

# EDITORIAL

Dear shareholders,

As in previous years, the construction industry in 2018 was shaped by developments that varied by region. In the year-on-year comparison, the market environment was characterised by increased volatility and a declining growth momentum in certain markets. With our solid sales growth and high profitability we can look back on a good financial year where we have further consolidated our position as the leading supplier of sanitary products in Europe.

Consolidated sales in 2018 increased by 5.9% to CHF 3,081 million. Total growth comprised growth in local currencies of 3.1% and a foreign currency effect of +2.8%. We were again able to gain market shares, particularly in those European countries in which our technology is still under-represented. As in previous years, one-off costs related to the Sanitec acquisition and integration had an impact on our results, although to a significantly lower extent and for the last time in this reporting year. Operating profit (EBIT) adjusted for these effects increased by 5.4% to CHF 744 million and the adjusted EBIT margin came to 24.2%. The increased year-on-year operating results were above all attributable to higher sales volumes, price increases, positive effects of the closure of two plants in France in the previous year, the introduction of new products as well as to continuous efficiency improvements, while higher raw material prices as well as tariff-related increases in personnel expenses had a negative impact. Adjusted net income rose by 3.7% to CHF 626 million, with an adjusted return on net sales of 20.3%. Adjusted earnings per share improved by 4.7% to CHF 17.21. The non-adjusted figures were CHF 708 million for the EBIT, CHF 597 million for net income and CHF 16.40 for earnings per share. Free cashflow increased by 22.2% to CHF 582 million, above all due to the gratifying rise in operating cashflow.

In 2018, we once again expanded our proven product range, with the following key new products launched on the market:

- The compact shower toilet Geberit AquaClean Tuma Classic complements the shower toilet range as a perfect entry-level model. This basic model offers the basic functions of a shower toilet, including WhirlSpray shower technology and a fully automatic descaling programme. It is offered as a complete solution with a rimless WC ceramic appliance or as a WC enhancement solution.
- The energy retaining valve is mounted on ventilation pipes which protrude from the roofs of many buildings and ensures pressure compensation in the discharge pipes. It opens only when pressure compensation is required. The rest of the time, it keeps the heat within the building and thereby saves a significant amount of energy.
- The manually adjustable sanitary flush unit Rapid flushes unused water pipes automatically and regularly. This prevents water from stagnating in a pipe over a longer period, which can lead to health risks.
- The VariForm washbasin range adds 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.

Based on the principles of flow production set out in the Geberit Production System (GPS) applicable throughout the Group, we once again initiated, promoted or brought to a conclusion numerous larger and smaller process optimisations within the plant network. This enabled substantial efficiency gains to be achieved, particularly in the area of ceramics production. Prime examples of this are the ceramics plants in Gaeta (IT) and Limoges (FR), where productivity was increased significantly. The GPS principles also formed the basis of all investments that we made in the area of plants and logistics. In the reporting year, the completion of factory buildings in Pfullendorf (DE), Langenfeld (DE) and Ozorków (PL), as well as new buildings for logistics and technical product development in Slavuta (UA) are particularly worthy of mention.

The environmental impact in relation to currency-adjusted sales (eco-efficiency) decreased by 7.3%. As regards the long-term target, which is based on an average annual decrease of 5% per year, we therefore remain on course. Since the start of the integration of the ceramics business in 2015, we have also succeeded in improving eco-efficiency and CO<sub>2</sub> emissions by a total of more than 20% each.

We further promoted the topic of digitalisation in various areas in 2018. Personnel and skills within the Digital team were significantly expanded at Group level, with the aim of developing and launching digital tools more quickly and efficiently. We launched and further developed various digital tools designed to respond to the needs of end users as effectively as possible. An "inspiration app" for end users is in use in Switzerland and France. A 3D planning tool was also developed, providing a creative platform for end users to design their future bathroom. A new CRM system piloted in the United Kingdom allows us to tailor our offer to the digital requirements of potential end users who are interested in sanitary products. Our online catalogue for craftsmen was set up on a new high-performance platform. Information relating to products and spare parts will now be available from a single source and can be displayed on various devices. This will also enable easy navigation by craftsmen on mobile devices at the building site. Furthermore, Geberit has been providing users of the interdisciplinary planning method BIM (Building Information Modelling) with product data and calculation modules for a number of years now. With this in mind, we have established and further expanded a specialised in-house team of BIM experts. BIM facilitates an efficient exchange of information between architects, sanitary engineers and building owners and aims to optimise the entire planning and building process. We have further advanced the integration and standardisation of the IT systems and processes at the former Sanitec plants. As planned, a corresponding project was prepared in the reporting year and implemented successfully on 1 January 2019 at the Scandinavian production sites in Ekenäs (FI), Bromölla and Mörrum (both SE).

We take our social responsibilities seriously, including the undertaking of social projects involving our own apprentices since 2008. The projects exhibit a strong relationship to the topic of water and to our core competencies. In 2018, the apprentices travelled to Morocco, where they renovated sanitary facilities in desolate conditions at several schools. We also continued our partnership with the Swiss development organisation Helvetas with a series of initiatives. Firstly, sanitary expertise adapted to the local conditions was passed on in a knowledge transfer project that took two Geberit employees to Mozambique and another two to Nepal in autumn 2018. Secondly, the "Change of Perspective" project was also implemented again, as two Swiss plumbers travelled to Nepal in November 2018, working there for a week with two Nepalese colleagues. Our activities in the area of social responsibility are rounded off by a multitude of other initiatives and fundraising campaigns at a local level.

In 2018, the Geberit share price fell by 10.9% to CHF 382.30. In the same period, the Swiss Market Index (SMI) posted losses of 10.2%. As in the past, we wish to let the shareholders benefit from the good development of the business and will maintain the attractive distribution policy of previous years. Therefore, we will propose to the General Meeting a dividend of CHF 10.80, which is 3.8% higher than in the previous year. The payout ratio of 62.7% of adjusted net income is in the upper range of the 50% to 70% corridor defined by the Board of Directors. The share buyback programme, launched on 6 June 2017, was also continued. By 31 December 2018, around 651,000 shares, or 1.8% of the share capital currently entered in the Commercial Register, had been acquired at a sum of CHF 276 million as planned. 97.3% of the free cashflow was therefore distributed to our shareholders during the reporting year as part of the dividend payment and the share buyback programme.

An important step in the new brand strategy will be implemented in 2019: in key markets such as Germany, Switzerland and Austria, we will only offer ceramic products and bathroom series under the Geberit brand in future, while established brands such as Keramag will be discontinued. A number of other markets or brands respectively, will implement these changes in 2020. During the reporting year, this streamlining of the brand portfolio was prepared in detail. After all, this is a step that affects almost all areas of the company – including production, logistics, product data, marketing, and the sales organisations. Our customers – particularly wholesalers and numerous showroom operators – were also informed of these measures in advance.

We owe the good results in the reporting year to the great commitment, high degree of motivation and expertise of our employees. We wish to express our thanks and appreciation for their exemplary performance. Our customers in the commercial and

trade sectors again deserve special thanks for their trust and constructive collaboration. Last but not least, we also wish to express our gratitude to you, esteemed shareholders, for your continued great trust in our company.

The objective in 2019 is to perform strongly across the entire product range and in all markets and, as in previous years, to gain market shares. There will be focused 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 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 and high margins shall be continued to be achieved in 2019. A focus will be placed on implementing the digitalisation strategy. 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 continue to be firmly seized. We are convinced that the company is very well equipped for the upcoming opportunities and challenges.

Yours sincerely,



Albert M. Baehny  
Chairman of the Board of Directors



Christian Buhl  
CEO