Annual Report 2003

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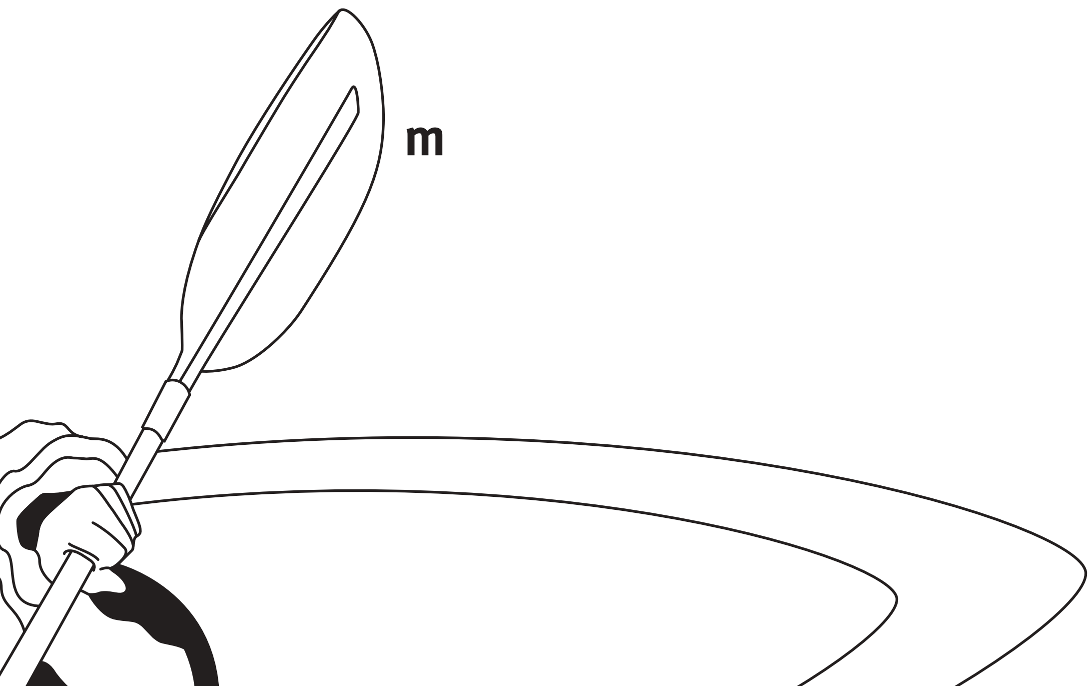


Our Annual Report is published
in German and is also available
in English.

Contents

Forbo is a global producer of floor coverings, adhesives, and belts for power transmission, conveyor and processing applications. The company employs some 5,600 people worldwide and has an international network of 30 production companies and 45 sales organizations in 17 countries. Forbo's Head Office is in Eglisau/Zurich.

In the flooring business, the focus is on environmentally friendly and design-oriented linoleum and high-quality vinyl. With linoleum, Forbo is the world leader with a global market share of more than 60%.

In the adhesives business, Forbo is among the industry's leading producers worldwide. The Group has strong positions in the global market in promising fields of applications such as shoes, furniture, construction, car interior trims, packaging, and paper.

In the belting business, Forbo under the Siegling brand is among the leading companies in the field worldwide. For example its conveyor and processing belts for the food industry, treadmill belts for fitness applications, and conveyor belts in logistics operations occupy a particularly strong market position.

Forbo's strategy focuses on core products with leading positions in global markets and attractive profitability prospects. Following the acquisitions and restructuring projects within the Group in recent years, Forbo is an internationally well-established company today. In the foreground is the sustainable, value- and growth-oriented company development.

Key Figures[1]

Forbo Group

	2003	2002	2003	2002
	m CHF	m CHF	m EUR[2]	m EUR[2]
Net sales	**1,598,9**	**1,531.1**	**1,051.2**	**1,043.7**
Change on previous year (%)	+4.4	+13.1		
Flooring	729.0	736.1	479.3	501.8
Adhesives	572.9	486.6	376.7	331.7
Belting	297.0	308.4	195.2	210.2
Operating profit before depreciation and amortization (EBITDA)	**156.7**	**180.1**	**103.0**	**122.8**
As % of net sales	9.8	11.8		
Operating profit (EBIT)	**60.4**	**88.4**	**39.7**	**60.3**
Change on previous year (%)	–31.7	+3.2		
As % of operating assets (ROA)	4.7	6.6		
Consolidated profit	**16.1**	**42.6**	**10.6**	**29.0**
Change on previous year (%)	–62.2	–17.8		
As % of average shareholders' equity	2.8	6.9		
Capital investments	**46.2**	**45.2**	**30.4**	**30.8**
Total assets	**1,563.8**	**1 600.6**	**1,028.1**	**1 091.1**
Shareholders' equity	**572.5**	**590.6**	**376.4**	**402.6**
Equity ratio (%)	36.6	36.9		
Net debt	**379.3**	**485.4**	**249.4**	**330.9**
As % of shareholders' equity (gearing)	66.3	82.2		

	Number	Number		
Employees (31. 12.)	**5,585**	**5,715**		
Employees of acquired activities	9	728		

	m CHF	m CHF	m EUR[2]	m EUR[2]
Free cash flow (before cash distribution, acquisitions and divestments)	**88.5**	**108.8**	**58.2**	**74.2**
Economic Value Added (EVA®)[3]	**–17.0**	**4.3**	**–11.2**	**2.9**
Stock market capitalization (at 31. 12.)	**464.8**	**537.7**	**305.6**	**366.5**

	CHF	CHF	EUR[2]	EUR[2]
Per share data				
Earnings per share	12.28	32.65	8.07	22.26
Shareholders' equity per share	435.37	452.51	286.24	308.46
Cash distribution per share	8.00[4]	22.00	5.26	15.00
Payout ratio (%)	65.1	67.4		

[1] For explanatory notes, see Financial Report
[2] CHF values translated at year-average rate of CHF 1.521/1 EUR (2003) and CHF 1.467/1 EUR (2002)
[3] Registered trademark of Stern, Stewart & Co.
[4] Proposal of the Board of Directors: Cash distribution by reducing the nominal value of the share

To our Shareholders

Market positions maintained under difficult conditions

Dear Ladies and Gentlemen
Thanks to numerous efforts in recent years, the Forbo Group has a solid market position in its three core businesses. In 2003, the Group was able to further improve the structure of these businesses. A high level of customer satisfaction is a good indicator of these improvements. Our recent customer survey shows that we are a clearly preferred supplier of floor coverings as well as belts for power transmission, conveyor and processing purposes although the quality and prices are on a relatively high level with markets characterized by price erosion. Economically speaking, the results achieved in the course of the year did not meet our expectations.

Depressed business activity worldwide

The main reason for these results is the global economic situation which was characterized also in 2003 by declining investments in public buildings, offices and production plants – investments that are critical for our business. Additional factors were the uncertainties over the Iraq war and the lung disease SARS in Asia. A disappointing economic development was especially observed in Germany, the Netherlands, Great Britain, Scandinavia, and Switzerland. These important core markets of Forbo had a significant impact on sales and profit. Additionally, the Group suffered from a very unfavorable exchange rate development of the US Dollar.

Sales development

Group sales rise by 4%

The results of the Forbo Group mirror the difficult economic climate and especially the exchange rate development. Sales rose to CHF 1,599 million or 4% compared with the previous year when sales amounted to CHF 1,531 million. In local currency the increase is 7%. The sales growth is almost completely the result of the acquisitions made in 2002. All in all, the sales development in Western Europe was unsatisfactory. Positive exceptions are France and Southern Europe for the flooring and adhesives businesses, and Germany for belting. Eastern Europe, North America and especially Asia remained on a growth course in all three businesses. These dynamics became more pronounced in the fourth quarter of 2003.

Results

Decrease due to a change of geographical sales mix and margin pressure

The decline in high-margin sales regions had an essential impact on the profit. In addition, the US Dollar weakness left its mark as the Forbo Group generates a considerable sales percentage in North America and Asia on the basis of exports from the Euro currency zone.

Substantial overcapacities reinforced the intense competition resulting in fiercer price pressure. Higher raw material prices for adhesives were another negative cost factor. The personnel reduction of some 220 jobs announced in October 2003 in the context of further cost-cutting initiatives has been largely concluded. After higher amortization of goodwill due to acquisitions, the operating profit (EBIT) is CHF 60 million, clearly below the previous year's result (CHF 88 million). Lower EBIT combined with increased financial expenses and a higher tax rate resulted in an unsatisfactory Group profit of only CHF 16 million (previous year: CHF 43 million).

Strong free cash flow and financial situation

Financial debt reduced

Progress with the management of working capital and a reluctant investment activity led to a free cash flow of CHF 89 million. As a result and in connection with the weak Dollar, which had a positive impact, the Group's net debt could be reduced from CHF 485 million to CHF 379 million. The gearing (net debt as a percentage of equity capital) was at 66% (previous year: 82%). The equity ratio amounted to 37% as in the previous year and was thus on an adequate level in connection with the high liquidity of CHF 189 million (previous year: CHF 152 million).

Cash distribution by reducing the nominal value of the share

Lower than in the previous year, but on a considerable level

The Board of Directors proposes to the Annual General Meeting a cash distribution of CHF 8.00 (previous year: CHF 22.00) per registered share by way of reduction of the nominal value which is a tax favorable form of payment. In this manner both the Group's profit development, and its strength of free cash flow, are taken into account appropriately. Based on the 2003 year-end share price, the Forbo share still offers a yield of 2.3%. The resulting total distribution amounts to CHF 11 million.

Personnel changes

Board of Directors

Karl Janjoeri, a member of the Board of Directors since 1986 and Chairman of the Board of Directors since 1999 decided to retire at the beginning of 2004. The Board of Directors thanks Mr. Janjoeri for his contribution to the Forbo Group's development over many years. As his successor, the Board of Directors elected Dr. Willy Kissling, Vice-Chairman since 1998.

Michael Pieper's term of office will expire as of the date of the 2004 Annual General Meeting. He will stand for re-election for another term of office.

Executive Board

The Board of Directors and Werner Kummer, CEO of the Forbo Group since the end of 1998, have mutually agreed to terminate his employment contract effective March 3, 2004. He focussed the Group's activities on three core businesses in difficult times. The Board of Directors thanks Mr. Kummer for his contribution to the Group.

This E. Schneider was appointed the new CEO of the Forbo Group on March 4, 2004 and will be proposed to the Annual General Meeting as a new member of the Board of Directors.

Outlook

Some indicators pointing upwards

There are more signs for optimism at the beginning of the current year. The indicators for the economies in the USA and in Asia are pointing upwards. However, there is still uncertainty as to the development in the European economic region that accounts for two thirds of our total sales. Key topics such as unemployment, public finances, taxes, and financing of social insurance schemes are slowing down a quick recovery. The Dollar weakness continues to have a negative impact on European producers. Besides, fierce competition and overcapacities will increase the price pressure in the future.

Priorities 2004

For the current year it is our goal to stop the unsatisfactory profit development and to create a solid basis for enhancing our profitability. To this end we will review the Group's strategies and operating processes, and initiate any changes, if needed. In today's economic climate it is imperative that we take the necessary steps immediately to improve our earnings situation.

Sales will have to be increased in attractive market segments, and the product mix will have to be optimized so that we can stabilize or improve our margins.

In production, we will have to reduce manufacturing costs immediately and sustainably to maintain margins also in case of declining prices.

In the field of logistics, the business processes that are in place for order handling, production, inventories, and dispatching will have to be optimized in order to benefit from investments in standardized and highly integrated IT solutions on the basis of SAP/R3.

Thanks

We thank our customers for the loyalty and trust they have demonstrated in the past year. We would also like to thank our employees for their commitment during the past year and for doing their best in difficult times. Finally, we would like to extend our thanks to you, dear shareholders, for your trust in our company.

Dr. Willy Kissling
Chairman of the Board of Directors

Forbo Group: Market Positions Maintained under Difficult Conditions

Forbo recorded a 4% sales increase to CHF 1,599 million in the business year 2003 compared with the previous year. In local currency, the increase is 7%. The market position could be strengthened in all three businesses although the demand in some of the key markets was clearly declining. The adhesives business reached double-digit sales growth resulting from the acquisitions made in the course of 2002. The trend in the flooring business was slightly weaker as a result of the prevailing market conditions. The sales development with belting was slightly positive in terms of local currency. At the beginning of the year, the adhesives business divested Repoxit AG, a marginal activity with a sales volume of some CHF 16 million. The Group's operating profit after depreciation and amortization (EBIT) reached CHF 60 million (previous year: CHF 88 million) and declined essentially by reason of a shift in geographical sales, margin pressure, and Dollar weakness. Group profit of CHF 16 million is clearly below the previous year's result (CHF 43 million) and below expectations. However, the free cash flow of CHF 89 million could be kept on a respectable level.

The business development at a glance

Flooring expands product range

With sales of CHF 729.0 million compared with CHF 736.1 million in the previous year, the flooring business declined by 1.0%, or 1.7% in local currency. The losses in the linoleum business are due to the generally weak building market for major projects and the restrictive investment policy of the public sector. This trend could be partly countered by the expanded product range of cushion vinyl for the project market. Positive exceptions from the unfavorable business trend in Europe are France and Southern Europe.

Adhesives with double-digit growth

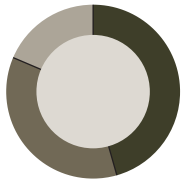
The adhesives business increased sales by 17.7% to CHF 572.9 million (previous year: CHF 486.6 million) in Swiss Francs and expressed in local currency by 22.2%. This is mainly the result of the acquisitions made in 2002. The integration of the Swift adhesives business into the Forbo Group has been concluded successfully. A favorable development could be recorded in France and Southern Europe, and demand started to pick up in North America in the last quarter of the year.

Belting winning market shares

Sales of the belting business were CHF 297.0 million (previous year: CHF 308.4 million), an increase by 1.4% in local currency or a decrease by 3.7% in Swiss Francs. Additional sales were made in Asia and North America with some big orders and progress in selected fields of application. Except for Germany, sales in Europe were declining.

	m CHF 2003	Change on previous year effective %	currency adj. %	%
Flooring	729.0	–1.0	–1.7	45.6
Adhesives	572.9	17.7	22.2	35.8
Belting	297.0	–3.7	1.4	18.6
Total	1,598.9	4.4	6.5	100.0

Sales by Businesses

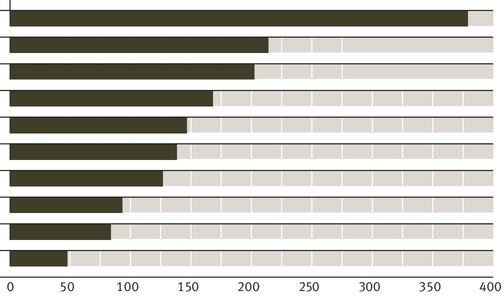


Sales by regions

The sales development in Western Europe was all in all unsatisfactory. Positive exceptions are France and Southern Europe in the flooring and adhesives businesses, and Germany with belting. For all the three businesses, Eastern Europe, North America, Asia and notably China remained on an expansion course. Despite the Dollar weakness the amount of sales reached in Non-European countries could be increased to 32%. Expressed in local currency, Forbo achieved sales growth in Asia, America, Southern and Eastern Europe as well as in France. In line with the general business trend, the business was declining in the Benelux countries, Germany, and Scandinavia. Decreasing sales were recorded in Switzerland mainly as a result of divestments.

Sales by geographic areas

	%	Changes on previous year effective %	currency adj. %	m CHF 2003
North, Central and Southern America	23.7	9.4	25.4	378.7
Germany	13.4	0.4	–3.1	213.8
Benelux	12.7	–0.9	–4.3	202.4
France	10.5	11.9	7.9	167.9
Scandinavia	9.2	0.0	–3.2	146.4
Southern Europe	8.6	22.2	18.7	138.2
Asia/Australia/Africa	7.9	–1.2	1.5	126.6
Great Britain/Ireland	5.8	4.3	9.3	93.2
Eastern Europe	5.2	13.7	10.4	83.8
Switzerland	3.0	–28.4	–28.4	47.9



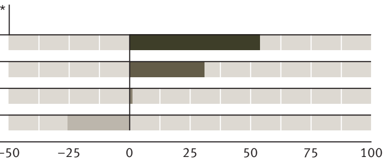
Result development

Cumulation of negative influences

Operating profit (EBIT) decreased by CHF 28.0 million to CHF 60.4 million compared with the previous year as a result of a combination of various negative influences. This includes a CHF 1.7 million higher amortization of goodwill, corresponding with a total of CHF 8.4 million. All three businesses contributed to the decrease of the operating profit. In the flooring business, the result suffered especially from a shift of sales at the expense of the high-margin European markets. The adhesives business recorded lower gross margins mainly as a result of higher raw material prices combined with an unfavorable product mix, including a high percentage of pure volume business. In the belting business, price pressure made an essential contribution to the disappointing result. The weak Dollar had a negative impact on all three businesses, with a total negative impact of around CHF 10 million on operating profit. The return on assets employed (ROA) is 4.7% (previous year: 6.6%). Before depreciation and amortization, operating profit (EBITDA) was CHF 156.7 million and is by CHF 23.4 (13%) lower than in the previous year. This result corresponds with a return on sales of 9.8% (previous year: 11.8%). There was a substantial improvement in the third quarter of the year following the reluctant development in the first two quarters. However, the result in the fourth quarter showed a strong decline also as a result of restructuring costs.

EBIT by Businesses

	m CHF 2003	Change 2002/2003 %	ROA* 2003 %
Flooring	53.9	–15.3	10.3
Adhesives	31.0	–17.6	7.0
Belting	1.2	–89.0	0.4
Headquarters/consolidation	–25.7	n/a	n/a



* Return on Assets
(EBIT in % of operating assets)

Higher financial expenses and tax rate

Net financial expenses of CHF 29.4 million were by CHF 5.2 million above the previous year. Interest rates were clearly higher than in the previous year, and financial debt was lower on average. The reason is the interim financing at favorable interest rates for the Swift acquisition in 2002. At the end of November 2002, these facilities were replaced by a long-term US private placement with higher interest rates. Group profit is CHF 16.1 million after CHF 42.6 million in the previous year due to clearly lower operating profit, an increased tax rate, and higher financial expenses. The higher tax rate is caused mainly by a shift in the geographical composition of the result.

Economic Value Added

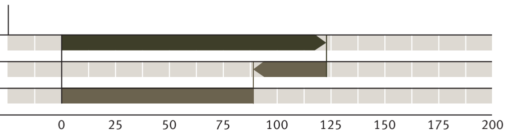
Forbo's objective is to enhance the value of the company. Value is only created when the returns of the capital employed exceed the weighted average cost of capital. Whereas in the previous year a positive – albeit modest – result of CHF 4.3 million could be reached, the result in the year under review is with CHF 17.0 million negative. This is mainly due to lower operating profit and the higher weighted average capital cost (WACC) of 5.9% (previous year: 5.5%). A detailed overview can be found on page 64 of the financial report.

Free cash flow

The free cash flow before cash distribution reached CHF 88.5 million versus CHF 108.8 million in the previous year. This amount is the result of the efficient management of the Group's net working capital and cautious investment in production plants in view of existing overcapacities.

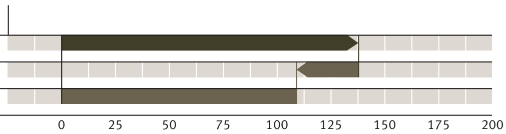
Free cash flow 2003

	m CHF
Cash flow from operating activities	123
Cash flow used for investments in long-term assets, net	–34
Free cash flow [1]	89



Free cash flow 2002

	m CHF
Cash flow from operating activities	138
Cash flow used for investments in long-term assets, net	–29
Free cash flow [1]	109



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

Capital investments

SAP coverage at 70 %

A total of CHF 46.2 million was spent for investments. This means that also in 2003 the investment activity stayed clearly below the depreciation on fixed assets of CHF 82.9 million. Additional investments were made for the implementation of a group-consistent and highly integrated IT structure on SAP/R3 basis. In the business year under review, this program focused on belting in Europe and Asia, and flooring in France. By now, a SAP coverage of about 70 % has been reached in the Group. The conclusion of this investment project with the complete implementation is planned for 2005. Forbo will then dispose, all over the Group, of an IT architecture aligned with the requirements of the three businesses, allowing the optimum decision-making, planning and business processes.

Logistic structures improved

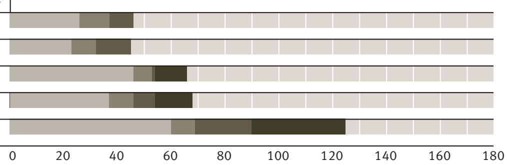
In the adhesives business, the production capacity for hot melt adhesives was increased in Pirmasens (Germany). In the flooring business, warehouse automation was accelerated, and the logistic structures were further improved in Krommenie (Netherlands). Besides, the production infrastructure for cushion vinyl in the project area was improved at the Reims (France) and Forshaga (Sweden) sites.

Investment planning 2004

Further investments in logistics automation are envisaged in the flooring business. In Reims (France) the construction of an automated melt feeding system for the production of vinyl is being planned, and the Coevorden (Netherlands) site will set up a treatment plant for re-use of plastic waste. The aim of these projects is to further reduce the vinyl production costs. In order to serve the Eastern European growth market, the construction of a fabrication plant for belting has been started in Slovakia. The conclusion of the SAP implementation is accelerated all over the Group.

Capital investments 1999–2003

	Flooring m CHF	Adhesives m CHF	Belting m CHF	Divested activities m CHF	Total m CHF
2003	26	10	10		46
2002	23	11	11		45
2001	46	9	10	1	66
2000	37	7	16	8	68
1999	60	9	35	21	125



Flooring
Adhesives
Belting
Divested activities

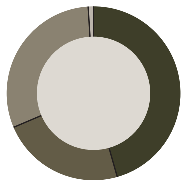
Employees

Job cuts necessary because of cost pressure

As per December 31, 2003, Forbo employed 5,585 people. This is a reduction by 129 people over the end of 2002, on a comparable basis. The job cuts were more or less proportional to the sales percentages of the businesses. The decrease by approximately 180 jobs so far in Western Europe compares with an increase by 78 jobs in the growth markets of Asia, America and Eastern Europe, again reflecting the business cycle in the individual regions. The job reduction program, which was started in October of the year under review, will be concluded at the end of the first quarter of 2004.

Employees by Businesses

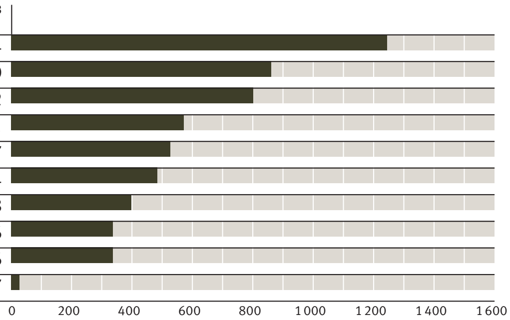
	2003	Change 2002/2003 %*	%
Flooring	2,557	–4.3	45.6
Adhesives	1,288	–1.8	23.0
Belting	1,699	0.9	30.4
Headquarters	41	–4.7	1.0
Total	5,585	–2.3	100.0



*On a comparable basis

Employees by geographic areas

	%	Change 2002/2003 %*	2003
Benelux	22.3	–10.9	1,244
North, Central and South America	15.4	5.5	860
Germany	14.4	–4.2	802
France	10.2	0.5	571
Great Britain/Ireland	9.4	1.7	527
Scandinavia	8.7	–3.0	484
Asia/Australia/Africa	7.1	9.0	398
Switzerland	6.0	–1.8	336
Southern Europe	6.0	–3.7	336
Eastern Europe	0.5	8.0	27



*On a comparable basis

Brand leadership

'Forbo' as the umbrella brand

Although Forbo is not a brand producer in the classical sense of consumer brands, the Group disposes of numerous renowned brands. The Group name of Forbo has been integrated in many corporate and product names as a common umbrella brand for all the businesses. The brands of the individual businesses are partly market leaders. For instance, the floor covering collections have registered brand names that are well-known on the international level, such as Marmoleum®, Artoleum® or Novilon®. Adhesives have mostly national names, such as Swift® in the USA and Eurocol® in the Netherlands. Beltings are sold worldwide under the Siegling® brand, having a world market share of about 20 %. In Switzerland, the company displays the Forbo brand at selected high-grade sport events with international media coverage. On the level of business areas, there are numerous individual programs for supporting and enhancing the brand image.

Process improvement

Systematic process development

In this business year, too, numerous projects were initiated and implemented for further improving our business processes. The most important initiative resulted from a comprehensive telephone survey about customer satisfaction carried out by a specialized institute. The survey produced good results for Forbo, but it also showed that fast product availability and supply reliability are essential factors for customer satisfaction. It was our goal to improve the production and logistic processes in such a way that Forbo's supply performance is perceived by customers as a positively differentiating factor in comparison with competitors. We wanted to reach this goal without increasing our stocks. Flooring and belting reached this milestone in the course of the year by means of sophisticated production planning tools, streamlining of the product offer, categorization in groups with different availabilities, and the reduction or closure of decentral warehouses for finished goods. Today, the three businesses are continuously monitoring and evaluating supply reliability. Besides, it is planned to repeat the customer satisfaction survey at regular intervals.

Integration of sites and centralization of processes

Cost optimization efforts resulted in the restructuring of several sites in the year under review, notably in the adhesives business in Europe (France, Spain, Benelux, Austria, and Germany). The sales organization of the flooring business in Germany was integrated into a single site. The standardization of information technology systems based on SAP/R3 is increasingly facilitating the order handling processes. It is more and more the objective to centralize these processes by means of Shared Service Centers. In this sense, export orders of individual production sites were centrally controlled and coordinated in a first step within the flooring business.

ISO certified

With very few exceptions, all the sites of the Forbo Group have been certified according to ISO 9001 or 14 000. Numerous Forbo organizations successfully passed the repeat certification audits that are demanded at regular intervals.

Flooring: Well Positioned with New Products

The flooring business recorded sales of CHF 729 million in the business year 2003 compared with CHF 736 million in the previous year. This corresponds with 46% (previous year: 48%) of total Group sales, meaning that flooring continues to be the most important business. The sales decrease of 1.0% is 1.7% in local currency. Demand for linoleum and vinyl, except for the project business, was subdued. Parquet floor coverings achieved double-digit growth thanks to the home market of Sweden and brisk export activity to Eastern Europe. In contrast to considerable growth in markets such as Asia, Eastern Europe, Southern Europe, and France, a sales decline was recorded in the traditional, high-margin markets of Western Europe. The local price level could be maintained in most regions. The weak Dollar resulted in lower sales after translation into Swiss Francs. Another adverse factor was the fact that Forbo generates substantial exports from the Euro zone to the Dollar region. The operating profit of CHF 54 million was CHF 10 million lower than in the previous year (CHF 64 million).

Linoleum

Inconsistent regional development

Sales of the linoleum product group were CHF 361.6 million (previous year: CHF 372.0 million) and declined by 2.4% local currency. The main reason for the decrease is the reluctant building and investment activity of the public sector, representing an important customer group. A positive development was recorded in France. Linoleum is moving forward in France, supplementing a strong market position of vinyl for the contract market. The trend is positive also in Germany and Southern Europe. This was in contrast to partly essential decreases in Great Britain, Benelux and Scandinavia. North America continues to be on a growth course, increasing sales by nearly five percent in local currency terms.

Red dot design award won for the second consecutive time

The new, third Artoleum® collection was developed after a detailed trend analysis in cooperation with more than 150 leading architects, designers and interior decorators in 25 countries. As with earlier collections, painting was the major source of inspiration. For the new collection, Forbo received the 'red dot award', an internationally renowned design award of the North Rhine-Westphalian Design Center. With the collection 'Marmoleum meets Mendini' launched at the Salone del Mobile in Milan in April 2003, the design and art orientation remains an important topic for linoleum: Developed in cooperation with the well-known Italian designer Alessandro Mendini, the collection offers artistic patterns with cubistic shapes, rhythmic lozenges or brush strokes inspired by the impressionism. With this design collection we want to position linoleum as a trend product.

Design orientation also in the residential area

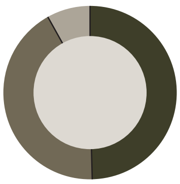
The launch of the innovative linoleum product Marmoleum® click for the residential area has been started successfully. Like the popular laminate and parquet system for self-installers, the click system does not need any additional fixation. The individual handy elements consist of a carrier plate with a two millimeter thick linoleum layer and can simply be put together. Installation is therefore very easy, and the floor covering can be removed, if necessary, and re-installed somewhere else. The collection covers a range of 15 colors and is available in the form of panels or tiles.

Market leadership strengthened

Linoleum consists of naturally renewable raw materials, and the new product combines in a unique way ecological living with attractive design and excellent installation and use properties. Forbo has a share of more than 60% in the global linoleum market and has further expanded its market position. The marketing efforts are aimed at both the institutional building segment (commercial buildings, hospitals, schools and other public buildings) and applications in the residential area.

Sales by product groups

	m CHF 2003	Change on previous year effective %	currency adj. %	%
Linoleum	361.6	−2.8	−2.4	49.6
Vinyl	308.5	0.2	−1.3	42.3
Other floor coverings	58.9	5.0	1.4	8.1
Total	729.0	−1.0	−1.7	100.0



Vinyl

Strong development of the project business

Sales of the vinyl product group reached CHF 308.5 million (previous year: CHF 308.0 Mio) and could thus be maintained on practically the previous year's level in spite of difficult market conditions. In local currency terms the sales decrease is 1.3%. A significant increase was achieved in France, similar to linoleum. Strong sales were also recorded in Southern and Eastern Europe, and in Asia. The launch of vinyl with insulating properties was particularly successful in these export markets. Sales of vinyl through retail channels showed a clearly declining trend in Germany and the Benelux countries.

Product innovation for the project area

As with linoleum, efforts are being intensified to launch new vinyl collections for the project business. With the product innovation Eternal, we meet the demand of many customers for a vinyl floor particularly suitable for large-surface rooms. Eternal has a wear-resistant and easy-care surface and is available in various designs.

Trend setting in the residential area

With Novilon® new generation a product line has been designed for young target groups. With lively animal designs, Novilon® Arta has the potential to become a trend setter. Novilon® Moda is a collection for well-being, reflecting a natural look in design, colors and patterns. Both collections have a wear-resistant layer with diamond character, providing the floor with a gripping surface. Novilon® Vera produces a playful, light and colorful impression and is an ideal match with the Novilon® new generation product line.

Vinyl show room opened in Amsterdam

Forbo has opened a show room for vinyl products in the historic center of Amsterdam, in the proximity of some of the world's most prestigious museums such as the Van Gogh museum and the Dutch Rijksmuseum. It shows the avantgarde of synthetic floorings in an unconventional setting, representing an interesting customer attraction.

Parquet and textile floorings

Parquet flooring with positive development

Sales of the product group parquet and textile floorings, including needlefelt, were CHF 58.9 million (previous year: CHF 56.1 million), 5.0% higher than in the previous year, or 1.4% in local currency. The sales increase was supported by the positive development of parquet in Southern and Eastern Europe, whereas textile floorings including needlefelt suffered declining sales in Germany and the Benelux countries.

Outlook

Seeking profitable growth

Expanding the project business is a priority. We have the chance there to win additional market shares also in mature markets by the combination of linoleum and vinyl floorings. The distribution concept of a supplier of integrated solutions is becoming ever more effective. Apart from Asia and America, the Eastern European growth market is opening itself also for our project business. With the rising economic prosperity there is a growing demand for institutional and representative buildings. We want to use our strong position in this field to further achieve profitable growth. With vinyl for the retail channels the emphasis is on the reduction of production costs on the one hand, and strengthening the market position in the high-price segment on the other hand. A selective offer in the low-price segment is supposed to generate additional sales and profit growth for the overall business.

Adhesives: Sales Growth through Acquisitions

The adhesives business recorded sales of CHF 573 million in the business year 2003. This corresponds with 36% (previous year: 32%) of Group total sales, meaning that this business has been able to expand its second position within the Group. In the context of a reorganization program launched at the beginning of 2003, a Swiss based company producing liquid industrial floorings (Repoxit AG) with annual sales of some CHF 16 million was sold. Thus, the comparable sales in the previous year amounts to CHF 471 million. The sales growth therefore is 22%, in local currency even more than 26%, as a result of the acquisitions made in 2002. With an operating profit of CHF 31 million (previous year: CHF 38 million), the earning power of the adhesives business did not meet the expectations especially because of higher raw material costs and an unfavorable shift of the product mix. The Dollar weakness had an additional negative impact on sales and profit through the currency translation into Swiss Francs.

Market situation

Poor economic situation and expensive raw materials

The adhesives business, too, suffered from the general economic conditions in the year under review. The margin pressure was increased through price rises of key raw materials. The higher prices could be passed on to the customers only to a very limited extent and with considerable delay.

Strategic objectives further implemented

The sales increase is mainly due to the acquisition of the Swift adhesives business. As a result, sales in local currency rose by 26%. About 40% of the adhesives business' total sales are accounted for by the North American market. 45% of total sales are realized in the four major European sales regions, i.e. Benelux, Germany, Southern Europe, and France. In North America, Southern Europe, and France, growth could be generated in spite of the difficult economic climate. Following the successful Swift acquisition, Forbo is now on track to become a global supplier. Forbo has a world market share of only 3%, but is already among the major producers in this segment. The company is the market leader in selected fields of application.

Focus on industrial adhesives

With 80% of sales, industrial adhesives are the core business with applications in the paper and packaging industry, automotive, assembly, wood processing, and shoe industries. North America and Europe generate about half of total sales each. Forbo's adhesives activities for applications related to the building industry, accounting for some 20% of total sales, have an excellent market position especially in the Netherlands. This position could be further strengthened despite the recessionary environment.

New products

Product development in 2003 concentrated on adhesives for the packaging industry and special grades for lamination and assembly applications for the automotive industry. The start-up of additional production capacities for reactive hot melt adhesives in Pirmasens (Germany) opens up new growth potential. A novel self-leveling subfloor adhesive has been launched for applications in the building industry.

Recognition by customers

In Great Britain Forbo was presented the 'Supplier of the Year' award by a key customer of the packaging industry in recognition of delivery reliability and customer proximity. The company produces high-quality cardboard sleeves for packaging applications used in the food, beverage and cosmetics industries.

Streamlining the organization

Different organizational units have been integrated in some countries in order to make use of the efficiency and synergy potentials won with the acquisition of Swift. This applies especially to France, Spain, the Netherlands, Germany, and Switzerland. The consolidation of production sites and sales offices could be concluded successfully. In doing so, the needs of global key accounts and the transfer of expertise between the local production and sales organizations were taken into account. The associated costs were predominantly charged to the restructuring provisions made for this particular purpose.

A poem of one kilometer

Customer focus in the foreground

An example of the demanding applications of Forbo adhesives is the extension of the Benelux tunnel in Rotterdam. The Dutch port city built six additional tunnel tubes for a motorway and a bicycle track. The complete wall covering of the tubes covering a surface of 28,000 m^2 consists of tiles installed with adhesives and joint compounds from Forbo. The order had been placed with Forbo primarily on the grounds of quality control from dispatch through to the completion of the building project. A remarkable detail in the bicycle tunnel is a poem by Dutch writer Jules Deelder that extends as a tile mosaic on the wall over a distance of nearly one kilometer.

Outlook

High-quality applications and global-scale segments

In 2004, returning to healthy margins is more important than ever. In order to reach this goal we will increasingly concentrate on selected segments of global dimensions and with good chances of profitable growth. With more flexibility in terms of formulations and supplier comparisons we should be able to keep raw material costs under control. We are expecting increasing demand for adhesives, as can be seen in the USA already. In Eastern Europe and Asia, we are seeking to expand our business activity based on the presence of the flooring and belting businesses in these regions.

Belting: Push into Technology-Driven Market Segments

In the business year 2003, the belting business achieved sales of CHF 297 million after CHF 308 million in the previous year. In local currency, sales rose by 1.4% compared with 2002, while they decreased by 3.7% in Swiss Franc terms. Total belting sales account for 18% (previous year: 20%) of Group sales. Increasing sales in Asia and North America were offset by declining sales in Europe, with the exception of Germany. At CHF 1 million (previous year: CHF 11 million), the operating profit remained just about positive. The weak US Dollar had an extremely adverse impact on the profit especially because of the considerable export volume from Europe to the Dollar area. Besides the business suffered a margin decline due to fierce price competition.

Market situation

Dollar thwarts market success

The global business with belts, which is heavily dependent on plant construction and investments in transport infrastructure, continued to suffer from an unfavorable economic climate, notably in Europe. Sales could be increased only in Germany as well as in Southern and Eastern Europe. In America and Asia, markets and sales followed a clear upward trend in local currency. However, this favorable trend was thwarted completely by the weak US Dollar so that sales in fact decreased in both regions after currency translation into Swiss Francs. The negative impact of exchange rate translation on sales was about CHF 14 million and CHF 5 million for America and Asia, respectively.

Market position maintained

The slight market decline that is still going on and fierce and intense competition among the market leaders resulted in continued price pressure. Nevertheless, Siegling succeeded in expanding its market position in selected segments and markets, notably in North America and Asia. Today, business in Asia and North America contribute 23% and 31%, respectively, to Group total belting sales.

Expansion in the Pacific region

Per March 31, 2003 Forbo took over the distribution business and retail trade for belts from its New Zealand agent Stedar Belting Ltd. This company has been distributing Forbo belts under the name of Siegling since 1983 on an exclusive basis. With annual sales of approximately CHF 2 million, Stedar Belting Ltd. is the clear market leader with Siegling products in New Zealand for conveyor and power transmission belts. With this move, Forbo successfully strengthened its market presence with belts in the Pacific region.

Market success through customer loyalty

Competitive edge in the mail sorting segment

Thanks to a successful participation in a bidding, the previous supply volume in the mail sorting segment (conveyor belts for mail sorting equipment) could be boosted in North America. A key element of this project was the excellent customer relationship that has been existing for nearly 20 years, the segment-specific know-how and the complete product range necessary to meet the customer's requirements. We managed this major project by resorting to our global resources for development, production and fabrication. Against this background the customer considers us a stable and reliable business partner whose quality and supply reliability he can count on.

Winning a major project with new products

Forbo could sign an exclusive agreement for the supply and maintenance of belts with an important customer in Australia. The agreement has a term of four years and is so far the biggest individual order for conveyor and processing belts as well as folder and carrier belts in the Australian market. The customer is the market leader in the production of corrugated paper board and packaging materials. The agreement includes all product areas but primarily focuses on paper and bags, corrugated paper, folding boxes and metal cans. The main reason for the allocation was the combination of Forbo's global network with its ability to offer the local service which the customer requested. Besides the new Extremultus® E-series offers various benefits as the core element of the offer: These belts are especially characterized by shorter assembly times allowing a higher plant availability. The fact that this big project could be won clearly confirms the strategy, i.e. to consistently align the product development with segment-specific market and customer needs.

Outlook

Focus on attractive segments

We want to develop even more intensively the Eastern European growth market. Combined with a targeted market coverage, this requires the establishment of a fabrication center in Slovakia. Another point of emphasis is the enhancement of our position in Asia, which is strong already today, with the further expansion of the sales network and fabrication in China. This position is being used increasingly also for products that are exported to the Japanese and North American markets. In addition, we concentrate our efforts on technology-driven applications and segments such as mail sorting plants and the printing industry. We have completed our product range and know-how with different new developments in a segment-specific manner. We will emphasize our supply reliability, which is high also compared with our competitors, and thus enhance customer loyalty. Furthermore, infrastructure improvements resulting from the consistent implementation of SAP will bring about a better market performance. With the recovery of the world economy we are expecting increasing capital investments in production and processing plants. This will directly impact our business and, in view of free capacities, the operating profit of the belting business.

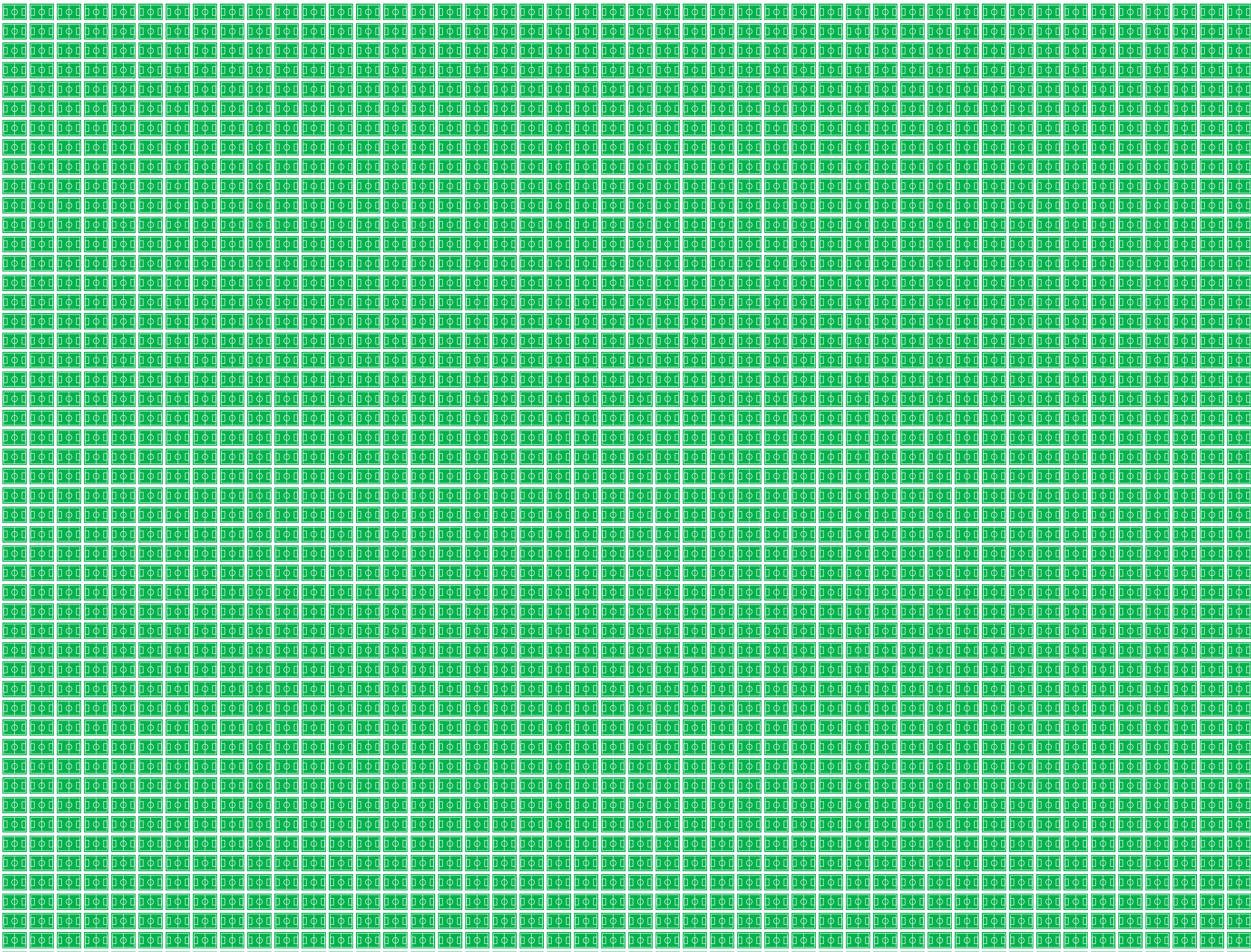
m^2

m^3

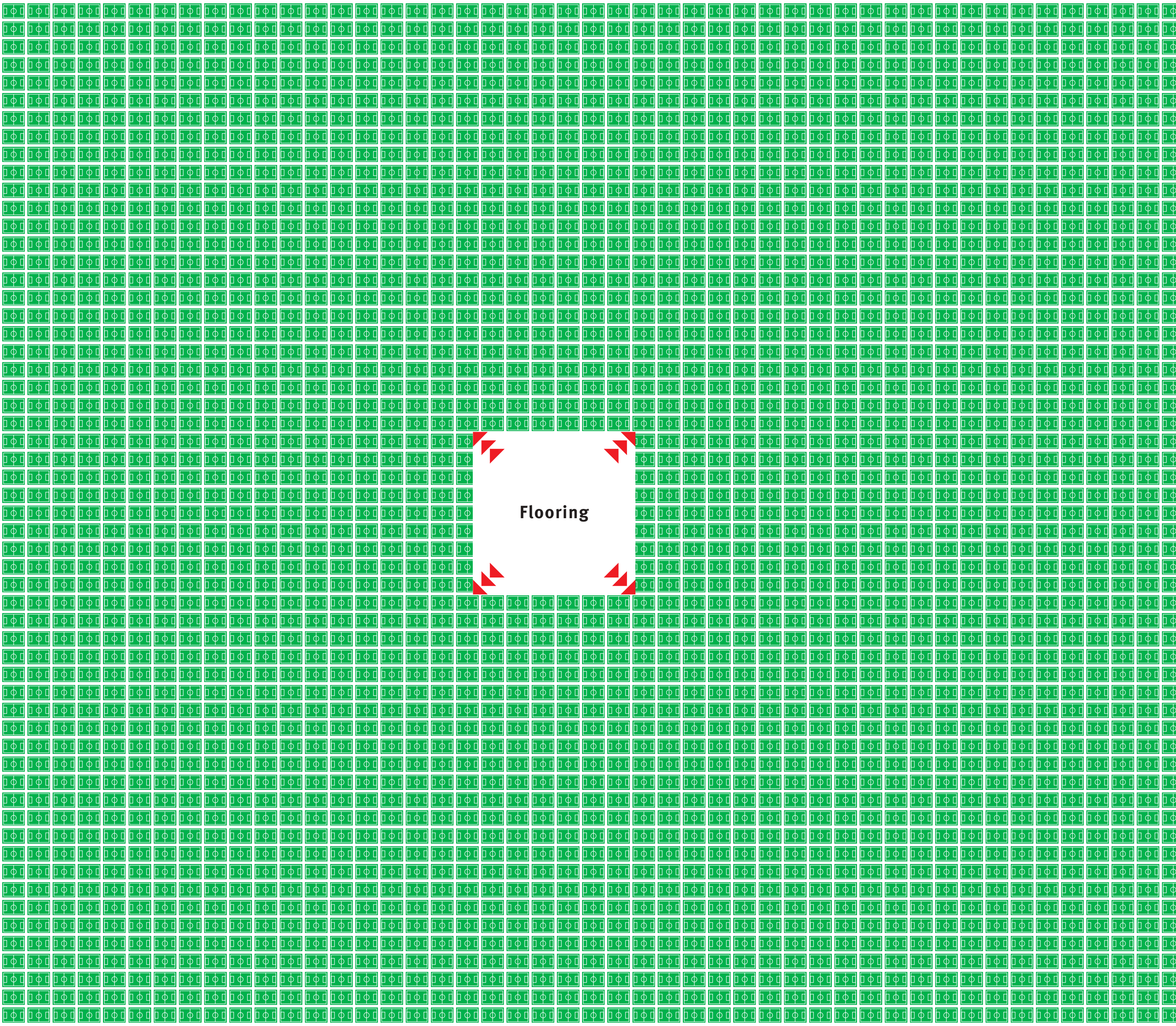
m

Surface, volume, longitude:
Forbo in all dimensions

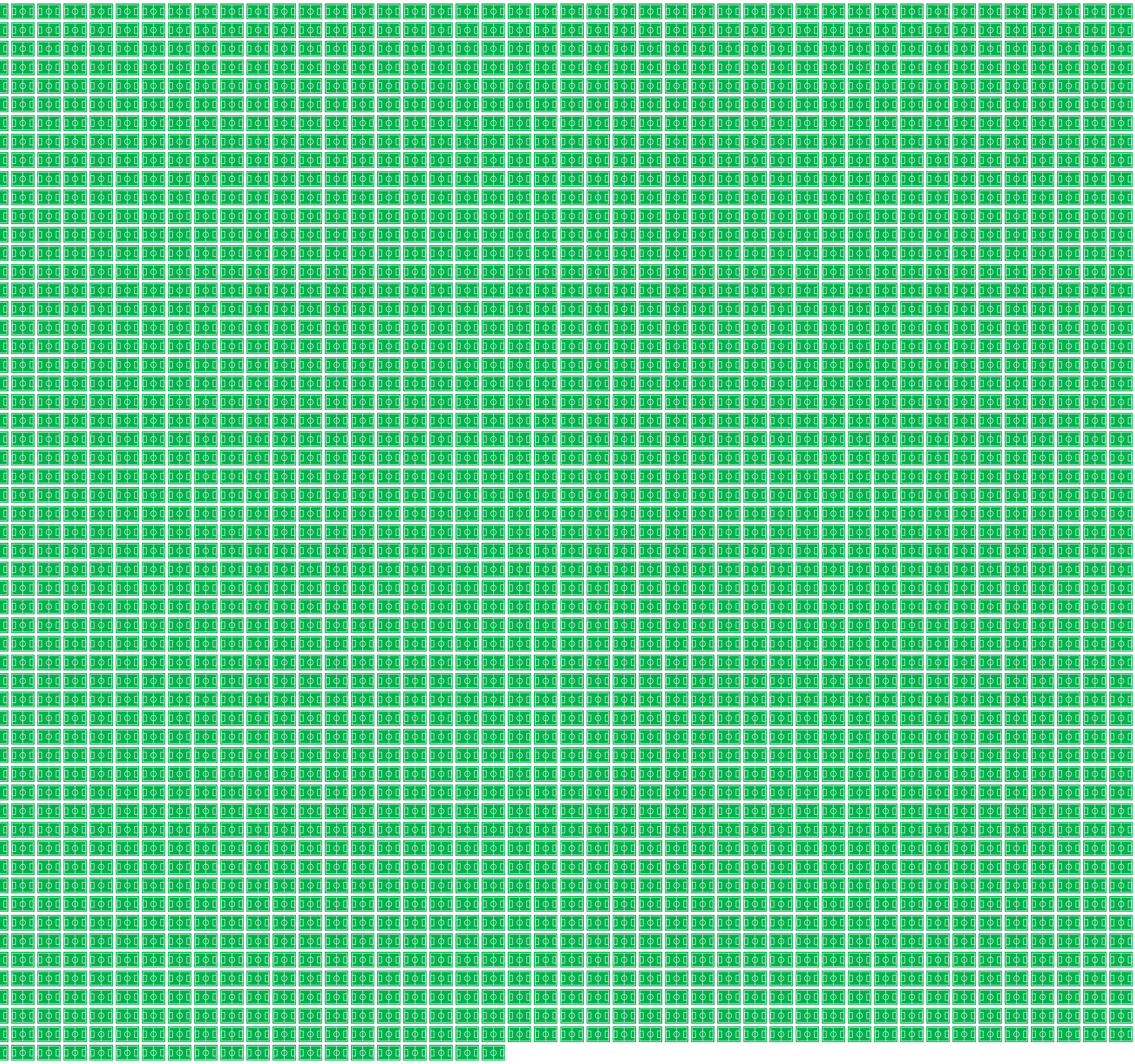
Three core businesses, a single strategic direction: Clear customer orientation and consistent product competence. Time and again, Forbo proves its unique expertise through product innovations and excellent quality. Our worldwide presence and reliable delivery are key elements in building customer loyalty and consistently strengthen our position in international markets.

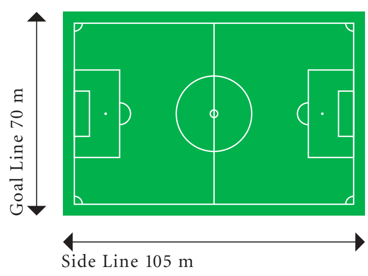


m^2

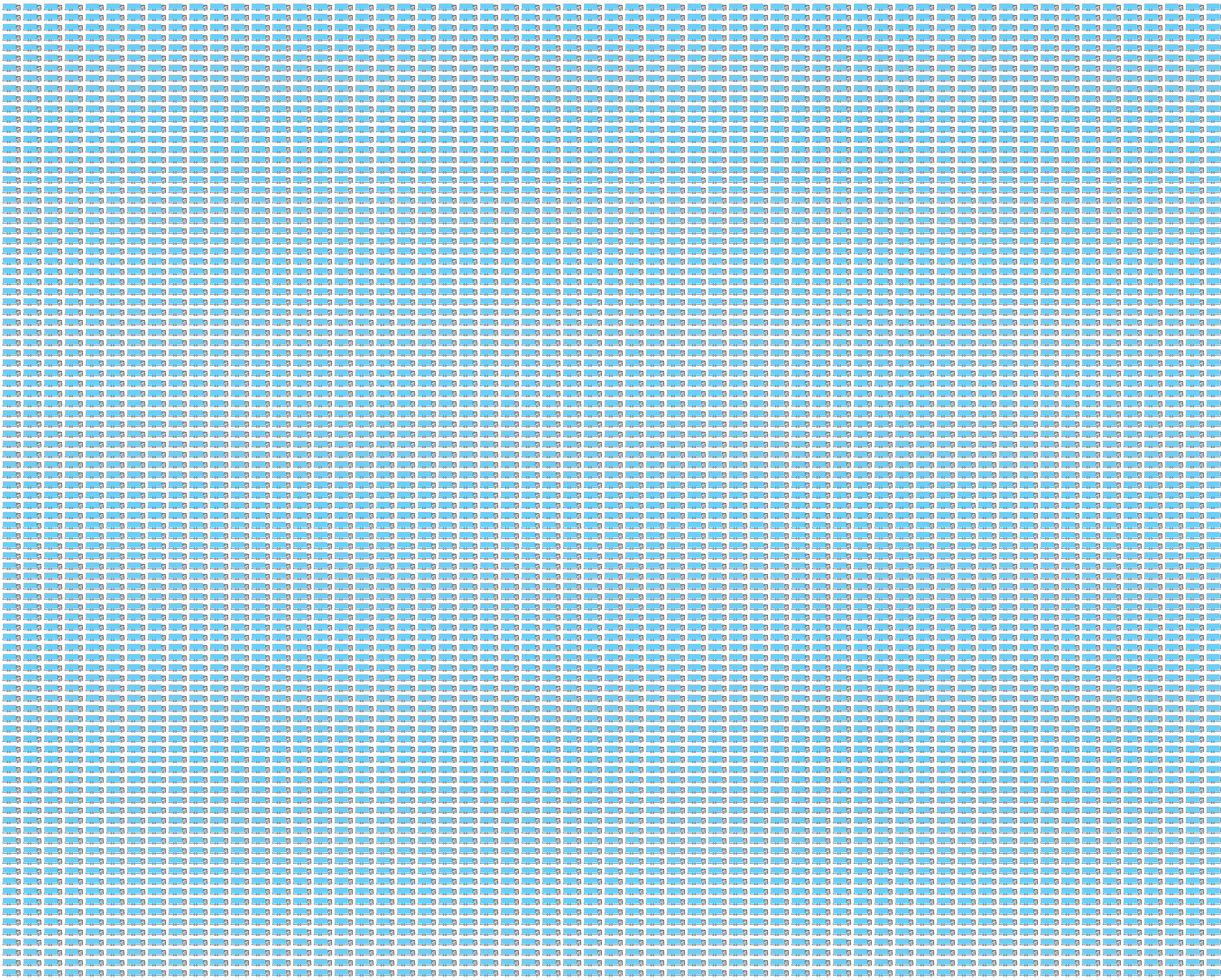


In 2003, Forbo produced 56.8 million m^2 of floor coverings worldwide.
This is enough to cover 7,728 soccer fields.

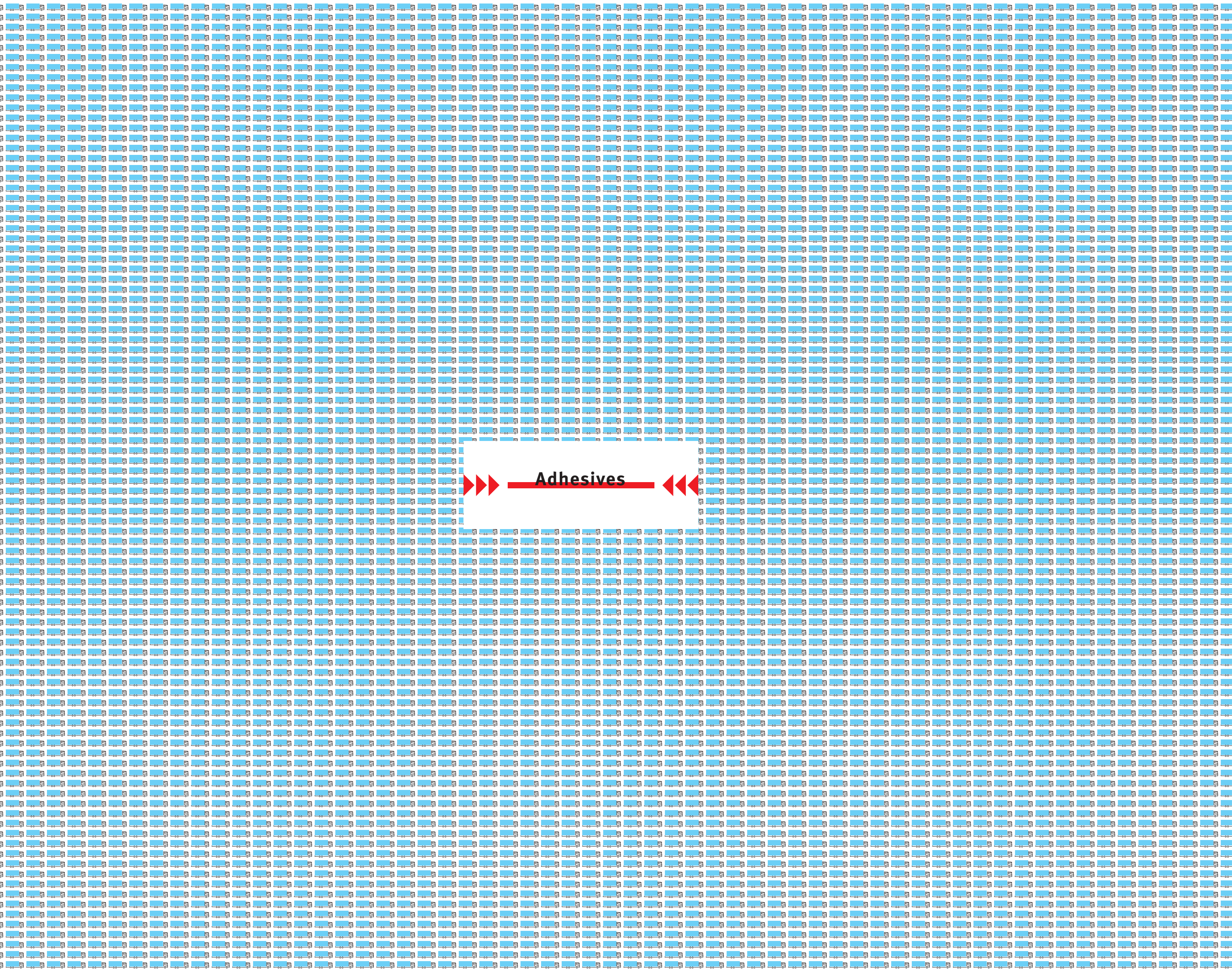



Goal Line 70 m
Side Line 105 m

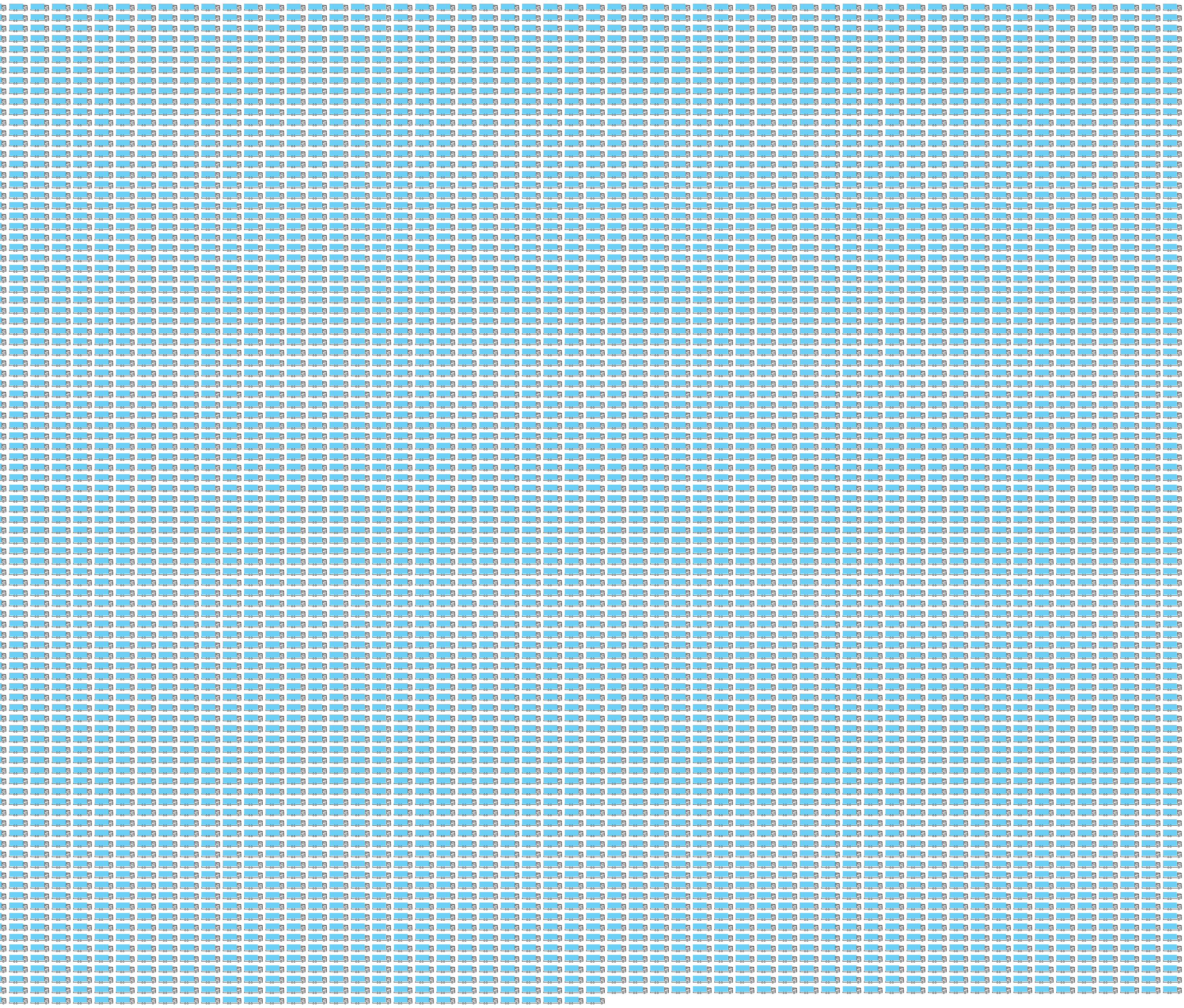
Extraordinary architecture demands extraordinary solutions. The floors at AlbaNova University Center in Stockholm, Sweden, are covered with the Forbo linoleum product Marmoleum® real, which satisfies all design requirements to the highest possible degree. The building was designed by architects Henning Larsen, Denmark, and Acking & Wedel AB, Sweden.



m^3

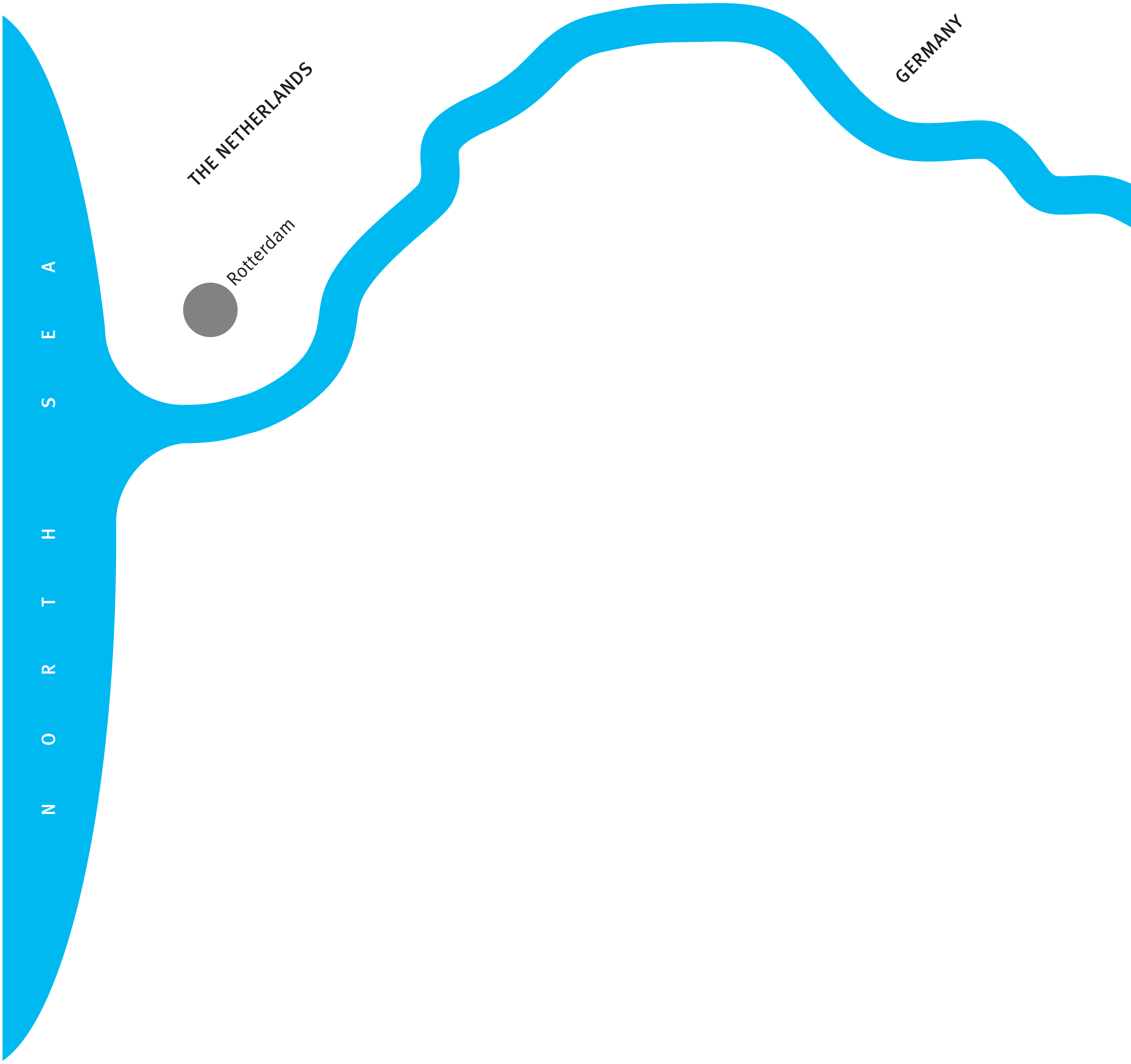


In 2003, Forbo produced 266,837 m^3 of adhesives worldwide. This is enough to fill the entire loading capacity of 16,677 trucks.



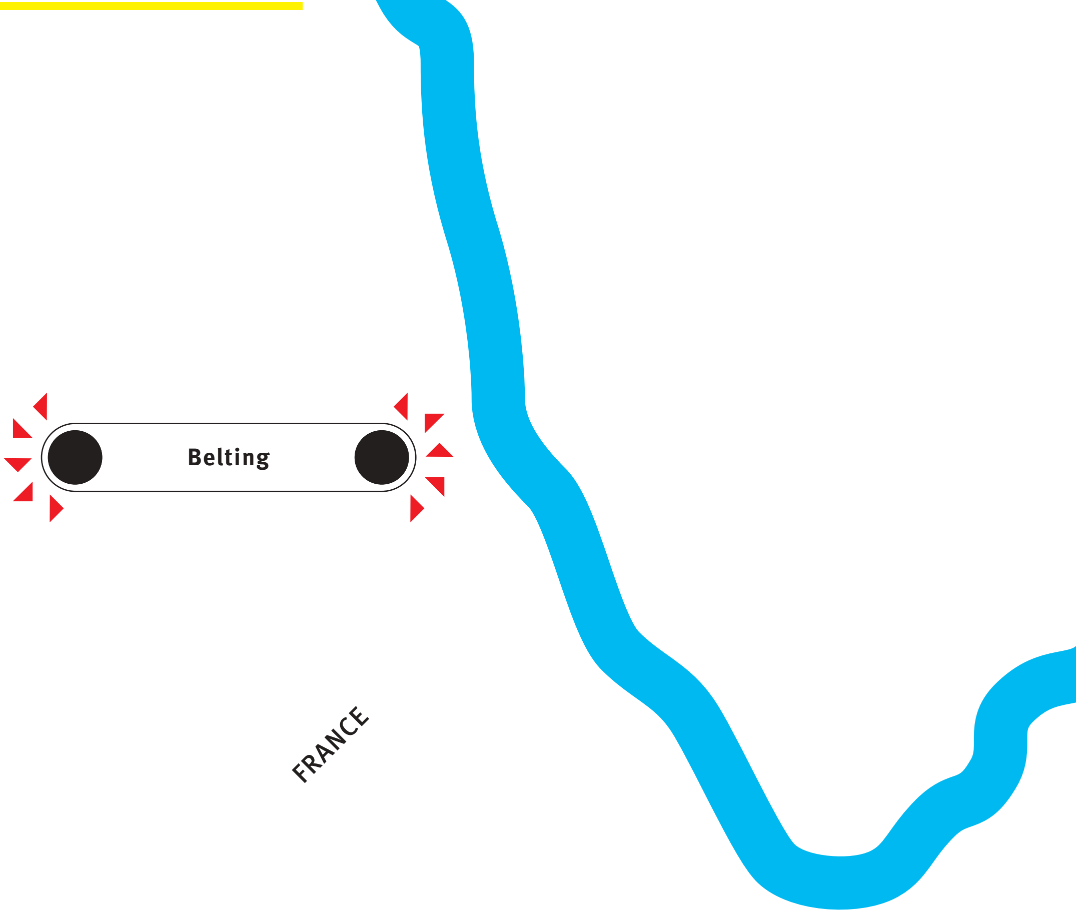
On average, one truck transports
16 m³ of adhesives

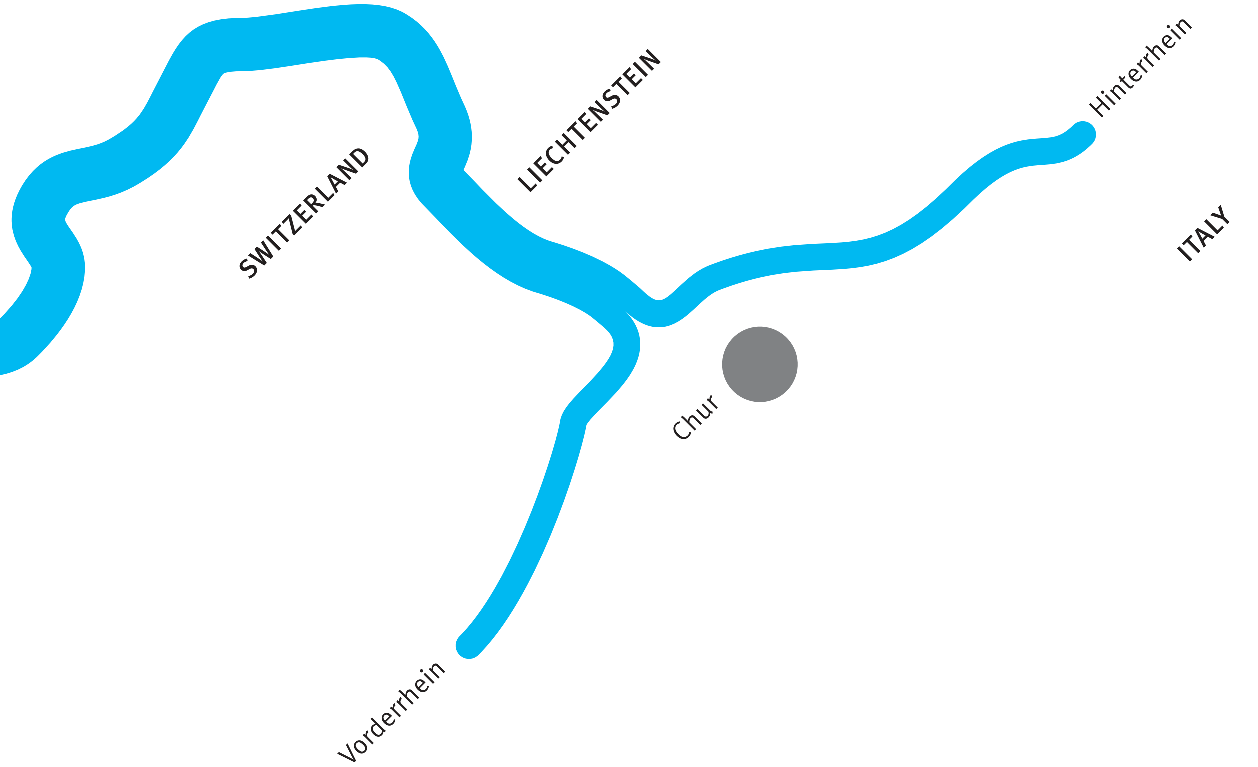
Forbo manufactures the full range of adhesives for the packaging, automobile, furniture and footwear industries. Often, we specifically develop adhesives and processes in close cooperation with our customers. Here, high-quality adhesives are used for sophisticated labeling applications.

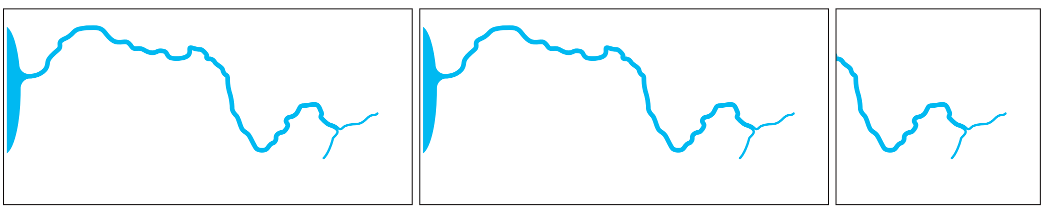

THE NETHERLANDS
Rotterdam
GERMANY
NORTH SEA

m

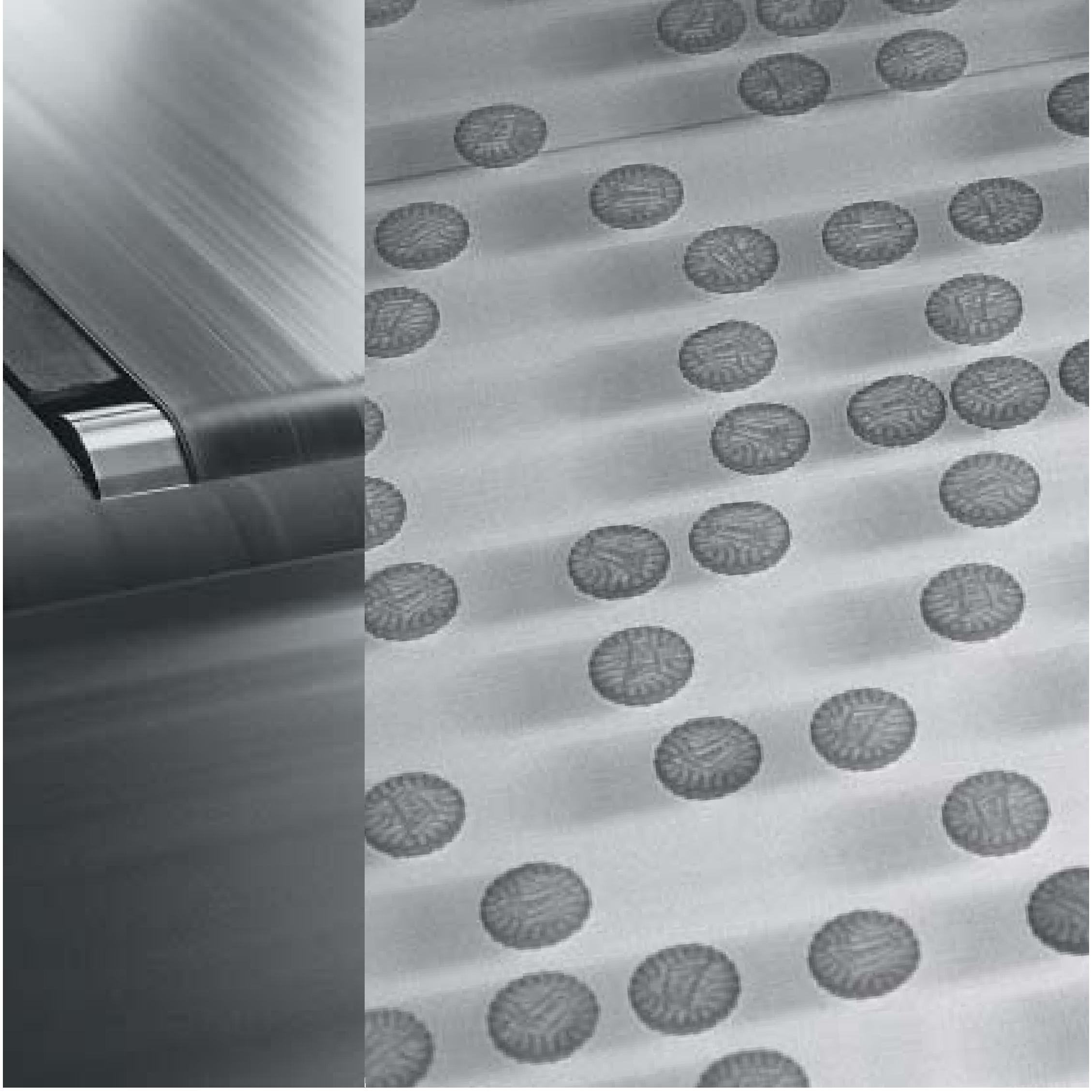
In 2003, Forbo produced 3,250,000 meters (3,250 km) of belts for power transmission, conveyor and processing applications worldwide. This is 2.5 times the length of the Rhine River.







The Rhine River has a total length of 1,320 km.



The world is in motion. And Forbo helps to make this happen. Forbo belting products are used in a wide range of production processes. Under the Siegling brand name, Forbo develops, produces and markets high-quality belts for power transmission, conveyor and processing purposes. Here you see an application in the food industry.

Tom Kaiser
Executive Vice President
Flooring

Sails for relaxation

Gerold A. Zenger
Executive Vice President
and CFO

Skies to keep fit

This E. Schneider
President and CEO

Produces his own
olive oil

Dr. Paul J. Haelg
Executive Vice President
Adhesives

Has clocked up 20,000
miles of flying balloons

Dr. Jan Lipton
Executive Vice President
Belting

Fine cooking is his
passion

Group Structure

President and CEO

This E. Schneider, Swiss
Born in 1952, he studied economics at St. Gallen University and Graduate School of Business, Stanford University, California, USA. After various management functions in Europe and the USA, he was a member of the Executive Board of Schmidt-Agence (kiosk business of S. Schmidheiny) from 1984 to 1990, with responsibility for strategic planning, operations and logistics. From 1991 to 1993 he was Chairman and CEO of the publicly listed company SAFAA, Paris. In 1994, he became a member of the Executive Board of Valora with responsibility for the canteen and catering division. From 1997 to 2002 he was Delegate and Vice Chairman of the Board of Directors of the Selecta Group. Since March 4, 2004, This E. Schneider has been CEO and President of the Executive Board of the Forbo Group.

Executive Vice President and CFO

Gerold A. Zenger, Swiss
Born in 1945, he worked from 1968 to 1970 with Crown Life Insurance in Toronto, Canada, in the Group Accounting Services area. From 1970 to 1973, he studied at the Advanced School of Economics and Business Administration in Zurich and worked part-time with Swiss Aluminium Ltd. in various functions. From the end of 1973, he was responsible for Group reporting and consolidation. In October 1976, Gerold A. Zenger joined Forbo as an Assistant Corporate Controller, and he assumed responsibility for the treasury area in 1979. He has been CFO since 1987, and he became an Executive Board member in 1998.

Executive Vice President Adhesives

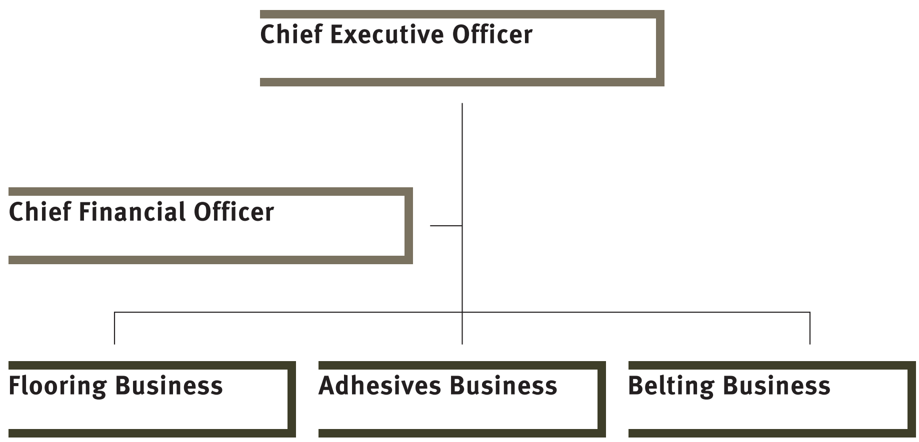
Dr. Paul J. Haelg, Swiss
Born in 1954, he studied Chemistry at ETH Zurich where he took his doctor's degree in 1981. From 1981 to 1986, he worked for Schweizerische Aluminium AG from where he went on to Gurit-Essex AG where he was CEO from 1996 to 2001. In June 2001, Paul J. Haelg was appointed Executive Vice President Adhesives and member of the Executive Board. He is a member of the Board of Directors of Gurit-Heberlein AG (Switzerland). Paul J. Haelg has decided to take over the position of the CEO with the Swiss based Daetwyler Group. The move will take place by the end of 2004 at the latest.

Executive Vice President Flooring

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

Executive Vice President Belting

Dr. Jan Lipton, Swiss
Born in 1952, he studied Engineering at ETH Zurich, and he took his doctor's degree at ETH Lausanne in 1983. Initially, he worked in research and development followed by management positions in different Swiss companies. From 1992 to 1997, he worked with Schindler AG, where he was a member of the Executive Board. Then he joined the Group Executive Board of Keramik Holding AG. In April 2000, Jan Lipton was appointed Executive Vice President Belting and member of the Executive Board.



Corporate Governance

At Forbo, the concept of corporate governance encompasses the entire set of principles and rules designed to protect shareholder interests with regard to organization, conduct, and transparency. Forbo's aim is to strike a good balance between management and control. The following information is set out in line with the Corporate Governance Directive drawn up by the SWX Swiss Exchange and, where applicable, the Swiss Code of Best Practice. Based on the Corporate Governance Directive, reference is made in the following text to information in the Annual Report or Forbo Website in order to avoid repetition. In cases where no information has been provided, it can be assumed that the corresponding sections of the Corporate Governance Directive are not applicable or immaterial in Forbo's case.

Group structure and shareholders

Group structure

An organizational chart depicting the operational Group structure is given on page 39 of this Annual Report. The scope of consolidation of Forbo Holding AG with registered office in Eglisau (Valor No. 000354151/ISIN CH0003541510) does not include any listed companies. The relevant details relating to the companies that belong to the group of consolidated companies of Forbo Holding AG are given on page 102 of the Financial Report in the list entitled 'Group Companies'. Information relating to the allocation of the Group companies to their respective businesses is also included in this list.

Significant shareholders

As of the end of December 2003, 3,668 shareholders were listed in the share register of Forbo Holding AG, 178 or 5.1% more than in the previous year. According to the company's information, only one shareholder held more than 5% of the voting rights as of December 31, 2003. On July 29, 2002 UBS Fund Management (Switzerland) AG, Basle, acquired a stake of 5.1% with voting rights, thereby exceeding the 5% limit. On January 29, 2004, UBS Fund Management informed us that on January 27, 2004 the 5% limit of voting rights was no longer reached.

Cross-shareholdings

Forbo Holding AG is not involved in any capital or vote-based cross-shareholdings.

Capital structure

Authorized and conditional capital

This information is contained on page 97 of the present Annual Report. The Annual General Meeting of Forbo Holding AG decided on April 29, 2003, to reduce the share capital to CHF 37,984,128, based on the Audit Report of an authorized auditor, by reducing the nominal value of each registered share by CHF 22 from CHF 50 to CHF 28. The corresponding change to the Articles of Association was also approved by the Annual General Meeting.

Changes in capital, 2001 to 2003

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

Year	Share capital CHF	Shares (units)	Nominal value CHF	Reserves CHF	Available earnings CHF	
2001	75,677,500	1,513,550	50	302,965,916	61,303,998	
2002	67,828,800	1,356,576	50	169,538,463	62,687,804	1)
2003	37,984,128	1,356,576	28	170,976,142	78,075,456	2)

1) Capital reduction as a result of the share buy-back program according to the resolution passed by the Annual General Meeting on April 23, 2002
2) Capital reduction as a result of the nominal value reduction according to the resolution passed by the Annual General Meeting on April 29, 2003

Shares

The share capital of Forbo Holding AG is CHF 37,984,128, divided into 1,356,576 registered shares with a nominal value of CHF 28 each. Further details are given in the Notes to the Financial Statements on page 97 of the Financial Report. Each share entitles its holder to one vote. The economic and participatory rights of those shareholders entered in the share register as having voting rights are stipulated by law and in the Articles of Association. The participatory rights encompass the right to attend the Annual General Meeting and the right to table motions and to vote. Shareholders who cannot attend the Annual General Meeting in person may be represented at the meeting. They may appoint as their representative an official of the company, an independent representative, or another shareholder who is entered in the share register.

Limitations on transferability and nominee registrations

With regard to relations with the company, only the party entered in the share register shall be recognized as the holder of registered shares or beneficiary. The entry of shares with voting rights shall always require the consent of the Board of Directors, which may only be withheld in special cases. The consent of the Board of Directors to the entry of the voting right may be withheld in case a shareholder were to acquire or hold more than 8% of the total number of registered shares entered in the commercial register or if the acquirer of the shares does not expressly declare at the company's request that the shares are being bought and shall be held in his own name and for his own interests. The party acquiring registered shares shall submit a written application for approval of the share transfer and shall declare that he is acquiring and shall hold the shares for his own account. The registered shares of Forbo Holding AG are not evidenced by certificate. However, a shareholder may request that a certificate be printed and made available free of charge.

Non-certificated shares, including the rights associated with such shares, may only be transferred by means of assignment. The company must be duly notified of any such assignment for the process to be valid. If non-certificated shares are held by a bank on the shareholder's behalf, such shares may only be transferred with the involvement of the bank. Resolutions on the amendment or deletion of the clause on the entry of registered shares shall require a majority of two-thirds of the votes represented at the Annual General Meeting in addition to an absolute majority of the represented share nominal values.

Convertible bonds and options

There are no outstanding convertible bonds. Information on the option programs available to the Board of Directors and the Executive Board is contained on page 49 of the Annual Report.

Board of Directors

Members of the Board of Directors

In the business year 2003, the Board of Directors of Forbo Holding AG consisted of seven non-executive members.

Karl Janjoeri

Karl Janjoeri was born in 1935 and is Swiss. From 1960 to 1997 Karl Janjoeri held various functions at UBS AG (former Schweizerische Bankgesellschaft), thereof 18 years in the Executive Board. Karl Janjoeri has been a member of the Board of Directors of Forbo Holding AG since 1986 and has been its Chairman since 1999. In additon, Karl Janjoeri is the Chairman of the Board of Directors of BDL Banco di Lugano, member of the Board of Directors of Italcementi S.p.A. (Italy) and the WJB Chiltern Group plc (England).

Karl Janjoeri retired from the Board of Directors at the beginning of 2004.

Dr. Willy Kissling

Dr. Willy Kissling was born in 1944 and is Swiss. He studied at the University of Berne (Dr. rer. pol.) and at Harvard Business School (PMD). He has held various management positions since 1970. From 1987 to 1996, he was CEO and delegate of the Board of Directors of Landis & Gyr AG. From 1998 to 2002, he was CEO of Unaxis Holding AG. Since 1994, Willy Kissling has been a member of the Board of Directors of Forbo Holding AG, and its Vice Chairman since 1998. Besides, he is the Chairman of the Board of Unaxis Holding AG, Vice Chairman of Holcim Holding AG and a member of the Board of Directors of Schneider Electric SA (France) and Kühne & Nagel International AG.

At the beginning of 2004, the Board of Directors appointed Dr. Willy Kissling as its new Chairman.

Dr. Anton H. Bucher

Dr. Anton H. Bucher was born in 1942 and is Swiss. He studied at the University of Zurich (Dr. oec. publ.). From 1976 to 1994, Anton H. Bucher worked with Zellweger Uster AG, from 1981 to 1986 as the Deputy Director General and Vice Chairman, from 1986 to 1994 as a member of the Board of Directors. From 1987 to 1995, he was a member of the Board of Directors of Schweizerischer Bankverein, and from 1987 to 1998 a member of the Board of Directors of Ascom Holding AG. Anton H. Bucher has been a member of the Board of Directors of Forbo Holding AG since 1986. He is the owner of a real estate company in the USA.

Drs. Pieter P.A.I. Deiters

Drs. Pieter P.A.I. Deiters was born in 1943 and is Dutch. He studied at the University of St. Gallen. From 1967 to 1993, he worked with Berghaus International Fashion Group (Netherlands), from 1972 as its Chairman. From 1993 to 1998, he was a member of the Board of Directors of Coats Vyella PCL, Clothing Division, England. Since 2002, Pieter P.A.I. Deiters has been a member of the Board of Directors of Forbo Holding AG. He is a member of the Board of Directors of various Dutch groups such as Koninklijke Ten Cate B.V., Berghaus B.V., Steps International B.V., Teidem B.V. and Tootal B.V. Additonally, he is a Consultant of the EBRD European Bank for Reconstruction and Development (Great Britain).

Michael Pieper

Michael Pieper was born in 1946 and is Swiss. Michael Pieper studied economics at St. Gallen University. He has been with Franke Group since 1988 and its owner and CEO since 1989. Since 2000, he has been a member of the Board of Directors of Forbo Holding AG. Michael Pieper is a member of the Board of Directors of Hero, and SWISS International Air Lines Ltd. Besides, he is a member of the Supervisory Board of Thyssen Krupp Steel AG (Germany).

Dr. Paul Tanos

Dr. Paul Tanos was born in 1944 and is Austrian. Paul Tanos studied at the University of Vienna and graduated as 'Diplomkaufmann'. At Klagenfurt University he earned a doctorate in social science and economics. From 1986 to 2001 he was a member of the Management Board of Wienerberger Group (Austria). Since 1999, he has been a member of the Board of Directors of Forbo Holding AG. In addition, Paul Tanos is Chairman of the Supervisory Board of Palmers AG, Palmers Textil AG and Palmers Beteiligungs AG, Supervisory Board member of Vitalis GmbH and Zürich Versicherung Österreich (all Austria). He is consultant of WOLF Garten GmbH (Germany).

Prof. Dr. iur. Rolf Watter

Prof. Dr. iur. Rolf Watter was born in 1958 and is Swiss. He studied law at the University of Zurich and graduated as a Master of Laws of Georgetown University in the USA. He is a registered lawyer in the Canton of Zurich. Since 1994, he has been a partner of Rechtsanwaltskanzlei Bär & Karrer in Zurich. He is a part-time Professor of Law at Zurich University. Since 1999, he has been a member of the Board of Directors of Forbo Holding AG. Rolf Watter is a member of the Board of Directors of Zurich Financial Services and its subsidiary Zurich Insurance Company. Besides he is a member of the Board of Directors of various companies such as Cablecom Group, Syngenta AG, Feldschlösschen Getränke Holding AG, UBS Alternative Portfolio AG and A.W. Faber Castell (Holding) AG. Until September 2003 he was also a member of the Board of Directors of Centerpulse AG. Besides, he is a member of the Board of Schweizerischer Juristenverein, member of the registration body SWX and the Disclosure Technical Committee of SWX.

No operative managerial tasks

None of the members of the Board of Directors has or had any operational management tasks for Forbo Holding AG or its consolidated companies. Neither was any member part of the Executive Board of Forbo Holding AG or its consolidated companies in the three business years preceding the year under review. There are no essential business relationships between the members of the Board of Directors and Forbo Holding AG or its consolidated companies.

Cross-involvement

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

Elections and terms of office

The individual members are elected by the Annual General Meeting for four years and may be re-elected any number of times. The mandates expire on a staggered basis. Information in this regard is provided on page 45 of this Annual Report. In accordance with the Organizational Regulations of Forbo Holding AG, members who have reached the age of 70 resign from the Board of Directors at the Annual General Meeting of the following year. The average age of the incumbent members of the Board is around 58. With regard to the composition of the Board of Directors, value is attached to the election of independent individuals with international experience in industrial companies as well as in the financial and consultancy sectors.

Board of Directors of Forbo Holding AG

	Member since	elected until	AFC	CDC	HRC
Chairman					
Karl Janjoeri (until January 31, 2004)	1986	2006	▲		▲
Dr. Willy Kissling (from February 1, 2004)	1994	2006		▲	
Members					
Dr. Anton H. Bucher	1986	2006	■		■
Drs. Pieter P.A.I. Deiters	2002	2006	■	■	
Michael Pieper	2000	2004		■	
Dr. Paul Tanos	1999	2007		■	■
Prof. Dr. iur. Rolf Watter	1999	2007	■		■
Secretary General of the Board of Directors					
Dagmar T. Jenni, Attorney, LL.M, ARM					

AFC: Audit and Finance Committee
CDC: Corporate Development Committee
HRC: Committee for Human Resources and Remuneration
▲ Chairman
■ Member

Internal organizational structure

The allocation of tasks within the Board of Directors and the composition of the three Board committees are listed on page 45 of this Annual Report.

The Board of Directors is the company's supreme executive body. The Chairman of the Board of Directors convenes its meetings in accordance with the Organizational Regulations as business dictates, but at least four times per year. Six ordinary meetings were held in 2003. Meetings are convened with notification of the agenda at least five working days in advance or with shorter notice being given in urgent cases.

The Executive Board and the Corporate Staff, as well as the managers of the subsidiaries, may be invited to meetings of the Board of Directors after prior arrangement with the Chairman. Regular use is made of this option with the Executive Board generally being invited to attend meetings in an advisory capacity. The Executive Board informs each meeting about current business and important business events.

Three committees composed of members of the Board of Directors deal with well-defined subject areas of overriding importance. These standing committees consisting of three to four Board members, which are constituted on a yearly basis, advise the Board of Directors and draw up proposals. Seven committee meetings were held in total in 2003.

Audit and Finance Committee

The Audit and Finance Committee (AFC) is responsible for issues relating to Group financing, verification of accounting principles and principles applied to year-end accounts, discussion of audit results, monitoring of work of external auditors, and their independence. The AFC also stipulates the tasks of the internal auditing. The CEO and CFO are regularly requested to attend meetings in an advisory capacity, whilst the involvement of representatives of the internal auditing or the external auditors may also be requested by special invitation. The AFC convenes as often as business requires but at least two times per year. During 2003, it convened on three occasions.

Corporate Development Committee

The Corporate Development Committee (CDC) deals with issues relating to the corporate strategy. This includes, in particular, the realization of strategic alliances, acquisitions and mergers, as well as the divestment of company activities. The CEO attends meetings of the CDC in an advisory capacity, as may other members of the Executive Board on special invitation. The CDC convenes as often as business requires. During the year under review, there were two meetings of the CDC.

Committee for Human Resources and Remuneration

The Committee for Human Resources and Remuneration (HRC) is responsible for issues relating to the remuneration of the Board of Directors, the Group's general human resources policy, particularly with regard to recruitment, periodic evaluation, and performance-based remuneration of senior executives. Unless it is his own performance assessment and salary determination that is being discussed, the CEO attends the HRC meetings in an advisory capacity. The HRC meets as often as business dictates. Two meetings were held in 2003.

Definition of areas of responsibility

The Board of Directors is the supreme managerial and control body within the Forbo Group. It currently comprises six members, none of whom hold any executive function within the company. The Board of Directors has fully delegated operational management of the company to the CEO and the Executive Board in the absence of any provisions to the contrary set out in the relevant statutory regulations, Articles of Association, or Organizational Regulations.

The Board of Directors is the senior managerial body and responsible for supervising and monitoring the Executive Board. It also passes guidelines on the company policies and strategy. The Board is regularly briefed on the current state of business. At Forbo, the Chairman of the Board of Directors is the CEO's direct superior and is in close and regular contact with the other members of the Executive Board.

The Executive Board comprises the CEO, the CFO and the Heads of the three Businesses. Presently, the Executive Board consists of five members. The Executive Board is responsible for the operational management of the Group and also prepares proposals regarding corporate planning and strategy for the Board of Directors. The members of the Executive Board are jointly responsible to the Board of Directors.

The Executive Board meets as often as necessary, but basically once per month. During the meetings the business development, important events, projects, budgeting, and strategic planning are discussed, and requests for approval are prepared for the Board of Directors. In 2003, there were 13 meetings of the Executive Board.

Information and control instruments

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

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

Group Executive Board

The Group Executive Board, activities and vested interests

The names of the members of the Group Executive Board, alongside their nationalities, functions, qualifications, and professional backgrounds, as well as their activities and interests are listed on page 39 of this Annual Report.

Management contracts

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

Compensations, shareholdings and loans

Content and method of determining the compensations and the share-ownership programs

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

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

Compensation for current members

The members of the Board of Directors are remunerated on the basis of a graduated remuneration scale applicable to the Chairman, Vice-Chairman, and members. This consideration may be paid entirely in cash, or half of the total amount may be paid in the form of options on Forbo Holding AG shares. The theoretical market value on the issue date is used as the basis of calculation for the options. Total compensations, paid to the Board of Directors for all mandates within the Forbo Group amounted to CHF 733,215 in 2003. This amount comprises compensation for 8 members until the 2003 Annual General Meeting, respectively 7 members until the end of 2003.

The remuneration paid to the Executive Board consists of a fixed base salary and a performance-related component, determined in each case at the end of the financial year. Up to 30% of the performance-related component may be paid in the form of shares of Forbo Holding AG. These shares may not be sold for a period of three years. As part of a stock option plan, the Board of Directors issued to members of the Executive Board options of Forbo Holding AG for the first time in 2000. The basis of calculation was the theoretical market value on the issue date in each case, subject to a maximum of 10% of the total remuneration payable. Total compensations paid to six Executive Board members in 2003 amounted to CHF 3,369,094, with one member retiring by the end of August 2003. This amount includes the total compensation, i.e. base salary, bonus and payments in kind. The amount of CHF 500,000 was paid to a member of the Executive Board after his retirement in August of the year under review, for consultancy services rendered after his retirement until the end of 2003.

Compensations for former members of governing bodies

During the year under review, a member of the Executive Board who resigned from the company in 2003 received a severance payment of CHF 653,453.

Share allotment in the year under review

No shares were allotted to the members of the Board of Directors in the year under review, but 554 shares were allocated to members of the Executive Board as part of the performance-related remuneration system. No shares were allocated to parties (natural persons or legal entities) with close links to the Board of Directors/Executive Board.

Share ownership

The total number of shares held by the Board of Directors as of December 31, 2003 was 61,842. The Executive Board held in total 3,382 shares on the key-date. These figures include any shares held by natural persons and legal entities with close links to the Board of Directors/Executive Board.

Options

As of December 31, 2003 the Board of Directors and Executive Board held the following options:

Year allotted	Numbers	Term	Frozen until	Subscription ratio	Exercise price CHF
Board of Directors					
2001	917	08.05.2001–07.05.2006	07.05.2004	1:1	741
2002	1,602	07.05.2002–07.05.2007	06.05.2005	1:1	518
2003	2,156	31.07.2003–30.07.2008	30.07.2006	1:1	360
Executive Board					
2000	895	10.04.2001–09.05.2005	09.05.2003	1:1	670
2001	2,445	08.05.2001–07.05.2006	07.05.2004	1:1	741
2002	3,030	07.05.2002–07.05.2007	06.05.2005	1:1	518
2003	5,000	31.07.2003–30.07.2008	30.07.2006	1:1	360

Additional fees and remunerations

No further fees or remunerations were paid to the governing bodies during the year under review.

Loans granted to governing bodies

As of December 31, 2003, Forbo Holding AG had not awarded any securities, loans, credits, or advances to any members of the Board of Directors or Executive Board, or to any persons with close links to these members.

Highest total compensation

The highest total compensation paid to a member of the Board of Directors in the year under review amounted to CHF 260,000. This figure does not include any shares or options, as the individual in question did not receive any.

Shareholders' participation rights

Voting rights and representation restrictions

The Board of Directors may withhold its consent to the entry of the voting right of a shareholder or group of associated shareholders in the event that the 8% limit stipulated in Section 4 of the Articles of Association is exceeded with regard to the total number of registered shares entered in the commercial register. Consent may furthermore be withheld if the acquiring party of the shares in question, despite being requested to do so, fails to expressly declare that he is acquiring and will hold the shares on his own behalf and for his own interests. Resolutions on the amendment or deletion of the clause on the entry of registered shares (Section 4 of the Articles of Association) require a majority of two-thirds of the votes represented at the Annual General Meeting, in addition to an absolute majority of the represented share nominal values (Section 11 of the Articles of Association). Shareholders who are unable to attend the Annual General Meeting in person may be represented by an official of the company, an independent representative or another shareholder who is entered in the share register (Section 9 of the Articles of Association).

Statutory quorums

In accordance with Section 11 of the Articles of Association, resolutions on the amendment and cancellation of provisions regarding the conversion of registered shares into bearer shares, the entry of registered shares, the representation of shares at the Annual General Meeting, and the dissolution of the company, or a merger require the approval of two thirds of the votes represented at the Annual General Meeting, in addition to an absolute majority of the represented nominal values.

Convocation of the Annual General Meeting

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

Agenda

Annual General Meetings are convened at least 20 days prior to the meeting date. The agenda, as well as any motions tabled by the Board of Directors and any shareholder motions, are announced together with the invitation to attend the meeting.

Registration in the share register

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

Changes of control and defense measures

Duty to make an offer

The Articles of Association of Forbo Holding AG contain neither an opting-up clause (clause according to which the 33 1/3% threshold stipulated in Article 32, paragraph 1 of BEHG is raised) nor an opting-out clause (clause according to which an acquiring party is released from a purchase offer).

Clauses on changes of control

A member of the Executive Board reserves the right to terminate his contract in the event that certain conditions arise due to a change in the controlling shareholder. This involves payment of a settlement.

Auditors

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

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

Auditing fees

The auditing fees levied by the Group auditor for the audit of the consolidated financial statements, including the statutory audit of the individual financial statements of the Holding and consolidated subsidiaries, amounted to CHF 1.8 million in the year under review.

Additional fees

Total additional consultancy fees (e.g. tax and legal advice, as well as consultancy during acquisitions, mergers and divestments), as invoiced by the audit company, amount of CHF 1.4 million for 2003.

Supervisory and control instruments pertaining to the audit

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

Internal auditing

Ernst & Young AG, Basle, has been responsible for internal auditing since 2002. The remit of the internal auditors includes, among other tasks, verifying that internal guidelines and requirements have been implemented and monitoring the efficiency of internal processes. Furthermore, checks are carried out to assess whether appropriate control systems are in place from a financial and operational perspective. Seven companies were subjected to internal audits in 2003. In terms of sales, these account for some 19% of total Group sales.

Information policy

Transparency for investors

Forbo aims to provide comprehensive, objective, and timely information on business developments and commercially relevant events. To this end, it publishes annual and half-year reports, summary reports for shareholders, and regular media releases. This target group-oriented information is also made available to interested parties via e-mail. Publications such as the corporate brochure 'In Focus' or the Forbo employee newsletter 'Forbo Inside' provide a revealing look into the world of Forbo.

Direct communication with different target groups

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

In addition, Forbo is involved in several activities designed to foster direct communication with different target groups. The primary measure as far as shareholders are concerned is the Annual General Meeting, whilst media conferences and news releases are used to brief the media. Presentations as well as both group and individual conferences on special topics are staged for the financial community.

To view the financial calendar with key dates, and for further information on the Forbo share, see also page 56 of this Annual Report.

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

e-mail: info@forbo.com
phone: +41 1 868 25 25
fax: +41 1 868 25 26

The contact address of Investor Relations is:

Forbo International SA
Gerold A. Zenger, CFO
Bauelenzelgstrasse 20
CH-8193 Eglisau
phone: +41 1 868 25 25

Risk Management

Important control and working tool

Risk management has gained in importance in recent years. The Forbo Group has also strengthened and optimized its instruments for the integrated and systematic control of business and operational risks. Forbo has a risk-adequate insurance coverage in line with industry practice, especially against operational risks such as disruption of operations, and risks associated with fire and with product liability. The specific risks in terms of disruption of operations and liability are studied in the context of periodic risk engineering reports by external subject matter experts. In addition, production companies are visited on a regular basis, and comprehensive questionnaires are completed with the local management. Action plans are developed and implemented based on the risks identified. Forbo has been preparing such risk engineering reports since 1990. As far as business risks are concerned, Forbo deals with both strategic risks as well as with market and financial risks. As to market risks, interest and currency risks are monitored and controlled centrally (see page 88 in this report). The liquidity and financing of subsidiaries are also controlled centrally. In order to avoid losses through debtor failures, credit insurance policies are taken out in specific cases, notably for business activities in difficult markets. Finally, the key strategic risks in the three businesses are evaluated periodically and analyzed for significance and probability on the basis of so-called risk maps. Risk management is seen by Forbo as a guidance and work tool for safeguarding the tangible and intangible assets of the Group, among others. In this sense risk management is considered a responsibility of both the Executive Board and the Board of Directors.

Human Resources

Training and development of our employees are essential elements of Forbo's culture. Only through the planned development of human resources can an international group such as Forbo reach its strategic goals and meet the global requirements. Consequently, systematic training and development programs are the key to our success.

Corporate Training

The courses on Value Based Management carried out for several years were continued also in 2003. At first, the theoretical and methodological knowledge bases are taught which are then applied to case studies from the daily practice. The two-day intensive seminars were attended by about 100 employees. In addition, numerous individual training activities and courses were organized by the local companies.

Group Conference

In Zurich in 2003

Once a year, Forbo managers from across the world meet to discuss business, their strategic aims, and their expectations for the future. This regular meeting is particularly significant in terms of the exchange of information and internal communication because it enables personal contacts to be fostered across business units within a group that operates on a global scale. In 2003 the Group Conference took place in Zurich. Apart from the discussion of internal matters, the participants explored how Forbo is seen by customers. Customers of the three businesses told the Conference how they perceive and experience Forbo as a group.

Forbo Trophy and Special Achievement Awards

Awards for outstanding achievements

Recognizing outstanding performance – this is the objective of the annual Forbo Trophy and Special Achievement Awards. The Forbo Trophy is awarded annually to a Group company in recognition of outstanding performance. In 2003 this award was presented at the Group Conference in Zurich. It was presented to Eurocol (Wormerveer, Netherlands). Through strong growth of market shares over the years, Eurocol has become the leading supplier of adhesives for floor and wall coverings in the Dutch market. The ambitious business plans were realized with great success, and the exemplary customer service has produced very positive sales growth and excellent results. In addition to the Forbo Trophy, five Special Achievement Awards were presented in recognition of individual teams and employees. They went to France (Forbo Sarlino), Austria (Forbo Contel), Germany (IT Team Belting Europe), Great Britain (Forbo Adhesives), the USA (Forbo Adhesives), and Japan (Siegling Japan).

Forbo Flooring Sales Challenge Contest

Total solution for contract floorings

Linoleum and vinyl floorings offer particular strengths to the contract market. In buildings where linoleum is used, often vinyl can also be applied and vice versa. In the context of the Forbo Flooring Sales Challenge Contest every two months, sales people are awarded who have realized attractive total solutions for the project market. The incentive program is very popular and supports the strategic aim of the flooring business.

Internal communication

'Forbo Inside' and Intranet

The Group-wide Intranet and the employee magazine 'Forbo Inside' published in four languages regularly report on internal initiatives, achievements and events relevant to Forbo.

The Forbo Share

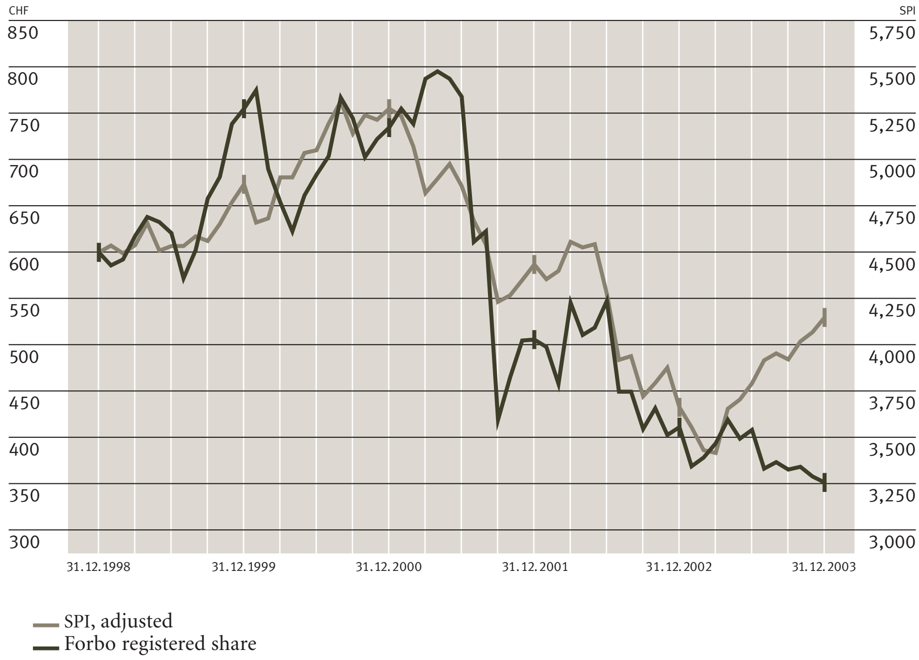
Investor Relations

Forbo values close and direct contact with its private shareholders, institutional investors, and the media. Once again, the members of the Executive Board took part in several roadshows and analyst meetings, as well as in a number of one-on-one talks, to discuss in detail the Forbo Group's strategy and future prospects. Numerous media releases on business trends provided the media and investors with information on Forbo. Current information can be found on the company's website at www.forbo.com.

Declining share price in 2003

As the year 2002 brought clear losses to the world's stock exchanges and also to the SWX Swiss Exchange, the exchanges recovered in 2003 and could partly make up for the losses suffered in previous years. The Swiss Performance Index (SPI) rose by some 22% on an annual basis. The Forbo share could not follow the SPI in 2003. In the first half-year the share price was around CHF 400, i.e. on the level of the price at the end of 2002. Because of declining half-year results compared with the previous year the share price went down in the second half of the year to CHF 335–CHF 390. Based on the 2003 year end price of CHF 354 the stock exchange capitalization is CHF 465 million.

The Forbo Share in comparison to the SPI



Financial calendar

Annual General Meeting:	April 27, 2004
Letter to shareholders:	August 20, 2004
Media release on the half-year results of 2004:	August 20, 2004
Media release on the first three quarters results of 2004:	October 29, 2004

Share capital

		2003	2002	2001	2000	1999
		Number	Number	Number	Number	Number
Issued registered shares [1]		1,356,576	1,356,576	1,513,550	1,513,550	1,513,550
Thereof:						
Shares outstanding		1,314,986	1,305,207	1,305,052	1,463,010	1,463,522
Shares from buy-back program 2001		–	–	156,974	–	–
Other own shares		20,171	25,489	11,390	10,406	9,894
Reserve shares (without dividend right)		21,419	25,880	40,134	40,134	40,134

Nominal capital

		2003	2002	2001	2000	1999
		CHF	CHF	CHF	CHF	CHF
Total		37,984,128	67,828,800	75,677,500	75,677,500	75,677,500
Thereof:						
Shares outstanding		36,819,608	65,260,350	65,252,600	73,150,500	73,176,100
Shares from buy-back program 2001		–	–	7,848,700	–	–
Other own shares		564,788	1,274,450	569,500	520,300	494,700
Reserve shares		599,732	1,294,000	2,006,700	2,006,700	2,006,700

Data per share

		2003	2002	2001	2000	1999
		CHF	CHF	CHF	CHF	CHF
Shareholders' equity Group		435	453	500	556	539
Consolidated profit [2]		12	33	38	62	58
Gross dividend and cash distribution, respectively		8 [3]	22	22	22	22
Gross dividend return (in %)	High	2.4 [4]	6.3 [4]	5.3	3.5	3.9
	Low	1.8 [4]	3.8 [4]	2.6	2.7	2.9
Payout ratio [5] (in %)		65	67	58	36	38

Stock market statistics

		2003	2002	2001	2000	1999
		CHF	CHF	CHF	CHF	CHF
Share prices	High	438	585	839	828	764
	Low	335	350	417	620	569
	Year-end	354	412	505	730	750
Stock market capitalization (m) [6]	High	575	764	1,228	1,220	1,126
	Low	441	457	544	914	838
	Year-end	465	538	659	1,068	1,098

[1] Nominal value per share 2003: CHF 28 (1998–2002: CHF 50)
[2] See also Financial Report, 'Earnings per share', page 78
[3] Proposal of the Board of Directors to the General Meetings of Shareholders: Cash distribution by reducing the nominal value
[4] Calculated on the basis of cash distribution by reducing the nominal value
[5] Gross cash distribution as % of consolidated profit (1999 before specific provisions)
[6] Based on shares outstanding

Forbo Group
Financial Report

Financial Review and Analysis

Summary of financial results

	2003 m CHF	2002 m CHF	% change on previous year
Group net sales	1,598.9	1,531.1	+4.4
Operating profit before depreciation and amortization (EBITDA)	156.7	180.1	–13.0
Operating profit (EBIT)	60.4	88.4	–31.7
Net profit Group	16.1	42.6	–62.2
Earnings per share – basic (CHF)	12.28	32.65	–62.4
Earnings per share – diluted (CHF)	12.12	32.35	–62.5

Comment on the financial result development

The business year 2003 continued to be characterized by a difficult economic and political climate. Following a period of insecurity in the wake of the Iraq war and the lung disease SARS, poor consumer demand affected the business development in the further course of the year. Besides, the year 2003 was marked by a decrease of investment in public and commercial buildings as well as production plants. Production overcapacities in connection with overall higher raw material costs brought selling prices and gross margins under pressure. In addition, the Dollar weakness had an adverse impact on sales and profits due to currency translation into Swiss Franc but also narrowed the gross margin obtained with products exported from the Euro region to North America and Asia.

Group sales rose by 4.4% to CHF 1,598.9 million, or by 6.5% in local currencies. The increase is the result of the acquisitions made in the adhesives business in 2002. Accordingly, adhesives sales rose by 17.7% (+22.2% in local currencies). This includes lost sales of about CHF 16 million in connection with the divestment of Repoxit AG at the beginning of 2003. The flooring business recorded slightly declining sales both in nominal terms (–1.0%) and in local currencies (–1.7%). The belting business increased sales by 1.4% in local currencies. Expressed in Swiss Francs, however, sales decreased by 3.7%. The combination of negative influences caused a significant profit decrease in spite of higher Group sales. The operating profit before depreciation and amortization (EBITDA) of CHF 156.7 million is CHF 23.4 million below previous year. The return on sales (EBITDA/net sales) is 9.8% (previous year: 11.8%). Operating profit (EBIT) amounts to CHF 60.4 million (previous year: CHF 88.4 million) after depreciation of CHF 82.9 million and CHF 2.2 million higher amortization of goodwill and other intangible assets of CHF 13.4 million. All three businesses contributed to the decrease of operating profit.

The EBIT of the flooring business is CHF 53.9 million, CHF 9.7 million lower than in the previous year. The reason is the geographical shift in sales from high-margin markets in Western Europe to low-margin markets, on the one hand. On the other hand, the weak Dollar diminished the gross margin obtained with products manufactured in the Euro Zone and exported into the Dollar area. The industrial earning power (EBITDA/net sales) is at 13.0% (previous year: 14.6%). The operating profit (EBIT) in relation to net sales of 7.4% corresponds with a return on assets (ROA) of 10.3% (previous year: 12.0%) based on an asset turnover of 1.4.

At CHF 31.0 million, the operating profit of the adhesives business is CHF 6.6 million lower than in the previous year which is mainly due to higher raw material costs and a shift of the product mix to the lower-margin volume business. Here too, the Dollar weakness had an adverse effect on both sales and profits in terms of Swiss Franc. The gross return on sales (EBITDA/net sales) of 9.5% is therefore clearly below the previous year's level (11.8%). Also, the operating profit in relation to the operating assets employed decreased to 7.0% (previous year: 8.2%, Swift on the basis of the results for the entire year). The amortization of goodwill and acquired trademarks associated with the Swift acquisition reduced 2003 operating profits by CHF 8.4 million (previous year: CHF 5.8 million).

The belting business recorded a slight sales increase by 1.4% to CHF 297.0 million in local currencies, but a strong decrease of operating profit by CHF 9.7 million to CHF 1.2 million. The profit decrease is mainly due to the Dollar weakness. Apart from the profit decrease resulting from sales in the Dollar area and currency translations, the considerable European export volume into the Dollar area had an additional adverse impact on margins and profits. With gross return on sales (EBITDA/net sales) of 7.2%, this activity continued to generate cash in the period under review.

Following a reluctant trend in the first half year, the overall Group results showed quite a positive development in the third quarter of 2003, although the second half year was below the first half year. For the total year, a disappointing operating profit of CHF 60.4 million (previous year: CHF 88.4 million) was achieved.

At CHF 29.4 million, net financial expenses are higher than in the previous year (CHF 24.2 million) as a result of the full-year financing costs at higher interest rates with respect to the Swift acquisition. Combined with an essentially lower operating profit, the pre-tax profit decreased to CHF 31.8 million (previous year: CHF 63.5 million). The regionally unfavorable result mix and partly tax-ineffective goodwill amortization led to a tax rate of 49.4% (previous year: 32.9%). After tax charges of CHF 15.7 million, Group profit amounts to CHF 16.1 million and is 62.2% below the previous year.

Balance sheet summary

	31.12.2003	31.12.2002	change
	m CHF	m CHF	m CHF
Long-term assets	812.9	875.1	–62.2
Current assets (excluding cash and marketable securities)	562.2	573.1	–10.9
Cash and marketable securities	188.7	152.4	36.3
Total assets	**1,563.8**	**1,600.6**	**–36.8**
Shareholders' equity	572.5	590.6	–18.1
Financial debt	568.0	637.8	–69.8
Other liabilities and provisions	423.3	372.2	51.1
Total shareholders' equity and liabilities	**1,563.8**	**1,600.6**	**–36.8**

Balance sheet development

The balance sheet total decreased by CHF 36.8 million to CHF 1,563.8 million compared with the previous year. The decrease of operating assets by CHF 73.1 million compares with an increase in cash and marketable securities by CHF 36.3 million. Investments in fixed assets of CHF 46.2 million are clearly lower than the depreciation of CHF 82.9 million. Of the investments, CHF 25.4 million are accounted for by the flooring business, CHF 10.4 million by the adhesives business, and CHF 10.0 million by the belting business. Currency-related higher values in the Euro region compare with lower values in the Dollar region. The net increase of operating assets resulting from currency translations is CHF 23.9 million.

Financial situation

Net financial debt decreased by CHF 106.1 million compared with year-end 2002. This is mainly due to a free cash flow of CHF 88.5 million and the currency-related decrease of the US Private Placement by CHF 39.1 million. This contrasts with an increase resulting from the cash distribution through the nominal value reduction of the Forbo share, totaling CHF 28.7 million. Financial debt of CHF 568.0 million relate to a US Private Placement (CHF 343.2 million), with maturities between five and ten years, a Swiss Franc bond (CHF 150.0 million, repayable in 2006), and bank debt of CHF 74.8 million. Thus, long-term borrowing rests on three pillars. The financial derivatives acquired in connection with long-term financing showed a total negative value of CHF 59.5 million at the end of the year under review. As at the end of the previous year, they are shown under other liabilities.

Shareholders' equity decreased to CHF 572.5 million representing 36.6% of the balance sheet. Compared with the end of the previous year, this decrease is mainly the result of the cash distribution and the first-time recognition of the Swiss pension fund as a defined benefit plan. With this strong equity position and a gearing (net debt as a percentage of equity capital) reduced from 82.2% to 66,3%, combined with a very good liquidity, the Group continuous to be on a solid financial basis.

Free cash flow

The free cash flow before dividends of CHF 88.5 million is the result of the cash flow generated from operating activities reduced by investments in long-term assets (net). This amount does not reflect the acquisition and divestment of business activities. The free cash flow is essentially due to restrained investments in fixed assets of CHF 46.2 million (previous year: CHF 45.2 million), cash inflow from asset disposals (CHF 12.0 million), efficient working capital management, and the collection of a long-term loan in the amount of CHF 8.5 million.

Earnings per share

Related to the average number of outstanding shares, the earnings per share is CHF 12.28 after CHF 32.65 in the previous year. The decline of the earnings per share is approximately in line with the decrease of the Group profit (62.2%).

Share price development

As the year 2002 brought clear losses to the world's stock exchanges and also to the SWX Swiss Exchange, the Stock exchanges recovered in 2003 and could partly make up for the losses suffered in previous years. The Swiss Performance Index (SPI) rose by some 22% on an annual basis. The Forbo share could not follow the SPI in 2003. In the first half-year the share price was around CHF 400, i.e. on the level of the price at the end of 2002. Because of declining half-year results compared with the previous year the share price went slightly down in the second half of the year and fluctuated within the range of CHF 335 to CHF 390. Based on the 2003 year end price of CHF 353.50 the stock exchange capitalization is CHF 465 million.

Economic Value Added (EVA®)

Forbo's objective is to enhance the value of the company. Value is only created when the returns of the capital employed exceed the weighted average cost of capital. Whereas in the previous year a positive – albeit modest – result of CHF 4.3 million could be achieved, the result in the year under review was with CHF 17.0 million negative. This decline of the Economic Value Added is mainly due to lower after-tax operating profits (NOPAT) and the higher weighted average cost of capital (WACC) of 5.9% (previous year: 5.5%). The higher capital costs are essentially the result of a lower percentage of debt capital at higher interest rates.

EVA®-calculation	2003	2002
	m CHF	m CHF
Net operating profit after taxes (NOPAT)	44.7	67.5
Invested capital (IC)	1,040.4	1,144.9
Average interest rate after taxes	4.2%	3.0%
Cost of equity capital	8.1%	8.4%
Weighted Average Cost of Capital (WACC)	5.9%	5.5%
Economic Value Added (EVA®)	**–17.0**	**4.3**

Consolidated Income Statement

	Notes	2003 m CHF	2002 m CHF
Net sales	1/2	**1,598.9**	**1,531.1**
Cost of goods sold		–1,091.3	–1,017.4
Gross profit		**507.6**	**513.7**
Development costs	3	–28.9	–24.2
Marketing and distribution costs		–287.5	–277.2
Administrative costs	4	–122.2	–119.6
Other operating expenses, net	5	–8.6	–4.3
Operating profit		**60.4**	**88.4**
Financial income	7	7.9	5.0
Financial expenses	8	–37.3	–29.2
Share of results of associated companies	12	0.8	–0.7
Profit before taxes		**31.8**	**63.5**
Taxes	24	–15.7	–20.9
Net profit for the year		**16.1**	**42.6**

	Notes	2003 CHF	2002 CHF
Earnings per share (basic)	9	12.28	32.65
Earnings per share (diluted)	9	12.12	32.35

Consolidated Balance Sheet

		31.12.2003	31.12.2002
Assets			
	Notes	m CHF	m CHF
Long-term assets		**812.9**	**875.1**
Tangible assets	10	558.8	586.9
Intangible assets	11	163.9	178.6
Deferred taxes	24	61.5	65.6
Investments in associates and other long-term assets	12	28.7	44.0
Current assets		**750.9**	**725.5**
Inventories	13	247.9	255.9
Trade receivables	14	251.6	254.8
Other receivables		34.9	27.0
Prepaid expenses and deferred charges		27.8	35.4
Marketable securities	15	18.9	23.9
Cash and cash equivalents		169.8	128.5
Total assets		**1,563.8**	**1,600.6**

		31.12.2003	31.12.2002
Shareholders' equity and liabilities			
	Notes	m CHF	m CHF
Shareholders' equity		**572.5**	**590.6**
Share capital	16	38.0	67.8
Treasury shares	16	–7.7	–11.7
Reserves and retained earnings		542.2	534.5
Long-term liabilities		**670.7**	**638.6**
Long-term financial debt	17	554.2	539.3
Employee benefit obligations	18	88.7	68.9
Provisions	19	21.3	22.6
Deferred taxes	24	6.5	7.8
Current liabilities		**320.6**	**371.4**
Trade payables	20	114.9	107.3
Accrued expenses	21	140.8	102.7
Short-term financial debt	22	13.8	98.5
Current tax liabilities		7.9	14.0
Other current liabilities		43.2	48.9
Total shareholders' equity and liabilities		**1,563.8**	**1,600.6**

Consolidated Cash Flow Statement

Cash flow from operating activities	2003 m CHF	2002 m CHF
Net profit for the year	16.1	42.6
Depreciation of tangible assets	82.9	80.5
Amortization of intangible assets	13.4	11.2
Share of results of associated companies	–0.8	0.7
Adjustment for net financial expenses	28.6	24.2
Interest paid	–36.1	–25.4
Interest received	6.8	3.9
Dividends received	0.5	0.6
Adjustment for tax expense	15.7	20.9
Taxes paid	–15.4	–17.0
Increase (+)/decrease (–) in provisions	–3.4	–6.7
Increase (+)/decrease (–) in current liabilities (excl. short-term debt)	–6.7	–9.5
Increase (–)/decrease (+) in current assets [1)]	21.1	11.8
Total cash flow from operating activities	**122.7**	**137.8**

Cash flow from investing activities	2003 m CHF	2002 m CHF
Cash used for acquisitions	0.0	–335.8
Increase (–) in long-term assets	–46.2	–45.2
Decrease (+) in long-term assets	12.0	16.2
Total cash flow from investing activities (before securities)	**–34.2**	**–364.8**
Increase (–)/decrease (+) in marketable securities	9.8	0.0
Total cash flow from investing activities	**–24.4**	**–364.8**

Cash flow from financing activities	2003 m CHF	2002 m CHF
Increase (+)/decrease (–) in long-term financial debt	51.3	395.2
Increase (+)/decrease (–) in employee benefit obligations	0.0	–2.0
Increase (+)/decrease (–) in short-term financial debt	–84.7	–96.4
Change in treasury shares	3.3	–2.0
Cash distribution to shareholders	–28.7	–29.0
Total cash flow from financing activities	**–58.8**	**265.8**

Change in cash and cash equivalents	2003 m CHF	2002 m CHF
Increase (+)/decrease (–) in cash and cash equivalents	39.5	38.8
Translation differences	1.8	–3.0
Cash and cash equivalents at the beginning of the year	128.5	92.7
Cash and cash equivalents at the end of the year	**169.8**	**128.5**

[1)] excluding cash and marketable securities

Consolidated Statement of Changes in Shareholders' Equity

2002	Share capital m CHF	Treasury shares m CHF	Reserves m CHF	Translation differences m CHF	Total m CHF
At 1.1.2002	**75.7**	**–155.2**	**815.1**	**–83.4**	**652.2**
Net profit for the year			42.6		42.6
Elimination of own shares from share buy-back 2001	–7.9	146.7	–138.8		0.0
Other changes in treasury shares		–3.2	1.2		–2.0
Fair value adjustments:					
Marketable securities			–9.8		–9.8
Cash flow hedges			5.8		5.8
Translation differences				–69.2	–69.2
Dividend paid			–29.0		–29.0
At 31.12.2002	**67.8**	**–11.7**	**687.1**	**–152.6**	**590.6**

2003	Share capital m CHF	Treasury shares m CHF	Reserves m CHF	Translation differences m CHF	Total m CHF
At 1.1.2003	**67.8**	**–11.7**	**687.1**	**–152.6**	**590.6**
Net profit for the year			16.1		16.1
Changes in treasury shares		4.0	0.4		4.4
Fair value adjustments:					
Marketable securities			5.2		5.2
Cash flow hedges			–3.8		–3.8
Change in accounting policies*			–16.5		–16.5
Translation differences				6.3	6.3
Nominal value reduction	–29.8				–29.8
At 31.12.2003	**38.0**	**–7.7**	**688.5**	**–146.3**	**572.5**

* First time interpretation of Swiss pension plans as defined benefit plans as per IAS 19

Accounting Policies

Basis of preparation
The Group's consolidated financial statements are prepared in accordance with the historical cost convention except for the revaluation to market value of certain financial assets and liabilities and comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Swiss law.

Effective January 1, 2003 the Group has included the Swiss pension plans in the calculation of defined benefit obligations as per IAS 19. The liability resulting from the first time interpretation of the Swiss pension plans as defined benefit plans has been accounted for by adjusting retained earnings at January 1, 2003 (see page 72, pension plans).

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Companies acquired during the reporting year are included in the consolidated financial statements as of their acquisition date, and all companies disposed of are eliminated from the accounts as of the date of disposal. The companies included in the consolidated financial statements are listed under Group companies (pages 102–105). Companies in which the Group has a minority interest between 20% and 50% are included in the consolidated financial statements using the equity method of accounting and are presented as investments in associates. Investments below 20% are valued at their fair value.

Capital consolidation
The purchase method is used, whereby goodwill is capitalized and amortized over its estimated useful life (but over a period not exceeding twenty years). The value of the net capitalized balance is reviewed at the end of the year. Where an indication of impairment exists, the carrying amount is written down to the recoverable amount.

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

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

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

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

Intangible assets
Intangible assets, other than goodwill, comprise mainly patents, licenses and trademarks acquired from third parties. These assets are capitalized and amortized on a straight-line basis over their estimated useful life (but over a period not exceeding twenty years). The value of the net capitalized balance is reviewed at the end of the year, and allowance is made for any impairment in value where the capitalized balance is considered to exceed the future benefits.

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

Trade receivables
Trade receivables are stated at their nominal value less necessary allowance for doubtful receivables. Allowance is made for individual receivables positions for which recovery is doubtful. A general allowance is made on the basis of past experience.

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

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

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

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

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

For defined benefit plans, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries. Actuarial gains and losses exceeding 10% of the greater of the employee benefit obligation and the plan assets are amortized over the average remaining service lives of employees. As a rule full actuarial valuations are carried out every three years and up-dated during the intervening period. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of long-term high quality corporate bonds. The capitalization of surpluses of funded plans is limited to the net total of any unrecognized losses and past service cost, and the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plan.

The pension plans of the Swiss subsidiaries qualify as defined contribution plans under Swiss law and have joined a multi-employer foundation ('Sammelstiftung') of an insurance company. In connection with the transfer of this insurance contract to the multi-employer foundation of another insurance company, the Group has reassessed the treatment of the Swiss plans under IAS 19 and included them per January 1, 2003 for the first time in the IAS 19 calculation of defined benefit plans. Due to the transfer to a new multi-employer foundation, comparable calculations could not be made for previous years and consequently no restatement of prior years has been made.

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

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

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

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

Research and development
Expenditure under this heading refers exclusively to development and design activities and is charged to the income statement as and when incurred.

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

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

Changes in the Scope of Consolidation

Effective January 1, 2003 Forbo Repoxit AG, Winterthur/Switzerland, was sold to the management of the company. In 2002 the company had achieved net sales of CHF 15.4 million with 68 emloyees.

On March 31, 2003 Forbo acquired the distribution business for belting from its agent Stedar Belting Ltd. in New Zealand. The acquired activities were taken over by the newly founded Siegling Stedar Belting Ltd. and have achieved net sales of CHF 1.6 million since the acquisition.

Description of Terms

Free cash flow
Cash flow from operating activities less cash flow used for investments in long-term assets, net (excl. marketable securities).

EVA®
EVA® (Economic Value Added) is a financial figure indicating how much value a company has generated in a given year. Our calculations based on the Capital Asset Pricing Model (CAPM) resulted in weighted average cost of capital (WACC) of 5.9% (2002: 5.5%).

EVA® = NOPAT–WACC x IC

NOPAT: Net Operating Profit After Tax
WACC: Weighted Average Cost of Capital
IC: Invested Capital

Operating assets
Total of tangible and intangible assets, inventories, trade receivables, other receivables, prepaid expenses and deferred charges.

Operating liabilities
Total of trade payables, accrued expenses, other current liabilities, employee benefit obligations and provisions.

Notes to the Consolidated Financial Statements

1 Segment information

By business segments 2003	Flooring m CHF	Adhesives m CHF	Belting m CHF	Corporate and consolidation m CHF	Total m CHF
Net sales	729.0	572.9	297.0		1,598.9
EBITDA	94.7	54.7	21.4	–14.1	156.7
Depreciation and amortization	–40.8	–23.7	–20.2	–11.6	–96.3
EBIT	53.9	31.0	1.2	–25.7	60.4
Operating assets	521.1	442.5	295.2	26.1	1,284.9
Operating liabilities	171.8	94.0	53.5	89.6	408.9
ROS, gross (EBITDA/net sales)	13.0%	9.5%	7.2%		9.8%
ROS, net (EBIT/net sales)	7.4%	5.4%	0.4%		3.8%
ROA (EBIT/operating assets)	10.3%	7.0%	0.4%		4.7%
Capital investments	25.4	10.4	10.0	0.4	46.2
Number of employees (at 31.12.)	2,557	1,288	1,699	41	5,585

By business segments 2002	Flooring m CHF	Adhesives m CHF	Belting m CHF	Corporate and consolidation m CHF	Total m CHF
Net sales	736.1	486.6	308.4		1,531.1
EBITDA	107.7	57.2	32.7	–17.5	180.1
Depreciation and amortization	–44.1	–19.6	–21.8	–6.2	–91.7
EBIT	63.6	37.6	10.9	–23.7	88.4
Operating assets	530.1	459.1	305.9	43.5	1,338.6
Operating liabilities	171.6	100.4	49.9	42.5	364.4
ROS, gross (EBITDA/net sales)	14.6%	11.8%	10.6%		11.8%
ROS, net (EBIT/net sales)	8.6%	7.7%	3.5%		5.8%
ROA (EBIT/operating assets)	12.0%	8.2%	3.6%		6.6%
Capital investments	22.6	10.4	10.9	1.3	45.2
Number of employees (at 31.12.)	2,611	1,377	1,684	43	5,715

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

By geographical segments 2003	Europe (Eurozone) m CHF	Switzerland m CHF	Rest of Europe m CHF	Americas m CHF	Asia/ Africa m CHF	Total m CHF
Net sales	722.3	47.9	323.4	378.7	126.6	1,598.9
Operating assets	681.4	126.3	217.4	193.2	66.6	1,284.9
Capital investments	24.8	3.5	7.6	6.5	3.8	46.2
Number of employees (at 31.12.)	2,953	336	1,038	860	398	5,585

By geographical segments 2002	Europe (Eurozone) m CHF	Switzerland m CHF	Rest of Europe m CHF	Americas m CHF	Asia/ Africa m CHF	Total m CHF
Net sales	680.4	66.9	309.5	346.2	128.1	1,531.1
Operating assets	713.4	138.4	199.2	222.3	65.3	1,338.6
Capital investments	27.5	4.1	5.1	6.4	2.1	45.2
Number of employees (at 31.12.)	3,065	413	1,057	815	365	5,715

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

2

Changes in net sales by businesses

Net sales	2003 m CHF	2002 m CHF	Total change m CHF	Of which due to exchange rate changes m CHF	Due to volume and price changes m CHF	Divestments and acquisitions 2003 m CHF
Flooring	729.0	736.1	−7.1	5.3	−12.4	0.0
Adhesives *	572.9	486.6	86.3	−21.6	123.3	−15.4
Belting	297.0	308.4	−11.4	−15.8	2.8	1.6
Total	**1,598.9**	**1,531.1**	**67.8**	**−32.1**	**113.7**	**−13.8**

* As from April 19, 2002 including the acquired Swift adhesives business

3

Development and production overhead costs

Development costs, which include product development as well as design activities, amounted to CHF 28.9 million (2002: CHF 24.2 million). Production overhead costs totaled CHF 162.1 million (2002: CHF 159.7 million) and are included in 'Cost of goods sold'

4

Administrative costs

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

5 Other operating expenses, net

	2003	2002
	m CHF	m CHF
Other expenses	24.1	19.9
Other income	−15.5	−15.6
Total other operating expenses, net	**8.6**	**4.3**

Other operating expenses and income include all costs and income which can not be clearly allocated to the other categories. In 2003 other expenses include also costs in connection with the headcount reduction.

6 Personnel expenses

	2003	2002
	m CHF	m CHF
Salaries and wages	343.7	329.9
Employer's social security contributions	91.3	76.2
Total personnel expenses	**435.0**	**406.1**

The Group's headcount at December 31, 2003 was 5,585 (2002: 5,715). This includes 9 employees of the acquired activities. The average headcount over the year was 5,689 (2002: 5,508).

About 120 managers participate in a bonus plan, which is linked to the achievement of financial targets by the Group as well as individually determined objectives. Up to 30% of the bonus payment consists of shares of Forbo Holding AG. The participants can dispose of these shares after a period of at least three years.

Call options are issued to the Board of Directors and the Group Executive Board within the framework of a stock option plan. Until December 31, 2003 the following options were granted:

Year alloted	Number	Term	Frozen until	Subscription ratio	Exercise price CHF
2000	1,455	10.04.01–09.05.05	09.05.03	1:1	670
2001	4,322	08.05.01–07.05.06	07.05.04	1:1	741
2002	5,782	07.05.02–07.05.07	06.05.05	1:1	518
2003	7,156	31.07.03–30.07.08	30.07.06	1:1	360

No charge is made to personnel expenses in connection with share options.

For details please see Annual Report (page 48: Compensations, shareholdings and loans).

7 **Financial income**

	2003	2002
	m CHF	m CHF
Interest income	6.3	4.4
Dividend income	0.5	0.6
Foreign exchange gains, net	1.1	0.0
Total financial income	**7.9**	**5.0**

8 **Financial expenses**

	2003	2002
	m CHF	m CHF
Interest expense	35.7	27.5
Amortization of issuance costs of bonds and private placements	0.9	0.4
Amortization of costs syndicated bank facility	0.2	0.0
Impairment of available-for-sale securities	0.3	0.0
Realized losses on available-for-sale securities	0.2	0.0
Foreign exchange losses, net	0.0	1.3
Total financial expenses	**37.3**	**29.2**

The average interest rate on interest-bearing debt (bonds, private placements, long- and short-term bank loans) in 2003 was 5.2% (2002: 4.5%).

9 **Earnings per share**

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

	2003	2002
Net profit for the year (m CHF)	16.1	42.6
Weighted average number of shares outstanding	1,307,974	1,305,619
Basic earnings per share (net profit) (CHF)	12.28	32.65

Diluted earnings per share in addition takes into account the potential dilution effects which would result if all share options were exercised.

	2003	2002
Net profit for the year (m CHF)	16.1	42.6
Weighted average number of shares for diluted earnings per share	1,325,357	1,317,559
Diluted earnings per share (net profit) (CHF)	12.12	32.35

10 Tangible assets

The tangible assets also include leased assets with a net book value of CHF 2.6 million (2002: CHF 2.5 million) as well as non-operating property with a net book value of CHF 7.3 million (2002: CHF 15.8 million). The net book value of the non-operating property roughly equals its fair value.

Cost	Land and buildings m CHF	Machinery and equipment m CHF	Other tangible assets m CHF	Assets under construction m CHF	Total tangible assets m CHF
At 31.12.2001, gross	**446.5**	**716.2**	**141.9**	**35.3**	**1,339.9**
Changes in scope of consolidation	69.1	122.5	14.1	3.5	209.2
Additions	3.0	21.4	15.1	5.1	44.6
Disposals	–18.5	–16.6	–8.5	–0.9	–44.5
Transfers	–2.9	15.5	2.6	–18.3	–3.1
Translation differences	–23.2	–41.0	–5.6	–1.5	–71.3
At 31.12.2002, gross	**474.0**	**818.0**	**159.6**	**23.2**	**1,474.8**
Changes in scope of consolidation	0.0	–0.8	–1.3	0.0	–2.1
Additions	2.8	10.5	9.7	22.9	45.9
Disposals	–7.0	–3.8	–14.3	–0.1	–25.2
Transfers	5.7	14.1	1.5	–21.3	0.0
Translation differences	10.6	20.3	6.8	0.9	38.6
At 31.12.2003, gross	**486.1**	**858.3**	**162.0**	**25.6**	**1,532.0**

Accumulated depreciation	Land and buildings m CHF	Machinery and equipment m CHF	Other tangible assets m CHF	Assets under construction m CHF	Total tangible assets m CHF
At 31.12.2001, gross	**150.5**	**508.9**	**103.6**	**0.8**	**763.8**
Depreciation	15.8	50.2	14.3	0.2	80.5
Changes in scope of consolidation	25.6	76.9	9.3	0.0	111.8
Disposals	–5.6	–15.3	–7.4	–0.2	–28.5
Transfers	0.1	0.4	–0.3	–0.4	–0.2
Translation differences	–7.9	–27.5	–3.9	–0.2	–39.5
At 31.12.2002, gross	**178.5**	**593.6**	**115.6**	**0.2**	**887.9**
Depreciation	19.7	48.1	14.8	0.3	82.9
Changes in scope of consolidation	0.0	–0.8	–1.2	0.0	–2.0
Disposals	–5.9	–4.6	–11.8	0.0	–22.3
Translation differences	4.5	17.1	5.0	0.1	26.7
At 31.12.2003, gross	**196.8**	**653.4**	**122.4**	**0.6**	**973.2**
Total tangible assets at 31.12.2002, net	295.5	224.4	44.0	23.0	586.9
Total tangible assets at 31.12.2003, net	289.3	204.9	39.6	25.0	558.8

The fire insurance value of buildings, machinery and factory equipment of CHF 2,017 million (2002: CHF 1,969 million) covers the replacement cost. The business interruption risk arising from fire and the production and product liability risks are covered by a group-wide policy.

Maintenance and repair costs amounted to CHF 28.4 million (2002: CHF 29.9 million). The depreciation expense is included in 'Cost of goods sold', 'Development costs', 'Marketing and distribution costs' and 'Administrative costs'.

11 Intangible assets

Cost	Goodwill m CHF	Trademarks/ patents m CHF	Other intangible assets m CHF	Total m CHF
At 31.12.2001, gross	**29.8**	**29.1**	**0.7**	**59.6**
Changes in scope of consolidation	149.4	25.0	2.1	176.5
Additions	0.0	0.0	0.6	0.6
Disposals	–0.2	0.0	0.0	–0.2
Transfers	0.0	0.0	3.1	3.1
Translation differences	–14.9	0.0	–0.1	–15.0
At 31.12.2002, gross	**164.1**	**54.1**	**6.4**	**224.6**
Changes in scope of consolidation	0.6	0.6	0.0	1.2
Additions	0.0	0.0	0.3	0.3
Disposals	0.0	–0.5	0.0	–0.5
Translation differences	–3.9	0.0	0.4	–3.5
At 31.12.2003, gross	**160.8**	**54.2**	**7.1**	**222.1**

Accumulated amortization	Goodwill m CHF	Trademarks/ patents m CHF	Other intangible assets m CHF	Total m CHF
At 31.12.2001, gross	**13.5**	**22.5**	**0.4**	**36.4**
Amortization	6.7	3.8	0.7	11.2
Transfers	0.0	0.0	0.2	0.2
Translation differences	–1.9	0.0	0.1	–1.8
At 31.12.2002, gross	**18.3**	**26.3**	**1.4**	**46.0**
Amortization	8.4	4.1	0.9	13.4
Transfers	0.0	–0.5	0.0	–0.5
Translation differences	–0.7	0.0	0.0	–0.7
At 31.12.2003, gross	**26.0**	**29.9**	**2.3**	**58.2**
Total intangible assets at 31.12.2002, net	145.8	27.8	5.0	178.6
Total intangible assets at 31.12.2003, net	134.8	24.3	4.8	163.9

12 Investments in associates and other long-term assets

	2003 m CHF	2002 m CHF
Investments in associated companies	5.1	4.1
Other investments	3.3	2.9
Loans to associated companies	19.0	19.0
Other long-term receivables	1.3	18.0
Total investments in associates and other long-term assets	**28.7**	**44.0**

As of October 1, 2001 the carpet business was sold to its management. Forbo has granted a loan of CHF 19.0 million to the newly created group and holds a 25% investment in Enia Carpet Group AG, Ennenda/Switzerland, the parent company of the group. The valuation of the investment is based on the equity method and resulted in an income of CHF 0.8 million (2002: CHF 0.7 million expense). See also page 89, related party transactions.

13 Inventories

	2003	2002
	m CHF	m CHF
Raw materials and supplies	60.9	66.0
Work in progress	68.7	70.0
Finished goods	130.0	131.2
Allowance for product risks	–11.7	–11.3
Total inventories	**247.9**	**255.9**

14 Trade receivables

	2003	2002
	m CHF	m CHF
Accounts receivable	238.0	252.3
Notes receivable	31.9	22.6
Allowance for doubtful receivables	–18.3	–20.1
Total trade receivables	**251.6**	**254.8**

15 Marketable securities

Marketable securities at December 31, 2003 and December 31, 2002 consist entirely of shares; primarily shares included in the SPI (Swiss Performance Index). They have been classified as available-for-sale. During 2003, an impairment of available-for-sale securities of CHF 0.3 million was identified and charged to the income statement (no charge in previous year).

16 Share capital

The share capital of Forbo Holding AG amounts to CHF 37,984,128 at December 31, 2003 (2002: CHF 67,828,800), and is divided into 1,356,576 registered shares with a nominal value of CHF 28 each (2002: CHF 50). Of these, 21,419 registered shares (2002: 25,880 shares) without voting and dividend rights are at the disposition of the Board of Directors. Consequently, 1,335,157 registered shares carried dividend rights for the 2003 financial year. Changes in shares outstanding were as follows:

	1.1.2003	Change	31.12.2003
Changes in shares outstanding	Number	Number	Number
Total shares	**1,356,576**		**1,356,576**
Treasury shares			
Shares with dividend right	25,489	–5,318	20,171
Shares without dividend right	25,880	–4,461	21,419
Total treasury shares	**51,369**	**–9,779**	**41,590**
Total shares outstanding	**1,305,207**	**9,779**	**1,314,986**

17 Long-term financial debt

	2003 m CHF	2002 m CHF
Outstanding bonds	150.0	150.0
Outstanding private placements	343.2	382.3
Unamortized issuance cost	–4.0	–5.4
Total outstanding bonds and private placements	**489.2**	**526.9**
Unsecured bank loans	64.4	6.9
Secured bank loans	0.0	11.0
Unamortized cost syndicated bank facility	–0.7	0.0
Lease obligations	2.1	2.2
Less current portion	–0.8	–7.7
Total long-term financial debt	**554.2**	**539.3**

In the previous year the secured bank loans were covered by property of the Group (book value CHF 41.4 million).

Maturitites of long-term financial debt	2003 m CHF	2002 m CHF
after 1 year	0.9	1.6
after 2 years	150.3	1.5
after 3 years	193.1	151.4
after 4 years	0.0	144.6
after 5 and more years	214.6	245.6
Unamortized cost	–4.7	–5.4
Total	**554.2**	**539.3**

The costs of bonds, private placements and the syndicated bank facility are amortized over the respective terms.

Outstanding bonds and private placements at 31.12.2003

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

The bonds and private placements have no early redemption clause.

Outstanding syndicated bank facilities at 31.12.2003

Company	Currency	Utilized m	Term	Available m
Forbo Holding AG	CHF	64.4	2003–2007	150.0

18 Employee benefit obligations

The Group has established several pension plans on the basis of the specific requirements of the countries in which the Group has such plans. The Group has both defined contribution and defined benefit plans.

The expense for contributions to defined contribution plans, which is included in personnel expenses, amounted to CHF 4.9 million (2002: CHF 8.1 million). Details of the pension expense related to the major defined benefit plans are as follows:

	2003 [1]	2002 [2]
	m CHF	m CHF
Current service cost	13.8	11.5
Interest on obligation	31.6	26.9
Expected return on plan assets	–28.3	–28.3
Recognized actuarial losses	1.1	3.8 [3]
Net periodic pension cost	**18.2**	**13.9**

[1] 2003 including Swiss pension plans and early retirement arrangements
[2] 2002 excluding Swiss pension plans and early retirement arrangements
[3] 2002 including change of unrecognized assets

The actual return on plan assets was CHF 64.3 million (2002: CHF –42.0 million).

The amounts recognized in the balance sheet are as follows:

	2003 [1]	2002 [2]
	m CHF	m CHF
Present value of obligations	660.5	475.5
Fair value of plan assets	–543.8	–397.8
Unrecognized actuarial losses	–28.0	–102.8
Unrecognized assets		63.6 [3]
Net liability in the balance sheet	**88.7**	**38.5**

[1] 2003 including Swiss pension plans and early retirement arrangements
[2] 2002 excluding Swiss pension plans and early retirement arrangements
[3] A reclassification of the unrecognized assets to the unrecognized actuarial losses has been made at January 1, 2003. This reclassification had no impact on the employee benefit obligations reported in the balance sheet.

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

	2003	2002
	m CHF	m CHF
Net liability at the beginning of the year	**68.9**	**37.9**
First-time inclusion of Swiss pension plans as of 1.1.2003	16.5	
Total pension expenses as included in personnel expenses	18.2	13.9
Employer contributions	–18.7	–14.9
Changes in scope of consolidation	0.0	2.8
Translation differences	3.8	–1.2
Net liability at the end of the year	**88.7**	**38.5** [1]

[1] 2002 excluding provisions for early retirement arrangements of CHF 30.4 million

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

	2003	2002
	%	%
Discount rate	5.0	5.4
Expected return on plan assets	6.0	6.3
Future salary increases	2.9	3.1

19 Provisions

	Warranty provisions m CHF	Restructuring provisions m CHF	Other provisions m CHF	Total provisions m CHF
At 31.12.2002	**7.0**	**7.0**	**8.6**	**22.6**
Charges to the income statement	1.2	0.4	2.2	3.8
Utilized during the year	–1.2	–7.0	–2.1	–10.3
Transfers	0.0	0.0	3.6	3.6
Translation differences	0.4	0.0	1.2	1.6
At 31.12.2003	**7.4**	**0.4**	**13.5**	**21.3**

Warranty provisions are made in connection with the sale of products and are based on past experience. The restructuring provisions relate to the acquisitions made during the previous year. The transfers reflect reclassifications to accrued expenses.

20 Trade payables

	2003	2002
	m CHF	m CHF
Accounts payable	106.9	100.5
Notes payable	8.0	6.8
Total trade payables	**114.9**	**107.3**

21 Accrued expenses

	2003	2002
	m CHF	m CHF
Accrued personnel expenses	30.5	24.9
Fair value of financial derivatives	59.5	23.0
Other accruals	50.8	54.8
Total accrued expenses	**140.8**	**102.7**

Other accruals comprise accrued volume rebates, commissions, premiums, interest and accrued warranty cost and similar items.

22 Short-term financial debt

	2003	2002
	m CHF	m CHF
Short-term bank loans and overdrafts	13.0	90.8
plus current portion of long-term debt	0.8	7.7
Total short-term financial debt	**13.8**	**98.5**

23 Commitments and contingent liabilities

	2003	2002
	m CHF	m CHF
Commitments and contingent liabilities	2.0	0.9

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

24 Income taxes

	2003	2002
	m CHF	m CHF
Current taxes	13.1	16.9
Deferred taxes	2.6	4.0
Total income taxes	**15.7**	**20.9**

Since the Group operates across the world, it is subject to income taxes in many different tax jurisdictions. Consequently, the expected and the effective tax rate will vary from year to year according to the source of earnings or losses by country.

The main elements contributing to the difference between the Group's overall expected tax rate (the weighted average tax rate based on the income before tax of each subsidiary) and the effective tax rate are:

Analysis of tax rate

	2003	2003	2002	2002
	%	m CHF	%	m CHF
Profit before taxes		31.8		63.5
Expected tax rate	**35%**		**38%**	
Weighted average income taxes		11.2		23.9
Tax effects of:				
tax exempt income		–6.0		–9.9
non tax deductible goodwill amortization		2.3		2.1
other non tax deductible expenses		4.7		4.7
tax losses for which no deferred tax assets have been recognized		10.0		7.4
changes of deferred tax rates		–1.0		–0.2
prior year adjustments		–4.0		–6.1
other items		–1.5		–1.0
Total income taxes		15.7		20.9
Effective tax rate	**49%**		**33%**	

The tax loss carry forwards of the Group amount to about CHF 278 million. Tax loss carry forwards totaling CHF 43 million will expire within the next five years if they are not used. The remaining amount of CHF 235 million can be used longer than five years.

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

	2003 m CHF	2002 m CHF
Deferred tax assets	61.5	65.6
Deferred tax liabilities	−6.5	−7.8
Deferred tax assets, net	**55.0**	**57.8**

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

Deferred tax assets	Inventories m CHF	Tangible assets m CHF	Provisions m CHF	Tax loss carry forwards m CHF	Other m CHF	Total m CHF
At 31.12.2002	**9.1**	**2.2**	**4.8**	**55.4**	**2.9**	**74.4**
Credited (+), charged (–) to the income statement	−0.7	1.8	3.5	−3.2	−0.4	1.0
Translation differences	0.0	0.0	0.0	−0.2	0.0	−0.2
At 31.12.2003	**8.4**	**4.0**	**8.3**	**52.0**	**2.5**	**75.2**

Deferred tax liabilities	Inventories m CHF	Tangible assets m CHF	Provisions m CHF	Tax loss carry forwards m CHF	Other m CHF	Total m CHF
At 31.12.2002	**−4.1**	**−10.1**	**0.0**	**0.0**	**−2.4**	**−16.6**
Credited (+), charged (–) to the income statement	−0.6	−2.6	−0.8	0.0	0.4	−3.6
Translation differences	0.0	0.0	0.0	0.0	0.0	0.0
At 31.12.2003	**−4.7**	**−12.7**	**−0.8**	**0.0**	**−2.0**	**−20.2**
Deferred tax assets at 31.12.2002, net	5.0	−7.9	4.8	55.4	0.5	57.8
Deferred tax assets at 31.12.2003, net	3.7	−8.7	7.5	52.0	0.5	55.0

25 Statement of added value

	2003	2002
	m CHF	m CHF
Gross added value	**592.5**	**585.5**
Depreciation and amortization	–96.3	–91.7
Net added value	**496.2**	**493.8**
Distribution of added value		
Employees	435.0	406.1
Public sector	15.7	20.9
Creditors	29.4	24.2
Investors	29.8	29.0
Retained in the Group	–13.7	13.6
Total	**496.2**	**493.8**
Net added value per employee (CHF)	87,221	89,651

26 Translation of foreign currencies

Currency			2003	2002	Income statement (average rates for the year)	2003	2002	Balance sheet (year-end-rates)
			CHF	CHF	Change %	CHF	CHF	Change %
Euro countries	EUR	1	1.52	1.47	4	1.56	1.46	7
Sweden	SEK	100	16.67	16.01	4	17.16	15.83	8
United Kingdom	GBP	1	2.20	2.33	–6	2.22	2.23	–1
USA	USD	1	1.35	1.56	–13	1.25	1.39	–10
Canada	CAD	1	0.96	0.99	–3	0.95	0.88	8
Japan	JPY	100	1.16	1.24	–6	1.17	1.17	–

27 Financial Risk Management

In its international operations and financial activities the Forbo Group is exposed to various types of financial risks. In order to steer potential risks and benefits arising from fluctuations in both exchange rates of foreign currencies and interest rates the Group selectively uses derivative instruments. The various risks involved in existing assets and liabilities, planned transactions and expected transactions are monitored and managed centrally – taking into account the consolidated risk exposure of the Group. In adherence to the Group's financial risk management policy (established through the issuance of written guidelines and policies), Corporate Treasury continuously monitors both the risk exposure and the effectiveness of the applied hedging instruments. Also, Corporate Treasury advises the Finance Managers of the Group companies on the management of identified risks and recommends both the extent of a potential hedge transaction and the appropriate type of financial instrument. The Group's financial risk management policy does neither allow the use of derivate instruments for the purpose of trading nor for the purpose of speculation. The counterparties of derivate transactions are cautiously selected and thus hedging transactions are concluded with strong financial institutions only (based on the assessments of the leading rating agencies).

All concluded derivative instruments are related to either management of currency risks or management of interest rate risks (or a combination of both).

Management of currency risks

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

Financial derivatives	Number of contracts	Gross value hedged m CHF	Unrealized gain/loss m CHF
Forward contracts 31.12.2002	12	4.0	0.0
Forward contracts 31.12.2003	16	4.4	0.1

In accordance with IAS 39 the above instruments are recognized in the balance sheet at fair value. The accumulated fair value (total of all negative and positive market values) at December 31, 2003 amounts to CHF 0.1 million (CHF 0.0 million at December 31, 2002).

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

Management of interest rate risks

The market values of interest-bearing assets and liabilities are subject to fluctuations of interest rates. The Group makes use of financial derivatives in order to steer potential risks and benefits arising from interest rate movements and in order to manage the duration of the interest rate fixings.

As a rule, the Group uses interest rate swaps and cross-currency interest rate swaps with maturities of up to seven years only. These hedging transactions resulted in the following open positions:

Financial derivatives	Number of contracts	Gross value hedged m CHF	Unrealized gain/loss m CHF
Interest rate swaps and cross-currency interest rate swaps 31.12.2002	17	384.7	–15.3
Interest rate swaps and cross-currency interest rate swaps 31.12.2003	12	290.4	–59.5

In accordance with IAS 39 the above instruments are recognized in the balance sheet at fair value. The accumulated fair value (total of all negative and positive market values) at December 31, 2003 amounts to CHF –59.5 million (CHF –15.3 million at December 31, 2002).

28 Acquisitions

Changes in the scope of consolidation are set out on page 74.

In 2003 there were no material additions or disposals of assets and liabilities from acquisitions or divestments.

In 2002 details of acquired assets and liabilities as well as the cash used for acquisitions were as follows:

	2002
	m CHF
Tangible assets	97.4
Inventories	40.1
Receivables and other current assets	80.4
Cash and cash equivalents	4.0
Employee benefit obligations	–2.8
Provisions	–13.2
Deferred tax liabilities, net	–3.2
Trade payables and other liabilities	–38.6
Fair value of acquired net assets (excluding intangible assets)	**164.1**
Goodwill	149.4
Trademarks/patents	25.0
Other intangible assets	2.1
Subtotal	**340.6**
Less acquired cash	–4.0
Less already owned 25% investment in Stephens Miraclo Extremultus Ltd.	–0.8
Total cash used for acquisitions	**335.8**

29 Related party transactions

The Group owns 25% of Enia Carpet Group and granted a loan of CHF 19.0 million (see page 80, Investments in associates and other long-term assets). The interest rate is 4.5% and interest income amounted to CHF 0.9 million (2002: CHF 0.9 million). In 2003 the Group purchased products for CHF 5.9 million (2002: CHF 7.1 million) from Enia Carpet Group, whereas Enia Carpet Group purchased products for CHF 2.7 million (2002: CHF 5.1 million) from Forbo Group. These sales were made at arms' length.

Please see also Annual Report (page 48: Compensations, shareholdings and loans).

Report of the Group Auditors

PricewaterhouseCoopers

Report of the Group Auditors
to the General Meeting of
Forbo Holding AG, Eglisau

As auditors of the Group, we have audited the consolidated financial statements (consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in shareholders' equity and notes to the consolidated financial statements) on pages 65 to 89 of Forbo Holding AG for the year ended December 31, 2003.

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

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

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

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

PricewaterhouseCoopers AG

S. Räbsamen L. Monn

Zurich, March 4, 2004

Consolidated Income Statements 1999–2003

	2003	2002	2001	2000	1999
	m CHF	m CHF	m CHF	m CHF	m CHF
Net sales	**1,598.9**	**1,531.1**	**1,485.1**	**1,776.8**	**1,754.5**
Cost of goods sold	−1,091.3	−1,017.4	−962.7	−1,143.2	−1,125.1
Gross profit	**507.6**	**513.7**	**522.4**	**633.6**	**629.4**
Development costs	−28.9	−24.2	−22.0	−29.8	−30.2
Marketing and distribution costs	−287.5	−277.2	−288.6	−333.6	−335.2
Administrative costs	−122.2	−119.6	−116.6	−129.8	−122.3
Other operating expenses, net	−8.6	−4.3	−6.3	−9.8	−18.7
Operating profit before specific provisions	**60.4**	**88.4**	**88.9**	**130.6**	**123.0**
Specific provisions					−70.0
Operating profit after specific provisions	**60.4**	**88.4**	**88.9**	**130.6**	**53.0**
Financial income	7.9	5.0	3.4	16.8	13.8
Financial expenses	−37.3	−29.2	−19.4	−21.3	−19.4
Share of results of associated companies	0.8	−0.7			
Profit before taxes	**31.8**	**63.5**	**72.9**	**126.1**	**47.4**
Taxes	−15.7	−20.9	−21.1	−35.4	−31.3
Net profit for the year	**16.1**	**42.6**	**51.8**	**90.7**	**16.1**

Consolidated Balance Sheets 1999–2003

	2003	2002	2001	2000	1999
Assets					
	m CHF	m CHF	m CHF	m CHF	m CHF
Long-term assets	**812.9**	**875.1**	**716.4**	**778.9**	**866.9**
Tangible assets	558.8	586.9	576.1	675.0	813.1
Intangible assets	163.9	178.6	23.2	19.4	24.0
Deferred taxes	61.5	65.6	72.7	65.1	27.3
Investments in associates and other long-term assets	28.7	44.0	44.4	19.4	2.5
Current assets	**750.9**	**725.5**	**615.2**	**747.7**	**860.5**
Inventories	247.9	255.9	227.0	260.7	306.2
Trade receivables	251.6	254.8	202.6	243.4	282.1
Other receivables	34.9	27.0	30.1	41.3	31.1
Prepaid expenses and deferred charges	27.8	35.4	29.0	19.2	19.6
Marketable securities	18.9	23.9	33.8	45.5	73.6
Cash and cash equivalents	169.8	128.5	92.7	137.6	147.9
Total assets	**1,563.8**	**1,600.6**	**1,331.6**	**1,526.6**	**1,727.4**

	2003	2002	2001	2000	1999
Shareholders' equity and liabilities					
	m CHF	m CHF	m CHF	m CHF	m CHF
Shareholders' equity	**572.5**	**590.6**	**652.2**	**813.9**	**794.8**
Share capital	38.0	67.8	75.7	75.7	75.7
Treasury shares	–7.7	–11.7	–155.2	–8.2	–2.0
Reserves and retained earnings	542.2	534.5	731.7	746.4	721.1
Long-term liabilities	**670.7**	**638.6**	**252.8**	**275.2**	**458.6**
Long-term financial debt	554.2	539.3	164.5	145.1	247.3
Employee benefit obligations	88.7	68.9	69.8	88.0	91.8
Provisions	21.3	22.6	16.4	39.2	115.5
Deferred taxes	6.5	7.8	2.1	2.9	4.0
Current liabilities	**320.6**	**371.4**	**426.6**	**437.5**	**474.0**
Trade payables	114.9	107.3	79.4	90.2	139.6
Accrued expenses	140.8	102.7	80.9	88.7	86.7
Short-term financial debt	13.8	98.5	197.2	194.7	179.3
Current tax liabilities	7.9	14.0	14.1	16.0	18.3
Other current liabilities	43.2	48.9	55.0	47.9	50.1
Total shareholders' equity and liabilities	**1,563.8**	**1,600.6**	**1,331.6**	**1,526.6**	**1,727.4**

Financial Statements of Forbo Holding AG

Income Statement of Forbo Holding AG

Income	Notes	2003 CHF	2002 CHF
Income			
from investments in and advances to Group companies	1	31,879,666	161,083,326
from securities and short-term investments	2	5,310,232	992,326
Income from services and other sources		5,972	677,191
Total income		**37,195,870**	**162,752,843**

Expenses	Notes	2003 CHF	2002 CHF
Administrative expenses	3	2,259,474	3,206,921
Financial expenses	4	9,473,773	11,080,638
Taxes		346,928	349,876
Valuation adjustments	5	9,728,043	117,769,878
Total expenses		**21,808,218**	**132,407,313**
Net profit for the year		**15,387,652**	**30,345,530**

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

		31.12.2003	31.12.2002
Assets			
	Notes	CHF	CHF
Long-term assets		**534,628,153**	**437,285,710**
Investments in Group companies	6	339,854,375	265,126,811
Advances to Group companies	7	194,773,778	172,158,899
Current assets		**31,917,571**	**45,069,972**
Other receivables from Group companies		1,258,685	830,639
Other receivables from third parties		404,201	1,242,255
Prepaid expenses and deferred charges	8	1,645,883	1,278,769
Marketable securities	9	18,555,069	24,167,536
Cash	10	10,053,733	17,550,773
Total assets		**566,545,724**	**482,355,682**

		31.12.2003	31.12.2002
Shareholders' equity and liabilities			
	Notes	CHF	CHF
Shareholders' equity		**287,035,726**	**300,055,067**
Share capital	11/12	37,984,128	67,828,800
Statutory reserves:			
General reserves		15,600,000	15,600,000
Reserve for own shares	13	9,103,691	13,866,720
Other reserves	14	146,272,451	140,071,743
Available earnings:			
Profit carried forward		62,687,804	32,342,274
Net profit for the year		15,387,652	30,345,530
Liabilities		**279,509,998**	**182,300,615**
Long-term provisions	15	28,000,000	28,000,000
Bond issues	16	150,000,000	150,000,000
Long-term bank debt	17	64,440,000	0
Advances from Group companies		32,760,000	0
Other liabilities to Group companies		85,783	0
Current liabilities to third parties		46,983	51,098
Accrued expenses		4,177,232	4,249,517
Total shareholders' equity and liabilities		**566,545,724**	**482,355,682**

Notes to the Financial Statements of Forbo Holding AG

1 Income from investments in and advances to Group companies

Income from investments in and advances to Group companies amounts to CHF 31.9 million (previous year: CHF 161.1 million) and consists of interest and dividend income. In the previous year a special distribution from Forbo America Inc. of CHF 111.6 million in the context of a group internal refinancing was made.

2 Income from securities and short-term investments

This item includes income from short-term investments of CHF 0.2 million (previous year: CHF 0.4 million), dividend income of CHF 0.5 million (previous year: CHF 0.6 million) as well as realized and unrealized gains from securities of CHF 4.6 million.

3 Administrative expenses

Administrative expenses amount to CHF 2.3 million which is CHF 0.9 million less than in the previous year. The decrease is due to lower unrecoverable foreign source taxes and lower general expenses.

4 Financial expenses

Financial expenses of CHF 9.5 million relate to the 4 1/8% bond issue 2001–2006 of CHF 150.0 million and the amortization of capitalized issuance costs. Furthermore, interest expenses arose from loans drawn in the context of a syndicated bank facility.

5 Valuation adjustments

Valuation adjustments of CHF 9.7 million (previous year: CHF 117.8 million) relate mainly to investments in and loans to Group companies and take into account the uncertainty of economic and currency trends.

6 Investments in Group companies

See list of Group companies on pages 102–105. The increase of investments in Group companies compared to the previous year amounts to CHF 74.7 million and is mainly attributable to an additional capital injection at Forbo Beteiligungen GmbH and a capital increase at Forbo UK Ltd.

7 Advances to Group companies

Advances to group companies are denominated in Swiss Francs and foreign currencies. There was a CHF 22.6 million increase over the previous year's figure.

8 Prepaid expenses and deferred charges

Prepaid expenses and deferred charges include, besides the usual items, capitalized cost of CHF 1.6 million incurred in connection with the 4 1/8% bond issue 2001–2006 and the syndicated bank facility. These costs are amortized over the respective terms.

9 Marketable securities

Marketable securities include marketable shares, which are valued at market value.

10 Cash

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

11 **Share capital**

At the end of 2003 the Company's share capital amounts to CHF 37,984,128 and is divided into 1,356,576 registered shares with a nominal value of CHF 28 each. In the context of a cash distribution the nominal value per share of CHF 50 was reduced by CHF 22 during the year. The Board of Directors put 4,461 of totally available 25,880 reserve shares in circulation and deposited them in the context of the Stock Option Plan for the Board of Directors and the Executive Board. Thus, 21,419 shares without voting and dividend rights are still at the disposition of the Board of Directors. Accordingly, 1,335,157 registered shares carry dividend rights for the 2003 financial year. The shares are listed on the SWX Swiss Exchange with security number 354 151.

12 **Conditional capital increase**

CHF 8,500,000 of conditional capital reserved for the exercise of shareholder options and warrants in connection with a with-warrants bond issue was created by resolution of the Annual General Meeting of Shareholders held on April 27, 1994. Following the exercise of options and warrants in 1994, 1995 and 1997 and a reduction of the nominal value of CHF 22 per share the conditional capital at December 31, 2003 amounts to CHF 4,660,600 (previous year: CHF 8,322,500).

13 **Reserve for own shares**

The CHF 9,103,691 included at year end under 'Reserve for own shares' refer to own shares held by Forbo Holding AG and its subsidiaries valued at cost. Details of own shares are as follows:

Own shares	Cost CHF	No. of registered shares nominal CHF 50 / 28
Total at 1.1.2003	**13,866,720**	**51,369**
Disposals	–5,630,974	–9,779
Additional paid-in capital of reserve shares put in circulation *	1,437,679	
Nominal value reduction	–569,734	
Total at 31.12.2003	**9,103,691**	**41,590**

* 4,461 registered shares deposited (see 11, Share capital)

14 **Other reserves**

Other reserves showed a year-on-year increase of CHF 6.2 million, which is mainly attributable to a transfer from 'Reserve for own shares' (CHF 4.8 million).

15 **Long-term provisions**

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

16 **Bond issues**

The $4^1/_8$% bond issue 2001–2006 of CHF 150.0 million is due for redemption on June 8, 2006.

17 **Long–term bank debt**

This item includes loans payable of CHF 64.4 million in the context of a mid-term, syndicated bank facility of totally CHF 150.0 million.

18 **Contingent liabilities**

Guarantees and letters of support issued to third parties in favor of Group companies amount to CHF 505.3 million at year end, of which CHF 399.6 million (previous year: CHF 387.2 million) are utilized. Most of this relates to guarantees to investors in connection with funds raised by a Group company in the form of a US private placement (CHF 343.2 million) and guarantees in connection with utilized swap facilities.

Proposal for Appropriation of Available Earnings Forbo Holding AG

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

	2003	2002
	CHF	CHF
Net profit for the year	15,387,652	30,345,530
Profit carried forward from the previous year	62,687,804	32,342,274
Total available earnings	**78,075,456**	**62,687,804**

be appropriated as follows:

	2003	2002
	CHF	CHF
To be carried forward to the following year	78,075,456	62,687,804
Total	**78,075,456**	**62,687,804**

Instead of a dividend, a nominal value repayment of CHF 8.00 (previous year: CHF 22.00) per share is proposed.

Report of the Statutory Auditors

PricewaterhouseCoopers

Report of the Statutory Auditors
to the General Meeting of
Forbo Holding AG Eglisau

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes) on pages 94 to 98 of Forbo Holding AG for the year ended December 31, 2003.

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

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

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

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

PricewaterhouseCoopers AG

S. Räbsamen L. Monn

Zurich, March 4, 2004

Group Companies (December 31, 2003)

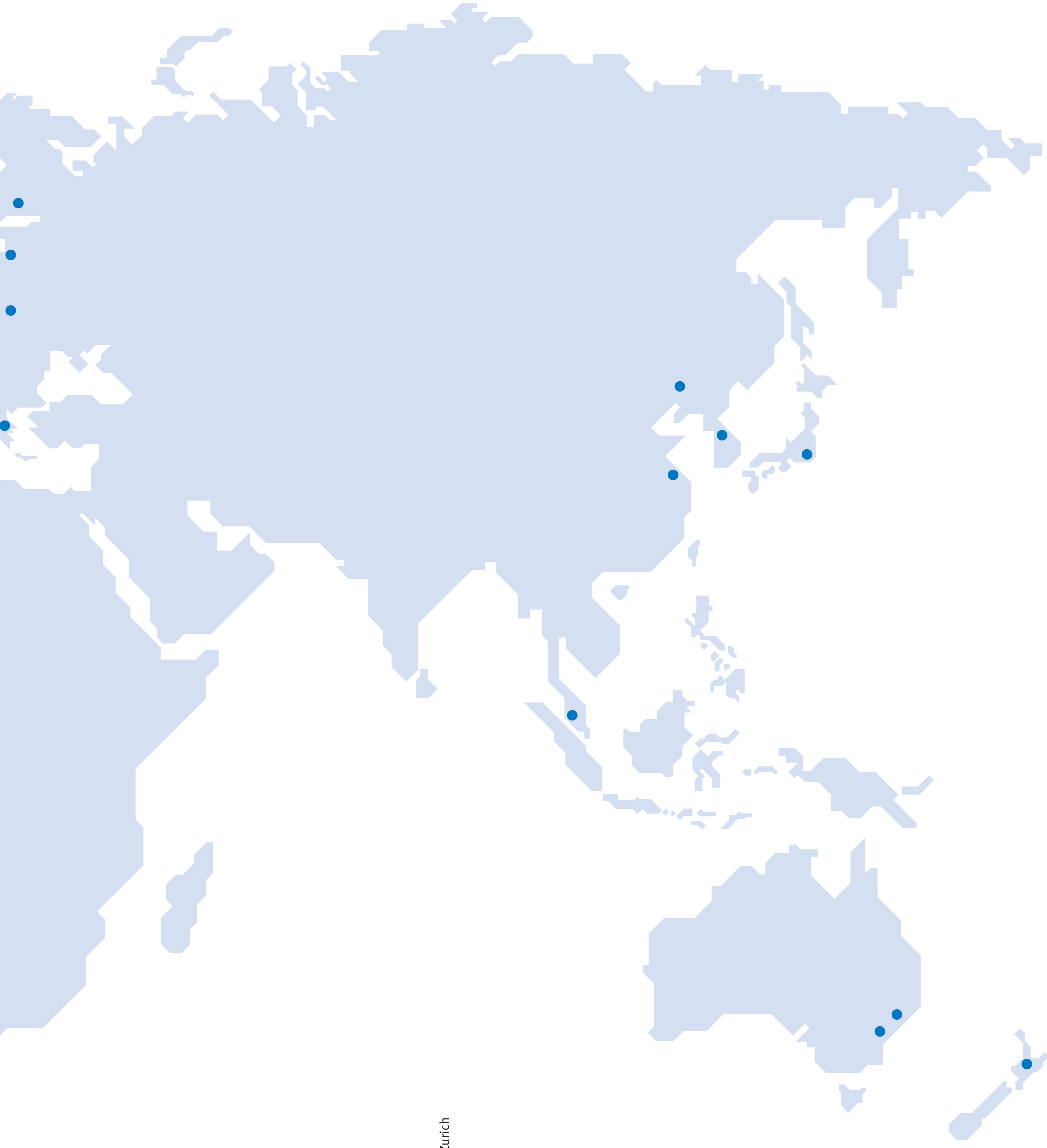
Company	Registered office	General management			Share capital	Equity interest	Flooring	Adhesives	Belting	Holding/Services
Australia										
Forbo Floorcoverings PTY. Ltd.	Wetherill Park, N.S.W.	Angus Fotheringhame	D	AUD	1,400,000	**100%**	S			
Siegling Australia PTY. Ltd.	Wetherill Park, N.S.W.	Peter Duncan		AUD	3,000,000	**100%**			S	
Austria										
Forbo Contel Handelsges.m.b.H.	Vienna	Franz Kahr		EUR	73,000	**100%**	S			
Forbo Industrieprodukte Ges.m.b.H.	Vienna	Peter Kraft/Stefan Resch		EUR	73,000	**100%**		S		
Siegling Austria Ges.m.b.H.	Vienna	Erich Knoll		EUR	330,000	**100%**			S	
Belgium										
Forbo-Balco BVBA	Dendermonde	Toon A.T. Burghouts		EUR	20,000	**100%**		S		
N.V. Forbo Linoleum S.A.	Groot-Bijgaarden	Lieven Messiaen		EUR	250,000	**100%**	S			
Brazil										
Forbo Linoleum Ltda.	Itapevi-SP	Walter Gianfaldoni		BRL	10,000	**100%**	S			
Siegling Brasil Ltda.	Itapevi-SP	Carlos Oslaj	N	BRL	6,586,000	**50%**			MS	
Canada										
Forbo Adhesives (Canada) Ltd.	St. John	Jack L. Chambers		CAD	3,500,157	**100%**		MS		
Forbo Linoleum Inc.	Toronto	Denis P. Darragh		CAD	500,000	**100%**	S			
Siegling Canada Ltd.	Toronto	Rick Zingel		CAD	501,000	**100%**			S	
Czech Republic										
Forbo s.r.o.	Brno	Tomás Kudera		CZK	500,000	**100%**	S			
Denmark										
Forbo Flooring A/S	Glostrup	Jens-Christian Holm Iversen		DKK	500,000	**100%**	S			
Siegling Danmark A/S	Brøndby	Roger Olsson		DKK	1,000,000	**100%**			MS	
Finland										
Forbo Flooring AB Finland	Helsinki	Anne Takala		EUR	34,000	**100%**				H
Oy Forbo Swift AB	Espoo	Jukka Koskinen		EUR	25,253	**100%**		MS		
France										
Forbo Helmitin SAS	Surbourg	José Castillo		EUR	3,050,000	**100%**		MS		
Forbo Participations SAS	Surbourg	Christian Barreau	D	EUR	11,524,800	**100%**				H
Forbo Sarlino SAS	Reims	Alain Réquillart		EUR	6,400,000	**100%**	S			
Forbo Swift Adhesives SA	Blois	José Castillo		EUR	800,000	**100%**		MS		
Siegling France SAS	Lomme	Egbert J. van Heerikhuizen		EUR	825,000	**100%**			S	
Sté. de Production de Sols Textiles-P.S.T.	Reims	Alain Réquillart		EUR	3,092,000	**100%**	MS			
Sté. de Production de Sols Vinyles-P.S.V.	Reims	Alain Réquillart		EUR	3,447,000	**100%**	MS			

Company	Registered office	General management			Share capital	Equity interest	Flooring	Adhesives	Belting	Holding/Services
Germany										
Forbo Adhesives Automotive GmbH	Mannheim	Robert Tonolla		EUR	30,000	**100%**		S		
Forbo Beteiligungen GmbH	Waldshut-Tiengen	Gerold A. Zenger	D	EUR	15,400,000	**100%**				H
Forbo Erfurt GmbH	Erfurt	Rüdiger Beez		EUR	2,050,000	**100%**		MS		
Forbo Flooring GmbH	Paderborn	Elmar Schmidt		EUR	500,000	**100%**	S			
Forbo Helmitin GmbH	Pirmasens	Robert Tonolla		EUR	5,120,000	**100%**		MS		
Forbo Novilon GmbH	Frankfurt on the Main	Hans-Heinrich Kuhn		EUR	1,030,000	**100%**	S			
Paul Heinicke GmbH & Co KG	Pirmasens	Peter Kraft	D	EUR	1,023,000	**100%**				H
Realbelt GmbH	Velen	Friedrich Konrad		EUR	100,000	**100%**			S	
Siegling GmbH	Hanover	Dr. Jan Lipton		EUR	10,230,000	**100%**			MS	
Greece										
Forbo Swift Adhesives Greece S.A.I.C.	Athens	Peter Garyfallou		EUR	895,000	**100%**		MS		
Hungary										
Forbo Swift Adhesives Hungary Kft.	Budapest	András Mádi/Stefan Resch		HUF	3,000,000	**100%**		S		
Siegling Hungária Kft.	Budapest	Juraj Fogarassy		HUF	30,000,000	**100%**			S	
Ireland										
Forbo Ireland Ltd.	Dublin	Derek F. Byrne		EUR	127,000	**100%**	S			
Siegling Ireland Ltd.	Dublin	John Siddle		EUR	25,395	**100%**			S	
Waller & Wickham Ltd.	Dublin	Kevin Wickham		EUR	2,520	**100%**		S		
Italy										
Forbo Adhesives Italia S.p.a.	Pianezza (Vicenza)	Eros Mori		EUR	416,000	**100%**		MS		
Forbo Resilienti S.r.l.	Milano	Sergio de Conto		EUR	51,000	**100%**	S			
Siegling Italia S.p.a.	Paderno Dugnano	Dr. Marco Tommasi		EUR	104,000	**100%**			S	
Japan										
Siegling (Japan) Ltd.	Yokohama	Marco A. Crivelli		JPY	330,000,000	**100%**			MS	
Jersey, C. I.										
Forbo Invest Ltd.	St. Helier	Denise Turpin	D	GBP	25,000	**100%**				H
Malaysia										
Siegling Malaysia SDN. BHD.	Johor Bahru	Marco A. Crivelli		MYR	2,500,000	**100%**			S	
Mexico										
Siegling Mexico S.A. de C.V.	Tlalnepantla	Antonio Cillero		MXP	16,505,000	**100%**		S	MS	
Netherlands										
Eurocol B.V.	Zaanstad	Jos H. den Ronden		EUR	454,000	**100%**		MS		
Forbo Linoleum B.V.	Krommenie	Drs. Pieter Hartog/Paul de Ruiter		EUR	11,345,000	**100%**	MS			
Forbo NL Holding B.V.	Krommenie	Drs. Pieter Hartog		EUR	13,500,000	**100%**				H
Forbo Novilon B.V.	Coevorden	Geurt Stuurman		EUR	3,630,000	**100%**	MS			
Forbo Swift Adhesives Nederland B.V.	Genderen	Toon A.T. Burghouts		EUR	27,000	**100%**		MS		
Siegling Nederland B.V.	Spankeren-Dieren	Egbert J. van Heerikhuizen		EUR	113,000	**100%**			S	

Company	Registered office	General management			Share capital	Equity interest	Flooring	Adhesives	Belting	Holding/Services
New Zealand										
Siegling Stedar Belting Ltd.	Auckland	John Lumley		NZD	650,000	**100%**			S	
Norway										
Forbo Flooring A/S	Vettre	Morten Aarhus	D	NOK	1,000,000	**100%**	S			
People's Republic of China										
Fargo Chemicals Marketing Ltd.	Hong Kong	P. di Gioia/Ch. Barreau	N	HKD	200,000	**50%**		S		
		P. Clerc-Renaud/B. Jalon								
Forbo Siegling (Shenyang) Belting Co. Ltd.	Shenyang	Marco A. Crivelli		CNY	146,391,000	**100%**			MS	
Poland										
Forbo Swift Adhesives Poland Sp. z o.o.	Warszawa	Stefan Resch/Andrzej Trojecki		PLZ	52,000	**100%**		S		
Forbo Techniki Budowlane Polska Sp. z o.o.	Warszawa	Jos H. den Ronden		PLZ	2,100,000	**100%**		S		
Portugal										
Forbo-Revestimentos S.A.	Porto	Henrique M. Santos Jr.		EUR	75,000	**100%**	S			
Siegling (Portugal) Lda.	Gemunde (Maia)	José A. Pereira de Azevedo		EUR	235,000	**100%**			S	
Romania										
SC Forbo Helmitin Romania S.R.L.	Oradea	Peter Kraft/Stefan Resch		ROL	70,770,000	**100%**		S		
Russia										
Siegling (ZAO)	St. Petersburg	Alexander Petrakovski		RUB	400,000	**51%**			S	
Spain										
Forbo Adhesives Spain S.L.U.	Mos (Pontevedra)	José Castillo		EUR	15,006	**100%**		MS		
Forbo Pavimentos S.A.	Barcelona	Agustin Matamoros		EUR	60,000	**100%**	S			
Siegling Iberica S.A.	Montcada i Reixac	José Flor Garre		EUR	1,533,000	**100%**			S	
Sweden										
Forbo Flooring AB	Gothenburg	Lars Ivar Norén	D	SEK	100,000	**100%**	S			
Forbo Parquet AB	Tibro	Christer Engelbrektsson		SEK	20,000,000	**100%**	MS			
Forbo Project Vinyl AB	Gothenburg	Christer Engelbrektsson	D	SEK	50,000,000	**100%**	MS			
Forbo Swift Sweden AB	Gothenburg	Mark McDonnell		SEK	100,000	**100%**		S		
GD-Golvdepån i Sverige AB	Jönköping	Lars Ivar Norén		SEK	700,000	**100%**	S			
Siegling Svenska AB	Mölndal	Roger Olsson		SEK	1,000,000	**100%**			S	
Switzerland										
Enia Carpet Group AG	Ennenda	Dr. Benjamin J. Fuchs	N	CHF	3,000,000	**25%**				H
FJK Carpet D GmbH	Ennenda	Dr. Benjamin J. Fuchs	N	CHF	20,000	**25%**				H
Forbo CTU AG	Schönenwerd	Dietmar Meyer	D	CHF	10,000,000	**100%**		MS		
Forbo Finanz AG	Eglisau	Gerold A. Zenger	D	CHF	10,000,000	**100%**				H
Forbo Giubiasco SA	Giubiasco	Dr. Stefan Krummenacher	D	CHF	10,000,000	**100%**	MS			
Forbo Immob AG	Eglisau	Andreas P. Lerch		CHF	1,700,000	**100%**				H
Forbo International SA	Eglisau	Werner Kummer	D	CHF	100,000	**100%**				H
Immobilien Emmenau AG	Hasle-Rüegsau	Andreas P. Lerch		CHF	1,000,000	**100%**				H
Siegling (Schweiz) AG	Wallbach	Peter Martin	D	CHF	500,000	**100%**			MS	

Company	Registered office	General management			Share capital	Equity interest	Flooring	Adhesives	Belting	Holding/Services
United Kingdom										
Forbo Nairn Ltd.	London	Brian Paterson		GBP	8,000,000	**100%**	MS			
Forbo Swift Adhesives Ltd.	Chatteris	Mark McDonnell		GBP	100	**100%**		MS		
Forbo UK Ltd.	London	Margo Main	D	GBP	32,500,000	**100%**				H
Stephens Miraclo Extremultus Ltd.	Dukinfield	Kevin Richardson		GBP	50,774	**100%**			S	
USA										
Forbo Adhesives LLC	Wilmington, DE	Jack L. Chambers		USD	100	**100%**		MS		
Forbo America Inc.	Wilmington, DE	Eugene M. Chace	D	USD	19,957,258	**100%**				H
Forbo America Services Inc.	Wilmington, DE	Eugene M. Chace		USD	50,000	**100%**				H
Forbo Finance Inc.	Wilmington, DE	Eugene M. Chace		USD	100,000	**100%**				H
Forbo Linoleum Inc.	Hazelton, PA	Denis P. Darragh		USD	3 ,517,000	**100%**	S			
Siegling America LLC	Huntersville, NC	Wayne Hoffman		USD	15,455,100	**100%**			MS	

S Sales
MS Manufacturing and Sales
H Holding/Services
N Not included in the 2003 consolidation
D Direct participations of Forbo Holding AG



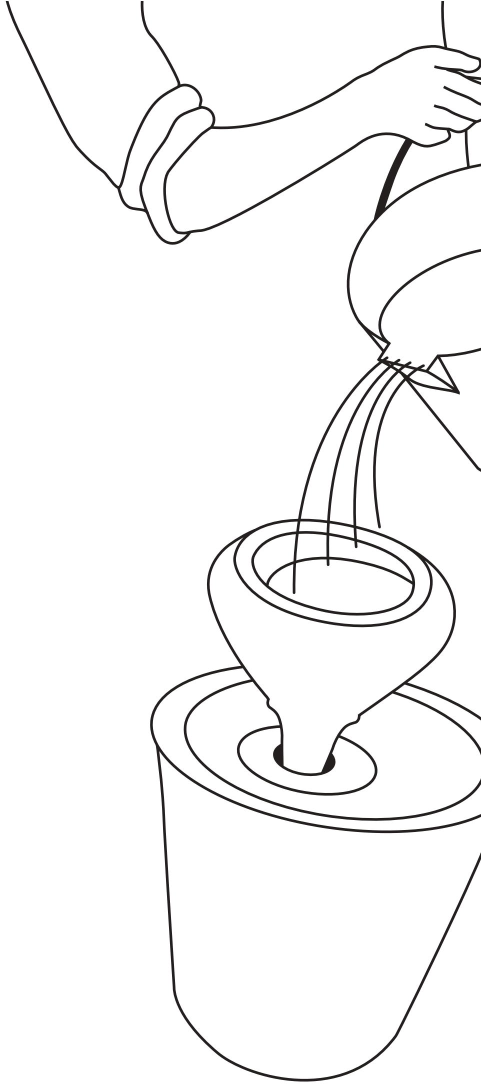
Imprint
Publisher: Forbo Holding AG, Eglisau | Zurich
Editing: Klartext_Medienbuero, Wuppertal (G)

Conception and Design: Gottschalk+Ash Int'l

Photos:
Bettina Schaefer, Zurich | Hamburg
Daniel Gerber, Zurich
Per Arvidsson, Stockholm
William Grant & Sons International, Richmond, UK

Typesetting, Litho and Printing: Neidhart+Schoen AG, Zurich

March 2004



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