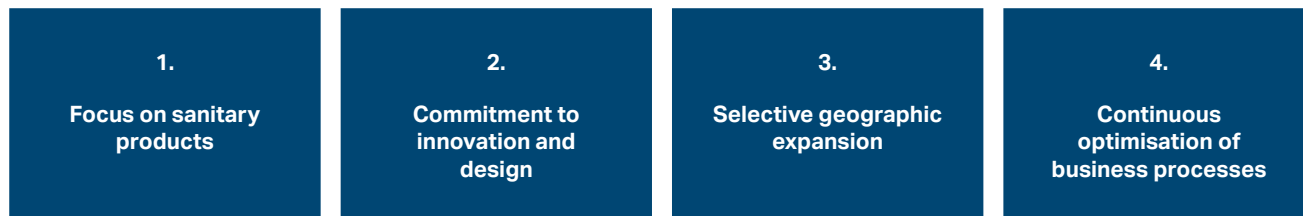


# STRATEGY

With its innovative solutions in the field of sanitary products, Geberit aims to achieve sustained improvement in the quality of people's lives. Its proven, focused strategy for doing so is based on the four pillars "Focus on sanitary products", "Commitment to innovation and design", "Selective geographic expansion" and "Continuous optimisation of business processes".



- 1. Focus on sanitary products:** Geberit concentrates on "behind the wall" sanitary and piping systems for transporting water in buildings, as well as bathroom ceramics and furniture "in front of the wall". In these areas, Geberit has comprehensive know-how and supplies high-quality, integrated and water-saving sanitary technology as well as attractive design.
- 2. Commitment to innovation and design:** continuously optimising and extending the product range is crucial for future success. Innovative strength is founded on research and development in areas such as hydraulics, statics, fire protection, hygiene and acoustics, as well as process and materials technology. The insights gained are systematically applied in the development of products and systems for the benefit of customers. Here, the aspects of design are constantly growing in importance.
- 3. Selective geographic expansion:** an important factor in long-term success is stronger growth in those markets in which Geberit products or technology are still under-represented. Outside Europe, Geberit concentrates on the most promising markets. These include North America, China, Southeast Asia, Australia, the Gulf Region, South Africa and India. With the exception of North America and Australia, the company mainly engages in project business in these markets. The company always adheres strictly to the existing high standards in terms of quality and profitability.
- 4. Continuous optimisation of business processes:** the purpose behind this focus is to ensure a sustainably leading and competitive cost structure. This 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 sanitary products
- solid, sustainable → **growth and earnings drivers**
- a strong competitive position
- an innovative product range, developed in accordance with customer needs
- a proven, customer-focused business model
- a stable management structure
- a lean, high-performance organisation with optimised processes
- a unique corporate culture

# MEDIUM-TERM GOALS

Geberit has set itself the goal of being the standard-bearer for sanitary products, continually developing these products in a sustainable way and thereby gaining market shares. Among other things, this approach yields 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.

The medium-term goals were reappraised in autumn 2015 following the acquisition of Sanitec and the switching of reporting to net sales from the 2015 financial year onwards. With the Sanitec business having been successfully integrated from an organisational, procedural and instrumental standpoint in 2017, the growth in net sales in local currencies, after adjustments for acquisitions, is expected to be between 4 and 6 percent in the medium term as an average over one economic cycle, and an operating cashflow (EBITDA) margin of between 28 and 30 percent is expected to be achieved. A third quantitative target has also been set: return on invested capital (ROIC), which is expected to reach 25 percent in the medium term.

To achieve our expected growth and be prepared for upcoming major projects, the coming years will see continual investments in property, plant and equipment – with 2018 and 2019 each seeing investments of around CHF 180 million.

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

The following growth and earnings drivers are crucial to achieving the ambitious medium-term goals:

1. **"Push-Pull" sales model**, which concentrates on the key decision-makers in the sanitary industry
2. **Technology penetration**, which involves replacing outdated technologies with new, more innovative sanitary products and systems
3. **Value strategy**, to increase the proportion of higher-added-value products – particularly in markets in which Geberit products already have a high degree of market penetration
4. **Geberit AquaClean**, to further expand the shower toilet category in Europe as well as Geberit's market position in this category
5. **Innovation leadership** in the sanitary industry, in order to set new standards
6. **Continuous process and cost optimisation**

# VALUE-ORIENTED MANAGEMENT

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

The remuneration model for Group management as a whole (around 200 employees) 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 value-oriented key figure “return on invested 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 invested capital. Details can be found in the → **Remuneration Report**.

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, important projects are tracked over the long term following project completion, and the achievement of objectives is evaluated annually by the Group Executive Board.

# RISK MANAGEMENT

For information on risk management, see also → **Corporate Governance, 3.7 Information and Control Instruments vis-à-vis the Group Executive Board, third paragraph.**

As part of the process of risk identification, risk analysis and risk management, the following risks have been rated as significant for the Geberit Group:

## PERFORMANCE OF THE EUROPEAN CONSTRUCTION INDUSTRY

Renovations, which are performing steadily, account for a significant share of total sales. Consequently, the Geberit Group is well protected against fluctuations in construction activity. Given the low penetration of modern sanitary technology in many markets, there is also a considerable degree of long-term potential for sales growth – regardless of the economic climate.

## INTEGRATION OF THE CERAMICS BUSINESS INTO THE GEBERIT GROUP

The key phases were completed by the end of 2017 (see also → **Sanitec Integration**).

## AVAILABILITY OF RAW MATERIALS

Professional, institutionalised purchase processes and systematic global and dual sourcing help to ensure that raw materials are available for the production process.

## CHANGES IN THE COMPETITIVE ENVIRONMENT

Innovative products as well as the comprehensive range of products since the integration of the ceramics business ensure that the Geberit Group is able to maintain its leading market position. Our partnership with the craft sector also plays a key role as part of the three-stage sales model.

## INFORMATION TECHNOLOGY

The Geberit Group is continually working to improve the security of its IT infrastructure. This includes taking defensive measures against cyberthreats as well as detecting and dealing with any cyberattacks efficiently. Extensive measures have been established in the interests of business continuity.

## COMPLIANCE WITH LAWS

The Geberit Group is exposed to various legal risks that arise from normal business activity. Comprehensive → **compliance processes** are in place for the purpose of preventing violations of the law or regulations.

## MANAGEMENT OF CURRENCY RISKS

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. As a consequence of this natural hedging strategy, currency fluctuations only have a minor impact on the margins. Gains and losses result mainly from the translation of local results into Swiss francs (translation effects). In terms of a sensitivity analysis, the following changes can be assumed if the Swiss franc should be 10% weaker or stronger than all other currencies:

- Net sales: +/-9%
- EBITDA: +/-9%
- EBITDA margin: +/-0 percentage points

For more information on the management of currency risks, see also 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 Statements of the Geberit Group, Notes to the Consolidated Financial Statements, 15. Derivative Financial Instruments.**

# SANITEC INTEGRATION

For Geberit, the acquisition of Sanitec in February 2015 represented an expansion of its strategic focus. The future product portfolio was enhanced with bathroom ceramics. Geberit became the European market leader for sanitary products and in particular strengthened its position in regions such as the Nordic Countries, France, United Kingdom and Eastern Europe, in which Geberit had not yet gained a firm foothold. The acquisition combined technical know-how in sanitary technology "behind the wall" with design expertise "in front of the wall". It also supported the Group's key → **growth and earnings drivers** and created added value.

The integration activities, which began in the second quarter of 2015, continued to progress according to plan in the reporting year, with the most significant integration tasks in terms of organisation, processes and systems being completed earlier than expected by the end of 2017. From 2018, line managers will promote further activities as part of daily business, with the focus on continually optimising and harmonising shared processes and the IT systems, developing combined products, making ongoing improvements in ceramics manufacturing and promoting cultural integration.

In July 2017, the result of a strategic review of two plants owned by the French subsidiary Allia that had been announced in the previous year were made known. Accordingly, in agreement with the trade unions and following approval by the authorities, the La Villeneuve-au-Chêne site was closed and ceramics production in Digoin was discontinued. In addition to a social plan, the agreement included the continuation of a packaging and logistics area in Digoin for the French market.

# MARKET ENVIRONMENT

## STABLE BUSINESS CLIMATE

As in previous years, the construction industry in 2017 was shaped by developments that varied by region. The market environment was slightly more positive overall than in the previous year.

In November 2017, Euroconstruct forecasted an increase in building construction for **Europe** in 2017 of +3.9% – significantly higher than the figure of +3.1% forecasted in the status report in mid-2017. A comparison with older forecasts explains the more positive outlook: at the end of 2016, Euroconstruct still expected building construction to increase by a mere +2.2% in 2017. At +6.5%, new construction reported stronger growth in 2017 than renovations (+1.7%). However, the volume for new buildings still lagged a long way behind the record highs of 2007/2008 in 2017, whereas renovation volumes were almost on a par again with the level seen at that time – or even slightly above in the case of the residential segment. At +4.7%, residential construction was the growth driver for building construction in 2017. The following countries that are important to Geberit in terms of sales did well in 2017: the Netherlands and the Nordic Countries (+6.9% each), France (+4.2%), Austria (+2.7%), Germany (+2.5%), Belgium (+1.7%), Switzerland (+1.6%) and Italy (+1.5%).

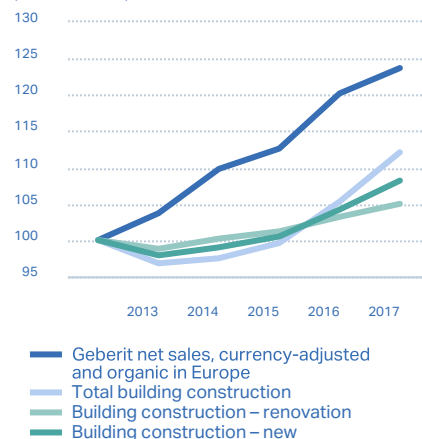
Of the total European construction volume of EUR 1,503 billion in 2017, 80% was generated by building construction. The ratio of residential to non-residential building construction remained the same at around 60 to 40%. In spite of stronger growth, new construction as a share of total building construction continued to lag behind the renovation business in 2017.

In the **US**, gross domestic product (GDP) rose by 2.3% and the economy grew faster than in 2016 (+1.5%). Investments in building construction increased by 4.9% according to the latest available figures for the US construction industry as published by the U.S. Department of Commerce, United States Census Bureau. Within building construction, investments in non-residential construction increased by 2.0% in total, which was less than in the previous year (+7.5%). This development was supported by the hotel and commercial buildings sector. The health care/hospitals and schools/universities segments, which are important for Geberit, developed with +2.8% slightly weaker compared to the previous year (+3.4%). Residential construction in the reporting year performed better than in the previous year: the number of building permits for new private residential units increased by 4.8% in the reporting year after the previous year's performance of 2.0%.

In the **Far East/Pacific** region, economic growth amounted to +4.9% – a slight improvement on the previous year but significantly higher than global economic growth (+3.1%). At 54% (previous year 62%), more than half of the global growth once again originated from the Far East/Pacific region, where all relevant economies enjoyed positive growth. As in previous years, China contributed around 60% to the growth of this region. The Chinese residential construction sector recovered slightly and recorded moderate growth in both tier one and tier two cities in the second half of 2017 (aforementioned figures in this section covering the world economy and the performance of the Far East/Pacific were published in the October 2017 edition of the IMF World Economic Outlook).

## Construction output and Geberit net sales in Europe 2013–2017

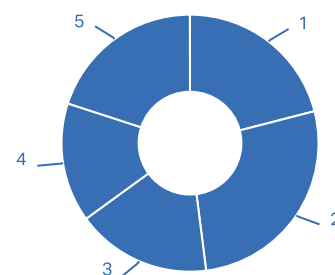
(Index: 2012 = 100)



Source: 84th Euroconstruct Conference in Munich (DE), November 2017

## Total construction output Europe 2017

(EUR 1,503 billion)



- 1 Residential - New (21%)
- 2 Residential - Renovation (27%)
- 3 Non-residential - New (17%)
- 4 Non-residential - Renovation (15%)
- 5 Civil engineering (20%)

Source: 84th Euroconstruct Conference in Munich (DE), November 2017

# NET SALES

## SOLID SALES DEVELOPMENT

Consolidated net sales in 2017 increased by 3.5% to CHF 2,908.3 million. Total growth comprised organic growth in local currencies of 3.5%, a foreign currency effect of +1.2% and a divestment effect of -1.2%.

When calculating organic growth, the net sales figures were adjusted for the net sales of the Koralle Group (sold at the end of June 2016) and of Varicor (sold at the beginning of 2017). The corresponding effect amounted to CHF 32 million.

The currency gains contained in net sales amounted to CHF 34 million. In 2017, 62% of net sales were generated in euros, 10% in Swiss francs, 5% in US dollars, 4% in British pounds and 19% in other currencies.

The following changes in net sales in the markets and product areas relate to currency-adjusted, organic developments.

## MAINLY POSITIVE DEVELOPMENTS IN THE MARKETS

**Europe**, the largest region, posted organic growth of 2.9% in local currencies. The Iberian Peninsula (+11.9%), Austria (+9.0%), Central/Eastern Europe (+6.7%) and Italy (+6.6%) made strong gains, with the Benelux Countries (+4.0%), France (+3.9%), Switzerland (+3.7%), the Nordic Countries (+1.2%) and Germany (+0.7%) also recording increases. In Germany, capacity constraints of installers in the construction industry inhibited growth. Net sales were down in the United Kingdom/Ireland (-5.6%) in a declining market environment. **Middle East/Africa** (+16.8%) and **Far East/Pacific** (+13.3%) posted double-digit growth. Net sales in **America** rose by +3.6%.

## SANITARY SYSTEMS REPORTED STRONGEST GROWTH

Net sales for the **Sanitary Systems** product area amounted to CHF 1,361.5 million, corresponding to growth of 6.6%.

Net sales for the **Installation Systems** product line, at 30.0% of Group net sales the most important product line, rose by 8.9%. This above-average growth was strongly supported by the concealed cisterns, the drywall elements, the actuator plates and the synergies that were realised from the Sanitec integration. A decline of 1.7% was posted by the **Cisterns and Mechanisms** product line, which accounts for 8.7% of total net sales. This downturn was mainly attributable to a negative base effect due to a reduction in the order backlog in shower toilet business during the previous year. However, sales of the Monolith WC module on the one hand and fill and flush valves – despite a deterioration in the performance of the OEM business – on the other performed well. Net sales for the **Faucets and Flushing Systems** product line, which accounts for 4.4% of total net sales, increased by 4.3% in 2017. Once more, this product line was affected by the stagnating market faced by the US subsidiary Chicago Faucets in business with schools and hospitals. Electronic urinal systems trended well, however. Net sales for the **Waste Fittings and Traps** product line rose by 12.4%. The share of total Group net sales came to 3.7%. This product line posted the strongest growth of all, primarily due to the performance of shower drains – particularly the CleanLine shower channel launched in 2015.

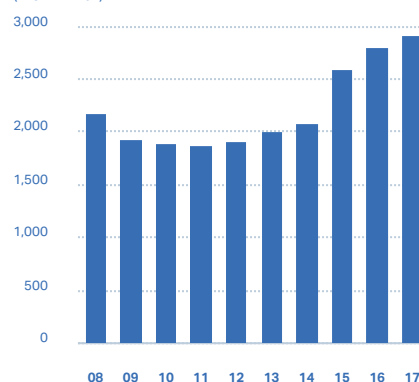
Net sales for the **Piping Systems** product area increased by 3.8% to CHF 865.5 million.

The **Building Drainage Systems** product line grew by 8.6%. The share of total net sales reached 11.3%. The Silent-PP sound-insulating drainage system and the PE drainage system played a key role in this pleasing performance. Net sales for the **Supply Systems** product line increased by 1.0%. This product line contributed 18.5% to total net sales. The product line was burdened by a slight downturn in net sales of carbon steel piping systems.

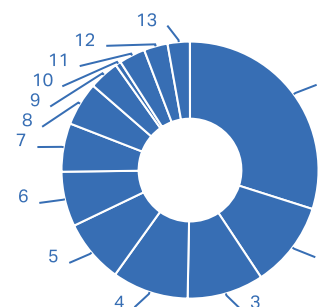
The **Sanitary Ceramics** product area posted a 2.3% fall in net sales to CHF 681.3 million.

## Net sales development 2008–2017

(in CHF million)



## Net sales by markets/regions 2017

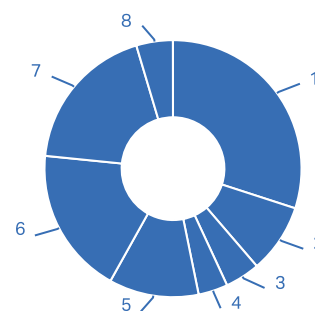


- 1 Germany (29.9%)
- 2 Nordic Countries (10.8%)
- 3 Switzerland (9.6%)
- 4 Central/Eastern Europe (9.6%)
- 5 Benelux (8.0%)
- 6 Italy (6.9%)
- 7 France (6.1%)
- 8 Austria (5.5%)
- 9 United Kingdom/Ireland (3.8%)
- 10 Iberian Peninsula (0.7%)
- 11 America (3.3%)
- 12 Far East/Pacific (3.0%)
- 13 Middle East/Africa (2.8%)



Net sales for the **Bathroom Ceramics** product line decreased by 2.1%, mainly due to the closure of two ceramics plants in France on the one hand and a weaker market environment in the Nordic Countries – an important region for Geberit in this product area – on the other. The contribution of this product line, which is the second largest measured by Group net sales, came to 18.8%. Net sales for the **Ceramics Complementary Products** product line declined by 3.2%. The share of Group net sales reached 4.6%, with the remainder of the product range outweighing the positive trend seen in bathroom furniture and shower trays. Another negative factor was that the installation systems of the former Sanitec, which fall under this product line, are increasingly being substituted by Geberit systems.

### Net sales by product areas and product lines 2017



- Sanitary Systems (46.8%)**
- 1 Installation Systems (30.0%)
- 2 Cisterns and Mechanisms (8.7%)
- 3 Faucets and Flushing Systems (4.4%)
- 4 Waste Fittings and Traps (3.7%)
- Piping Systems (29.8%)**
- 5 Building Drainage Systems (11.3%)
- 6 Supply Systems (18.5%)
- Sanitary Ceramics (23.4%)**
- 7 Bathroom Ceramics (18.8%)
- 8 Ceramics Complementary Products (4.6%)

# RESULTS

## PROFITABILITY REMAINS AT A HIGH LEVEL

As in previous years, one-off costs related to the Sanitec acquisition and integration had an impact on the Geberit Group's results in 2017. For better comparability, adjusted figures are shown and commented on.

The adjusted operating cashflow (adj. EBITDA) rose by 3.2% to CHF 820.7 million, its highest ever level in Geberit's history. The adjusted EBITDA margin came to 28.2%, which was almost the same as the previous year's figure of 28.3%. Increased sales volumes and a positive product mix effect had a positive impact on the operating results, as did synergies from the Sanitec integration. Higher raw material prices and increased personnel expenses were among the more adverse factors. Foreign currency developments did not have any material impact on the adjusted EBITDA margin.

The adjusted operating profit (adj. EBIT) rose by 2.9% to CHF 706.1 million, and the adjusted EBIT margin reached 24.3% (previous year 24.4%). Adjusted net income improved by 3.5% to CHF 604.2 million, which led to an adjusted return on sales of 20.8% – a figure that remained unchanged year-on-year. The adjusted earnings per share were up by 3.7% to CHF 16.43 (previous year CHF 15.85). This above-average increase when compared with the operating results is explained by a financial result on a par with the previous year, a lower tax rate as well as a slightly smaller number of shares.

## OPERATING EXPENSES UNDER CONTROL

The adjusted cost of materials increased by 7.2% to CHF 829.1 million, representing a higher share of net sales at 28.5%, compared to 27.5% in the previous year. The higher cost of materials was driven by continuous rises throughout the year in the price of industrial metals on the one hand and plastics on the other. Adjusted personnel expenses grew by 1.6% to CHF 707.6 million, which equates to 24.3% of net sales (previous year 24.8%). This increase in absolute terms was attributable to tariff-related salary increases as well as the higher personnel expenses needed for handling greater volumes, partly offset by synergies and efficiency-enhancing measures (see also → **Business and financial review, employees**). Adjusted depreciation rose disproportionately by 5.3% to CHF 105.0 million (previous year CHF 99.7 million) due to the commenced → **operations of the expanded logistics centre in Pfullendorf (DE)**. The adjusted amortisation of intangible assets amounted to CHF 9.6 million (previous year CHF 8.7 million). Adjusted other operating expenses increased by 1.2% to CHF 550.9 million.

The net financial result came to CHF -9.4 million, matching the previous year's performance (CHF -9.3 million). Tax expenses grew from CHF 82.6 million to CHF 84.9 million. This resulted in a tax rate of 13.9% (previous year 13.1%).

## ACQUISITION AND INTEGRATION COSTS CONTINUE TO HAVE A NEGATIVE IMPACT ON THE INCOME STATEMENT

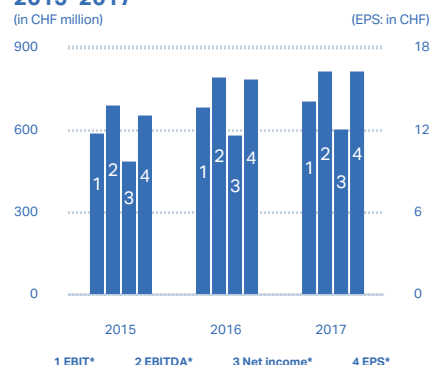
The negative special effects (see table below) arising from the Sanitec acquisition and integration amounted to CHF 49 million as regards EBITDA, CHF 84 million as regards EBIT, and CHF 77 million as regards net income. CHF 45 million in costs recorded in the second quarter of 2017 in relation to the closure of two ceramics production plants in France had a significant impact on these figures. The non-adjusted figures were CHF 772.0 million for EBITDA, CHF 621.7 million for EBIT, CHF 527.4 million for net income, and CHF 14.34 for earnings per share.

## DECLINE IN FREE CASHFLOW

Unlike non-adjusted operating cashflow (EBITDA), net cashflow increased slightly despite higher cash tax payments. This is because a significant number of the costs included in EBITDA in relation to the closure of two ceramics plants in France are still to be paid. Higher investments in property, plant and equipment and negative effects of the change in net working capital resulted in a decline in free cashflow of 13.2% to CHF 483.4 million (see also → **Financial Statements of the Geberit Group, Notes to the Consolidated Financial**

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

2015–2017

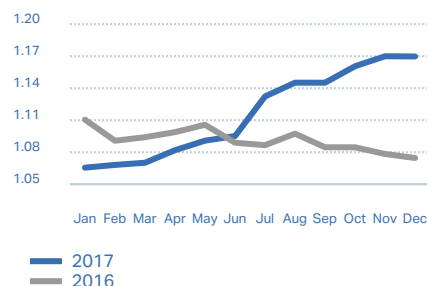


\* Adjusted for costs in connection with the Sanitec acquisition and integration

## EUR/CHF exchange rates

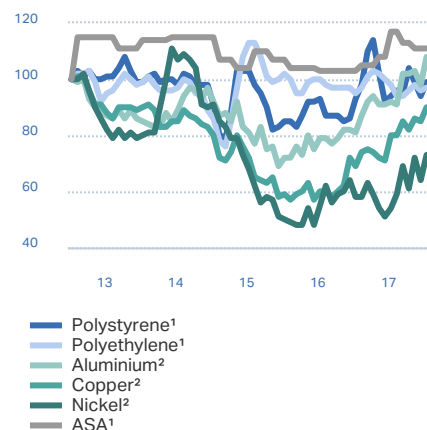
2016/2017

(Period-end exchange rates)



## Raw material price development

(Market price; index: December 2012 = 100)



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

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

**Statements, 28. Cashflow figures).** Free cashflow was used to pay distributions of CHF 368.4 million to shareholders, to repay debts of net CHF 137.3 million and to buy back shares for CHF 91.8 million.

### Acquisition and integration related costs

(in CHF million)

	2016	2017
Integration costs	10	49
<b>Total cost on EBITDA level</b>	<b>10</b>	<b>49</b>
Depreciation and amortisation	36	35
<b>Total cost on EBIT level</b>	<b>46</b>	<b>84</b>
Tax effect	-10	-7
<b>Total cost on net income level</b>	<b>36</b>	<b>77</b>

# FINANCIAL STRUCTURE

## SOUND FINANCIAL FOUNDATION

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

Total assets increased from CHF 3,601.1 million to CHF 3,742.8 million. Liquid funds decreased from CHF 509.7 million to CHF 412.7 million. In addition, the Group had access to undrawn operating credit lines for the operating business of CHF 541.9 million. Debts were reduced to CHF 895.2 million (previous year CHF 970.9 million). The changes in terms of liquid funds on the one hand and debt on the other resulted from lower free cashflow, the dividend payment to the shareholders, share buybacks and the repayment of debts (see also → **Decline in free cashflow**). This resulted in a slight increase in net debt of CHF 21.3 million to CHF 482.5 million at the end of 2017.

Net working capital increased by CHF 25.7 million year-on-year to CHF 173.0 million. Property, plant and equipment increased from CHF 726.5 million to CHF 812.8 million, while goodwill and intangible assets rose from CHF 1,681.1 million to CHF 1,748.9 million mainly as a result of currency effects.

The ratio of net debt to equity (gearing) improved from 28.2% in the previous year to 26.3%. The equity ratio reached a very solid 49.1% (previous year 45.4%). Based on average equity, the adjusted return on equity (ROE) was 35.2% (previous year 38.3%); the non-adjusted value of this ratio was 30.7% (previous year 35.9%). Average invested operating capital, comprising net working capital, property, plant and equipment, and goodwill and intangible assets amounted to CHF 2,696.0 million at the end of 2017 (previous year CHF 2,704.6 million). The adjusted return on invested capital (ROIC) was 22.4% (previous year 21.5%); the non-adjusted value of this ratio was 19.5% (previous year 20.2%). For details on the non-adjusted 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 391,640 treasury shares on 31 December 2017, which equals 1.1% of the shares entered in the Commercial Register. Of these, 205,250 (0.6% of the shares entered in the Commercial Register) originate from the ongoing share buyback programme, while the remaining 186,390 are earmarked for participation plans. The total number of shares entered in the Commercial Register stands at 37,041,427 shares. The aforementioned share buyback programme announced in March 2017 began on 6 June 2017. As part of this programme, shares to the value of up to CHF 450 million are to be repurchased, less withholding tax, over a maximum period of three years. The shares will be repurchased via a separate trading line on the SIX Swiss Exchange for the purpose of a capital reduction. By 31 December 2017, 205,250 shares had been acquired at a sum of CHF 91.8 million. The average purchase price per share was CHF 447.08.

## Debt

(in CHF million; as of 31 December)

	2015	2016	2017
Long-term debt	1,135.5	966.7	890.7
Total debt	1,139.2	970.9	895.2
Liquid funds	459.6	509.7	412.7
Net debt	679.6	461.2	482.5

# INVESTMENTS

## HIGHER INVESTMENTS

In 2017, investments in property, plant and equipment and intangible assets amounted to CHF 159.0 million, CHF 19.9 million or 14.3% more than in the previous year. As a percentage of net sales, the investment ratio was 5.5% (previous year 5.0%). All larger investment projects were carried out as planned.

The bulk of investments went toward machinery, building conversions and new building projects, and the procurement of tools and moulds for new products. The biggest individual undertaking was the conversion and new-build project at the site in Langenfeld (DE), with the ground-breaking ceremony taking place in September 2017. Additionally, investments were made in important development projects, the expansion of production capacity, and the optimisation of production processes. Most of the investments in → **expanding the logistics centre in Pfullendorf (DE)** – a facility that commenced operations in the first quarter of 2017 – already date back to previous years.

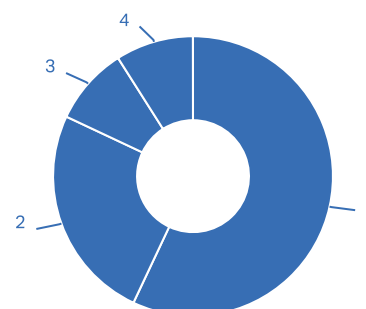
In 2017, 57% of total investments, or CHF 90.6 million, went towards expanding capacity, 25% or CHF 40.7 million was invested in the modernisation of property, plant and equipment, 9% or CHF 14.0 million was used for rationalisation measures relating to property, plant and equipment, while 9% or CHF 13.7 million was used to acquire tools and equipment for new product developments.

## Expenditures for property, plant and equipment and intangible assets

(in CHF million)

	2013	2014	2015	2016	2017
	98.0	104.8	147.3	139.1	159.0
In % of net sales	4.9	5.0	5.7	5.0	5.5

## Investments by purpose 2017



- 1 Capacity expansion (57%)
- 2 Modernisation (25%)
- 3 Rationalisation (9%)
- 4 New products (9%)

# EMPLOYEES

## INCREASED NUMBER OF EMPLOYEES

At the end of 2017, the Geberit Group employed 11,709 staff worldwide, which is 117 employees or 1.0% more than in the previous year. On the one hand, this is mainly due to more people being employed in the production plants in order to deal with greater sales volumes, and, on the other, to various sales companies expanding in connection with specific sales activities. However, the divestment of Varicor as well as synergies and efficiency-enhancing measures had a reducing effect on employee numbers. The closure of the two ceramics plants in France was completed in the reporting year, although most individual employment relationships will only be terminated in 2018 and were therefore not included in this calculation. Based on the average headcount of 11,726, net sales per employee amounted to TCHF 248.0, or 5.7% more than in the previous year.

Broken down by business process, staff numbers were as follows: marketing and sales employed 24.3% of the staff members (previous year 24.5%). 62.3% worked in production (previous year 61.7%). Additionally, 8.0% (previous year 8.2%) of the employees worked in administration, and 3.4% (previous year 3.6%) in research and development. The share of apprentices was 2.0% (previous year 2.0%).

## GEBERIT AS AN EMPLOYER ALSO POSITIONED ON DIGITAL CHANNELS

Motivated, well skilled employees guarantee the company's success in the future. With this in mind, efforts were again made in 2017 to position Geberit on the job market as an attractive employer with an open corporate culture and international development opportunities at the interface between craft, engineering and sales. To lend this endeavour even greater visibility, the Geberit employer brand was also given a makeover as part of the new corporate design – focusing on employees at the workplace, with the aim of enhancing the image further. The new presence will concentrate on digital platforms and social media.

Geberit offers its employees appealing employment conditions. In 2017, personnel expenses – adjusted for special effects in connection with the Sanitec acquisition and integration – amounted to CHF 707.6 million (previous year CHF 696.2 million). The employees can also participate in share participation plans at attractive conditions, see → **Financial Statements of the Geberit Group, 17. Participation Plans** and → **Remuneration Report**. Equal opportunities and the same salaries for women and men are embedded in the corporate philosophy. The proportion of female employees at the end of 2017 was 23% (previous year 24%), and for senior management this figure was 8% (previous year 9%). The six-member Board of Directors has one female member.

## EDUCATION AND FURTHER TRAINING – AN IMPORTANT SUCCESS FACTOR

Geberit employed 235 apprentices at the end of 2017 (previous year 233). The transfer rate to a permanent employment relationship was 83% (previous year 75%). The target is 75%. All apprentices are in principle required to work at several sites during their training. Experience abroad and the transfer of know-how are an advantage for both employees and the company. Apprentices also have the option of working abroad for a period of six months on completion of their apprenticeship.

The two-stage Potentials Management Programme aims to selectively identify talents throughout the company and support them along their path to middle or senior management. Initial experience of managerial or project management responsibility are part of this. The problems investigated in project work as part of the programme are geared towards the reality at the company and provide the decision-makers involved with concrete bases for action. The Potentials programme is intended to help fill at least half of all vacant managerial positions within the company with internal candidates. In 2017, this was achieved for 76% of all Group management vacancies (previous year 88%).

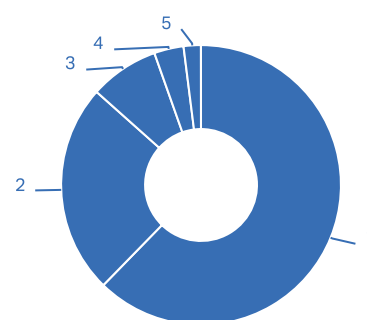
## Employees by countries

(as of 31 December)

	2016	Share in %	2017	Share in %
Germany	3,282	28	3,329	28
Poland	1,515	13	1,603	14
Switzerland	1,336	12	1,362	12
Ukraine	627	5	638	5
China	637	5	565	5
Austria	532	5	551	5
France	691	6	539	5
Italy	434	4	509	4
Portugal	435	4	450	4
Others	2,103	18	2,163	18
<b>Total</b>	<b>11,592</b>	<b>100</b>	<b>11,709</b>	<b>100</b>

## Employees by business processes 2017

(as of 31 December)



- 1 Production (62.3%)
- 2 Marketing and Sales (24.3%)
- 3 Administration (8.0%)
- 4 Research and Development (3.4%)
- 5 Apprentices (2.0%)

An event at the ceramics plant in Wesel (DE), which focused on personal development as well as leadership skills, provided an example of the importance of education and further training. This multi-day series of training sessions also gave participants a closer insight into the corporate culture as well as a shared understanding of what leadership means. In future, this training opportunity will also be offered to managers of other ceramics plants within the Group.

### TRANSPARENT APPRAISAL SYSTEM

The standard Performance Assessment, Development and Compensation (PDC) process has been in place since 2012. This standardised process enables the company to gain an overview of the available potential. PDC has several goals: reinforce the performance culture, increase transparency, and recognise and promote talent more effectively in order to make the organisation future-proof. Except for the employees who work directly in production at the plants, all employees have now been incorporated into the PDC process.

### IDENTITY AND CODE OF CONDUCT PROVIDE GUIDANCE

Geberit aims to act as a role model for ethically unimpeachable, environmentally friendly and socially responsible operations. The → **Geberit Compass**, which formulates the identity 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 (see also → **Compliance**).

### FOCUS ON OCCUPATIONAL HEALTH AND SAFETY

This area has highest priority within the Geberit Group. The extension of the production network following the integration of the Sanitec plants and the resulting increase in staff numbers led to the adjustment of the targets in 2015. Using 2015 as the reference year, the aim is to halve the number of accidents by 2025. By then, the AFR (Accident Frequency Rate) is to be reduced to a value of 5.5 (accidents per million working hours) and the ASR (Accident Severity Rate) to 90 (number of days lost per million working hours).

The accident frequency went up to 10.3 (previous year 9.8), an increase of 5.1%. In contrast, the accident severity decreased by 2.7% to 203.8 in the same period (previous year 209.4). Special attention continues to be paid to changes in behaviour, as the majority of occupational accidents and time losts are still attributable to carelessness. Occupational safety has been part of the annual appraisal of plant managers since 2013. Since the beginning of 2017, the "Geberit Safety Team" – a team of experts from the production plants – has been playing an active role in addressing the issue of occupational health and safety. Representatives from different production areas ensure that uniform guidelines and standards are applied, so that Geberit gradually gets nearer to the target of having healthy employees within an accident-free company.

To promote the health of every individual, Geberit enables employees at a total of 13 production and sales sites to participate in a vitality programme consisting of sports and preventive healthcare. At the sites in Rapperswil-Jona (CH), Pfullendorf (DE), Pottenbrunn (AT), Ruše (SI), Kolo and Wloclawek (both PL), a comprehensive occupational healthcare management is established.

# CUSTOMERS

## FOOTHOLD IN THE END USER SEGMENT

Following the consolidation and gradual realignment of sales structures – a process that was completed in the previous year – the focus in 2017 was on systematically strengthening and enhancing the Geberit brand's profile with architects, interior designers, showroom operators and end users. To this end, Geberit launched its new "Design Meets Function" slogan at ISH 2017 in Frankfurt – the world's leading trade fair for the sanitary industry – in relation to all products that are installed in front of the wall and are therefore clearly visible. Through this slogan, Geberit is articulating its intention to offer end users more than just beautiful ceramic appliances and bathroom furniture. Products "in front of the wall" should be well designed on the one hand and include clever, innovative functions on the other, offering sustainable added value. In the reporting year, this promise was delivered through → **numerous new products** that set new standards – not only in design but also in terms of their functionality. In addition, high-quality ceramics ranges under the Geberit brand have been launched in selected markets for the first time.

All this provided the advisors working in the field with additional consultation and sales impetus specifically in their dealings with architects, showrooms, DIY stores, professional builders and general contractors – and, by extension, a promising basis for cross-selling, particularly in markets where Geberit is already known as a top-quality provider of sanitary technology.

## MOVING INTO NEW B2B MARKETS

The complete opposite approach was taken in countries where the ceramic brands of the former Sanitec have enjoyed a strong market position for many years, but where sanitary technology from Geberit still lacks presence in comparison.

In particular, a wide, proven range of training courses was made available to customers – notably plumbers and sanitary planners – in additional markets. Some 30,000 professionals were provided with education and further training on Geberit products, tools and software tools at 29 Geberit Information Centres in Europe and overseas. Furthermore, Geberit gave support to plumbers, architects and sanitary planners via webinars on fire protection and sound insulation, drinking water hygiene and other issues. Around 90,000 customers became more familiar with Geberit know-how and products at external events, some of which were organised in cooperation with market partners.

The successful Geberit On Tour campaign was repeated for the seventh time in the reporting year. Specially fitted-out mobile showrooms visited local and regional wholesalers, offering plumbers the opportunity to assess Geberit innovations and solutions directly on site. In 2017, around 20,000 people in 12 countries were addressed with this campaign.

Most of Geberit's marketing activities continued to target plumbers and planning offices. Besides new or revamped → **digital tools**, proven measures were continued – such as customer visits, trainings, the publication of regularly updated technical documents, catalogues, brochures and magazines.

## FULLY INTEGRATED TRADE FAIR PRESENCE

In 2017, numerous trade fairs were once again used as platforms to foster and enlarge the network of contacts in the market and to demonstrate Geberit's innovative strength. The new trade fair concept, which had been already developed in the previous year, made it possible to exhibit several brands jointly at Geberit's booth and ensured a high-end presentation of ceramic appliances and bathroom furniture in addition to the regular, more technical product range. Consequently, not only the exhibition space that was needed has been optimised, but also improved the scope for cross-selling.

At ISH 2017 in Frankfurt (DE) the entire Geberit product range was showcased to both craftsmen and interior designers. This ranged from sophisticated sanitary technology to shower toilets and the full array of bathroom equipment. Other important trade fair appearances followed at Batibouw in Brussels (BE), Idéo Bain in Paris (FR), MosBuild in Moscow (RU), Unicera in Istanbul (TR) and Kitchen & Bath China in Shanghai (CN). Architects and designers were specifically targeted at the Fuori Salone during Design Week in Milan (IT).



## SHOWER TOILETS BECOMING MORE POPULAR

Following the launch of shower toilets in Russia during the reporting year, the comprehensive advertising measures for Geberit AquaClean are now being implemented in a total of 14 European campaign markets. As in the previous year, the Geberit AquaClean truck went on a major tour, this time to France, the Czech Republic and Slovakia. Under the motto "My first time", the mobile showroom and test unit offered interested parties the opportunity to try out an AquaClean shower toilet at their leisure and assess the various models.

The strategy of allowing potential end users to try out a shower toilet for themselves was also followed in other markets. Mobile AquaClean WC lounges were made available to the public at selected major events such as concerts and sporting events. In the reporting year, it was possible to establish contact with over 28,000 end users with these lounges alone.

The international sales initiative for mid-range and high-end hotels also made excellent progress. More hotel projects were acquired in the reporting year, including the newly opened Bürgenstock Resort in Switzerland and The Fontenay in Hamburg. The number of four- and five-star hotels equipped with AquaClean shower toilets in Europe rose to 375.

## MORE TARGETED INTERACTION WITH INDIVIDUAL CUSTOMER GROUPS THANKS TO DIGITAL TOOLS

The reporting year saw the launch of a range of new digital tools, including a web-based planning and tendering platform for sanitary planners and architects, and an "inspiration app" for end users that is due to be piloted in the Swiss market. In addition, the Geberit website was given a completely new look with a new navigation system to enhance user-friendliness and make product information more easily accessible. For owners of the AquaClean shower toilet, an app was developed that provides users with options such as saving their personal settings and applying these to other AquaClean devices.

The Geberit ProApp for craftsmen was enhanced and expanded. For example, additional functions such as a fire protection module and a product finder for urinal flush controls were introduced for the Scandinavian markets. In 2017, the app was downloaded onto 26,000 devices across Europe (cumulated 115,000 downloads) and actively used on a regular basis by some 12,000 users. The Geberit Sales App – a mobile sales supporting app for the Geberit field service – was launched in 12 countries. Around three-quarters of all European sales representatives use this digital presentation tool.

Building Information Modelling (BIM) is an interdisciplinary planning method for optimising the entire planning and building process. Architects, sanitary planners and building owners use BIM to share information efficiently. This helps them to avoid planning errors and improve productivity. In 2017, a dedicated team of BIM experts was put together to develop BIM tools and prepare BIM data within the Geberit Group.

## NEW CORPORATE LOOK

The corporate appearance, which was launched seven years ago, underwent a subtle yet comprehensive revamp in the reporting year. The new corporate design now has greater elegance and versatility. The main purpose of this is to make the Geberit brand more attractive to end users, interior designers and showroom operators. However, communication materials such as catalogues, assembly instructions, documentation and online tools for plumbers have remained unchanged for the most part and therefore retain their familiar appearance.

# INNOVATION

## HIGH LEVEL OF INVESTMENT ENSURES FUTURE SUCCESS

Geberit's innovative strength, which is above average for the sector, is founded on its own, wide-ranging research and development (R&D) activities. In the reporting year, a total of CHF 77.8 million (previous year CHF 72.3 million) – or 2.7% of net sales – was invested in the development and improvement of processes, products and technologies. 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. Over the last financial year, Geberit applied for 32 patents, bringing the total for the last five years to 128.

All product developments go through an established innovation and development process, which ensures that the Group's creative potential and know-how are used to the optimum extent and that development activities focus on the needs of the market. Customer benefits and a system approach are of central importance here. Since the beginning of 2016, the development projects for ceramic products and bathroom equipment have also been following this process.

## NEW PRODUCTS FOR SOPHISTICATED MARKETS

The following products were newly launched on the market in 2017:

- The shower toilet → **Geberit AquaClean Tuma Comfort** stands out due to its sophisticated product concept and elegant design. It is offered as a complete solution including a rimless WC ceramic appliance. Alternatively, it is also available as a WC enhancement solution that can be combined with previously installed ceramic appliances, making it a particularly good solution for rented flats.
- The shower surface → **Geberit Setaplano** is made of a high-quality solid surface material. It feels warm, is non-slip and easy to clean. To simplify the work at the building site and ensure reliable sealing, as many components as possible are preassembled at the plant. New, ultra-flat traps were developed for the shower surface.
- The new, modular → **tap system** features sophisticated installation technology, a convincing energy concept and elegant tap housings for the wall-mounted and deck-mounted taps. The taps can be mounted quickly and flawlessly. The mixer, valves, electronics and power supply are stored in a function box, which is mounted under the washbasin where it is protected from moisture.
- The competitively priced new supply system → **Volex** consists of multilayer pipes and brass pressfittings. It is suitable for drinking water as well as heating installations. The range, which was introduced in the expansion markets in Europe, comprises all standard pipe diameters and fittings.
- The comprehensive → **bathroom series Acanto** comprises washbasins and bathroom furniture, rimless toilets, bidets and bathtubs. The bathroom furniture offers a wide range of possibilities for creating a functionally sophisticated bathroom. The bathroom series was developed based on an extensive study that examined the optimum reach within which things used every day should be stored.

For more details on new products in 2017, see → **the magazine Facts & Figures 2017**.

Several new product launches are planned for 2018. Among them will be:

- The new → **Geberit AquaClean Tuma Classic** builds on the success of the Tuma Comfort model, which was launched in the previous year. However, this new model is limited to the basic functions of a shower toilet, including the patented WhirlSpray shower technology and a rimless WC ceramic appliance. It therefore complements the shower toilet range as a perfect entry-level model. The AquaClean Tuma Classic is also available as an en-

## R&D expenditures

(in CHF million)

	2013	2014	2015	2016	2017
	50.9	55.8	63.4	72.3	77.8
In % of net sales	2.5	2.7	2.4	2.6	2.7

hancement solution that can be easily fitted to previously installed WC ceramic appliances. Because it can be easily retrofitted, the enhancement solution is a particularly good solution for rented flats.

- The launch of the → **VariForm washbasin portfolio** sees Geberit add a more systematic approach and diversity to the range for public and private washbasin areas. The washbasins stand out due to their generous basin depth and high-quality ceramics. They are available in the four basic shapes round, oval, elliptic and rectangular, with a lay-on, countertop and under-countertop model available for each shape.
- The → **Rapid sanitary flush unit** automatically flushes unused sections of drinking water pipes, thus preventing water from stagnating over a longer period. After all, if the water in a pipe section stagnates for too long, germs and bacteria such as legionella can multiply there, which can develop into a health risk.
- The modular → **control system for underfloor heating systems** is fully compatible with the Volex piping system, which was launched in the previous year. The control system consists of a central controller, various room thermostats and temperature sensors as well as all other components required to install an underfloor heating system in residential properties or business premises.
- The **Showerama shower cubicles** for the Scandinavian markets were revised and modernised with regard to design and technical aspects. The elegant cubicles, which are now equipped with Geberit's tried-and-tested drainage technology, offer customers a very ergonomic and comfortable showering experience.

For more details on new products in 2018, see → **the magazine Facts & Figures 2018**.

# PRODUCTION

## SOLIDLY POSITIONED

At the end of the reporting year, the Geberit Group operated 30 plants, six of which are located overseas. The plants fall into the following three categories depending on the production technologies used:

- Ceramic moulding (CER)
- Injection moulding, blow moulding, assembly (IBA)
- Extrusion, metalforming and thermoforming, assembly (EFA)

The sale of the company Varicor, including the plant in Wisches (FR), was announced in January 2017. Due to its specialisation in the manufacture of customised products made of the solid surface material Varicor, the site occupied a special position within the Group. However, Varicor remains an important partner for Geberit as a strategic supplier.

In July 2017, the result of a strategic review of two plants owned by the French subsidiary Allia that had been announced in the previous year were made known. Accordingly, in agreement with the trade unions and following approval by the authorities, the La Villeneuve-au-Chêne site was closed and ceramics production in Digoin was discontinued. In addition to a social plan, the agreement included the continuation of a packaging and logistics area in Digoin for the French market.

## FOCUS ON CONTINUOUS FLOW PRODUCTION

The workshop principle of step-by-step manufacturing is increasingly becoming a thing of the past in production at Geberit. It is being replaced by a comprehensive system of continuous flow production aimed at maximising efficiency and greatest possible value added. The methods used here are described in detail in the Geberit Production System (GPS 2.0). The effectiveness of these methods is subject to an ongoing review on many levels. It is a fixed agenda item at the annual Group-wide plant manager meeting as well as at the meeting for production managers. At the local GPS manager level, the focus is on the consistent orientation towards improvements in efficiency and quality, combined with a link to concrete projects involving the responsible employees.

In the reporting year, the efforts made in this regard concerned all three production areas (CER, IBA and EFA). They ranged from the principle of continuous improvement that is lived and breathed each day to complex infrastructure projects. In terms of the latter, the conversion and new-build work at the site in Langenfeld (DE) were paramount. Parallel to the successful relocation of the production of labour-intensive metal fittings to Ozorków (PL) and of logistics to Pfullendorf (DE), work has already begun on using the newly gained space to further establish the principle of continuous flow production. An important milestone was reached in September 2017 with the ground-breaking ceremony for a new production hall that is fully committed to this principle.

Crucial initial steps with regard to continuous flow production were also taken in the ceramics plant in Ekenäs (FI), where all process steps after the firing stage were fundamentally redesigned – with the measurable result that an increase in productivity of 10 percent was achieved in 2017.

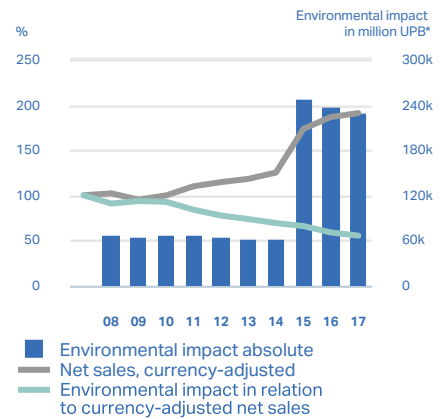
Meanwhile, the shell of a new production hall was completed in Pfullendorf. Once in operation, it will increase the useful floor space by 4,500 m<sup>2</sup> and facilitate a significant increase in capacity in terms of the manufacture of concealed cisterns. The commissioning of the hall is scheduled to take place in mid-2018.

## FURTHER HARMONISATION OF PROCESSES

In spite of the diversity of production technologies, efforts to further standardise and optimise the various processes within production continued to progress well in the reporting year. "OneERP", which aims to harmonise the IT systems and standardise resource planning in the plants of the former Sanitec, was implemented at the beginning of 2017 at the Polish production sites

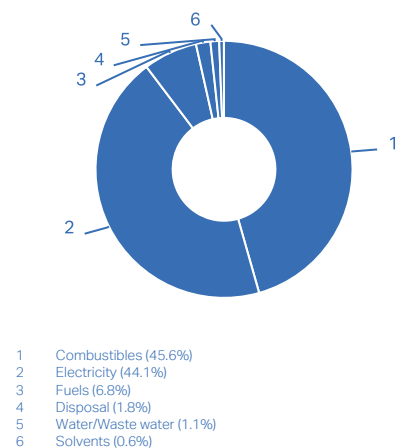
## Environmental impact 2008–2017

(Index: 2007 = 100)



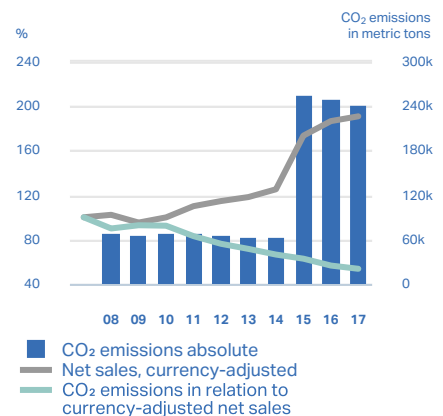
\* UPB = Ecopoints in accordance with the Swiss Ecological Scarcity Method (upgraded version 2013)

## Distribution environmental impact 2017



## CO<sub>2</sub> emissions 2008–2017

(Index: 2007 = 100)



Koło, Włocławek and Ozorków. At the beginning of 2018, preparatory work began at the Scandinavian sites Bromölla, Ekenäs and Mörrum with the goal of replacing the systems at the beginning of 2019. The remaining changes are to follow step by step in the coming years.

With the creation of a department for OpEx (operational excellence), Geberit is now closer to its goal of standardising central processes and further improving efficiency within its entire network of plants. The new department's first project will be to tackle the standardisation of maintenance processes.

## ENVIRONMENTAL MANAGEMENT IN PRODUCTION

The integration of the ceramics plants into the production network in 2015 had a considerable impact on Geberit's ecological footprint. Because of the processes involved, the manufacture of ceramic sanitary appliances is very energy-intensive. In 2017, Geberit was able to reduce its environmental impact thanks to consistent energy management – in particular of the ceramics plants. The absolute environmental impact decreased by 3.7%, even though currency-adjusted net sales increased by 2.3% in the same period. The environmental impact in relation to currency-adjusted net sales (eco-efficiency) decreased by 5.8%. As regards the long-term target, which is based on a decrease of 5% per year, Geberit therefore remains on course.

CO<sub>2</sub> emissions were reduced in 2017 by 2.9% to 242,796 tonnes. In relation to currency-adjusted net sales, they decreased by 5.1%. This enabled the targets set out in the long-term → **CO<sub>2</sub> strategy** for reducing → **CO<sub>2</sub> emissions** to be met. In addition to relative targets, this strategy also includes long-term absolute targets. A three-pillar model is used for implementing the CO<sub>2</sub> strategy. The first pillar is about savings in energy consumption. The second pillar relates to increasing efficiency and the third pillar comprises the selective purchasing of high-quality, renewable energy. 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 aims to further reinforce its position as industry leader in the area of sustainability. Eco-efficiency and relative CO<sub>2</sub> emissions are to be improved by 5% per year (see also → **Sustainability Strategy 2018-2020**). One of the main instruments that helps achieve this goal is the integrated Geberit management system, which unites the themes of quality, environment, health and occupational safety as well as energy. By the end of 2018, all ceramics plants are to be integrated into this system. At the end of the reporting year, all 30 production plants were already certified to ISO 14001 and 27 to OHSAS 18001. Adding certification according to ISO 50001 (energy management) will be targeted for selected sites.

# LOGISTICS AND PROCUREMENT

## CONTINUED INTEGRATION OF CERAMICS LOGISTICS INTO GROUP LOGISTICS

At the end of 2017, Group logistics comprised the central logistics centre for sanitary and piping systems in Pfullendorf (DE) as well as a decentralised network of 14 European distribution sites for the ceramics business.

The integration of the ceramics business into Group logistics continued in 2017. The Geberit Logistics Operation System (G-LOS) was successfully introduced. G-LOS is the standard system for logistics used to continuously improve business processes. This system is used by all employees in logistics and aims to bring about a sustained increase in competitiveness.

In connection with the → **OneERP project**, the storage management system SAP EWM – which had been introduced at the Pfullendorf site in 2016 – was also launched in Poland in December 2017. It is planned to also introduce the new system at other logistics sites.

## COMMISSIONING OF THE EXPANDED LOGISTICS CENTRE

The logistics centre in Pfullendorf is the hub for products from Geberit's Sanitary Systems and Piping Systems areas. With a view to future growth and the continued optimisation of existing logistics processes, the decision was made in 2014 to further expand the capacities of this centre. The commissioning of the new buildings and infrastructures, which also include a storage area for long goods (i.e. pipes of up to six metres in length), was carried out as planned in the first quarter of 2017. Geberit was able to keep within the investment budget of EUR 40 million that was set for the expansion.

The distribution of the Mapress piping range, which had been operated separately at the production site in Langenfeld (DE) to date, was therefore relocated to Pfullendorf in the second quarter of 2017. As a result, the global distribution of Geberit's sanitary technology is now coordinated in Pfullendorf and handled there for all markets.

Man and technology work hand in hand in the new logistics centre. Touchscreens, glove scanners, integrated voice control systems and built-in lift tables as well as lifting devices make the work efficient, safe and ergonomic. The new building brought about a further optimisation of logistics processes, with the use of modern conveyor technology and automated workflows perfectly complementing the flexible logistics system.

## TRANSPORT MANAGEMENT SYNERGIES USED

Great importance is attached to central transport management as the interface between plants, markets and transport service providers in order to enable cost- and resource-optimised transport solutions. By integrating the Mapress range into the logistics center in Pfullendorf, customers now receive their entire sanitary technology order in a single truck delivery. This not only reduces the number of empty kilometres, it also increases truck capacity utilisation and reduces CO<sub>2</sub> emissions (see also → **Strategy Green Logistics**). Furthermore, Geberit's key transport service providers are required to report regularly on reductions in energy consumption and emissions. In the reporting year, the implementation of Geberit processes and standards also continued in relation to transport service providers for ceramic products and bathroom furniture.

## GLOBALLY ACTIVE CORPORATE PURCHASING DEPARTMENT

Structured like a network, the Corporate Purchasing department is responsible worldwide (except in the USA) for procuring raw materials, semi-finished and finished products, commercial products, and services. Besides minimising risks of downtime as well as costs, the primary purpose of comprehensive supplier management is to safeguard supplies.

All the Geberit Group's business partners and suppliers are obligated to comply with → **comprehensive standards**. This applies to quality, socially responsible and healthy working conditions, 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 Com-

pact and is available in 15 languages. By the end of the reporting year, 1,379 suppliers had signed the Code. This represents over 90% of the Geberit Group's purchasing volume.

#### **SUPPLIER INTEGRITY LINE LAUNCHED**

The "Supplier Integrity Line", which was launched in May 2017, allows suppliers to anonymously report any violations of the guidelines set out in the Code of Conduct for Suppliers by Geberit employees and by competitors. The free hotline is operated by an independent service company and is available in a total of eleven languages. Violations can also be reported online at any time via an external URL. In 2017, one case that was deemed significant was reported. Appropriate steps are being taken to investigate this matter.

#### **EHS AUDITS CARRIED OUT**

During the reporting year, four EHS (Environmental, Health and Safety) audits were carried out in the area of procurement. The goal of these audits was to check compliance with the respective national legislation and regulations in the areas of environmental protection and occupational health and safety. The audits were carried out by an independent third-party company.

# SUSTAINABILITY

## SUSTAINABLE ACTION – AN IMPORTANT PART OF CORPORATE CULTURE

For decades, sustainability has been an important part of Geberit's corporate culture. A firmly established sustainability strategy ensures that the objectives are measurable, making a significant contribution to the business success in the process. The focus of sustainable business management is on water-saving and durable products, resource-saving and environmentally friendly production, procurement and logistics with high environmental and ethical standards, and on good, safe working conditions for all employees worldwide. Geberit also exercises its social responsibility just as consistently, through the continuance of its own social projects as well as its partnership with the Swiss development organisation Helvetas.

## WATER MANAGEMENT IS A GLOBAL CHALLENGE

Approved by the United Nations in 2015, the Sustainable Development Goals comprise 17 specific targets and indicators which countries are required to implement by 2030. The business world plays a pivotal role in implementing these targets and indicators. The goal calling for equitable access to clean drinking water and basic sanitation for all people worldwide is of particular importance to Geberit. The company also focuses on the goals concerning "Industry, Innovation and Infrastructure" and "Sustainable Cities and Communities". In cities and globally expanding urban areas, water-saving, resource-efficient and reliable sanitary technology plays an important role. As a globally operating company, Geberit advocates sustainable design and development and a robust infrastructure in cities and in rural areas.

Sparing, careful use of water as a valuable resource is one of Geberit's core areas of focus. A Geberit value chain analysis in the form of a water footprint shows that nearly 100% of water consumption is attributable to the product usage phase. The following water footprint chart also includes the impact of ceramic cisterns for the first time.

## WATER FOOTPRINT THROUGHOUT THE VALUE CHAIN IN 2017

### PROVISION OF RAW MATERIALS

0.15% of the total amount of water is required in the manufacture of raw materials for products.



**0.15%**  
(6.5 million m<sup>3</sup>)

### MANUFACTURING

A mere 0.03% of the water is used in the manufacture of products in 2017.



**0.03%**  
(1.1 million m<sup>3</sup>)

### USE

The greatest water consumption by far occurs during the use of products manufactured in 2017 during their entire service life (cisterns, urinal flushing systems and lavatory taps).



**99.81%**  
(4,392 million m<sup>3</sup>)

### DISPOSAL

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



**0.01%**  
(0.2 million m<sup>3</sup>)



## A GROWING FOCUS ON GREEN BUILDING

Green building is becoming ever more important in both the public and private construction sector, with European standards that define the use of sustainable products and systems in buildings gaining in significance. More and more buildings are being constructed in accordance with sustainability standards such as LEED, DGNB, Minergie or BREEAM. Consequently, there is demand among investors, project developers, owners and tenants for system providers with comprehensive know-how in green building which will enable the relevant standards to be met. Geberit is addressing this demand with water-saving, energy-saving, low-noise and durable products, thereby positioning itself in the front line with regard to green building, as numerous green building reference projects prove. For example, → **Raffles City** was opened in the commercial centre of Hangzhou (CN) during the reporting year. The whole block of buildings, which boasts a floor area of almost 400,000 m<sup>2</sup> and has achieved LEED Gold certification, is home to a hotel as well as office and retail space and apartments. Furthermore, a new → **Vitsoe furniture production facility** was built in Leamington (UK). The new headquarters of the furniture company (founded in 1959) is considered a flagship project when it comes to sustainability.

## SUSTAINABILITY MEANS LONG-TERM VALUE ADDED

Geberit is committed to a binding sustainability strategy that is closely linked to the company's core areas of focus.

A total of eleven sustainability modules continue to form the basis of this strategy. Among these are → **green procurement**, → **green logistics**, → **environmental management in production**, → **occupational safety**, → **eco-design in product development** and → **social responsibility**.

## SUSTAINABILITY STRATEGY



Since 2007, a sustainability performance review of the Geberit Group has been prepared annually in accordance with the guidelines of the Global Reporting Initiative (GRI). An internal process to define the essential aspects of sustainability at Geberit was the key starting point when introducing the GRI G4 guidelines. The → **materiality analysis** reviewed by an external stakeholder panel in 2016 as well as the sustainability strategy and related communication were applied without any changes and pursued further in the reporting year.

All aspects of the GRI G4 guidelines can be found in the → **Sustainability Performance Report** for 2017. The information disclosed within the scope of this report fulfils the "comprehensive" transparency grade set out in the GRI G4 guidelines, as verified by → **GRI**.

Since 2008, Geberit has been a member of the United Nations Global Compact – a global agreement between businesses and the UN designed to make globalisation more socially responsible and environmentally friendly. A → **Communication on Progress** regarding measures in the areas of human rights, labour practices, environmental protection and anti-corruption is submitted annually. Geberit is also a member of the local network of the UN Global Compact. The → **Code of Conduct for Employees** and the → **Code of Conduct for Suppliers** further incorporate the

topic of sustainability. Continuously improved → **compliance processes** ensure compliance with guidelines and directives. In addition, a system for the control and management of all risks involved in entrepreneurial activities is in place throughout the Group. For more information, see → **Risk management**.

The activities in terms of sustainable business management are rewarded by the capital market. Geberit is strongly represented in the sustainability stock indices and sustainability funds segment. For example, the share is a component of the STOXX Europe Sustainability Index and the FTSE4Good 100 Index Series. Renowned sustainability funds also hold the shares in their portfolios. Geberit wants to continue to play a pivotal role in the "Sustainability" and "Water" investment segments, which are still gaining in importance.

#### **SUSTAINABLE TECHNOLOGY AND INNOVATION PROCESSES**

Sustainability is an integral part of the technology and innovation processes at Geberit. This is why the eco-design approach has been consistently applied since 2007 as part of the Group's innovation and development process. All environmental aspects are examined, from the selection of raw materials right through to disposal. Every new product must be better than its predecessor from an ecological perspective. An example here is the new fill valve type 333, which despite requiring fewer resources to manufacture (the product is 15% lighter; 20% of the plastic in the valve is recycled material) is also flow-optimised and quiet.

Product life cycle assessments are important decision-making tools for the development processes, providing arguments for the use of resource-efficient products. Geberit has produced detailed life cycle assessments for various important products, with 2017 also seeing such assessments produced for Sanitary Ceramics for the first time. The environmental product declarations (EPDs) in accordance with the European standard EN 15804 are also becoming increasingly important and can also be used directly for green building standards such as LEED. The EPD present relevant, comparable and verified information about a product's environmental performance in a transparent manner.

# COMPLIANCE

## TRAINING FOCUSING ON ANTITRUST LEGISLATION

In the reporting year, the focus was on in-house training events and developing the available instruments for reporting breaches of the Geberit Code of Conduct.

E-learning courses represent an efficient way to train staff on antitrust legislation, an issue that is particularly sensitive for Geberit. In the reporting year, the sales companies outside Europe were trained on this topic using this mode of learning. The same topic was also taught to staff directly at the sales company in the UK by one of the Group's antitrust legislation specialists.

Antitrust legislation audits, which focused primarily on the local conditions systems, were carried out in the UK, Belgium, the Netherlands and Luxembourg as part of the internal audit, revealing only very little need for action.

Given Geberit's business model, the topics of corruption and antitrust legislation are considered particularly sensitive areas. They are therefore a main topic in the → **Geberit Code of Conduct**, which was drawn up in 2008, and of which a new version has been available since the start of 2015. Like every year, all Geberit Group companies had to draw up a status report on the Code of Conduct in their country for the attention of the Group. The topics enquired about here ranged from issues concerning occupational health and safety right through to environmental protection. No serious shortcomings came to light in these status reports.

In the reporting year, the Integrity Line for Geberit employees, which was established in 2013, recorded one significant incident, which was subsequently investigated. This resulted in the discovery of shortcomings at a local company, which were then rectified.

Furthermore, in the area of procurement, a "Supplier Integrity Line" was introduced in May 2017 for the first time. For more information, see → **Logistics and procurement, Supplier Integrity Line launched**.

## LEGAL ADVICE ON MARKETING AND SALES CAMPAIGNS

In the reporting year, the Group's legal department dealt with a series of market enquiries concerning the permissibility of marketing and sales campaigns, with the team receiving such enquiries from Austria, South Africa, Romania, Denmark, Ukraine and Germany. All the campaigns in question were ultimately approved, some after slight modifications were made.

# SOCIAL RESPONSIBILITY

## SOCIAL PROJECTS CLOSE TO THE CORE BUSINESS

Innovative sanitary technology continuously improves the quality of people's lives. Geberit rigorously pursues this mission. The guideline for employees, the → **Geberit Compass**, sets this out.

In addition to improving quality of life through innovative sanitary products, Geberit also lives up to its social responsibility through its social projects, which it has been carrying out with its own apprentices for many years. These projects always exhibit a relationship to the topic of water and to the company's core competencies. Apart from being involved in the projects, the young people who take part become familiar with other cultures and acquire new social, linguistic and professional competencies – experiences that will aid their personal and professional development. Furthermore, these social projects make a tangible contribution to the Sustainable Development Goals of the United Nations, which include giving all humans access to clean drinking water and basic sanitation by 2030.

In 2017, the apprentices travelled to Odessa (UA) to help out at a → **Ukrainian vocational school** attended by over 500 students, most of whom come from disadvantaged backgrounds. This school offers young people training in a total of 31 professions. The local Geberit company planned the renovation and expansion of the sanitary facilities, then supported by nine Geberit apprentices with work on site in September 2017. Ukrainian students at the vocational school who are training to become plumbers also worked on the project.

## GLOBAL COMMITMENTS

Geberit continued its extensive partnership with the Swiss development organisation Helvetas and supported the new Helvetas campaign with a substantial sum of money. The "Change of Perspective" project was also implemented once again, with two Swiss plumbers travelling to Nepal in the autumn, working there for a week with two Nepalese colleagues. This project is set to continue in 2018. In addition, 16 Geberit employees visited Nepal for a voluntary two-week assignment in November 2017, helping a village community in western Nepal to construct a water pipeline. Geberit also made a major donation to support Helvetas-run water projects in Nepal.

The cooperation with the non-profit organisation Swiss Water Partnership was continued. This platform seeks 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 and promote international dialogue on water.

The Geberit Group's activities in the area of social responsibility are rounded off by a multitude of other initiatives and fundraising campaigns at a local level. 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 organisations (NGOs), including after completion of the projects in question. For an overview of donations and financial contributions, see → **Investments in infrastructure and services primarily for public benefit**. All donations 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

The Geberit Group's management structure was adapted to the changed conditions as a consequence of the integration of the ceramics business. With effect from 1 January 2017, product management was reorganised and structured as follows:

- **Bathroom Systems** – comprises bathroom ceramics and furniture, ceramics complementary products such as showers, bathtubs and washbasins made of other materials, waste fittings and traps, taps and electronic flushing systems as well as shower toilets
- **Installation and Flushing Systems** – comprises installation systems as well as cisterns and mechanisms
- **Piping Systems** – comprises building drainage and supply systems (unchanged)

The goal of this structural change is to organise product management according to the required development competencies and at the same time align it even better to customer needs. Linked to this is the aspiration to launch products that convince thanks to both their exceptional design and their customary high degree of functionality.

Apart from diverse changes as a result of the Sanitec integration and the divestment of the Varicor Group, there were no significant changes to the legal structure of the Geberit Group (see also → **Financial Statements of the Geberit Group, Notes to the Consolidated Financial Statements, 2. Changes in Group structure**) and → **33. Group companies as of 31 December 2017**.

# OUTLOOK

## CONSTRUCTION INDUSTRY LOOKING MORE POSITIVE

The situation in the construction industry should be generally favourable in 2018. However, the individual regions/markets and construction sectors will perform differently. In **Europe**, the recovery should continue. However, despite healthy demand, growth potential in Germany is severely limited due to capacity constraints of installers. A favourable market environment is expected for Austria, France and the Benelux Countries. The construction industry in Switzerland should remain stable at a high level. In the Nordic Countries, the situation for the individual countries is expected to be mixed, with a simultaneous slackening of the growth dynamic. The Eastern European markets are also predicted to perform differently, with a positive environment expected in Poland and a stabilisation anticipated in Russia, for example. A slight easing of the market environment is expected in Italy, whereas a downward trend is foreseeable in the United Kingdom as a result of Brexit. In **North America**, a moderate recovery is predicted in the institutional construction industry – which is important to Geberit's business in the USA – along with growth in residential construction. In the **Far East/Pacific** region, the Chinese residential construction sector has been performing better since the beginning of the second half of 2017. The construction industry in Australia is expected to stagnate and the business climate in India is likely to become more challenging. In terms of the **Middle East/Africa** region, the Gulf States should recover. However, the construction market in South Africa is likely to stagnate.

Fluctuations in the Swiss franc compared to other important currencies used by the Geberit Group will continue to affect sales and results. Gains and losses result mainly from the translation of local results into Swiss francs (translation effects). In general, the effects of currency fluctuations on margins are minimised to the greatest possible extent 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. With regard to the impact of foreign currency effects, please refer to the information and the sensitivity analysis in the → **Management of currency risks** section.

In the first half of 2018, raw material prices are likely to exceed their prior-year level – driven mainly by higher prices for industrial metals and for plastics.

## GEBERIT

In 2017, the most important milestones regarding the integration of the ceramics business were reached. From 2018, line managers will promote further activities as part of daily business, with the focus on continually optimising and harmonising shared processes and the IT systems, developing combined products, making ongoing improvements in ceramics manufacturing and promoting cultural integration. The objective is to perform strongly across the entire sanitary product business and in all markets and, as in previous years, to gain market shares. There will be concerted marketing of the new products that have been introduced in recent years. Markets in which Geberit products or technologies are still under-represented will be intensely cultivated, and the promising shower toilet business will be expanded further. In line with the Geberit strategy, these measures shall be accompanied by efforts to continuously optimise business processes.

The Board of Directors and the Group Executive Board are convinced that the company is very well equipped for the upcoming opportunities and challenges. 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. Experienced and highly motivated employees, 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 organisation, an established cooperation based on trust with the market partners in both commerce and trade, and the Group's continued solid financial foundation are vital to our future success.