GEORG FISCHER

Shareholder's letter 1/2009

Recession hits Georg Fischer – measures taken

In 2008, the world's economy went into a tailspin. At Georg Fischer, negative currency effects, volatile raw material prices and the slump in the fourth quarter caused both growth and earnings to decline sharply. In 2008 sales stood at CHF 4.46 billion, slightly below previous year. Adjusted for currency effects and changes in the scope of consolidation, sales were up by 1 percent. Whereas GF Piping Systems continued to report strong demand and finished the year virtually on target, GF Automotive was hit, immediately and hard, by the fourth-quarter slump in the European automotive industry, and GF AgieCharmilles felt the impact of a steep fall in customers' investment activity. In view of the looming recession, Georg Fischer lost no time in taking appropriate measures and in November 2008 announced a far-reaching efficiency programme. The figures stated here correspond to those in the November 2008 announcement. After exceptional charges amounting to CHF 50 million, operating profit (EBIT) came to CHF 134 million (previous year: CHF 326 million), equivalent to an EBIT margin of 3 percent (previous year: 7.2%). The figure was impacted by currency losses of CHF 44 million and, at GF Automotive, raw material price increases of CHF 36 million that could not be passed on. Net income for 2008 amounted to CHF 69 million (previous year: CHF 245 million). Given the uncertain economic situation, it is not possible to issue any proper guidance for the current year. The Board of Directors proposes to the Annual General Meeting a profit distribution of CHF 5 per share, to be made in the form of a par value repayment.

Volatile conditions demand a rapid response

The deterioration in external conditions in the course of 2008 was on a virtually unprecedented scale. In the first nine months of the year, Georg Fischer reported a good sales growth, but starting in October our main market sector, the automotive industry, went into a swift decline owing to the global financial and economic crisis. While the downturn so far had little impact on GF Piping Systems, the fourth-quarter slump in demand at GF Automotive and soon after at GF AgieCharmilles left a clear mark on the Corporation's annual results.

In a bid to contain the damage from the down cycle and from structural inefficiencies, all possible short-term operational and structural measures to cut costs were taken. These included adjusting production and management structures, cutting back overtime and temporary work, increasing efficiency and reducing personnel; these sweeping measures will begin to have an effect in the course of 2009. Should the recession deepen in 2009, additional steps will be unavoidable. Owing to the change in the outlook, we have taken impairment charges on goodwill as well as on plant and equipment at GF Automotive. Together with other exceptional expenditures connected with the planned efficiency-boosting programmes, this will result in a total one-off charge to EBIT of CHF 90 million. This is offset by exceptional income amounting to CHF 40 million. The net exceptional charge to the income statement will therefore total CHF 50 million.

Dramatic downturn in the fourth quarter leaves its mark

GF Piping Systems reported sales of CHF 1.22 billion. In other words, despite a huge currency impact, it managed to grow by 12 percent (5% adjusted for currency effects and acquisitions). The main growth driver was its success in the emerging markets. Following a good first half, demand began to taper off in the fourth quarter. EBIT came to CHF 122 million, which is slightly below the previous year; the EBIT margin was 10 percent (currency-adjusted: 12%).

GF Automotive was confronted in the fourth quarter with a massive decline in shipments and resulting in an underutilisation of capacity, whereas in the first nine months of the year it had experienced strong demand and excess capacity utilisation at the same time as raw material prices doubled. At CHF 2.16 billion, sales were 3 percent lower than the previous year. Uncompensated increases in raw material prices had a negative impact of CHF 36 million. In view of the bleak market outlook, the Corporate Group took impairment charges on goodwill as well as on plant and equipment amounting to CHF 83 million. On the other hand, the sale of the Verkehrstechnik unit generated one-off proceeds of CHF 35 million. Overall, EBIT amounted to CHF –5 million (previous year: CHF 132 million). GF Automotive is reviewing its manufacturing footprint in order to increase efficiency and adjust capacity to the market situation.

GF AgieCharmilles suffered from the weak US dollar and towards the end of 2008 began to feel the effects of the global down cycle in the machine tool sector. Sales fell by 8 percent to CHF 1.08 billion, though growth was reported in America. Since the slump in demand in the fourth quarter will continue into the current year, an adjustment in headcount of about 10 percent was unavoidable. Each of the Swiss plants is being focused on a single technology in order to eliminate product redundancy and speed up new developments. At the same time, the worldwide sales organisation was brought together under one head. EBIT came to CHF 26 million, equivalent to an EBIT margin of 2.4 percent. This figure includes negative currency effects of CHF 19 million and a provision for the above-mentioned restructuring.

Key figures as per 31 December 2008

	Corporation		GF Piping Systems		GF Automotive		GF AgieCharmilles	
million CHF	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Order intake	**4 462**	4 635	**1 320**	1 151	**2 076**	2 292	**1 066**	1 192
Sales	**4 465**	4 497	**1 224**	1 096	**2 161**	2 223	**1 080**	1 179
EBITDA	**390**	484	**168**	158	**183**	235	**42**	93
EBIT	**134**	326	**122**	126	**–5**	132	**26**	76
Return on Sales (EBIT margin) %	**3.0**	7.2	**10.0**	11.5	**–0.2**	5.9	**2.4**	6.5
Net profit	**69**	245						
Number of employees	**14 326**	12 986	**4 736**	3 690	**6 123**	5 882	**3 319**	3 263

Strategy: Stay the course

The three strategic priorities still apply: the expansion of GF Piping Systems, the extension of our global presence, and the fostering of innovation in materials, products and applications. Important advances were made in these areas in 2008.

GF Piping Systems achieved further progress in expanding its business. Central Plastics LLC, the market leader for gas and water utilities in North America acquired at the beginning of 2008, has performed well. GF is now a world-leading player in the growing infrastructure market for the safe transport of water and gas. The Corporate Group is forging ahead with new applications in water treatment, medical technology and photovoltaics. In 2008, GF also acquired the Canadian sales organisation Alfa Plastics Inc. The acquisition of the Swiss firm JRG Gunzenhauser AG strengthens our position in the German and Swiss building technology market. New production facilities in China, India and Malaysia are giving GF access to the local growth markets in Asia.

GF Automotive was quick to focus on reducing vehicle weight by developing new materials and processes and by expanding light metal casting. It is doing its part to ensure that the next generation of vehicles is more fuel-efficient and has lower emissions, thus serving a key customer demand. In early 2009, GF Automotive will begin casting in large series at the new Kunshan iron foundry in order to meet demand on the growing Chinese market. For the same reason, capacity in the Suzhou light metal foundry is being expanded. In addition, the GF offering in the automotive sector has been streamlined by the sale of Georg Fischer Verkehrstechnik GmbH.

GF AgieCharmilles has created a unified umbrella brand, thus laying the foundation for more efficient and effective marketing in its highly competitive, global markets. This is a top priority project. The Corporate Group is also making every effort to improve the energy and cost efficiency of its new machines. GF AgieCharmilles offers a unique combination of EDM, milling and automation designed to increase productivity, a major demand of its customers, who need to differentiate themselves from their own competitors.

Continuity and sustainability

Particularly in difficult times, the Corporation's diversified portfolio, consisting of three clearly focused, globally active core businesses, provides a measure of stability. The three Corporate Groups are subject to different business cycles. The strategy of prioritising the growth of GF Piping Systems is justified by the fact that this Group is less susceptible to recession; in 2008, it increased its share of consolidated sales from 24 percent to 28 percent. In an economic downturn, the financial and strategic support of the Corporation is a sound base for the long-term customer relations in the individual businesses. What's more, the independence of the Corporation from interest groups is instrumental in ensuring that we can provide balanced and sustainable performance for all the Corporation's stakeholders. Our shareholders have safeguarded this role by embedding a restriction on voting rights in the Articles of Association.

GEORG FISCHER

Healthy balance sheet and secure financing

The balance sheet remains very solid. The equity ratio has edged down slightly to 43 percent (previous year: 45%). This is still a high ratio of equity that enables us to better face difficult economic times. Net debt rose sharply by CHF 282 million, due in large measure to the acquisitions made in 2008, which cost about CHF 200 million. Net debt is 1.4 times EBITDA. The CHF 200 million 3 1/2 percent bond 1999–2009, due in February 2009, was paid back by drawing down a syndicated loan. Even after repayment of this bond, the Corporation has enough open credit lines to ensure its financing needs. Earnings per share fell from CHF 58 to CHF 14. The Board of Directors will propose to the Annual General Meeting a profit distribution of CHF 5 per share, to be made in the form of a par value repayment. This corresponds to a payout ratio of 36 percent, in line with the Corporation's dividend policy.

Outlook

The deepening recession will not spare Georg Fischer. The primary task in 2009 will be to increase the profitability of GF Automotive and GF AgieCharmilles quickly and to improve the Corporation's operating cash flow. A number of production plants introduced short-time work early in 2009, and production capacity is being continuously adjusted to current demand levels across the board. Additional measures will be taken should markets continue to deteriorate. In the current situation, it is not possible to make any proper forecast for 2009. However, we are adhering to our medium-term growth and earnings targets. Long-term trends such as the growing need for clean water, the reduction of CO_2 emissions in vehicles and demand in new markets are growth opportunities for GF.

Personnel changes and acknowledgements

While the composition of the Board of Directors of Georg Fischer AG remained the same in 2008, the Executive Committee underwent far-reaching personnel changes. Following the retirement of Chief Executive Officer Dr. Kurt E. Stirnemann, who had reached the statutory age limit, the Board appointed Yves Serra, Head of GF Piping Systems, as the new CEO of Georg Fischer as per 19 March 2008. He was succeeded at GF Piping Systems by Pietro Lori. On 1 August 2008, Michael Hauser replaced Dr. Jürg Krebser (who remains a member of the Executive Committee) at the head of GF AgieCharmilles, and on 1 November 2008 there was a change in top management at GF Automotive, with Josef Edbauer replacing Ferdinand Stutz. These changes – all made from within the ranks of GF – have produced a rejuvenated and more international Executive Committee, which makes good sense given the tasks facing it.

We wish to express our gratitude and recognition to the two departing members of the Executive Committee for their many years of successful service on behalf of the Corporation, its customers, owners and employees. Dr. Kurt E. Stirnemann joined GF when Georg Fischer acquired Agie AG, where he had been CEO. He then headed the Agie Charmilles Group from 1996 to 2003 as CEO and Delegate to the Board of Directors. In 2003 he was appointed President and Chief Executive Officer and Delegate to the Board of Directors of Georg Fischer. In this function, he brought GF out of a crisis, putting it back on a growth course, which ended temporarily with the recession at the end of 2008. Dr. Kurt E. Stirnemann continues to put his experience in the service of the Corporation as a member of the Board of Directors. Ferdinand Stutz began his career at GF in 1995 as Managing Director of the previously acquired foundry in Leipzig. In 1998 he was appointed Head of GF Automotive and a member of the Executive Committee. Ferdinand Stutz has made GF one of the word's leading companies in iron casting and created a new and strategically important cornerstone through the expansion of light metal casting.

The abrupt downturn on the markets will severely test the mettle of our managers and employees. It is their performance and their conduct that creates confidence and trust among our customers, suppliers and business partners but also among our approximately 15,000 shareholders. It is on this trust that our long-term success depends. We are grateful for the continued support that we receive.

Martin Huber

Martin Huber
Chairman of the Board of Directors

Yves Serra
President and CEO

Schaffhausen, 24 February 2009

GEORG FISCHER

Financial overview

Corporation	million CHF 2008	million CHF 2007
Order intake	4 462	4 635
Orders on hand at year-end[1]	560	1 186
Income statement		
Sales	4 465	4 497
EBITDA	390	484
EBIT	134	326
Net profit for the year	69	245
Cash flow		
Additions to property, plant and equipment	243	217
Cash flow from operating activities	197	426
Free cash flow	–197	243
Balance sheet		
Assets	3 291	3 393
Net Operating Assets (NOA)	1 906	1 769
Equity	1 404	1 540
Net debt	546	264
Key figures		
Return on Equity (ROE) %	5	16
Equity %	43	45
Return on Net Operating Assets (RONOA) %	7	19
Return on Sales (EBIT margin) %	3.0	7.2
Cash flow from operating activities in % of sales	4	10
Employees at year-end	14 326	12 986
Holding (statutory accounts)	million CHF	million CHF
Net profit for the year	77	91
Share capital	103	205
Market capitalization as per 31 December	972	2 823
Key figures per registered share	CHF	CHF
Net profit for the year	14	58
Distribution (proposed)[2]	5	25
Equity attributable to shareholders of Georg Fischer Ltd	337	372
Share price at year-end	240	697

1 In 2008 change of definition for GF Automotive

2 In 2007 and 2008 as a reduction in par value instead of a dividend payment

Annual General Meeting for the financial year 2008:
Wednesday, 18 March 2009, 3:30 p.m., Steel Foundry Assembly Hall, Schaffhausen
Publication of mid-year report 2009: 17 July 2009

Georg Fischer Ltd, 8201 Schaffhausen/Switzerland
Phone +41 (0) 52 631 11 11, Fax +41 (0) 52 631 28 37, www.georgfischer.com, info@georgfischer.com