

Shareholder's letter 1/2008

Georg Fischer reports strong growth, profit at prior-year level

In 2007, Georg Fischer reported sales of CHF 4.50 billion (previous year: CHF 4.05 billion). This marks an 11 percent increase (previous year: 10%) – adjusted for currency effects the increase was 8 percent. Order intake was 9 percent higher than the previous year. A favourable economic environment helped to drive organic growth. However, the Corporation's profitability fell short of expectations, owing in particular to a disappointing result at GF Automotive. The cost of launching the single brand strategy at GF AgieCharmilles also left its mark on the bottom line. Operating profit (EBIT) was CHF 326 million, virtually as high as the record result the previous year (CHF 327 million). The EBIT margin came to 7.2 percent (previous year: 8.1%). Net profit for 2007 stood at CHF 245 million (previous year: CHF 249 million). The Board of Directors proposes to the Annual General Meeting an unchanged profit distribution of CHF 25 per share, to be made in the form of a par value repayment.

2007 business year: strong demand, earnings below expectations

All three Corporate Groups increased their sales, with GF Automotive up 15 percent and GF Piping Systems up 12 percent. The robust economy in Europe and the strong growth of GF Automotive are reflected in the Corporation's sales by region: Europe accounted for 79 percent of sales (previous year: 76%), America 8 percent (previous year: 9%) and Asia/Australia 13 percent (previous year: 15%). In a largely positive environment, the three Corporate Groups defended or even strengthened their market position. However, earnings did not keep pace with sales growth in all Corporate Groups. The scale of the decline in earnings and of the necessary provisions at GF Automotive only became clear in the course of preparing the year-end financial statements. The subsequent announcement of a decline in earnings was a regrettable surprise for our shareholders and the market.

GF Automotive reported record sales revenues of CHF 2.22 billion, owing in particular to extremely buoyant demand in the commercial vehicle segment. This equates to a 15 percent increase – adjusted for currency effects the increase was 10 percent. Owing to the exceptionally high, but financially not always optimum capacity utilisation in the iron casting foundries, with call-off figures that were at times well above expectations, on-time delivery to customers became a highly challenging task. At the same time, the steep rise in material and energy costs also impacted negatively on the result. These difficult conditions caused additional expenses of some CHF 15 million for GF Automotive that could not be offset by the end of 2007.

The main reason for the decline in earnings at GF Automotive, however, was start-up problems with new products at the Herzogenburg plant in Austria. This led to operating losses towards the end of the year. The problems will only be resolved in the course of the coming months. It was therefore necessary to set aside provisions of CHF 20 million in the financial statements for 2007. The EBIT figure of CHF 132 million (previous year: CHF 142 million) and the EBIT margin of 5.9 percent (previous year: 7.4%) were therefore disappointing. The new iron foundry in Kunshan, China, is under construction and will start operating in 2009.

GF Piping Systems topped the billion sales mark for the first time, reporting revenues of CHF 1.10 billion. The increase comes to 10 percent after adjustment for positive currency effects. Growth was particularly robust in some emerging markets, Europe and Asia. The focus on attractive market segments is having the desired effect: the Industry and Utility segments reported double-digit growth rates, even though the pace slowed down slightly in the second half of the year. Some markets continued to perform well, and we will reinforce our presence there. Thanks in particular to a very good first half in 2007, the Corporate Group again improved profitability, reporting EBIT of CHF 126 million (previous year: CHF 109 million), equating to an EBIT margin of 11.5 percent (previous year: 11.1%).

Key figures as per December 31, 2007

million CHF	Corporation		GF Automotive		GF Piping Systems		GF AgieCharmilles	
	2007	2006	2007	2006	2007	2006	2007	2006
Order intake	4 635	4 245	2 292	2 066	1 151	1 033	1 192	1 146
Sales	4 497	4 048	2 223	1 927	1 096	983	1 179	1 137
EBITDA	484	474	235	236	158	140	93	107
EBIT	326	327	132	142	126	109	76	91
Return on Sales (EBIT margin) %	7.2	8.1	5.9	7.4	11.5	11.1	6.5	8.0
Net profit	245	249						
Number of employees	12 986	12 385	5 882	5 778	3 690	3 263	3 263	3 194

GF AgieCharmilles lifted sales by 4 percent (currency-adjusted: 3%) to CHF 1.18 billion in a highly competitive market. The European market was particularly strong, whereas sales in Asia and North America edged down slightly. The highlight of 2007 was the merger of the various brands under the umbrella brand GF AgieCharmilles. In addition to creating "one face to the market", this move also simplified distribution structures and streamlined the organisation. The related one-off costs of CHF 10 million and the weak US dollar reduced the EBIT margin by more than one percentage point. GF AgieCharmilles reported EBIT of CHF 76 million (previous year: CHF 91 million), and an EBIT margin of 6.5 percent (previous year: 8%).

Financial ratios: Healthy balance sheet and high free cash flow

Despite significantly higher investments in property, plant and equipment amounting to CHF 217 million (previous year: CHF 138 million), Georg Fischer generated a free cash flow of CHF 243 million in 2007 (previous year: CHF 298 million). The Corporation again reduced its net debt, which fell to CHF 264 million, a 19 percent decrease versus the previous year. Equity rose by CHF 94 million to CHF 1.54 billion. The equity ratio remained unchanged at a comfortable 45 percent. Even after the acquisition of Central Plastics in the USA at the beginning of 2008, Georg Fischer still has the financial scope for making further strategic acquisitions for expansion.

Net profit for 2007 came to CHF 245 million (previous year: CHF 249 million). This equates to earnings per share of CHF 58 (previous year: CHF 62). Earnings per share fell disproportionately because the average number of shares in circulation was higher in the year under review following the conversion of the convertible bond in autumn 2006. The Board of Directors proposes to the Annual General Meeting an unchanged distribution of profit, to be made in the form of a par value repayment of CHF 25 per share. This is equivalent to a payout ratio of 43 percent.

Strategy: Acquisitions to support organic growth

The record sales figure in 2007 confirms that the strategy of organic growth is being successfully implemented. All three Corporate Groups report expansion in attractive segments, and they have reinforced their international presence and opened up new markets. With the acquisition of Central Plastics, GF Piping Systems has gained entry to the previously inaccessible US infrastructure market for gas and water utilities, making it both the American and world leader in this area. The three Corporate Groups demonstrated their innovativeness at a Technology Day for investors and media representatives, where they showcased the growth potential this gives them.

In 2008 we will continue to expand our capacity in growth markets and step by step extend the Corporation's portfolio through acquisitions. At the same time, we will focus on putting operating performance and profitability at all three Corporate Groups back on track.

Strategic decisions are also taken at Georg Fischer with regard to sustainability. In 2007, the Executive Committee and the Board of Directors approved the revamped "Human Resources" and "Social Responsibility" policies, thus defining the binding social as well as economic and ecological principles against which our Corporation can be benchmarked. In recent years, Georg Fischer has continuously expanded its internal Sustainability Information System (SIS) to obtain the necessary data. In the second quarter of 2008 we will publish our 2007 Sustainability Report, which will be the most comprehensive report of Georg Fischer on this topic to date.

Outlook 2008

Georg Fischer remains right on course in its bid to open up new markets and develop mature markets. The Corporation is set to continue growing organically. At the beginning of 2008, the economic outlook is difficult to gauge. Some signs, which we take seriously, point at least to a slowdown in the economy; at the same time, important markets in the emerging economies and in Asia continue to power ahead. We want to take advantage of these opportunities, and, thanks to our very good order backlog, we are confident about the future.

The general trend on the stock markets did not leave the Georg Fischer share unscathed in 2007. The operational problems at GF Automotive which surfaced at the end of the year also weighed on the share price and unsettled some investors. We will make every effort in 2008 to restore the confidence of our investors in Georg Fischer.

The past year has made great demands on our employees. We thank them for their commitment to the prosperity of the Corporation. Our success in the marketplace shows that we create advantages and benefits for our customers. Their high expectations of our company spur employees and managers on to greater achievements.

Martin Huber
Chairman of the Board

Kurt E. Stirnemann
President and CEO

Schaffhausen, February 26, 2008

Annual General Meeting for the financial year 2007:
Wednesday, March 19, 2008, 3:30 p.m., Steel Foundry Assembly Hall, Schaffhausen
Publication of mid-year report 2008: July 17, 2008

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Financial Overview

Corporation	million CHF 2007	million CHF 2006
Order intake	4 635	4 245
Orders on hand at year end	1 186	1 094
Income statement		
Sales	4 497	4 048
EBITDA	484	474
EBIT	326	327
Net profit for the year	245	249
Cash flow		
Additions to property, plant and equipment	217	138
Cash flow from operating activities	428	317
Free cash flow	243	298
Balance sheet		
Assets	3 395	3 208
Net Operating Assets (NOA)	1 769	1 712
Equity	1 542	1 448
Net debt	264	324
Key figures		
Return on Equity (ROE) %	16	19
Equity %	45	45
Return on Net Operating Assets (RONOA) %	19	19
Return on Sales (EBIT margin) %	7,2	8,1
Cash flow from operating activities in % of sales	10	8
Employees at year end	12 986	12 385
Holding (statutory accounts)		
	million CHF	million CHF
Net profit for the year	91	100
Share capital	205	308
Market capitalization as per December 31	2 823	3 198
Key figures per registered share		
	CHF	CHF
Net profit for the year	58	62
Distribution (proposed) ¹	25	25
Equity attributable to shareholders of Georg Fischer Ltd	372	372
Share price at year end	697	790

¹ In 2006 and 2007 in form of a reduction in par value