

Compensation Report

Introduction by the Chairman of the Compensation Committee

Dear shareholder

On behalf of the Board of Directors of GF and of the Compensation Committee, I am pleased to present the 2014 Compensation Report.

2014 has been a good year for GF; due to improved productivity, profitability was increased. All divisions achieved a ROIC well above their financial costs.

From a compensation perspective, the Committee has prepared the amendments to the Articles of Association relative to the requirements of the new Ordinance against excessive pay. These amendments will be submitted to shareholders' vote at the upcoming Annual Shareholders' Meeting in parallel to the binding shareholders' vote on the compensation amounts of the Board of Directors and the Executive Committee. Further, the Compensation Committee has undertaken a thorough review of the compensation model of the Board of Directors, considering that it has been in place for several years. Based on this review we will simplify the remuneration structure of the Board of Directors in 2015.

At the upcoming Annual Shareholders' Meeting, we will ask you to approve the principles of compensation, included in the Articles of Association as well as to approve prospectively in a binding vote the maximum amounts of compensation for the Board of Directors and for the Executive Committee. In addition, we will also ask you to vote on a consultative basis on the Compensation Report 2014.

Looking ahead, the Committee will continue to review and fine-tune the compensation programs, in order to ensure that they remain aligned with market levels and the business strategy of GF as well as the long-term interests of our shareholders, while being compliant with the various regulations.

We would like to thank you for sharing your views on compensation with us and we trust that you will find this report interesting and informative.

Sincerely



Ulrich Graf, Chairman of the Compensation Committee

Contents // The Compensation Report provides information about the compensation policy, the compensation programs, and the process of determination of compensation applicable to the Board of Directors and to the Executive Committee of GF. It also includes details on the compensation payments related to 2014. This report is written in accordance to the Ordinance against excessive pay in stock exchange listed companies, the standards related to information on Corporate Governance issued by the SIX Swiss Exchange and the principles of the Swiss Code of Best Practice for Corporate Governance of Economiesuisse.

Compensation policy

Overarching principles // For the Board of Directors, the compensation policy is designed to ensure their independence in exercising their supervisory duties and foresees a fixed compensation only.

For the Executive Committee, the compensation policy is designed to attract, retain, and motivate talented individuals, along the following principles:

- Fairness and transparency
- Pay for performance
- Long-term orientation and alignment to shareholders' interest
- Market competitiveness

Compensation principles

Fairness and transparency	Pay for performance and results	Participation in long-term success	Market competitiveness
Compensation programs are straightforward, clearly structured and transparent. They ensure fair remuneration based on the responsibilities and competencies required to perform the role. (internal equity)	A portion of compensation is directly linked to the company and individual performance. (performance orientation)	A portion of the compensation is delivered in form of restricted shares, ensuring participation into the long-term success of the company and a strong alignment to the shareholders' interests. (long-term orientation)	Compensation levels are competitive and in line with relevant market practice. (external equity)

Compensation Governance

Compensation Committee // The Compensation Committee consists of three non-executive Board members who are elected yearly and individually by the Annual Shareholders' Meeting for a one-year period until the next Annual Shareholders' Meeting. At the 2014 Annual General Meeting, Ulrich Graf (Chairman), Isabelle Welton and Zhiqiang Zhang were confirmed as members of the Compensation Committee. The Committee supports the Board of Directors in setting the compensation policy at the highest corporate level and regularly reviews the guidelines governing compensation of the executives. The Committee also proposes the amount of compensation to be paid to the Board of Directors, to the CEO and to the other members of the Executive Committee and prepares the related motions for the Annual Shareholders' Meeting.

The Compensation Committee convenes as often as necessary, but at least once a year. In 2014, the Committee held three meetings of approximately one hour and a half each:

- In the February meeting, the Committee evaluated the business performance in the previous business year against the pre-set objectives, and prepared a proposal to the Board of Directors on the short-term incentive to be paid to the Chief Executive Officer and to the Executive Committee members. In the same meeting, the Committee determined the business objectives for the 2014 business year for the Chief Executive Officer and reviewed those of the Executive Committee members, before submitting them to the Board of Directors for approval;
- In the September meeting, the Committee reviewed the overall compensation policy and discussed a new compensation model for the Board of Directors. The Compensation Committee also reviewed the benchmarking analysis of the compensation of the members of the Executive Committee. Further, the Committee reviewed the proposed provisions on compensation to be included in the Articles of Associations in order to comply with the requirements of the Ordinance against excessive pay in stock exchange listed companies;
- In the December meeting, the Committee reviewed and approved the target compensation for the following business year for the members of the Executive Committee based on a proposal from the CEO. The Committee determined the target compensation of the CEO for the next business year based on a proposal from the Chairman of the Board and prepared a proposal to submit to the Board of Directors for approval. The Committee also approved the new compensation model for the Board of Directors for the next business year. Further, the Committee determined the compensation amounts of the Board of Directors and of the Executive Committee to be submitted to shareholders' vote at the 2015 Annual Shareholders' Meeting. Finally, the Committee reviewed and approved the Compensation Report.

Overview of meetings' schedule

	February	September	December
Compensation policy		Review of compensation policy	
EC Compensation	Business performance previous year Bonus CEO and EC previous year Business objectives current year	Benchmarking analysis compensation CEO and EC	Target compensation CEO and EC following business year Compensation amount for say-on-pay vote at Annual Shareholders' Meeting
BoD Compensation		New compensation model BoD	New compensation model BoD Individual compensation BoD Compensation amount for say-on-pay vote at Annual Shareholders' Meeting
Governance		Review of the amendments to the Articles of Association (Ordinance)	Review of the amendments to the Articles of Association (Ordinance) Review of Compensation Report

CEO = Chief Executive Officer, EC = Executive Committee, BoD = Board of Directors

In 2014, with one exception, all Committee members attended all meetings. The CEO and the Head of Corporate Human Resources attended the Committee meetings in advisory capacity. The CEO did not attend the meeting when his own compensation or performance was discussed. The Chairman of the Committee reported to the Board of Directors after each meeting on the activities of the Committee. The minutes of the Committee meetings are available to all members of the Board of Directors.

The compensation proposals and decisions are made based on the following levels of authority:

Levels of authority

Approval framework		
Subject	Recommendation from	Final approval from
Compensation policy and principles	Compensation Committee	Board of Directors
Aggregate compensation amount of Board of Directors	Board of Directors based on proposal by Compensation Committee	Annual Shareholders' Meeting
Individual compensation of Board of Directors	Compensation Committee	Board of Directors
Aggregate compensation amount of Executive Committee	Board of Directors based on proposal by Compensation Committee	Annual Shareholders' Meeting
Compensation of the CEO	Compensation Committee based on proposal by the Chairman of the Board	Board of Directors
Compensation of the Executive Committee	Compensation Committee based on proposals by the CEO	Board of Directors

On behalf of the Board of Directors, Internal Auditing annually reviews the compliance of the compensation decisions made with the compensation regulations for the Executive Committee and the Board of Directors, the Organizational Rules and the Articles of Association.

The Committee may call in external compensation specialists to obtain independent advice and/or to get benchmarking compensation data. In the year under review, the Compensation Committee mandated Hay Group to conduct a benchmarking analysis on both the compensation of the Board of Directors and of the Executive Committee.

Method of determination of compensation // The elements and levels of the compensation of the Board of Directors and the Executive Committee are reviewed regularly and are tailored to the relevant sector and labor market in which GF competes for talent. For the purpose of comparison, the Compensation Committee relies on compensation surveys published by independent consulting firms and on publicly available information, such as compensation disclosures from comparable companies. Comparable companies are defined as companies with similar size in terms of market capitalization, sales, number of employees, and geographic scope, which operate in similar business segments and are headquartered in Switzerland.

In 2014, a thorough review of the compensation of the Board of Directors has been conducted by Hay Group in order to assess its competitiveness in terms of level and structure. A peer group of selected companies, all Swiss multinational companies of the industry sector listed on the Swiss stock exchange (SIX), has been defined. The peer group consists of Autoneum, Bucher Industries, Dätwyler, Geberit, Kaba, Oerlikon, Rieter, SGS, Sika, Sonova, and Sulzer. On the basis of this benchmarking analysis, the compensation model and levels for the Board of Directors have been adjusted, effective for 2015. Those changes are explained in more detail in the section "Changes to compensation model in 2015".

In 2014, a benchmarking analysis of the compensation levels for the Executive Committee has been conducted by Hay Group on the basis of the Hay Group job evaluation methodology and the related compensation data. For the CEO, an additional benchmark has been done on the basis of the compensation disclosure of the companies of the peer group described above.

The Compensation Committee also takes into consideration the effective business and individual performance while determining the compensation amounts to be paid to the Chief Executive Officer and to the other members of the Executive Committee. Individual performance is assessed through the annual Management By Objectives (MBO) process, where individual objectives are defined at the beginning of the year and the achievement against those objectives is evaluated at the end of the year. The objective setting and the performance assessment of the members of Executive Committee are conducted by the CEO and are approved by the Chairman of the Board. The Chairman of the Board determines the objectives and evaluates the performance of the CEO.

Architecture of compensation

Compensation of the Board of Directors // The compensation regulation applicable to the Board of Directors is reviewed periodically based on competitive market practice and retains its validity for several years.

In order to guarantee the independence of the members of the Board of Directors in executing their supervisory duties, their compensation is fixed and does not contain any performance-related component. The annual overall compensation for each member of the Board of Directors depends on the responsibilities carried out and the time effectively spent in the year under review. The compensation is partially delivered in cash (fee) and in restricted shares.

Compensation model: Board of Directors

	Responsibility	Fee	Restricted shares
Basis fee	Board Membership	CHF 40 000	+ 150 shares
Additional fees	Board Chairmanship	CHF 164 000	+ 150 shares
	Board Vice-Chairmanship	CHF 22 500	
	Audit Committee Chairmanship	CHF 54 000	
	Audit Committee Membership	CHF 18 000	
	Other Committee Chairmanship/Membership	CHF 4 500 per day ¹	
	Any additional activity	CHF 4 500 per day	
Business expense	Expense lump-sum	CHF 500 per day	

¹ Only payable if the Committee meeting does not take place on a day of a Board meeting.

Members of the Board receive a fixed fee and additional fees for special tasks such as committee chairmanship, vice-chairmanship or membership, and any other extraordinary activities/meetings. The fees are paid in cash in January for the previous calendar year.

In addition, each member of the Board receives a fixed number of Georg Fischer shares. The value of the share-related compensation is calculated on the basis of the closing share price on the last trading day of the reporting year. Those shares are granted in January for the previous calendar year and are restricted for a period of five years.

Finally, members of the Board also receive a lump-sum allowance to cover their business expenses. They do not receive additional reimbursements of business expense beyond actual expenditures for business travel.

The compensation of the Board of Directors is subject to regular social security contributions and is not pensionable.

This compensation model has been modified on the basis of the review conducted in 2014. The new compensation model is explained in the section "Changes to the compensation model in 2015" and is effective for 2015.

Compensation of the Executive Committee // The principles of compensation of Executive Committee members, as described above in the section "Principles of compensation", are set out in a regulation and retain their validity for several years. They were last reviewed by the Compensation Committee in 2012.

The compensation of the Executive Committee includes the following elements:

- Fixed base salary in cash
- Performance-related short-term incentive in cash
- Share-based remuneration (long-term incentive)
- Benefits such as pension and social insurance funds

Compensation model: Executive Committee

	Instrument	Purpose	Drivers
Annual base salary	Monthly cash payments	Pay for the function	Scope and responsibilities Profile of the individual
Short-term incentive	Annual cash payment	Pay for performance	Business and individual performance over a one-year period
Share-based remuneration (long-term incentive)	Restricted shares (five years)	Participate to long-term success Align to shareholders' interests	Level of the role in the organisation
Benefits	Pension and insurances Other perquisites	Protect against risks Cover business expenses	Local legislation and market practice

Fixed base salary // The fixed base salary is determined primarily on the basis of the following factors:

- Scope and complexity of the role, as well as the skills required to perform the role;
- Skills, experience and performance of the individual in the role;
- External market value of the role.

Fixed base salaries of the Executive Committee members are reviewed every year on the basis of those factors and adjustments are made according to market developments and to the company's affordability.

Short-term incentive // The short-term incentive is a variable incentive designed to reward the achievement of business objectives of the Corporation and its divisions, as well as the fulfillment of individual performance objectives as defined within the MBO process, over a time horizon of one year.

The business objectives are set by the Board of Directors in accordance with the long-term strategy. They include absolute financial figures and are set for a period of several years in order to ensure sustainable and long-term performance. Currently, the business objectives are: organic sales growth (excluding acquisitions and divestitures), EBIT margin (EBIT in relation to sales), Return on Invested Capital (ROIC), and asset turnover (sales in relation to average net operating assets). For each objective, the Board of Directors sets a threshold level of achievement under which there is no payout, and a ceiling above which the payout is capped. The payout factor for achievement levels between the threshold and the ceiling is calculated by linear interpolation. While the thresholds and the ceilings are valid for a period of several years, the achievement against those is measured on a yearly basis and leads to a payout factor for this portion of the variable incentive. The threshold for the ROIC is set on a level clearly over the average cost of capital of the Corporation.

The individual objectives are set within the MBO process at the beginning of the year. They are clearly measurable. At the end of the year, the achievement against each individual objective is assessed and leads to a payout factor for this portion of the variable short-term incentive.

The weighting of the business and individual objectives for the CEO and the other Executive Committee members is described in the following chart:

Weighting of the business and individual objectives (maximum level of performance/payout factor)

		CEO	Head division	Staff functions	
Business objectives	Corporation level	Organic sales growth (30%)	24%	9%	18%
		EBIT margin (25%)	20%	7.5%	15%
		ROIC (25%)	20%	7.5%	15%
	Division level	Asset turnover (20%)	16%	6%	12%
		Organic sales growth (30%)		9%	
		EBIT margin (25%)		7.5%	
		ROIC (25%)		7.5%	
		Asset turnover (20%)		6%	
Individual objectives	MBO	30%	30%	30%	
Total weight (at maximum) in % of annual fixed base salary		110%	90%	90%	

Thresholds and ceilings for the business objectives (valid for corporate and divisional objectives)

Business objectives	Hurdle (minimum threshold)	Cap (maximum threshold)	Mid-term targets 2015
Organic sales growth	1.0%	7.0%	not disclosed ¹
EBIT margin	3.5%	12.0%	8%–9%
ROIC	10.0%	22.0%	16%–20%
Asset turnover	2.0	3.0	not disclosed ¹

¹ For confidentiality reasons.

The maximum short-term incentive is expressed as a percentage of the annual fixed base salary and amounts to 110% for the CEO and 90% for the other members of the Executive Committee. The expected level of performance (fulfillment of the multi-year business objectives and of the individual objectives) corresponds to a short-term incentive payout of approximately 60% of the maximum short-term incentive.

Share-based remuneration (long-term incentive) // The purpose of the share-based remuneration is to align the interest of the Executive Committee with the shareholders' interests. The CEO receives 850 restricted shares and each of the other Executive Committee members receives 300 restricted shares. The shares are granted in January of the following year and are subject to a blocking period of five years. The grant value of the share is based on the closing share price on the last trading day of the reported business year. The shares are automatically unblocked in case of termination, liquidation, or change of control.

The underlying shares of the share-based compensation program are either treasury shares or are repurchased on the market.

Benefits // Benefits consist primarily of retirement and insurance plans that are designed to provide reasonable retirement remuneration as well as a reasonable level of protection against risks such as death and disability. All members of the Executive Committee have a Swiss employment contract and participate in the pension fund of GF offered to all Swiss-based employees, in which the fixed base salary is insured. The pension fund exceeds the legal requirement of the Swiss Federal Law on Occupational Retirement, Survivors and Disability Pension Plans (BVG) and is in line with commensurate market practice. For top-management positions, including the members of the Executive Committee, an early retirement plan is in place. The plan is entirely financed by the employer and is administered by a Swiss foundation. Beneficiaries may opt for early retirement from the age of 60, provided that they are enrolled with the Swiss Social Security and have been employed by GF at least for ten years.

Members of the Executive Management do not receive any special benefits. They are entitled to a representation lump-sum allowance and to reimbursement of business expenses in accordance to the expense rules applicable to all employees at management levels employed in Switzerland. The expense regulation has been approved by the relevant cantonal tax authorities.

Contractual terms // The contractual agreements with the CEO and the Executive Committee members foresee a notice period of maximum twelve months. There are no entitlements to severance payments.

Remuneration for the 2014 business year

Board of Directors // The members of the Board of Directors received cash compensation of CHF 850 thousand in the year under review (previous year: CHF 1'041 thousand). In addition, a total of 1'650 Georg Fischer registered shares with a market value of CHF 1'038 thousand were allocated as share-related compensation. In the previous year, the allocation had been 1'600 Georg Fischer registered shares, equivalent to a market value of CHF 1'004 thousand. Together with other benefits, the total compensation paid to the Board of Directors in the year under review amounted to CHF 2'034 thousand (previous year: CHF 2'224 thousand). The detailed disclosure of compensation to the Board of Directors in accordance with the Ordinance against excessive pay in Swiss stock exchange listed companies is as follows:

Compensation paid to the members of the Board of Directors 2014

	Compensation				Total compensation 2014 CHF 1 000	Total compensation 2013 CHF 1 000
	Cash compensation CHF 1 000	Shares Number	Share-related compensation CHF 1 000	Other benefits CHF 1 000		
Andreas Koopmann						
Chairman of the Board of Directors						
Chairman Nomination Committee	229	300	189	30	448	443
Hubert Achermann						
Member Audit Committee	48	117	74	10	132	
Gerold Bühler						
Vice Chairman of the Board of Directors						
Member Audit Committee	87	150	94	13	194	232
Roman Boutellier						
Member Nomination Committee	49	150	94	12	155	193
Ulrich Graf						
Chairman of the Compensation Committee	56	150	94	11	161	191
Rudolf Huber						
Chairman of the Audit Committee	96	150	94	16	206	242
Roger Michaelis						
Member Board of Directors	85	150	94	13	192	192
Jasmin Staiblin						
Member Nomination Committee	49	150	94	12	155	184
Kurt E. Stirnemann						
Member Audit Committee	13	33	21	2	36	164
Isabelle Welton						
Member Compensation Committee	49	150	94	12	155	163
Zhiqiang Zhang						
Member Compensation Committee	90	150	94	14	198	221
Rounding difference	-1		2	1	2	-1
Total	850	1 650	1 038	146	2 034	2 224

The compensation paid to the Board of Directors for the year 2014 was below that of the previous year due to a lower number of meetings in 2014, whereas the share value remained at a similar level.

In the year under review, Mr. Kurt E. Stirnemann, member of the Board of Directors until the Annual Shareholders' Meeting of 19 March 2014, was compensated for the time 1 January through 19 March. Mr. Hubert Achermann, member of the Board of Directors as from 20 March 2014, was compensated for the time 20 March through 31 December. No further compensation was paid to former members of the Board of Directors. No compensation was paid to parties closely related to members of Board of Directors.

Executive Committee // The members of the Executive Committee received cash, share-related compensation, social security and pension contributions amounting to CHF 6.6 million for the year under review (previous year: CHF 6.3 million). 2'050 Georg Fischer registered shares (par value of CHF 1) with a value of CHF 1'289 thousand, based on a share price of CHF 629 at year end 2014, were allocated to members of the Executive Committee for the year under review (previous year: 1'750 Georg Fischer registered shares with a value CHF 1'098 thousand).

The detailed disclosure of compensation to the Executive Committee in accordance with the Ordinance against excessive pay in stock exchange listed companies is as follows:

Compensation paid to the members of the Executive Committee 2014

	Fixed salary in cash	Bonus in cash	Shares	Share-related compensation	Pension and social insurance funds	Total compensation 2014	Total compensation 2013
	CHF 1 000	CHF 1 000	Number	CHF 1 000	CHF 1 000	CHF 1 000	CHF 1 000
Executive Committee	2 763	1 500	2 050	1 289	1 078	6 630	6 255
Of whom							
Yves Serra, CEO (highest individual compensation)	860	545	850	535	346	2 286	2 154

Total compensation for the Executive Committee and the CEO and the other members of the Executive Committee in 2014 was 6% higher than in 2013. The increase is explained by the following factors:

- The number of shares granted has been increased from 750 to 850 shares for the CEO and from 250 to 300 shares for the other members of the Executive Committee, while the value of the shares slightly increased from CHF 627.50 in 2013 to CHF 629.00 in 2014.
- The short-term incentive related to the financial results of the Corporation and the divisions and to the individual performance was of similar level in 2014 compared to 2013. Consequently, the overall short-term incentive percentage ranges from 49% to 54% of the base salary for the Executive Committee members and amounts to 63% of the base salary for the CEO.
- The fixed remuneration was slightly adjusted in order to keep competitive levels that are in line with the market practice of our industrial sector.
- The employer contributions to social security and to company retirement plans have increased following the adjustments of fixed remuneration and the increase of number of restricted shares awarded. A significant portion of the social security payments of the employer to the Swiss social security system (CHF 281 thousand) represents a solidarity payment as the individuals will not get any return or benefit due to these payments.

In the year under review, no compensation was paid to former members of the Executive Committee. No compensation was paid to parties closely related to members of Executive Committee.

Shareholdings of the members of the Board of Directors and of the Executive Committee // The information on shareholdings of the members of the Board of Directors and of the Executive Committee is included on page 118 of the Notes to the Financial Statements of Georg Fischer Ltd.

Loans to members of governing bodies // Neither Georg Fischer Ltd nor its Corporate Companies granted any guarantees, loans, advances, or credit facilities to members of the Board of Directors or the Executive Committee or related parties in the year under review. As of 31 December 2014, no loans were outstanding.

Change to Board of Directors' compensation model in 2015

In 2014, a thorough review of the compensation model applicable to the Board of Directors has been conducted considering that the current model is in place since 2010. Hay Group was mandated to provide a benchmarking analysis both on the structure and levels of compensation compared to a peer group of companies including Autoneum, Bucher Industries, Dätwyler, Geberit, Kaba, Oerlikon, Rieter, SGS, Sika, Sonova, and Sulzer. The results of the analysis showed that the compensation levels at GF are below market practice compared to the peer group. Further, the compensation structure is more complex than typical compensation models currently in place within the peer group. Consequently, it has been decided to streamline the compensation structure by remunerating gross instead of net, by providing a fixed fee for committee work instead of per meeting fees, and by discontinuing the expense lump-sum; actual expenditures will be reimbursed.

The new compensation model effective for the compensation period starting 1 January 2015 has been determined as follows:

Model of compensation of the Board of Directors

Role within BoD	Total basic compensation	Fee	Restricted shares
Basis fee	Board Membership	CHF 70 000	+150 shares
Additional fees	Board Chairmanship	CHF 200 000	+150 shares
	Board Vice-Chairmanship	CHF 22 500	
	Audit Committee Chairmanship	CHF 80 000	
	Audit Committee Membership	CHF 30 000	
	Other Committee Chairmanship	CHF 40 000	
	Other Committee Membership	CHF 20 000	