan participant's employment contract, regardless of whether the plan participant has terminated the contract or the company has terminated the contract with the plan participant, all PSUs are forfeited.

The relevant share price for the allocation of PSUs at the start of the performance period is calculated based on the unweighted average of the closing prices of the Forbo share in the first 14 trading days in January of the relevant year.

The performance indicators of the long-term incentive are geared to the long-term and sustainable development of the company and consist of three evenly weighted objectives. These are organic growth, the return on net assets (RONA), and growth in earnings per share (EPS).

The long-term incentive objectives are based on a target achievement of 100%. It is not possible to exceed the maximum target achievement level of 100%. If a member fails to reach a given threshold for an objective, no PSUs are converted into shares for this indicator.

Foreign members of the Executive Board may draw stock awards rather than shares when the PSUs are converted. The relevant shares are transferred after three years.

The degree to which objectives have been achieved is determined in March after conclusion of the three-year performance period.

Actual bonus payments
Readers are referred to pages 87 to 89 of this remuneration report for the amount of the actual short-term variable remuneration (bonus/short-term incentive) paid to the Executive Board in the year under review and for details on the valuation and allocation of shares. The number of future subscription rights in the form of performance share units for the Executive Board as part of the long-term incentive can also be found on these pages.

There are no option plans.

Employment contracts of the Executive Board members

The employment contracts of the Executive Board members are concluded for an indefinite duration with a maximum period of notice of twelve months.

The Board of Directors can order that lock-up periods stipulated in the employment contracts of Executive Board members in connection with the MIP or the long-term incentive may be revoked wholly or in part upon the occurrence of defined events (e.g. change of control, termination of employment, retirement or death).

Should changes in control of the company occur, no additional remuneration or benefits will be paid out.

No severance payments have been agreed with Executive Board members.

Disclosure of remuneration for the Board of Directors and the Executive Board

Remuneration of the Board of Directors
The total remuneration paid to the non-executive members of the Board of Directors came to CHF 811,423 in the year under review (previous year: CHF 811,293). This sum consists of the base salary in cash (60% of the remuneration), amounting to CHF 413,198 (previous year: CHF 414,545) and the base remuneration in shares (40% of the remuneration) of CHF 335,640 (previous year: CHF 334,027). This corresponds to 241 shares (previous year: 212 shares) at a market value of CHF 1,392.70 each (previous year: CHF 1,575.60). The portion paid in shares is derived from a fixed remuneration amount. This total remuneration includes a lump sum for expenses plus employer contributions to the usual social insurances, which are reported separately in the column 'Other remuneration'.

The remuneration paid to the Executive Chairman of the Board of Directors is explained in detail on pages 81 and 82 of this remuneration report.

Remuneration of the Executive Board
The total remuneration paid to the members of the Executive Board came to CHF 2,764,288 in the year under review (previous year: CHF 3,268,606), subject to approval of the variable portion by the 2019 Ordinary General Meeting. This sum includes a fixed base salary of CHF 1,541,548 (previous year: CHF 1,791,179) and short-term variable bonus remuneration (short-term incentive) of CHF 592,540 (previous year: CHF 849,617), a long-term participation (long-term incentive) of CHF 222,816 (previous year: CHF 159,793) plus the private use of the company car, and employer contributions to the pension fund as well as other usual social insurances, which are reported separately in the column 'Other remuneration'.

The fixed portion of the base salary paid in shares (lock-up period of five years) came to CHF 329,018 (previous year: CHF 417,420). The portion paid in shares is derived from a fixed remuneration amount. The portion of the variable remuneration (short-term incentive plan) paid in shares in connection with the MIP (lock-up period of three years) came to CHF 520,562 (previous year: CHF 653,856), which is subject to approval by the 2019 Ordinary General Meeting. The portion paid in shares is derived from a fixed remuneration amount.

For the two actual long-term incentive plans, a total of 259 future subscription rights in the form of performance share units were issued.

Plan	Allocation of subscription rights	Performance period	Vesting date (PSUs)	Unlocking of shares	Number of PSUs allocated	Value PSUs in CHF (allocation)	Payout factor	Number of shares (vesting)	Value of shares in CHF (vesting)
2017 – 2019	April 2017	2017 – 2019	April 2020	April 2023	118	159,793	to be determined	to be determined	to be determined
2018 – 2020	April 2018	2018 – 2020	April 2021	April 2024	141	220,931	to be determined	to be determined	to be determined

Disclosure of remuneration of the Board of Directors and Executive Board

Remuneration
For the year 2018[1)]

Name and function	Base salary			Variable remunerations					Other remuneration[4)]	Total
				Bonus/short-term incentive[2)]			Long-term incentive[3)]			
	Cash		Shares	Cash		Shares	Allocation performance share units			
	CHF	Number	CHF	CHF	Number	CHF	Number	CHF	CHF	CHF
This E. Schneider, Executive Chairman[5)]	310,000	1,447	2,262,960						426,942	2,999,902
Michael Pieper, Vice Chairman	80,043	47	65,457						12,140	157,640
Dr. Peter Altorfer, Vice Chairman	104,842	60	83,562						17,085	205,489
Claudia Coninx-Kaczynski, member	70,889	42	58,493						13,584	142,966
Dr. Reto Müller, member	70,889	42	58,493						11,107	140,489
Vincent Studer, member	86,535	50	69,635						8,669	164,839
Board of Directors total[6)]	**723,198**	**1,688**	**2,598,600**						**489,527**	**3,811,325**
Executive Board[7)8)9)] total	**1,212,530**	**225**	**329,018**	**71,978**	**368**	**520,562**	**141**	**222,816**	**407,384**	**2,764,288**
Of whom highest-paid member of Executive Board (Stephan Bauer)	400,000	138	201,808	0	210	297,060	38	60,000	189,166	1,148,034

1) The remuneration of the Board of Directors and the Executive Board is reported gross before deduction of employee social insurance contributions. The amounts shown in the table are based on the valuation models used and disclosed in the consolidated financial statements.

2) The variable short-term remuneration of the Executive Board (bonus/short-term incentive) corresponds to the actual degree to which targets were reached in 2018 and will be submitted to the April 2019 Ordinary General Meeting for approval. The criterion for determining the number of shares issued for the variable remuneration is the unweighted average of the closing prices of the Forbo share in the first 14 trading days in January of the allocation year in connection with the MIP. The allocation takes place in April (subject to approval by the Ordinary General Meeting) for the period from January to December of the previous year. The value at allocation was CHF 1,414.57. The shares are locked up for a period of three years.

3) The long-term incentive for the Executive Board corresponds to the long-term participation plan for 2018 (long-term incentive plan 2018 – 2020) and to the number of future subscription rights allocated to the plan in the form of performance share units (PSUs). One PSU corresponds to a future subscription right to one share and is subject to a three-year vesting period.

4) 'Other remuneration' includes in particular employer contributions to the usual social insurances, private use of the company car, and lump sum or on-site expenses.

5) Please refer to pages 81 and 82 of this remuneration report for details on the structure of the remuneration of the Executive Chairman of the Board of Directors. These details also contain the criterion for determining the number of shares issued and their lock-up periods.

6) The criterion for determining the number of shares issued for the non-executive members of the Board of Directors is the average share price in the ten trading days after payment of the dividend or repayment of the par value: CHF 1,392.70. The allocation is made at the discounted tax value of CHF 1,169.30. The shares are locked up for a period of three years and are reported at market value in the table above.

7) Remuneration of the entire Executive Board including the highest-paid Executive Board member.

8) The criterion for determining the number of shares issued for the base salary is the unweighted average of the closing price of the Forbo share in the first 14 trading days in January of the allocation year. The shares are allocated in April for the period from May of the previous year to April of the year of allocation. The shares are locked up for a period of five years. The value of the shares allocated was CHF 1,568.00 in 2018 and CHF 1,414,57 for 2019.

9) The criterion for determining the number of shares issued for the variable remuneration is the unweighted average of the closing price of the Forbo share in the first 14 trading days in January of the allocation year. The shares for the bonus for the business year 2018 will be allocated in April 2019, subject to approval by the 2019 Ordinary General Meeting. The shares are locked up for a period of three years. The value at allocation was CHF 1,414.57. Foreign members of the Executive Board may acquire stock awards instead of shares. The stock in question will be transferred after three years.

Remuneration
For the year 2017[1)]

Name and function	Base salary: Cash CHF	Base salary: Shares Number	Base salary: Shares CHF	Variable remunerations – Bonus/short-term incentive[2)]: Cash CHF	Bonus/short-term incentive[2)]: Shares Number	Bonus/short-term incentive[2)]: Shares CHF	Long-term incentive[3)]: Allocation performance share units Number	Long-term incentive[3)]: Allocation performance share units CHF	Other remuneration[4)] CHF	Total CHF
This E. Schneider, Executive Chairman[5)]	310,000	1,671	2,263,404						369,922	2,943,326
Michael Pieper, Vice Chairman	80,761	41	64,600						12,021	157,382
Dr. Peter Altorfer, Vice Chairman	104,886	53	83,507						17,641	206,034
Claudia Coninx-Kaczynski, member	71,053	37	58,297						13,464	142,814
Dr. Reto Müller, member	71,053	37	58,297						11,004	140,354
Vincent Studer, member	86,792	44	69,326						8,591	164,709
Board of Directors total[6)]	**724,545**	**1,883**	**2,597,431**						**432,643**	**3,754,619**
Executive Board[7)8)9)] total	**1,373,759**	**283**	**417,420**	**195,761**	**417**	**653,856**	**118**	**159,793**	**468,017**	**3,268,606**
Of whom highest-paid member of Executive Board (Stephan Bauer)	400,000	136	202,634	0	202	316,736	44	60,000	187,536	1,166,906

1) The remuneration of the Board of Directors and the Executive Board is reported gross before deduction of employee social insurance contributions. The amounts shown in the table are based on the valuation models used and disclosed in the consolidated financial statements.

2) The variable short-term remuneration of the Executive Board (bonus/short-term incentive) corresponds to the actual degree to which targets were reached in 2017 and will be submitted to the April 2018 Ordinary General Meeting for approval. The criterion for determining the number of shares issued for the variable remuneration is the unweighted average of the closing prices of the Forbo share in the first 14 trading days in January of the allocation year in connection with the MIP. The allocation takes place in April (subject to approval by the Ordinary General Meeting) for the period from January to December of the previous year. The value at allocation was CHF 1,568.00. The shares are locked up for a period of three years.

3) The long-term incentive for the Executive Board corresponds to the long-term participation plan for 2017 (long-term incentive plan 2017 – 2019) and to the number of future subscription rights allocated to the plan in the form of performance share units (PSUs). One PSU corresponds to a future subscription right to one share and is subject to a three-year vesting period.

4) 'Other remuneration' includes in particular employer contributions to the usual social insurances, private use of the company car, and lump sum or on-site expenses.

5) Please refer to pages 77 and 78 of this remuneration report for details on the structure of the remuneration of the Executive Chairman of the Board of Directors. These details also contain the criterion for determining the number of shares issued and their lock-up periods.

6) The criterion for determining the number of shares issued for the non-executive members of the Board of Directors is the average share price in the ten trading days after payment of the dividend or repayment of the par value: CHF 1,575.60. The allocation is made at the discounted tax value of CHF 1,322.90. The shares are locked up for a period of three years and are reported at market value in the table above.

7) Remuneration of the entire Executive Board including the highest-paid Executive Board member.

8) The criterion for determining the number of shares issued for the base salary is the unweighted average of the closing price of the Forbo share in the first 14 trading days in January of the allocation year. The shares are allocated in April for the period from May of the previous year to April of the year of allocation. The shares are locked up for a period of five years. The value of the shares allocated was CHF 1,355.71 in 2017 and CHF 1,568,00 for 2018.

9) The criterion for determining the number of shares issued for the variable remuneration is the unweighted average of the closing price of the Forbo share in the first 14 trading days in January of the allocation year. The shares for the bonus for the business year 2017 will be allocated in April 2018, subject to approval by the 2018 Ordinary General Meeting. The shares are locked up for a period of three years. The value at allocation was CHF 1,568.00. Foreign members of the Executive Board may acquire stock awards instead of shares. The stock in question will be transferred after three years.

Advances and loans
As of December 31, 2018, no advances or loans to members of the Board of Directors or the Executive Board were outstanding.

The relevant statutory provisions concerning advances, loans and employee benefits for members of the Board of Directors and the Executive Board are set out in Chapter IV, pages 9 and 10 of the Articles of Association of Forbo Holding Ltd, which can be downloaded at:
www.forbo.com → Investors → Ordinary General Meeting

Disclosure of shareholdings pursuant to Article 663c CO

2018 business year
As at December 31, 2018, the individual members of the Board of Directors and the Executive Board (including related parties) held the following number of shares in Forbo Holding Ltd:

Shareholdings 2018

Name and function	Shares
This E. Schneider, Executive Chairman	54,611
Michael Pieper, Vice Chairman	486,764
Dr. Peter Altorfer, Vice Chairman	1,287
Claudia Coninx-Kaczynski, member	212
Dr. Reto Müller, member	632
Vincent Studer, member	916
Total Board of Directors	**544,422**
Stephan Bauer, Chief Executive Officer	2,969
Marc Deimling, Executive Vice President Movement Systems	3
Urs Uehlinger, Chief Financial Officer	104
Jean-Michel Wins, Executive Vice President Flooring Systems	104
Total Executive Board	**3,180**

As at December 31, 2017, the individual members of the Board of Directors and the Executive Board (including related parties) held the following number of shares in Forbo Holding Ltd:

Shareholdings 2017

Name and function	Shares
This E. Schneider, Executive Chairman	47,892
Michael Pieper, Vice Chairman	486,217
Dr. Peter Altorfer, Vice Chairman	1,227
Claudia Coninx-Kaczynski, member	170
Dr. Reto Müller, member	590
Vincent Studer, member	866
Total Board of Directors	**536,962**
Stephan Bauer, Chief Executive Officer	2,639
Matthias P. Huenerwadel, Executive Vice President Flooring Systems	2,856
Urs Uehlinger, Chief Financial Officer	18
Jean-Michel Wins, Executive Vice President Movement Systems	195
Total Executive Board	**5,708**

Report of the statutory auditor

Report of the Statutory Auditor

To the General Meeting of Shareholders of Forbo Holding Ltd, Baar

We have audited the accompanying remuneration report of Forbo Holding Ltd for the year ended 31 December 2018. The audit was limited to the information according to articles 14-16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance) on pages 88 to 91 of the remuneration report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report for the year ended 31 December 2018, of Forbo Holding Ltd complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Rolf Hauenstein Licensed Audit Expert Auditor in Charge	Regula Tobler Licensed Audit Expert

Zurich, 27 February 2019

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

FINANCIAL REPORT

Consolidated balance sheet

		31.12.2018	31.12.2017
Assets			
CHF m	Note		
Current assets		**567.3**	**638.2**
Cash and cash equivalents		127.4	195.4
Current financial assets	24	0.1	
Trade receivables	12	168.9	169.2
Other receivables		26.0	27.6
Accrued income and deferred expenses		14.8	19.4
Inventories	13	230.1	226.6
Non-current assets		**412.7**	**429.3**
Non-current financial assets	24	0.3	0.3
Deferred tax assets	10	39.9	39.0
Property, plant, and equipment	14	259.4	267.6
Intangible assets and goodwill	15	113.1	122.4
Total assets		**980.0**	**1,067.5**
Shareholders' equity and liabilities			
CHF m	Note		
Current liabilities		**261.9**	**275.3**
Current financial debt	24	0.1	0.2
Trade payables	24	109.2	105.9
Other current liabilities		28.7	32.4
Current tax liabilities	10	16.2	26.5
Accrued expenses and deferred income	16	87.7	91.5
Current provisions	17	20.0	18.8
Non-current liabilities		**126.5**	**131.0**
Non-current financial debt	24	0.0	0.2
Deferred tax liabilities	10	12.1	10.8
Non-current provisions	17	40.7	32.3
Employee benefit obligations	18	73.7	87.7
Total liabilities		**388.4**	**406.3**
Shareholders' equity		**591.6**	**661.2**
Share capital	20	0.2	0.2
Treasury shares	20	–0.1	–0.1
Reserves and retained earnings		591.5	661.1
Total shareholders' equity and liabilities		**980.0**	**1,067.5**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated income statement

CHF m	Note	2018	2017
Continuing operations			
Net sales	5	**1,327.0**	**1,246.4**
Cost of goods sold		– 824.9	– 764.5
Gross profit		**502.1**	**481.9**
Development costs	6	– 16.6	– 15.5
Marketing and distribution costs		– 198.1	– 195.8
Administrative costs		– 96.1	– 94.7
Other operating expenses	7	– 23.5	– 106.5
Other operating income	8	7.5	10.5
Operating profit		**175.3**	**79.9**
Financial income		0.9	0.9
Financial expenses		– 0.6	– 0.8
Group profit before taxes		**175.6**	**80.0**
Income taxes	10	– 38.0	– 43.5
Group profit for the year from continuing operations		**137.6**	**36.5**
Group profit for the year from discontinued operations after taxes	21		**2.2**
Group profit for the year		**137.6**	**38.7**
Group profit attributable to shareholders of Forbo Holding Ltd		137.6	38.7
Earnings per share, total			
CHF			
Basic earnings per share	11	82.38	22.36
Diluted earnings per share	11	82.38	22.36
Earnings per share from continuing operations			
CHF			
Basic earnings per share	11	82.38	21.10
Diluted earnings per share	11	82.38	21.10
Earnings per share from discontinued operations			
CHF			
Basic earnings per share	11		1.26
Diluted earnings per share	11		1.26

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated comprehensive income statement

CHF m	Note	2018	2017
Group profit for the year		**137.6**	**38.7**
Items that will not be reclassified to the income statement:			
Remeasurements of employee benefit obligations, net of taxes	10	11.5	5.7
Items that are or may be subsequently reclassified to the income statement:			
Translation differences		– 29.6	36.1
Other comprehensive income for the year, net of tax		**– 18.1**	**41.8**
Total comprehensive income		**119.5**	**80.5**
Total comprehensive income attributable to the shareholders of Forbo Holding Ltd		119.5	80.5

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

2018

CHF m	Share capital	Treasury shares	Reserves	Translation differences	Total
December 31, 2017 (before application of IFRS 9)	**0.2**	**– 0.1**	**945.1**	**– 284.0**	**661.2**
Effect of application of IFRS 9 (net of tax)			– 0.4		– 0.4
January 1, 2018 (restated)	**0.2**	**– 0.1**	**944.7**	**– 284.0**	**660.8**
Group profit for the year			137.6		137.6
Other comprehensive income for the year, net of tax			11.5	– 29.6	– 18.1
Total comprehensive income			**149.1**	**– 29.6**	**119.5**
Share-based payments			4.6		4.6
Treasury shares		0.0	– 160.9		– 160.9
Dividend payment			– 32.4		– 32.4
December 31, 2018	**0.2**	**– 0.1**	**905.1**	**– 313.6**	**591.6**

2017

CHF m	Share capital	Treasury shares	Reserves	Translation differences	Total
December 31, 2016	**0.2**	**– 0.1**	**941.4**	**– 320.1**	**621.4**
Group profit for the year			38.7		38.7
Other comprehensive income for the year, net of tax			5.7	36.1	41.8
Total comprehensive income			**44.4**	**36.1**	**80.5**
Share-based payments			4.4		4.4
Treasury shares		0.0	– 12.6		– 12.6
Dividend payment			– 32.5		– 32.5
December 31, 2017	**0.2**	**– 0.1**	**945.1**	**– 284.0**	**661.2**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated cash flow statement

		2018	2017
Cash flow from operating activities			
CHF m	Note		
Group profit for the year		**137.6**	**38.7**
Profit from disposal of discontinued operations after taxes	21		– 2.2
Tax expense	10	38.0	43.5
Financial result		– 0.3	– 0.1
Depreciation of property, plant, and equipment	14	35.3	31.8
Amortization of intangible assets	15	6.2	5.9
Loss from the sale of non-current assets		0.3	
Share-based payments	26	4.8	4.4
Income tax paid		– 39.5	– 37.9
Increase in provisions and employee benefit obligations		10.8	7.4
Increase in net operating working capital[1]		– 9.8	– 15.9
Increase (–)/Decrease in other current assets		– 12.2	3.2
Net cash flow from operating activities		**171.2**	**78.8**
Cash flow from investing activities			
CHF m			
Purchase of business operations net of cash acquired		– 1.3	
Purchase of non-current assets		– 38.7	– 57.8
Proceeds from the disposal of non-current assets		0.1	0.5
Purchase of non-current financial assets			– 0.1
Interest received		0.8	0.9
Net cash flow from investing activities		**– 39.1**	**– 56.5**
Cash flow from financing activities			
CHF m			
Decrease (–)/Increase of current financial debt		– 0.1	0.1
Repayment of non-current financial debt		– 0.2	– 0.2
Interest paid		0.0	0.0
Purchase of treasury shares		– 161.0	– 103.3
Proceeds from sale of treasury shares		1.1	90.9
Dividend payment		– 32.4	– 32.5
Net cash flow from financing activities		**– 192.6**	**– 45.0**
Change in cash and cash equivalents			
CHF m			
Decrease in cash and cash equivalents		– 60.5	– 22.7
Translation differences on cash and cash equivalents		– 7.5	8.4
Total cash and cash equivalents at beginning of year		195.4	209.7
Total cash and cash equivalents at year-end		**127.4**	**195.4**

1) Net operating working capital includes the items 'Trade receivables', 'Inventories', and 'Trade payables'.

The accompanying notes are an integral part of the consolidated financial statements.

Notes – accounting principles

1 General information

Forbo Holding Ltd and its subsidiaries (together constituting the 'Group') manufacture floorings, construction adhesives, and drive and conveyor technology. The Group has a global network of locations with production and distribution as well as pure sales companies.

Forbo Holding Ltd is a public limited company under Swiss law, domiciled in Baar, Switzerland. It is listed on the SIX Swiss Exchange (FORN).

These financial statements were approved by the Board of Directors on February 27, 2019, and released for publication on March 5, 2019. This financial report is subject to approval by the Ordinary General Meeting of April 5, 2019.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation
The consolidated financial statements of Forbo Holding Ltd were prepared in accordance with the International Financial Reporting Standards (IFRS) and in compliance with Swiss law.

The consolidated financial statements are prepared in Swiss francs. The Swiss franc is both the functional currency and the reporting currency of the company. Unless otherwise noted, all sums are stated in millions of Swiss francs (CHF m) and are generally rounded to one decimal place.

The consolidation was done on the basis of the audited financial statements of the subsidiaries prepared according to uniform corporate accounting policies. The reporting date for all Group companies is December 31.

The consolidated financial statements were prepared in accordance with the principle of historical costs, with the exception of derivatives measured at fair value and pension fund liabilities measured at the net value of the discounted defined benefit obligations less the fair value of the plan assets.

The preparation of the consolidated financial statements requires management to make discretionary judgements, estimates and assumptions that can affect the application of accounting methods and reported revenues, expenses, assets, liabilities, and contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates and assumptions. Estimates and the underlying assumptions are being reviewed continually. Revised versions of estimates and assumptions are recognized prospectively. Information about discretionary judgements as well as assumptions and uncertainty involved in estimates are contained in note 3 'Critical judgements, estimates and appraisals by management'.

Scope and principles of consolidation
Subsidiaries are companies that are controlled by the Group. The Group exercises control over a company if it is exposed to variable returns from its involvement in the company or possesses rights to the returns and is able to influence these returns by means of its discretionary control over the company. The financial statements of subsidiaries are included in the consolidated financial statements from the point at which control begins.

The purchase method of accounting is used to account for business combinations. The value of the transferred consideration in a business combination and the acquired identifiable net assets are recognized at the fair value on the acquisition date. The consideration includes cash payments and the fair value of the assets transferred, liabilities incurred or acquired, and equity instruments issued by the acquirer on the transaction date. Liabilities dependent on future events, which are based on agreements on contingent considerations are accounted for at their fair value in the accounting treatment of the acquisition. Acquisition costs are reported as expenditure in the income statement. Non-controlling interests are measured at the acquisition date with their proportionate share in the identifiable net assets of the acquired entity.

Goodwill is the excess of the consideration of the business combination and the amount of the non-controlling interest over the identifiable net assets assessed at fair value.

Inter-company transactions, balances, and unrealized gains or losses on transactions between Group companies are eliminated.

Associates are all entities over which the Group has significant influence but not control, generally accompanied by a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition changes in reserves is recognized in reserves. The cumulative post-acquisition movements are offset against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Changes in the scope of consolidation

Forbo Finanz AG acquired 100% of the capital of Transmeca AS in Oslo, Norway, effective May 2, 2018. Transmeca AS was an existing customer of Forbo that sells and distributes fabric conveyor belts. Transmeca AS is now an additional service point for the Movement Systems division in Norway. Additionally, the dormant company Forbo Project Vinyl AB in Gothenburg, Sweden, was liquidated in the period under review.

The subsidiaries included in the group of consolidated companies are listed under 'Group companies' (from page 136 of this report).

Foreign currency translation

Transactions in foreign currencies

The individual companies prepare their financial statements in their functional currency. The functional currency is the currency of the primary economic environment in which the company operates and generally corresponds to the local currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Foreign operations

The annual statements of foreign Group companies stated in foreign currencies are translated into Swiss francs as follows: assets and liabilities at year-end exchange rates; the income statement and cash flow statement at average exchange rates for the year. Currency translation differences arising from the different translation of balance sheets and income statements and from equity capital transactions are recognized in other comprehensive income and taken to profit or loss for the period (reclassified) in the event the foreign Group company is disposed of.

On consolidation, exchange differences arising from the translation of net investments in independent foreign operations are recognized in other comprehensive income. When a foreign operation is disposed of, these exchange differences are transferred to the income statement as part of the gain or loss on sale.

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

			Income statement (average exchange rates for the year)		Balance sheet (year-end exchange rates)	
			2018	2017	2018	2017
Exchange rates						
Euro zone	EUR	1	1.1552	1.1117	1.1275	1.1705
USA	USD	1	0.9786	0.9847	0.9853	0.9763
Great Britain	GBP	1	1.3058	1.2686	1.2596	1.3203
Japan	JPY	100	0.8860	0.8779	0.8959	0.8674
China	CNY	100	14.8000	14.5800	14.3200	15.0100
Sweden	SEK	100	11.2673	11.5360	11.0117	11.9018

Discontinued operations

Discontinued operations are recognized separately if a component of the Group has either already been discontinued or been classified as 'held for sale'. The previous-year figures affecting the income statement are adjusted accordingly and are also presented separately.

Net sales and revenue recognition

Revenue from contracts with customers is recognized when the control of the goods or services is transferred to the customer. The revenue is based on the contractually agreed transaction price, in other words, the amount to which the Group can be expected to be entitled in return for the transfer of the goods or services to a customer.

Type of product or service	*Type and time of the fulfillment of performance obligation, significant terms of payment*
Flooring Systems	The revenue is generated by the sale of goods that are recorded at a point in time, in accordance with the agreed terms. The sale of goods is based on fixed prices. In some cases, goal-oriented, variable volume discounts are granted. Volume rebates are deducted from sales in the same amount as expected cash outflows. The payment terms are in line with general business terms and conditions, with payment due dates ranging from 30 to 60 days. The warranty periods granted for goods are in line with the general business terms and conditions in the sector; in some cases, these may be longer than prescribed by law. Provisions are made on the basis of the expected cash outflow for known warranty claims and those expected in future.
Movement Systems	The type and time of the fulfillment of the performance obligation and the terms of payment are identical with those for Flooring Systems. In addition, a small portion of the services provided by Movement Systems concerns the seamless connection of belting products. These services are recognized separately as revenue at the time the service is provided.

In contrast, the determining factor for recognition of revenue in the previous year was still the transfer of risks and opportunities. On the basis of the business models applied by the Group, the time of the transfer of control of the goods is identical with the transfer of the risks and opportunities.

Government grants

Government grants are recognized only when there is reasonable assurance that the related conditions are met, and the grants will be received. Grants are deducted when arriving at the carrying amount of the asset concerned and they are recognized in profit or loss over the period of the depreciable asset by means of a reduced depreciation charge.

Government grants that compensate the company for expenses incurred are recognized in the income statement accounts in the period in which the expenses to be compensated accrue.

Research and development

All research costs are posted directly to the income statement in the period in which they are incurred. Development costs are capitalized only if these costs can be reliably measured, the product or process is technically feasible and commercially viable, a future economic benefit is likely, and the Group has sufficient resources and intends to complete the development and exploit the asset. Other development expenses that do not meet these criteria are taken to the income statement as soon as they are incurred. Capitalized development costs are measured at the cost of acquisition or production less cumulative amortizations and impairments.

Share-based payments

Equity-settled share-based payments to employees are valued at the fair value of the equity instrument on the date on which the instruments are granted. The fair value determined on granting equity-settled share-based payments is recognized in the income statement over the vesting period and is included in personnel expenses.

Earnings per share

The number of shares used for calculating earnings per share is determined on the basis of the weighted average number of the shares issued less the weighted average number of treasury shares held. To calculate diluted earnings per share, an adjusted number of shares is determined from the total number of shares used to calculate earnings per share plus the potentially dilutive effects of shares from employee incentive plans. To take account of the dilutive effect of employee incentive plans, the number of shares is determined that could have been purchased at the market price on the basis of the cumulative difference between the market price and the strike price of the future subscription rights. The market price used for this purpose corresponds to the average price of the shares in the business year under review. The earnings or diluted earnings per share is the quotient obtained by dividing the distributable net profit by the relevant number of shares.

Income taxes

Income taxes constitute the total of current and deferred income taxes.

Current income taxes are determined on the basis of taxable profits and the applicable tax laws of the individual countries. They are recognized as an expense in the accounting period in which the profits are made.

Deferred tax liabilities are recognized for temporary differences between assets and liabilities in the balance sheet, and their tax bases if they will result in taxable income in future. Deferred tax assets are reported for temporary differences that will result in deductible amounts in future periods and for tax effects from unused tax losses and tax credits, but only to the extent as it is probable that sufficient taxable profits will be available against which these differences can be offset. Deferred tax liabilities are not recognized if temporary differences arise from the initial recognition of goodwill.

Deferred tax assets and tax liabilities are measured at the tax rates that are expected to be enacted in the period in which the asset will be realized or the liability will be settled. Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting group, relate to the same tax authority, the legal right to offset exists, and they are intended to be settled net or realized simultaneously.

Current and deferred income taxes are recognized as an income tax benefit or expense in the income statement, with the exception of items posted directly to equity or recognized in other comprehensive income. In this case, the corresponding tax effect is also to be recognized directly in shareholders' equity or in other comprehensive income.

Property, plant, and equipment

Property is recognized at cost on acquisition. Land is not depreciated, but allowances are set aside for impairments that have occurred. All other fixed assets such as machines, vehicles and operational assets are reported at cost on acquisition less accrued depreciation and impairments.

Betterments that increase the useful lives of the assets, significantly improve the quality of the output or enable a substantial reduction in operating costs are capitalized and depreciated over the remaining useful lives.

Depreciation is calculated according to the straight-line method over the following estimated useful life:

Land and buildings	
Land	no depreciation
Buildings	20 to 40 years
Modifications and installations	5 to 10 years or duration of rental contract
Machinery and equipment	
Machines, equipment and tools	5 to 10 years
Other property, plant, and equipment	
IT	3 to 5 years
Vehicles	5 years
Other operational assets	3 to 10 years
Assets under construction	
Assets under construction	no depreciation

If there are signs of an impairment, the recoverable amount of the asset is determined. If the carrying amount exceeds the recoverable value, the carrying amount of the asset is reduced accordingly and the difference charged to the income statement.

Assets which are held in financial leasing arrangements are depreciated over their estimated useful life in the same way as assets belonging to the company or, if this is shorter, over the life of the underlying lease agreement. The costs of short-term leasing are charged directly to the income statement. The corresponding liabilities are disclosed in the notes (see note 23 'Leasing').

Intangible assets and goodwill

The goodwill generated in connection with business combinations is measured at the cost of acquisition less cumulative impairment losses.

Goodwill is not amortized but tested for impairment at least at each reporting date or earlier if there are signs of a potential impairment.

The acquisition costs of trademarks, licenses, customer relationships, and technologies acquired in a business combination correspond to the fair value at the date of acquisition.

Trademarks with an indefinite useful life are not subject to amortization but are tested for impairment at least annually. Any impairment is recognized as an expense in the income statement.

Other intangible assets that are acquired by the Group and have a finite useful life are carried at acquisition or production costs less cumulative amortization and impairments. The amortization of other intangible assets with a finite useful life uses the straight-line method; the following estimated useful lives are applied:

Customer relations	5 to 15 years
Technologies	up to 30 years
Software	3 to 5 years

Amortization methods, useful lives, and residual values are reviewed annually at the reporting date and adjusted where necessary.

Financial instruments

Recognition and initial measurement

Trade receivables are recognized when they occur. All other financial instruments are recognized when the Group becomes a contracting party. Financial assets (with the exception of trade receivables with no essential financing component) and financial liabilities are recognized at fair value the first time. Transaction costs, which are directly attributable to acquisition or issuance, are added in addition for financial instruments that are not measured at fair value through profit or loss. Trade receivables with no essential financing components are recognized at the transaction price the first time.

Classification and subsequent measurement of financial assets

STANDARD APPLIED AS OF JANUARY 1, 2018

Financial assets are classified in one of the following categories:

– 'Amortized cost'
– 'Fair value through other comprehensive income'
– 'Fair value through profit or loss'

A financial asset is measured at amortized cost if the business model provides for the asset to be held in order to receive contractual cash flows on contractually agreed dates. The payments consist only of the nominal value plus interest. Essentially, the financial assets in the Group consist of cash and cash equivalents and trade receivables that are reported at amortized cost using the effective interest method less valuation allowances for expected credit losses. Cash and cash equivalents are stated at nominal value. It includes cash on hand, bank accounts, and fixed-term deposits with maturities up to three months from the date of acquisition.

Derivatives are valued at their fair value. The derivatives used are accounted for on the day the trade is conducted. Derivative financial instruments are recognized in the balance sheet in 'Current financial assets' or in 'Current financial debt'.

The Group recognizes allowances for expected credit losses on financial instruments that are reported at amortized cost. The Group employs a permissible, simplified model of valuation allowances ('provision matrix') for trade receivables. In this valuation allowance table, expected losses on receivables are determined on the balance sheet date on the basis of past experience of default probability and of future-oriented expectations based on experience with the customers and market conditions.

The Group considers a financial asset to be in default if it is unlikely that the borrower can pay his obligation to the Group in full without the Group having to take recourse to measures such as the realization of collateral.

STANDARD APPLIED PRIOR TO JANUARY 1, 2018

Financial assets are classified in one of the following categories:

– 'Loans and receivables'
– 'Fair value through profit or loss'

Loans and receivables are loans and receivables granted by the Group with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for maturities greater than 12 months after the end of the reporting year, in which case they are classified as non-current assets. After initial recognition, loans and receivables are carried at amortized cost using the effective interest method. Trade receivables are carried in the balance sheet at their nominal value less valuation allowances.

Financial assets measured at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it was acquired principally for the purpose of selling in the short term. Derivatives also belong to this category. The derivatives used are accounted for on the day the trade is conducted. Derivative financial instruments are recognized in the balance sheet under 'Current financial assets' or in 'Current financial debt'.

Allowances for doubtful risks are established based on the maturity structure and discernible solvency risks. In addition to individual allowances for specific identifiable risks, allowances are also made on the basis of statistically determined default risks.

Classification and subsequent measurement of financial liabilities
Financial liabilities are classified in one of the following categories:

– 'Amortized cost'
– 'Fair value through profit or loss'

The Group's financial liabilities consist mainly of liabilities from trade payables and, to a lesser extent, of leasing liabilities that are reported at amortized cost using the effective interest method. With the exception of derivatives, the Group does not have any financial liabilities that are classified as 'fair value through profit or loss'.

Debt is assigned to current debt, except if the Group has to settle the obligation earliest 12 months after the reporting date or enjoys an unlimited right to postpone payment of the debt by at least 12 months after the reporting date. Trade payables are non-interest-bearing and are disclosed at nominal value.

Inventories
Inventories are stated at the lower of cost or net realizable value. Cost includes direct material and, if applicable, other direct costs and related production overheads to the extent that they are incurred in bringing the inventories to their present location and condition. The net realizable value constitutes the estimated sales price less all estimated costs up to completion, as well as the costs of marketing, sales, and distribution.

Inventories are for the greater part measured at average cost. Adjustments are made for unsaleable inventories and inventories with insufficient turnover. Inter-company profits on intra-Group deliveries are eliminated in the income statement.

Shareholders' equity
Registered shares are classified as share capital at their par value. Payments by shareholders above the par value are credited to reserves.

Treasury shares are deducted at their par value from share capital. The acquisition costs in excess of par value arising on the acquisition of treasury shares are debited to reserves. On the sale of treasury shares, gains or losses compared with the par value are credited or debited to reserves.

Dividends are debited to equity in the period in which the resolution on their distribution is adopted.

Employee pension plans
The Group maintains various pension plans designed as defined contribution and defined benefit plans. These pension plans are established in accordance with the local conditions in each country. The plans are funded either by contributions to legally autonomous pension funds and insurance plans or by recognition of the pension plan liabilities in the financial statements of the respective companies.

For defined contribution plans, the costs incurred in the relevant period correspond to the agreed employer contributions.

For defined benefit plans, the pension costs and liabilities are assessed annually on the basis of various economic and demographic assumptions by independent actuaries according to the 'projected unit credit method'. The liabilities correspond to the present value of the expected future cash flows. The plan assets are stated at market value and deducted from the pension liabilities. Pension costs, consisting of current service costs incurred in the relevant period and net interest expense, less employee contributions, are stated as personnel expenses in the income statement. Past service costs resulting from changes in pension plans are posted directly to the income statement. Profits or losses resulting from pension plan curtailments or settlements are immediately taken to the income statement.

Revaluation components include actuarial gains and losses due to changes in the present value of the pension obligations arising from changes in assumptions and experience adjustments plus the return on plan assets less the contributions contained in net interest expense. Revaluation components are recognized in other comprehensive income, taking deferred taxes into account, and are never subsequently reclassified to the income statement.

Provisions
Provisions are recognized if the Group has a current legal or constructive obligation as a result of a past event, 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. The provision is the best estimate on the reporting date of the amount required to meet the current obligation, taking into account the risks and uncertainties underlying the obligation.

3 Critical judgements, estimates and appraisals by management

The application of the measurement and accounting principles requires that circumstances and estimates be assessed and assumptions be made with respect to the carrying amounts of assets and liabilities. The estimates and the underlying assumptions are based on past experience and other factors regarded as relevant, including expectations of future events that appear reasonable in the given circumstances. The actual results may, of course, deviate from the estimates and assumptions of management.

Estimates and the underlying assumptions are reviewed continuously. Revised estimates are recognized prospectively. The following are the main areas in which a significant risk exists in the coming business year involving a significant adjustment of the carrying value of assets and liabilities.

Impairment tests
Along with the regular periodic review of goodwill and intangible assets with an indefinite useful life, the carrying amounts of fixed and intangible assets with a finite useful life are also always reviewed if due to changed circumstances or other triggering events these amounts can possibly no longer be realized. If such a situation occurs, the recoverable amount is determined based on expected future revenues. This corresponds to either the discounted expected cash flows or the expected net sales price.

Important assumptions in the calculations underlying these impairment tests include growth rates, margins, estimates and management's expectations of the future development of net working capital, and discount rates. The actual cash flows may deviate from the planned discounted future values. Likewise, the useful lives may be shortened or non-current assets impaired in the event of a change in the use of buildings, machinery and facilities, change or abandonment of locations, or lower-than-expected revenues over the medium term. Further information on this topic can be found in note 14 'Property, plant, and equipment' and note 15 'Intangible assets and goodwill'.

Valuation of pension plan liabilities
Various employee pension plans exist for employees of the Group. In the valuation of defined benefit plans, actuarial assumptions are made to estimate future developments. These include assumptions and estimates relating to the discount rate, the inflation rate as well as assumptions for future wage trends. In their actuarial calculations for determining employee benefit obligations, the actuaries also use statistical information such as mortality tables and staff turnover rates. If these parameters change owing to a change in the economic situation or market conditions, the subsequent results may deviate considerably from the actuarial reports and calculations. These deviations may have a significant medium-term effect on expenses and income from the employee pension schemes and on the comprehensive income statement. Further information on this topic can be found in note 18 'Employee benefit obligations'.

Recognition and measurement of provisions
In the conduct of ordinary business activities, a liability of uncertain timing and/or amount may arise. Provisions are determined using available information based on reasonably expected cash outflows. Claims against the Group may arise that may not be covered, or are covered only in part, by provisions or insurance benefits. Further information on this topic can be found in note 17 'Provisions'.

Income taxes
The Group is obliged to pay income taxes in various countries. Certain key assumptions are necessary in order to determine income tax in the relevant countries. There are business events which have an impact on taxation and taxable profit. Hence, the amount of the final taxation cannot be determined definitively. The measurement of current tax liabilities is subject to the interpretation of tax regulations in the relevant countries. The adequacy of this interpretation is assessed by the tax authorities in the course of the final assessment or tax audits. This may result in material changes to tax expenses. Where the definitive taxation of these business events deviates from the previous assumptions, this will have an impact on the current and deferred taxes in the period in which the taxation is definitively determined. Furthermore, determining whether tax losses carried forward can be capitalized requires a critical estimate of the probability that they can be offset against future profits. This assessment is based on planning information. Further information on this topic can be found in note 10 'Income taxes'.

4 Application of new or revised accounting standards

Applied new and revised standards and interpretations
The Group applied IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers' for the first time as of January 1, 2018. In addition, some other new or amended standards were applied, which, however, do not have any significant impact on the financial statements. Information from the previous year has not been restated owing to the transition approaches that have been chosen.

The impact of the application of IFRS 9 and IFRS 15 is explained below.

IFRS 9 'Financial instruments'
The standard IFRS 9 'Financial instruments' includes new standards for classification and measurement of financial assets and liabilities, the recognition of impairment allowances, and for the accounting of derivatives used for hedging. The standard replaces IAS 39 'Financial instruments: Recognition and Measurement'.

The implementation of IFRS 9 had no impact on equity or debt instruments since the Group does not employ such instruments. The application of IFRS 9 affected only the calculation and presentation of the allowance for doubtful receivables because the 'incurred loss' model in IAS 39 was replaced by an 'expected credit' loss model, which means that credit losses are recognized earlier under IFRS 9 than under IAS 39.

Owing to the transition approach that has been chosen, IFRS 9 does not require any restatement of the previous year. The reassessment of the valuation of trade receivables resulted in an increase in the allowance for doubtful receivables of CHF 0.5 million as per January 1, 2018. This amount was taken to equity (CHF 0.4 million after tax).

IFRS 15 – 'Revenue from contracts with customers'
The Group implemented IFRS 15 with effect on January 1, 2018, using the cumulative effect method. Accordingly, information for the previous year was not restated and is reported, as heretofore, under the standards IAS 18 'Revenue', IAS 11 'Construction contracts', and the relevant interpretations. IFRS 15 replaces the current standards and contains a comprehensive approach to determine whether, when, and to what extent revenue from contracts with customers are to be reported.

The implementation of IFRS 15 had no effect on the consolidated balance sheet, the consolidated income statement or the consolidated statement of changes in equity since the business models employed by the Group, in particular the time of the transfer of control of the goods, is identical with the transfer of risks and opportunities.

Introduction of new standards in 2019 and beyond

The following new and revised standards and interpretations that were published by end-2018 but are not yet mandatory were not applied in advance in the present consolidated financial statements.

Standards		Date effective	Planned application
New standards or interpretations:			
IFRS 16 – 'Leases'	*	January 1, 2019	2019 business year
IFRIC 23 'Uncertainty over income tax treatments'	**	January 1, 2019	2019 business year
Revisions and amendments of standards and interpretations:			
Amendments to IAS 28 'Long-term interests in associates and joint ventures'	**	January 1, 2019	2019 business year
Amendments to IAS 19 'Plan amendment, curtailment or settlement'	**	January 1, 2019	2019 business year
Amendments to IFRS 3 'Definition of a business'	**	January 1, 2020	2020 business year
Amendments to IAS 1 und IAS 8 'Definition of material'	**	January 1, 2020	2020 business year
Amendments to 'References to the conceptual framework in IFRS standards'	**	January 1, 2020	2020 business year
Annual improvements to the IFRS 2015 – 2017 cycle:			
Amendments to IFRS 3 'Business combinations' and IFRS 11 'Joint arrangements'	**	January 1, 2019	2019 business year
Amendments to IAS 12 'Income taxes'	**	January 1, 2019	2019 business year

* See the note on the impact on the consolidated financial statements in the next section.
** No significant impact on the consolidated financial statements is expected.

IFRS 16 'Leases'

The standard IFRS 16 introduces a uniform accounting model in which leases are to be recognized in the lessee's balance sheet. A lessee recognizes a 'right-of-use asset' that represents his right to use the underlying asset, plus a debt from the lease that represents his obligation to make leasing payments. Exceptions are made for short-term leases and for leases for low-value assets.

The management has made an assessment of the impact on the financial statements, which shows that the Group will have to book new assets and debts for its operational leases, in particular for vehicles and property.

From the current perspective, the balance sheet will be extended by a good CHF 40 million by the first-time adoption of IFRS 16, because right-of-use assets and leasing liabilities will be reassessed by this amount. The depreciations and hence operating profit before depreciation and amortization (EBITDA) will increase by somewhat more than CHF 10 million, while financing costs and hence operating profit (EBIT) will increase by about CHF 1 million. The impact on the Group profit for the year is negligible.

The Group has applied the new standard as of January 1, 2019, and recognized a cumulative adjustment in equity at the time of the first application.

Notes

5 Segment reporting

The Group is a global producer of Flooring Systems and Movement Systems. The divisions correspond to the internal management structure and are run separately because the products they manufacture, distribute, and sell differ fundamentally in terms of production, distribution, and marketing.

In the Flooring Systems division, the Group develops, produces, and sells linoleum, vinyl floorings, entrance flooring systems, carpet tiles, needle felt floor coverings, Flotex, the washable textile flooring, and building and construction adhesives as well as various accessory products required for laying, processing, cleaning, and care of flooring. In the Movement Systems division, the Group develops, produces, and sells high-quality conveyor and processing belts, as well as plastic modular belts, and drive, timing and flat belts made of synthetic materials. Corporate includes the costs of the Group headquarters and certain items of income and expenses that are not directly attributable to a specific business.

The Flooring Systems and the Movement Systems divisions are reportable segments. The identification of the reportable segments is based on internal management reporting to the Executive Chairman of the Board of Directors and to the Chief Executive Officer of the Group and hence on the financial information used to review the performance of the operational units in order to reach a decision on the allocation of resources.

Segment information on the reportable segments for the reporting year:

2018

CHF m	Flooring Systems	Movement Systems	Corporate/ Elimination	Total
Total sales	913.2	414.0	– 0.2	1,327.0
Inter-segment sales	0.0	– 0.2	0.2	0.0
Net sales to third parties	913.2	413.8		1,327.0
Operating profit (EBIT)	136.5	49.4	– 10.6	175.3
EBITDA	166.0	60.6	– 9.8	216.8
Operating assets	523.1	275.4	13.9	812.4
Capital expenditure	25.4	13.2	0.1	38.7
Number of employees (December 31)	3,194	2,503	42	5,739

Segment information on the reportable segments for the prior year:

2017

CHF m	Flooring Systems	Movement Systems	Corporate/ Elimination	Total
Total sales	856.6	390.0	– 0.2	1,246.4
Inter-segment sales	0.0	– 0.2	0.2	0.0
Net sales to third parties	856.6	389.8		1,246.4
Operating profit (EBIT)	42.1	49.3	– 11.5	79.9
EBITDA	69.7	58.7	– 10.8	117.6
Operating assets	539.8	275.7	17.3	832.8
Capital expenditure	22.3	35.5	0.0	57.8
Number of employees (December 31)	3,157	2,360	42	5,559

Management reporting is based on the same accounting principles as external reporting.

The Executive Chairman of the Board of Directors and the Chief Executive Officer assess the performance of the reportable segments based on their operating result (EBIT). The net financial result is not allocated to the segments since it is Corporate Treasury that mainly exercises central control over the financial result. Inter-segment sales are transacted at arm's length. The segments apply the same accounting principles as the Group. Sales to third parties, as they are reported to the Executive Chairman of the Board of Directors and the Chief Executive Officer, are identical with the sales reported in the income statement.

Reconciliation of segment information to the income statement and balance sheet:

	2018	2017
CHF m		
Total segment result (EBIT)	**175.3**	**79.9**
Financial result	0.3	0.1
Group profit before taxes	**175.6**	**80.0**

	31.12.2018	31.12.2017
CHF m		
Total operating assets	**812.4**	**832.8**
Non-operating assets	167.6	234.7
Total assets	**980.0**	**1,067.5**

Operating assets include 'Trade receivables', 'Other receivables', 'Accrued income and deferred expenses', 'Inventories', 'Property, plant, and equipment', and 'Intangible assets and goodwill'. Non-operating assets include 'Cash and cash equivalents', 'Current financial assets', 'Non-current financial assets' and 'Deferred tax assets'.

The following table shows revenue broken down by geographic region and by the two product groups that are identical with the reportable segments.

	Flooring Systems		Movement Systems	
CHF m	2018 Third-party sales	2017 Third-party sales	2018 Third-party sales	2017 Third-party sales
Regions				
Europe	693.8	656.0	163.8	150.2
Americas	136.3	124.1	138.9	135.4
Asia/Pacific and Africa	83.1	76.5	111.1	104.2
Total net sales to third parties	**913.2**	**856.6**	**413.8**	**389.8**

Third-party net sales by destination were generated in the following regions:

CHF m	2018 Third-party sales	2017 Third-party sales
Switzerland (domicile)	28.4	26.0
Germany	167.0	150.5
France	165.6	158.3
Benelux	134.2	124.5
Scandinavia	103.7	105.2
Great Britain and Ireland	92.7	97.8
Other countries Europe	166.0	143.9
Europe	**857.6**	**806.2**
USA	223.2	212.3
Other countries Americas	52.0	47.2
Americas	**275.2**	**259.5**
Asia/Pacific and Africa	**194.2**	**180.7**
Total net sales to third parties	**1,327.0**	**1,246.4**

In the period under review, sales to no single customer exceeded 10% of total Group sales.

Operating assets are distributed over the following regions:

CHF m	31.12.2018 Operating assets	31.12.2017 Operating assets
Switzerland (domicile)	25.9	30.6
Germany	82.9	85.6
France	68.4	72.1
Benelux	207.1	211.8
Scandinavia	29.5	28.2
Great Britain and Ireland	117.4	121.3
Other countries Europe	48.1	49.0
Europe	**579.3**	**598.6**
USA	94.3	91.6
Other countries Americas	11.3	11.1
Americas	**105.6**	**102.7**
Asia/Pacific and Africa	**127.5**	**131.5**
Total operating assets	**812.4**	**832.8**

6 Development costs

'Development costs', which mainly comprise product development, amounted to CHF 16.6 million in the reporting year (2017: CHF 15.5 million).

Costs for manufacturing trials, recipe optimization and new collections are not reported within 'Development costs'.

As in the previous year, no development costs were capitalized.

7 Other operating expenses

'Other operating expenses' comprise expenses of different kinds in connection with structural measures, legal costs, warranties, taxes on capital, levies based on local legislation, and allowances for doubtful trade receivables.

The decrease versus the previous year is due to the one-off costs of CHF 83.4 million arising from the now concluded antitrust proceedings brought against leading flooring manufacturers in France.

8 Other operating income

'Other operating income' comprises a range of income, mainly in connection with the sale of tangible assets, the release of provisions for legal proceedings, insurance payments, rental income, the sale of material for recycling purposes, and the release of allowances for doubtful trade receivables.

In the reporting year, government grants in connection with the construction of the Movement Systems plant in Pinghu, China, amounting to CHF 1.7 million (2017: CHF 1.7 million) were recognized in the income statement.

9 Personnel expenses

	2018	2017
Personnel expenses		
CHF m		
Salaries and wages	315.1	297.2
Social security contributions	78.8	71.7
Employee benefit expenses for defined benefit plans	6.0	5.7
Total personnel expenses	**399.9**	**374.6**

As at December 31, 2018, the headcount was 5,739 (2017: 5,559). The average headcount over the year was 5,718 (2017: 5,534).

Salaries and wages include share-based payments expenses of CHF 4.6 million (2017: CHF 4.4 million). A bonus program is available for around 130 managers, which is linked to achieving financial targets set for the Group, the divisions, and individual objectives (see also note 19 'Employee participation plan').

The cost of the contributions to defined contribution plans, which is included in personnel expenses, amounted to CHF 14.6 million (2017: CHF 13.6 million).

10 Income taxes

	2018	2017
Income taxes		
CHF m		
Current income taxes	40.1	44.6
Deferred income taxes	– 2.1	– 1.1
Total income taxes	**38.0**	**43.5**

Analysis of tax expense

The following reconciliation explains the difference between the expected and the effective tax expense:

	2018	2017
CHF m		
Group profit before taxes	175.6	80.0
Tax expense at the expected tax rate	**– 43.4**	**– 19.4**
Tax effects of:		
Non-tax-deductible expenses	– 1.9	– 29.2
Tax-exempt income	3.4	4.2
Recognition of previously unrecognized tax losses	0.5	1.1
Utilization of previously unrecognized tax losses	1.3	0.8
Income taxes from sale of treasury shares		– 5.8
Previous-year taxes and other positions	2.1	4.8
Effective income tax expenses	**– 38.0**	**– 43.5**

Since the Group operates in various countries with different tax laws and rates, the expected and effective tax expense depends every year on the origin of the profits or losses in each country. The expected tax expense is the sum of the expected individual tax income/expense of all subsidiaries. The expected individual tax income/expense in a country is calculated by multiplying the individual profit/loss by the tax rate applicable in the country concerned. The expected tax rate in the year under review was 24.7% (2017: 24.2%).

Capitalized and non-capitalized tax loss carry-forwards, by expiry date:

2018

CHF m	Not capitalized	Capitalized	Total
Expiry after:			
1 year	0.0	0.0	0.0
2 years	0.0	0.0	0.0
3 years	1.1	0.0	1.1
4 years	2.2	0.3	2.5
5 years	4.5	0.0	4.5
More than 5 years	39.3	37.3	76.6
Total tax loss carry-forwards	**47.1**	**37.6**	**84.7**

2017

CHF m	Not capitalized	Capitalized	Total
Expiry after:			
1 year	0.0	0.0	0.0
2 years	0.0	0.1	0.1
3 years	0.0	0.1	0.1
4 years	1.1	0.0	1.1
5 years	2.0	0.0	2.0
More than 5 years	42.8	50.2	93.0
Total tax loss carry-forwards	**45.9**	**50.4**	**96.3**

In 2018, no tax loss carry-forwards expired unused (2017: CHF 1.0 million).

Deferred income tax assets and liabilities are offset when they relate to the same tax jurisdiction, provided that the legal right to offset exists, and they are intended either to be settled net or to be realized simultaneously.

The following amounts are shown in the balance sheet:

	31.12.2018	31.12.2017
CHF m		
Deferred tax assets	39.9	39.0
Deferred tax liabilities	– 12.1	– 10.8
Deferred tax assets, net	**27.8**	**28.2**

Deferred tax assets and liabilities, tax credits and tax charges from deferred taxes (gross):

Deferred tax assets

CHF m	Inventories	Property, plant, and equipment	Provisions	Loss carry-forwards	Employee benefit obligations	Other	Total
As at December 31, 2017	**7.7**	**1.4**	**7.7**	**13.6**	**17.5**	**5.9**	**53.8**
Changes recognized in income statement	– 0.3	0.0	2.5	– 2.8		– 1.1	– 1.7
Changes recognized in other comprehensive income					– 2.5		– 2.5
Translation differences	0.1	0.0	0.0	0.0	– 0.1	0.0	0.0
As at December 31, 2018	**7.5**	**1.4**	**10.2**	**10.8**	**14.9**	**4.8**	**49.6**
Netting							– 9.7
As at December 31, 2018, net							**39.9**

Deferred tax liabilities

CHF m	Inventories	Property, plant, and equipment	Provisions	Intangible assets	Employee benefit obligations	Other	Total
As at December 31, 2017	**3.2**	**3.6**	**3.7**	**13.4**	**0.0**	**1.7**	**25.6**
Changes in scope of consolidation	0.1			0.3			0.4
Changes recognized in income statement	– 0.6	– 0.5	– 1.6	– 1.2			– 3.9
Translation differences	0.0	0.0	0.0	– 0.3	0.0	0.0	– 0.3
As at December 31, 2018	**2.7**	**3.1**	**2.1**	**12.2**	**0.0**	**1.7**	**21.8**
Netting							– 9.7
As at December 31, 2018, net							**12.1**

Decrease in deferred tax assets, net	**– 0.4**

As at December 31, 2018, no deferred tax liabilities on undistributed profits from consolidated companies have been recognized, since this income is deemed to have been reinvested for an indefinite period.

Should there be a distribution, withholding and other taxes might be incurred, which upon decision may be provided for accordingly.

Tax expense and income recognized directly in the other comprehensive income statement:

	2018			2017		
CHF m	Before tax	Tax expense	After tax	Before tax	Tax expense	After tax
Actuarial gains/losses (–) on employee benefit obligations	14.0	– 2.5	11.5	6.9	– 1.2	5.7
Translation differences	– 29.6	0.0	– 29.6	36.1	0.0	36.1
Other comprehensive income	**– 15.6**	**– 2.5**	**– 18.1**	**43.0**	**– 1.2**	**41.8**

11 Earnings per share

Undiluted earnings per share are calculated by dividing the net profit or loss for the year attributable to shareholders of Forbo Holding Ltd by the weighted average number of registered shares issued and outstanding in the year under review.

The figure for diluted earnings per share also takes into account the potential dilution effects if all issued and in-the-money share entitlements (Long-Term Incentive Plan) were to be exercised.

The calculations are based on the following information:

	2018	2017
Group profit for the year from continuing operations in CHF million	137.6	36.5
Group profit for the year from discontinued operations after taxes in CHF million		2.2
Group profit for the year in CHF million	137.6	38.7
Weighted average number of shares	1,670,473	1,728,259
Amount of shares adjusted for long-term incentive plans (LTI)	96	
Weighted average number of shares used to calculate diluted earnings per share	1,670,569	1,728,259

12 Trade receivables

The application of IFRS 9 affected the calculation and presentation of the allowance for doubtful receivables because the 'incurred loss' model in IAS 39 was replaced by an 'expected credit loss' model, which means that credit losses are reported earlier under IFRS 9 than under IAS 39. Owing to the transition approach that has been chosen, IFRS 9 does not require any restatement of the previous year. The reassessment of the valuation of trade receivables resulted in an increase in the allowance for doubtful receivables of CHF 0.5 million as per January 1, 2018. This amount was taken to equity (CHF 0.4 million after tax).

	31.12.2018	31.12.2017
Trade receivables		
CHF m		
Accounts receivable	160.0	157.4
Notes receivable	15.4	18.7
Allowance for doubtful trade receivables	– 6.5	– 6.9
Total trade receivables	**168.9**	**169.2**

The Group's credit and market risks and allowances for doubtful receivables are found in Note 25 'Risk Assessment and Financial Risk Management'.

13 Inventories

	31.12.2018	31.12.2017
Inventories		
CHF m		
Raw-materials and supplies	46.4	48.6
Work in progress	73.6	73.3
Finished goods	138.7	135.7
Valuation allowance for inventories	– 28.6	– 31.0
Total inventories	**230.1**	**226.6**

Expenses for inventories recognized in the reporting year came to CHF 519.6 million (2017: CHF 487.4 million).

14 Property, plant, and equipment

Cost on acquisition CHF m	Land and buildings	Machinery and equipment	Other property, plant, and equipment	Assets under construction	Total property, plant, and equipment
As at January 1, 2017	**112.0**	**655.3**	**113.6**	**17.4**	**898.3**
Additions	0.9	6.6	1.8	48.1	57.4
Disposals	– 0.9	– 7.7	– 7.0		– 15.6
Transfers	0.5	17.2	1.4	– 19.1	
Translation differences	16.1	47.6	7.8	2.0	73.5
As at December 31, 2017	**128.6**	**719.0**	**117.6**	**48.4**	**1,013.6**
Changes in scope of consolidation		0.1			0.1
Additions	1.2	9.9	1.6	25.5	38.2
Disposals	– 0.3	– 12.2	– 1.2		– 13.7
Transfers	18.6	31.3	2.8	– 53.5	– 0.8
Translation differences	– 9.4	– 26.7	– 4.3	– 1.2	– 41.6
As at December 31, 2018	**138.7**	**721.4**	**116.5**	**19.2**	**995.8**

Accumulated depreciation and impairments CHF m	Land and buildings	Machinery and equipment	Other property, plant, and equipment	Assets under construction	Total property, plant, and equipment
As at January 1, 2017	**10.8**	**553.6**	**106.3**	**0.0**	**670.7**
Depreciation	6.5	21.9	3.4		31.8
Disposals	– 0.9	– 7.3	– 6.9		– 15.1
Translation differences	11.0	40.3	7.3		58.6
As at December 31, 2017	**27.4**	**608.5**	**110.1**	**0.0**	**746.0**
Depreciation	7.6	24.2	3.5		35.3
Disposals		– 12.1	– 1.2		– 13.3
Translation differences	– 5.7	– 22.1	– 3.8		– 31.6
As at December 31, 2018	**29.3**	**598.5**	**108.6**	**0.0**	**736.4**
Net carrying amount					
As at January 1, 2017	101.2	101.7	7.3	17.4	227.6
As at December 31, 2017	101.2	110.5	7.5	48.4	267.6
As at December 31, 2018	109.4	122.9	7.9	19.2	259.4

Property, plant, and equipment is recognized at amortized cost. As in the previous year, no impairments occurred in the year under review.

Maintenance and repair costs amounted to CHF 23.1 million (2017: CHF 21.7 million). The depreciation expense of CHF 35.3 million (2017: CHF 31.8 million) is included in the items 'Cost of goods sold', 'Development costs', 'Marketing and distribution costs', and 'Administrative costs'.

In the previous year, 'Property, plant, and equipment' included leased assets with a net book value of CHF 0.2 million. The leasing liability for fixed assets carried in the balance sheet amounted to CHF 0.2 million in the previous year.

As at December 31, 2018, there were no assets for which interest on borrowed capital was capitalized during the preparation phase.

As at December 31, 2018, the Group had outstanding purchase orders for capital goods amounting to CHF 3.1 million (2017: CHF 4.0 million).

15 Intangible assets and goodwill

Cost on acquisition CHF m	Goodwill	Trademarks	Other intangible assets	Total
As at January 1, 2017	**83.7**	**32.8**	**77.2**	**193.7**
Additions			0.4	0.4
Disposals			– 0.1	– 0.1
Translation differences	4.7	0.3	3.9	8.9
As at December 31, 2017	**88.4**	**33.1**	**81.4**	**202.9**
Changes in scope of consolidation			1.6	1.6
Additions			0.5	0.5
Transfers			0.8	0.8
Translation differences	– 2.6	– 0.4	– 3.5	– 6.5
As at December 31, 2018	**85.8**	**32.7**	**80.8**	**199.3**

Accumulated amortization and impairments CHF m	Goodwill	Trademarks	Other intangible assets	Total
As at January 1, 2017	**8.7**	**26.0**	**39.2**	**73.9**
Amortization		0.2	5.7	5.9
Disposals			– 0.1	– 0.1
Translation differences	0.6		0.2	0.8
As at December 31, 2017	**9.3**	**26.2**	**45.0**	**80.5**
Amortization		0.2	6.0	6.2
Translation differences	– 0.3	– 0.1	– 0.1	– 0.5
As at December 31, 2018	**9.0**	**26.3**	**50.9**	**86.2**
Net carrying amount				
As at January 1, 2017	75.0	6.8	38.0	119.8
As at December 31, 2017	79.1	6.9	36.4	122.4
As at December 31, 2018	76.8	6.4	29.9	113.1

The position 'Brands' consists mainly of the trademarks acquired in connection with the acquisition of Bonar Floors in 2008. 'Other intangible assets' consists primarily of the customer relations and technologies, as well as software, acquired as part of the acquisition of Bonar Floors.

Goodwill is distributed among the following groups of cash-generating units:

	31.12.2018	31.12.2017
Flooring Systems	72.6	74.8
Movement Systems	4.2	4.3
	76.8	**79.1**

The goodwill in Flooring Systems comprises primarily the goodwill acquired in connection with the acquisition of Bonar Floors. The annual impairment test of goodwill yielded a value in use that was greater than the carrying amount.

Intangible assets with an indefinite useful life (goodwill and trademarks) are subject to an annual impairment test at cash-generating unit level. The test is carried out using a standardized method with discounted cash flow for calculating the value in use. Cash flow for the first five years is estimated on the basis of the plan approved by management (detailed planning period).

Cash flows beyond the detailed planning period are extrapolated to the terminal value by means of using sustainable earnings. The growth rate underlying the terminal value equals the expected inflation. During the detailed planning period, relatively constant EBITDA margins are assumed, which are around 18% (2017: 18%) for Flooring Systems and around 16% (2017: 16%) for Movement Systems.

The discount rate corresponds to the total weighted cost of capital before taxes including an average risk charge estimated by management, and is 9.1% (previous year: 9.4%). The intangible assets with an indefinite useful life were subject to impairment testing also in the form of sensitivity analyses.

No change in the basic assumptions that can be regarded as reasonably realistic will result in the carrying amounts exceeding the recoverable amounts.

16 Accrued expenses and deferred income

Accrued expenses and deferred income	31.12.2018	31.12.2017
CHF m		
Accrued expenses for compensation and employee benefits	41.5	42.1
Other accrued expenses	46.2	49.4
Total accrued expenses and deferred income	**87.7**	**91.5**

Accrued expenses for compensation and employee benefits mainly comprise overtime accruals and commissions. Other accrued expenses include accrued volume rebates, commissions, premiums, interest and goods and services received but not yet invoiced.

17 Provisions

Provisions CHF m	Warranty provisions	Environmental provisions	Provisions for legal claims	Personnel provisions	Other provisions	Total
As at January 1, 2018	**5.3**	**8.4**	**20.3**	**12.4**	**4.7**	**51.1**
Additions	1.5		10.3	4.4	0.7	16.9
Used during the year	– 1.5		– 0.6	– 1.8	– 0.7	– 4.6
Released during the year			– 0.2	– 1.8	– 0.2	– 2.2
Translation differences	– 0.1	– 0.2		– 0.1	– 0.1	– 0.5
As at December 31, 2018	**5.2**	**8.2**	**29.8**	**13.1**	**4.4**	**60.7**
Of which current provisions	3.2	0.0	0.9	12.8	3.1	20.0
Of which non-current provisions	2.0	8.2	28.9	0.3	1.3	40.7

Warranty provisions are linked to product sales and are based on past experience. The provisions for legal claims relate in part to product liability claims in which the Group is involved in the course of its normal business. The personnel provisions include in particular the bonus programs, provisions for paid leave, and potential labor law issues.

Provisions for expected cash outflows arising in connection with the sale of the industrial adhesives activity, including synthetic polymers, which was part of the previous Bonding Systems division, to H.B. Fuller on March 5, 2012, exist for risks in the areas of environmental protection (CHF 4.2 million), litigation (CHF 3.0 million), and others (CHF 1.0 million).

18 Employee benefit obligations

The Group has established several pension plans on the basis of the specific requirements of the countries in which it operates. Both defined contribution and defined benefit plans exist in the Group that insure employees against the risks of death and invalidity and provide old-age pensions.

The liabilities and assets under the main defined benefit plans are assessed annually by independent actuaries using the 'projected unit credit method'.

Pension plans in the United Kingdom
The Group has two defined benefit pension plans in the United Kingdom. The main one is the Forbo Superannuation Fund (the FSF), which accounts for about 61% of the Group's total pension liabilities. The FSF is a pension plan whose benefits are based on the final salary and which pays out a guaranteed pension for life to its members. The FSF is closed to new entrants. The composition of the pension liabilities is as follows: 2% to active employees, 32% to deferred members and 66% to current beneficiaries. New employees in the United Kingdom who meet certain criteria are now offered a defined contribution plan.

The FSF operates under trust law and is managed and administered by the trustees on behalf of the members in accordance with the terms of the Trust Deed and Rules and relevant legislation. The FSF's assets are held by the trust. Responsibility for governance of the FSF – including investment decisions and contribution schedules – lies jointly with the company and the trustees. The board of the trustees must be composed of representatives of the company and plan participants in accordance with the FSF's regulations and British pension law.

The pension plan follows an investment strategy that is geared to the structure of the pension liabilities ('liability-driven investment' approach).

The use of any surplus is not subject to any restriction under the FSF's articles of incorporation and be used freely by the Group. These surpluses are therefore recognized in the balance sheet as assets in accordance with IAS 19 revised.

Pension plan in Switzerland
The Group pays contributions to an independent pension fund as part of the occupational pension provision (known in Switzerland as the 'second pillar'). As a minimum benefit, this independent pension fund must provide the beneficiary with an old-age pension at the time of retirement. This pension is paid out of the retirement savings capital at the start of the pension. The Group meets these liabilities through agreements with pension funds that cover the pension liabilities in full.

The pension liabilities of the Swiss Group companies account for about 17% of the Group's entire pension liabilities. 96% of the liabilities are to active members and 4% to retired beneficiaries.

The Swiss pension system includes guarantees that expose the company to the risk that it may have to provide additional financing, for instance, if the pension fund is unable to meet its obligations or decides to end the insurance relationship. The pension fund guarantees a minimum return and is responsible for the payment of a pension for life once the insurance benefits fall due. As a result of these guarantees, Swiss pension plans are treated as defined benefit plans under IFRS, even though they contain essential elements of defined contribution plans.

The company cannot participate in any surplus of the pension plan. According to Swiss pension law, all surpluses belong to the pension plan and hence to its members.

Other pension plans

Other notable defined benefit plans exist in France, Germany, Japan, Sweden, and the USA.

The latest actuarial valuations of the present values of defined benefit liabilities and of service costs were performed as at December 31, 2018, by independent actuaries using the projected unit credit method. The fair value of the plan assets was determined as at December 31, 2018, based on the information available when the annual financial statements were prepared. The weighted average duration of the pension plans ('plan duration') is 13.4 years for the United Kingdom, 19.4 years for Switzerland, and 15.4 years for the other countries.

The principal assumptions underlying the actuarial calculations are summarized as follows.

Actuarial assumptions	2018				2017			
	Switzerland	UK	Other	Weighted	Switzerland	UK	Other	Weighted
Discount rate (in %)	0.9	2.7	1.8	2.2	0.7	2.4	1.8	2.0
Future increases in salaries (in %)	1.9	3.9	2.8	2.4	1.8	4.1	2.7	2.4
Inflation rate (in %)	1.3	3.2	1.9	2.8	1.3	3.4	1.8	2.9
Life expectancy at age of 65 (in years)								
Year of birth 1953								
Men	23	21	20	21	22	22	20	21
Women	25	23	24	23	24	24	23	24
Year of birth 1968								
Men	24	23	22	23	24	23	21	23
Women	26	25	25	25	26	25	25	25

The pension costs for defined benefit plans recognized in the consolidated income statement can be summarized as follows:

Pension costs	2018				2017			
CHF m	Switzerland	UK	Other	Total	Switzerland	UK	Other	Total
Service cost	1.9	0.6	2.2	4.7	1.9	0.5	2.4	4.8
Interest costs	0.4	5.8	1.0	7.2	0.4	6.0	1.0	7.4
Interest income on plan assets	–0.3	–5.5	–0.1	–5.9	–0.3	–5.6	–0.1	–6.0
Curtailments and settlements					–0.5			–0.5
Total actuarial net periodic pension costs	**2.0**	**0.9**	**3.1**	**6.0**	**1.5**	**0.9**	**3.3**	**5.7**

Changes in pension liabilities under the defined benefit plans:

Benefit obligations				2018				2017
CHF m	Switzerland	UK	Other	Total	Switzerland	UK	Other	Total
As at January 1	**59.9**	**250.5**	**59.0**	**369.4**	**63.7**	**243.2**	**55.3**	**362.2**
Service cost	1.9	0.6	2.2	4.7	1.9	0.5	2.4	4.8
Employee contributions	0.9		0.0	0.9	1.0		0.0	1.0
Interest costs	0.4	5.8	1.0	7.2	0.4	6.0	1.0	7.4
Benefits paid	– 4.5	– 10.4	– 2.4	– 17.3	– 2.6	– 10.7	– 1.8	– 15.1
Actuarial gains (–)/losses	– 1.5	– 24.7	0.2	– 26.0	– 0.8	– 0.4	– 1.3	– 2.5
Curtailments and settlements			– 0.1	– 0.1	– 3.7			– 3.7
Translation differences		– 10.5	– 1.7	– 12.2		11.9	3.4	15.3
As at December 31	**57.1**	**211.3**	**58.2**	**326.6**	**59.9**	**250.5**	**59.0**	**369.4**

Changes in plan assets of the defined benefit plans at fair value:

Plan assets				2018				2017
CHF m	Switzerland	UK	Other	Total	Switzerland	UK	Other	Total
As at January 1	**39.5**	**236.3**	**5.9**	**281.7**	**42.2**	**225.6**	**5.7**	**273.5**
Interest income on plan assets	0.3	5.5	0.1	5.9	0.3	5.6	0.1	6.0
Employer contributions	1.6	0.3	2.3	4.2	1.7	0.1	1.9	3.7
Employee contributions	0.9		0.0	0.9	1.0		0.0	1.0
Return on pension assets (excluding amounts in interest income)	0.0	– 11.9	– 0.1	– 12.0	0.1	4.5	– 0.2	4.4
Benefits paid	– 4.5	– 10.4	– 2.4	– 17.3	– 2.6	– 10.7	– 1.8	– 15.1
Curtailments and settlements			– 0.1	– 0.1	– 3.2			– 3.2
Translation differences		– 10.3	– 0.1	– 10.4		11.2	0.2	11.4
As at December 31	**37.8**	**209.5**	**5.6**	**252.9**	**39.5**	**236.3**	**5.9**	**281.7**

Actuarial gains and losses are recognized in the balance sheet under 'Pension liabilities' and accounted for directly in the other comprehensive income.

Most of the pension plans are financed in full or in part via outsourced funds. Pension liabilities amounting to CHF 40.2 million (2017: CHF 40.3 million) out of a total of CHF 326.6 million (2017: CHF 369.4 million) are unfunded.

Changes in the net liabilities of defined benefit plans recognized in the balance sheet:

Net liabilities				2018				2017
CHF m	Switzerland	UK	Other	Total	Switzerland	UK	Other	Total
As at January 1	**20.4**	**14.2**	**53.1**	**87.7**	**21.5**	**17.6**	**49.6**	**88.7**
Net pension cost	2.0	0.9	3.1	6.0	1.5	0.9	3.3	5.7
Employer contributions	– 1.6	– 0.3	– 2.3	– 4.2	– 1.7	– 0.1	– 1.9	– 3.7
Actuarial gains (–)/losses	– 1.5	– 12.8	0.3	– 14.0	– 0.9	– 4.9	– 1.1	– 6.9
Translation differences		– 0.2	– 1.6	– 1.8		0.7	3.2	3.9
Net liabilities as at December 31	**19.3**	**1.8**	**52.6**	**73.7**	**20.4**	**14.2**	**53.1**	**87.7**

Gains and losses of defined benefit pension plans offset in the comprehensive income statement for all segments:

Recognized gains and losses in the comprehensive income statement				2018				2017
CHF m	Switzerland	UK	Other	Total	Switzerland	UK	Other	Total
Actuarial gains/losses (–) in the current period:	**1.5**	**24.7**	**– 0.2**	**26.0**	**0.8**	**0.4**	**1.3**	**2.5**
Based on adjustment of demographic assumptions		10.2	– 0.3	9.9		1.9		1.9
Based on adjustment of financial assumptions	1.4	12.2	– 1.2	12.4	– 0.8	– 1.8	0.4	– 2.2
Experience adjustment	0.1	2.3	1.3	3.7	1.6	0.3	0.9	2.8
Return on pension assets (excluding amounts in interest income)	0.0	– 11.9	– 0.1	– 12.0	0.1	4.5	– 0.2	4.4
Total gains/losses (–) recognized in the comprehensive income statement before taxes	**1.5**	**12.8**	**– 0.3**	**14.0**	**0.9**	**4.9**	**1.1**	**6.9**

Change in the present value of defined benefit liabilities:

	2018			2017		
Sensitivities + 50bp			+ 50bp			+ 50bp
CHF m	Switzerland	UK	Other	Switzerland	UK	Other
Discount rate	– 5.2	– 13.2	– 4.2	– 5.6	– 16.5	– 4.2
Rate of salary increase	1.6	0.1	2.6	1.6	0.2	2.7
Inflation rate	1.2	7.8	3.7	1.3	9.8	3.8
Interest credits on retirement assets	1.3			1.4		

Sensitivities – 50bp			– 50bp			– 50bp
CHF m	Switzerland	UK	Other	Switzerland	UK	Other
Discount rate	5.9	14.7	4.7	6.4	18.4	4.8
Rate of salary increase	– 1.6	– 0.1	– 2.4	– 1.7	– 0.2	– 2.4
Inflation rate	– 1.2	– 7.2	– 3.3	– 1.2	– 8.9	– 3.3
Interest credits on retirement assets	– 1.3			– 1.4		

The above table describes the effect of the principal actuarial assumptions on pension liabilities. The table shows the effect of an isolated change of a single parameter, assuming that all other parameters remain unchanged. The table illustrates the overall effect for each region. However, sensitivities may differ for individual plans within the regions. Sensitivity analysis aims to visualize the uncertainty in valuating pension liabilities under market conditions at the date of valuation. The results cannot be extrapolated owing to possible non-linear effects in the event of changes to the actuarial assumptions. Moreover, the analysis cannot say anything about the likelihood of these changes occurring, nor can it present the view of the Group regarding anticipated future changes in pension liabilities. Any measures taken by management to reduce the risks are also not taken into account in the analysis.

Weighted average asset allocation of the defined benefit plan assets as at December 31:

	2018	2017
%		
Shares	1.9	2.0
Bonds	43.8	46.2
Insurance contracts	15.0	15.4
Other securities	37.2	35.9
Cash and cash equivalents	2.1	0.5
Total plan assets as at December 31	**100.0**	**100.0**

'Shares', 'Bonds' and 'Other securities' were all quoted investments. 'Insurance contracts' reflects the plan assets of the fully insured companies in Switzerland. As of January 1, 2019, all Swiss companies have moved to a semi-autonomous insurance scheme. The plan assets do not include any direct shares or other securities of the Forbo Group.

Future contributions to defined benefit plans in the following year are estimated on the basis of the period under review.

Other non-current benefits

The Group does not finance any other non-current benefits. The plans for long-service bonuses and other benefits related to years of service are negligible or do not qualify as plans for other non-current benefits.

19 Employee participation plan

As of December 31, 2018, there existed the following share-based remuneration elements:

Remuneration of the Executive Board

Long-term incentive plan

The long-term Incentive consists of a performance share unit plan. At the start of the performance period, each member of the Executive Board is granted a given number of future subscription rights in the form of performance share units (PSUs). One PSU corresponds to a future subscription right to one share. The PSUs are subject to a three-year vesting period, after which they are converted into vested shares. At the end of the performance period, the company will determine whether the objectives set by the Board of Directors at the start of the performance period for the performance indicators have been reached. Depending on the degree to which the objectives are reached, a given percentage of the PSUs will be converted into shares after the three-year vesting period. Converted shares are locked up for a period of three years. The relevant share price for the allocation of PSUs at the start of the performance period is calculated from the unweighted average of the closing prices of the Forbo share in the first 14 trading days in January of the year in which the PSUs were allocated.

Management investment plan 2012
Short-term variable compensation for the Executive Board is linked to the Management Investment Plan (MIP), which was amended in 2012. According to this plan, at least 50% of the annual short-term variable remuneration of Executive Board members is paid into the MIP. As for the remaining 50% of the annual short-term variable remuneration, the Executive Board members may either draw all or part of it in cash or pay it into the MIP. They may redefine the allocation of this remaining 50% every year. The shares are locked up for a period of three years.

The portion of variable remuneration that is settled in the form of equity instruments is recognized at fair value and reported as a corresponding increase in equity. The shares distributed under the MIP are issued at the unweighted average closing price of the Forbo share for the first 14 trading days in January of the year in which they were issued.

The number of shares of Forbo Holding Ltd issued in the year under review under the MIP was 437 (2017: 1,039). A further 228 shares (2017: 320) were allocated to Executive Board members in the reporting year as part of the fix base salary. The share price at measurement date was CHF 1,568 (2017: CHF 1,356).

Remuneration of the Board of Directors
The remuneration of the Executive Chairman of the Board of Directors is mainly in locked-up shares. The details and figures for this remuneration model are to be found on page 135 of this Financial Report and on pages 81, 82 and 88 of the Remuneration Report. The number of shares with a three-year vesting period allocated to the non-executive members of the Board of Directors came to 241 in the reporting year (2017: 212).

The amount charged to the income statement in application of IFRS 2 for shares issued came to CHF 4.6 million in the year under review (2017: CHF 4.4 million).

20 Share capital and capital management

Share capital
As at December 31, 2018, the share capital of Forbo Holding Ltd stood at CHF 180,000 (2017: CHF 180,000), divided into 1,800,000 registered shares with a par value of CHF 0.10 each. Of this amount 21,419 registered shares without voting or dividend rights are unchanged at the disposal of the Board of Directors. Consequently, 1,778,581 registered shares were still eligible for dividends as at December 31, 2018.

Change of shares issued and outstanding:

	31.12.2018 Number	Change Number	31.12.2017 Number
Total shares outstanding	**1,800,000**	**0**	**1,800,000**
Treasury shares			
Shares with dividend rights:			
Treasury shares	26,863	15,831	11,032
Share buyback programs	150,000	86,895	63,105
Own shares with no dividend rights	21,419		21,419
Total treasury shares	**198,282**	**102,726**	**95,556**
Total shares issued and outstanding	**1,601,718**	**– 102,726**	**1,704,444**

Capital management
By capital management, the Group means management of consolidated shareholders' equity as well as optimization of the capital employed. The former includes the fully paid up share capital, the positions 'Treasury shares', 'Reserves', and 'Translation differences' and, as per December 31, 2018, it amounted to CHF 591.6 million (2017: CHF 661.2 million).

21 Discontinued operations and assets held for sale as well as liabilities directly associated with assets held for sale

As reported in note 17 'Provisions', there are still provisions amounting to CHF 8.2 million that arise in connection with the sale of the industrial adhesives activity, including synthetic polymers, of the former Bonding Systems division. This division was sold to H.B. Fuller on March 5, 2012, for CHF 384.7 million.

In this connection, provisions amounting to CHF 2.8 million, or CHF 2.2 million after tax, were released in the previous year owing to the expiry of warranty periods.

22 Contingent liabilities

The antitrust proceedings originally brought against leading flooring manufacturers in France in 2013 and carried since then as a contingent liability were concluded. The one-off costs for Forbo, which were booked to Operating profit in 'Other operating expenses' in 2017, came to CHF 83.4 million.

23 Leasing

	31.12.2018	31.12.2017
Leasing		
CHF m		
Operating leasing liabilities:		
Up to 1 year	8.0	7.3
2 – 5 years	19.2	17.1
More than 5 years	1.1	2.4
Total operating leasing liabilities	**28.3**	**26.8**

Expenses for operating leasing and rentals charged to the 2018 income statement totaled CHF 20.8 million (2017: CHF 19.7 million). The Group has no individually significant operating leasing contracts.

24 Financial instruments

The effect of the first-time adoption of IFRS 9 is described in Note 4 'Application of new or revised accounting standards' and Note 12 'Trade receivables'.

Classification and fair values

The table below shows the carrying amounts and fair values of financial assets and financial liabilities. It does not contain any information on the fair value of financial assets and financial liabilities if the book value constitutes an appropriate approximate value for their current fair value.

Classification of financial instruments

	Carrying amount			
CHF m	Fair value through profit or loss	Fair value through OCI	Amortized cost	Total
31.12.2018				
Financial assets valued at fair value:				
Derivative financial instruments	0.1			0.1
Financial assets valued at amortized costs:				
Non-current financial assets			0.3	0.3
Trade receivables			168.9	168.9
Other receivables			5.2	5.2
Cash and cash equivalents			127.4	127.4
Financial liabilities valued at fair value:				
Derivative financial instruments				
Financial liabilities valued at amortized costs:				
Non-current financial debt				
Trade payables			109.2	109.2
Current financial debt			0.1	0.1
Other current liabilities			15.0	15.0

The item 'Derivate financial instruments' contains open foreign exchange hedging and swap transactions with a contract value at December 31, 2018 totaling CHF 56.9 million. The foreign exchange rates can be directly observed or determined. The derivatives are therefore assigned to hierarchy level 2. 'Current financial debt' consists of checks issued but not cashed.

Classification of financial instruments

				Carrying amount
CHF m	Fair value through profit or loss – held for trading	Loans and receivables	Other financial liabilities	Total
31.12.2017				
Financial assets valued at fair value:				
Financial assets valued at amortized costs:				
Other non-current financial assets		0.3		0.3
Trade receivables		169.2		169.2
Other receivables		4.6		4.6
Cash and cash equivalents				195.4
Financial liabilities valued at fair value:				
Financial liabilities valued at amortized costs:				
Non-current financial debt			0.2	0.2
Trade payables			105.9	105.9
Current financial debt			0.2	0.2
Other current liabilities			16.4	16.4

The carrying amount of the financial assets and financial liabilities valued at amortized cost is a reasonable approximation for the fair value. The Group did not hold any significant financial instruments measured at recurring fair value nor was there any regrouping between the levels of the fair value hierarchy.

25 Risk assessment and financial risk management

The tasks of the Board of Directors include identifying risks, determining suitable measures, and implementing those measures or having them implemented. The Board of Directors of Forbo Holding Ltd conducted a Group-wide risk assessment in the reporting year and also determined the risks to be managed by particular management levels. The Board of Directors is closely involved in the assessment of strategic risks and, in consultation with the Executive Board, ensures that operational risks are dealt with appropriately and that they are duly reported. This approach gives the Board a complete overview of the key risks and measures. This broad overview enables the Group to set priorities and allocate the necessary resources.

The Group is exposed to the following risks arising from the use of financial instruments:

– Market risk
– Liquidity risk
– Default risk

Market risk
In its day-to-day operations, the Group uses derivative and non-derivative financial instruments to manage the risks and opportunities arising from fluctuations in exchange rates and interest rates. The various risks associated with existing assets and liabilities as well as planned and anticipated transactions are monitored and managed centrally – with due regard to the Group's overall risk exposure. In line with the Group's hedging policy, Corporate Treasury constantly monitors both the risk exposure and the effectiveness of the hedging instruments and issues recommendations with regard to partial or complete hedging of existing risks.

The Group uses derivative financial instruments solely to manage financial risks and not for the purpose of speculation. To hedge its currency risks, the Group uses mainly currency cash transactions, forward currency contracts, and currency swap transactions. In order to manage counterparty risk, derivative financial transactions are concluded only with first-class banks. The creditworthiness of these institutions is assessed on the basis of evaluations by leading rating agencies.

No hedge accounting was used in this context in 2018 or 2017.

Foreign exchange risk management
Risks arising from short-term currency exposure created by purchases and sales of goods and services (transaction risks) are identified, and selective hedging strategies are implemented in line with an ongoing assessment of exchange rate movements. The Group uses foreign exchange forward and option contracts with maturities of up to 15 months to hedge against transaction risk.

Furthermore, risks associated with the translation of assets and liabilities denominated in foreign currencies (translation risks) are managed by establishing an appropriate financing policy.

A realistic assessment of changes in interest rates for the US dollar, the euro, the pound sterling and the Swiss franc has no significant impact on the result and the equity of the Group from the valuation of transactions with financial instruments.

Interest rate risks
Interest rate risks arise from changes in the fair value of interest-bearing assets and liabilities caused by fluctuations in interest rates. Since these risks may have a negative effect on net financial profit and shareholders' equity, the Group uses derivatives to manage them on a case-by-case basis. A realistic assessment of changes in interest rates for the US dollar, the euro, the pound sterling and the Swiss franc has no significant impact on the result and the equity of the Group from the valuation of transactions with financial instruments.

Liquidity risk
Liquidity risk is the risk that the Group may possibly be unable to meet contractually agreed financial obligations that are settled by delivering cash or other financial assets. Group companies need sufficient cash in order to meet their commitments. Corporate Treasury is responsible for managing liquidity. The share of the aggregate cash and cash equivalents managed by Corporate Treasury was around 55% on December 31, 2018. At present, the Group regards a cash level of roughly CHF 60 million as sufficient to meet its payment obligations at all times.

The maturity structure of the existing financial liabilities is shown in the following table. These liabilities correspond to contractually agreed maturities and represent nominal payment outflows. Inflows and outflows of funds from derivative financial instruments are shown separately.

As at December 31, 2018

CHF m	Remaining term to maturity up to 1 year	Remaining term to maturity 1 – 2 years	Remaining term to maturity 2 – 5 years	Remaining term to maturity over 5 years
Interest-free liabilities	124.3			
Liabilities from finance leasing	0.0			

As at December 31, 2017

CHF m	Remaining term to maturity up to 1 year	Remaining term to maturity 1 – 2 years	Remaining term to maturity 2 – 5 years	Remaining term to maturity over 5 years
Interest-free liabilities	122.5			
Liabilities from finance leasing	0.0	0.2		

Default risk

Default risk is the risk of financial losses in the event that a customer or the counterparty in a financial instrument fails to meet his or its obligations. The risk consists mainly of trade receivables and bank accounts or short-term deposits with banks. The maximum amount of the default risk is the book value of the financial assets.

The Group recognizes allowances for expected credit losses on financial instruments that are reported at amortized costs. It assesses at the end of each reporting period whether there is an objective basis for further impairment of a financial asset and whether the allowances made are still appropriate.

The Group considers a financial asset to be in default if it is unlikely that the borrower can pay his obligation to the Group in full without the Group having to take recourse to measures such as the realization of collateral.

Cash and cash equivalents

With regard to counterparty risk exposure to banks, Group-wide directives stipulate that financial investments and other financial transactions are to be made only with first-class banks. Given the credit ratings of these counterparties, the Group does not anticipate any defaults.

Trade receivables

The Group's default risk is affected mainly by the individual characteristics of its customers. Management, however, also takes into account the characteristics of the customer base as a whole, including the default risk of the sector and of the countries in which the customers operate, since these factors may also affect the default risk.

To manage this risk adequately, the financial creditworthiness of various customers is constantly monitored. Credit risks are diversified by the company's broad customer base in various business segments and geographic regions.

Carrying amounts of trade receivables by currency:

	31.12.2018	31.12.2017
CHF m		
CHF	1.3	1.6
EUR	82.2	85.6
USD	26.4	25.7
JPY	14.2	13.1
GBP	9.8	10.4
CNY	8.5	8.2
SEK	4.4	5.2
Other	28.6	26.3
Total trade receivables, gross	**175.4**	**176.1**

The Group employs a permissible, simplified model of valuation allowances ('provision matrix') for trade receivables. In this valuation allowance table, expected losses on receivables are determined on the balance sheet date on the basis of past experience of default probability and of future-oriented expectations based on experience with the customers and market conditions.

As at December 31, 2018				
CHF m	Gross carrying amount	Loss allowance	Weighted average loss rate	Credit impaired
Not due	147.8	2.0	1.4%	0.2
Overdue ≤ 30 days	14.7	0.5	3.4%	0.1
Overdue 31 – 90 days	6.5	0.3	4.6%	0.1
Overdue 91 – 180 days	3.6	0.9	25.0%	0.3
Overdue > 180 days	2.8	1.5	53.6%	0.6
Total	**175.4**	**5.2**	**3.0%**	**1.3**

Changes in valuation allowances for doubtful trade receivables during the reporting year:

	2018	2017
CHF m		
As at January 1 (before application of IFRS 9)	**–6.9**	**–5.6**
Effect of application of IFRS 9	–0.5	
January 1, restated	**–7.4**	
Additions	–0.4	–1.5
Release	0.4	0.1
Use	0.8	0.4
Translation differences	0.1	–0.3
As at December 31	**–6.5**	**–6.9**

Information on the previous year (2017) according to IAS 39

The age structure of the receivables was as follows at December 31, 2017:

	31.12.2017
CHF m	
Total trade receivables, gross	**176.1**
Not due	148.6
Overdue ≤ 30 days	14.8
Overdue 31 – 90 days	6.2
Overdue 91 – 180 days	3.1
Overdue > 180 days	3.4
Allowance for doubtful trade receivables	– 6.9
Total trade receivables	**169.2**

Of the total of CHF 27.5 million in trade receivables past due as at December 31, 2017, CHF 23.1 million was not subject to a valuation allowance. Allowances of CHF 2.1 million were made for trade receivables not yet due and of CHF 4.8 million for trade receivables past due.

The creation and release of allowances for doubtful trade receivables are included in 'Other operating expenses and income' in the income statement.

26 Related party transactions

Compensation paid to members of the Board of Directors and Executive Board:

	Executive Board		Board of Directors		Total	
CHF m	2018	2017	2018	2017	2018	2017
Remuneration	1.47	1.79	1.03	0.99	2.50	2.78
Employer contributions to the pension scheme	0.22	0.24	0.18	0.18	0.40	0.42
Share-based payments	0.96	1.10	2.60	2.60	3.56	3.70
Total payments	**2.65**	**3.13**	**3.81**	**3.77**	**6.46**	**6.90**

The compensation paid to the Executive Board consists of a fixed gross base salary, short-term variable remuneration in cash, private use of the company car, and social security payments made by the company. Employer contributions to the pension fund are reported separately. The share-based remuneration paid to the Executive Board consists of the following elements: a fixed base salary portion, which is paid in shares of Forbo Holding Ltd; short-term variable remuneration under the Management Investment Plan (MIP) for the reporting year; and the future subscription rights, awarded in the form of performance share units for the long-term incentive plans 2017 – 2019 and 2018 – 2020 (see note 19 'Employee participation plan').

The remuneration paid to the Board of Directors includes a gross base remuneration in cash, employer contributions to the usual social insurances, lump sum and on-site expenses, and private use of the company car (only for the Executive Chairman).

The share-based remuneration paid to the Board of Directors includes a gross base remuneration in shares, consisting on the one hand of a 40% portion of the remuneration in shares for the non-executive Board members and, on the other hand, of the share-based portion of the remuneration for the Executive Chairman.

As at December 31, 2018 and 2017, the Group had no significant receivables due from or liabilities to related parties.

27 Events after the balance sheet date

Between the balance sheet date and the date of publication of this annual report no event occurred that could have a significant effect on the 2018 annual financial statements.

Group companies (as at December 31, 2018)

Group company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Move-ment Systems	Holding/ Services
Australia								
Forbo Floorcoverings Pty. Ltd.	Wetherill Park, NSW		AUD	1,400,000	100%	S		
Forbo Siegling Pty. Ltd.	Wetherill Park, NSW		AUD	7,100,000	100%		S	
Austria								
Forbo Flooring Austria GmbH	Vienna		EUR	73,000	100%	S		
Forbo Siegling Austria Ges.m.b.H.	Vienna		EUR	330,000	100%		S	
Belgium								
Forbo Flooring N.V.	Groot-Bijgaarden		EUR	250,000	100%	S		
Brazil								
Forbo Pisos Ltda.	São Paulo		BRL	16,564,200	100%	S		
Forbo Siegling Brasil Ltda.	São Paulo	N	BRL	7,008,746	50%		MS	
Canada								
Forbo Flooring Canada Corp.	Halifax		CAD	500,200	100%	S		
Forbo Siegling Canada Corp.	Halifax		CAD	501,000	100%		S	
Chile								
Forbo Siegling Chile S.A.	Santiago	N	CLP	313,090,945	50%		S	
Czech Republic								
Forbo Siegling Česká republika s.r.o.	Liberec		CZK	100,000	100%		S	
Forbo s.r.o.	Prague		CZK	500,000	100%	S		
Denmark								
Forbo Flooring A/S	Glostrup		DKK	500,000	100%	S		
Forbo Siegling Danmark A/S	Brøndby		DKK	32,300,000	100%		MS	
Finland								
Forbo Flooring Finland Oy	Helsinki		EUR	33,638	100%	S		
France								
Forbo Château-Renault S.A.S.	Château-Renault		EUR	1,000,000	100%	MS		
Forbo Participations S.A.S.	Reims	D	EUR	5,000,000	100%			H
Forbo Reims SNC	Reims		EUR	3,879,810	100%	MS		
Forbo Sarlino S.A.S.	Reims		EUR	6,400,000	100%	S		
Forbo Siegling France S.A.S.	Lomme		EUR	819,000	100%		S	

S Sales
MS Manufacturing and Sales
H Holding/Services
N Not consolidated as at December 31, 2018
D Direct participation of Forbo Holding Ltd

Group company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Move-ment Systems	Holding/ Services
Germany								
Forbo Beteiligungen GmbH	Lörrach	D	EUR	15,400,000	100%			H
Forbo Eurocol Deutschland GmbH	Erfurt		EUR	2,050,000	100%	MS		
Forbo Flooring GmbH	Paderborn		EUR	500,000	100%	S		
Forbo Siegling GmbH	Hanover		EUR	10,230,000	100%		MS	
Realbelt GmbH	Lörrach		EUR	100,000	100%		S	
Great Britain								
Forbo Flooring UK Ltd.	Derbyshire		GBP	22,000,000	100%	MS		
Forbo Floors UK Ltd.	Kirkcaldy		GBP	4	100%			H
Forbo-Nairn Ltd.	Derbyshire		GBP	8,000,000	100%			H
Forbo Siegling (UK) Ltd.	Dukinfield		GBP	50,774	100%		S	
Forbo UK Ltd.	Derbyshire		GBP	49,500,000	100%			H
Westbond Ltd.	Derbyshire		GBP	400,000	100%			H
Hong Kong								
Forbo International Hong Kong Ltd.	Hong Kong		HKD	1	100%			H
India								
Forbo Flooring India Pvt. Ltd.	Delhi		INR	15,000,000	100%	S		
Forbo Siegling Movement Systems India Pvt. Ltd.	Pune		INR	26,000,000	100%		S	
Indonesia								
PT Forbo Siegling Indonesia	Kabupaten Bandung		IDR	6,344,580,000	100%		S	
Ireland								
Forbo Ireland Ltd.	Dublin		EUR	125,000	100%	S		
Italy								
Forbo Resilienti S.r.l.	Segrate (Milan)		EUR	60,000	100%	S		
Forbo Siegling Italia S.p.A.	Paderno Dugnano (Milan)		EUR	120,000	100%		S	
Tema S.r.l.	Parma		EUR	50,000	100%		S	
Japan								
Forbo Siegling Japan Ltd.	Tokyo		JPY	330,000,000	100%		MS	
Malaysia								
Forbo Siegling SDN. BHD.	Johor Bahru		MYR	2,500,002	100%		S	
Mexico								
Forbo Siegling, S.A. de C.V.	Tlalnepantla	D	MXN	24,676,404	100%		MS	

S Sales
MS Manufacturing and Sales
H Holding/Services
N Not consolidated as at December 31, 2018
D Direct participation of Forbo Holding Ltd

Group company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Movement Systems	Holding/ Services
Netherlands								
Forbo Eurocol Nederland B.V.	Zaanstad		EUR	454,000	100%	MS		
Forbo Flooring B.V.	Krommenie		EUR	11,350,000	100%	MS		
Forbo Flooring Coral N.V.	Krommenie		EUR	1,944,500	100%	MS		
Forbo NL Holding B.V.	Krommenie		EUR	13,500,000	100%			H
Forbo-Novilon B.V.	Coevorden		EUR	3,624,000	100%	MS		
Forbo Siegling Nederland B.V.	Spankeren		EUR	113,445	100%		S	
New Zealand								
Forbo Siegling Ltd.	Auckland		NZD	650,000	100%		S	
Norway								
Forbo Flooring AS	Asker		NOK	1,000,000	100%	S		
Transmeca AS	Oslo		NOK	100,000	100%		S	
People's Republic of China								
Forbo Movement Systems (China) Co., Ltd.	Pinghu		USD	25,000,000	100%		MS	
Forbo Shanghai Co., Ltd.	Shanghai		CHF	4,000,000	100%	S		
Forbo Siegling (China) Co., Ltd.	Shenyang		USD	16,221,000	100%		MS	
Portugal								
Forbo-Revestimentos, S.A.	Maia (Porto)		EUR	74,850	100%	S		
Romania								
Forbo Siegling Romania S.R.L.	Bucharest		RON	38,000	100%		S	
Russia								
OOO 'Forbo Flooring'	Moscow		RUB	500,000	100%	S		
OOO 'Forbo Kaluga'	Moscow		RUB	158,313,780	100%	MS		
OOO 'Forbo Siegling CIS'	Saint Petersburg		RUB	400,000	100%		S	
OOO 'Forbo Eurocol RUS'	Stary Oskol		RUB	187,181,000	100%	MS		
Slovakia								
Forbo Siegling s.r.o.	Malacky		EUR	15,281,639	100%		MS	
South Korea								
Forbo Korea Ltd.	Seoul		KRW	900,000,000	100%	S	S	

S Sales
MS Manufacturing and Sales
H Holding/Services
N Not consolidated as at December 31, 2018
D Direct participation of Forbo Holding Ltd

Group company	Registered office		Currency	Share capital	Equity interest	Flooring Systems	Movement Systems	Holding/ Services
Spain								
Forbo Pavimentos, S.A.	Barcelona		EUR	60,101	100%	S		
Forbo Siegling Iberica, S.A.U.	Montcada i Reixac (Barcelona)		EUR	1,532,550	100%		S	
Sweden								
Forbo Flooring AB	Gothenburg		SEK	8,000,000	100%	S		
Forbo Siegling Svenska AB	Kållered (Gothenburg)		SEK	1,000,000	100%		S	
Switzerland								
Forbo Financial Services AG	Baar	D	CHF	100,000	100%			H
Forbo Finanz AG	Baar	D	CHF	10,000,000	100%			H
Forbo Finanz II AG	Baar		CHF	250,000	100%			H
Forbo-Giubiasco SA	Giubiasco		CHF	100,000	100%	MS		
Forbo International SA	Baar	D	CHF	100,000	100%		MS	H
Thailand								
Forbo Siegling (Thailand) Co. Ltd.	Samut Prakan	D	THB	13,005,000	100%		S	
Turkey								
Forbo Hareket ve Zemin Sistemleri Ticaret Limited Şirketi	Istanbul		TRY	5,500,000	100%	S	S	
United Arab Emirates								
Forbo Flooring Middle East DMCC	Dubai		AED	499,000	100%	S		
USA								
Forbo America Inc.	Wilmington, DE	D	USD	19,957,259	100%			H
Forbo America Services Inc.	Wilmington, DE		USD	50,000	100%			H
Forbo Flooring, Inc.	Wilmington, DE		USD	3,517,000	100%	S		
Forbo Siegling, LLC	Wilmington, DE		USD	15,455,000	100%		MS	

S Sales
MS Manufacturing and Sales
H Holding/Services
N Not consolidated as at December 31, 2018
D Direct participation of Forbo Holding Ltd

Report of the statutory auditor

Statutory Auditor’s Report

To the General Meeting of Forbo Holding Ltd, Baar

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Forbo Holding Ltd and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018 and the consolidated income statement, consolidated comprehensive income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 94 to 139) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Revenue recognition

Valuation of inventories

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Key Audit Matter

Total consolidated net sales of the financial year 2018 amounted to CHF 1,327.0 million (2017: CHF 1,246.4 million). The segment Flooring Systems contributed CHF 913.2 million (2017: CHF 856.6 million) or 68.8% (2017: 68.7%) to total net sales, while the segment Movement Systems realized CHF 413.8 million (2017: CHF 389.8 million), representing 31.2% of total net sales (2017: 31.3%).

Net sales are a key performance indicator for Forbo and therefore in the focus of internal and external stakeholders. Consequently, when performing the audit we had a focus on existence of revenue transactions and their recognition in the appropriate period.

In both segments, sales arrangements are based on standardized commercial terms and conditions, which govern the transfer of risk and rewards. In the light of the implementation of IFRS 15, Forbo has analyzed the business models applied and concluded that the timing of the transfer of control is identical with the transfer of risk and rewards. Specific terms of contracts may be used depending on the region and the industry of the buyer. Owing to the types of products sold by either segment of the Group, the contractual sales arrangements are not complex. Due to the large number of transactions, the proper recognition of revenue nevertheless depends on a functioning internal control system, adapted to local circumstances. Furthermore, accurate data on volumes and prices are central to revenue recognition.

Our response

We mainly performed the following audit procedures:

— We analyzed the process from the purchase order to the receipt of payment and assessed whether transactions are completely and accurately recorded in the accounts.

— Considering the diverse design of internal control and IT systems of individual subsidiaries, we tested the operating effectiveness of identified key controls relating to the proper recognition of revenue.

— Based on a statistical sample of delivery notes and payments received, we assessed the existence of revenues and their recognition in the correct period in compliance with IFRS 15.

— We furthermore performed analytical procedures on a segment level as well as on the level of specific individual entities. These included analyses of price and volume deviations, margin development, the largest clients and the most-sold products as well as analyses of the distribution of sales throughout the year and specific months.

For further information on revenue recognition refer to the following:

— Note 2 – Summary of significant accounting policies: net sales and revenue recognition, page 101

— Note 4 – Application of new or revised accounting standards, page 107

— Note 5 – Segment reporting, page 109 – 111

Report of the statutory auditor

Valuation of inventories

Key Audit Matter

Inventory as at 31 December 2018 amounted to CHF 230.1 million (31 December 2017: CHF 226.6 million) and represents one of the most material asset positions. Valuation of inventories is consequently of significance to an understanding of the financial statements.

Inventory is recognized at acquisition or manufacturing costs and periodically assessed in terms of recoverability. For work in progress and finished goods that include a significant value added, the determination of manufacturing costs partly requires judgment.

Additionally, there is a risk that for work in progress and finished goods the manufacturing costs exceed the actual sales price less selling, distribution and administrative costs (net realizable value).

Furthermore, determining valuation allowances involves a degree of judgment.

Our response

We mainly performed the following audit procedures:

— We obtained an understanding of the process related to controls on incoming and outgoing goods and related to the identification of obsolete inventories. Based on this we critically assessed whether transactions are completely and accurately recorded in the accounts.

— Considering the diverse design of internal control and IT systems of individual subsidiaries, we tested the operating effectiveness of identified key controls relating to existence and valuation of inventories.

— We analyzed the valuation basis of individual inventory items by reference to the cost calculation of the inventory for different materials, assessed changes in the valuation basis and method and challenged changes in unit costs.

— We critically assessed the adequacy of the processes to identify, as well as the basis and the method to value, obsolete inventories. We recalculated the valuation allowance for obsolete inventories and, based on a sample, reconciled it to the underlying documentation. Furthermore, in testing the valuation of inventories at lower of cost or net realizable value, we compared costs and sales prices by reference to a sample.

For further information on inventories refer to the following:

— Note 2 – Summary of significant accounting policies: inventories, page 105
— Note 16 – Inventories, page 116

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Report of the statutory auditor

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

KPMG AG

Rolf Hauenstein Licensed Audit Expert Auditor in Charge	Regula Tobler Licensed Audit Expert

Zurich, 27 February 2019

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

Consolidated balance sheets 2014 – 2018

	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Assets					
CHF m					
Current assets	**567.3**	**638.2**	**601.2**	**509.3**	**677.1**
Cash and cash equivalents	127.4	195.4	209.7	116.3	205.1
Current financial assets	0.1	0.0	0.0	0.0	49.5
Trade receivables	168.9	169.2	151.4	147.3	150.6
Other receivables	26.0	27.6	19.8	18.8	24.0
Accrued income and deferred expenses	14.8	19.4	13.9	12.4	17.3
Inventories	230.1	226.6	206.4	214.5	230.6
Non-current assets	**412.7**	**429.3**	**388.1**	**402.8**	**418.5**
Non-current financial assets	0.3	0.3	0.2	0.3	0.3
Deferred tax assets	39.9	39.0	40.5	39.5	37.2
Property, plant, and equipment	259.4	267.6	227.6	227.3	234.9
Intangible assets and goodwill	113.1	122.4	119.8	135.7	146.1
Total assets	**980.0**	**1,067.5**	**989.3**	**912.1**	**1,095.6**

	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Shareholders' equity and liabilities					
CHF m					
Current liabilities	**261.9**	**275.3**	**241.8**	**232.2**	**244.2**
Current financial debt	0.1	0.2	0.1	0.1	0.6
Trade payables	109.2	105.9	95.4	77.4	86.5
Other current liabilities	28.7	32.4	24.2	36.5	30.0
Current tax liabilities	16.2	26.5	20.4	20.3	18.9
Current provisions, accrued expenses, and deferred income	107.7	110.3	101.7	97.9	108.2
Non-current liabilities	**126.5**	**131.0**	**126.1**	**120.7**	**112.6**
Non-current financial debt	0.0	0.2	0.4	0.9	1.4
Deferred tax liabilities	12.1	10.8	10.9	24.0	26.5
Non-current provisions	40.7	32.3	26.1	25.7	24.2
Employee benefit obligations	73.7	87.7	88.7	70.1	60.5
Total liabilities	**388.4**	**406.3**	**367.9**	**352.9**	**356.8**
Shareholders' equity	**591.6**	**661.2**	**621.4**	**559.2**	**738.8**
Share capital	0.2	0.2	0.2	0.2	0.2
Treasury shares	– 0.1	– 0.1	– 0.1	– 0.1	– 0.1
Reserves and retained earnings	591.5	661.1	621.3	559.1	738.7
Total shareholders' equity and liabilities	**980.0**	**1,067.5**	**989.3**	**912.1**	**1,095.6**

Consolidated income statements 2014 – 2018

	2018	2017	2016	2015	2014
CHF m					
Net sales	**1,327.0**	**1,246.4**	**1,185.5**	**1,139.1**	**1,226.8**
Cost of goods sold	– 824.9	– 764.5	– 715.2	– 698.3	– 765.8
Gross profit	**502.1**	**481.9**	**470.3**	**440.8**	**461.0**
Development costs	– 16.6	– 15.5	– 15.1	– 15.1	– 16.5
Marketing and distribution costs	– 198.1	– 195.8	– 190.7	– 181.1	– 196.6
Administrative costs	– 96.1	– 94.7	– 95.0	– 89.8	– 94.2
Other operating expenses	– 23.5	– 106.5	– 16.7	– 16.6	– 13.2
Other operating income	7.5	10.5	4.4	4.6	8.9
Operating profit	**175.3**	**79.9**	**157.2**	**142.8**	**149.4**
Financial income	0.9	0.9	2.0	2.0	5.9
Financial expenses	– 0.6	– 0.8	– 0.1	– 0.4	– 1.0
Group profit before taxes	**175.6**	**80.0**	**159.1**	**144.4**	**154.3**
Income taxes	– 38.0	– 43.5	– 31.5	– 28.7	– 30.9
Group profit for the year from continuing operations	**137.6**	**36.5**	**127.6**	**115.7**	**123.4**
Group profit for the year from discontinued operations after taxes	**0.0**	**2.2**	**0.0**	**0.0**	**0.2**
Group profit for the year	**137.6**	**38.7**	**127.6**	**115.7**	**123.6**

FINANCIAL REPORT

Balance sheet for Forbo Holding Ltd (before appropriation of available earnings)

		31.12.2018	31.12.2017
Assets			
CHF	Note		
Current assets		**42,144,461**	**16,659,198**
Cash and cash equivalents		3,127,948	1,793,619
Other receivables from Group companies	2	38,921,310	14,832,406
Current tax receivables	5	62,670	
Accrued income and deferred expenses		32,533	33,173
Non-current assets		**423,948,017**	**423,964,089**
Loans to Group companies	3	118,938,014	118,938,256
Investments in Group companies	4	305,010,003	305,025,833
Total assets		**466,092,478**	**440,623,287**

		31.12.2018	31.12.2017
Shareholders' equity and liabilities			
CHF	Note		
Current liabilities		**482,103**	**16,105,779**
Current liabilities to third parties		157,503	143,509
Other liabilities to Group companies	2		11,992,390
Accrued expenses and deferred income		324,600	324,047
Current tax liabilities	5		3,645,833
Shareholders' equity		**465,610,375**	**424,517,508**
Share capital	6	180,000	180,000
Statutory reserves:			
General reserves		15,600,000	15,600,000
Capital contribution reserves		15,302	15,302
Reserves for treasury shares	8	5,669,005	1,008,066
Available earnings:			
Retained earnings		475,362,702	420,047,659
Net profit for the year		225,439,863	91,248,219
Treasury shares	8	– 256,656,497	– 103,581,738
Total shareholders' equity and liabilities		**466,092,478**	**440,623,287**

Income statement for Forbo Holding Ltd

		2018	2017
Income			
CHF	Note		
Financial income:			
From investments in and loans to Group companies	9	231,822,143	54,679,844
From securities and current investments	10	252,298	47,234,377
Total income		**232,074,441**	**101,914,221**

		2018	2017
Expenses			
CHF	Note		
Administrative expenses	11	5,832,570	6,001,204
Financial expenses:		1,097,828	440,710
From investments in and loans from Group companies	12	1,097,828	440,710
Other expenses	3		578,255
Taxes	5	– 295,820	3,645,833
Total expenses		**6,634,578**	**10,666,002**
Net profit for the year		**225,439,863**	**91,248,219**

Notes to the financial statements for Forbo Holding Ltd

1 Accounting

These financial statements have been prepared in accordance with the provisions on accounting and financial reporting of the Swiss Code of Obligations (32nd title of the Swiss Code of Obligations). Forbo Holding Ltd publishes consolidated financial statements according to a generally accepted accounting standard (IFRS). Therefore, in accordance with the provisions on accounting and financial reporting, the financial statements are presented without disclosure notes relating to audit fees or a cash flow statement.

2 Other receivables from and liabilities to Group companies

'Other receivables from Group companies' contained mainly credit balances on the cash pool accounts in the reporting year and the outstanding claim from the intercompany sale of the subsidiary Forbo Project Vinyl AB in the previous year. In connection with the cash pool, Forbo Holding Ltd had a liability to Forbo Finanz Ltd the previous year under 'Other liabilities to Group companies'.

3 Loans to Group companies

Loans to Group companies, amounting to EUR 97.8 million and CHF 12.7 million, are unchanged. The loans were valued at the rate prevailing on the balance sheet date; unrealized exchange losses were booked, while unrealized exchange gains were not recognized.

4 Investments in Group companies

Investments in Group companies are measured at the cost of acquisition less necessary valuation allowances. Investments in Group companies decreased in the reporting year due to intercompany sale of the subsidiary Forbo Flooring AB to Forbo Finanz Ltd at book value. Furthermore, the investment in Forbo Flooring UK Ltd. was transferred to Forbo Finanz Ltd at book value by means of a contribution in kind.

As at December 31, 2018, Forbo Holding Ltd held the following direct investments:

Investments in Group companies

Company	Registered office	Activity	Currency	Share capital (in 1,000)	Equity interest
Forbo America Inc.	US-Wilmington, DE	Holding/Services	USD	19,957	100%
Forbo Beteiligungen GmbH	DE-Lörrach	Holding/Services	EUR	15,400	100%
Forbo Financial Services AG	CH-Baar	Services	CHF	100	100%
Forbo Finanz AG	CH-Baar	Holding/Services	CHF	10,000	100%
Forbo International SA	CH-Baar	Services, Manufacturing, and Sales	CHF	100	100%
Forbo Participations S.A.S.	FR-Reims	Holding/Services	EUR	5,000	100%
Forbo Siegling, S.A. de C.V.	MX-Tlalnepantla	Manufacturing and Sales	MXN	24,676	< 0.1%
Forbo Siegling (Thailand) Co. Ltd.	TH-Samut Prakan	Sales	THB	13,005	69.1%

5 Taxes

In the year under review, Forbo Holding Ltd was able to claim the entire participation deduction on dividend income. The tax burden was higher the previous year because gains on the sale of treasury shares reported in the financial statements of Forbo Holding Ltd under commercial law were subject to federal tax, thus reducing the participation deduction on dividend income.

6 Share capital

As at December 31, 2018, the share capital of Forbo Holding Ltd totaled CHF 180,000 (2017: CHF 180,000), divided into 1,800,000 registered shares with a par value of CHF 0.10 each. 21,419 registered shares without voting or dividend rights are at the disposal of the Board of Directors.

At the Ordinary General Meeting of Forbo Holding Ltd of April 6, 2017, the Board of Directors was authorized to buy back the company's own shares up to a maximum of 10% of the share capital over a period of three years for the purpose of subsequent cancelation. Under this share buy-back program 150,000 shares have been repurchased at a fixed price and via the second trading line.

7 Conditional capital

Originally, conditional capital of CHF 8.5 million for the exercise of shareholder options and warrants in connection with a bond issue was created by a resolution of the Annual General Meeting held on April 27, 1994. Following the exercise of options in 1994, 1995 and 1997 and reductions in the par value by CHF 22 per share in 2003, CHF 8 per share in 2004, CHF 6 per share in 2007, CHF 10 per share in 2008, and CHF 3.90 per share in 2009, the conditional capital on December 31, 2018, remained unchanged against the previous year at CHF 16,645.

8 Treasury shares

The treasury shares directly held in Forbo Holding Ltd amounting to CHF 256.7 million on the balance sheet date correspond to the value of all treasury shares valued at cost. The item 'Reserve for treasury shares' reflects the carrying amount of the treasury shares held by subsidiaries of Forbo Holding Ltd, amounting to CHF 5.7 million (measured at cost of acquisition CHF 6.0 million). Overall, the treasury shares held directly and indirectly developed as follows over the period under review:

Treasury shares	Cost CHF	Number of registered shares
As at January 1, 2018	104,591,945	95,556
Additions	162,415,700	105,926
Disposals	– 4,376,683	– 3,200
As at December 31, 2018	**262,630,962**	**198,282**

9 Financial income from investments in and loans to Group companies

Financial income from investments in and loans to Group companies amounting to CHF 231.8 million (2017: CHF 54.7 million) consists of dividend income of CHF 231.6 million (2017: CHF 52.2 million) and interest of CHF 0.2 million (2017: CHF 0.2 million). The previous year also included exchange rate gains of CHF 2.3 million on foreign exchange loans.

10 Financial income from securities and current investments

Financial income from securities and current investments is equivalent to the net proceeds from the sale of treasury shares. The Group placed 63,000 shares of Forbo Holding Ltd at a price of CHF 1,450 per share as part of an accelerated bookbuilding process. Of the shares sold, 48,000 treasury shares were held directly by Forbo Holding Ltd and 15,000 treasury shares were held indirectly by Forbo International SA.

11 Administrative expenses

Administrative expenses include stewardship costs, the fees paid to the members of the Board of Directors, the auditor's fees, and usual administrative costs, mainly for the Ordinary General Meeting, the share register, insurance and legally required announcements. Forbo Holding Ltd does not employ any personnel.

12 Financial expenses from investments in and loans from Group companies

Financial expenses from investments in and loans from Group companies in the year under review contained in particular losses on current loans in foreign currencies of CHF 0.8 million, interest expenditure for liabilities to Group companies of CHF 0.2 million (2017: 0.1 million) and – in the previous year – securities transfer tax on the sale of treasury shares amounting to CHF 0.4 million.

13 Contingent liabilities

Guarantees and letters of support to third parties in favor of Group companies amounted to CHF 6.1 million at year-end 2018 (2017: CHF 9.9 million), of which as in the previous year none were utilized.

The Group companies in Switzerland are treated for purposes of value-added tax as a single-entity subject to value-added tax (group taxation regime, Article 13, Federal Act on Value-Added Tax). If one of the Group companies is unable to meet its payment obligations to the Federal Tax Administration, the other Group companies bear joint and several liability.

14 Significant shareholders

According to information available to the Board of Directors, the following shareholders or groups of shareholders with restricted voting rights constituted significant shareholders in the company pursuant to Article 663c Swiss Code of Obligations as at the reporting date:

	Number of shares	As percentage
Michael Pieper, Hergiswil, and Artemis Beteiligungen I AG, Hergiswil	486,764	27.04%
Forbo Holding Ltd, Baar, together with its two subsidiaries Forbo International SA, Baar, and Forbo Finanz AG, Baar	198,282	11.02%

Shareholdings

IN 2018

As at December 31, 2018, the individual members of the Board of Directors and the Executive Board (including related parties) held the following number of shares in Forbo Holding Ltd:

Shareholdings 2018

Name and function	Shares
This E. Schneider, Executive Chairman	54,611
Michael Pieper, Vice Chairman	486,764
Dr. Peter Altorfer, Vice Chairman	1,287
Claudia Coninx-Kaczynski, member	212
Dr. Reto Müller, member	632
Vincent Studer, member	916
Total Board of Directors	**544,422**
Stephan Bauer, Chief Executive Officer	2,969
Marc Deimling, Executive Vice President Movement Systems	3
Urs Uehlinger, Chief Financial Officer	104
Jean-Michel Wins, Executive Vice President Flooring Systems	104
Total Executive Board	**3,180**

IN 2017
As at December 31, 2017, the individual members of the Board of Directors and the Executive Board (including related parties) held the following number of shares in Forbo Holding Ltd:

Shareholdings 2017

Name and function	Shares
This E. Schneider, Executive Chairman	47,892
Michael Pieper, Vice Chairman	486,217
Dr. Peter Altorfer, Vice Chairman	1,227
Claudia Coninx-Kaczynski, member	170
Dr. Reto Müller, member	590
Vincent Studer, member	866
Total Board of Directors	**536,962**
Stephan Bauer, Chief Executive Officer	2,639
Matthias P. Huenerwadel, Executive Vice President Flooring Systems	2,856
Urs Uehlinger, Chief Financial Officer	18
Jean-Michel Wins, Executive Vice President Movement Systems	195
Total Board of Directors	**5,708**

15 Events after the balance sheet date

Between the balance sheet date and the date of publication of this annual report no event occurred that could have a significant effect on the 2018 annual financial statements.

Proposal for appropriation of available earnings of Forbo Holding Ltd

The Board of Directors proposes to the Ordinary General Meeting that the available retained earnings, consisting of:

	2018
CHF	
Net profit	225,439,863
Retained earnings	475,362,702
Treasury shares	– 256,656,497
Total at the shareholders' meeting's disposal[1)]	**444,146,068**

be appropriated as follows:

	2018
CHF	
Distribution ordinary dividend	33,636,078
To be carried forward	410,509,990
Total at the shareholders' meeting's disposal[1)]	**444,146,068**

1) At the Ordinary General Meeting of April 5, 2019, the Board of Directors will propose an ordinary gross dividend of CHF 21.00 per registered share (2017: CHF 19.00). No distribution will be made for treasury shares held by Forbo Holding Ltd or any of its subsidiaries on the record date, which explains why the amount of ordinary dividends may therefore still change.

Report of the statutory auditor

KPMG

Statutory Auditor's Report

To the General Meeting of Forbo Holding Ltd, Baar

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Forbo Holding Ltd, which comprise the balance sheet as at 31 December 2018, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 150 to 156) for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report of the statutory auditor

KPMG

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Rolf Hauenstein Licensed Audit Expert Auditor in Charge	Regula Tobler Licensed Audit Expert

Zurich, 27 February 2019

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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Our Annual Report appears in **German** language and in **English** translation and can be downloaded from our website www.forbo.com. The printed German version is authoritative.

All statements in this report that do not refer to historical facts are forward-looking statements which are no guarantee of future performance. They are based on assumptions and involve risks and uncertainties as well as other factors beyond the control of the company.

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