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Half-Year Report 2013

Market conditions remain challenging

EBIT margin maintained at healthy level

Group profit rises by approximately 10%

Earnings guidance confirmed

flooring. movement.

The Forbo Group – a leading manufacturer of floor coverings, building and construction adhesives, as well as power transmission and conveyor belt solutions – reported net sales of CHF 592.5 million in the first half of 2013 (prior year period: CHF 603.1 million), representing a slight decline of 1.8%. Operating profit (EBIT) decreased by CHF 2.4% to CHF 56.9 million (prior year period: CHF 58.3 million). The EBIT margin came to 9.6% (prior year period: 9.7%) and thus stayed at more or less the same healthy level. Group profit amounted to CHF 46.9 million (prior year period, net income from operations from continuing operations: CHF 42.7 million), which is equivalent to an increase of about 10%.

Dear shareholders,

As expected, market conditions remained very challenging in the first half of 2013. The economic environment, especially cost-cutting measures in the public sector and softness in many of Forbo's important markets, demanded great flexibility. As Forbo is to a large extent exposed to European markets and is significantly dependent, directly or indirectly, on public spending, cost-cutting in the public sector as anticipated impacted on the sales trend at Flooring Systems. Forbo, however, partly was able to offset this impact by pursuing its strategy adjustment that focuses on new market segments outside the public sector also, by expanding existing sales channels, and by opening up new markets.

By systematically and continuously adapting structures to market conditions and taking further measures to increase efficiency, we succeeded in maintaining the EBIT margin at a healthy level despite a challenging macroeconomic environment. Group profit rose by about 10%, an improvement that was due in particular to higher financial income and to lower interest payments owing to the reduction in interest-bearing debt.

The first-time adoption of the revised IAS 19 accounting standard resulted in changes in the accounting of employee benefit obligations. As a result, prior year period financial statements were restated and are therefore not the same as shown in the 2012 Half-Year Report. Operating profit for the first half of the year thus improved by CHF 3.1 million in the previous year and by CHF 0.5 million in the year under review.

Moderate sales trend, as anticipated

In the first half of 2013 Forbo generated net sales of CHF 592.5 million (prior year period: CHF 603.1 million), which marked a slight decrease of 1.8% (– 2.6% in local currencies). Net sales of Flooring Systems continued to be impacted by public-sector cost-cutting measures and lower construction activity in many of Forbo's important markets. As anticipated, net sales declined by 2.5% (– 4.1% in local currencies). Movement Systems increased sales by 0.4% (+ 1.3% in local currencies) amid a very mixed market environment.

EBIT margin kept at a healthy level

Despite the slight decline in sales and the costs incurred for serving new markets and market segments, Forbo kept its margins largely at a healthy level.

Operating profit before depreciations and amortizations (EBITDA) came to CHF 76.6 million (prior year period: CHF 82.0 million), corresponding to a decline of 6.6%. The EBITDA margin stood at 12.9% (prior year period: 13.6%). Operating profit (EBIT) came to CHF 56.9 million, compared with CHF 58.3 million in the same period in 2012, corresponding to a decline of 2.4%. The EBIT margin stood at 9.6% (prior year period: 9.7%).

The two divisions showed differing trends. Movement Systems increased earnings, whereas Flooring Systems reported a lower operating profit owing to the decrease in sales.

Significant increase in Group profit and earnings per share

Group profit came to CHF 46.9 million (comparable reported net income from operations in the prior year period: CHF 42.7 million). This corresponds to a significant increase of 9.8%, which was due on the one hand to higher financial income and on the other to lower interest payments as a result of the reduction of interest-bearing debt.

Earnings per share rose by 21.7% from CHF 18.70 in the prior year period to CHF 22.75.

Further improved equity ratio

Shareholders' equity increased by CHF 37.5 million to CHF 854.9 million compared to the start of the year, while the equity ratio rose to 62.9%.

High level of liquidity

Net cash came to CHF 226.2 million as at June 30, 2013. In addition, Forbo holds shares worth CHF 104.9 million, based on the share price at the end of June 2013. The strong balance sheet coupled with the high level of liquidity enables Forbo not only to engage in the approved share buyback program but also to take advantage of external growth opportunities if they can generate value for shareholders.

Performance of the divisions

The **Forbo Flooring Systems** division reported net sales of CHF 430.2 million in the first half of 2013 (prior year period: CHF 441.4 million), which is equivalent to a decrease of 2.5% (–4.1% in local currencies). Since Flooring Systems' primary customer segments are schools, hospitals, retirement homes, and public buildings, the division is highly dependent on public-sector spending. The significant cuts in government spending continue to impact on investments in new construction and renovations. In particular, the healthcare and education customer segments that are among Forbo's most important markets are suffering from this trend. The downturn is affecting most countries with the exception of the growth markets. Forbo has adjusted to these changed conditions by strengthening its distribution structures and entering new customer segments such as shop fitting, offices, hotels and restaurants. These measures have partly offset the strong decline in sales in the public sector.

Operating profit (EBIT) decreased by CHF 8.7% to CHF 46.0 million (prior year period: CHF 50.4 million). The EBIT margin declined slightly from 11.4% in the prior year period to 10.7%. In the coming months, the focus will be on further efforts to expand in growth markets as well as on targeted measures in marketing and sales aimed at developing new customer segments and new markets and thereby reducing the division's dependence on public-sector spending.

The **Forbo Movement Systems** division reported net sales of CHF 162.3 million in the first half of 2013 (prior year period: CHF 161.7 million), equivalent to an increase of 0.4% (+ 1.3% in local currencies). Demand in North America showed a stable uptrend. The European markets were very mixed, but on the whole sales in Europe were close to the previous year's level. Asia/Pacific reported a slight increase in demand overall.

Operating profit (EBIT) rose by 8.2% to CHF 15.9 million, compared with CHF 14.7 million in the first half of 2012. The EBIT margin went up from 9.1% in the prior year period to 9.8%. In the second half of the year the division will continue to focus on expanding its activities in growth markets and extending its product portfolio.

Earnings guidance for 2013 confirmed

Our assessment of the current year has not changed. On the whole, we anticipate largely unchanged economic conditions for the remaining months of 2013. We will continue to face challenging circumstances, and trends will be very different in the various regions, markets, and customer segments. We are well positioned with our two divisions. We will continue to implement our strategy consistently and concentrate on our operational performance and on providing convincing products and services to our customers.

Barring any significant change in the current economic conditions, especially with regard to exchange rates and raw material prices, we expect a slight increase in net income from operations in the 2013 business year compared with the previous year.

Dr. Albert Gnägi	This E. Schneider
Chairman of the Board of Directors	Delegate of the Board of Directors and CEO

Forbo Holding Ltd
Baar, August 20, 2013

Consolidated balance sheet and income statement

Condensed consolidated balance sheet

Unaudited, CHF m	30.6.2013	31.12.2012 Restated
Assets		
Non-current assets	**524.7**	**530.9**
Property, plant, and equipment and intangible assets	498.1	504.2
Deferred tax assets, investments in associates and other non-current assets	26.6	26.7
Current assets	**835.5**	**803.0**
Inventories	232.2	218.6
Trade and other receivables, prepaid charges, and deferred income	242.9	191.0
Other current financial instruments	137.4	142.1
Cash and cash equivalents	223.0	251.3
Total assets	**1,360.2**	**1,333.9**

Shareholders' equity and liabilities		
Shareholders' equity	**854.9**	**817.4**
Non-current liabilities	**132.9**	**137.4**
Non-current financial debt	1.5	2.6
Employee benefit obligations, non-current provisions, and deferred tax liabilities	131.4	134.8
Current liabilities	**372.4**	**379.1**
Trade payables	72.0	84.7
Current financial debt	132.7	132.5
Current provisions, accrued expenses, tax and other liabilities	167.7	161.9
Total liabilities	**505.3**	**516.5**
Total shareholders' equity and liabilities	**1,360.2**	**1,333.9**

Condensed consolidated income statement

Unaudited, CHF m	First half 2013	First half 2012 Restated
Continuing operations		
Net sales	**592.5**	**603.1**
Cost of goods sold	– 368.7	– 378.5
Gross profit	**223.8**	**224.6**
Operating expenses	– 166.9	– 166.3
Operating profit	**56.9**	**58.3**
Financial result	0.9	– 6.0
Group profit before taxes	**57.8**	**52.3**
Income taxes	– 10.9	– 9.6
Group profit from continuing operations	**46.9**	**42.7**
Group profit from discontinued operations after taxes	**–**	**73.1**
Group profit	**46.9**	**115.8**
Earnings per share total		
Basic earnings per share in CHF	22.75	50.73
Diluted earnings per share in CHF	22.74	50.70
Earnings per share from continuing operations		
Basic earnings per share in CHF	22.75	18.70
Diluted earnings per share in CHF	22.74	18.69
Earnings per share from discontinued operations		
Basic earnings per share in CHF	–	32.03
Diluted earnings per share in CHF	–	32.01

The accompanying notes are an integral part of the Half-Year Report.

Comprehensive income statement and consolidated shareholders' equity

Comprehensive income statement

Unaudited, CHF m	First half 2013	First half 2012 Restated
Group profit	**46.9**	**115.8**
Items that will not be reclassified to the income statement	**1.9**	**– 15.0**
Remeasurements of defined benefit plans, net of taxes	1.9	– 15.0
Items that may be subsequently reclassified to the income statement	**3.6**	**41.5**
Translation differences	3.6	– 0.7
Translation differences reclassified to the income statement	–	41.2
Fair value adjustments of cash flow hedges	0.0	1.0
Other comprehensive income, net of tax	**5.5**	**26.5**
Total comprehensive income	**52.4**	**142.3**

Consolidated shareholders' equity
First half 2013

Unaudited, CHF m	Share capital	Treasury shares	Reserves	Revaluation reserve	Reserves from cash flow hedges	Translation differences	Total
January 1, 2013	**0.3**	**– 0.1**	**958.6**	**111.0**	**0.0**	**– 252.4**	**817.4**
Group profit			46.9				46.9
Other comprehensive income, net of tax			1.9			3.6	5.5
Total comprehensive income			**48.8**			**3.6**	**52.4**
Change in scope of consolidation			–	–		–	
Share-based payments			8.3				8.3
Treasury shares	– 0.1	0.0	1.8				1.7
Dividend payment			– 24.9				– 24.9
June 30, 2013	**0.2**	**– 0.1**	**992.6**	**111.0**	**0.0**	**– 248.8**	**854.9**

Consolidated shareholders' equity
First half 2012
Restated

Unaudited, CHF m	Share capital	Treasury shares	Reserves	Revaluation reserve	Reserves from cash flow hedges	Translation differences	Total
January 1, 2012	**0.3**	**– 0.1**	**978.2**	**128.0**	**– 1.7**	**– 289.4**	**815.3**
Group profit			115.8				115.8
Other comprehensive income, net of tax			– 15.0		1.0	40.5	26.5
Total comprehensive income			**100.8**		**1.0**	**40.5**	**142.3**
Change in scope of consolidation			14.3	– 17.0		2.7	
Share-based payments			2.1				2.1
Treasury shares			– 43.7				– 43.7
Dividend payment			– 27.5				– 27.5
June 30, 2012	**0.3**	**– 0.1**	**1,024.2**	**111.0**	**– 0.7**	**– 246.2**	**888.5**

The accompanying notes are an integral part of the Half-Year Report.

Consolidated cash flow statement

Condensed consolidated cash flow statement Unaudited, CHF m	First half 2013	First half 2012 Restated
Cash flow from operating activities	**–2.2**	**4.2**
Cash flow from investing activities	**–2.3**	**240.5**
Cash flow from financing activities	**–24.0**	**–83.4**
Decrease (–)/Increase in cash and cash equivalents	–28.5	161.3
Translation differences on cash and cash equivalents	0.2	0.3
Total cash and cash equivalents at beginning of year	251.3	205.3
Total cash and cash equivalents as at June 30	**223.0**	**366.9**

The accompanying notes are an integral part of the Half-Year Report.

Notes to the condensed consolidated half-year financial statements (unaudited)

01 General information

This condensed consolidated interim report covers the six-month period from January 1, 2013 to June 30, 2013 (hereinafter 'reporting period') and was drawn up in accordance with the International Accounting Standard 34 (IAS 34) 'Interim Financial Reporting'. The consolidated half-year financial statements do not include all information reported in the consolidated full-year financial statements and should therefore be read in conjunction with the consolidated financial statements as at December 31, 2012.

The consolidated half-year financial statements have not been audited by the auditors. They were approved for publication by the Board of Directors on August 19, 2013.

02 Group accounting principles

The accounting policies applied in the consolidated half-year report are in line with the accounting policies set out in the 2012 Annual Report with the following exceptions:

The following new and revised standards and interpretations were first applied by the Group as at January 1, 2013:

– IFRS 10 (new)	'Consolidated financial statements'
– IFRS 11 (new)	'Joint arrangements'
– IFRS 12 (new)	'Disclosure of interests in other entities'
– IFRS 13 (new)	'Fair-value measurement'
– IFRS 7 (revised)	'Offsetting financial assets and financial liabilities'
– IAS 1 (revised)	'Presentation of financial statements'
– IAS 19 (revised)	'Employee benefits'

The first-time adoption of the standards IFRS 7 (revised), 10, 11, and 12 had no impact on the Half-Year Report presented here.

IFRS 13 primarily governs how the fair value of certain assets and liabilities is measured and introduces a number of new disclosures that are presented in '05 Balance sheet'.

The first-time adoption of IAS 19 (revised) led to changes in the accounting of employee benefit obligations. The expected return on plan assets and interest expense previously recognized in the service cost were replaced by recognition of net interest expense/income calculated on the net defined benefit obligation. Consequently, operating profit in the reporting period is CHF 0.5 million higher than it would have been under the previous accounting method. Group profit is CHF 0.4 million higher and other comprehensive income CHF 0.4 million lower. For the prior year period, the restatement resulted in operating profit that was CHF 3.1 million higher, Group profit that was CHF 2.4 million higher and other comprehensive income that was CHF 2.4 million lower. Since Forbo to date has recognized actuarial gains and losses in other comprehensive income in the year of occurrence, the first-time adoption of IAS 19 (revised) had no effect on the defined benefit obligation reported in the previous year.

The amendments to IAS 1 (revised) require companies to group together items of other comprehensive income according to whether they may be subsequently reclassified to the income statement if certain prerequisites are met or whether they will not be reclassified, together with the relevant income tax effects. The changes are to be applied retroactively, i. e. the presentation of other comprehensive income in the prior year period was restated accordingly.

The Forbo Group has not early adopted any published but not yet mandatory standards, interpretations or amendments.

The preparation of the consolidated half-year financial statements requires management to use estimates and assumptions that may affect reported revenues, expenses, assets, liabilities, and contingent liabilities at the date of the financial statements. If the estimates and assumptions used by management to the best of their knowledge at the date of the financial statements happen to differ from subsequent actual facts, the original estimates and assumptions will be adjusted in the reporting period in which the facts have changed. The consolidated half-year financial statements do not contain any significant new estimates and assumptions used by management compared with the consolidated financial statements as at December 31, 2012.

Earnings and expenses which are not incurred on a straight-line basis during the business year are only deferred if such deferral was justified at year-end. Income tax expenditure is estimated on the basis of average actual tax rates during the current business year.

03 Acquisition of business operations

The Group acquired the assets of CV-Wisma Belt-Indo domiciled in Bandung, Indonesia, effective March 22, 2013. CV-Wisma Belt-Indo was a distributor selling conveyor belts and flat belts in the Indonesian market. The acquired assets of CV-Wisma Belt-Indo were brought into the newly established PT Forbo Siegling Indonesia in Bandung which is reported within the Movement Systems division.

The acquisition price of CHF 0.3 million was paid in cash. The identifiable assets and liabilities valued at fair value at the date of acquisition are divided equally between tangible fixed assets and inventories. No goodwill was generated. The purchase price and the values of the acquired assets are definitive. The transaction costs were recognized in the income statement. The takeover had only a negligible effect on Group profit.

04 Segment information

Forbo 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.

Flooring Systems develops, produces, and sells linoleum, vinyl floorings, entrance matting systems, carpet tiles, and needle felt floor coverings as well as the various accessory products required for installing, processing, cleaning, and care of flooring. As a result of the sale of the industrial adhesives activity, including synthetic polymers, and the integration of the building and construction adhesives activity into the Flooring Systems division, the former Bonding Systems division no longer existed in the second half of 2012. The prior year figures of the present Half-Year Report were therefore restated in accordance with the current internal management structure. Forbo's Movement Systems division develops, produces, and sells high-quality conveyor and processing belts, power transmission belts, synthetic modular belts as well as timing and flat belts made of synthetic materials. Corporate includes the costs of the Group headquarters and certain items of income and expenses which are not directly attributable to a specific business.

The Flooring Systems and Movement Systems divisions are reportable segments. The identification of the reportable segments is based on internal management reporting to the Group's Chief Executive Officer 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. The Chief Executive Officer assesses the performance of the reportable segments based on their operating result (EBIT). The net financial result is not allocated to the divisions since it is Corporate Treasury that in the main exercises central control over the financial result.

First half 2013

Unaudited, CHF m	Flooring Systems	Movement Systems	Corporate/ Elimination	Total
Total net sales	430.2	162.3	–	592.5
Inter-segment sales	–	–	–	–
Net sales to third parties	**430.2**	**162.3**	**–**	**592.5**
Operating profit (EBIT)	**46.0**	**15.9**	**– 5.0**	**56.9**
Operating assets	**704.2**	**238.2**	**30.8**	**973.2**
Number of employees (June 30)	**3,088**	**1,950**	**41**	**5,079**

First half 2012
Restated

Unaudited, CHF m	Flooring Systems	Movement Systems	Corporate/ Elimination	Total
Total net sales	441.8	161.7	– 0.4	603.1
Inter-segment sales	– 0.4	–	0.4	–
Net sales to third parties	**441.4**	**161.7**	**–**	**603.1**
Operating profit (EBIT)	**50.4**	**14.7**	**– 6.8**	**58.3**
Operating profit Before application of IAS 19 (revised)	48.6	14.7	– 8.1	55.2
Operating assets	**703.5**	**248.6**	**20.2**	**972.3**
Number of employees (June 30)	**3,056**	**1,891**	**43**	**4,990**

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

Unaudited, CHF m	First half 2013	First half 2012 Restated
Segment result (EBIT)	**56.9**	**58.3**
Financial result	0.9	–6.0
Group profit before taxes	**57.8**	**52.3**

Unaudited, CHF m	30.6.2013	31.12.2012
Operating assets	973.2	913.7
Non-operating assets	387.0	420.2
Total assets	**1,360.2**	**1,333.9**

05 Balance sheet

Total assets as at June 30, 2013 increased slightly by CHF 26.3 million versus the end of the previous year to CHF 1,360.2 million.

Property, plant, and equipment declined by CHF 3.3 million to CHF 351.7 million. In the period under review, capital expenditures amounted to CHF 12.1 million and were primarily related to maintenance and efficiency improvement projects.

The increase in inventories and in trade receivables totaling CHF 53.9 million was mainly timing related.

Liquidity holdings came to CHF 223.0 million as at June 30, 2013.

Compared with December 31, 2012, shareholders' equity increased by CHF 37.5 million to CHF 854.9 million, despite the payment of withholding tax-free distributions to Forbo Holding Ltd shareholders totaling CHF 24.9 million. The equity ratio increased further in the first half of 2013 and stood at 62.9% as at June 30, 2013.

With the commercial registry entry of January 17, 2013, 250,000 registered shares each with a nominal value of CHF 0.1 were retired. The share capital as at June 30, 2013 was CHF 225,000.

On the balance-sheet date, the Group held the financial instruments listed on page 11. There were no significant financial instruments in the fair-value hierarchy level 3 nor was there any regrouping between the levels of the fair-value hierarchy. There were also no non-recurring fair-value measurements of financial instruments.

Fair-value measurement of financial instruments using the method of the fair-value hierarchy

Unaudited, CHF m	30.6.2013	Level 1 Listed market prices	Level 2 Other significant observable inputs
Assets			
Financial instruments valued at amortized cost			
Trade receivables and other receivables	210.1	–	–
Cash and cash equivalents	223.0	–	–
Financial instruments valued at recurring fair value			
Other current financial instruments	137.3	137.3	
Derivative financial instruments	0.1		0.1
Total	**570.5**	**137.3**	**0.1**

Shareholders' equity and liabilities			
Financial instruments valued at amortized cost			
Interest-bearing debt	133.8	–	–
Trade payables and other payables	97.4	–	–
Financial instruments valued at recurring fair value			
Derivative financial instruments	0.0	–	0.0
Total	**231.2**	**0.0**	**0.0**

06 Income statement

Operating profit (EBIT) in the reporting period came to CHF 56.9 million, which was CHF 1.4 million lower than in the restated prior year period.

The financial result stood at CHF 0.9 million in the reporting period; this was CHF 6.9 million better than in the first half of 2012. The significant improvement in income was primarily attributable to capital gains on securities and to a lesser extent to a reduction in interest expense.

Income tax amounted to CHF 10.9 million, corresponding to a tax rate of 18.8%. The restated tax expense in the comparable period was 18.4%.

The resulting Group profit came to CHF 46.9 million, which was CHF 4.2 million, or almost 10% above the restated Group profit from continuing operations in the first half of 2012.

Basic earnings per share in the period under review amounted to CHF 22.75. Diluted earnings per share (adjusted for the dilution effect of outstanding options) came to CHF 22.74.

07 Cash flow statement

Free cash flow in the reporting period was minus CHF 4.5 million. Cash flow from operating activities was slightly negative owing to the increase in net working capital during the reporting period.

Cash flow from investing activities was not impacted by divestments in contrast to the first half of 2012. This item contains mainly capital expenditures of CHF 12.1 million and inflows from the sale of securities amounting to CHF 9.8 million.

Cash flow from financing activities primarily reflects the distribution from capital contribution reserves amounting to CHF 24.9 million. In the reporting period, no cash or cash equivalents were used to buy back the Group's own financing instruments.

08 Main exchange rates applied

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

	Income statement Average exchange rate, 6 months		Balance sheet Exchange rate on balance-sheet date	
Currency	2013	2012	30.6.2013	31.12.2012
EUR 1	1.23	1.20	1.23	1.21
USD 1	0.94	0.93	0.94	0.91
GBP 1	1.45	1.46	1.44	1.47
JPY 100	0.98	1.17	0.96	1.06

09 Events after the balance sheet date

As announced in the media release on July 3, 2013, the Forbo Flooring Systems' operation in France is concerned by investigations of the French competition authority. The investigation concerns the market for floor coverings in France and has been initiated on suspicions that leading manufacturers may have engaged in anticompetitive practices. At this stage of the pending investigation, Forbo is neither able to disclose any further information thereon, nor to assess the implications which may derive therefrom.

Calendar

Media and financial analysts' conference for the 2013 business year:	Tuesday, March 18, 2014
Ordinary General Meeting:	Friday, April 25, 2014

Our Half-Year Report is published in German and in English translation.

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