

# Compensation Report

**Contents //** This remuneration 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 2013. This report is written in accordance to the transparency regulations of the Swiss Code of Obligations Art. 663b bis and 663c, 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.

The remuneration paid in accordance with the abovementioned provisions of the Code of Obligations is listed and commented in the consolidated financial statements (page 102) and in the statements of Georg Fischer Ltd (pages 114 to 116).

## Compensation policy

**Overarching principles //** The Corporation's compensation policy is designed along the following principles:

### Compensation principles

Principles	Fairness and transparency	Pay for performance and results
	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 to the individual performance (performance equity).
	<b>Participation in long-term success</b> A portion of compensation is delivered under the form of restricted shares, ensuring participation into the long-term success of the company and a strong alignment to the shareholders' interests (long-term equity).	<b>Market competitiveness</b> In order to be able to attract and retain talented executives and employees, compensation levels are in line with relevant market practice (external equity).

## Compensation Governance

**Compensation Committee //** The Compensation Committee consists of three Board members. Since the 2013 Annual Shareholders' Meeting, Ulrich Graf (Chairman), Isabelle Welton and Zhiqiang Zhang are member 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.

The Compensation Committee convenes as often as necessary, but at least once a year. In 2013, the Committee held three meetings of approximately one hour and a half each, according to the following schedule:

- In the February meeting, the Committee evaluates the business performance in the past financial year against the preset objectives, and prepares a proposal to the Board of Directors on the related bonus to be paid to the Chief Executive Officer and to the Executive Committee members. In the same meeting, the Committee determines the business objectives for the following business year for the Chief Executive Officer and reviews those of the Executive Committee members, before submitting them to the Board of Directors for approval.
- In the September meeting, the Committee reviews the overall compensation policy.
- In the December meeting, the Committee reviews and approves the target compensation for the following business year for the members of the Executive Committee based on a proposal from the CEO. The Committee determines the target compensation of the CEO for the next business year based on a proposal from the Chairman of the Board and prepares a proposal to submit to the Board of Directors for approval. The Committee also prepares a proposal on the compensation to be paid to the members of the Board of Directors for the next business year. Finally, the Committee reviews the preliminary disclosure of compensation for the annual report.

The CEO and the Head of Corporate Human Resources attend the Committee meetings in advisory capacity. The CEO does not attend the meeting when his own compensation is discussed. In 2013, all Committee members attended all meetings.

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 CEPEC to conduct a benchmarking analysis on the compensation of the Executive Committee.

**Decision-making authority and supervision //** 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 of the Board of Directors	Compensation Committee	Board of Directors
	Fixed compensation of the CEO (following year)	Compensation Committee based on proposal by the Chairman of the Board	Board of Directors
	Fixed compensation of the Executive Committee	Compensation Committee based on proposal by the CEO	Board of Directors
	Bonus payout of CEO (previous year)	Compensation Committee based on proposal by the Chairman of the Board	Board of Directors
	Individual bonus payouts of Executive Committee	Compensation Committee based on proposal by the CEO	Board of Directors

On behalf of the Board of Directors, Internal Auditing annually reviews the compliance of the compensation decision made with the compensation regulations for the Executive Committee and the Board of Directors.

**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 sales, earnings, number of employees, and geographic scope, which operate in similar business segments and are headquartered in Switzerland. In 2013, no changes were made to the structure of compensation of the Board of Directors and of the Executive Committee. The levels of compensation have been reviewed on the basis of the benchmarking analysis provided by CEPEC and of the compensation disclosures of comparable companies.

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 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 the Executive Committee are conducted by the CEO. 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 regularly reviewed based on competitive market practice and retains its validity for several years. The current regulation is in place since 2010. In 2013, no change was made to the structure of compensation for the Board of Directors, however the level of compensation has been reviewed based on the compensation disclosure of comparable companies.

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 shares.

### Model of compensation of the Board of Directors

	Responsibility	Fee		Shares
<b>Basis fee</b>	Board Membership	CHF 40 000	+	150 shares
<b>Additional fees</b>	Board Chairmanship	CHF 144 000	+	100 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 <sup>1</sup>		
	Any additional activity	CHF 4 500 per day		
<b>Business expense</b>	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 may be paid, wholly or in part, in Georg Fischer shares, at the member's discretion. The member can also elect to voluntarily block the shares for a period of five years. The value of the shares used to convert the fee cash amount into shares is the closing share price on the last trading day of the reporting 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. As of 2014, those shares will be blocked 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 but is not pensionable.

**Compensation of the Executive Committee //** The principles of compensation of Executive Committee members, as described above in the section "Compensation principles", 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 bonus in cash (short-term incentive)
- share-based remuneration (long-term incentive)
- benefits such as pension and social insurance funds

### Model of compensation of the Executive Committee

	Instrument	Purpose	Drivers
<b>Annual base salary</b>	Monthly cash payments	Pay for the function	Scope and responsibilities Profile of the individual
<b>Performance bonus (short-term incentive)</b>	Annual cash payment	Pay for performance	Business and individual performance over a one-year period
<b>Share-based remuneration (long-term incentive)</b>	Restricted shares (blocking period of 5 years)	Participate to long-term success Align to shareholders' interests	Level of the role in the organization
<b>Benefits</b>	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 development.

**Performance-related remuneration //** The performance-related remuneration 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 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 incentive.

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

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

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

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

Business objectives	Hurdle (threshold)	Cap (ceiling)	Mid-term targets 2015
<b>Organic sales growth</b>	1.0%	7.0%	Not disclosed <sup>1</sup>
<b>EBIT margin</b>	3.5%	12.0%	8%-9%
<b>ROIC</b>	10.0%	22.0%	16%-20%
<b>Asset turnover</b>	2.0	3.0	Not disclosed <sup>1</sup>

<sup>1</sup> For confidentiality reasons.

The maximum variable 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 bonus payout of approximately 60% of the maximum bonus. In the review year, the performance-related remuneration of the CEO was 62.5% of the fixed base salary and that of the other Executive Committee members varied between 48.4% and 52.4% of the fixed annual base salary.

**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 750 restricted shares and each of the other Executive Committee members receives 250 restricted shares. The shares are transferred in January of the following year and are subject to a blocking period of five years. The transfer value of the share is based on the closing share price on the last trading day of the previous business year. The shares are automatically unblocked in case of 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 a 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.

Members of the Executive Committee do not receive any executive 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.

#### **Other remuneration**

The members of the Board and the Executive Committee of GF do not receive any further compensation for these functions. In particular:

**Additional fees //** No member of the Executive Committee or the Board of Directors or any person closely associated with them received any fees or other payments for additional services to Georg Fischer Ltd or its Corporate Companies in the 2013 business year.

**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 Executive Committee or the Board of Directors or related parties.

**Contractual terms //** The contractual agreements with the CEO and the Executive Committee members contain a notice period of maximum twelve months.

**Termination benefits //** Members of the Board or the Executive Committee have no contractual entitlement to severance payments.

#### **Remuneration for the 2013 business year**

**Board of Directors //** The members of the Board of Directors received cash compensation of CHF 1 041 thousand in the year under review (previous year: CHF 854 thousand). Of this amount, Board members voluntarily drew 377 Georg Fischer registered shares with a par value of CHF 10, equivalent to a market value of CHF 237 thousand in 2013. In the previous year, they drew had been 524 Georg Fischer registered shares with a par value of CHF 10, equivalent to a market value of CHF 193 thousand. In addition, a total of 1 600 Georg Fischer registered shares with a market value of CHF 1 004 thousand were allocated as share-related compensation. In the previous year, the allocation had been 1 603 Georg Fischer registered shares, equivalent to a market value of CHF 590 thousand. Together with other benefits, the total compensation paid to the Board of Directors in the year under review amounted to CHF 2 224 thousand (previous year: CHF 1 585 thousand). The detailed disclosure of compensation to the Board of Directors in accordance with the transparency provisions of the Code of Obligations is as follows:

## Compensation paid to the members of the Board of Directors 2013

	Compensation				Total compensation 2013 <sup>4</sup>	Total compensation 2012 <sup>4</sup>
	Cash compensation <sup>1</sup>	Share-related compensation <sup>2</sup>	Other benefits <sup>3</sup>			
	1 000 CHF	Number	1 000 CHF	1 000 CHF		
<b>Andreas Koopmann</b>						
Chairman of the Board of Directors						
Chairman Nomination Committee	254	250	157	32	443	303
<b>Gerold Bühler</b>						
Vice Chairman of the Board of Directors						
Member Audit Committee	119	150	94	19	232	155
<b>Roman Boutellier</b>						
Member Nomination Committee	83	150	94	16	193	114
<b>Ulrich Graf</b>						
Chairman of the Compensation Committee	83	150	94	14	191	113
<b>Rudolf Huber</b>						
Chairman of the Audit Committee	128	150	94	20	242	180
<b>Roger Michaelis</b>						
Member Board of Directors	81	150	94	17	192	120
<b>Jasmin Staiblin</b>						
Member Nomination Committee	74	150	94	16	184	115
<b>Kurt E. Stirnemann</b>						
Member Audit Committee	58	150	94	12	164	130
<b>Isabelle Welton</b>						
Member Compensation Committee	56	150	94	13	163	89
<b>Zhiqiang Zhang</b>						
Member Compensation Committee	108	150	94	19	221	158
<b>Martin Huber<sup>5</sup></b>						72
<b>Bruno Hug<sup>5</sup></b>						36
Rounding difference	-3		1	1	-1	
<b>Total</b>	<b>1 041</b>	<b>1 600</b>	<b>1 004</b>	<b>179</b>	<b>2 224</b>	<b>1 585</b>

1 The cash compensation may be drawn in the form of Georg Fischer registered shares as per the regulations. The number of shares is calculated on the basis of the year-end share price on 31 December 2013. For 2013, compensation amounting to CHF 237 thousand was drawn in the form of shares; on the basis of a share price of CHF 627.50 the number of shares allocated was 377. Further, there is the possibility to block the transferred shares for five years.

2 The share-related compensation consists in the allocation of a fixed number of shares. The amount of the share-related compensation is calculated on the basis of the full value of the shares at the year-end price of CHF 627.50 on 31 December 2013.

3 The other benefits include employee contributions to social insurance funds and lump-sum remuneration for expenses which are assumed by GF.

4 The total compensation encompasses the compensation plus the other benefits. Excluding employer contributions to social security of CHF 111 thousand (previous year: CHF 79 thousand).

5 Member of the Board of Directors until the Annual Shareholders' Meeting 2012 (21 March 2012).

Source: Excerpt from the Financial Statements of Georg Fischer Ltd, see page 114 of the Annual Report.

The compensation paid to the Board of Directors for the year 2013 was above that of the previous year, due to the higher value of the shares and to a week-long strategy meeting in China, for which the members of the Board of Directors were remunerated on a time-spent basis as per the compensation regulations.

**Executive Committee //** The members of the Executive Committee received cash compensation and social security and pension payments amounting to CHF 5.2 million for the year under review (previous year: CHF 4.8 million). 1 750 Georg Fischer registered shares (par value of CHF 10) with a value of CHF 1 098 thousand, based on a share price of CHF 627.50 at year-end 2013, were allocated to members of the Executive Committee for the year under review (previous year: 1 750 Georg Fischer registered shares with a value of CHF 644 thousand).

The detailed disclosure of compensation to the Executive Committee in accordance with the transparency provisions of the Code of Obligations is as follows:

### Compensation paid to the members of the Executive Committee 2013

	Fixed salary in cash	Bonus in cash <sup>1</sup>	Number	Share-related compensation <sup>2</sup>	Pension and social insurance funds <sup>3</sup>	Total compensation 2013 <sup>4</sup>	Total compensation 2012 <sup>4</sup>
	1 000 CHF	1 000 CHF		1 000 CHF	1 000 CHF	1 000 CHF	1 000 CHF
Executive Committee	2 686	1 470	1 750	1 098	1 001	6 255	5 442
Of whom							
Yves Serra, CEO (highest individual salary)	840	525	750	471	318	2 154	1 806

- 1 The bonus is based on a bonus plan. The amount is determined by the fulfillment of personal performance objectives and by the financial results of the division and the Corporation. The bonus for the 2013 financial year was approved by the Board of Directors on 14 February 2014. Payment will be made in 2014.
- 2 The share-related remuneration is based on a long-term incentive plan. Each year a fixed number of Georg Fischer shares is allocated. These shares are blocked for five years. The amount of the share-related compensation is calculated on the basis of the full value of the shares at the year-end price of CHF 627.50 on 31 December 2013. All shares are transferred in 2014.
- 3 The pension and social insurance fund expenses include employer contributions to social insurance funds and to pension funds.
- 4 The total compensation is comprised of the fixed salary, the bonus, the share-related remuneration, and the social and pension benefits.

Source: Excerpt from the Financial Statements of Georg Fischer Ltd, see page 115 of the Annual Report.

Total compensation for the Executive Committee and the CEO in 2013 was higher than in 2012. The increase comes predominantly from the increased value of the shares from CHF 368.00 in 2012 to CHF 627.50 in 2013 per share, whereas the number of shares granted remained unchanged. In addition, the fixed remuneration was slightly adjusted in order to reach competitive levels in line with the average of our industrial sector, based on the benchmarking survey conducted by CEPEC and on compensation disclosures from comparable companies. The variable incentive related to the financial results of the Corporation and the divisions was also slightly higher in 2013 compared to 2012.

In the 2013 business year, no severance payments were made to persons who left governing bodies in the year under review or earlier.

Total compensation paid to the Board of Directors and Executive Committee is contained in the Corporation's total expenses. Further details on compensation can be found on pages 114 to 115 of the Annual Report.

The revision of the Articles of Association regarding the remuneration of both Board of Directors and Executive Committee will be reviewed by the Board of Directors during 2014, upon the assessment and advice of the newly elected Compensation Committee, and submitted for approval to the 2015 Annual Shareholders' Meeting.