

# Business and financial review

Despite a continued challenging environment, the Geberit Group experienced an excellent 2014. In nearly all markets, impressive sales increases were achieved and market shares gained. The considerable volume growth and a below-average increase in the cost of materials had a positive effect on the operating results. These effects were partially offset by higher customer bonuses and an increase in personnel expenses. With these results – which were substantially above the already good results of the previous year – Geberit noticeably outperformed the European market environment and further consolidated its position as a leading provider of sanitary technology.

# Market environment

## Ongoing challenging business climate

As in previous years, the construction industry in 2014 was shaped by major developments that varied by region. The industry remained challenging and only a few markets experienced a positive construction volume growth. Most of the markets deteriorated further.

Euroconstruct published an updated outlook for the development of construction volumes in **Europe** in November 2014. The figures published therein forecasted a slight increase in building construction volumes of 0.9% in 2014 (previous year -2.3%). This increase was much less significant for new buildings (+0.3%) compared to renovations (+1.4%). When compared to figures from further in the past, new building projects were 30 to 40% down on the level seen in 2007/2008. In contrast, the renovation business has once again almost reached the level seen at that time.

In addition to this upbeat trend in the building renovation sector, Geberit also benefited from the generally positive trend in the building construction sector in some important countries for Geberit. The driving force here was Germany (+2.3%), while the United Kingdom (+6.1%) and Austria (+1.8%) also developed positively. By contrast, Italy (-1.9%) and France (-2.8%) sustained downturns. Based on this information, Geberit can assume that it has clearly outperformed the relevant competition once again. In particular, the company also managed to develop better than the market environment in countries experiencing a decline – thus gaining market shares.

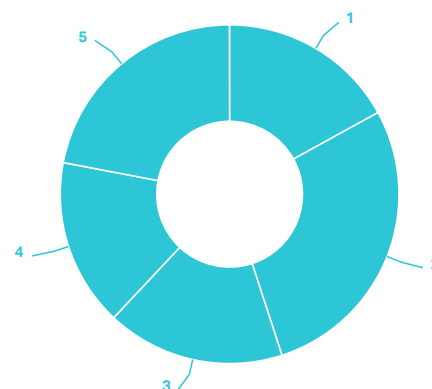
In Europe, 78% of the total construction volume in 2014 of EUR 1,305 billion relates to building construction. Residential construction accounted for just under 60% of this, and non-residential construction for just over 40%. More than half of the building construction volume pertained to renovation projects, primarily as a result of the high proportion within residential construction.

In the **USA**, gross domestic product (GDP) rose by 2.4% and the economy grew slightly stronger than in 2013 (+2.2%). Investments in building construction increased by 5.4% year-on-year. Investments in non-residential construction increased by 7.1% in total, which was considerably more than in the previous year (+0.7%). This trend was dominated by offices, hotels and commercial buildings (+15.2% in the reporting year). In contrast to this, the trend for the healthcare/hospital and school/university sectors important to Geberit remained unsatisfactory (-1.8% in the reporting year compared to -6.1% in the previous year). After two years with very positive signals, the situation for residential construction deteriorated somewhat in the past year. The number of building permits for new private residential units increased by 4.2% in the reporting year (previous year +19.4%; figures on the US construction industry as per the US Department of Commerce, United States Census Bureau).

In line with the global economic trend (from +2.6% in 2013 to +2.7% in the reporting year according to figures from the International Monetary Fund), economic growth at +4.8% in the **Far East/Pacific** region remained practically at the previous year's level (+4.9%). With a share of 55% (previous year 57%), this region was once again the main driver of global growth in 2014, with China accounting for the largest share of this figure at 62%. Despite the relatively stable macroeconomic situation, the region's construction markets suffered a slowdown. For example, residential construction in key markets such as China and Singapore cooled off as expected due to high stocks of unsold residential properties and falling prices. However, the positive trend seen in infrastructure projects continued.

## Total construction output Europe 2014

(EUR 1,305 billion)

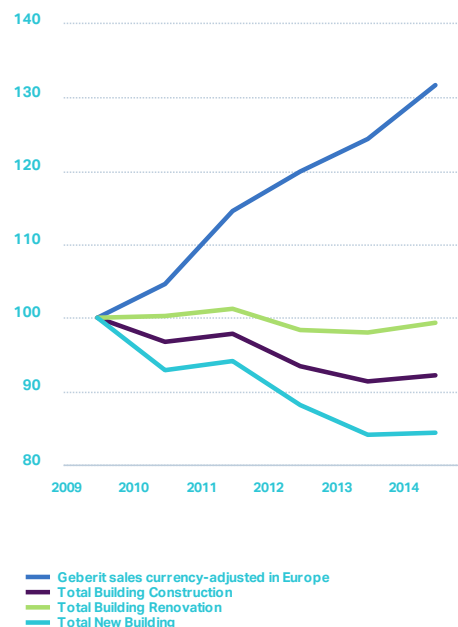


- 1 Residential - New (17%)
- 2 Residential - Renovation (28%)
- 3 Non-residential - New (17%)
- 4 Non-residential - Renovation (16%)
- 5 Civil engineering (22%)

Source: 78th Euroconstruct Conference in Milano (IT), November 2014

## Construction output and Geberit sales in Europe 2010 – 2014

(Index: 2009 = 100)



Source: 78th Euroconstruct Conference in Milano (IT), November 2014 and 77th Euroconstruct Conference in Oslo (NO), June 2014

# Sales

## Convincing sales growth

Cumulative sales in 2014 increased by 4.9% to CHF 2,404.4 million. With a growth of 6.4% in local currencies, the increase is slightly above the medium-term growth expectation of 4 to 6%. The total growth figure is made up of a volume effect of +5.0%, a price effect of +1.4% and a negative foreign currency effect of 1.5%.

In spite of the decline in sales experienced between 2008 and 2011, average annual growth for the last ten years in Swiss francs was 2.3%.

The following changes in sales figures refer to local currencies.

## Growth in all regions

Europe recorded a currency-adjusted increase in sales of 5.9%, with all markets reporting increases. Double-digit growth was posted in the United Kingdom/Ireland (+19.8%) and Central/Eastern Europe (+11.7%). Switzerland (+6.6%) and Germany (+6.0%) also reported satisfying sales growth. Increases were also recorded in the Benelux Countries (+4.0%), France (+3.0%), the Iberian Peninsula (+3.0%), Italy (+2.7%), Austria (+2.5%) and the Nordic Countries (+2.4%). Despite the ongoing unfavorable conditions in the public sector – an area of importance to Geberit in this region – America posted growth of 6.4%. The Middle East/Africa (+21.2%) and Far East/Pacific (+12.8%) regions reported significant sales growth.

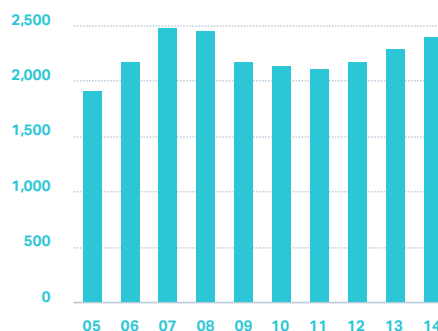
## Slightly stronger growth in Sanitary Systems

Sales for the **Sanitary Systems** product area amounted to CHF 1,364.3 million, corresponding to growth of 6.7%.

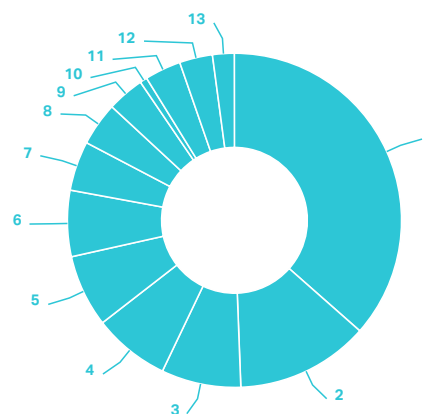
Sales for the **Installation Systems** product line, at 36.5% of Group sales the most important product line, rose by 7.5% in local currencies. Drywall elements and – with double-digit growth rates – designer actuator plates made a decisive contribution to this above-average success. Growth of 7.2% was posted by the **Cisterns and Mechanisms** product line, which accounts for 11.1% of total sales. Sales were largely boosted by the strong growth of the AquaClean shower toilet – with the newly introduced AquaClean Sela model selling very well in particular – and the Monolith sanitary module for WCs, which is successful in more and more markets. Sales of filling and flush valves recovered from the slump experienced in the previous year, mainly because of the good performance of the generally volatile OEM business. In contrast, sales of traditional exposed cisterns stagnated as a consequence of Geberit's efforts over many years to convert to concealed solutions. Sales for the **Faucets and Flushing Systems** product line, which accounts for 5.1% of total sales, increased by 3.3% in 2014. The trend reversal compared with the previous year was attributable to a slight recovery of the market conditions experienced by the US subsidiary Chicago Faucets in business with schools and hospitals, as well as the positive sales growth of urinal flush controls. Sales for the **Waste Fittings and Traps** product line rose slightly by 2.9%. The share of total Group sales came to 4.0%. Positive growth rates were seen in shower drains and traps for urinals and WCs, while bathtub drains and traps for washbasins and bidets stagnated.

## Sales development 2005 – 2014

(in CHF million)



## 2014 sales by markets/regions

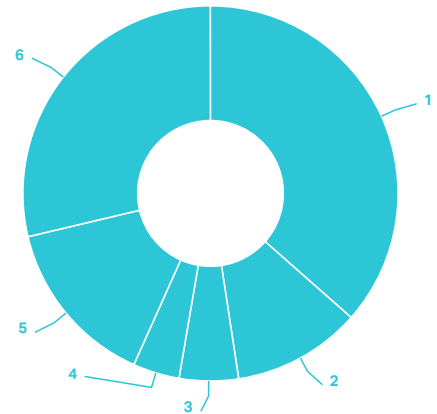


- 1 Germany (36.5%)
- 2 Switzerland (12.9%)
- 3 Benelux (7.7%)
- 4 Italy (7.4%)
- 5 Central/Eastern Europe (7.0%)
- 6 Austria (6.4%)
- 7 Nordic Countries (4.8%)
- 8 France (4.2%)
- 9 United Kingdom/Ireland (3.6%)
- 10 Iberian Peninsula (0.7%)
- 11 America (3.5%)
- 12 Far East/Pacific (3.2%)
- 13 Middle East/Africa (2.1%)

Sales for the **Piping Systems** product area were CHF 1,040.1 million. The increase was 6.0%, meaning growth was slightly below that of Sanitary Systems – unlike in the previous year.

The **Building Drainage Systems** product line posted the strongest growth of all product lines at 9.1% in local currencies. The share of total sales reached 14.6%. The Silent-PP and Silent-db20 sound-absorbing drainage systems did well and the business with PE drainage systems also picked up again after having slumped in the previous year. The **Supply Systems** product line posted 4.5% growth. The contribution of this product line, which is the second largest measured by Group sales, came to 28.7%. The Mapress Stainless Steel and Copper product ranges delivered convincing sales increases in particular. On the other hand, Mapress Carbon Steel and the Mepla multilayer piping system experienced below-average growth.

## 2014 sales by product areas and product lines



- Sanitary Systems (56.7%)**
- 1 Installation Systems (36.5%)
- 2 Cisterns and Mechanisms (11.1%)
- 3 Faucets and Flushing Systems (5.1%)
- 4 Waste Fittings and Traps (4.0%)
- Piping Systems (43.3%)**
- 5 Building Drainage Systems (14.6%)
- 6 Supply Systems (28.7%)

# Results

## Negative impact of foreign currencies

On the whole, the income statement was negatively affected in the reporting year due to the renewed weakening of the euro against the Swiss franc. The currency losses contained in sales amounted to CHF 34 million. In 2014, Geberit generated 68% of its sales in the eurozone, 5% in US dollars and 4% in British pounds. Accumulated currency effects reduced sales by 1.5%. As a result of the currency trend, the operating profit (EBIT) was negatively impacted by approximately CHF 10 million. However, the corresponding effect on the EBIT margin was just -0.1 percentage points.

In general, the effects of currency fluctuations are warded off as far as possible with an efficient natural hedging strategy. This entails making sure that costs in the various currency areas are incurred in the same proportion in which sales are generated. This hedging strategy has been almost completely successful for the euro and US dollar, but slight deviations have arisen from the Swiss franc, the British pound and the Nordic and Eastern European currencies. Consequently, only minor currency gains or losses result from transaction effects.

In terms of a sensitivity analysis, the following changes can be assumed if the Swiss franc should be 10% weaker or 10% stronger than all other currencies:

- Sales: +/-8% to +/-10%
- EBIT: +/-9% to +/-11%
- EBIT margin: approximately +/-0.5 percentage points

Please refer to the [→ events after the reporting date](#)

The currency situation within the Geberit Group will be reassessed following the integration of Sanitec's activities. It will then be possible to introduce any additional measures.

For more information on the management of currency risks, please refer to the [→ Financial Statements of the Geberit Group, Notes to the Consolidated Financial Statements, 4. Risk Assessment and Management, Management of Currency Risks](#) and the [→ Financial Risks of the Geberit Group, Notes to the Consolidated Financial Statements, 16. Derivative Financial Instruments](#).

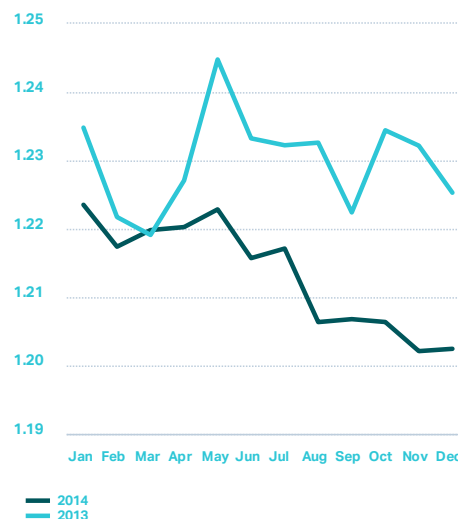
## Profitability reaches all-time high

Thanks to healthy sales growth, a positive net price effect and efficient cost control, results were up on the previous year and reached all-time highs in a challenging environment in spite of once again substantial investments in organic growth.

Operating cashflow (EBITDA) rose by 10.8% to CHF 657.1 million. At 27.3%, the EBITDA margin was significantly higher than the previous year (25.9%) and also above the medium-term target range. Over the last decade, average EBITDA growth of 3.8% was better than the corresponding increase in sales of 2.3%. Operating profit (EBIT) rose by 13.0% to CHF 576.9 million, and the EBIT margin reached 24.0% (previous year 22.3%). Net income increased by 14.4% to CHF 498.6 million, which led to a return on sales of 20.7% (previous year 19.0%). As both in percentage of sales and in absolute terms, net income thus reached its highest value since going public in 1999. Earnings per share rose by 14.6% to CHF 13.28. The share buyback program, which was launched at the end of April and is currently suspended, did not yet have any significant impact on this key figure.

## EUR/CHF exchange rates 2013/2014

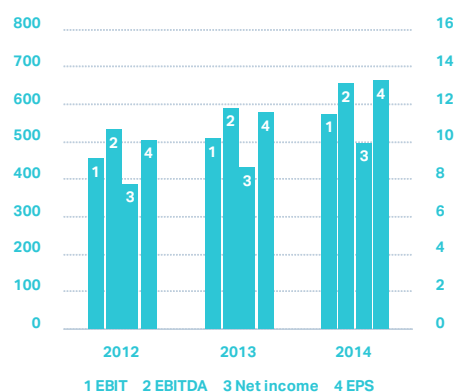
(Period-end exchange rates)



## EBIT, EBITDA, Net income, Earnings per share (EPS) 2012 - 2014

(in CHF million)

(EPS: in CHF)



### Operating expenses under control

Customer bonuses and cash discounts increased by 8.1% to CHF 315.3 million or from 12.7% to 13.1% of total sales, primarily as a result of the positive sales growth.

In 2014, total operating expenses advanced by 1.5% to CHF 1,512.2 million or to 62.9% of total sales (previous year 65.0%). Foreign currency effects had no significant influence on the operating results, see → [negative foreign currency effect](#).

The cost of materials increased slightly by 1.2% to CHF 604.2 million but dropped from 26.1% of sales in the previous year to 25.1%. A slight decrease in material prices contributed to this development. A slight easing compared with the previous year was recorded above all for plastics and to a lesser extent also for industrial metals. Personnel expenses increased by 1.8% to CHF 483.9 million or 20.1% of sales (previous year 20.7%). This is explained by – largely tariff-related – salary increases and a rise in staff numbers, see → [Business and financial review, employees](#). While depreciation increased by 0.5% to CHF 77.0 million, amortization of intangible assets fell by 41.8% to CHF 3.2 million due to the discontinuation of amortization from the Mapress acquisition carried out in 2004. Other operating expenses grew by 2.8% to CHF 343.9 million. While freight costs owing to the growth in volumes and administrative costs rose slightly, marketing expenses remained at the previous year's level. Also included in other operating expenses were consulting expenses for the Sanitec acquisition amounting to around CHF 3 million.

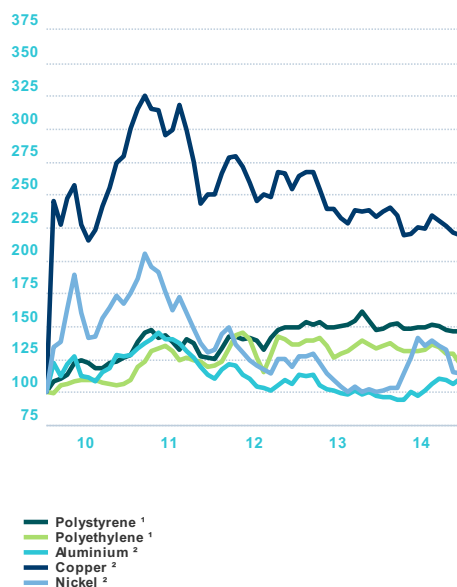
The financial result came to CHF -1.7 million. The improvement by CHF 3.8 million was due to the absence of currency losses compared with the previous year. The tax expense increased by CHF 7.2 million to CHF 76.6 million, resulting in a tax rate of 13.3% (previous year 13.7%).

### Increase in free cashflow

The marked upturn in operating cashflow (EBITDA) led to an increase in net cashflow of 10.9% to CHF 608.3 million. Free cashflow grew by 3.6% to CHF 460.4 million. The lower growth posted in comparison to net cashflow resulted from the negative effects of the change in net working capital and higher investments in property, plant and equipment. Free cashflow was largely used to pay distributions of CHF 282.0 million to shareholders and to repurchase shares totaling CHF 37.4 million.

### Raw material price development

(Market price; index: December 2009 = 100)



<sup>1</sup> Source: Kunststoff Information Verlagsgesellschaft mbH

<sup>2</sup> Source: London Metal Exchange

# Financial structure

## Strong financial foundation

Once again, the substantial contribution from free cashflow allowed the attractive dividend policy to be continued and a share buyback program to be launched while also maintaining the very solid financial foundation of the Group.

Total assets increased from CHF 2,226.0 million to CHF 2,431.5 million, mainly as a result of a higher reserve of liquid funds and a planned slight increase in inventories.

The cash reserve increased substantially, as the share buyback program launched at the end of April has been suspended since the end of July 2014 due to the Sanitec acquisition, and no further shares were repurchased as a result. In addition to liquid funds and marketable securities of CHF 749.7 million (previous year CHF 612.8 million), the Group had access to an undrawn operating credit line for the operating business of CHF 347.8 million. At CHF 10.5 million, debts were slightly under the previous year's value of CHF 11.7 million. This resulted in positive net cash of CHF 739.2 million at the end of 2014 (previous year CHF 601.1 million).

Net working capital increased by CHF 41.2 million to CHF 169.1 million compared to the previous year. Property, plant and equipment strengthened from CHF 536.4 million to CHF 550.9 million, while goodwill and intangible assets practically remained at the previous year's level at CHF 645.3 million.

The ratio of net cash to equity (gearing) increased from -36.1% in the previous year to -43.0%. The equity ratio reached a solid 70.6% (previous year 74.8%). Based on average equity, the return on equity (ROE) was 29.2% (previous year 28.2%). Average invested operating capital, comprising net working capital, property, plant and equipment, and goodwill and intangible assets amounted to CHF 1,404.5 million at the end of 2014 (previous year CHF 1,366.0 million). The return on invested capital (ROIC) was 35.5% (previous year 32.1%). For details on the gearing, ROE and ROIC calculations, please refer to the [→ Financial Statements of the Geberit Group, Notes to the Consolidated Financial Statements, 5. Management of Capital](#).

The Geberit Group held 302,060 treasury shares on December 31, 2014, which equals 0.8% of the shares entered in the Commercial Register. Of these, 123,000 (0.3% of the shares entered in the Commercial Register) were acquired as part of the share buyback program that started in 2014. The remaining 179,060 shares are mostly earmarked for share participation plans. The total number of shares entered in the Commercial Register stands at 37,798,427 shares. The aforementioned share buyback program announced in March 2014 was launched on April 30, 2014. In the course of this program, shares amounting to a total of a maximum of 5% of the share capital recorded in the Commercial Register will be repurchased over a period of two years, less withholding tax, and retired by means of a capital reduction. This share buyback program has been suspended since July 2014 as a result of the acquisition of the Sanitec Group. The Board of Directors will decide whether to resume the program at the appropriate time.

Debt (in CHF million; as of December 31)			
	2012	2013	2014
Long-term debt	10.9	7.7	6.6
Total debt	14.7	11.7	10.5
Liquid funds and marketable securities	423.1	612.8	749.7
Net cash	408.4	601.1	739.2

# Investments

## Investment volume slightly above medium-term goals

Investments in property, plant and equipment and intangible assets amounted to CHF 104.8 million in 2014 or CHF 6.8 million (+6.9%) more than in the previous year. Investment volume was therefore slightly above CHF 100 million, the level aimed for over the medium term in order to be prepared for expected growth. As a percentage of sales, the investment ratio was 4.4% (previous year 4.3%). All scheduled larger investment projects were carried out as planned.

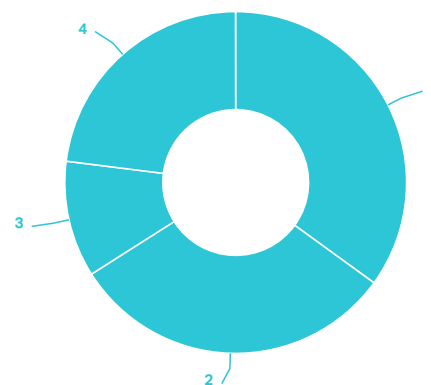
In 2014, 35% of all investments or CHF 37.2 million was used for infrastructure expansion. Geberit used 23% or CHF 23.7 million to acquire tools and equipment for new product developments, 31% or CHF 32.6 million was invested in the modernization of property, plant and equipment, while 11% or CHF 11.3 million was used for rationalization measures relating to property, plant and equipment.

The bulk of investments went toward machinery, the procurement of tools and molds for new products as well as building conversions and new building projects. Among other things, the new plant in Slovenia and the expansion of the Italian plant were completed in the reporting year. Additionally, investments were also made in important development projects and the further optimization of production processes.

Expenditures for property, plant and equipment and intangible assets (in CHF million)

	2010	2011	2012	2013	2014
	80.5	92.6	86.0	98.0	104.8
In % of sales	3.7	4.4	3.9	4.3	4.4

## Investments by purpose



- 1 Capacity expansion (35%)
- 2 Modernization (31%)
- 3 Rationalization (11%)
- 4 New products (23%)



# Employees

## Number of employees slightly up

At the end of 2014, the Geberit Group employed 6,247 people worldwide – 21 persons or 0.3% more than in the previous year. This change is primarily due to capacity adjustments in the production plants and an expansion within sales.

Based on the average number of 6,303 employees, sales per employee amounted to TCHF 381.5 or 3.5% more than in the previous year.

The number of employees by business process did not change significantly compared to the previous year. At the end of 2014, 29.5% worked in marketing and sales, 54.1% in production, 3.7% in research and development, 9.0% in administration and 3.7% were apprentices.

## Attractive employer thanks to transparency and team spirit

First-rate employees are key to the success of Geberit. Not only the best, but also the right employees are to be acquired and retained. Geberit sees itself as a company with an open corporate culture that offers attractive international development opportunities at the interface between the craft, engineering and sales sectors.

The most important findings from the 2011 employee survey revealed that employees identify with the company to a high degree and are very satisfied with their employment conditions. A further survey is planned to review the progress made in further development issues, among other aspects. In recent years, a strong focus has been placed on the standardized global performance assessment, development and compensation process (PDC). The goal is to reinforce the performance culture, increase transparency and better recognize and promote talent. Remuneration policies are to be based on standardized job assessments and salary levels for the relevant country. A central element of the process is that several supervisors assess the performance, development and salary of an employee. Although this group process is time-consuming, experience suggests a high level of acceptance and effectiveness. At the beginning of 2014, the upper hierarchical levels – a total of around 1,000 employees or 15% of the entire workforce – were involved in this PDC process. The process was expanded in the reporting year to include further employees and around 1,250 employees or 20% of the entire workforce are now involved.

For internal communication with employees, there is a focus on interactive, real-time communication that is accessible to all. The intranet plays a central role here. For instance, the CEO regularly informs employees on the current state of the business, the economic parameters, the future prospects and general topics of interest in videos that are accessible on the intranet as well as via electronic newsletters. Special solutions involving newsletters and/or communal large-screens have been developed for production employees without access to personal computers. The intranet is currently being adapted to the latest communication trends. The initial elements of the revised version are to be introduced in 2015. In addition to the intranet, a Group-wide employee magazine is published four times a year and contains articles on issues relevant to the world of Geberit.

## Targeted promotion and development

Geberit offers its employees attractive employment conditions. In 2014, salaries and social benefits amounted to CHF 483.9 million (previous year CHF 475.4 million), please also refer to the → [Notes to the Income Statement](#). Employees were also able to participate in share participation plans at attractive conditions, see → [Financial Statements of the Geberit Group, 18. Share Purchase Plans](#) as well as → [Remuneration Report](#).

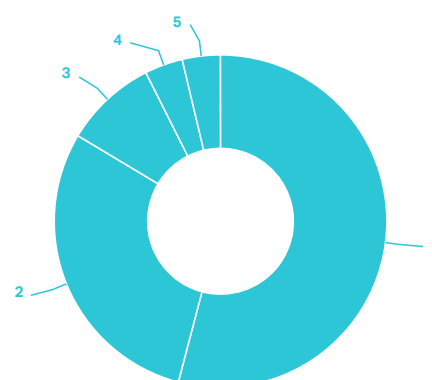
Equal opportunities and equal pay for women and men are self-evident. The proportion of female employees at the end of 2014 was 31% (previous year 31%), and for senior management this figure was 7% (previous year 7%). The five-member Board of Directors and the Group Executive Board do not have any female members.

Geberit employed 232 apprentices at the end of 2014 (previous year 234). The transfer rate of apprentices to a permanent employment relationship was 82% (previous year 59%). The target is a rate of 75%. As a global company, Geberit promotes the internationalization of employees. Experience abroad and the transfer of know-how are an advantage for both employees and the company. Therefore, apprentices have the option of working abroad for a period of six months on completion of their apprenticeship. Such apprentice programs were carried out in India and South Africa in 2014.

Employees by countries  
(as of December 31)

	2013	Share in %	2014	Share in %
Germany	2,423	39	2,413	39
Switzerland	1,255	20	1,262	20
China	718	11	688	11
Austria	503	8	507	8
Slovenia	248	4	259	4
USA	227	4	237	4
Italy	113	2	118	2
Others	739	12	763	12
<b>Total</b>	<b>6,226</b>	<b>100</b>	<b>6,247</b>	<b>100</b>

Employees 2014 by business processes  
(as of December 31)



- 1 Production (54.1%)
- 2 Marketing and Sales (29.5%)
- 3 Administration (9.0%)
- 4 Research and Development (3.7%)
- 5 Apprentices (3.7%)

The expenditure and measures for → **training and education** are adjusted to the needs of the respective employee groups. The Potentials Management process enjoys a high level of priority. The goal is to identify talent within the company and provide targeted support. Candidates for management functions within the Group are introduced to current issues from the core business as part of an "Action Learning" program and are thus prepared for their first management, project management or specialist function. These measures are intended to ensure that at least half of the open management positions can be filled by internal candidates. In 2014, it was possible for 69% of all vacancies in Group management to be filled with internal candidates (previous year 70%).

The management training program at the International Institute for Management Development (IMD) in Lausanne launched at the end of 2012 for the 160 members of Group management was completed in 2014. The course was tailored individually to Geberit's needs and included further training modules on strategic management, leadership and finance.

#### **Systematic process for improving occupational safety**

Group-wide, the absenteeism rate was 3.9% for the reporting year (previous year 4.1%). 3.8% (previous year 4.0%) was due to sickness and 0.1% (previous year 0.1%) to occupational accidents.

The health and safety of employees has the highest priority. Geberit has therefore formulated the vision of an "accident-free company". By 2020, the accident rate is to be reduced by 50% compared with the base year 2010. The greatest potential lies in preventing accidents due to carelessness, and a focus is therefore being placed on changes in behavior. All measures are controlled as part of the Geberit Safety System (GSS). Occupational safety is monitored at the production plants by means of monthly key figures. The accident frequency rate (AFR) in 2014 came to 9.6 (previous year 10.2) and has been reduced by 33% since beginning of 2010. The accident severity rate (ASR) increased slightly to 130.5 in 2014 (previous year 124.3), but has fallen by 14% since the beginning of 2010.

For details of the measures taken to ensure active health management for the employees, also see → **Occupational Health and Safety Management Approach**.

#### **Code of Conduct updated**

Geberit aims to act as a role model for ethically unimpeachable, environmentally friendly and socially responsible operations. In this regard, the Geberit Compass – which formulates the self-image of Geberit (what we do, what motivates us, what is responsible for our success, how we work together) – and the → **Geberit Code of Conduct for Employees** serve as the applicable guidelines. In 2014, the Code of Conduct was updated on the basis of its wording from 2007. It is to be introduced and actively communicated to employees in 2015.

In order to do justice to the topic of whistleblowing, the Geberit Integrity Line is available to all employees and is intended to enable employees to anonymously report cases such as sexual harassment or corrupt payments. The Integrity Line is operated by an external company with experience in this area and is available around the clock seven days a week. No major cases were reported through the Integrity Line in 2014. The few registered complaints were all dealt with and issues were settled swiftly.

# Customers

## Focus on customer needs

In order to ensure the Group's long-term success, Geberit relies on sustainable organic growth. The needs and requirements of the various target groups – whether they are wholesalers, plumbers, sanitary engineers, architects, end users or real estate investors – thus play a central role in all marketing activities.

At the forefront are around 500 technical advisors working in field service at the local sales companies, who are in daily contact with plumbers, sanitary planners and architects. Another central element for retaining customers is Geberit's broad range of training opportunities. During the reporting year, around 30,000 customers were provided with education and further training on Geberit products and software tools in the 25 Geberit information centers in Europe and overseas. Once again around 70,000 customers became more familiar with Geberit know-how and products at external events that took place in 2014. In order for these customer events and training courses to be successful, it was not just the content that had to be constantly updated. In addition to the traditional focus on those in the trade, an increasing orientation towards end users required the sales arguments to be tailored as specifically as possible to the different requirements of the target groups.

## Festive events to mark "50 years of concealed cisterns"

The concealed cistern celebrated its 50th anniversary in 2014. With more than 60 million cisterns sold to date since its launch by Geberit in 1964, this constantly evolving product is a real success story. The success of the concealed cistern triggered the development of prewall installations, which allowed bathrooms to be designed with unprecedented levels of freedom. A paradigm shift occurred in European bathrooms – the bathroom was no longer merely a functional room, but instead was transformed into an area of comfort with individual fittings.

Geberit used the occasion to thank many customers for their years of loyalty, which included hosting carefully prepared events in its markets. A real highlight was the five gala evenings in Duisburg and Stuttgart (DE), Bern (CH), Birmingham (UK) and Amsterdam (NL) to which Geberit invited its most important customers and partners, which included a stage show developed by the company and a meal comprised of several courses. A total of 3,800 guests attended these gala events. Similar but locally organized events were held for instance in the Czech Republic, Slovenia and Croatia. Alongside the gala evenings, building site parties were held across Germany under the slogan "the building site rocks". At 36 events, almost 10,000 participants were able to combine a casual after-work get-together with the presentation of new products and catering to match the slogan. All of these events formed a milestone for Geberit in the management of its business relationships.

Various special exhibits served to make the technology and history of the concealed cistern more accessible and tangible. In addition, a film provided an exemplary illustration of the → [history of the concealed cisterns](#) that were first installed in 1964 at the Hotel Eiger in Grindelwald (CH). The 50-year-old installations were subjected to a complete overhaul in 2014. In line with their reputation as icons of reliability, the concealed cisterns from the pioneering era were still in impeccable condition.

## Further professionalization of marketing lays the basis for continued growth in the shower toilet market

The Geberit AquaClean advertising campaign already launched in previous years in a total of 11 markets was continued in the reporting year. Furthermore, the marketing processes and instruments were systematically expanded further. This included an extended cross-media communication concept for a direct customer approach in order to convey the benefits of the shower toilet and the AquaClean brand through the "Aqua Times" magazine, the Internet and social media. In addition, tools were provided in all 11 campaign markets to facilitate the decision-making process for the customer. The direct addressing of end users was enhanced by means of a new CRM system. Finally, a new concept for mobile booths was developed.

The → [awareness of the Geberit AquaClean brand](#) has increased significantly in all markets.

### Close contact with plumbers and sanitary planners

The close contact with plumbers and sanitary planners remained a focus of marketing activities. The current, tried-and-tested market cultivation activities such as customer visits, training and the provision of technical documentation were continued. Geberit has been holding → **“Geberit On Tour”** events in various markets each year since 2011. The mobile exhibitions at local and regional wholesalers enable plumbers to experience new products and the advantages of Geberit products directly on site. Over 20,000 visitors were addressed at around 750 events in 15 countries in 2014. Such events not only took place in core markets such as Germany and Austria, but also in emerging markets such as South Africa and Israel.

### Modern customer service

In order to be able to advise customers comprehensively and professionally, technical advisors in field service in 15 markets have now been equipped with iPads. This means that they can access all the relevant sales documentation online during sales discussions and also send it directly to the customer as required. Geberit has developed an app for its customers that makes it easier to find and order spare parts, among other features. By the end of 2014, this Geberit Pro App had been downloaded over 40,000 times since its launch in March 2013.

### Trade fair presence as a tool for fostering customer contact

A large number of trade fairs again served as a suitable platform for Geberit to demonstrate its innovative power and simultaneously maintain and expand its network of contacts in the market in 2014. The most important trade fairs were those in Essen, Nuremberg and Hamburg, Swissbau in Basel, Batibouw in Brussels, Aquatherm in Vienna, Kitchen & Bath China in Shanghai and the Kitchen and Bath Industry Show in Las Vegas. Architects and designers were addressed directly at the Salone del Mobile and the Fuori Salone in Milan, and also at the architect@work series of events taking place in various countries.

It is less the technical facts than the emotional and design aspects that count in communication with end users, designers and architects. Trend shows have established themselves as a suitable venue in this regard. For example, based on the positive experiences gained in previous years in Germany, the Swiss market of Geberit invited architects, sanitary planners, plumbers and wholesalers to a trend show in Baden (CH). Around 350 participants learned what the future holds in the area of bathroom design – and how Geberit is shaping these trends in terms of design and innovations.

# Innovation

## Innovation as an important foundation for brand value

Innovation is a key factor in Geberit's success as market leader. Substantial resources were once again invested in the development and the improvement of products and technologies in 2014. In addition to features such as top-class quality, durability and ease of installation, the new products are characterized by high resource efficiency and technical finesse.

The innovative power, which is above average in a sector comparison, is essential to the Group's success. It is based on its own successful and wide-ranging research and development (R&D) activities. In the reporting year, the Group invested CHF 55.8 million (previous year CHF 50.9 million) or 2.3% of sales in upcoming products. Expenditures increased by 9.6% year-on-year. Additionally, as part of the → **investments in property, plant and equipment and intangible assets**, considerable sums were invested in tools and equipment for the production of newly developed products. The company applied for 20 patents in 2014, bringing the total for the last five years to 103.

All new product developments go through a structured innovation and development process, which ensures that the Group's creative potential is used to the optimum extent and that the development activities focus on the needs of the market. Customer benefits and a system approach are of central importance here.

## Broad know-how in technology and innovation

Design, comfort, drinking water hygiene, fire protection, sound insulation, hydraulics and sustainability – Geberit has in-depth expertise in all these areas. Innovations are developed within the team and are often tested in different markets. To support its internationalization efforts, the Group maintains development competence centers of its own in China and the USA.

The new → **shower toilet Geberit AquaClean Mera**, which will be available from September 2015, is a good example of how networked expertise can trigger a leap in innovation in several respects. Despite possessing many new comfort functions, it was possible to significantly reduce energy and water consumption compared to its similarly positioned predecessor – the AquaClean 8000plus.

## New products for technicians and designers

The following products were newly launched on the market in 2014:

- The → **flushing system Omega** features extra-small actuator plates and a cistern that offers the greatest possible flexibility in any room layout thanks to its three installation heights. Depending on the room layout, the high-quality actuator plates can be mounted on the cistern either from the front or the top.
- The thin → **actuator plate Sigma70** floats a few millimeters in front of the wall and impresses with its refined elegance. Thanks to patented servo technology, a gentle press suffices to trigger the dual flush.
- The → **Monolith Plus** sanitary module sets new standards in both comfort and style. It features extras such as an integrated odor extraction unit and a discreet, indirect LED light for orientation at night.
- A further development of a product already successfully introduced on the market is the attractive → **wall drain for showers**. This elegant solution can be installed virtually anywhere thanks to its extra-flat trap and is also ideally suited for renovations.
- The flow-optimized → **Sovent fittings** facilitate an optimal layout of waste water discharge stacks in high-rises. The fitting ensures pressure compensation and increases the discharge rate by 40%, and also permits the use of relatively small-sized discharge stacks even in very tall buildings.
- Drainage pipes made of polyethylene can be connected to one another in a permanent and impermeable manner. This can be achieved using an electrofusion sleeve coupling or an electrofusion coupling with integrated thermal fuse, among others. New tools such as the → **electrofusion machine ESG3 and the pipe scraper** greatly facilitate this work on the building site or in the workshop.

For more details on new products in 2014, see the → **Product Magazine 2014**.

## R&D expenditures (in CHF million)

	2010	2011	2012	2013	2014
	44.2	48.4	49.8	50.9	55.8
In % of sales	2.1	2.3	2.3	2.2	2.3

Several new product launches are planned for 2015:

- The new → [shower toilet Geberit AquaClean Mera](#) is a premium-class complete solution featuring the highest levels of comfort. Designed by Christoph Behling and developed by Geberit, the new shower toilet blends harmoniously into any bathroom environment. The patented WhirlSpray shower technology ensures thorough, gentle cleaning while using less energy and water. A hybrid hot water system featuring a combination of continuous flow heater and boiler ensures an immediate and constant supply of warm water. A further innovation is the TurboFlush flush technology, which ensures an efficient and quiet flush using 4.5 liters of water thanks to the specially developed, rimless inner geometry of the WC ceramic appliance. Additional comfort functions include WC-seat heating, odor extraction and an orientation light. All functions can be programmed according to personal preferences using an elegant remote control.
- The launch of the → [shower channels CleanLine](#) will see the introduction of a new generation of drains and shower channels for floor-even showers. These products impress thanks to their attractive design and high practical suitability, the latter of which is evident both during installation and in everyday use. Every detail, from the hydraulic design of the flat trap unit and the installation and sealing technique right through to the design of the shower channel and comb insert, is in line with pioneering standards in sanitary technology. The CleanLine shower channels can also be cleaned both quickly and thoroughly, which represents a major plus for the end user.
- The compact → [Geberit sanitary flush unit](#) with new control and sensor technology helps to prevent microbial contamination of water pipes by automatically flushing them when required, thus ensuring that stagnating drinking water is regularly replaced in buildings such as hotels, schools and sports stadiums. With a flexible flush performance of 4, 10 and 15 liters per minute, the sanitary flush unit can be connected to up to two water pipes. It is equipped with an integrated back-pressure sensor and can be connected to temperature and volumetric flow rate sensors. The unit is operated and programmed via smartphone.

For more details on new products in 2015, see the → [Product Magazine 2015](#).

# Logistics and procurement

## Logistics solutions that cater to customer needs

The integrated logistics of Geberit enables optimum closeness to customers and responds to customer needs – such as delivery type and frequency – on an individual basis. As the interface between plants, markets and transport service providers, Transport Management coordinates the activities in question and facilitates intelligent and resource-efficient transport solutions; for example, by enabling transport runs between plants to be linked with deliveries to customers. This reduces the number of empty kilometers and increases truck capacity utilization.

A cooperation is in place with six main transport service providers for land transport in Europe. These service providers regularly report to Geberit on their quality and environmental management systems – including the reduction of energy consumption and emissions. The Euro 6 emission standard has been implemented for all new truck purchases made by the service providers since 2014. Overall, the share of Euro 5 vehicles was 83% (previous year 87%), with the share of Euro 6 vehicles already at 8% (previous year 3%). In 2014, the transport volume increased by 2.5% to 181.0 million ton-kilometers (previous year 176.6 million ton-kilometers), resulting in an increase in CO<sub>2</sub> emissions of 2.9% to 28,282 metric tons (previous year 27,483 metric tons).

The pilot project with an environmentally friendly, natural gas truck running between Pfullendorf and Rapperswil-Jona went well during the reporting year. The pioneering project, which is being conducted in collaboration with a transport service provider and a truck manufacturer, is now being evaluated in detail. This will include an assessment of whether it can be transferred to other routes.

## Supplier management minimizes risks

The centrally organized Purchasing department looks after the procurement of raw materials as well as semi-finished and finished products for all production plants worldwide (except the USA). All Geberit's business partners and suppliers are obligated to maintain comprehensive standards. This applies to quality, socially responsible and healthy working conditions as well as environmental protection and the commitment to fair business practices. The basis for the cooperation is the [→ Code of Conduct for Suppliers](#). This Code is aligned with the principles of the United Nations Global Compact and is binding for every new supplier. Up to the end of 2014, 728 suppliers had signed the Code (previous year 701 suppliers). This equates to over 95% of the total procurement value.

When evaluating suppliers, Geberit strives to achieve the greatest possible degree of transparency. All new and existing partners are thus assessed by means of standardized processes and according to the same criteria: company as a whole, quality and sustainability, price, procurement chain and delivery reliability, production and technology. As a rule, the selection of suppliers must include a quality audit covering clarification on environmental, health and safety issues. Where an audit reveals inconsistencies in the area of sustainability, an additional, in-depth audit is conducted.

Overall, the risk assessment is based on the division into risk classes – depending on the production location (country) and production processes at the supplier. To ensure neutrality and the expertise required for the audits, Geberit works with external partners. Any shortcomings exposed by audits give rise to sanctions. As a rule, a deadline is imposed for remedy of the situation.

Comprehensive supplier management minimizes risks and costs. Thanks to digitization, billing too was efficient and already over 60% paperless in 2014.

# Sustainability

## Long-term thought and action as a basis for success

A sustainable corporate culture makes it possible to increase the value of the company over the long term and minimize risks for its future development. Geberit positions itself as a leader in sustainability and aims to set standards for customers, suppliers and other partners. This applies to water-saving, sustainable products; environmentally friendly and resource-efficient production; procurement and logistics with high environmental and ethical standards; and good, safe working conditions for the more than 6,000 committed and qualified employees worldwide. The corporate social responsibility is realized among other things within the scope of global social projects relating to the core competencies of water and sanitary facilities, and is intensified through partnerships such as that with the non-profit organization Swiss Water Partnership aimed at promoting international dialog on water. There is also a long-term partnership with the Swiss development organization Helvetas.

Geberit's positioning as a sustainable company is playing an increasingly important role in various stakeholder groups' perceptions, as is reflected by a large number of awards. For example, Geberit has made the Corporate Knights Global 100 index – a list of the 100 most sustainable companies in the world – since 2010.

## Water management as a defining issue for the future

With its Millennium Development Goals from the year 2000, the United Nations aims to halve the number of people without access to clean drinking water and sanitary facilities by 2015. A look at the progress made to date shows that the ambitious goals are only partially being met. The sustainability goals of the UN for the post-2015 era are currently being negotiated. What is not disputed, however, is the great importance of the topic of water management for a sustainable development. The increase in the world's population, migration, urbanization, climate change and natural disasters can lead to regions that are currently well supplied with water becoming problem regions in the future. These global trends will have a significant impact on future sanitary technology: water-saving and resource-efficient products are becoming even more important. The EU is increasingly putting water conservation on its political agenda and has developed ecolabels for efficient toilets, urinals, lavatory taps and showers. The biggest environmental contribution by Geberit products lies in the conservation of water. The analysis of the entire value chain in the form of a water footprint shows that nearly 100% of the water consumption is attributable to the product usage phase. The potential for savings is therefore impressive. According to one model calculation, the entire dual-flush and flush-stop "fleet of cisterns" produced since 1998 has so far saved around 17,900 million cubic meters of water in comparison with traditional flushing systems. In 2014 alone, the water saved amounted to around 2,128 million cubic meters. This is more than half of the annual consumption of all German households.



## Water footprint throughout the value chain (2014)

### Provision of raw materials

0.6% of the total amount of water is required in the manufacture of raw materials for Geberit products.



0.6%  
(14.8 Mio. m<sup>3</sup>)

### Manufacturing

A mere 0.01% of the water is used in the manufacturing of products at Geberit in 2014.



0.01%  
(0.14 Mio. m<sup>3</sup>)

### Use

The greatest water consumption by far occurs during the use of Geberit products manufactured in 2014 during their entire service life (cisterns, urinal flushing systems and lavatory taps).



99.4%  
(2 293 Mio. m<sup>3</sup>)

### Disposal

0.01% of the total amount of water is used for the disposal of Geberit products.



0.01%  
(0.21 Mio. m<sup>3</sup>)

## System provider of solutions in green building

Green building has long been more than just a trend. European standards are increasingly prescribing the use of sustainable products and systems in buildings. At the same time, more and more buildings are being constructed in accordance with sustainability standards such as DGNB, Minergie, BREEAM and LEED. Investors, project developers, owners and tenants are looking for system providers with holistic know-how regarding green building that can contribute to the respective desired standards being fulfilled in a targeted manner. This is opening up a future market with major potential in which Geberit is present with water-saving, energy-saving, low-noise and durable products, and one in which Geberit specifically positions itself in the area of green building.

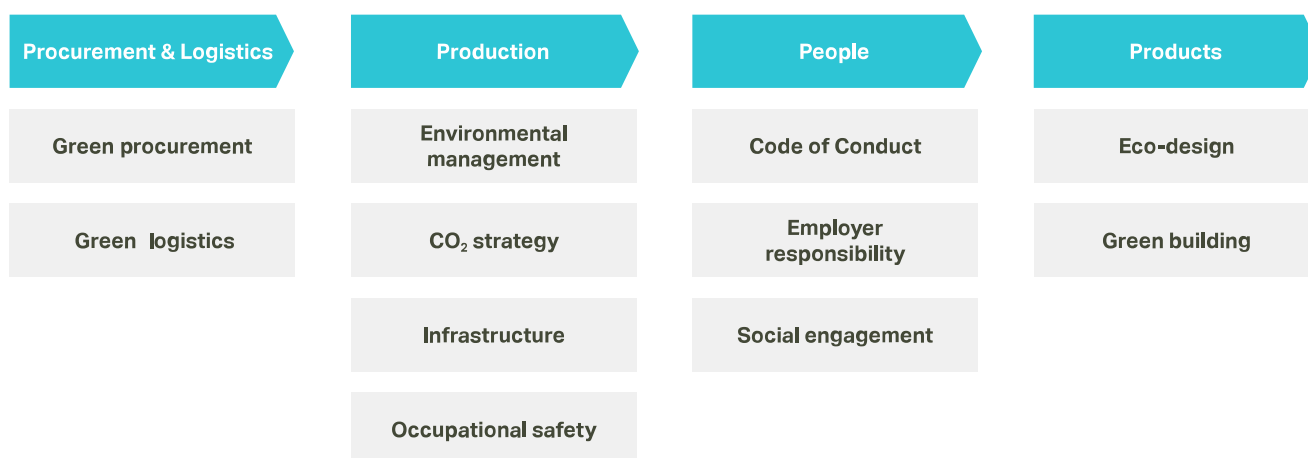
The importance of the topic is reflected in the increasing number of green building reference projects in which Geberit products are installed. One of the world's largest economic centers is currently being built in Riyadh – → [the King Abdullah Financial District \(KAFD\)](#). It is also the world's largest sustainability project in the building sector. The new district has an area of 1.6 million square meters and will be home to 34 high-rise complexes, all of which have been nominated for LEED Gold certification. Geberit is one of the leading suppliers, with the water efficiency of its electronic WC and urinal flush controls and its electronic lavatory taps impressing as a particular strength. Geberit products contribute 10% towards the certification results achieved by the buildings in the KAFD. The → [Library of Birmingham \(UK\)](#) distinguishes itself with its outstanding and sustainable architecture. Geberit products such as Duofix installation systems and cisterns with dual flush contributed to the building achieving BREEAM "Excellent" certification by reducing water consumption in the toilet facilities. The 3-star green building label demands the highest standards with respect to water consumption and recovery in China. To meet these standards, the owner of the 46-story → [Shenzhen Stock Exchange \(CN\)](#) building opted for the Delta concealed cisterns from Geberit with dual flush.

## Sustainability strategy and reporting as a foundation

The consistent implementation of the sustainability strategy is an essential objective for all internal organizational units at Geberit. The strategy focuses on individual sustainability modules. Among these are → [green procurement](#), → [green logistics](#), → [environmental management in production](#), → [occupational safety](#) and → [eco-design in product development](#), as well as → [social engagement](#). Each module contains a clear objective, derived measures and quantified key figures for effective monitoring. Overall,

objectives were achieved to a great extent in 2014. For more information, see the [→ sustainability strategy](#).

## Sustainability strategy landscape



Since 2007, a sustainability performance review has been published annually in accordance with the guidelines of the Global Reporting Initiative (GRI). In this regard, the switch from the GRI G3 to the new GRI G4 guidelines was made in 2014. As prescribed by GRI, a process for determining the essential aspects of sustainability was the strategic starting point. These were identified and prioritized as part of an [→ internal process](#). An [→ external stakeholder panel](#) was consulted in September 2014. This was the second such consultation following the first in 2012. Its mandate consisted of scrutinizing the results of the internal materiality analysis and providing feedback on the sustainability strategy and sustainability communication. The results are summarized in a [→ panel statement](#). The [→ response from Geberit to the panel statement](#) illustrates how the results are being taken into consideration in the further development of the sustainability strategy and reporting, also see [→ results of materiality analysis](#).

All aspects of the GRI G4 guidelines can be found in the [→ Sustainability Performance Report](#) for 2014. The information disclosed within the scope of this report fulfills the “comprehensive” transparency grade set out in the GRI G4 guidelines, as has been verified by GRI.

Geberit is committed to internationally recognized principles of sustainability and since 2008 has been a member of the United Nations Global Compact, a global agreement between businesses and the UN designed to make globalization more socially responsible and environmentally friendly. A [→ Communication on Progress](#) regarding measures in the areas of human rights, labor practices, environmental protection and combating corruption is submitted annually. Geberit is also a member of the local Swiss network of the UN Global Compact. The anchoring of the subject of sustainability is reinforced by the [→ Code of Conduct for Employees](#) and the [→ Code of Conduct for Suppliers](#). Compliance with the directives is ensured by continuously improved [→ compliance processes](#). In addition, an extensive system for the control and management of all risks involved in entrepreneurial activities is in place throughout the Group. For more information, see [→ Corporate Governance, 3. Board of Directors, Information and Control Instruments vis-à-vis the Group Executive Board](#).

The efforts in terms of sustainable business management are also being rewarded by the capital market. Geberit is strongly represented in the sustainability stock indices and sustainability funds segment. For example, the Geberit share is represented in the Dow Jones Sustainability Index (DJSI) and part of the STOXX Europe Sustainability Index, as well as the FTSE4Good Index (Europe/Global), where it is among the super-sector leaders in Construction & Materials. In addition, renowned sustainability funds hold the shares in their portfolios. Geberit's objective is to continue to play a significant role in the future in the “Sustainability” and “Water” investment segments, which are still gaining in importance.

### Eco-design approach adopted for new product developments

In addition to their quality, durability and high degree of water and resource efficiency, Geberit products also impress with their good environmental compatibility and high recyclability. The basis for sustainable products is a systematic innovation and development process. The eco-design approach has been implemented since 2007. This means that environmental aspects – from the selection of raw materials right through to disposal – are systematically examined during a product’s early development phase, with the requirement that every product outperforms its predecessor from an ecological perspective. A current example is the new OEM flush valve type 240. Thanks to an intelligent redesign, it was possible to increase the flush performance by 40% while also reducing the quantity of material. In addition, half of the material is made of high-quality ABS regranulate, thus indirectly saving almost 500 metric tons of CO<sub>2</sub>.

Specially created product life cycle assessments are important decision-making aids for the development processes and provide arguments for the use of products that conserve resources. Detailed life cycle assessments have already been prepared for the following products: drainage/supply pipes, AquaClean 8000plus, AquaClean Mera, electronic lavatory taps type 185/186, concealed cisterns and urinal flush controls. The environmental product declarations (EPDs) in accordance with the new European standard EN 15804 are becoming increasingly important and can also be used directly for green building standards such as LEED. For example, the EPD for Geberit lavatory taps presents relevant, comparable and verified information about the product’s environmental performance in a transparent manner. A pilot project for the systematic recording of environmental data at the product level is currently underway, which should greatly simplify a further processing to EPDs and ecological product information.

### WELL label highlights leaders in water conservation

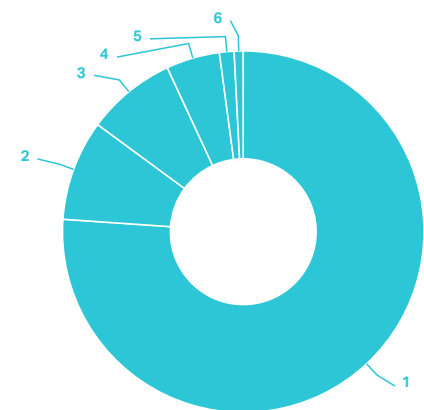
In 2013, the European Commission formally agreed the criteria for an ecolabel aimed at reducing water consumption in European toilets. This label will be awarded to toilets that – in addition to fulfilling other requirements – use a maximum of five liters per toilet flush and therefore contribute to significantly reducing the average water consumption per toilet flush. The WELL label (Water Efficiency Label) introduced in 2011 by the European umbrella organization for valve manufacturers (EUnited) already provides incentives for exceeding these requirements. It takes its direction from the well-known and well-established energy labels for electrical household appliances and serves as an information and orientation aid. WELL provides consumers with information about a product’s water efficiency at a glance. WELL uses a scale of A to D for products for home use and A to F for products for use in public areas. For example, WC flushing systems achieve the A class only if they use a maximum of between four and five liters per flush. Of the nine Geberit product groups already certified, eight are represented in the A class and one in the B class. These product groups account for over 20% of Group sales. This water-efficiency label has been added to packaging and specified in the catalogs since 2013. The list of products certified in the A class also includes one of the most important products in the Geberit range, the Sigma concealed cistern.

### Production at “best practice” level

All production sites and logistics as a whole work with an integrated management system and have a → **Group certificate in accordance with ISO 9001 and ISO 14001** that is valid until 2015. By mid-2016, all plants will also integrate the OHSAS 18001 standard for occupational health and safety management and individual sites will integrate the ISO 50001 standard for energy management. The first sites such as Lichtenstein (DE) already set standards in 2014 with the certification of a fully integrated management system for quality, environment, energy and occupational safety. Uniform monitoring of the environmental performance, the energy master plan and occupational safety is carried out Group-wide.

A comprehensive corporate eco-balance is prepared each year as the basis for targeted measures to improve environmental performance. The Group’s absolute environmental impact declined in the reporting year by 1.6% (previous year -2.1%) despite currency-adjusted Group sales over the same period rising by 6.4% (previous year +3.6%). Geberit is therefore on track with its target of reducing its relative environmental impact by an average of 5% per year between 2006 and 2015. The consumption of energy in the form of electricity, combustibles and fuels represents the greatest environmental impact, see → **detailed energy balance**. The longer-term development since 2006 – the year that the CO<sub>2</sub> strategy was launched – is impressive: Despite the increase in currency-adjusted sales, the electricity consumption has remained virtually unchanged. Continuous investment in energy efficiency is resulting in appreciably lower running energy costs per unit produced.

### Distribution environmental impact 2014

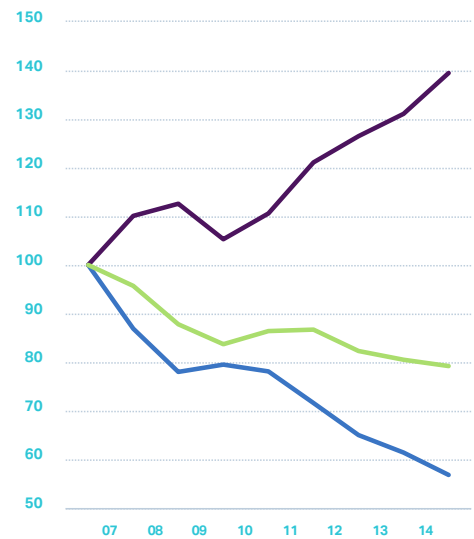


- 1 Electricity (76.1%)
- 2 Fuels (9.0%)
- 3 Combustibles (8.0%)
- 4 Disposal (4.8%)
- 5 Solvents (1.3%)
- 6 Water (0.8%)

### Environmental impact 2007 – 2014

since launch of the CO<sub>2</sub> strategy

(Index: 2006 = 100)



- Environmental impact absolute
- Sales, currency-adjusted
- Environmental impact in relation to sales

The optimization of energy management is an ongoing process: in addition to Lichtenstein, the Pfullendorf and Langenfeld (DE) plants were also certified to ISO 50001 in 2014 for the first time. Among other aspects, the machinery is systematically modernized in line with the energy master plan: the number of injection molding machines retrofitted with energy-efficient drive technology was increased in the reporting year from 94 to 109. Analyses show that a modified machine consumes over 40% less energy on average.

CO<sub>2</sub> emissions in 2014 amounted to 69,230 metric tons (previous year 69,909 metric tons). The ratio of CO<sub>2</sub> emissions to currency-adjusted sales was reduced by 6.9% (previous year -6.1%). This enabled the targets set out in the long-term → **CO<sub>2</sub> strategy** to be met. In addition to targeted and consistent energy management, this is attributable to the increase in the share of renewable energies. In 2014, renewable energy sources accounted for 37% of total electricity consumption (previous year 31%). This figure is to be increased to 60% by 2020. The share of renewable energies in combustibles is also to be gradually increased Group-wide, rising to 25% by 2020. The detailed → **CO<sub>2</sub> balance sheet** and → **all measures taken to reduce CO<sub>2</sub> emissions** are also disclosed in detail as part of the company's participation in the Carbon Disclosure Project (CDP).

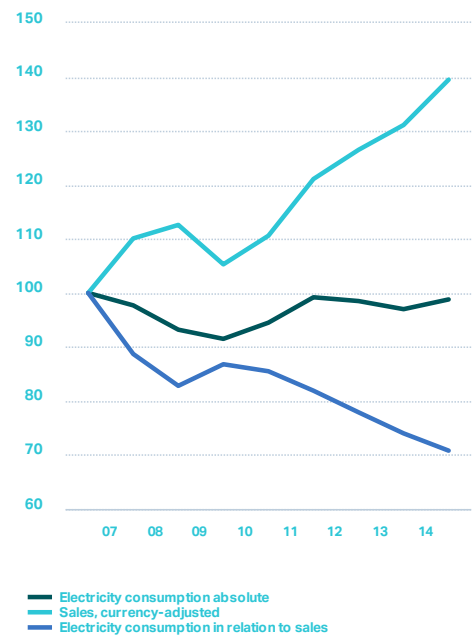
Geberit is investing in the infrastructure of tomorrow through the holistic planning and realization of new buildings and expansion projects. The new factory premises in → **Ruše (SI)** are leading the way in green production. The site's holistic energy concept includes the use of all waste heat from industrial processes, as well as the complete absence of fossil fuels. The available ground water is used for cooling, while rainwater is collected and used both as fire-fighting water and for watering the surrounding area.

All 11 European production plants also began introducing the Geberit Production System (GPS) 2.0 in 2014. Methods such as SMED (Single Minute Exchange of Dies), TPM (Total Production Maintenance), 5S (Workplace Organization Methodology) and CIP (Continuous Improvement Process) aim to ensure the uniform implementation of best-practice standards in production.

## Electricity consumption 2007 – 2014

since launch of the CO<sub>2</sub> strategy

(Index: 2006 = 100)



# Compliance

## Compliance processes designed for effectiveness

The → **Geberit Code of Conduct** describes the basic principles that have to be met in order to be an exemplary, reliable and fair business partner and employer. The content of the Code of Conduct was updated in 2014 and will be introduced and actively communicated to the employees in 2015. For its implementation, Geberit has established an effective system that focuses on compliance in the five key topic areas "antitrust legislation", "corruption", "employee rights", "product liability" and "environmental protection". In practice, it comprises various elements such as guidelines, continuous training, job orientation for new employees, e-learning campaigns, info letters, compliance-related audits and the → **Geberit Integrity Line**, a whistleblower hotline for employees launched in 2013.

Compliance is subject to binding controls each year as part of reporting on the Code of Conduct for Employees. All Geberit Group companies receive 50 questions on the five above-mentioned topic areas. In addition, on-site audits are performed by the Internal Audit department and corrective measures taken in the event of misconduct. The audits also comprise special interviews with the managing directors of the individual companies on the topics mentioned in the Code of Conduct. The respective information is verified. The findings from the survey and audits form the basis for the annual Compliance Report submitted to the Group Executive Board and are published in the → **Sustainability Performance Report** in accordance with the guidelines of the Global Reporting Initiative (GRI).

No significant breaches of the Code of Conduct were identified in 2014. In the interests of advancement and risk minimization, the compliance organization itself is also audited. At the end of 2014, the Internal Audit department and external auditors began examining the compliance processes with the specific aim of identifying possible improvements. Geberit is also a member of the compliance working group of SwissHoldings, in which compliance officers from all major Swiss companies exchange views on current compliance issues two to three times a year.

According to the → **materiality analysis**, the prevention of anti-competitive behavior is a key aspect. The comprehensive training on antitrust legislation was continued, with Germany and Austria the countries focused on in the reporting year. Awareness-raising and further training – among other things via e-learning programs – will be continued in the remaining Geberit Group companies in Europe in 2015.

As an active member of Transparency International, Geberit is committed to high standards in combating corruption, which it implements accordingly. Guidelines on donations that apply Group-wide are in place in this regard. A high level of awareness with respect to the correct practice regarding donations – which particularly plays a role during marketing campaigns – can be seen in the company. In cases of uncertainty, local business and marketing managers can have marketing concepts examined early on and consult the Group's Legal department. Awareness of compliance issues is also raised among sales partners at locations without Geberit representation. The company began developing a Code of Conduct for these partners in the reporting year.

# Social engagement

## Social projects with focus on water

Geberit aims to achieve sustained improvement in the quality of people's lives through innovative solutions in sanitary technology – including in developing regions. This is why it supports social projects each year that exhibit a relationship to the topic of water as well as to Geberit's core competencies and corporate culture. The social projects also play an important role in the area of training. Working on these projects provides Geberit apprentices with the opportunity to develop abilities and social skills that aid their personal and professional development. At the same time, social commitment also contributes to the implementation of the Millennium Development Goal of the United Nations, which has the aim of providing people worldwide with access to clean drinking water and basic sanitation.

## Targeted aid throughout the world

In 2014, Geberit supported a [→ project in the northern Indian city of Varanasi](#). The Kiran village, established by a Swiss nun, is a training center with boarding school for around 360 children and young people. In addition to schooling, the village offers apprenticeship positions in the area of horticulture, carpentry and tailoring, as well as in the village's own orthopedic workshop. The majority of the toilet facilities in the Kiran Village were in very poor condition. A Geberit Team comprising eight apprentices and two supervisors renovated these facilities during their two-week stay. They were supported by the employees from the village and a Geberit employee from India, who now also takes care of the maintenance of the newly renovated facilities.

The partnership with the Swiss development organization Helvetas was continued. In addition to its ongoing commitments, 2014 saw Geberit initiate a corporate volunteering project for its employees at the Rapperswil-Jona site. In 2015, 16 employees drawn from a hat will travel to Nepal for two weeks in order to actively take part in ongoing infrastructure, training and structural projects in the WARM (Water Resources Management) project.

The cooperation with the non-profit organization Swiss Water Partnership was continued in the reporting year. The goal of this platform is to bring together all those involved in the topic of water supply (from academic, economic as well as public and private spheres) to collectively address future challenges in this area and promote international dialog on water.

Geberit once again made financial contributions to diverse social projects in the reporting year, including a substantial donation to LIV, a South African organization that provides care and shelter for orphans in purpose-built villages.

As a basic principle, all social projects and the use of funds are regularly checked by Geberit employees in the respective country or in partnership with non-governmental organizations (NGOs).

For an overview of donations and financial contributions, see [→ Investments in infrastructure and services primarily for public benefit](#). All of Geberit's donations and related commitments are neutral from a party political point of view. Furthermore, no donations were made to parties or politicians. As a rule, no political statements are made and no political lobbying is carried out. This is ensured globally as part of the annual audit of the Code of Conduct.

# Changes in Group structure

No significant changes in the Group structure took place during the reporting year.  
Please also refer to the → [Financial Statements of the Geberit Group, Notes to the Consolidated Financial Statements, 2. Changes in Group Organization](#).

# Sanitec acquisition

On October 14, 2014, Geberit AG announced that it was making an offer to Sanitec's shareholders to acquire their shares at a price of SEK 97 each, corresponding to a total transaction value of CHF 1.21 billion for 100% of the shares. The offer represented a premium of 29% compared to the volume-weighted average price of the Sanitec shares on the Stockholm Stock Exchange over the preceding three months.

The relevant antitrust authorities have granted all the required approvals. At the end of the acceptance period on February 2, 2015, 99.27% of the shares had been tendered to Geberit. The purchase/sale of these shares was effected on February 10, 2015, and was completely financed by Geberit, using its own funds as well as taking on new debt. A squeeze-out procedure is being implemented for the remaining shares.

Sanitec is a leading European producer and supplier of bathroom ceramics, with net sales of EUR 689 million in 2014 and an EBIT margin of 11.4%. The company employs 6,200 people in 18 production facilities and 24 sales units. Sanitec sells its products primarily in Europe under 14 leading brands that are firmly established in their local markets.

For Geberit, the acquisition of Sanitec represents an expansion of its strategic focus. The future product portfolio will be enhanced with bathroom ceramics. The new company will be the market leader for sanitary products in Europe, combining technical know-how in sanitary technology "behind the wall" with design expertise "in front of the wall".

According to a pro forma calculation that was communicated in the announcement on October 14, 2014, and which was based on 2013 figures and did not take into account synergies of the combination, the combined company generated net sales of approximately CHF 2.9 billion with an operating profit (EBIT) of just under CHF 600 million, corresponding to an EBIT margin of around 21%. Net income was just under CHF 500 million, which corresponds to a return on sales of approximately 17%.



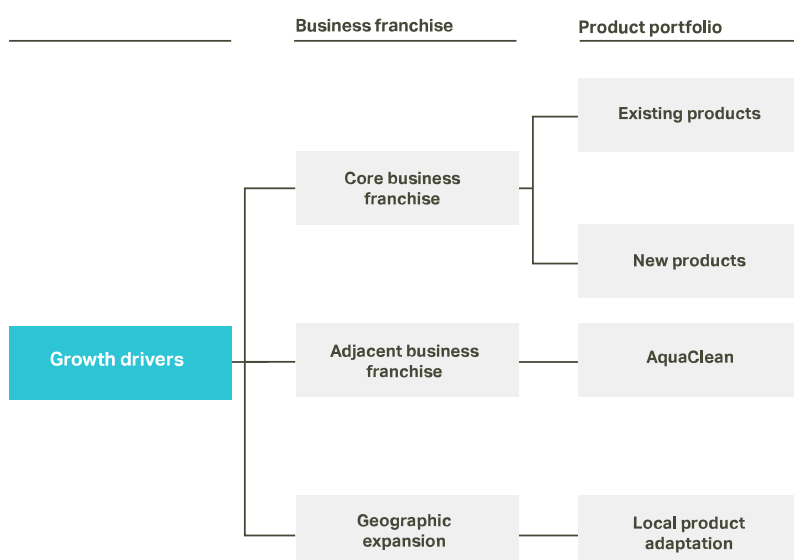
# Targets and strategy

## Ambitious medium-term goals

Geberit has made the setting of standards in sanitary technology worldwide its goal and aims to entrench these standards in the long term by acting sustainably. This approach is to be reflected among other things in sales growth that outstrips the industry average. Basically, Geberit is aiming to achieve its sales targets while at the same time maintaining its industry leadership in terms of profitability and the ability to generate high cashflows. In the medium term, average currency-adjusted sales growth of 4 to 6% and an operating cashflow margin of between 23 and 25% should be achieved annually. These targets will be reassessed following the completion of the Sanitec acquisition. A communication in this regard will follow in due time.

Further growth through acquisitions has not been ruled out. However, any potential acquisition will have to satisfy strict strategic and financial criteria.

## Source of organic growth contribution



Medium-term contributions to growth will come from products already launched on the market, new product launches, the AquaClean business and from local product adaptations. Overall, around one-third of growth should result from products that have been launched in the past three years and from the AquaClean business.

In geographical terms, the core European markets generated around 70% of sales at an already high level of market penetration and – compared to the growth of the Group – slightly below-average growth rates. On the other hand, in the emerging markets inside and outside Europe, the great market potential and a lower market penetration should pave the way for above-average growth and market share gains.

A concerted internationalization strategy for the AquaClean business has been pursued since the beginning of 2009 with the objectives of establishing shower toilets as a product category in Europe and strengthening Geberit's position as the market leader in this category.

In addition, further contributions to growth will be generated in the context of geographic expansion from products adapted to the specific local needs outside the core European markets.

In order to be prepared for the expected growth, Geberit also intends to invest on a normalized basis around CHF 100 million annually in property, plant and equipment in the coming years. However, major upcoming projects will see CHF 120 - 130 million invested in property, plant and equipment in 2015 and 2016. These statements are based on the current structures at Geberit; the impact of Sanitec's integration is not taken into account in these figures.

## Strategy

In accordance with its vision, Geberit aims to achieve sustained improvement in the quality of people's lives through innovative solutions in sanitary technology. Its proven, focused strategy for doing so is based on the four strategic pillars "Focus on sanitary technology", "Commitment to innovation", "Selective geographic expansion" and "Continuous optimization of business processes". These are practiced daily by the highly motivated and qualified employees.

- With regard to focusing on sanitary technology, Geberit centers on those business areas in the sanitary industry for which in-depth know-how and core competencies are available within the company. Essentially, these are sanitary and piping systems for the transport of water in buildings. Here, superior-quality, integrated, water-saving sanitary systems are offered.
- Continuously optimizing and extending the product range is crucial for future success. Innovation strength is founded on basic research in areas such as hydraulics, statics, fire protection, hygiene and acoustics. The insights gained are systematically applied in the development of products and systems for the benefit of customers.
- The accelerated penetration of markets such as France, the United Kingdom, the Nordic Countries, Eastern Europe and the Iberian Peninsula is an important factor for long-term success. Outside Europe, Geberit concentrates on the most promising markets. These include North America, China, Southeast Asia, Australia, the Gulf Region and India. With the exception of North America and Australia, the company mainly engages in project business in these regions. In this respect, the company always adheres strictly to the existing high standards in terms of quality and profitability.
- A further strategic focus relates to the continuous optimization of business processes. This is intended to ensure a leading, competitive cost structure in the long term and is partly achieved through Group-wide projects and partly through employees identifying improvement potential in their day-to-day work, thus making a major contribution toward positive development.

## Strategic success factors

The success of the Geberit Group is based on a series of success factors. The most important are:

- a clear, long-term strategy
- the focus on the sanitary industry
- significant sustainable growth drivers (refer to graphic → [Source of organic growth contribution](#))
- an attractive competitive position
- an innovative product range, developed in accordance with customer needs
- a proven push-and-pull business model
- a stable management structure
- a lean, high-performance organization with optimized processes
- a unique corporate culture

## Value-oriented management

Value orientation aspects are considered in many areas of the company.

The remuneration model for Group management as a whole involves a remuneration portion that is dependent on the company's performance and which is calculated on the basis of four equally weighted key figures – including the return on operating capital. In addition to the salary, there is an annual option plan for the Group Executive Board and other management members. Allotments under the option plan are also linked to a target figure for return on operating capital. Details can be found in the → [Remuneration Report](#) and in the → [Corporate Governance section](#).

Investments in property, plant and equipment above a certain amount are approved only if strict criteria are met. In this context, it is mandatory that an investment return be achieved that exceeds the cost of capital plus a premium.

In the interests of value-oriented management, Group-relevant projects are tracked over the long term following project completion and the achievement of objectives is evaluated. To this end, a controlling report is discussed annually by the Group Executive Board.

# Outlook

## Environment for the construction industry will remain difficult

Hopes for a moderate global economic upturn have been dampened in recent months, which is expected to directly impact the construction industry. The challenges in this sector remain complex and, viewed from today's perspective, are expected to become even more pronounced in the medium term. The individual regions/markets and construction sectors are developing very differently. In **Europe**, volumes in the construction industry are continuing to contract overall. With the exception of a few markets such as Germany, Switzerland, the United Kingdom and Poland which are developing positively, no recovery is in sight in most other markets, and markets such as Italy and France are expected to see further falls in demand. Non-residential construction is failing to recover, but this is at least partially being compensated by a flat to slightly positive trend in residential construction. In **North America**, the indicators in public construction projects are currently not pointing to a recovery on a relevant scale, which will significantly affect the Geberit business in this market. In residential construction, signs are pointing to a slowdown in growth. In the **Far East/Pacific** region, China has seen a decrease in the sale of homes, the number of new construction projects and residential property prices; the construction industry overall is showing a downward trend. The outlook for the **Middle East** and South Africa remain positive.

## Geberit

The Geberit Group's 2015 business year will be dominated by the integration of Sanitec's activities. The primary aim is to ensure that the two entities are joined in the smoothest possible manner without destroying value while at the same time creating a solid basis for a successful future. Just as important is the focus on the existing Geberit business, which is expected to be a challenging undertaking once again owing to the tense situation in the majority of the European construction markets. The objective, not only in the few markets that are healthy but also in the large number of markets that are shrinking, is to provide a convincing performance and to continue to gain market shares as in previous years. The focus will fall on the concerted marketing of the new products introduced in recent years, the more intense penetration of new markets and on the very promising shower toilet business. In line with the Geberit strategy, these measures will be accompanied by efforts to further optimize business processes. With regard to the impact of foreign currency effects, please refer to the → [information and the sensitivity analysis](#) in the Results section.

The management is convinced of being very well prepared for the upcoming tasks and will confidently meet the challenges in the new framework involving Sanitec. The opportunities offered as a result of combining technical know-how in sanitary technology "behind the wall" and design expertise "in front of the wall" will be firmly seized. With experienced and highly motivated employees at both Geberit and Sanitec, a number of promising products that have been launched in recent years and product ideas for the more distant future, a lean and market-oriented organization, an established cooperation based on trust with our market partners in both commerce and trade and – as a result of our industry leadership in terms of financial results in recent years – the Group's continued solid financial foundation following the acquisition of Sanitec, the future looks bright.