2004

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

Annual Report 2004






Contents

Forbo is a leading producer of floor coverings, adhesives and beltings. The company employs some 5,500 people and has an international network of 30 production companies and 46 sales organizations in 31 countries. Forbo's Head Office is in Eglisau/Zurich.

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

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

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

Key Figures[1]

Forbo Group

	2004	2003	2004	2003
	m CHF	m CHF	m EUR [2]	m EUR [2]
Net sales	**1,622.3**	**1,598.9**	**1,050.7**	**1,051.2**
Change on previous year (%)	+1.5	+4.4		
Flooring	737.6	744.5	477.7	479.3
Adhesives	577.7	557.4	374.2	376.7
Belting	307.0	297.0	198.8	195.2
EBITDA before special charges	**143.1**	**156.7**	**92.7**	**103.0**
As % of net sales	8.8	9.8		
EBITDA	**126.2**	**156.7**	**81.7**	**103.0**
EBIT before special charges	**55.9**	**60.4**	**36.2**	**39.7**
Change on previous year (%)	–7.5	–31.7		
As % of operating assets (ROA)	4.9	4.7		
EBIT	**–44.5**	**60.4**	**–28.8**	**39.7**
Special charges	**–161.9**	**–**	**–104.9**	**–**
Consolidated loss/profit	**–157.4**	**16.1**	**–101.9**	**10.6**
Capital investments	**54.8**	**46.2**	**35.5**	**30.4**
Total assets	**1,516.6**	**1,563.8**	**982.3**	**1,028.1**
Shareholders' equity	**578.6**	**572.5**	**374.7**	**376.4**
Equity ratio (%)	38.2	36.6		
Net debt	**131.0**	**379.3**	**84.8**	**249.4**
As % of shareholders' equity (gearing)	22.6	66.3		

	2004	2003
	Number	Number
Employees (as of December 31)	**5,540**	**5,585**

	2004	2003	2004	2003
	m CHF	m CHF	m EUR [2]	m EUR [2]
Free cash flow (before cash distribution, acquisitions and divestments)	**43.1**	**88.5**	**27.9**	**58.2**
Stock market capitalization (as of December 31)	**652.9**	**464.8**	**422.9**	**305.6**

	2004	2003	2004	2003
	CHF	CHF	EUR [2]	EUR [2]
Per share data				
Loss/earnings per share	–106.56	12.28	–69.02	8.07
Shareholders' equity per share	219.67	435.37	142.27	286.24
Cash distribution per share	0 [3]	8.00	0 [3]	5.26
Payout ratio (%)	0	65.1		

[1] Explanation in the Financial Report
[2] CHF values translated at the annual average rate of CHF 1.544/1 EUR (2004) and 1.521/1 EUR (2003)
[3] Proposal of the Board of Directors to the General Shareholders' Meeting

Results by business after restatement due to new classification in 2004 of sales of adhesives products realized by the flooring business and changed allocation keys for corporate and consolidation

To our Shareholders

Clear strategies for the three businesses

Dear Ladies and Gentlemen

2004 was a challenging business year for Forbo. The Board of Directors' decision to grow the three businesses under the Forbo umbrella was most significant for the Group. Earlier we had studied the possible further development of the capital-intensive flooring business under a partnership. We reached the conclusion, however, that continuing the flooring business may also be attractive provided its financing is ensured. The Board of Directors has defined the strategic priorities of the three businesses in view of their market positions and the prevailing trading conditions. The flooring business must reduce capacities and round off the product portfolio in a market suffering from overcapacities. The adhesives business is operating in a growth market, focusing on higher-margin segments and selective acquisitions. In the belting business, Forbo is concluding the turnaround phase in a consolidated market with the intention of growing organically in the first place.

Reduction of over-capacities, expansion of higher-margin products

Profit-enhancing steps initiated

Within this framework, each business has defined clearly outlined action plans. First measures were implemented in 2004 already. In the flooring business, overcapacities are being reduced and the administration and sales organizations are being streamlined to enhance the profitability. Adhesives are focusing on attractive core segments such as the automotive industry by establishing new sites and sales organizations in growth markets. The belting business is accelerating its expansion in Asia and Eastern Europe in order to reach higher margins with premium products.

Net proceeds of some CHF 187 million

Successful capital increase

The Board of Directors proposed a capital increase to the shareholders aimed at implementing the strategies of the three businesses and the restructuring measures. It was approved by an extraordinary general meeting of shareholders in Zurich on December 2, 2004, and concluded successfully before the end of the year. The transaction brought Forbo net proceeds of some CHF 187 million. The capital increase was realized through the issue of 1356576 new registered shares. The shareholders were offered one new registered share at the price of CHF 150 per share for each registered share in their possession. Trading of the new shares started on December 15, 2004. All the new shares carry the same rights as the old ones. This capital increase will create the preconditions Forbo needs for implementing the restructuring measures and improving the profitability of its operating businesses.

Organic growth restored

Downward trend stopped

In a difficult market environment, Forbo increased sales by 1.5 % to CHF 1622.3 million, or 2.3 % in local currencies in the period under review, meaning that organic growth was again achieved for the first time since several years. The negative effect of the weak US currency on sales was offset by the strong Euro.

Whereas flooring sales stayed just below the previous year's level, adhesives and belting recorded clear growth with plus in sales of 3.6 % and 3.4 %, respectively. The operating earnings before special charges were somewhat lower than in the previous year. The operating profit before special charges of CHF 100.4 million amounted to CHF 55.9 million (previous year: CHF 60.4 million), and after special charges to CHF –44.5 million. Including further special charges, the Group recorded a considerable loss of CHF 157.4 million in 2004.

Takeover offer

Purchase offer from CVC Capital Partners

In November 2004, CVC Capital Partners expressed their interest in purchasing – under the proviso of a due diligence assessment – the Forbo shares at a price of CHF 330 per share based on the number of shares prior to the capital increase. When CVC had increased the price to CHF 350–370 per share, the Board of Directors admitted CVC – and subsequently further parties interested in a takeover – to the due diligence. On March 8, 2005 AFB Investment, a company 100 % controlled by CVC Capital Partners, submitted a public purchase offer for all the outstanding shares at a price of CHF 260 per share based on shares outstanding after the capital increase.

In January, 2005 Michael Pieper informed the company that, together with the Franke-Gruppe, he held 20.1 % of the Forbo shares. Besides, Rudolf Maag and Tweedy, Browne Global Value Fund were in possession of 8.1 % and 8.8 % respectively of the Forbo shares on March 4, 2005.

Resolutions adopted by the extraordinary General Assembly

Abolition of the restriction on voting rights

The extraordinary General Assembly convened by the Board of Directors for March 24, 2005 adopted the following resolutions:

1. The change of Article 27 of the articles of association proposed by Tweedy, Browne Global Value Fund was approved. The change means that in case of a public purchase offer the price must at least correspond with the current share price and must, at the same time, not be lower than the highest price that the bidder paid for the company's shares during the past 12 months.

2. The change of the restriction of voting rights proposed by Michael Pieper was approved by nearly 100 percent of the shares represented. Thus the shareholders will now be entitled to vote on an equal basis with their capital interests in the company.

3. The additional members of the Board of Directors proposed by Michael Pieper, i. e. Dr. Peter Altorfer, Dr. Albert Gnägi, Hans-Beat Gürtler, Dr. Rudolf Huber, and Michael Pieper were elected with a clear majority.

Dividend proposal to the General Assembly

No dividend

The dividend policy of the Forbo Group is linked to the development of net profits. In view of the Group loss, the Board of Directors will propose to the Annual General Assembly on April 29, 2005 not to distribute a dividend for the business year 2004.

Changes in the Board of Directors

Retirements from the Board of Directors

Dr. Willy Kissling, who had taken over the chair of the Board of Directors after Karl Janjöri's resignation at the beginning of 2004, has declared his resignation from office as per the 2005 orderly General Assembly irrespective of the resolutions adopted by the extraordinary General Assembly. Michael Pieper decided at the beginning of December 2004 to retire from his mandate with immediate effect. At the extraordinary General Assembly on March 24, 2005 Dr. Anton Bucher and Dr. Paul Tanos, members of the Board of Directors, declared their resignation from the Board of Directors effective April 6, 2005 (end of the offer period). Drs. Pieter Deiters and Prof. Dr. iur. Rolf Watter will also resign at the orderly General Assembly on April 29, 2005.

Immediately after the elections to the Board of Directors at the occasion of the extraordinary General Assembly on March 24, 2005, the new Board of Directors met and elected Dr. Albert Gnägi its Chairman and Michael Pieper its Vice-Chairman.

This E. Schneider who had taken over the position of CEO from Werner Kummer in spring 2004 and assumed this function until February 22, 2005, resumed his function as CEO and Delegate of the Board of Directors with immediate effect.

Cautiously optimistic outlook on 2005

A demanding business year 2005 is in store for the Group's three businesses. All in all we are expecting a slight sales growth and improvement of operating results. The stepwise improvement of profitability continues to have highest priority. Measures to this end have been initiated; important restructuring plans are about to be implemented. However, profits will be influenced by special effects also in the current year; part of the restructuring costs announced in late fall 2004 will be charged to the business year 2005.

Thanks

We thank our employees for their commitment in a difficult business year. They have made an essential contribution to restoring Forbo's organic growth.

We would like to extend our thanks to our shareholders and our customers for their support and loyalty.

Eglisau, March 29, 2005

Dr. Albert Gnägi
Chairman of the Board of Directors

This E. Schneider
Delegate of the Board of Directors and CEO

Forbo Group: Foundation Laid for New Growth

Forbo's three operating businesses recorded decent results in the past year. Group sales rose by 1.5 % to CHF 1,622.3 million. The increase in local currencies was 2.3 %. The operating profit after depreciation and amortization (EBIT) and before special charges was CHF 55.9 million or 7.5 % below the previous year's level of CHF 60.4 million. Gains with the sale of higher-margin products in the adhesives and belting businesses were partly reduced by higher raw material prices and subdued demand in the flooring business. The Group loss of CHF 157.4 million includes special charges of CHF 161.9 million. They notably relate to restructuring costs and impairments in the belting and flooring business where production capacities and product portfolios are being adjusted. The free cashflow was CHF 43.1 million, 51.3 % less than in the previous year as a result of higher investments and lower cash inflow from operating activities.

Independent operating businesses

Strategic and financial issues were particularly significant in the business year 2004. Following thorough analyses, The Board of Directors and the Executive Board concluded that the Group's three businesses – Flooring, Adhesives, and Belting – should be managed as independent and focused operating businesses under the umbrella of a strategy and finance holding. A decisive factor was the perception that the flooring business could be restructured by the Group's own efforts under the proviso of a capital increase. In addition, the new funds will allow growth of the adhesives business in higher-value market segments and the fast conclusion of the turnaround in the belting business. At the same time, the proceeds from the capital increase, which was successfully concluded in December 2004, reduced net debts and essentially increased the Group's financial flexibility.

Profitability and growth

The Board of Directors and the Executive Board re-defined the strategies for the three businesses along the principles of «profitability and growth». The operative businesses have initiated the corresponding steps. They shall become fully effective as from 2007 and double the return on assets employed (ROA).

Overview of the Group's sales development: strong adhesives business

Flooring with mixed results

The flooring business reached sales of CHF 737.6 million in 2004, a slight decrease of 0.9% in comparison with the previous year. In local currency terms the decrease was 1.5%. Strong growth of linoleum sales in North America was offset by declining sales in Western Europe. Vinyl raised sales in the contract business but suffered from declining sales in the residential market in Western Europe. The operating profit (before special charges) amounted to CHF 42.4 million, 10.7% lower than in the previous year.

Adhesives boosted by Swift

The results of the adhesives business were pleasing: Here, Forbo achieved sales of CHF 577.7 million, plus 3.6%. Growth in local currencies was 5.7%. The business benefited from the consistent focus on strategic customer segments and the integration of US adhesives producer Swift concluded in the previous year. The operating profit rose (before special charges) by 55.1% to CHF 34.9 million.

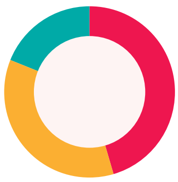
Turnaround in the belting business

In the period under review, the belting business was able to clearly raise sales to CHF 307.0 million, plus 3.4%. In local currencies, growth was 5.3%. All the main sales regions contributed to this positive trend. Negative effects on sales and margins came from the weak US currency. Nevertheless, the operating profit (before special charges) rose from CHF –4.2 million in the previous year to CHF 2.4 million.

	m CHF 2004	Change on previous year* effective %	currency adj. %	%
Flooring	737.6	–0.9	–1.5	45.5
Adhesives	577.7	3.6	5.7	35.6
Belting	307.0	3.4	5.3	18.9
Total	1,622.3	1.5	2.3	100.0

* Based on new classification of adhesives products sales realized by the flooring business.

Sales by Businesses



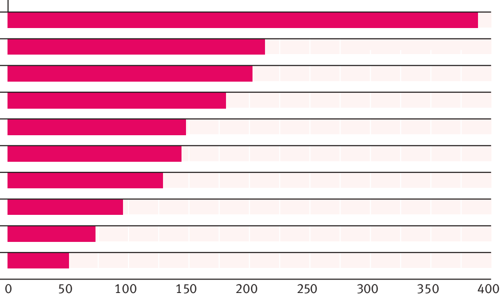
Sales by regions: positive in the USA

Europe below expectations

Sales in North America showed a generally positive trend in all the three businesses. In Europe, however, sales of the flooring business were particularly affected by the reluctant public investment activity and the difficult situation of the building industry. Growth stimuli for adhesives and belting came from the Asian markets.

Sales by geographic areas

	%	Change on previous year effective %	Change on previous year currency adj. %	m CHF 2004
North, Central and South America	23.9	2.7	10.4	388.8
Germany	13.1	−0.5	−1.9	212.8
Benelux	12.5	0.0	−1.5	202.4
France	11.1	7.4	5.8	180.4
Southern Europe	9.1	6.6	5.2	147.3
Scandinavia	8.8	−2.0	−3.1	143.5
Asia/Australia/Africa	8.0	1.5	1.4	128.5
Great Britain/Ireland	5.9	2.4	−1.0	95.4
Eastern Europe	4.5	−13.4	−14.2	72.6
Switzerland	3.1	5.6	5.6	50.6



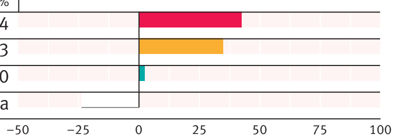
Result suffering from extraordinary influences

High special charges

The focus on higher-margin product segments intensified in the second half-year resulted in a slightly higher gross profit margin for the total year in spite of rising raw material prices. Clearly higher operating expenditure including restructuring charges of CHF 16.9 million resulted in an operating result before depreciation and amortization (EBITDA) of CHF 126.2 million (previous year: CHF 156.7 million). The restructuring moves announced for the flooring and belting businesses resulted in an impairment on tangible assets of CHF 81.5 million charged to the operating result (EBIT). EBIT of CHF −44.5 million was CHF 104.9 million lower than in the previous year. Further factors for the decline were higher goodwill amortization of CHF +3.1 million and negative currency effects. On the operational level, the adhesives business with CHF 34.9 million made a clearly better contribution to the Group's operating profit compared with the previous year. The operating result of the belting business amounted to CHF 2.4 million. It had a positive influence on the Group result compared with the previous year while the flooring business at CHF 42.4 million had a negative one.

EBIT (before special charges) by Businesses

	m CHF 2004	Change 2003/2004 %	ROA* 2004 %
Flooring	42.4	−10.7	9.4
Adhesives	34.9	55.1	8.3
Belting	2.4	n/a	1.0
Headquarters/consolidation	−23.8	n/a	n/a



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

Restated due to new classification in 2004 of sales of adhesives products realized by the flooring business and changed allocation keys in 2004 for corporate and consolidation

As a result of lower operative assets, the return on operating assets employed (ROA, before special charges) increased from 4.7% in the previous year to 4.9%. The return on sales was 3.4% compared with 3.8% in the previous year. This key figure decreased to 2.7% in the second half-year as a result of higher operating expenses in connection with various projects and slightly lower sales (first half-year: 4.1%).

Higher financial expenses and tax charge

The Group loss of CHF 157.4 million (previous year: profit of CHF 16.1 million) mirrors the restructuring expenses and special charges of CHF 161.9 million in total, with the three businesses accounting for CHF 95.6 million (before tax). This means that higher financial expenses and tax charges also contributed to the Group loss. The net financial expenses rose from CHF 28.6 million in the previous year to CHF 68.1 million, especially as a result of value adjustments on divested securities (CHF 12.0 million) and on the capital participations of and loans to an associate company (CHF 22.5 million). The tax charge of CHF 44.8 million (plus CHF 29.1 million) is partly due to the unfavourable regional earnings mix and in particular to value adjustments on deferred tax assets.


forbo

Free cash flow CHF 43.1 Mio

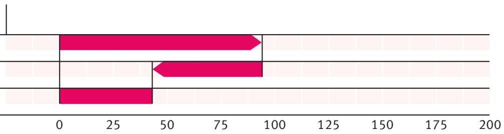
The free cash flow in the period under review was CHF 43.1 million (previous year: CHF 88.5 million). The decrease by CHF 45.4 million is the result of a lower cash inflow from operating activities (minus CHF 28.6 million) and higher investments in long-term assets, after asset disposals, net (plus CHF 16.8 million).

Use of funds

The cash flow from operating activities of the businesses and the cash inflow from the capital increase of some CHF 187 million (net) are used for restructuring measures especially in the flooring business, and for selective acquisitions in the adhesives business.

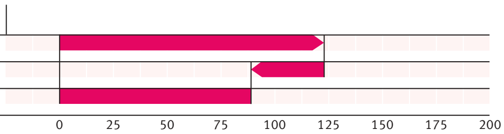
Free cash flow 2004

	m CHF
Cash flow from operating activities	94
Cash flow used for investments in long-term assets/disposal, net	−51
Free cash flow[1]	43



Free cash flow 2003

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



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

Balance sheet: reduction of net debt thanks to capital increase

Better gearing resulting from capital increase

Through the successful capital increase worth around CHF 187 million (net), net debt and the debt-to-equity ratio were markedly reduced. At the same time this transaction enhanced the Group's financial flexibility. Besides, the special charges could easily be absorbed in the equity capital. The net debt at year-end is CHF 131.0 million (previous year: CHF 379.3 million). The financial derivatives acquired in connection with long-term financing were CHF 83.7 million negative at the end of the year under review (previous year: CHF 59.5 million).

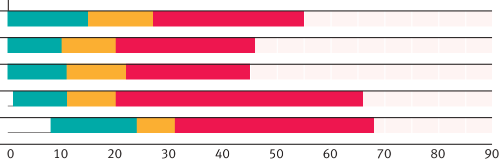
Investments in growth

Upgrading and expansion of sites

The Forbo Group invested CHF 55 million in 2004. The funds were mainly used for the upgrading and expansion of production and fabrication sites, notably in Pirmasens (Germany) and Eugene, Oregon (USA) in the adhesives business, and in Bratislava (Slovakia) in the belting business. In the flooring business, investments were made notably for optimizing the production plants in Scotland, France, and the Netherlands. Furthermore, Forbo invested in the continued standardized networking of the IT structure with SAP/R3 software.

Capital investments 2000–2004

	Flooring m CHF	Adhesives m CHF	Belting m CHF	Divested activities m CHF	Total m CHF
2004	28	12	15		55
2003	26	10	10		46
2002	23	11	11		45
2001	46	9	10	1	66
2000	37	7	16	8	68



Flooring
Adhesives
Belting
Divested activities

A specific strategy was developed for each business:

Flooring strategy: optimization processes

Reducing capacities in the vinyl segment

In a market characterized by overcapacities, the flooring business intends to quickly reduce capacities in the vinyl segment and to streamline production, sales, and administration. The already strong position in the contract market – it accounts for some 60% of total flooring sales – shall be strengthened further. Above all, the potential as the world market leader with linoleum is to be further exploited. This includes the further expansion of market shares in North America and the integration of other contract vinyl floorings in the product portfolio. In addition, new markets shall be developed especially in Asia and Russia.

Adhesives strategy: focus on higher-margin segments

Penetration of niche markets, selective acquisitions

Adhesives are a growth market. Forbo wants to grow its adhesives business through the customized development of new applications, the penetration of attractive niche markets, and selective acquisitions. New markets shall be opened up with the expansion of business in Eastern Europe and a stronger position in Asia. The focus on strategic segments continues to be in the foreground.

Belting strategy: concluding the turnaround

Organic growth

In the consolidated belting market, it is Forbo's goal to exhaust potentials for higher-value and higher-margin products, to further cut costs and, in doing so, consolidate the turnaround. The belting business seeks to grow organically and to strengthen its market position in core segments such as food processing, conveyor systems, printing and paper. New service centers for fabrication shall bring the business closer to its customers. In addition, new markets shall be developed in Eastern Europe and South-East Asia.

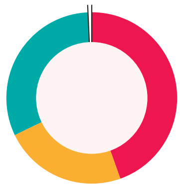
5,540 employees worldwide

Number of employees: slightly lower

As per December 31, 2004, the Forbo Group employed 5,540 people. This is a decrease by 45 employees compared with December 31, 2003. While the number of employees was lower in Western Europe, the group recorded an increase of employees in the growth areas of North America and the Asia/Pacific region.

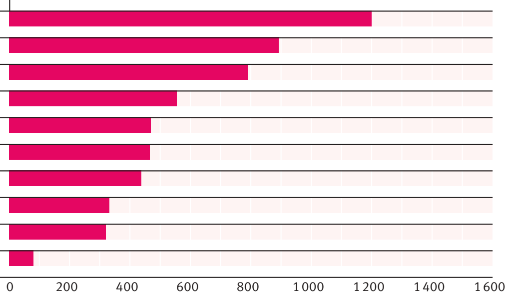
Employees by Businesses

	2004	Change 2003/2004 %	%
Flooring	2.468	−3.5	44.6
Adhesives	1.291	0.2	23.3
Belting	1.742	2.5	31.4
Headquarters	39	−4.9	0.7
Total	5.540	−0.8	100.0



Employees by geographic areas

	%	Change 2003/2004 %	2004
Benelux	21.6	−3.6	1,199
North, Central and South America	16.0	3.7	892
Germany	14.3	−1.5	790
France	10.0	−2.8	555
Scandinavia	8.5	−3.1	469
Great Britain/Ireland	8.4	−11.6	466
Asia/Australia/Africa	7.9	9.8	437
Southern Europe	6.0	−1.5	331
Switzerland	5.8	−4.8	320
Eastern Europe	1.5	200.0	81



Flooring

2004: Pleasing sales of linoleum in the USA and of vinyl in the contract market.

The vinyl and linoleum floor coverings of Forbo meet highest functional and aesthetic requirements. Renowned designers and architects worldwide specify Forbo floorings for the design of attractive rooms in the contract and residential business.

Flooring: Focus on Optimization Processes

In the business year 2004, the flooring business recorded sales of CHF 737.6 million. This is a slight decrease of 0.9% compared with the previous year, or 1.5% in local currencies. The share in Group sales was 45% (previous year: 47%). Linoleum benefited from strong growth in North America which, however, could not offset declining sales in Western Europe. Vinyl recorded encouraging sales growth in the higher-margin contract business. As opposed, the residential market suffered from decreasing sales in some European countries. The operating profit (before special charges) was CHF 42.4 million, 10.7% below the previous year's result.

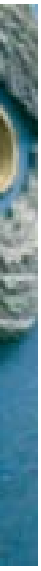
Market situation: dynamic development in America and Eastern Europe

Reluctant investment activity and overcapacities

The flooring market was essentially characterized by subdued public spending policy and overcapacities. This was coupled with continued consolidation among primarily regional suppliers. Forbo is represented worldwide with its products – especially the American market for linoleum is showing dynamic growth. The key markets in Western Europe were stagnating or declining. Due to strong brand loyalty – it is mainly based on a high degree of product innovation and a comprehensive service offer – the local price level could be maintained in most sales regions.

World market leader with linoleum

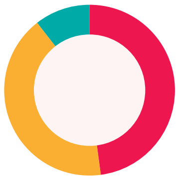
Forbo is world market leader with linoleum, having a share of more than 60%. With vinyl Forbo is among the leading suppliers worldwide. The brands of the flooring business, such as Marmoleum®, Novilon® and Novilux®, have a strong international presence.



	m CHF 2004	Change on previous year* effective %	currency adj. %	%
Linoleum	353.2	−2.3	−2.1	47.9
Vinyl	306.7	−0.6	−1.9	41.6
Other	77.7	4.5	3.7	10.5
Total	737.6	−0.9	−1.5	100.0

*Based on new classification of adhesives products sales realized by the flooring business.

Sales by product groups



Measures and investments: strategy review

Measures on all levels

The results of the strategy review triggered the launch of numerous projects. They are currently in the implementation phase and are aimed, among others, at the adjustment of production capacities, the optimum alignment of production, and the standardization and simplification of essential core processes, e. g. in the fields of innovation and sales control. Corresponding training programs for the employees accompany these initiatives.

Products: new collections prepared for linoleum and vinyl

Numerous innovations with Marmoleum®

In the year under review, new collections were developed for both linoleum and vinyl. Their market launch is scheduled as from the beginning of 2005. The Marmoleum® 'global2' collection, which is available worldwide, includes 'Topshield', a unique, two-layer surface protection that guarantees the color effect over the entire product life. The improved protection against dirt and wear simplifies the product's care significantly and leads to a reduction of maintenance costs. The Marmoleum® 'colorful grey' collection has already been launched and proves to be a favourite among architects. It was designed in cooperation with the Dutch artist Peter Struycken. Also the innovative collection Marmoleum® click for the residential market is developing positively. Its sales doubled in the period under review. The handy elements are connected with a click system without additional fixtures which simplifies floor laying essentially.

New Novilon® and Novilux® collections

In the vinyl segment, most of the products for the residential market, and notably the Novilon® and Novilux® collections, were revised in 2004 and prepared for the market launch in 2005. Also new is 'Sarlon tech', offering outstanding acoustic and sound absorption qualities.

ColoRex® also for loose laying

The ColoRex® flooring is now also available for loose laying. Combined with its excellent technical properties, such as electrostatic discharge, ColoRex® features another competitive advantage that opens up a larger field of application for the product.

ADEX Platinum Award and Natura Plus environment certificate

In spring 2004, the Forbo collection 'Eternal Form & Wood' received the ADEX Platinum Award (Award for Design Excellence) in the category of resilient floorings from the renowned American Design Journal, proving the high design claim of Forbo products. Besides, Forbo was awarded the Natura Plus environment certificate in 2004 as the first supplier of resilient flooring coverings; Natura Plus replaces the TÜV test certificate used so far.

Linoleum business development: good in North America

Reluctant investment activity in Europe

Sales of the linoleum product group reached CHF 353.2 million compared with CHF 361.6 million in the previous year, a 2.3% decrease. The share in total sales of the flooring business was 47.9%. Strong growth of 14.1% (in local currency) in North America was not able to compensate for declining sales in key Western European markets. In the Benelux countries and in Scandinavia, sales continued to suffer from subdued public spending and overcapacities in the area of office buildings.

Vinyl business development: positive contract market

Weaker residential market

Sales of the vinyl product group decreased slightly to CHF 306.7 million from CHF 308.5 million in the previous year, a decline of 0.6%. The share in total flooring sales reached 41.6%. Whereas the market showed a positive development, the products for the residential market suffered a setback mainly in Western Europe.

In addition, strongly rising raw material prices eroded profits in the second half-year, mainly caused by the mineral oil price hike. Steps were initiated immediately to at least partly offset the higher costs through additional efficiency gains.

Outlook: development of new markets

Expanding the product portfolio and presence

In the contract business, it is Forbo's intention to expand the product portfolio. The company wants to use its leading position with linoleum to strengthen the presence of the entire product range in key markets and to gain additional market shares. As a supplier of integrated solutions, Forbo recognizes additional potential in the area of institutional and public buildings. Geographically speaking, Forbo is seeking new growth especially in China and Russia. Forbo will selectively complement its vinyl flooring range and reduce the manufacturing costs.

Raising profitability

The strategy defined in 2004 creates the preconditions for enhancing the profitability of the flooring business in the years to come. The steps that have been initiated on all levels of the business make Forbo confident that the strong position in the marketplace can be maintained in 2005.

Adhesives

2004: Focus on strategic customer segments showed first positive results.

Advanced adhesives from Forbo ensure stable and permanent bonding of a broad range of materials. Main sales outlets are the building industry, the automotive industry (interior trim), paper and packaging, tobacco industry, wood processing, textile lamination and the shoe industry.

Adhesives: Focus on Growth

In 2004, the adhesives business increased sales by 3.6 % to CHF 577.7 million compared with the previous year. This result corresponds with 5.7 % growth in local currencies. The share in Group sales reached 36 % (previous year: 35 %). First positive results came from the consistent alignment to strategic customer segments initiated in 2004 and their committed support by global teams. In addition, the business benefited from the successful conclusion of the integration of the American adhesives producer Swift. The operating profit (before special charges) rose by 55,1 % to CHF 34.9 million. This was the result of the stronger position of industrial adhesives in the USA and in key European markets, and the double-digit volume increase of semi-finished products (synthetic polymers) in the USA.

Market situation: dynamic growth

Positive development of demand

The global adhesives market started to move again in 2004 following a difficult year 2003. The market has largely stabilized in Europe. North America and Asia recorded a positive market development based on the favorable state of the overall economy. On the demand side there was a clear trend to higher value adhesives. Attractive market opportunities mainly exist for specialized medium-size suppliers with a global presence and local representation – especially when they have a wide spectrum of experience in various fields of application.

Higher raw material prices

Higher energy costs and supply bottlenecks resulted in massive price increases of various mineral oil derivatives and intermediary products as from the third quarter. With certain product groups, the higher costs could partly be passed on to the customers.

Strong market fragmentation

In a strongly fragmented market – with thousands of suppliers – Forbo is worldwide among the top ten producers with a strong position in the USA and in Europe. The leading brands of the business are Swift®, Eurocol®, Helmitin®, and Thermonex®.

Measures and investments: focussing and internationalization

Attractive markets

In 2004 the adhesives business sharpened its focus on strategic market segments. They include the automotive industry (notably lamination adhesives for interior trims), paper and packaging, the tobacco industry, wood processing, textile lamination, and the shoe industry. Most of these segments are high-growth markets with attractive margins. Global teams have been established to support these customers.

Strong demand for Thermonex® adhesives

Furthermore, investments were made in proven production and application technologies and new plants. In Germany, for example, Forbo has commissioned a new plant for the production of special polyurethane dispersions to cover the global automotive industry's demand for Thermonex® adhesives. The environmentally acceptable and low-pollution Thermonex® adhesives are the ideal solution for permanently bonding of high-quality materials such as wood, leather and metals. They are used especially for the interior trimmings of car doors.

Stronger position in the USA

The new plant in Eugene, Oregon, strengthens the market position of the adhesives business in the West of the USA. It allows faster and more cost-efficient supply of existing and new customers thanks to better production capacities and local sales organizations. Besides, a strategic alliance was formed with the US producer Industrial Adhesives Inc. It entitles Forbo to the exclusive worldwide sale of 'Packtape®' products. The reinforcing belts impregnated with hotmelt adhesives are mainly used in the cardboard industry. First tests have been concluded successfully in the USA with various producers. Forbo has an option to completely take over Industrial Adhesives Inc.

Platform in South America

In South America, Forbo entered into a license agreement with Brazilian adhesives manufacturer Artecola. The agreement creates a platform for Forbo products in South America and ensures additional income from technology transfer.

Products: supplier of the Olympic Games in Athens

Shift to higher value products

In the year under review, Forbo focused its research, development and sales efforts increasingly on higher value products with premium margins. The innovative products and application technologies meet highest requirements: For instance, Forbo delivered several tons of adhesives before the 2004 Olympic Summer Games in Athens for the installation of artificial turf in hockey stadiums and other outdoor sport grounds. There is fast-growing demand for artificial turf worldwide – especially in countries where the maintenance of natural lawn is costly. Furthermore, the environmentally friendly Thermonex® adhesives continued their triumphant advance in interior trim applications for medium-range and luxury class vehicles, such as in Daimler Chrysler's new SLK series.

Business development: strong US business

Market shares gained with industrial adhesives

Industrial adhesives, the strongest product group in terms of sales, achieved a currency-adjusted growth of 4.5%. Forbo raised the market share both in strategic segments – such as paper and packaging, the automotive industry, textile lamination, wood processing, and shoes – and in key geographic sales regions.

Gains also with building adhesives

Construction and related activities recorded pleasing growth notably in France, Spain, Germany, and with exports to Eastern Europe. In contrast, sales in the Benelux countries were stagnating on a high level on the grounds of the weak building industry. An improvement in the short term is not in sight for these markets.

Very positive were sales of the synthetic polymers product group. In the USA, they rose by a double-digit percentage in local currency. The VAE copolymers distributed under the product name of Elvace® are mainly used in the adhesives, building, textile, and paint industries.

Rising sales in the USA

Related to the total business, Forbo made 59% of its sales in Europe, 38% in North America, and 3% in Asia. The share in North America continued to rise compared with other markets as a result of the positive development of industrial adhesives and copolymers. Besides, there were synergies from the concluded integration of Swift, for instance from the use of existing distribution channels for complementary products. Additional savings resulted from the coordination of raw material purchasing as well as research and development.

Outlook: continued growth

Positive market development expected

For 2005, Forbo is expecting the positive market development to continue – especially in North America and in Asia. The demand from the European car industry is likely to improve. These are indicators of a market stabilization and new growth. The business is seeking additional growth with the further use of the potential resulting from the Swift acquisition, continued focusing on strategic segments, and targeted acquisitions in attractive niche markets. The priority is on strengthening the market position in China with industrial adhesives. Besides, the development of high-quality products is being intensified to continuously improve their margins.

High raw material prices to persist

Regarding the operating result, the intact market growth and a well-positioned product range continue to be faced with high raw material prices. They can only partly be passed on to the customers.

Belting

2004: Clearly higher sales – all the key sales areas contributed to the growth.

Forbo produces and distributes strong drive belts as well as conveyor and processing belts under the Siegling brand. They are used worldwide for applications on the highest technical level, especially in the fields of logistics, food processing, and fitness.

Belting: Focus on Turnaround

Sales of the belting business improved to CHF 307.0 million in the business year 2004, plus 3.4 % on the previous year. Growth was 5.3 % in local currencies. The share in Group sales reached 19 % (previous year: 18 %). Sales in all the key regions contributed to the growth. The positive development was additionally supported by the worldwide expansion of fabrication capacities and distribution structures. The weak US Dollar had a negative effect on sales and margins, but the operating profit (before special charges) rose from CHF –4.2 million in the previous year to CHF 2.4 million.

Market situation: positive trend

Rising demand

In 2004 the belting market staged a recovery in several segments. Among others, various airport reconstruction and expansion projects stimulated the market growth after some years of reluctant investment. Besides, new safety and hygiene regulations made increasingly higher requirements on the belts – for instance with luggage transport and food production, meaning that there will be growing demand for belting in the coming years. Forbo wants to participate in that growth. Furthermore, the customers are increasingly shifting their activities from Western Europe to Eastern Europe and Asia so that Forbo sees the biggest growth potential in those areas.

High raw material prices

The margins suffered especially in the second half-year under generally high raw material prices. Following strong pressure on prices in past years, there have been signs of a certain stabilization in the period under review.

Among the leading suppliers worldwide

The main sales regions for beltings are Europe, North America, and Asia. Three suppliers dominate the market, having a market share of approximately 70 %. With a share of some 20 %, Forbo is among the three leading suppliers worldwide. Transilon® and Extremultus® under the Siegling brand are the prominent products of this business.

Measures and investments: increasing the operational efficiency

Strengthening of core segments

Following the declining trend in recent years, sales and profits of the belting business could be stabilized in 2004. Especially the efforts on the product side, in the segment of high quality drive and process belts – notably with Extremultus® – are showing first signs of success. Besides, different projects were advanced with the goal of strengthening the market position in core segments and getting closer to customers through the establishment of new service centers.

Expansion of structures in Eastern Europe and China

In Slovakia, an efficient fabrication center is being established which will be opened in April 2005. It allows satisfying the strongly growing demand in that region. New markets have been developed in Eastern Europe and South-East Asia with the expansion of the sales and service structures. In China, belt fabrication gained essentially in importance along roll production. It is being used increasingly to supply high-quality, cost-effective products to international markets.

Products: dynamic sales development thanks to Extremultus®

Increasing quality requirements

With Extremultus® and the high-grade Transilon® belts, Forbo disposes of a high-quality product range with specific properties that are ideally suited to increasing customer demands. Especially Extremultus® showed a positive development in the year under review – although on a lower sales level than Transilon®. In the coming years, the Extremultus® drive belts are expected to make a considerable contribution to total sales in selected market segments. The new Extremultus® product line, which was developed specifically for the needs of the paper and printing industries, recorded more than proportional growth. About twenty grades with different properties cover the entire requirements of these industries. Only the application of the adequate belt ensures smooth, efficient paper transport and thus the optimum use of existing printing equipment.

First supplier of ATEX-certified belts

2004 also saw the successful market launch of ATEX-certified belts. ATEX stands for 'ATmosphère EXplosibles' and applies to transport and drive belting in conveyor systems that may present a risk of ignition as a result of electrical charge or friction heat. As the first supplier of ATEX-certified transport and process belts, Siegling obtained a decisive competitive edge with the launch of these products.

Positive development in all markets

Expansion of higher value segments

Business development: back to the growth path

In the year under review it was possible to stop the sales decline of previous years. All the markets recorded a positive development, with particularly strong growth stimuli in the USA, Canada, Italy, Germany, China, and New Zealand. Sales growth in local currencies rose 5.3% over the previous year. The Transilon® and Extremultus® product lines together accounted for about 90% of the belting business's sales. Sales in Europe contributed 46%, in North America 32%, and in Asia 22% to total sales.

Outlook: higher profitability

For 2005, the primary goal of the business is to further improve earnings and to conclude the turnaround fast and successfully. The expansion of sales and service structures shall be accelerated especially in Eastern Europe and in Asia, and the product range shall be tailored to high-quality segments. The business is seeking to strengthen its position as an expert for premium products and complex applications. A particular focus is on selected market segments with demanding technology. For 2005, Forbo is expecting continued sales and earnings growth.

Group Structure

- **This E. Schneider**
  Delegate of the Board and CEO
  - **Tom Kaiser**
    Flooring
    - Production **Netherlands**
    - Production **Great Britain**
    - Production **Sweden**
    - Production **France**
    - Production **Switzerland**
    - Marketing and Sales **Global**
      - Sales **International**
      - Sales **North America**
      - Sales **Great Britain, Ireland, Australia**
      - Sales **Northern Europe**
      - Sales **Benelux**
      - Sales **France**
      - Sales **Germany**
      - Sales **Southern Europe, South America**
  - **Michel Riva**
    Adhesives
    - **North America**
    - **Northern Europe**
    - **Western Europe**
    - **Central Europe**
    - **Southern Europe**
    - **Asia/Pacific**
    - **Building and Construction**
  - **Dr. Jan Lipton**
    Belting
    - **North and South America**
    - **Europe**
    - **Asia/Pacific**
  - **Gerold A. Zenger**
    CFO
    - Financial Holdings
    - Corporate Controlling
    - Corporate Treasury
    - Corporate Taxation
    - Corporate Legal
    - Corporate IT

Michel Riva
Executive Vice President
Adhesives

Gerold A. Zenger
Executive Vice President
and CFO

This E. Schneider
President and CEO

Dr. Jan Lipton
Executive Vice President
Belting

Tom Kaiser
Executive Vice President
Flooring

President and CEO

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

Executive Vice President and CFO

Gerold A. Zenger, Swiss
Born in 1945, 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 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, 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 Laufen. In April 2000, Jan Lipton was appointed Executive Vice President Belting and member of the Executive Board.

Executive Vice President Adhesives

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

Corporate Governance

At Forbo, the concept of corporate governance encompasses the entire set of principles and rules designed to protect shareholder interests with regard to organization, conduct, and transparency. Forbo's aim is to strike a good balance between management and control. The central rules are contained in the Articles of Association, the Organizational Regulations, and in the Charters of the Board of Directors. 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 33 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 pages 92 to 95 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 2004, 3,068 shareholders were listed in the share register of Forbo Holding AG, 600 or 16.4% less than in the previous year.

The following table shows the significant shareholders as of December 31, 2004. The table also includes any notifications made to the company by the copy date.

Principal Shareholders

Name	Number	Percentage [1]	Notification date of [2]
The Capital Group Companies Inc. 333 South Hope Street Los Angeles, CA 90071	–	– [3]	March 17, 2005
UBS Fund Management (Switzerland) AG Postfach, 4002 Basel	–	– [3]	February 4, 2004
Tweedy, Browne Company LLC New York (USA) 350 Park Avenue New York, NY 10022	69,823	5.15	April 2, 2004 [4]
	141,140	10.4	December 20, 2004
	239,160	8.81	December 24, 2004
Brandes Investment Partners LLC 11099 El Camino Real, Suite 500 P.O. Box 919048 San Diego, CA 92191-9048	68,601	5.05	November 2, 2004 [4]
	–	– [3]	January 17, 2005
Michael Pieper Seestrasse 80, 6052 Hergiswil Franke Holding AG Dorfbachstrasse 2, 4663 Aarburg	68,126	5.02	December 15, 2004
	271,771	10.01	December 23, 2004
Michael Pieper Seestrasse 80, 6052 Hergiswil Franke Holding AG Dorfbachstrasse 2, 4663 Aarburg Franke Beteiligungen I Seestrasse 80, 6052 Hergiswil	544,571	20.07	January 28, 2005
Rudolf Maag Neuhofweg 11 4102 Binningen	220,000	8.1	March 8, 2005

1) Percentage as at the date of publication in the Swiss commercial gazette (SHAB)
2) Date of publication in the Swiss commercial gazette (SHAB)
3) Below 5% threshold
4) Before capital increase

Cross-shareholdings

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

Capital structure

Authorized and conditional capital

As of December 31, 2004, the orderly share capital was CHF 54,263,040, and the conditional capital CHF 3,329,000 maximum. There is no authorized capital. Further information is contained on page 103 of the present Annual Report and in the following table on page 39.

The Annual General Meeting of Forbo Holding AG decided on April 27, 2004, to reduce the share capital to CHF 27,131,520, based on the Audit Report of an authorized auditor, by reducing the nominal value of each registered share from CHF 28 to CHF 20. The corresponding change to the Articles of Association was also approved by the Annual General Meeting.

During an extraordinary general meeting it was decided on December 2, 2004, to increase the orderly share capital by CHF 27,131,520 by the issue of 1,356,576 registered shares to be fully paid, at a nominal value of CHF 20 each. The Board of Directors fixed the purchase price at CHF 150 per share, with one existing share entitling its holder to one new share.

Changes in capital, 2002 to 2004

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

Year	Share capital CHF	Shares (units)	Nominal value CHF	Conditional capital CHF	Reserves [1] CHF	Available earnings [1] CHF	
2002	67 828,800	1,356,576	50	8,322,500	169,538,463	62,687,804	[2]
2003	37,984,128	1,356,576	28	4,660,600	170,976,142	78,075,456	[3]
2004	27,131,520	1,356,576	20	3,329,000	–	–	[4]
2004	54,263,040	2,713,152	20	3,329,000	337,033,544	557,980	[5]

[1] As per December 31 of the corresponding year
[2] Capital reduction as a result oft he share buy-back program according to the resolution passed by the Annual General Meeting on April 23, 2002
[3] Capital reduction as a result of the nominal value reduction according to the resolution passed by the Annual General Meeting on April 29, 2003
[4] Capital reduction as a result of nominal value reduction according to the resolution passed by the Annual General Meeting on April 27, 2004
[5] Capital increase according to the resolution passed by the Extraordinary General Meeting on Dezember 2, 2004

Shares

The share capital of Forbo Holding AG is CHF 54,263,040, divided into 2,713,152 registered shares with a nominal value of CHF 20 each. Further details are given in the Notes to the Financial Statements on page 103 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.

* This restriction of voting rights was abolished by the extraordinary General Meeting on March 24, 2005.

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 48 of the Annual Report.

Board of Directors

Members of the Board of Directors

Except for This E. Schneider, Delegate of the Board of Directors and CEO, none of the members of the Board of Directors 2004 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.

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, its Vice Chairman since 1998, and its Chairman since the beginning of 2004. Besides, he is the Chairman of the Board of Unaxis Holding AG, Vice Chairman of Holcim Ltd. and a member of the Board of Directors of Schneider Electric S.A. (France) and Kühne & Nagel International AG.

Dr. Willy Kissling will retire as Chairman and member of the Board of Directors at the ordinary 2005 Annual General Meeting.

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 Chairman 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., and of G-III Apparel Group Ltd in New York, USA. 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. He 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).

On December 6, 2004 Michael Pieper retired from the Board of Directors with immediate effect.

This E. Schneider

For the curriculum vitae of This E. Schneider, see page 35.

Dr. Paul Tanos

Dr. Paul Tanos was born in 1944 and is Austrian. Paul Tanos studied at the Universities of Vienna and Klagenfurt and earned doctorates in social science and economics. From 1986 to 2001 he was a member of the Management Board of Wienerberger Baustoffindustrie AG in Vienna. Since 1999, he has been a member of the Board of Directors of Forbo Holding AG. In addition, Paul Tanos is a member of the Supervisory Board of Zürich Versicherung Österreich, and of Vitalis GmbH (both Austria).

Prof. Dr. iur. Rolf Watter

Prof. Dr. iur. Rolf Watter was born in 1958 and is Swiss national. He graduated from the University of Zurich with a doctorate in law and holds a master of laws degree from Georgetown University in the US. He is admitted to the bar of the Canton of Zurich. Since 1994 he has been a partner in the law firm Bär & Karrer in Zurich and is a member of its executive board. He also teaches as a part time professor at the University of Zurich's Law School. Since 1999, he has been a member of the Board of Directors of Forbo Holding AG. He is non-executive chairman of the parent company of the Cablecom Group (and its operating entity Cablecom GmbH) and a member of the boards of directors of Zurich Financial Services (and one of its subsidiaries), Syngenta AG, UBS Alternative Portfolio AG and A.W. Faber-Castell (Holding) AG. In addition, he serves on the board of the Swiss Lawyers Association and is a member of the SWX Admission Board and of the Disclosure Commission of Experts of the SWX Swiss Exchange.

Elections to the Board of Directors

The following members were newly elected to the Board of Directors with clear majorities during the extraordinary General Assembly upon Michael Pieper's motion: Dr. Peter Altorfer, Dr. Albert Gnägi, Hans-Beat Gürtler, Dr. Rudolf Huber, and Michael Pieper. At the extraordinary General Assembly on March 24, 2005 Dr. Anton Bucher and Dr. Paul Tanos, members of the Board of Directors, declared their resignation from the Board of Directors effective April 6, 2005 (end of the offer period). Drs. Pieter Deiters and Prof. Dr. iur. Rolf Watter will also resign at the orderly General Assembly on April 29, 2005.

Immediately after the extraordinary General Assembly held on March 24, 2005, the new Board of Directors met and elected Dr. Albert Gnägi its Chairman, Michael Pieper its Vice-Chairman, and This E. Schneider its CEO and Delegate with immediate effect.

Dr. Peter Altorfer

Peter Altorfer, Swiss, was born in 1953. He studied at Zurich University and graduated in jurisprudence (Dr. iur.). He is a partner of lawyers office Wenger & Vieli in Zurich which concentrates on bank and company law, and he is a member of the International Bar Association and the lawyers' associations of Switzerland, Zurich, and Zug. Peter Altorfer is a member of the Board of Directors of various companies, for example Huber + Suhner AG, Herisau, Abegg & Co, and Abegg Holding AG, both based in Zurich, and of several private and foreign banks in Switzerland. Since March 24, 2005 he has been a member of the Board of Directors of Forbo Holding AG.

Dr. Albert Gnägi

Albert Gnägi, Swiss, was born in 1944. He graduated in jurisprudence (Dr. iur.) after studies at Zurich University and in Rome. He is a lawyer in Zurich, concentrating on commercial law, company law, and law of succession. From the stock exchange listing in 1997 till the takeover by the British Compass Group at the beginning of 2001, he was Chairman of the Board of Directors of the Selecta Group. From 1982 to 1997 he was a member and president of the Board of Directors of Immuno International AG that carried out an IPO in 1989. Since 1980 Albert Gnägi has been a member of the foundation council of the Sanitas hospital, and its President since 2002. He holds additional board of directors and foundation council mandates. Since March 24, 2005 he has been a member and Chairman of the Board of Directors of Forbo Holding AG.

Hans-Beat Gürtler

Hans-Beat Gürtler, Swiss, was born in 1946. Following his commercial apprenticeship he worked with Ciba Geigy and Novartis in various executive roles at home and abroad. From 1990 to 2002 he was CEO of the Novartis Animal Health Division. Since autumn 2002 Hans-Beat Gürtler has been a partner of holding company Varuma AG. Hans-Beat Gürtler is also a member and President of the Board of Directors of various start-up companies. Since March 24, 2005 he has been a member of the Board of Directors of Forbo Holding AG.

Dr. Rudolf Huber

Rudolf Huber, Swiss, was born in 1955. He studied and graduated at Zurich University (Dr. oec. publ.). From 1987 to 1992 he led the Finance and Information Technology departments of Bucher Guyer AG and the Finance Group Staff of Bucher Holding AG. In 1992 he joined the Geberit Group where he was a member of the Executive Board and CFO until 2004. Since 2002 he has been a member of the Board of Directors and the Audit Committee of real estate company Swiss Prime Site AG. Since March 24, 2005 he has been a member of the Board of Directors of Forbo Holding AG.

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 several times. The mandates expire on a staggered basis. Information in this regard is provided on page 43 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 57. 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
Business year 2004

	Member since	Elected until	AFC	CDC	HRC
Chairman					
Dr. Willy Kissling (since the beginning of 2004) Non executive member	1994	2006		C	M
Vice Chairman					
Prof. Dr. Rolf Watter (since December 2004) Non executive member	1999	2007	C		M
Members					
Dr. Anton H. Bucher Non executive member	1986	2006	M		M
Drs. Pieter P.A.I. Deiters Non executive member	2002	2006	M	M	
Michael Pieper (until December 2004) Non executive member	2000	–		M	
This E. Schneider (since April 2004) Delegate of the Board and executive member	2004	2008			
Dr. Paul Tanos Non executive member	1999	2007		M	C
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
C: Chairman
M: 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 43 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. 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 in 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.

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.

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.

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.

In the year under review the Board of Directors also created an ad-hoc extraordinary committee of three members dealing exclusively with parties having expressed an interest in acquiring the Forbo Group. The CEO was invited to the committee meetings in an advisory function.

Definition of areas of responsibility

The Board of Directors is the supreme managerial and control body within the Forbo Group. It comprises six members at the end of the year under review. As the CEO, a member of the Board of Directors has at the same time an executive function. 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.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ADULT


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 he is in regular contact with him.

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 Executive Board is responsible for the success of the Group to the Board of Directors.

The Executive Board meets as often as necessary. 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.

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 35 of this Annual Report.

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

Compensations, shareholdings and loans

Management contracts

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

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

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 and the members. 50% of this consideration is paid to the members in the form of Forbo shares. 1/6 of the compensation of the Chairman of the Board of Directors is paid in shares. These shares are subject to a block period of three years. An additional compensation is awarded to Committee members. Foreign members are entitled to opt for either shares or cash payment. The market value on the issue date is used as the basis of calculation for shares. The total compensation to all non-executive members of the Board of Directors within the Forbo Group in 2004 was CHF 773,714 including compensations paid to six members of the Board of Directors. The Delegate of the Board of Directors, who is at the same time chairing the Executive Board, received a total compensation of CHF 1,072,274 in the year under review. This amount includes all the remunerations, i. e. base salary, bonus, fringe benefits like pension fund contributions, and payments in kind.

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. The total compensations to eight Executive Board members in 2004 amounted to CHF 4,450,567, with three members retiring in the period under review. This amount includes the total compensation, i. e. base salary, bonus and payments in kind, and the Delegate's remuneration. To one member of the Executive Board who stepped down from his function in March of the year under review a severance payment of CHF 840,000 was paid. In addition, the amount of CHF 200,000 was paid to this member for consultancy services rendered after his retirement until the end of 2004.

Compensation for former members of governing bodies

During the year under review, a member of the Executive Board who had retired in August 2003 received a sum of CHF 380,000 for consultancy services.

Share allotment in the year under review

559 shares were allotted to the members of the Board of Directors in the year under review as a component of their remuneration, and 421 shares were allocated to the 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, 2004 was 55,017. The Executive Board (except CEO) held in total 1,638 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, 2004 the Board of Directors and Executive Board held the following options:

Year alloted	Numbers	Term	Frozen until	Subscription	Exercise price CHF
Board of Directors					
2001	682	08.05.2001–07.05.2006	07.05.2004	1:2	442
2002	1,246	07.05.2002–07.05.2007	06.05.2005	1:2	330
2003	2,156	31.07.2003–30.07.2008	30.07.2006	1:2	251
Executive Board					
2000	560	10.04.2001–09.05.2005	09.05.2003	1:2	406
2001	1,085	08.05.2001–07.05.2006	07.05.2004	1:2	442
2002	1,260	07.05.2002–07.05.2007	06.05.2005	1:2	330
2003	1,700	31.07.2003–30.07.2008	30.07.2006	1:2	251
2004	3,600	01.08.2004–31.07.2009	31.07.2007	1:2	212

Additional fees and remunerations

In the year under review, a total of CHF 1,075,313 were paid for consultancy services to lawyers Bär & Karrer in Zurich. Prof. Dr. Rolf Watter, member of the Board, has been a partner of that lawyers' office for several years.

Loans granted to governing bodies

As of December 31, 2004, 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 1,072,274.

Shareholders' rights of participation

Voting right restriction and representation

The Board of Directors could so far 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. This restriction of voting rights was abolished by the extraordinary General Assembly held on March 24, 2005 with nearly 100% of the shares represented. Thus the shareholders will in the future be entitled to vote on an equal basis with their capital interests in the company. 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). Deviating from Article 689, Paragraph 2 Swiss Code of Obligations, 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. Deviating from Article 699 Paragraph 3 OR, shareholders representing shares in the nominal value of CHF 400,000 can demand, in writing and within a period of time published by the company, that relevant issues be put on the agenda (Section 8, Sub-section 3). The associated change of the Articles of Association was approved by the Annual General Meeting held on April 27, 2004.

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 ⅓ % 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

Two members of the Executive Board reserve the right to terminate their contracts in the event that certain conditions arise due to a change in the controlling shareholder. This involves payment of a settlement corresponding with an annual salary at most.

Auditors

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

PricewaterhouseCoopers 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 Räbsamen, 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 1,9 million in the year under review.

Additional fees

Total additional consultancy fees (e. g. costs incurred in the context of the capital increase and other consultancy services), as invoiced by the audit company, amount to CHF 1,8 million for 2004.

Supervisory and control instruments pertaining to the audit

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

Internal auditing

Ernst & Young AG, Basle, has been responsible for internal auditing since 2002. The remit of the internal auditors includes, among other tasks, verifying that internal guidelines and requirements have been implemented and monitoring the efficiency of internal processes. Furthermore, checks are carried out to assess whether appropriate control systems are in place from a financial and operational perspective. Six companies were subjected to internal audits in 2004. In terms of sales, these account for some 26 % 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. Both the Chairman of the Board of Directors and the CEO can be contacted directly for further information.

Direct communication with different target groups

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

In addition, Forbo is involved in several activities designed to foster direct communication with different target groups. The primary measure as far as shareholders are concerned is the 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 54 of this Annual Report.

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Risk Management

Important control and working tool

The continuous and systematic evaluation of current and future risks always includes the identification and exploitation of chances. Risk management is seen by Forbo as a control and working tool for safeguarding the tangible and intangible assets of the Group, among others. In this sense risk management is considered a responsibility of both the Executive Board and the Board of Directors.

In recent years the Forbo Group has 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 pages 89 and 90 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.

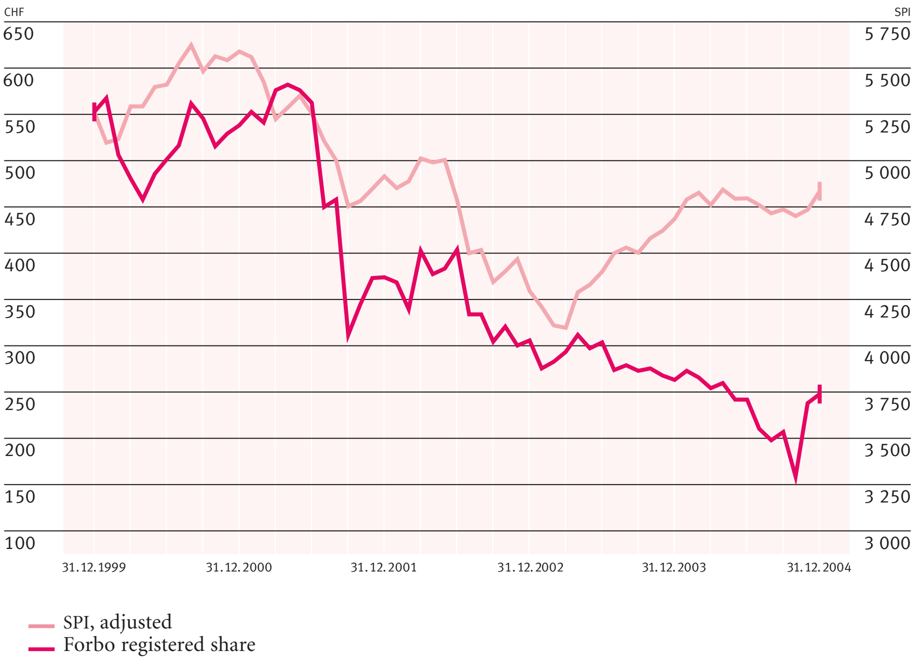
The Forbo Share

Volatile share price 2004

The price of the Forbo share, adjusted by the new shares resulting from the capital increase in December 2004, moved in a range of CHF 241 and CHF 301 during the first semester of 2004 and was about 8% lower at mid-year than at the end of 2003.

In August, Forbo informed its shareholders on the results of the corporate strategy review and the operative procedures. At the end of October, Forbo announced plans for an equity capital increase to obtain the capital necessary for the further development of its three core businesses under the umbrella of Forbo Holding. In November, Forbo notified the Group's shareholders of CVC Capital Partners' interest in a potential take-over offer for the Forbo shares, and subsequently of other parties' interest. In December, Forbo implemented the capital increase by some CHF 187 million net. The price of the Forbo share was correspondingly volatile in the second semester of 2004, moving between CHF 154 and CHF 252. It closed about 2.5% above the mid-year price. Based on the 2004 year end price of CHF 247.90 the resulting stock exchange capitalization is approximately CHF 673 million. The Swiss Performance Index (SPI) grew by some 7% in 2004.

The Forbo Share in comparison to the SPI



Financial calendar

Annual General Meeting:	April 29, 2005
Letter to shareholders:	August 23, 2005
Media release on the half-year results 2005:	August 23, 2005
Media release on the results of the first three quarters 2005:	October 25, 2005

Share capital

		2004	2003	2002	2001	2000
		Number	Number	Number	Number	Number
Issued registered shares[1]		2,713,152	1,356,576	1,356,576	1,513,550	1,513,550
Thereof:						
Shares outstanding		2,633,897	1,314,986	1,305,207	1,305,052	1,463,010
Shares from buy-back program 2001		–	–	–	156,974	–
Other own shares		57,836	20,171	25,489	11,390	10,406
Reserve shares (without dividend right)		21,419	21,419	25,880	40,134	40,134

Nominal capital

		2004	2003	2002	2001	2000
		CHF	CHF	CHF	CHF	CHF
Total		54,263,040	37,984,128	67,828,800	75,677,500	75,677,500
Thereof:						
Shares outstanding		52,677,940	36,819,608	65,260,350	65,252,600	73,150,500
Shares from buy-back program 2001		–	–	–	7,848,700	–
Other own shares		1,156,720	564,788	1,274,450	569,500	520,300
Reserve shares		428,380	599,732	1,294,000	2,006,700	2,006,700

Data per share

		2004	2003	2002	2001	2000
		CHF	CHF	CHF	CHF	CHF
Shareholders' equity Group		220	435	453	500	556
Consolidated loss/profit[2]		–107	12	33	38	62
Gross dividend and cash distribution, respectively		0 [3]	8	22	22	22
Gross dividend return (in %)	High	0.0	2.4 [4]	6.3 [4]	5.3	3.5
	Low	0.0	1.8 [4]	3.8 [4]	2.6	2.7
Payout ratio[5] (in %)		0	65	67	58	36

Stock market statistics

		2004	2003	2002	2001	2000
		CHF	CHF	CHF	CHF	CHF
Share prices[6]	High	301	326	437	626	618
	Low	155	250	261	311	462
	Year-end	248	264	307	377	545
Stock market capitalization (m)[7]	High	794	575	764	1 228	1 220
	Low	408	441	457	544	914
	Year-end	653	465	538	659	1 068

1) Nominal value per share 2004: CHF 20 (2003: CHF 28, 2000–2002: CHF 50)
2) See also the Financial Report, Notes to the Consolidated Financial Statements, page 77, 'Earnings per share'
3) Proposal of the Board of Directors to the General Shareholders' Meeting
4) Calculated on the basis of cash distribution by reducing the nominal value
5) Gross cash distribution as a percentage of the Group profit
6) Adjusted by the capital increase in 2004
7) Based on shares outstanding

Forbo Group
Financial Report

Financial Review and Analysis

Summary of financial results	2004 m CHF	2003 m CHF	% change on previous year
Group net sales	1,622.3	1,598.9	+1.5
Operating profit before depreciation and amortization (EBITDA)			
before special charges	143.1	156.7	–8.7
after special charges	126.2	156.7	
Operating profit (EBIT)			
before special charges	55.9	60.4	–7.5
after special charges	–44.5	60.4	
Net loss/profit Group	–157.4	16.1	
Loss/earnings per share – basic (CHF)	–106.56	12.28	
Loss/earnings per share – diluted (CHF)	–106.56	12.12	

Comment on the financial result development*

Group sales rose by 1.5% to CHF 1,622.3 million, or by 2.3% in local currencies. Sales of the flooring business were CHF 737.6 million, a slight decrease of 0.9% in Swiss Francs or 1.5% in local currencies. This compares with a sales growth in the adhesives business of 3.6% in Swiss Francs, or 5.7% in local currencies. The belting business achieved a sales plus of 5.3% in local currencies. Both floorings and adhesives recorded slightly lower sales in the second half-year 2004 compared with the first half, in terms of local currencies. In contrast, the belting business increased sales in local currencies in the second half of 2004 compared with the first six months.

Although a slightly higher gross profit margin was achieved for the full year, the operating result before depreciation and amortization (EBITDA, before special charges) declined by 8.7% to CHF 143.1 million due to higher operating expenses. The operating profit (EBIT, before special charges) after total depreciation and amortization of CHF 87.2 million amounts to CHF 55.9 million (previous year: CHF 60.4 million). The return on sales was 3.4% compared to 3.8% in the previous year. The decrease of the earning power is due to the lower return on flooring sales and higher costs of 'corporate' offset by higher returns on adhesives and belting sales.

The operating profit (EBIT, before special charges) of the flooring business is CHF 42.4 million, 10.7% below the previous year's level. Persistently difficult trading conditions with strong price pressure were met with a sharper focus on the contract business. The return on sales based on the operating profit before depreciation (EBITDA, before special charges) is 10.7%, still below the previous year's level of 11.9%. The operating profit (EBIT, before special charges) in relation to net sales is 5.7% (previous year: 6.4%), resulting in a return on reduced operating assets of 9.4% (previous year: 9.1%).

* Results by business after restatement due to new classification of sales of adhesive products realized by the flooring business in 2004 and changed allocation keys in 2004 for corporate and consolidation

The adhesives business increased the operating profit (EBIT, before special charges) by CHF 12.4 million to CHF 34.9 million in the year under review, plus 55.1% on the previous year. The focus on higher-margin product segments was obviously effective although the weak US Dollar had a negative impact on both sales and profits. The earning power in relation to sales (EBITDA, before special charges/net sales) of 9.9% is higher than the 8.0% of the previous year. With 5.9% return on sales (EBIT, before special charges/net sales), the return on operating assets employed was 8.3% (previous year: 5.1%).

The belting business improved the operating profit by CHF 6.6 million to CHF 2.4 million thanks to higher sales and, inter alia, a shift to higher-margin products. Hence, the negative impact on sales and profit resulting from the weak US currency could be more than compensated.

The changes of corporate strategy announced earlier resulted in special charges which had a negative effect on the operating profit of CHF 100.4 million, of which CHF 53.4 million and CHF 35.5 million are accounted for by the flooring business and the belting business, respectively. The operating profit (EBIT) after special charges is therefore CHF –44.5 million.

Net finance expenses rose by CHF 39.5 million to CHF 68.1 million. The increase is essentially due to value adjustments in relation to divested securities (CHF 12.0 million) and the value adjustments on the capital investment in and loans to an associate company (CHF 22.5 million). Combined with the negative operating profit after special charges of CHF –44.5 million, the resulting loss for the year under review is CHF 112.6 million before taxes.

Tax charges of CHF 44.8 million (plus CHF 29.1 million compared with the previous year) are the result of a regionally unfavorable result mix and value adjustments on deferred taxes. The resulting after tax loss for the year is CHF 157.4 million (previous year: profit of CHF 16.1 million).

Balance sheet summary

	31.12.2004	31.12.2003	change
	m CHF	m CHF	m CHF
Non-current assets	612.2	812.9	−200.7
Current assets (excluding cash and marketable securities)	557.6	562.2	−4.6
Cash and marketable securities	346.8	188.7	158.1
Total assets	**1,516.6**	**1,563.8**	**−47.2**
Shareholders' equity	578.6	572.5	6.1
Financial debt	477.8	568.0	−90.2
Other liabilities and provisions	460.2	423.3	36.9
Total shareholders' equity and liabilities	**1,516.6**	**1,563.8**	**−47.2**

Balance sheet development

The balance sheet total decreased by CHF 47.2 million to CHF 1,516.6 million compared with the previous year. Operating assets decreased by CHF 140.8 million, CHF 83.5 million of which as a result of impairments. The net decrease of operating assets due to currency translations is CHF 31.6 million. This compares with an increase in cash and securities by CHF 158.1 million. Investments in fixed assets of CHF 54.8 million are clearly lower than the respective depreciation of CHF 73.3 million. Of the investments, CHF 26.3 million are accounted for by the flooring business, CHF 10.3 million by the adhesives business, and CHF 14.3 million by the belting business.

Financial situation

Net financial debt decreased by CHF 248.3 million compared with year-end 2003. This is mainly due to the cash inflow from the capital increase in 2004 of CHF 186.7 million (net), free cash flow of CHF 43.1 million, and the currency-releated decrease of the US Private Placement by CHF 31.1 million. This contrasts with an increase resulting from the cash distribution through the nominal value reduction of the Forbo share by a total of CHF 10.5 million. Financial debts of CHF 477.8 million relate to a US Private Placement of CHF 312.1 million, with maturities between five and ten years, a Swiss Franc bond of CHF 150.0 million (due in 2006), and bank debt of CHF 15.7 million. The financial derivatives acquired in connection with long-term financing showed a total negative value of CHF 83.7 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 increased by CHF 6.1 million to CHF 578.6 million at the end of the year under review, representing 38.2 % of the balance sheet total. Total special charges after taxes of CHF 161.9 million and the nominal value reduction by CHF 10.5 million could be offset by the capital increase in 2004. With this equity position and a gearing (net debt as a percentage of equity capital) reduced from 66.3 % to 22.6 %, combined with a very good liquidity, the Group is on a solid financial basis.

Free cash flow

The free cash flow of CHF 43.1 million is the result of the cash flow generated by operating activities reduced by investments in long-term assets (net). Thus, the free cash flow is essentially the result of the cash inflow from operating activities (CHF 94.1 million) and the cash inflow from asset disposals (CHF 3.8 million). This compares with a cash outflow from investments of CHF 54.8 million.

Consolidated Income Statement

	Notes	2004 m CHF	2003 m CHF
Net sales	1/2	**1,622.3**	**1,598.9**
Cost of goods sold		–1,092.5	–1,091.3
Gross profit		**529.8**	**507.6**
Development costs	3	–32.1	–28.9
Marketing and distribution costs		–285.1	–287.5
Administrative costs	4	–143.6	–122.2
Other operating expenses, net	5	–113.5	–8.6
Operating loss/profit		**–44.5**	**60.4**
Financial income	7	4.2	7.9
Financial expenses	8	–49.8	–37.3
Share of results of associated companies	12	–22.5	0.8
Loss/profit before taxes		**–112.6**	**31.8**
Taxes	24	–44.8	–15.7
Net loss/profit for the year		**–157.4**	**16.1**

	Notes	2004 CHF	2003 CHF
Loss/earnings per share (basic)	9	–106.56	12.28
Loss/earnings per share (diluted)	9	–106.56	12.12

Consolidated Balance Sheet

		31.12.2004	31.12.2003
Assets			
	Notes	m CHF	m CHF
Non-current assets		**612.2**	**812.9**
Tangible assets	10	443.5	558.8
Intangible assets	11	143.0	163.9
Deferred taxes	24	23.5	61.5
Investments in associates and other long-term assets	12	2.2	28.7
Current assets		**904.4**	**750.9**
Inventories	13	255.2	247.9
Trade receivables	14	242.9	251.6
Other receivables		28.7	34.9
Prepaid expenses and deferred charges		30.8	27.8
Marketable securities	15	0.0	18.9
Cash and cash equivalents		346.8	169.8
Total assets		**1,516.6**	**1,563.8**

		31.12.2004	31.12.2003
Shareholders' equity and liabilities			
	Notes	m CHF	m CHF
Shareholders' equity		**578.6**	**572.5**
Share capital	16	54.3	38.0
Treasury shares	16	–12.6	–7.7
Reserves and retained earnings		536.9	542.2
Non-current liabilities		**569.8**	**670.7**
Long-term financial debt	17	459.7	554.2
Employee benefit obligations	18	77.2	88.7
Provisions	19	26.9	21.3
Deferred taxes	24	6.0	6.5
Current liabilities		**368.2**	**320.6**
Trade payables	20	108.8	114.9
Accrued expenses	21	200.3	140.8
Short-term financial debt	22	18.1	13.8
Current tax liabilities		6.1	7.9
Other current liabilities		34.9	43.2
Total liabilities		**938.0**	**991.3**
Total shareholders' equity and liabilities		**1,516.6**	**1,563.8**

Consolidated Cash Flow Statement

Cash flow from operating activities	2004 m CHF	2003 m CHF
Net loss/profit for the year	–157.4	16.1
Depreciation and impairment of tangible assets	154.8	82.9
Amortization and impairment of intangible assets	15.9	13.4
Share of results of associated companies	22.5	–0.8
Adjustment for net financial expenses	45.6	28.6
Interest paid	–27.9	–36.1
Interest received	3.9	6.8
Dividends received	0.3	0.5
Adjustment for tax expense	44.8	15.7
Taxes paid	–15.9	–15.4
Increase (+)/decrease (–) in provisions and employee benefit obligations	–2.5	–3.4
Increase (+)/decrease (–) in current liabilities (excl. short-term debt)	14.6	–6.7
Increase (–)/decrease (+) in current assets [1)]	–4.6	21.1
Total cash flow from operating activities	**94.1**	**122.7**

Cash flow from investing activities	2004 m CHF	2003 m CHF
Purchases of non-current assets	–54.8	–46.2
Proceeds from sale of non-current assets	3.8	12.0
Total cash flow from investing activities (before securities)	**–51.0**	**–34.2**
Proceeds from sale of marketable securities	18.7	9.8
Total cash flow from investing activities	**–32.3**	**–24.4**

Cash flow from financing activities	2004 m CHF	2003 m CHF
Repayment of long-term financial debt	–65.9	0.0
Increase in long-term financial debt	0.0	51.3
Increase (+)/decrease (–) in short-term financial debt	5.2	–84.7
Change in treasury shares	0.7	3.3
Cash distribution to shareholders	–10.5	–28.7
Proceeds from capital increase	186.7	0.0
Total cash flow from financing activities	**116.2**	**–58.8**

Change in cash and cash equivalents	2004 m CHF	2003 m CHF
Increase in cash and cash equivalents	178.0	39.5
Translation differences	–1.0	1.8
Cash and cash equivalents at the beginning of the year	169.8	128.5
Cash and cash equivalents at the end of the year	**346.8**	**169.8**

[1)] excluding cash and marketable securities

Consolidated Statement of Changes in Shareholders' Equity

2003	Share capital m CHF	Treasury shares m CHF	Reserves m CHF	Translation differences m CH	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

2004	Share capital m CHF	Treasury shares m CHF	Reserves m CHF	Translation differences m CH	Total m CHF
At 1.1.2004	**38.0**	**–7.7**	**688.5**	**–146.3**	**572.5**
Net loss for the year			–157.4		–157.4
Changes in treasury shares		0.7			0.7
Fair value adjustments:					
Marketable securities			12.3		12.3
Cash flow hedges			–5.8		–5.8
Translation differences				–19.9	–19.9
Nominal value reduction	–10.8	0.3			–10.5
Capital increase*	27.1	–5.9	165.5		186.7
At 31.12.2004	**54.3**	**–12.6**	**703.1**	**–166.2**	**578.6**

*The expenses incurred in connection with the capital increase were debited directly to equity

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 70, 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 has a controlling influence. A controlling influence normally exists when the Group owns more than 50% of the voting rights in a company. Intra-group transactions, balances and unrealized gains on transactions between Group companies are eliminated.

Companies acquired during the reporting year are included in the consolidated financial statements as of their acquisition date, and all companies disposed of are eliminated from the accounts as of the date the Group ceases to have control. The companies included in the consolidated financial statements are listed under Group companies (pages 92–95). Joint ventures in which the Group has a direct or indirect participation of 50%, and where Forbo exercises joint control, are included in the consolidated financial statements using the proportionate consolidation method. Companies over which the Group has a significant influence but not control (normally between 20% and 50% of the voting rights) are included in the consolidated financial statements using the equity method of accounting and are presented as investments in associates. Investments below 20% are valued at their fair value.

Capital consolidation

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

Foreign currency translation

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

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

Tangible assets

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

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).

Impairment of tangible and intangible assets

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

Inventories

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

Trade receivables

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

Marketable securities

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

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

Borrowing cost are recognized in the income statement as incurred.

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 updated 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.

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

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

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

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

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

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

the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the same periods during which the hedged firm commitment or forecasted transaction affects the income statement.

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

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

Changes in the scope of consolidation
During the period under review there were no acquisitions or divestments.

Notes to the Consolidated Financial Statements

1 Segment Information

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

By business segments 2003*	Flooring m CHF	Adhesives m CHF	Belting m CHF	Corporate and consolidation m CHF	Total m CHF
Net sales to third parties	744.5	557.4	297.0	0.0	1,598.9
Inter-segment sales	0.1	16.8	0.0	–16.9	0.0
Total net sales	744.6	574.2	297.0	–16.9	1,598.9
EBITDA	88.3	46.2	16.0	6.2	156.7
Depreciation and amortization	–40.8	–23.7	–20.2	–11.6	–96.3
Operating profit (EBIT)	47.5	22.5	–4.2	–5.4	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)	11.9%	8.0%	5.4%		9.8%
ROS, net (EBIT/net sales)	6.4%	3.9%	–1.4%		3.8%
ROA (EBIT/operating assets)	9.1%	5.1%	–1.4%		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

* Restated due to new classification in 2004 of sales of adhesives realized by the flooring business and changed allocation keys in 2004 for corporate and consolidation

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

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

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

2 Changes in net sales by businesses

Net sales to third parties	2004 m CHF	2003* m CHF	Total change m CHF	Of which due to exchange rate changes m CHF	Due to volume and price changes m CHF
Flooring	737.6	744.5	–6.9	4.1	–11.0
Adhesives	577.7	557.4	20.3	–11.4	31.7
Belting	307.0	297.0	10.0	–5.9	15.9
Total	**1,622.3**	**1,598.9**	**23.4**	**–13.2**	**36.6**

* Restated due to new classification in 2004 of sales of adhesives realized by the flooring business

3 **Development and production overhead costs**

Development costs, which include product development as well as design activities, amounted to CHF 32.1 million (2003: CHF 28.9 million). Production overhead costs totaled CHF 152.7 million (2003: CHF 162.1 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**

	2004 m CHF	2003 m CHF
Impairment	83.5	0.0
Restructuring	16.9	0.0
Other expenses	26.2	24.1
Other income	–13.1	–15.5
Total other operating expenses, net	**113.5**	**8.6**

The impairment charges relate to tangible assets (CHF 81.5 million) and intangible assets (CHF 2.0 million) and are detailed on pages 79 and 80. The restructuring charges primarily relate to the closure of the cushion vinyl plant in Scotland and comprise the expected expenses for the social plan (CHF 8.0 million) and allowances on the working capital (CHF 5.1 million). Furthermore, the restructuring charges include a provision made in respect of environmental remediation costs. Other operating expenses and income include all costs and income which can not be clearly allocated to the other categories.

6 **Personnel expenses**

	2004 m CHF	2003 m CHF
Salaries and wages	346.0	343.7
Employer's social security contributions	95.3	91.3
Total personnel expenses	**441.3**	**435.0**

The Group's headcount at December 31, 2004 was 5,540 (2003: 5,585). The average headcount over the year was 5,582 (2003: 5,689).

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, 2004 the following options were granted:

Year alloted	Number	Term	Frozen until	Subscription ratio	Exercise price CHF
2000	1,120	10.04.01–09.05.05	09.05.03	1:2	406
2001	2,962	08.05.01–07.05.06	07.05.04	1:2	442
2002	4,012	07.05.02–07.05.07	06.05.05	1:2	330
2003	3,856	31.07.03–30.07.08	30.07.06	1:2	251
2004	3,600	01.08.04–31.07.09	31.07.07	1:2	212

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

See also note 27 'Related party transactions' on page 91.

7 **Financial income**

	2004 m CHF	2003 m CHF
Interest income	3.9	6.3
Dividend income	0.3	0.5
Foreign exchange gains, net	0.0	1.1
Total financial income	**4.2**	**7.9**

8 **Financial expenses**

	2004 m CHF	2003 m CHF
Interest expense	27.5	35.7
Amortization of issuance costs of bonds and private placements	0.9	0.9
Amortization of costs syndicated bank facility	0.2	0.2
Impairment of available-for-sale securities	0.0	0.3
Realized losses on available-for-sale securities	12.0	0.2
Impairment of other financial assets	5.6	0.0
Foreign exchange losses, net	3.6	0.0
Total financial expenses	**49.8**	**37.3**

The average interest rate on interest-bearing debt (bonds, private placements, long- and short-term bank loans) in 2004 was 4.5% (2003: 5.2%).

9 Earnings per share

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

	2004	2003
Net loss/profit for the year (m CHF)	–157.4	16.1
Weighted average number of shares outstanding	1,476,890	1,307,974
Basic loss/earnings per share (CHF)	–106.56	12.28

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

	2004	2003
Net loss/profit for the year (m CHF)	–157.4	16.1
Weighted average number of shares outstanding for diluted earnings per share		1,325,357
Diluted loss/earnings per share (CHF)	–106.56	12.12

Due to the net loss there was no dilution effect in 2004.

10 Tangible assets

The tangible assets also include leased assets with a net book value of CHF 2.2 million (2003: CHF 2.6 million) as well as non-operating property with a net book value of CHF 5.0 million (2003: CHF 7.3 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 31.12.2002, 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**
Additions	5.7	10.6	10.3	28.1	54.7
Disposals	−14.0	−18.8	−8.6	−0.3	−41.7
Transfers	1.0	19.1	10.8	−30.9	0.0
Translation differences	−10.3	−16.3	−2.8	−1.1	−30.5
At 31.12.2004, gross	**468.5**	**852.9**	**171.7**	**21.4**	**1,514.5**

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 31.12.2002, 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**
Depreciation	15.2	44.7	13.4	0.0	73.3
Impairment	38.1	38.7	4.7	0.0	81.5
Disposals	−12.2	−17.9	−8.0	0.0	−38.1
Translation differences	−4.3	−12.4	−2.1	−0.1	−18.9
At 31.12.2004, gross	**233.6**	**706.5**	**130.4**	**0.5**	**1,071.0**
Total tangible assets at 31.12.2003, net	289.3	204.9	39.6	25.0	558.8
Total tangible assets at 31.12.2004, net	234.9	146.4	41.3	20.9	443.5

The fire insurance value of buildings, machinery and factory equipment of CHF 2,062 million (2003: CHF 2,017 million) covers the replacement cost. The business interruption risk arising from fire and the production and product liability risks are covered by a group-wide policy.

Maintenance and repair costs amounted to CHF 31.6 million (2003: CHF 28.4 million). The depreciation expense is included in 'Cost of goods sold', 'Development costs', 'Marketing and distribution costs' and 'Administrative costs'. The impairment charge is included in 'Other operating expenses, net'.

Impairment charges flooring

In the context of the 2004 strategy review the decision was taken to close the cushion vinyl production plant in Scotland. Consequently, the carrying amount of the assets concerned was adjusted to the estimated net selling price. This resulted in impairment charges of CHF 11.0 million in total. Of these, CHF 6.7 million relate to land and buildings, CHF 4.2 million to machinery and equipment and CHF 0.1 million to other tangible assets. After closure of the plant in Scotland, there is only one plant left in the Forbo Group which produces cushion vinyl for the residential market. In view of the market environment, which is characterized by oversupply and increasing raw material prices in the second half of 2004, the remaining cushion vinyl business was subject to an impairment test. The assessment of the value was based on the value in use from future free cash flows, which were discounted with 8%, and resulted in a difference to the carrying amount of CHF 20.1 million. Of these, CHF 16.6 million relate to machinery and equipment and CHF 3.5 million to other tangible assets. Of the remaining impairment charges recognized in the flooring business, CHF 2.8 million relate to land and buildings, CHF 2.2 million to machinery and equipment and CHF 1.0 million to other tangible assets. As such, total impairment charges on tangible assets in the flooring business amount to CHF 37.1 million.

Impairment charges belting

In the context of the 2004 strategy review the competition in the industry was subject to a general analysis. In particular, the fabrication business was subject to an impairment test due to the increasing competition from suppliers in low wage countries. The result was that, based on valuation reports and internal estimates, the net selling price of the assets concerned is CHF 4.8 million below the carrying amount. Of these, CHF 2.3 million relate to land and buildings, CHF 2.4 million to machinery and equipment and CHF 0.1 million to other tangible assets. Furthermore, it was concluded in the second half of 2004 that the technical and economic assumptions, under which an investment was made in a production facility, have predominantly not materialized. Taking into account this conclusion the value in use was recalculated. The value in use, which was based on a discount rate of 8%, is CHF 22.8 below the carrying value. This impairment charge relates with CHF 9.5 million to land and buildings and with CHF 13.3 million to machinery and equipment. The remaining impairment charges recognized in the belting business of CHF 5.3 million relate to land and buildings. As such, total impairment charges on tangible assets in the belting business amount to CHF 32.9 million.

Impairment charges adhesives

The impairment charges in the adhesives business amount to CHF 6.7 million and relate to land and buildings, representing partly adjustments to the net selling price of operating real estate which is not used anymore.

Other impairment charges

The other impairment charges of CHF 4.8 million relate predominantly to an adjustment to the net selling price of a non-operational building sold in January 2005.

11 Intangible assets

Cost	Goodwill m CHF	Trademarks/ patents m CHF	Other intangible assets m CHF	Total m CHF
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**
Additions	0.0	0.0	0.1	0.1
Disposals	–0.1	0.0	–1.1	–1.2
Translation differences	–5.8	0.0	0.0	–5.8
At 31.12.2004, gross	**154.9**	**54.2**	**6.1**	**215.2**

Accumulated amortization	Goodwill m CHF	Trademarks/ patents m CHF	Other intangible assets m CHF	Total m CHF
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**
Amortization	9.5	2.1	2.3	13.9
Impairment	2.0	0.0	0.0	2.0
Disposals	0.0	0.0	–1.1	–1.1
Translation differences	–0.8	0.0	0.0	–0.8
At 31.12.2004, gross	**36.7**	**32.0**	**3.5**	**72.2**
Total intangible assets at 31.12.2003, net	134.8	24.3	4.8	163.9
Total intangible assets at 31.12.2004, net	118.2	22.2	2.6	143.0

In connection with the strategy review 2004 and the impairment charges on the tangible assets of the belting business, the goodwill resulting from the Siegling acquisition with a remaining carrying amount of CHF 2.0 million has been assessed as impaired and has been fully written down.

12 Investments in associates and other long-term assets

	2004 m CHF	2003 m CHF
Investments in associated companies	0.0	5.1
Other investments	1.6	3.3
Loans to associated companies	0.0	19.0
Other long-term receivables	0.6	1.3
Total investments in associates and other long-term assets	**2.2**	**28.7**

As of October 1, 2001 the carpet business was sold to its management. Forbo has granted a subordinated 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. In the second half of 2004 the Enia group was increasingly faced with financial difficulties. In the context of a restructuring agreement Forbo waived loans and accounts receivable of CHF 17.4 million, and in turn, will hold eventually 33⅓% of the share capital of Enia Carpet Group AG. In view of the significant general and economic risks involved the capital investment was written down by CHF 5.1 million.

13 Inventories

	2004	2003
	m CHF	m CHF
Raw materials and supplies	62.2	60.9
Work in progress	70.9	68.7
Finished goods	141.7	130.0
Allowance for product risks	–19.6	–11.7
Total inventories	**255.2**	**247.9**

14 Trade receivables

	2004	2003
	m CHF	m CHF
Accounts receivable	233.4	238.0
Notes receivable	26.6	31.9
Allowance for doubtful receivables	–17.1	–18.3
Total trade receivables	**242.9**	**251.6**

15 Marketable securities

All marketable securities were sold in 2004. As such, cumulative valuation losses which were recognized in equity in previous years were included in the income statement.

16 Share capital

The share capital of Forbo Holding AG amounts to CHF 54,263,040 at December 31, 2004 (2003: CHF 37,984,128), and is divided into 2,713,152 registered shares with a nominal value of CHF 20 each (2003: 1,356,576 registered shares with a nominal value of CHF 28 each). Of these, 21,419 registered shares without voting and dividend rights are at the disposition of the Board of Directors. Consequently, 2,691,733 registered shares carried dividend rights for the 2004 financial year. Changes in shares outstanding were as follows:

	1.1.2004	Change	31.12.2004
Changes in shares outstanding	Number	Number	Number
Total shares	**1,356,576**	**1,356,576**	**2,713,152**
Treasury shares			
Shares with dividend right	20,171	37,665	57,836
Shares without dividend right	21,419		21,419
Total treasury shares	**41,590**	**37,665**	**79,255**
Total shares outstanding	**1,314,986**	**1,318,911**	**2,633,897**

17 Long-term financial debt

	2004 m CHF	2003 m CHF
Outstanding bonds	150.0	150.0
Outstanding private placements	312.1	343.2
Unamortized issuance cost	–2.9	–4.0
Total outstanding bonds and private placements	**459.2**	**489.2**
Unsecured bank loans	0.0	64.4
Unamortized cost syndicated bank facility	–0.5	–0.7
Lease obligations	1.7	2.1
Less current portion	–0.7	–0.8
Total long-term financial debt	**459.7**	**554.2**

Maturities of long-term financial debt	2004 m CHF	2003 m CHF
after 1 year	150.5	0.9
after 2 years	117.2	150.3
after 3 years	0.1	193.1
after 4 years	138.5	0.0
after 5 and more years	56.8	214.6
Unamortized cost	–3.4	–4.7
Total	**459.7**	**554.2**

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

Outstanding bonds and private placements at 31.12.2004

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

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

Outstanding syndicated bank facilities at 31.12.2004

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

The syndicated bank facility has the character of a club deal facility whereby eight international banks have granted credit accommodation allowing Forbo Holding AG to draw funds in various currencies. The facility was undrawn as of 31.12.2004, thereby causing commitment fee costs only.

Covenants related to long-term financial debt

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

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

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

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 5.2 million (2003: CHF 4.9 million). Details of the pension expense related to the major defined benefit plans are as follows:

	2004	2003
	m CHF	m CHF
Current service cost	14.0	13.8
Interest on obligation	34.1	31.6
Expected return on plan assets	–33.6	–28.3
Recognized actuarial losses	–0.1	1.1
Net periodic pension cost	**14.4**	**18.2**

The actual return on plan assets was CHF 43.3 million(2003: CHF 64.3 million).

The amounts recognized in the balance sheet are as follows:

	2004	2003
	m CHF	m CHF
Present value of obligations	706.0	660.5
Fair value of plan assets	–593.9	–543.8
Unrecognized actuarial losses	–34.9	–28.0
Unrecognized assets		
Net liability in the balance sheet	**77.2**	**88.7**

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

	2004	2003
	m CHF	m CHF
Net liability at the beginning of the year	**88.7**	**68.9**
First-time inclusion of Swiss pension plans as of 1.1.2003		16.5
Total pension expenses as included in personnel expenses	14.4	18.2
Employer contributions	−25.8	−18.7
Translation differences	−0.1	3.8
Net liability at the end of the year	**77.2**	**88.7**

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

	2004	2003
	%	%
Discount rate	4.8	5.0
Expected return on plan assets	6.1	6.0
Future salary increases	2.9	2.9

19 Provisions

	Warranty provisions m CHF	Restructuring provisions m CHF	Environ-mental provisions m CHF	Provisions legal cases m CHF	Personnel provisions m CHF	Other provisions m CHF	Total provisions m CHF
At 31.12.2003	**7.4**	**0.4**	**0.0**	**0.9**	**4.0**	**8.6**	**21.3**
Charges to the income statement	1.0	0.0	5.0	2.5	0.3	0.0	8.8
Utilized during the year	−0.3	0.0	0.0	0.0	0.0	−1.1	−1.4
Transfers	−0.1	−0.4	0.0	0.0	0.0	−1.0	−1.5
Translation differences	−0.1	0.0	0.0	−0.1	0.0	−0.1	−0.3
At 31.12.2004	**7.9**	**0.0**	**5.0**	**3.3**	**4.3**	**6.4**	**26.9**

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

20 Trade payables

	2004	2003
	m CHF	m CHF
Accounts payable	101.3	106.9
Notes payable	7.5	8.0
Total trade payables	**108.8**	**114.9**

21 Accrued expenses

	2004	2003
	m CHF	m CHF
Accrued personnel expenses	51.9	30.5
Fair value of financial derivatives	83.7	59.5
Other accruals	64.7	50.8
Total accrued expenses	**200.3**	**140.8**

Other accruals comprise restructuring costs, accrued volume rebates, commissions, premiums, interest and accrued warranty cost and similar items. The increase of the accrued personnel expenses is primarily due to the closure of the cushion vinyl plant in Scotland.

22 Short-term financial debt

	2004	2003
	m CHF	m CHF
Short-term bank loans and overdrafts	17.4	13.0
plus current portion of long-term debt	0.7	0.8
Total short-term financial debt	**18.1**	**13.8**

23 Commitments and contingent liabilities

	2004	2003
	m CHF	m CHF
Commitments and contingent liabilities	1.1	2.0

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

	2004 m CHF	2003 m CHF
Current taxes	7.5	13.1
Deferred taxes	37.3	2.6
Total income taxes	**44.8**	**15.7**

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 expense will vary from year to year according to the source of earnings or losses by country. As such the change of the expected tax rate (2004: 18%, 2003: 35%) is primarily due to the change of the country specific composition of the pretax results.

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

Analysis of tax expense

	2004 m CHF	2003 m CHF
Loss/profit before taxes	–112.6	31.8
Expected tax income/tax expense	–20.0	11.2
Tax effects of:		
Non tax deductible expenses and tax exempt income	2.1	–1.3
Non tax deductible goodwill amortization	2.4	2.3
Tax losses and temporary differences for which no deferred tax assets have been recognized	29.2	8.1
Write-off of deferred tax assets	34.9	0.1
Recognition/utilization of tax losses which were not capitalized in prior years	–4.2	–2.9
Changes of deferred tax rates	–0.3	–1.0
Prior year adjustments	0.3	–4.0
Other items	0.4	3.2
Total income taxes	**44.8**	**15.7**

Based on the strategy review during 2004 and the re-assessment of future taxable profits mainly in Germany and United Kingdom, respective write-offs of deferred tax assets were made.

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

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

2003	Not capitalized m CHF	Capitalized m CHF	Total m CHF
Expiry after:			
One year	2.0	1.2	3.2
Two years	2.2	1.4	3.6
Three years	3.9	0.2	4.1
Four years	8.5	5.3	13.8
Five years	17.2	9.1	26.3
More than five years	83.6	144.0	227.6
Total	**117.4**	**161.2**	**278.6**

CHF 1.9 million of unused operating tax loss carry forwards expired during 2004 (2003: CHF 0.2 million).

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

	2004 m CHF	2003 m CHF
Deferred tax assets	23.5	61.5
Deferred tax liabilities	−6.0	−6.5
Deferred tax assets, net	**17.5**	**55.0**

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 31.12.2003	**8.4**	**4.0**	**8.3**	**52.0**	**2.5**	**75.2**
Credited (+), charged (–) to the income statement	0.2	1.7	4.8	–39.4	5.4	–27.3
Translation differences	0.0	0.0	0.0	–0.2	0.0	–0.2
At 31.12.2004	**8.6**	**5.7**	**13.1**	**12.4**	**7.9**	**47.7**

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 31.12.2003	**–4.7**	**–12.7**	**–0.8**	**0.0**	**–2.0**	**–20.2**
Credited (+), charged (–) to the income statement	–0.7	–1.5	–1.8	0.0	–6.0	–10.0
Translation differences	0.0	0.0	0.0	0.0	0.0	0.0
At 31.12.2004	**–5.4**	**–14.2**	**–2.6**	**0.0**	**–8.0**	**–30.2**
Deferred tax assets at 31.12.2003, net	3.7	–8.7	7.5	52.0	0.5	55.0
Deferred tax assets at 31.12.2004, net	3.2	–8.5	10.5	12.4	–0.1	17.5

25 Translation of foreign currencies

Currency			2004	2003 Income statement (average rates for the year)		2004	2003 Balance sheet (year-end-rates)	
			CHF	CHF	Change %	CHF	CHF	Change %
Euro countries	EUR	1	1.54	1.52	1	1.55	1.56	–1
Sweden	SEK	100	16.91	16.67	1	17.17	17.16	–
United Kingdom	GBP	1	2.28	2.20	4	2.18	2.22	–2
USA	USD	1	1.24	1.35	–8	1.14	1.25	–9
Canada	CAD	1	0.96	0.96	–	0.94	0.95	–1
Japan	JPY	100	1.15	1.16	–1	1.09	1.17	–7

26 Financial risk management

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

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 31.12.2003	16	4,4	0,1
Forward contracts 31.12.2004	5	2,1	−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, 2004 amounts to CHF –0.1 million (CHF 0.1 million at December 31, 2003).

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 31.12.2003	12	290.4	–59.5
Interest rate swaps and cross-currency interest rate swaps 31.12.2004	6	222,5	–83.7

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, 2004 amounts to CHF –83.7 million (CHF –59.5 million at December 31, 2003).

Management of liquidity risks

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

Management of credit loss risks

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

27 **Related party transactions**

The total compensation* to all non-executive members of the Board of Directors within the Forbo Group in 2004 was CHF 773,714 including compensations paid to six members of the Board of Directors. The Delegate of the Board of Directors, who is at the same time chairing the Executive Board, received a total compensation of CHF 1,072,274 in the year under review. This amount includes all the remunerations; i.e. base salary, bonus, fringe benefits like pension fund contributions, and payments in kind.

The total compensation* to eight Executive Board members in 2004 amounted to CHF 4,450,567, with three members retiring in the period under review. This amount includes the total compensation, i.e. base salary, bonus and payments in kind, and the Delegate's remuneration. To one member of the Executive Board who stepped down from his function in March of the year under review a severance payment of CHF 840,000 was paid. In addition, the amount of CHF 200,000 was paid to this member for consultancy services rendered after his retirement until the end of 2004.

In addition to the compensations mentioned above 559 Forbo shares with a market value of CHF 150,092 were allotted to the members of the Board of Directors, and 421 Forbo shares with a market value of CHF 165,874 were allotted to the members of the Executive Board in the year under review.

In the year under review, a total of CHF 1,075,313 was paid for consultancy services to lawyers Bär & Karrer in Zurich. Prof. Dr. Rolf Watter, member of the Board, has been a partner of that lawyers' office for several years.

The Group owns 25% of Enia Carpet Group and granted a loan of CHF 19.0 million. The interest rate is 4.5% and interest income amounted to CHF 0.9 million (2003: CHF 0.9 million). In 2004 the Group purchased products for CHF 5.7 million (2003: CHF 5.9 million) from Enia Carpet Group, whereas Enia Carpet Group purchased products for CHF 4.5 million (2003: CHF 2.7 million) from Forbo Group. These sales were made at arms' length. Please see also page 80, note 12 'Investments in associates and other long-term assets'.

*In accordance with SWX corporate governance directive

28 **Events after balance sheet date**

On March 8, 2005 AFB Investment S.A. Luxembourg submitted a public purchase offer for all the outstanding shares of Forbo Holding AG. The offered price amounts to CHF 260 net per share with a nominal value of CHF 20. The Board of Directors has decided to recommend to the shareholders of Forbo to accept the public purchase offer, provided no competing offer from another bidder with a higher offer price is being published.

The 2004 consolidated financial statements of the Forbo-Group were approved by the Board of Directors of Forbo Holding AG on March 17, 2005. The consolidated financial statements are also subject to approval by the Annual General Meeting of Shareholders.

Group Companies (December 31, 2004)

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		EUR	72,700	**100%**		S		
Siegling Austria Ges.m.b.H.	Vienna	Erich Knoll		EUR	330,000	**100%**			S	
Belgium										
Forbo-Balco BV BA	Dendermonde	Toon A.T. Burghouts		EUR	20,000	**100%**		S		
N.V. Forbo Linoleum S.A.	Groot-Bijgaarden	Frank van der Velde		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	7,168,000	**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.	Prague	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	Björn Gunnar Andersson		DKK	1,000,000	**100%**			MS	
Finland										
Oy Forbo Swift AB	Esbo	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 SAS	Blois	Christian Barreau		EUR	800,000	**100%**		MS		
Siegling France SAS	Lomme	Egbert J. van Heerikhuizen		EUR	819,000	**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 Peter Kraft		EUR	5,120,000	100%		MS		
Forbo Novilon GmbH	Frankfurt am 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. Neele Neelen		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		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	125,000	100%	S			
Siegling Ireland Ltd.	Dublin	Kevin John Richardson		EUR	25,400	100%			S	
Waller & Wickham Ltd.	Dublin	Kevin Wickham		EUR	2,540	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	60,000	100%	S			
Siegling Italia S.p.a.	Paderno Dugnano	Dr. Marco Tommasi		EUR	104,000	100%			S	
Japan										
Siegling (Japan) Ltd.	Tokyo	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	Ricardo Bolado		MXP	19,320,000	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	Drs. Pieter Hartog/Paul de Ruiter		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.	Driebergen	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	Asker	Morten Aarhus	D	NOK	1,000,000	**100%**	S			
People's Republic of China										
Fargo Chemicals Marketing Ltd.	Hong Kong	Pierfranco Di Gioia/ Christian Barreau	N	HKD	200,000	**50%**		S		
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	Andrzej Trojecki		PLZ	50,000	**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	335,000	**100%**			S	
Romania										
SC Forbo Helmitin Romania S.R.L.	Oradea	Peter Kraft		ROL	70,770,000	**100%**		S		
Russia										
Siegling (ZAO)	St. Petersburg	Alexander Petrakovski		RUB	411,000	**100%**			S	
Slovakia										
Siegling s.r.o.	Malacky	Dr. Michael Bätz		SKK	200,000	**100%**			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	8,000,000	**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		
Siegling Svenska AB	Mölndal	Björn Gunnar Andersson		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 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	Walter Ruf		CHF	1,700,000	**100%**				H
Forbo International SA	Eglisau	This E. Schneider	D	CHF	100,000	**100%**		MS	MS	H

Company	Registered office	General management			Share capital	Equity interest	Flooring	Adhesives	Belting	Holding/Services
United Kingdom										
Forbo Nairn Ltd.	London	Derek F. Byrne		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
Siegling (UK) Ltd.	London	Kevin Richardson		GBP	50,774	**100%**			S	
USA										
Forbo Adhesives LLC	Durham, NC	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 consolidation
D Direct participations of Forbo Holding AG

Report of the Group Auditors

PRICEWATERHOUSECOOPERS

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

As auditors of the Group, we have audited the consolidated financial statements (consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in shareholders' equity and notes to the consolidated financial statements) on pages 63 to 95 of Forbo Holding AG for the year ended December 31, 2004.

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

St Räbsamen

Stefan Räbsamen　　Thomas Lenz

Zurich, March 17, 2005

Consolidated Income Statements 2000–2004

	2004	2003	2002	2001	2000
	m CHF	m CHF	m CHF	m CHF	m CHF
Net sales	**1,622.3**	**1,598.9**	**1,531.1**	**1,485.1**	**1,776.8**
Cost of goods sold	–1,092.5	–1,091.3	–1,017.4	–962.7	–1,143.2
Gross profit	**529.8**	**507.6**	**513.7**	**522.4**	**633.6**
Development costs	–32.1	–28.9	–24.2	–22.0	–29.8
Marketing and distribution costs	–285.1	–287.5	–277.2	–288.6	–333.6
Administrative costs	–143.6	–122.2	–119.6	–116.6	–129.8
Other operating expenses	–113.5	–8.6	–4.3	–6.3	–9.8
Operating loss/profit	**–44.5**	**60.4**	**88.4**	**88.9**	**130.6**
Financial income	4.2	7.9	5.0	3.4	16.8
Financial expenses	–49.8	–37.3	–29.2	–19.4	–21.3
Share of result of associated companies	22.5	0.8	–0.7	0.0	0.0
Loss/profit before taxes	**–112.6**	**31.8**	**63.5**	**72.9**	**126.1**
Taxes	–44.8	–15.7	–20.9	–21.1	–35.4
Net loss/profit for the year	**–157.4**	**16.1**	**42.6**	**51.8**	**90.7**

Consolidated Balance Sheets 2000–2004

	2004	2003	2002	2001	2000
Assets					
	m CHF	m CHF	m CHF	m CHF	m CHF
Long-term assets	**612.2**	**812.9**	**875.1**	**716.4**	**778.9**
Tangible assets	443.5	558.8	586.9	576.1	675.0
Intangible assets	143.0	163.9	178.6	23.2	19.4
Deferred taxes	23.5	61.5	65.6	72.7	65.1
Investments in associates and other long-term assets	2.2	28.7	44.0	44.4	19.4
Current assets	**904.4**	**750.9**	**725.5**	**615.2**	**747.7**
Inventories	255.2	247.9	255.9	227.0	260.7
Trade receivables	242.9	251.6	254.8	202.6	243.4
Other receivables	28.7	34.9	27.0	30.1	41.3
Prepaid expenses and deferred charges	30.8	27.8	35.4	29.0	19.2
Marketable securities	0.0	18.9	23.9	33.8	45.5
Cash and cash equivalents	346.8	169.8	128.5	92.7	137.6
Total assets	**1,516.6**	**1,563.8**	**1,600.6**	**1,331.6**	**1,526.6**

	2004	2003	2002	2001	2000
Shareholders' equity and liabilities					
	m CHF	m CHF	m CHF	m CHF	m CHF
Shareholders' equity	**578.6**	**572.5**	**590.6**	**652.2**	**813.9**
Share capital	54.3	38.0	67.8	75.7	75.7
Treasury shares	–12.6	–7.7	–11.7	–155.2	–8.2
Reserves and retained earnings	536.9	542.2	534.5	731.7	746.4
Long-term liabilities	**569.8**	**670.7**	**638.6**	**252.8**	**275.2**
Long-term financial debt	459.7	554.2	539.3	164.5	145.1
Employee benefit obligations	77.2	88.7	68.9	69.8	88.0
Provisions	26.9	21.3	22.6	16.4	39.2
Deferred taxes	6.0	6.5	7.8	2.1	2.9
Current liabilities	**368.2**	**320.6**	**371.4**	**426.6**	**437.5**
Trade payables	108.8	114.9	107.3	79.4	90.2
Accrued expenses	200.3	140.8	102.7	80.9	88.7
Short-term financial debt	18.1	13.8	98.5	197.2	194.7
Current tax liabilities	6.1	7.9	14.0	14.1	16.0
Other current liabilities	34.9	43.2	48.9	55.0	47.9
Total liabilities	**938.0**	**991.3**	**1,010.0**	**679.4**	**712.7**
Total shareholders' equity and liabilities	**1,516.6**	**1,563.8**	**1,600.6**	**1,331.6**	**1,526.6**

Financial Statements of Forbo Holding AG

Income Statement of Forbo Holding AG

Income	Notes	2004 CHF	2003 CHF
Income			
from investments in and advances to Group companies	1	23,842,964	31,879,666
from securities and short-term investments	2	649,349	5,310,232
Income from services and other sources		197,022	5,972
Total income		**24,689,335**	**37,195,870**

Expenses	Notes	2004 CHF	2003 CHF
Administrative expenses	3	4,799,275	2,259,474
Financial expenses	4	10,308,878	9,473,773
Taxes		276,810	346,928
Valuation adjustments	5	86,821,848	9,728,043
Total expenses		**102,206,811**	**21,808,218**
Net loss/profit for the year		**–77,517,476**	**15,387,652**

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

		31.12.2004	31.12.2003
Assets			
	Notes	CHF	CHF
Long-term assets		**408,174,057**	**534,628,153**
Investments in Group companies	6	255,015,375	339,854,375
Advances to Group companies	7	153,158,682	194,773,778
Current assets		**203,065,647**	**31,917,571**
Other receivables from Group companies		1,917,592	1,258,685
Other receivables from third parties		26,358	404,201
Prepaid expenses and deferred charges	8	1,175,058	1,645,883
Marketable securities	9	0	18,555,069
Cash	10	199,946,639	10,053,733
Total assets		**611,239,704**	**566,545,724**

		31.12.2004	31.12.2003
Shareholders' equity and liabilities			
	Notes	CHF	CHF
Shareholders' equity		**391,854,564**	**287,035,726**
Share capital	11/12	54,263,040	37,984,128
Statutory reserves:			
General reserves		15,600,000	15,600,000
Reserve for own shares	13	14,543,317	9,103,691
Other reserves	14	306,890,227	146,272,451
Available earnings:			
Profit carried forward		78,075,456	62,687,804
Net loss/profit for the year		–77,517,476	15,387,652
Liabilities		**219,385,140**	**279,509,998**
Long-term provisions	15	28,000,000	28,000,000
Bond issues	16	150,000,000	150,000,000
Long-term bank debt	17	0	64,440,000
Advances from Group companies		32,466,000	32,760,000
Other liabilities to Group companies		726,148	85,783
Current liabilities to third parties		32,536	46,983
Accrued expenses		8,160,456	4,177,232
Total shareholders' equity and liabilities		**611,239,704**	**566,545,724**

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 23.8 million (previous year: CHF 31.9 million) and consists of interest and dividend income.

2 Income from securities and short-term investments

This item includes income from short-term investments of CHF 0.2 million (previous year: CHF 0.2 million), dividend income of CHF 0.3 million (previous year: CHF 0.5 million) as well as valuation gains of CHF 0.1 million (previous year: CHF 4.6 million).

3 Administrative expenses

Administrative expenses amount to CHF 4.8 million which is CHF 2.5 million more than in the previous year mainly due to higher consulting and service cost.

4 Financial expenses

Financial expenses of CHF 10.3 million relate to the 4⅛% bond issue 2001–2006 of CHF 150.0 million and the amortization of capitalized issuance costs. Furthermore, interest expenses arose from loans drawn in the context of a syndicated bank facility and from a loan from a Group company.

5 Valuation adjustments

Valuation adjustments of CHF 86.8 million (previous year: CHF 9.7 million) relate mainly to investments in and loans to Group companies in connection with restructurings and value adjustments at Group companies.

6 Investments in Group companies

As of December 31, 2004 Forbo Holding AG held the following direct investments:

Company		Activity	Currency	Share capital in 1,000	Equity interest
Forbo Floorcoverings PTY. Ltd.	AU-Wetherill Park, N.S.W.	Sales	AUD	1,400	100%
Forbo Participations SAS	FR-Surbourg	Holding/Services	EUR	11,525	100%
Forbo Beteiligungen GmbH	DE-Waldshut-Tiengen	Holding/Services	EUR	15,400	100%
Paul Heinicke GmbH & Co KG	DE-Pirmasens	Services	EUR	1,023	72%
Forbo Invest Ltd.	GB-St. Helier	Services	GBP	25	50%
Forbo Flooring A/S	NO-Vettre	Sales	NOK	1,000	100%
Forbo Flooring AB	SE-Gothenburg	Sales	SEK	8,000	100%
Forbo Project Vinyl AB	SE-Gothenburg	Manufacturing and Sales	SEK	50,000	100%
Forbo Finanz AG	CH-Eglisau	Holding/Services	CHF	10,000	100%
Forbo Giubiasco SA	CH-Giubiasco	Manufacturing and Sales	CHF	10,000	100%
Forbo International SA	CH-Eglisau	Services, Manufacturing and Sales	CHF	100	100%
Forbo UK Ltd.	GB-London	Holding/Services	GBP	32,500	100%
Forbo America Inc.	US-Wilmington, DE	Holding/Services	USD	19,957	100%

The decrease of investments in Group companies compared to the previous year amounts to CHF 84.8 million and is mainly attributable to value adjustments at Group companies.

7 **Advances to Group companies**

Advances to Group companies are denominated in Swiss Francs and foreign currencies. There was a CHF 41.6 million decrease 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 1.0 million (previous year: CHF 1.6 million) incurred in connection with the 4⅛% bond issue 2001–2006 and the syndicated bank facility. These costs are amortized over the respective terms.

9 **Marketable securities**

All marketable securities were sold in 2004.

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 2004 the Company's share capital amounts to CHF 54,263,040 (previous year: CHF 37,984,128) and is divided into 2,713,152 registered shares with a nominal value of CHF 20 each (previous year: 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 28 was reduced by CHF 8 during the year. In addition, a share capital increase of 1,356,576 registered shares with a nominal value of CHF 20 each and an issuance price of CHF 150 was executed in December 2004. 21,419 shares without voting and dividend rights are at the disposition of the Board of Directors. Accordingly, 2,691,733 registered shares carry dividend rights for the 2004 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 reductions of the nominal value of CHF 22 per share in 2003 and CHF 8 per share in 2004 the conditional capital at December 31, 2004 amounts to CHF 3,329,000 (previous year: CHF 4,660,600).

13 **Reserve for own shares**

The CHF 14,543,317 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 28/20
Total at 1.1.2004	**9,103,691**	**41,590**
Additions in connection with capital increase	5,974,350	39,829
Other additions	384,070	1,000
Disposals	–747,306	–3,164
Nominal value reduction	–171,488	
Total at 31.12.2004	**14,543,317**	**79,255**

14 Other reserves

Other reserves showed a year-on-year net increase of CHF 160.6 million, which is mainly attributable to the additional paid-in capital in connection with the capital increase (CHF 166.0 million) and a transfer to 'Reserve for own shares' (CHF 5.4 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 ⅛ % bond issue 2001–2006 of CHF 150.0 million is due for redemption on June 8, 2006.

17 Long-term bank debt

The mid-term syndicated bank facility of totally CHF 150.0 million was undrawn as of December 31, 2004.

18 Contingent liabilities

Guarantees and letters of support issued to third parties in favor of Group companies amount to CHF 462.9 million at year end, of which CHF 395.8 million (previous year: CHF 399.6 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 312.1 million) and guarantees in connection with utilized swap facilities.

19 Significant shareholders

Name	Number	Percentage [1]	Notification date of [2]
The Capital Group Companies Inc. 333 South Hope Street Los Angeles, CA 90071	–	– [3]	March 17, 2005
UBS Fund Management (Switzerland) AG Postfach, 4002 Basel	–	– [3]	February 4, 2004
Tweedy, Browne Company LLC New York (USA) 350 Park Avenue New York, NY 10022	69,823	5.15	April 2, 2004 [4]
	141,140	10.4	December 20, 2004
	239,160	8.81	December 24, 2004
Brandes Investment Partners LLC 11099 El Camino Real, Suite 500 P.O. Box 919048 San Diego, CA 92191-9048	68,601	5.05	November 2, 2004 [4]
	–	– [3]	January 17, 2005
Michael Pieper Seestrasse 80, 6052 Hergiswil Franke Holding AG Dorfbachstrasse 2, 4663 Aarburg	68,126	5.02	December 15, 2004
	271,771	10.01	December 23, 2004
Michael Pieper Seestrasse 80, 6052 Hergiswil Franke Holding AG Dorfbachstrasse 2, 4663 Aarburg Franke Beteiligungen I Seestrasse 80, 6052 Hergiswil	544,571	20.07	January 28, 2005
Rudolf Maag Neuhofweg 11 4102 Binningen	220,000	8.1	March 8, 2005

1) Percentage as at the date of publication in the Swiss commercial gazette (SHAB)
2) Date of publication in the Swiss commercial gazette (SHAB)
3) Below 5 % threshold
4) Before capital increase

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:

	2004	2003
	CHF	CHF
Net loss/profit for the year	–77,517,476	15,387,652
Profit carried forward from the previous year	78,075,456	62,687,804
Total available earnings	**557,980**	**78,075,456**

be appropriated as follows:

	2004	2003
	CHF	CHF
To be carried forward to the following year	557,980	78,075,456
Total	**557,980**	**78,075,456**

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 100 to 104 of Forbo Holding AG for the year ended December 31, 2004.

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

Stefan Räbsamen Thomas Lenz

Zurich, March 17, 2005

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