

**zehnder**

always the  
best climate

2019

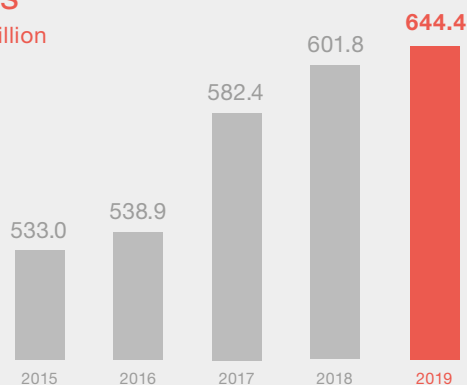
ANNUAL REPORT

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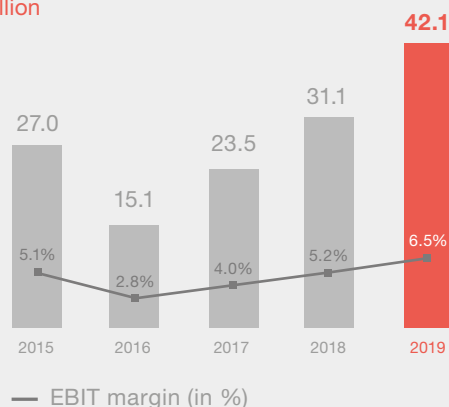
## Sales

EUR million



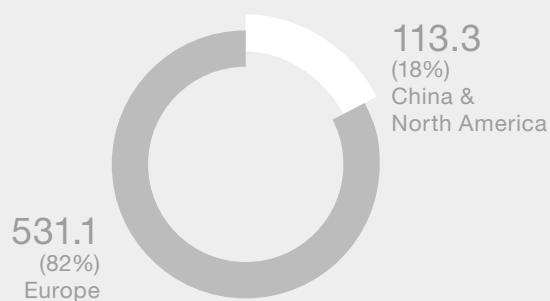
## EBIT before one-off effects<sup>1</sup>

EUR million



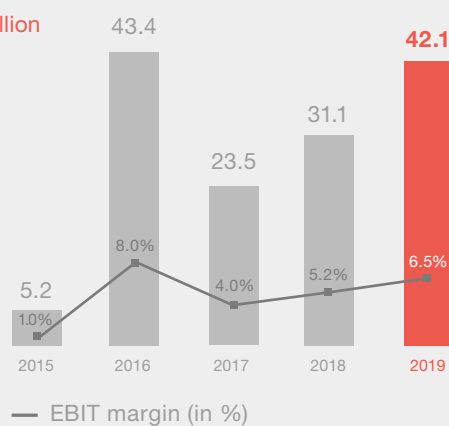
## Sales by segment

2019, EUR million



## EBIT

EUR million



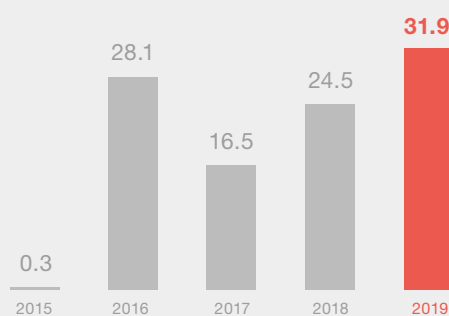
## Sales by business area

2019, EUR million



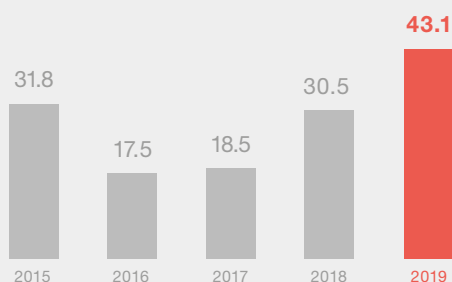
## Net profit

EUR million



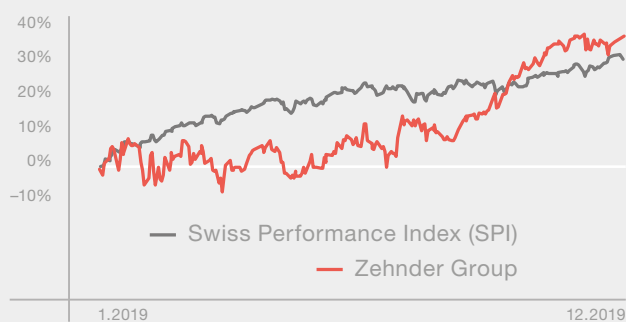
## Cash flow from operating activities

EUR million



## Share price development

1 January to 31 December 2019



<sup>1</sup> For alternative performance measures, please refer to page 82 of the annual report.

## Company Profile

The Zehnder Group improves quality of life with comprehensive indoor climate solutions. The globally active company develops and manufactures its products in 16 plants, including five in China and North America. Its sales activities, spanning more than 70 countries, take place through local sales companies and representative offices.

Zehnder Group products and systems for heating and cooling, comfortable indoor ventilation and air cleaning are characterised by outstanding design and high energy efficiency. The Group is among the

market and technology leaders in its business areas with brands such as Zehnder, Runtal, Acova, Bisque, Greenwood, Paul, Core, Enervent and Recair.

The Zehnder Group has had its headquarters in Gränichen (Switzerland) since 1895. It employs around 3500 people worldwide and achieved sales of EUR 644 million in 2019. The company is listed on the SIX Swiss Exchange (symbol ZEHN/number 27 653 461). The unlisted registered shares B are held by the Zehnder family and persons closely associated with them.

## Locations



### Europe

Austria  
Belgium  
Czech Republic  
Estonia  
Finland  
France  
Germany  
Italy  
Netherlands

Norway  
Poland  
Russia  
Sweden  
Switzerland  
Spain  
Turkey  
United Kingdom

### North America

Canada  
USA

### Asia

China

# Key Figures

		2019	2018	%
Sales	EUR million	644.4	601.8	7.1
EBITDA <sup>1</sup>	EUR million	64.9	53.2	22.1
	% of sales	10.1	8.8	
EBIT	EUR million	42.1	31.1	35.4
	% of sales	6.5	5.2	
Net profit <sup>2</sup>	EUR million	31.9	24.5	30.6
	% of sales	5.0	4.1	
Cash flow from operating activities	EUR million	43.1	30.5	41.2
	% of sales	6.7	5.1	
Investments in property, plant and equipment & intangible assets	EUR million	26.0	24.4	6.3
Depreciation & amortisation	EUR million	-22.8	-22.1	3.4
Total assets	EUR million	470.5	440.9	6.7
Non-current assets	EUR million	211.8	207.8	2.0
Net liquidity/(net debt) <sup>1</sup>	EUR million	25.5	21.3	19.8
Shareholders' equity <sup>2</sup>	EUR million	303.0	283.1	7.0
	% of total assets	64.4	64.2	
ROCE <sup>1</sup>	%	11.4	9.1	
Number of employees	Ø full-time equivalents	3,413	3,412	0.1
Market closing price registered share A	CHF	45.60	33.35	36.7
Net profit per registered share A <sup>3</sup>	EUR	2.64	1.98	33.2
Shareholders' equity per registered share A <sup>3</sup>	EUR	24.81	23.21	6.9
Dividend per registered share A <sup>4</sup>	CHF	1.00	0.80	25.0
Payout ratio	%	34	35	

<sup>1</sup> For alternative performance measures, please refer to page 82 of the annual report.

<sup>2</sup> Including minority interests

<sup>3</sup> Excluding minority interests

<sup>4</sup> For 2019 as proposed by the Board of Directors

# Zehnder Group increases sales and profitability

In the 2019 financial year, the Zehnder Group increased its sales by 7% to EUR 644.4 million and its operating result (EBIT) by 35% to EUR 42.1 million. Consequently, the EBIT margin increased from 5.2% to 6.5%. Net profit amounted to EUR 31.9 million (+31%). With a view to achieving future growth, the Group made further investments in innovation, digital transformation and the expansion of its market organisation.

## **Dear shareholders,**

The 2019 financial year saw us increase our revenue and profitability once again. Our EBIT margin of 6.5% takes us one step closer towards achieving our medium-term goal of an 8% EBIT margin. We intend to carry on working towards this goal while consistently pursuing our strategy.

## **Sales growth in both the ventilation and radiator businesses**

In the 2019 business year, the Zehnder Group increased its sales from EUR 601.8 million in the previous year to EUR 644.4 million, corresponding to a growth of EUR 42.5 million or 7% (+4% organically<sup>1</sup>). The increase in sales generated by the Group is primarily the result of the successful expansion of the ventilation business, although the radiator business also reported a slight increase again in 2019. The ventilation business experienced a significant

increase in sales of 13% (+7% organically), rising to EUR 316.0 million (previous year: EUR 278.9 million). By the year end, the sales generated by this business area comprised almost 50% of the Zehnder Group's total figure (previous year: 46%). Radiator business sales at the end of the year had increased by 2% (+1% organically) compared to the previous year, amounting to EUR 328.3 million (previous year: EUR 323.0 million).

Of the total sales, 82% (previous year: 84%) or EUR 531.1 million (previous year: EUR 506.5 million) came from the Europe segment, which recorded an increase of 5% (+2% organically). EUR 259.0 million (previous year: EUR 231.7 million) of revenue in Europe was generated by the ventilation business area, equalling growth of 12% in comparison to the previous year (+5% organically). The ventilation business area covers product lines for residential ventilation, clean air solutions and heat exchangers, and all three of these reported positive results. Sales in Europe's radiator business area decreased by 1% (-1% organically) in 2019, amounting to EUR 272.1 million (previous year: EUR 274.9 million). While the radiators product line generated sales at the same level as the previous year, revenues for heating and cooling ceiling systems experienced a decline.

<sup>1</sup> For alternative performance measures, please refer to page 82 of the annual report.

Sales in the key European markets performed as follows in 2019:

- Germany proved to be the Zehnder Group's strongest sales market in 2019. While the number of approved new residential buildings grew slightly in comparison to the previous year, the completion of apartments stagnated, particularly as a result of limited capacity of skilled labour. Despite this, the Zehnder Group managed to grow sales and increase its market shares in the ventilation and radiator businesses. An especially welcome result came in the form of the sales figures for the classic Zehnder Charleston radiator, a success story for 90 years now.
- France, which overall represents the second-largest and most important market for Zehnder Group radiators, experienced another challenging year in 2019. While the Zehnder Group was able to increase its market shares for hot water radiators despite a declining market, it lost some market shares in the case of electric radiators, an important business area in France. Ventilation sales grew, but continued to make only a negligible contribution to the overall sales figure. Sales revenues in France on the whole performed significantly below those of the previous year.
- In the United Kingdom, the Zehnder Group's third-largest market, uncertainties surrounding the country's exit from the European Union continued to prevail. Both the new building segment and the renovation market experienced stagnation, but the Zehnder Group still managed to increase ventilation sales despite this challenging environment. The radiator business remained at the previous year's level.
- Sales in Switzerland saw a decline in 2019, resulting in China overtaking it in the sales rankings and relegating Switzerland from fourth to fifth place. Although radiator sales grew during the reporting year, this was not sufficient to compensate for the decline in ventilation – a price-sensitive business area on the Swiss market due to the high proportion of rented flats in new buildings. In order to keep investment costs low, simple extract air solutions are increasingly being preferred over comfort ventilation systems with heat recovery, or comfort ventilation systems are being omitted altogether.
- Sales in the Netherlands, Italy, Belgium, Poland and Finland experienced positive trends. The two most recent acquisitions in the ventilation area – Enervent in Finland in autumn 2018 and Recair in the Netherlands at the start of 2019 – helped contribute to this encouraging growth.

**“Sales in the China & North America segment rose by a significant 19% in the reporting year. As a result, the segment increased its share of overall sales to 18%.”**

The China & North America segment comprised 18% (previous year: 16%) of the consolidated sales in the reporting year, amounting to EUR 113.3 million (previous year: EUR 95.3 million). This reflects a substantial increase of 19% (+15% organically).

- China, now the Zehnder Group's fourth-largest sales market, saw a significant increase in sales. This was mainly attributable to the ventilation business, which currently accounts for just under 80% (previous year: 77%) of China's sales. Contracts from key developers and the related supply of ventilation units for large-scale constructions increased in particular. The radiator business also recorded growth in 2019, mostly thanks to a major project that was completed in the first half of the year and for which the Zehnder Group supplied 7000 floor convectors.
- The construction industry in 2019 generally performed well in the USA, the Zehnder Group's sixth-largest sales market, although the lack of qualified labour slowed the pace of activities in some areas. The Zehnder Group managed to achieve a significant increase in the sales figures of both its business areas during the reporting year. The cooling solutions business, which was acquired from NuClimate Air Quality Systems, Inc. at the start of 2018, was a contributing factor in this regard. The ventilation business – which represents only a small proportion of sales in the USA – also recorded a positive performance.

### **Increase in EBIT margin from 5.2% to 6.5%**

The Zehnder Group increased its operating result (EBIT) by a considerable 35% to EUR 42.1 million (previous year: EUR 31.1 million). This resulted in a 1.3 percentage point improvement in the EBIT margin, which reached 6.5% (compared to 5.2% in the previous year).

In the Europe segment, EBIT rose from EUR 28.8 million to EUR 31.7 million. The programme aimed at increasing profitability continued during the reporting year, entailing additional progress such as further optimisations in purchasing, streamlining of the bathroom radiator range and efficiency gains in production and administration. By contrast, the decline in radiator sales in France had a negative impact on the result, and improvements in the heating and cooling ceiling system area remained below expectations. Research and development expenditure in the ventilation area within Europe was increased with a view to promoting future growth, and further investments were made in the digital transformation. To name one example, a new customer relationship management solution was rolled out in Switzerland, Germany, the United Kingdom and Poland in 2019. In addition, integration outlay was required for the recent acquisitions in Estonia, Finland and the Netherlands. Market development in the Nordic and Baltic states was also strengthened accordingly.

At EUR 10.4 million (previous year: EUR 2.3 million), EBIT in the China & North America segment more than quadrupled. Where China was concerned, an increase in sales was the primary driver for this significant growth in the operating result. In North America, measures for achieving the turnaround aimed for at the Buffalo, NY (USA) plant led to a considerable improvement in EBIT. The most important of these was the withdrawal from the unprofitable fan coil business. The heat exchanger company in Vancouver (Canada) also made considerable advances in both sales and profitability.

As a result of the increases in sales and profitability, the Zehnder Group's net profit rose by 31% to EUR 31.9 million (previous year: EUR 24.5 million).

**“The Zehnder Group increased its EBIT margin by 1.3 percentage points to 6.5% in 2019, taking it one step closer towards achieving its medium-term goal of an 8% EBIT margin.”**

### **Further investments in research and development**

In the reporting year, expenditure on research and development amounted to EUR 18.4 million (previous year: EUR 16.5 million). The majority of measures focused on the ventilation business area. In Europe, the Competence Center Comfosystems was reorganised and strengthened under the leadership of new Group Executive Committee member Johannes Bollmann. In a first stage the focus was on redesigning the product range for the current Zehnder Group markets. New building regulations with stricter requirements are supporting sales of ventilation units in various countries, and the Zehnder Group is well placed to provide a range of products that live up to the required standards. In 2019, its ComfoAir Q350 ventilation unit was awarded the new passive house certification in the “very hot climate” category. This acknowledges that the ventilation unit features not only outstanding heat and humidity recovery in the winter, but also an excellent level of cooling recovery in the summer. Innovation is also key in China, and the Zehnder Group considers it important to hold passive house certifications here too. While passive houses are still a niche market in the country, the Zehnder Group is assuming a pioneering role in this development. In 2019, it received the first passive house certification for its CHM 200 ventilation unit. The CHM 200 is a combined unit for heating, cooling, fresh air and air purification and is equipped with a heat pump.



In 2019, the Zehnder Group also presented new products in the radiator business area, focusing on design and enhancement. One example is the Zehnder Deseo Verso electrical glass radiator, which blends harmoniously into all kinds of bathroom designs and was awarded the “Design Plus powered by ISH 2019” accolade at the ISH trade fair in Frankfurt (Germany). The development of the new Zehnder ZFP flexible radiant ceiling panel was completed in the second half of the year and the product was then launched on the market. Zehnder ZFP radiant ceiling panels heat and cool buildings in a way that is both comfortable and efficient, and can be used in any room measuring from around two to 50 metres in height. They also make it possible to save as much as 40% energy compared with traditional systems.

### **Investments in production efficiency and the ventilation business**

Investments in property, plant and equipment and intangible assets in the reporting period amounted to EUR 26.0 million (previous year: EUR 24.4 million). Of this, a figure of EUR 17.8 million (previous year: EUR 20.7 million) was invested in the Europe segment. These investments focused on achieving higher production efficiency: for example, through an additional production line for heat exchangers in Reinsdorf (Germany), in the automation of radiator and radiant ceiling panel production in Lahr (Germany) and in starting work on the replacement of the painting line for radiators in Vaux-Andigny (France). Not only are the new facilities more modern, but they also consume much lower quantities of resources such as energy, water and steel. In Lahr, preparations were put in place for the Center of Climate, with construction scheduled to start in summer 2020. Equipped with state-of-the-art training facilities, it will be designed with the aims of strengthening ties with customers in the Zehnder Group's largest sales market and providing employees with appealing work spaces.

In the China & North America segment, investments worth EUR 8.2 million (previous year: EUR 3.7 million) were made in property, plant and equipment and intangible assets. A large share was incurred in the new factory for ventilation units in the city of Pinghu (located in Zhejiang Province), around 100 km southwest of Shanghai. This is set to commence operation in 2020 and should help to satisfy the growing demand in the ventilation business. Until the new factory is complete, the Zehnder Group will continue carrying out its production work in a rented building close to the location of the future site.

### **Acquisition strengthens the heat exchanger business**

In order to strengthen its heat exchanger business, the Zehnder Group took over the Dutch company Recair, which is based in Waalwijk (Netherlands), in early 2019. Founded in 2000, the company develops, produces and sells energy-efficient heat exchangers that are chiefly designed for use in residential ventilation units. Its highly efficient production methods, product expertise and strength in innovation make Recair an outstanding addition to the Zehnder Group. All of its around 30 employees retained their posts. This acquisition has enabled the Zehnder Group to increase its market share specifically in heat exchangers for residential buildings in Europe.

### **A strong balance sheet with high equity**

At the end of the year, the Zehnder Group continued to have a high equity ratio of 64% with shareholder equity of EUR 303.0 million (EUR 283.1 million, or 64%, in the previous year). Cash flow from operating activities increased from EUR 30.5 million in the previous year to EUR 43.1 million, while net liquidity<sup>1</sup> grew from EUR 21.3 million to EUR 25.5 million. Accounts receivable grew considerably in the reporting year: of the EUR 19.5 million increase, a figure of approximately EUR 15 million was attributable to extended payment terms for major customers in China, a practice that is common within the industry.

### **Employees and Group Executive Committee**

At the end of 2019, the Zehnder Group had 3362 full-time positions (compared to 3412 in the previous year). Reasons for this reduction include jobs made redundant at the Gränichen (Switzerland) plant as a result of production being partially relocated to Vaux-Andigny (France), and the restructuring measures at the Buffalo (USA) plant. Furthermore, thanks to increases in efficiency, there was no need to restaff positions that had become vacant due to natural fluctuations. Staff increases were seen primarily in the ventilation business area and in markets with high growth rates. The Zehnder Group took on around 30 employees as part of the acquisition of Dutch company Recair. At 3413, the average number of staff working full-time in the reporting year remained practically unchanged compared with the previous year's figure (3412). Of these, 333 were employed temporarily (previous year: 348) and 59 were apprentices (previous year: 64). 2650 employees (previous year: 2625) were working in Europe and 763 (previous year: 786) in China & North America.

<sup>1</sup> For alternative performance measures, please refer to page 82 of the annual report.

At the start of April 2019, Johannes Bollmann – who has been with the Zehnder Group since 2013 – took up the position of Head of the Competence Center Comfosystems and became a member of the Group Executive Committee. He replaced Olaf Schulte, who has left the company. Jörg Metzger will take up his position as Head of the Competence Center Radiators in May 2020 and is also becoming a member of the Group Executive Committee. He replaces Tomasz Juda, who is leaving the company.

#### **Proposed dividend within the framework of the long-term dividend policy**

For the 2019 financial year, the Board of Directors will propose a dividend of CHF 1.00 (previous year: CHF 0.80) per registered share A at the Annual General Meeting on 2 April 2020. The provision of 34% reflects the Zehnder Group's long-term dividend policy of distributing around 30 to 50% of the consolidated net income.

#### **Strategic course confirmed**

The Zehnder Group remains on the same strategic course. In the ventilation business area, which encompasses the product lines for residential ventilation, air cleaning systems and heat exchangers, the Group is aiming to enhance its strong market position by making further investments in market and product development. Its focus is on generating organic growth. Opportunities to make further acquisitions to complete the product portfolio or increase market or geographical presence are investigated on an ongoing basis. The megatrends of health, climate change, sustainability, digitisation and urbanisation also support the growth strategy for the ventilation business area. For the radiator business area, which is following a general downward trend, the Zehnder Group is pursuing a harvest strategy. This area covers the radiator product lines, as well as the heating and cooling ceiling system product lines. In doing so, it is focusing on continuously optimising operating procedures and using its strong market position – in the bathroom radiator and multicolumn radiator areas, for example – in order to gain market shares.

Attaining an EBIT margin of 8% over the medium-term will continue to be a top priority. The three key approaches to increasing this margin are achieving growth in the ventilation business, making ongoing optimisations in the area of radiators, and sustaining our focus on costs. Additionally, we will continue to pursue average sales growth of 5%, assuming that the market conditions remain unchanged.

“The megatrends of health, climate change, sustainability, digitisation and urbanisation support the growth strategy for the ventilation business area.”

#### **Outlook for our 2020 anniversary year: Another step towards improved results**

In 2020, the Zehnder Group is celebrating its 125<sup>th</sup> year in business and looking back on an exceptional history. From its origins as a company that performed repairs of various kinds, Zehnder developed into a manufacturer of the popular “Zehnderli” light motorcycle, followed by Europe's first steel radiator. It then expanded its geographical scope, successfully entered the ventilation business and developed yet more successful products. What began as a small mechanic's workshop operated by Jakob Zehnder is now an international group with around 3500 employees. The Zehnder Group has earned its place in the annals of history – and it aims to play an active role in shaping the future.

Through its energy-efficient solutions for a healthy indoor climate, the Zehnder Group will be able to continue taking advantage of trends such as health, climate change and sustainability, but it is likely to do so in the face of geopolitical tensions and a shortage of specialists in key markets. For the 2020 business year, the Group Executive Committee is striving to increase sales once again and keep improving its operating result compared with the previous year.



### A word of thanks

On behalf of the Board of Directors and the Group Executive Committee, we would like to extend our thanks to our 3500 or so employees whose dedication and enthusiasm enabled us to make real strides in 2019.

We would also like to thank our customers, suppliers and business partners for their loyalty and the excellent working relationships that the company has established with them.

As well as this, we want to take this opportunity to extend our sincere thanks to you, our valued shareholders, for the trust and sense of loyalty that you have continued to show to our company.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'H. Zehnder'.

**Hans-Peter Zehnder**

Chairman of the Board of Directors

A handwritten signature in black ink, appearing to read 'M. Huenerwadel'.

**Matthias Huenerwadel**

Chairman of the Group Executive Committee,  
CEO

The expectations stated on pages 4 to 8 are based on assumptions. If they do not prove true, this will affect the associated results.

# Corporate Governance

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“Corporate Governance” refers to the universe of principles and rules which are geared to shareholder interests and which strive towards transparency and a balanced relationship between management and control while also maintaining decision-making capacity and efficiency at the highest corporate level.

The Corporate Governance report contains the disclosures required by the Corporate Governance Directive issued by SIX Swiss Exchange effective as at 1 January 2019 and is structured in line with the directive. It also includes disclosures required by law on the compensation and participating interests of the members of the Board and of top management.

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## Group structure and shareholders

The Group structure is presented on pages 16 to 21 of the annual report. Zehnder Group AG is the only listed company included in the consolidation matrix. All the companies included in the consolidation matrix of Zehnder Group AG are shown on pages 63 to 64 of the annual report.

For significant shareholdings, please refer to the disclosure of ownership structure in the individual financial statements of Zehnder Group AG on pages 75 to 76. There are no cross-shareholdings.

## Capital structure

For details regarding the capital structure, please refer to note 6 of the notes to the individual financial statements of Zehnder Group AG on page 73 of the annual report and to the consolidated statement of changes in equity on page 42 of the annual report. There is no authorised and no conditional capital. All changes in equity since going public in 1986 are set out on our website [www.zehndergroup.com/en/investor-relations/corporate-governance](http://www.zehndergroup.com/en/investor-relations/corporate-governance).

The share capital of Zehnder Group AG comprises 9,756,000 registered shares A listed on SIX Swiss Exchange with a nominal value of CHF 0.05 each (a total of CHF 487,800) and 9,900,000 registered shares B with a nominal value of CHF 0.01 each (a total of CHF 99,000). Total share capital amounts to CHF 586,800 and the total number of shares outstanding is 19,656,000. Each share carries one vote, irrespective of its nominal value. The registered shares A have a 49.6% share of the votes and account for 83.1% of the share capital, the registered shares B a 50.4% share of the votes and 16.9% of the share capital. The dividend per registered share B is one fifth of the dividend per registered share A.

For additional information on shares, please refer to our website [www.zehndergroup.com/en/investor-relations/corporate-governance](http://www.zehndergroup.com/en/investor-relations/corporate-governance). There are no profit-sharing certificates. Purchasers of registered shares A in Zehnder Group AG will, upon application, be entered into the share register as a shareholder with voting rights without limitation, provided they explicitly declare that they have purchased these registered shares in their own name and for their own account and provided they are compliant with the statutory reporting obligations.

### **Restrictions on transferability and nominee registration**

Persons who do not explicitly declare in their application for registration or on request of the Company that they are holding the shares for their own account (nominees) will automatically be registered in the share register with voting rights up to a maximum of 3% of the outstanding share capital.

Beyond this limit, registered shares A of nominees are only registered with voting rights if the relevant nominee, when requesting registration or subsequently upon request of the Company, discloses the names, addresses and shareholdings of the persons on whose account he or she holds 0.3% or more of the outstanding share capital, and if the statutory reporting obligations are complied with.

The Board of Directors is authorised to conclude agreements with nominees with respect to their reporting obligations.

Legal persons and partnerships with legal personality that are interrelated or affiliated through equity or voting interests, through common cooperation or similar means, as well as natural or legal persons or partnerships who act in concert for the purpose of circumventing the restriction on registration, are treated as one purchaser in transfer regulation contexts.

The limitations placed on registration also apply to shares acquired by exercising preemptive, option or conversion rights.

The Board of Directors may, after consultation with the party concerned, delete entries from the share register which have been made due to incorrect information from the purchaser. The purchaser must be immediately informed of the deletion of the entry.

Cancellation or easing of the restrictions on the transferability of registered shares B and the registration restrictions on registered shares A requires a resolution of the Annual General Meeting, passed by at least two-thirds of the voting shares represented and an absolute majority of the nominal share value represented.

There are no convertible bonds outstanding.

With regard to options granted, please refer to the Compensation Report on page 22 ff. and to note 23. Options of the consolidated financial statements on page 60 of the annual report.

### **Board of Directors Election and period of office**

Pursuant to Article 20 of the Articles of Association: Number of members and terms of office, [www.zehndergroup.com/en/investor-relations/corporate-governance](http://www.zehndergroup.com/en/investor-relations/corporate-governance), the Board of Directors is made up of at least three members elected by the Annual General Meeting for a period of one year. Re-election is permissible.

At the Annual General Meeting there is a separate vote on the election or re-election of each candidate.

Other activities and vested interests are outlined in the short profiles of the members of the Board of Directors. Beyond these activities, the members of the Board of Directors do not have any dealings with important institutions, hold ongoing executive or advisory roles for interest groups, or hold any official function or political office.

### **Other permissible activities**

Each of the members of the Board of Directors is permitted to undertake the following additional activities in the supreme management or administrative bodies of legal entities obligated to be listed in the commercial register in Switzerland or an equivalent register in another country and which are not controlled by the Company, do not control the Company or are not occupational pension schemes subscribed to by employees of the Zehnder Group:

- Maximum 5 mandates as member of the Board of Directors or member of other supreme management or administrative bodies of companies which are public corporations according to Article 727 Para. 1 Item 1 of the Swiss Code of Obligations, as well as
- Maximum 10 mandates as member of the Board of Directors or member of other supreme management or administrative bodies of companies as defined in Article 727 Para. 1 Item 2 of the Swiss Code of Obligations, as well as



- Maximum 15 mandates as member of the Board of Directors or member of other supreme management or administrative bodies of legal entities which do not meet the criteria outlined above.

Mandates with companies which are controlled by the same entity, or which are subject to the same commercial authorisation, are counted as a single mandate.

### Internal organisation

Pursuant to Article 25 of the Articles of Association: Meetings, resolutions, quorum, minutes, [www.zehndergroup.com/en/investor-relations/corporate-governance](http://www.zehndergroup.com/en/investor-relations/corporate-governance), the Chairman (Hans-Peter Zehnder) or his deputy (Thomas Benz) must convene and chair the meeting. The Board's duties are carried out by the entire Board. Managerial and monitoring tasks are delegated to ad hoc Board committees at regular intervals. For each meeting, all Board members receive relevant documentation one to two weeks in advance. In 2019, the Board met five times, in February, March, June, September and December (in the previous year they met six times: in January, February, April, June, September and December). The meetings each lasted between half a day and two days. In addition, the Board held four telephone conferences in April, July, August and December, lasting between half an hour and an hour and a half each. The members of the Group Executive Committee attended the Board meetings and participated in the telephone conferences as required. Representatives of the auditors or external consultants are called in to advise on individual items on the agenda. To allow the Board to acquire local information directly, a regular rhythm has been established to hold one of the Board meetings on the premises of an operating company of the Group.

### Compensation Committee

The Board is supported by a Compensation Committee, consisting of three non-executive, independent Board members who are elected individually and annually by the Annual General Meeting. The members of the Compensation Committee are: Riet Cadonau, Chairman, Thomas Benz, Member, and Urs Buchmann, Member. The Compensation Committee has its own regulations, approved by the Board. The responsibilities and activities of the Compensation Committee, as well as its working method, are described in detail in the Compensation Report on pages 23 to 24.

### Audit Committee

The Audit Committee consists of at least two independent, non-executive members of the Board of Directors. The Board of Directors appoints the members of the Committee each year and designates the Chairperson. The Audit Committee provides support to the Board of Directors in overseeing the completeness of financial statements, compliance with statutory obligations, qualification of the external auditor and the performance of internal and external auditors. The Audit Committee assesses the fitness for purpose of the financial reporting, the internal review system and the general monitoring of business-related risks.

Audit Committee meetings are attended by the Chairman of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, the Head of Group Controlling, the Head of Internal Audit & Compliance and representatives of the external auditor. Where necessary, the Audit Committee addresses certain items on the agenda solely with representatives of the external auditor and/or internal auditing staff.

As of 31 December 2019, the Audit Committee was composed of Jörg Walther, Chairman, Urs Buchmann, Member, and Ivo Wechsler, Member. The Audit Committee convenes at the invitation of the Chairman as often as is required by business activities. In 2019, the Audit Committee convened five times. The attendance rate for the meetings was 93%. Each of the meetings lasted between one and a half and four hours.

In particular, the Audit Committee has the following main duties:

- Evaluation of external auditors and recommendations for the attention of the Board of Directors regarding selection of an auditor by the Annual General Meeting
- Performance assessment of the incumbent auditor and approval of the remuneration budget for auditing submitted by the external auditor
- Organisation of internal auditing and appointment of the internal auditor; commissioning of work and assessment of performance
- Review and approval of auditing plans from internal auditing and the external auditor
- Approval of any services rendered by the external auditor that are not related to auditing
- Consultation with the Group Executive Committee and the external and internal auditors regarding significant risks, contingencies and other obligations of the Group, as well as evaluation of the measures taken by the Group to deal with them

- Review and discussion of the annual and interim financial statements of the Company and of the Group – including significant items not recognised in the balance sheet – with the relevant members of the Group Executive Committee
- Discussion of the results of the annual review with the external auditor and discussion of internal auditing reports, as well as issuing of any recommendations or proposals to the Board of Directors
- Evaluation of and ensuring cooperation between the external and internal auditors.

### **Areas of responsibility as well as information and control instruments vis-à-vis the Group Executive Committee**

The allocation of the areas of responsibility between the Board of Directors and the Group Executive Committee is based on the law (Swiss Code of Obligations), on the Company's Articles of Association and on its bylaws. For the Articles of Association and bylaws, please refer to our website [www.zehnder-group.com/en/investor-relations/corporate-governance](http://www.zehnder-group.com/en/investor-relations/corporate-governance). As part of regular reporting practice, the Board members receive monthly reports (income statement, key figures, commentary) and quarterly reports (also expanded to include balance sheet). In addition, the Board members receive a quantified medium-term plan and a detailed budget analysis. In connection with this, the strategic opportunities and risks are analysed once a year, and appropriate measures decided.

### **Risk management**

Operating under the guidance of the CFO, the Zehnder Group has a structured risk management process which has been approved by the Board of Directors and systematically monitors risks to the business. In this process, strategic and operational risks are identified every year and analysed in terms of both probability of occurrence and severity. Appropriate measures for minimising and monitoring these risks are then set out. The Board of Directors reviews and approves the risk report each December. Each member of the Group Executive Committee is responsible for implementation of the measures in his area of responsibility. The Audit Committee supports the Board of Directors in the monitoring of business risks and the assessment of measures introduced by the Group Executive Committee. The Board of Directors is informed periodically of significant changes to the risk assessment as well as being kept abreast of risk management activities that have been undertaken. The internal system for managing financial reporting defines checks and controls that reduce the corresponding risks. Compliance with internal guidelines is monitored by means of internal random checks and regular audits by external specialists.

The financial risks are monitored by the Treasury department of the Zehnder Group under the guidance of the CFO. Risk management focuses on identifying, analysing and mitigating currency, interest, liquidity and counterparty risks, in order to limit the extent to which they can impair cash flow and net income.

### **Other permissible activities of the members of the Group Executive Committee**

By permission of the Board of Directors, each of the members of the Group Executive Committee is allowed to undertake the following additional activities in the supreme management or administrative bodies of legal entities obligated to be listed in the commercial register in Switzerland or an equivalent register in another country and which are not controlled by the Company, do not control the Company or are not occupational pension schemes subscribed to by employees of the Zehnder Group:

- Maximum 2 mandates as member of the Board of Directors or member of other supreme management or administrative bodies of companies which are public corporations according to Article 727 Para. 1 Item 1 of the Swiss Code of Obligations, as well as
- Maximum 3 mandates as member of the Board of Directors or member of other supreme management or administrative bodies of companies as defined in Article 727 Para. 1 Item 2 of the Swiss Code of Obligations, as well as
- Maximum 5 mandates in other legal entities which do not meet the criteria outlined above.

Mandates with companies which are controlled by the same entity, or which are subject to the same commercial authorisation, are counted as a single mandate.

### **Disclosure of compensation**

Information about compensation, shareholdings and loans are published in the Compensation Report on pages 30 to 34.

### Shareholders' participation

Please refer to Swiss company law and also to the Company's Articles of Association on our website [www.zehndergroup.com/en/investor-relations/corporate-governance](http://www.zehndergroup.com/en/investor-relations/corporate-governance).

### Shareholders' right to vote, voting restrictions and proxy voting

Regardless of its nominal value, every share carries a voting right. The statements made under "Restrictions on transferability and nominee registration" on page 11 of this report shall apply.

In its invitation to the Annual General Meeting, the Board of Directors will announce the deadline for entry into the share register which is required for the right to vote and participate.

Only another registered shareholder B can act as a proxy for a registered shareholder B at the Annual General Meeting. A registered shareholder A can be represented by the independent proxy or a third person. Regulations governing proxies and instructions are set by the Board of Directors. Written proxy is not required for legal representatives.

### Independent proxies

Every shareholder can be represented by an independent proxy. This person has to be elected each year at the Annual General Meeting. Re-election is permissible. The duties of the independent proxy are governed by applicable legal provision.

### Statutory quorums

Insofar as provision to the contrary has not been made in law or the Articles of Association, the Annual General Meeting passes its resolutions and holds its elections based on a simple majority of the valid share votes cast. Abstentions, blank votes and invalid votes are not included when the majority is counted. If a vote is tied, the Chairman has the casting vote on resolutions and in elections. Resolutions and elections are open unless provision to the contrary is made by the Chairman.

Supplementary to Article 704 Para. 1 of the Swiss Code of Obligations, a resolution by the Annual General Meeting passed by at least a two-thirds majority of the votes represented and an absolute majority of the nominal value of the shares represented is required for:

- a) The conversion of registered shares into bearer shares and vice versa
- b) Amendments to Article 6, Article 7 and Article 17 of the Articles of Association

### Calling of the Annual General Meeting

There are no provisions that deviate from those specified by law.

### Listing items on the agenda

The Board of Directors is responsible for listing matters to be discussed on the agenda. Shareholders registered with voting rights who individually or collectively represent at least five percent of the share capital of the company may request that an item be included on the agenda of the Board of Directors. The request for an item to be included on the agenda must be submitted in writing to the Chairman of the Board of Directors at least 45 days prior to the annual general meeting, stating the agenda item and the motions.

### Entries in the share register

In its invitation to the Annual General Meeting, the Board of Directors will announce the deadline for entry into the share register which is required for the right to vote and participate.

### Changes of control and defence measures

There are no change-of-control clauses for members of the Board of Directors or for members of the Group Executive Committee. An opting-out clause is laid down in Article 10 of the Articles of Association, [www.zehndergroup.com/en/investor-relations/corporate-governance](http://www.zehndergroup.com/en/investor-relations/corporate-governance).



## Auditors

PricewaterhouseCoopers Ltd (PwC), Lucerne (Switzerland), was elected as external auditor at the Annual General Meeting 2019. They also audit the consolidated financial statements of the Zehnder Group. The auditor is elected at the Annual General Meeting for a term of one year. Thomas Illi is the auditor in charge since the Annual General Meeting 2019. The rotation rhythm corresponds to the legal requirement of a maximum of seven years.

The financial statements of Zehnder subsidiaries are audited by various auditing firms, including PwC. Various auditing firms invoiced a total of EUR 813,000 for auditing individual accounts and the consolidated financial statements (incl. expenses). Of this, EUR 490,000 were paid to PwC. No audit-related services were invoiced.

A total of EUR 1,562,000 was charged for taxation and legal services throughout the Group. Of this, EUR 258,000 was paid to PwC.

The auditor attends the meetings of the Audit Committee. At these meetings, it presents significant information on the financial statements of the companies audited. The auditor is evaluated and monitored by the Audit Committee, which makes recommendations to the Board of Directors. In particular, the Audit Committee evaluates the auditing plans from the auditor, as well as the auditor's remuneration and performance. PwC has participated in all meetings of the Audit Committee since its election as auditor at the Annual General Meeting 2019. These were four meetings.

## Information policy

Zehnder Group communicates regularly with its shareholders, the capital market and the public. The CEO and the CFO are the designated contact persons. Annual reports and six-month reports are available online on our website [www.zehndergroup.com/en/investor-relations/reports-and-presentations](http://www.zehndergroup.com/en/investor-relations/reports-and-presentations) in German and English. This also offers an opportunity for interested parties to subscribe to news publications and access other information. A meeting for media representatives and financial analysts is held at least once a year.

Additional information including the company calendar is set out on the cover of this annual report.

# Board of Directors

(Status 1.1.2020)

Members of the Board of Directors,  
other activities  
and vested interests



## Hans-Peter Zehnder

**Chairman of the Board,  
first elected 1988**

Swiss citizen, born 1954

- Executive member until 2018
- Chairman of the Board (since 1993)
- Studied economics (doctorate) at the University of St. Gallen (Switzerland)
- 1981–1984 Gebr. Bühler AG (Switzerland)
- Since 1985 member of the Group Executive Committee of Zehnder Group
- 1986–1988 head of the instrument division
- 1988–1991 head of the radiator division
- 1988–1992 deputy chairman of the Group Executive Committee
- 1993–31.10.2014 and 5.2.–31.12.2018 chairman of the Group Executive Committee
- Member of the Board of Directors of AZ Medien AG (Switzerland); CH Media AG (Switzerland); R. Nussbaum AG (Switzerland); and Lagerhäuser der Centralschweiz AG (Switzerland)



## Thomas Benz

**Vice Chairman of the Board,  
first elected 1993**

Swiss and German citizen, born 1947

- Non-executive member
- Vice Chairman of the Board
- Member of the Compensation Committee
- Degree in electrical engineering from ETH (Swiss Federal Institute of Technology), Zurich (Switzerland)
- 1972–1973 Guardian Electric, Chicago (USA)
- End 1973 joined Zettler GmbH (Germany)
- 1977–1996 managing partner of Zettler GmbH (Germany)
- Since 1997 managing partner of CG International (Germany)
- Since 1974 member of the Bavarian Metal Working and Electrical Industry e.V. (Germany)
- At no time was he a member of the Group Executive Committee of Zehnder Group AG or of any of its subsidiaries.
- He has no significant business relations with Zehnder Group AG or with any of its subsidiaries.



## Urs Buchmann

**Member of the Board,  
first elected 2010**

Swiss citizen, born 1957

- Non-executive member
- Member of the Compensation Committee
- Member of the Audit Committee
- Studied law (doctorate) at the University of Bern (Switzerland)
- Long-term career in corporate and investment banking in Asia, and for institutional customers Asia Pacific
- Currently Vice Chairman Greater China in a leading international bank
- Since 31.12.2017 Member of the Board of Directors of Swiss Re Asia Pte. Ltd. (Singapore)
- At no time was he a member of the Group Executive Committee of Zehnder Group AG or of any of its subsidiaries.
- He has no significant business relations with Zehnder Group AG or with any of its subsidiaries.



## Riet Cadonau

**Member of the Board,  
first elected 2013**

Swiss citizen, born 1961

- Non-executive member
- Chairman of the Compensation Committee
- Master of Arts in economics and business administration from the University of Zurich (Switzerland)
- Advanced Management Programme at INSEAD (France)
- 1990–2001 various management positions at IBM Switzerland, lastly as a member of the Management Board and Director of IBM Global Services
- 2001–2005 member of the Executive Board of the Ascom Group, from 2002 Deputy CEO and General Manager of the Transport Revenue Division, which was acquired by ACS in 2005
- Until 2007 Managing Director ACS Europe + Transport Revenue (later a Xerox company)
- 2007–2011 CEO Ascom Group (Switzerland)
- 2011–2015 CEO Kaba Group (Switzerland)
- Since 2015 CEO dormakaba Group (Switzerland), since 2018 also Chairman of the Board of Directors
- Member of the Board of Directors of Georg Fischer AG (Switzerland)
- At no time was he a member of the Group Executive Committee of Zehnder Group AG or of any of its subsidiaries.
- He has no significant business relations with Zehnder Group AG or with any of its subsidiaries.



## Daniel Frutig

**Member of the Board,  
first elected 2019**

Swiss citizen, born 1962

- Non-executive member
- Bachelor of Science in Building Technology (HSLU); Executive MBA University of St. Gallen; various Top Management Programmes at Insead and IMD
- 1987–1998 Various management positions at Sulzer (Infra/Consulting); lastly as Director of Facility Management Consulting
- 1998–2003 Associate Partner at Accenture PLC; various management positions, lastly as Global Director of Services & Technology
- 2003–2005 CEO Swisscom Immobilien AG
- 2005–2011 Group Director Global Support Services at Compass Group PLC
- 2011–2014 CEO AFG Arbonia-Forster-Holding AG (today Arbonia AG)
- 2015–2017 CEO Medela Holding AG
- Since 2018 Chairman at EvolutionF AG
- Delegate and Vice President of the Board of Directors at Eugster/Frisomag AG, member of the Board of Directors at AE Familienholding AG
- At no time was he a member of the Group Executive Committee of Zehnder Group AG or of any of its subsidiaries.
- He has no significant business relations with Zehnder Group AG or with any of its subsidiaries.



## Jörg Walther

**Member of the Board,  
first elected 2016**

Swiss citizen, born 1961

- Non-executive member
- Chairman of the Audit Committee
- 1989 Lic. iur. at the University of Zurich (Switzerland)
- 1990 Admitted to the bar
- 1993 Post-graduate certificate in European Economic Law at the University of St. Gallen (Switzerland)
- 1999 MBA University of Chicago (USA), Booth School of Business
- 1991–1995 Danzas Management AG, Legal Counsel/General Counsel and Head Legal Services
- 1995–1998 ABB Schweiz AG, Senior Corporate Counsel
- 1999–2001 ABB Asea Brown Boveri AG, Group Vice President M&A
- 2001–2009 Novartis International AG, Senior Corporate Counsel, Global Head Legal M&A and Antitrust, Member of the Group Legal Executive Committee
- Since 2010 Partner with Schärer Attorneys at Law, Aarau (Switzerland)
- 2010–2012 Resun AG, General Counsel and Head Corporate Services, Member of the Executive Committee
- Member of the Board of Directors and member of the Audit Committee of SFS Group AG, Huber + Suhner AG, AEW Energie AG; member of the Board of Directors of Kraftwerk Augst AG, Immobilien AEW AG, Proderma AG (Chairman)
- At no time was he a member of the Group Executive Committee of Zehnder Group AG or of any of its subsidiaries.
- He provides Zehnder Group AG and its subsidiaries with legal advice on commercial matters.



## Ivo Wechsler

**Member of the Board,  
first elected 2019**

Swiss citizen, born 1969

- Non-executive member
- Member of the Audit Committee
- Lic. oec. HSG, University of St. Gallen (Switzerland)
- 1995–1997 Schweizerische Bankgesellschaft (UBS) in Corporate Finance, Zurich (Switzerland) / London (United Kingdom)
- 1998–2000 Controller, from 1999 Head of Controlling & Treasury at Sunrise Communications, Rümlang (Switzerland)
- 2001–2007 Head Corporate Controlling and from 2005 in addition Head Corporate Treasury, Ascom Group, Bern (Switzerland)
- 2008–2010 Head Corporate Controlling, Huber + Suhner, Pfäffikon (Switzerland)
- Since 2010 Chief Financial Officer and member of the Executive Group Management, Huber + Suhner, Pfäffikon (Switzerland)
- At no time was he a member of the Group Executive Committee of Zehnder Group AG or of any of its subsidiaries.
- He has no significant business relations with Zehnder Group AG or with any of its subsidiaries.



## Milva Zehnder

**Member of the Board,  
first elected 2016**

Swiss citizen, born 1985

- Non-executive member
- 2005–2010 Studies of law at University of Lucerne (Switzerland) with a Master of Law degree
- 2008–2009 Legal assistant at Geissmann Attorneys at Law, Baden (Switzerland)
- 2009 Exchange semester at Fordham University, School of Law, New York (USA)
- 2010–2011 Legal intern at Schweiger Attorneys at Law and Notaries, Zug (Switzerland)
- 2012 Admitted to the bar, attorney-at-law and notary in the canton of Zug (Switzerland)
- Since 2013 Attorney-at-law and notary at Schweiger Attorneys at Law and Notaries, Zug (Switzerland)
- At no time was she a member of the Group Executive Committee of Zehnder Group AG or of any of its subsidiaries.
- She has no significant business relations with Zehnder Group AG or with any of its subsidiaries.

# Group Executive Committee

(Status 1.1.2020)

Members of the Group Executive Committee,  
other activities  
and vested interests



## Matthias Huenerwadel

**Chairman of the Group Executive Committee, CEO**

Swiss citizen, born 1968

- Bachelor of Science in Mechanical Engineering, Swiss Federal Institute of Technology (ETH) Zurich (Switzerland)
- Master of Science in Industrial Engineering, Swiss Federal Institute of Technology (ETH) Zurich (Switzerland)
- 1996–2005 Various leading positions in logistics, IT, customer service, sales and marketing at the Franke Group
- 2005–2017 Member of the Executive Board and head of the Movement Systems (2005–2012) resp. Flooring Systems (2013–2017) division, Forbo International SA, Baar (Switzerland)
- Since 12.11.2018 Member of the Group Executive Committee of Zehnder Group (CEO Designate), Gränichen (Switzerland)
- Since January 2019 Chairman of the Group Executive Committee, CEO
- Member of the Board of Directors of Daedalus Holding AG (Switzerland)



## René Grieder

**Chief Financial Officer**

Swiss citizen, born 1979

- Bachelor of Science in Business Economics, University of Applied Sciences Lucerne (Switzerland)
- Master of Advanced Studies in Corporate Finance, Institute of Financial Services Zug (Switzerland)
- 1998–2000 Product Manager, Intercycle SA, Sursee (Switzerland)
- 2003–2007 Controller, Pilatus Aircraft Ltd, Stans (Switzerland)
- 2007–2009 Group Controller, Emhart Glass SA, Cham (Switzerland)
- 2009–2010 Manager Group Reporting & Head of Group Reporting, Zehnder Group, Gränichen (Switzerland)
- 2011–2015 Head of Group Controlling, Zehnder Group
- Since August 2015 member of the Group Executive Committee of Zehnder Group (Chief Financial Officer)



## Johannes Bollmann

**Competence Center Comfosystems**

Swiss/Italian dual citizen, born 1982

- Bachelor of Science in Mechanical Engineering, Swiss Federal Institute of Technology (ETH) Zurich (Switzerland)
- Master of Science in Management, Technology and Economics, Swiss Federal Institute of Technology (ETH) Zurich (Switzerland)
- Various functions at ABB in Zurich and Baden (Switzerland) in Marketing, Sales and Internal Audit
- Various functions and managerial tasks at the Zehnder Group in Switzerland in the areas of business development, sales, product and project management; since 2016 Managing Director of the Zehnder Group Schweiz AG
- Since April 2019 member of the Group Executive Committee of Zehnder Group (Head Competence Center Comfosystems), Gränichen (Switzerland)



## Tomasz Juda

### **Competence Center Radiators**

Polish citizen, born 1969

- Engineering degree at the Dresden University of Technology (Germany)
- Master's degree in Business Administration from the St. Gallen Business School at the Cracow University of Economics (Poland)
- Various posts at Polish companies as material testing engineer and as head of engineering and manufacturing
- 2.2000–10.2014 Managing Director of the Polish manufacturing company Zehnder Group Bolesławiec (Poland)
- Since November 2014 member of the Group Executive Committee of Zehnder Group (Head Competence Center Radiators), Gränichen (Switzerland)



## Cyril Peysson

### **Sales Europe / Middle East / Africa (EMEA)**

French citizen, born 1965

- Diploma from Ecole Supérieure de Commerce et d'Administration, Montpellier (France)
- 1990–2000 Various responsibilities in exports and sales for French industrial companies; last position held was head of sales at De Dietrich Heiztechnik (Germany)
- 2000–2005 Head of Zehnder SAS (France)
- Since 2006 member of the Group Executive Committee of Zehnder Group (Sales Europe / Middle East / Africa, EMEA; April 2008 until end 2013 Sales and Marketing Western Europe, previously Sales and Marketing Radiators), Gränichen (Switzerland)

## Group Functions

(Status 1.1.2020)

<b>Josef Berger</b>	Group Procurement
<b>Josef Brügger</b>	Internal Audit & Compliance
<b>Franz Furrer</b>	Group IT & Digital Officer
<b>Sabrina Hass</b>	Group Human Resources
<b>Christian Hummel</b>	Group Controlling
<b>Erhard Krumpholz</b>	Group IP
<b>Thomas Mathys</b>	Group Finance
<b>Ulrich Peuckert</b>	Group Logistics / SCM
<b>Ann-Cathrin Rubin</b>	Group Marketing Communications
<b>Tanja Weiss</b>	IR & Communications

## Competence Center Radiators

<b>Thierry Baschet</b>	Production Vaux-Andigny (France)
<b>Clemens Ganter</b>	Production Lahr (Germany)
<b>Piotr Kościsz</b>	Production Bolesławiec (Poland)
<b>Felix Meier</b>	Production Gränichen (Switzerland)
<b>Orçun Özelmas</b>	Production Manisa (Turkey)
<b>Giovanni Suma</b>	Product Management Radiators R&D Radiators a.i.

## Competence Center Comfosystems

<b>Johannes Bollmann a.i.</b>	Product Management Comfosystems
<b>Arie Veldhuijzen</b>	Research & Innovation Comfosystems
<b>Hendrik de Wilde</b>	Production Zwolle (Netherlands)
<b>Thomas Link a.i.</b>	Production Reinsdorf (Germany)

## Sales Europe

<b>Erik van Heuveln</b>	Sales Belgium and Netherlands
<b>Jiří Stekr</b>	Sales Czech and Slovak Republic
<b>Tony Twohig a.i.</b>	Sales and Production Finland
<b>Pierre-Jean Clerval</b>	Sales France
<b>Heiko Braun</b>	Sales Germany, Austria and Luxembourg
<b>Tony Twohig</b>	Sales United Kingdom & Ireland (including Production Lenham)
<b>Oliver Bock</b>	Sales International and Eastern Europe
<b>Radosław Palmowski</b>	Sales Poland
<b>Alexander Silin</b>	Sales Russia
<b>Paolo Masetti</b>	Sales Southern Europe
<b>José Ramón Ferrer</b>	Sales Spain
<b>Christoph Strahm</b>	Sales Switzerland
<b>Orçun Özelmas</b>	Sales Turkey

## China/North America

<b>Zhangeng Guo</b>	Sales and Production Zehnder China
<b>Jin Chunlin</b>	Sales and Production Nather China
<b>Wesley Owens</b>	Sales and Production Runtal North America Sales Zehnder North America
<b>Scott A. Pallotta</b>	Sales and Production Zehnder-Rittling North America

## Shared Services

<b>Andreas Berger</b>	Shared Services Germany
<b>Nynke Floor</b>	Shared Services Netherlands
<b>Adam Jankowski</b>	International Shared Services (Poland)

## Business Units

<b>Matthias Huenerwadel a.i.</b>	Core / Recair
<b>Patrik Franséhn</b>	Clean Air Solutions
<b>Hubert Roth</b>	Radiant Ceiling Panels Germany

# Compensation Report

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The Compensation Report describes the compensation policy and programmes of Zehnder Group AG as well as the method of determination of compensation. Further, it provides details about the compensation awarded to the members of the Board of Directors and the Group Executive Committee in the fiscal year 2019.

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The Compensation Report was prepared in accordance with the Ordinance against Excessive Compensation in Listed Companies (VegüV) and is in line with the Corporate Governance Directive issued by SIX Swiss Exchange and with the principles of the Swiss Code of Best Practice from *economiesuisse*. This Compensation Report shows how the business results are reflected in the variable compensation awarded to members of the Group Executive Committee in 2019.

## 1. Governance and method of determination of compensation

### 1.1. Shareholders' involvement

The Annual General Meeting approves the maximum compensation amounts paid to the Board of Directors and to the Group Executive Committee, each in a binding vote. The provisions of the Articles of Association of Zehnder Group AG (Article 16) foresee that the Annual General Meeting votes annually and prospectively on each of the aggregate compensation amounts as follows:

- the maximum total compensation of the Board of Directors for the period to the next Annual General Meeting;
- the maximum total compensation of the Group Executive Committee for the current fiscal year.

The Articles of Association of the Zehnder Group AG include the following provisions on compensation (see [www.zehndergroup.com/en/investor-relations/corporate-governance](http://www.zehndergroup.com/en/investor-relations/corporate-governance)):



- **Principles of compensation and the allocation of listed shares for the Board of Directors (Articles 32 and 34):** The members of the Board of Directors receive a fixed retainer and a fixed compensation for their work in the committees of the Board of Directors, as well as an expense lump sum. Compensation is paid in cash and in shares. In exceptional cases, members of the Board of Directors may receive additional compensation. Compensation to members of the Board of Directors for advisory services to the company or for the activities in companies that are controlled directly or indirectly by the company is permitted. This compensation is included in the total amount of compensation paid to the Board of Directors, which must be approved by the Annual General Meeting.
- **Principles of compensation and the allocation of listed shares for the Group Executive Committee (Articles 33, 34 and 36):** The members of the Group Executive Committee receive an individual fixed compensation, an expense lump sum, as well as variable short-term and long-term compensation elements. The short-term performance-based compensation element is paid in cash and is based on the attainment of key performance indicators over a one-year period. The amount is subject to a defined upper limit. The variable long-term compensation element, introduced in 2019, is compensated in the form of (rights to) shares, which are transferred into ownership on the basis of the attainment of certain conditions (performance objectives and ongoing employment). The objectives and related achievements are determined by the Board of Directors considering a defined cap. Additionally, the members of the Group Executive Committee are entitled to participate in the management share plan. This includes the purchase of shares from the company with a discount on the applicable share price. The shares purchased are subject to a restriction period. The terms and conditions of the corresponding shareholding plans are defined by the Board of Directors within the scope of the provisions set out in the Articles of Association.
- **Additional amount for payments to members of the Group Executive Committee appointed after the vote on compensation at the Annual General Meeting (Article 37):** To the extent that the maximum total compensation amount as approved by the Annual General Meeting does not suffice, an additional amount of up to 20% of this amount (40% for the CEO), without further approval, is made available for new or promoted members of the Group Executive Committee who have been appointed after the Annual General Meeting.

- **Loans, credit facilities and post-employment benefits for members of the Board of Directors and of the Group Executive Committee (Article 35):** No loans or credits shall be granted to members of the Board of Directors or the Group Executive Committee. Pension benefits are offered to members of the Group Executive Committee only in accordance with the occupational pension plans. Contributions to pension funds or other pension schemes are generally not made for the members of the Board of Directors. In exceptional cases, provision can be made for contributions of this nature subject to submission of an application to the Compensation Committee and approval by the Annual General Meeting if the members concerned are not receiving any other insurable income from gainful employment.

## 1.2. Compensation Committee

According to the Articles of Association, the Annual General Meeting annually and individually elects at least two and a maximum of four members of the Board of Directors to the Compensation Committee, for a term of office of one year until the conclusion of the next Annual General Meeting. Members are eligible for re-election. At the 2019 General Meeting, shareholders elected the following members of the Compensation Committee:

	Executive / Independent Member of the BoD	Chairman / Member
Riet Cadonau	Indep. Member of the BoD	Chairman
Thomas Benz	Indep. Member of the BoD	Member
Urs Buchmann	Indep. Member of the BoD	Member

As determined by the Articles of Association (based on Article 27), the Compensation Committee has the following responsibilities:

- Submission of proposals to the entire Board of Directors regarding the Group's compensation system;
- Submission of proposals to the entire Board of Directors regarding the total compensation amounts of the Board of Directors and of the Group Executive Committee to be submitted to vote at the Annual General Meeting;
- Submission of proposals to the entire Board of Directors regarding the individual compensation of the Chairman and other members of the Board of Directors;
- Submission of proposals to the entire Board of Directors regarding the individual compensation and the employment terms and conditions of the CEO and other members of the Group Executive Committee;

## Responsibility levels

	CEO	Compensation Committee	Board of Directors	Annual General Meeting
Compensation principles and policy		proposes	approves	
Total compensation amounts of BoD and GEC		proposes	reviews	approves (binding vote)
Individual compensation of members of the BoD		proposes	approves	
Compensation of CEO		proposes	approves	
Individual compensation of other members of the GEC	proposes	reviews	approves	
Compensation Report		proposes	approves	advisory vote

BoD = Board of Directors, CEO: Chief Executive Officer, GEC = Group Executive Committee.

- Submission of proposals to the entire Board of Directors regarding the determination of compensation-related performance objectives for the Group Executive Committee;
- Submission of proposals to the entire Board of Directors regarding the Compensation Report;
- Submission of proposals to the entire Board of Directors regarding amendments to the Articles of Association in respect of the compensation system for the Group Executive Committee;
- Submission of proposals to the entire Board of Directors regarding the approval of external mandates of members of the Group Executive Committee.

The levels of authority between the Compensation Committee, the Board of Directors and the Annual General Meeting are summarised in the table above.

The Compensation Committee meets as often as the business requires, generally before the meetings of the full Board of Directors, which take place at least four times a year. In 2019, the Compensation Committee held three meetings of an hour and a half each on average, which were attended by all members. The Compensation Committee conducted its regular activities throughout the year, including the annual review of the compensation policy, taking into consideration the feedback of external shareholders about the compensation programmes and their disclosure in the Compensation Report, as well as the determination of the individual remuneration of the members of the Board of Directors and the Group Executive Committee, for the attention of the entire Board of Directors.

For certain agenda items, the Chairman of the Board of Directors and/or the CEO participate in the meetings in an advisory capacity. The Chairman of the Compensation Committee may invite other executives as appropriate. However, the Chairman of the Board of Directors and the executives do not partici-

pate in the meetings, or periods of meetings, during which their own compensation and/or performance are being discussed. After each meeting, the Chairman of the Compensation Committee reports on the activities of the committee to the Board of Directors. The minutes of the meetings are available to the full Board of Directors.

The Compensation Committee is entitled to bring in external consultants regarding specific compensation issues. In 2019, the Compensation Committee tasked Willis Towers Watson with benchmarking executives' provision benefits and providing comparative data on compensation for specific positions. The company has no other mandates by the Zehnder Group. The Compensation Committee is also being supported by internal experts, such as the Head of Group Human Resources.

### 1.3. Method of determination of compensation

In order to ensure competitive compensation levels that allow to attract and retain key talents, the compensation of executives is regularly benchmarked with that of executives in other international industrial companies with similar market capitalisation, revenue, profitability, headcount and geographical reach to the Zehnder Group. The following companies were used for comparison purposes for the CEO and other members of the Group Executive Committee: Arbonia, Belimo, Bobst, Bossard, Burckhardt Compression, Burkhalter, Conzzeta, Daetwyler, Feintool, Forbo, Gurit, Huber+Suhner, Interroll, Komax, Landis + Gyr, Metall Zug, Meyer Burger, Phoenix Mecano, Rieter, Schweiter and Starrag. Executives who are fulfilling their tasks at the expected performance level are generally awarded target compensation at median level of the relevant benchmark data.

## Compensation policy and principles

Alignment with business strategy	Compensation programmes are designed to support the business strategy.
Reward for sustainable performance	Variable compensation is based on the profitability of the company and its businesses, hence the performance management process is a central management tool to drive sustainable performance.
Participation in the company's long-term success	Executives have the opportunity to participate in the company's long-term success through the variable long-term compensation plan and the Zehnder Group Management Share Plan.
Market competitiveness	Compensation is regularly benchmarked against best market practice. The policy is to target median compensation of the relevant benchmark considering years of experience in the role.
Transparency and fairness	Compensation decisions are transparent and fair. The global grading system ensures consistency across the organisation.

In 2018, Agnès Blust Consulting AG was mandated to carry out a benchmarking of the compensation of the Board of Directors. The report was designed to provide the Compensation Committee with a basis to analyse the compensation of the Board of Directors for the period of office 2019/2020. In 2018, Willis Towers Watson also performed a benchmarking exercise for the Group Executive Committee's compensation. For this purpose, the data of industrial benchmark companies (as described above) has been compiled by Willis Towers Watson from their existing database for each function of the Group Executive Committee in the country of employment of the respective member and by using the job grading methodology of Willis Towers Watson. The grading system is the basis for compensation activities such as benchmarking and determination of the compensation structure and levels. In addition, the grading system is also used for talent management (succession planning and development decisions). In 2019, individual positions were reviewed separately to ensure that the compensation for new appointments to the Group Executive Committee is positioned around the relevant market median.

While the benchmarking data is one factor considered by the Compensation Committee to determine the compensation of executives, other factors will be considered as well, such as the internal compensation structure (equal treatment), the profile of the individual (skills set, experience, seniority) and affordability to the company. The performance of the company in any given year has a direct impact on the variable compensation actually paid to the employee through the profit-sharing plan.

## 2. Compensation policy and principles

Zehnder Group's executives and employees are the company's most valuable assets. There would be no entrepreneurial success without their commitment, passion and professionalism. Consequently, the clear objectives of the compensation policy are to recruit and retain qualified employees, to drive best-in-class performance, to ensure market-based pay and to encourage behaviour that is in line with the company's values and high standards of integrity. The compensation programmes are designed to fulfil these fundamental objectives based on the compensation principles (see table Compensation policy and principles).

## Architecture of compensation of the Board of Directors

CHF	In cash	In shares <sup>1</sup>
<b>Retainer (gross p.a.)</b>		
Chairman of the Board of Directors	175,000	175,000
Vice Chairman of the Board of Directors	50,000	50,000
Members of the Board of Directors	40,000	40,000
<b>Committee fees (gross p.a.)</b>		
Chairman of the Compensation Committee or Audit Committee	15,000	15,000
Member of the Compensation Committee or Audit Committee	10,000	10,000
Expense lump sum (gross p.a.) <sup>2</sup>	2,000	

<sup>1</sup> Converted into shares on the basis of the average volume-weighted share price during the period between 1 October and 31 December, discounted by 30%

<sup>2</sup> The Chairman of the Board of Directors receives a lump sum expense allowance based on his level of activity, and in line with the company's expenses regulations for executives. For non-Swiss members of the Board of Directors or in cases where effective business expenses are in excess of CHF 2000, no expense lump sum is paid out and business expenses are reimbursed on an actual cost basis.

### 3. Architecture of compensation of the Board of Directors

In order to guarantee their independence in their supervisory function of the Group Executive Committee, the members of the Board of Directors receive a fixed compensation only, consisting of a fixed annual retainer, a fixed compensation for the membership in committees of the Board of Directors as well as a lump sum expense allowance. The compensation of the Board of Directors is reviewed regularly. In order to strengthen the alignment to long-term shareholders' interests, 50% of the compensation of the Board of Directors is paid in cash and 50% is paid in form of Zehnder Group AG registered shares A. These shares are granted with a discount of 30% on the relevant share price, determined as the average volume-weighted share price of the share during the period between 1 October and 31 December of the respective year. The shares are subject to a restriction period of three years during which they cannot be sold, transferred or pledged. The restriction period also applies in case of termination of employment, except in case of death where the restriction immediately lapses.

The cash compensation is paid out monthly and the restricted shares A are allocated in January for the previous compensation period covering the term of office from the Annual General Meeting of the previous year to the Annual General Meeting of the reporting year.

During the year under review, the Compensation Committee of the Board of Directors reviewed the basic retainer given to the Chairman of the Board of Directors owing to his new role as non-executive Chairman, and proposed to the Board of Directors that the basic retainer be reduced. The Board of Directors has now set the basic retainer for the Chair-

man of the Board of Directors at CHF 350,000, compared to CHF 600,000 previously. As before, the compensation will be granted as a 50% cash amount and 50% in the form of restricted shares A in Zehnder Group AG. In the process of allocating these shares, a discount of 30% on the applicable share price will be granted.

Additional compensation to Board members for advisory services to the company or for the activities in companies that are controlled directly or indirectly by the company is permitted. This compensation is included in the total amount of compensation paid to the Board of Directors, which must be approved by the Annual General Meeting.

### 4. Architecture of compensation of the Group Executive Committee

The compensation of the Group Executive Committee includes a fixed annual base salary, a short-term bonus, a variable long-term element, the participation in the management share plan, as well as occupational benefits and perquisites.

#### 4.1. Annual base salary (ABS)

The annual base salary is determined individually on the basis of the scope and responsibilities associated with the position, experience and qualifications of the individual. The annual base salary is reviewed annually and adjustments reflect individual performance, current salary, competitive positioning, market salary trends and the affordability to the company.

## Architecture of compensation of the Group Executive Committee

	Purpose	Drivers	Performance measures	Vehicle
Annual base salary (ABS)	Attract & retain	Position, experience and qualifications		Monthly cash payments
Short-term incentive (STI)	Pay for performance	Annual business performance	Group net profit	Annual cash payment
Variable long-term compensation element (long-term incentive, LTI)	Reward long-term, sustained performance; align with shareholders' interests; retain	Role and area of responsibility	Relative total shareholder return (rTSR); increase in earnings per share (EPS)	Conditional rights to restricted shares A (Performance Share Units)
Zehnder Group Management share plan (ZGMSP)	Align with shareholders' interests, retain	Level of position	Share price evolution	Discounted registered shares A
Benefits	Protect against risks, attract & retain	Market practice and position		Retirement plan, insurances, perquisites

### 4.2. Short-term incentive (STI)

The short-term incentive (STI) allows the Group Executive Committee to participate in the Group's current success and is delivered in form of a cash payment under a profit-sharing plan. For each position, a profit-sharing amount is determined, taking into account the impact on the operating result, company strategy and responsibilities. The STI amount paid out for the fiscal year corresponds to the profit-sharing amount multiplied by the Group net profit (in EUR million). Such an STI can only be earned if the Group net profit for the year is positive. Considering the profit-sharing characteristic of the formula, there is no formal target level for that bonus. However, there is a contractually agreed upper limit for the STI amount. This is set at 100% of the annual base salary for the CEO and 75% for all other members of the Group Executive Committee.

Calculation of the STI amount:

	Individual profit-sharing amount (EUR)	Group net profit (MEUR)	STI amount (EUR)
Example	2,000	30	60,000

The STI amount for any given fiscal year is paid in the spring of the following year.

The decision to directly and solely link the STI to the financial results of the company (Group net profit) is based on the conviction that performance management shall be disconnected from compensation. For the CEO and the other members of the Group Executive Committee, within the framework of the global performance management process, the performance objectives are derived directly from the business strategy by the Board of Directors at the start of each year and reviewed at regular intervals. This takes place at the request of the Compensation Committee.

tee. These performance objectives include financial, strategic and qualitative objectives, for example in the area of leadership and project management.

In case of termination of employment during the first half of the fiscal year, the STI is calculated pro rata temporis, based on pay-out level of the previous year. In case of termination of employment in the second half of the year, the published half-year figures for the pro rata temporis calculation are taken into account. And in case of termination of employment at the end of the year, the published annual results apply.

The STI is subject to clawback and malus provisions in the event that the company is required to prepare a relevant accounting/financial restatement or in the event of violating the law or the internal regulations.

### 4.3. Variable long-term compensation element (long-term incentive, LTI)

The Compensation Committee revised the compensation system for the Group Executive Committee in 2018, and the Board of Directors approved the introduction of a variable long-term compensation plan (long-term incentive, LTI) for the 2019 fiscal year.

As part of a long-term share plan, the LTI is granted in the form of Performance Share Units (PSUs). The LTI rewards the long-term performance and the sustainable success of the Zehnder Group and is aligned to the interests of shareholders.

A PSU represents a conditional right to receive shares of the company. The prerequisite for this is the fulfilment of certain conditions during the three-year performance period (vesting period). The vesting conditions include both the attainment of the predefined performance objectives (performance conditions) and continuous and ongoing employment at the end of the vesting period (service condition).

The features of the LTI can be summarised as follows: At grant a target amount in relation to the LTI is determined for each member of the Group Executive Committee, taking the relevant benchmark for the individual total compensation into account.

In 2019, the allocation of the target amount consisted of 50% of the annual base salary for the CEO and no more than 50% of the annual base salary for the other members of the Group Executive Committee.

On the grant date, the individual target amount is converted into the relevant number of PSUs based on the average volume-weighted share price of Zehnder Group AG at the SIX Swiss Exchange during the period from 1 October to 31 December of the year before grant date.

50% of the performance condition is based on the relative total shareholder return (TSR) and the remaining 50% is based on the increase in earnings per share (EPS growth). The relative TSR is the achieved increase in value for the investor (that is, the share price performance plus dividend) in relation to a comparison group.

### Peer group

The peer group for the relative TSR measure is a summary of comparable companies that have already been taken into account for benchmarking purposes. The Board of Directors confirmed that the following companies were comparable:

Arbonia	Belimo	Bobst
Bossard	Burckhardt Compression	Burkhalter
Conzzeta	Daetwyler	Feintool
Forbo	Gurit	Huber+ Suhner
Interroll	Komax	Landis + Gyr
Metall Zug	Meyer Burger	Phoenix Mecano
Rieter	Schweiter	Starrag

### Rewarding long-term performance

The total number of shares that are transferred to the participants after the vesting period is calculated as shown below. The performance factor can range between 0 and 150%, with no conversion into shares carried out below the threshold. The conversion into shares is limited to a maximum of 1.5 shares per PSU.

For both key figures, the Compensation Committee defines a lower limit for the performance level (with no vesting taking place below this limit), a target value (100% vesting) and an upper limit for the performance level (150% vesting). Between these levels, vesting is calculated on a linear basis

	Lower limit 25% (EPS) 50% (TSR) vesting	Target value 100% vesting	Cap 150% vesting
<b>Relative TSR (50%)</b>	25% percentile rank	Median of the comparison group	≥75% percentile rank
<b>EPS growth (50%)</b>	X% of the target value	EPS growth Y% points	Z% of the target value

The achievement of the relative performance measure and the combined performance factor are calculated by an external independent consultancy company. If the Zehnder Group reports a loss from ongoing business activities during the last year of the three-year vesting period or in other exceptional cases, the Board of Directors reserves the right to specify whether and to what extent the PSUs will lapse for this period, regardless of the combined performance factor achieved.

In case of termination of employment, the blocked PSUs usually lapse, except in the event of retirement, disability, death or a change of control at the company. These provisions are outlined individually in the table below.

Reason for release	Plan rules for non-vested PSUs
Termination by employee	Lapse
Termination of employment by employer for good cause	Lapse
Termination of employment by employer (other causes)	Discretion of the Board of Directors
Retirement	Discretion of the Board of Directors
Invalidity	Pro-rata vesting, based on effective performance at regular vesting point in time
Death	Accelerated pro-rata vesting based on target performance (100% payment factor)
Change of control	Accelerated, full vesting based on effective performance at the point of change of control (except if the plan is continued or replaced with an equivalent)

PSUs or shares granted as part of the long-term share plan are subject to the same clawback and sunset clauses as the STI.

In the event of a participant failing to adhere to reporting regulations and/or committing fraud and/or breaching legislation or relevant internal regulations, these clauses enable the Board of Directors to declare that any variable cash compensation elements that have not been paid out or long-term incentives that have not yet been transferred are forfeited, either in part or in full (penalty clause), and/or to reclaim in part or in full any variable cash compensation elements that have been paid out or long-term incentives that have been transferred.

### Shareholding guideline

To align the interests of the Group Executive Committee more closely with those of the shareholders, a shareholding guideline was introduced from the 2019 fiscal year onwards. Introduction of the shareholding guideline or after their appointment to the Group Executive Committee, the members of the Group Executive Committee must hold at least a multiple of their annual basic compensation in Zehnder Group AG shares, as demonstrated in the table below:

	% of the annual base salary
CEO	200%
Other members of the Group Executive Committee	150%

### 4.4. Long-term benefits: Zehnder Group Management Share Plan (ZGMSP)

The Zehnder Group Management Share Plan (ZGMSP) is a long-term benefit programme with the objective to encourage members of the Group Executive Committee and all employees at management level to directly participate in the long-term success of the company. The Group Executive Committee members may elect to draw up to 30% (2018: up to 20%) of their annual base salary in the form of Zehnder Group AG registered shares A. These shares are offered at a discount of 30% on the relevant share price determined as the average volume-weighted share price of the share during the period between 1 October and 31 December. The shares are subject to a restriction period of three years during which they cannot be sold, transferred or pledged. The restriction period also applies in case of termination of employment, except in case of death where the restriction immediately lapses.

The ZGMSP strengthens the link between compensation and company long-term performance, as the compensation invested in the programme is exposed to the change in share value over the restriction period of three years.

### Outstanding options

The options plan was discontinued as of 1 January 2012. According to the regulations, the right to exercise outstanding options from the plan continued to exist until 2019.



#### 4.5. Benefits

As the Group Executive Committee is international in its nature, the members participate in the benefit plans available in the country of their employment contract. Benefits consist mainly of retirement, insurance and healthcare plans that are designed to provide a reasonable level of protection for the employees and their dependents in respect to retirement and to the risks of disability, death and illness/accident. The members of the Group Executive Committee with a Swiss employment contract participate in the pension plan offered to all employees in Switzerland, in which earnings up to an amount of CHF 700,000 per annum is insured. Contributions are age-related and are shared equally between the company and the employee. The Zehnder Group's pension benefits exceed the legal requirements of the Swiss Federal Law on Occupational Retirement, Survivors and Disability Pension Plans (BVG) and are in line with what other international industrial companies offer. Members of the Group Executive Committee under foreign employment contracts are insured commensurately with market conditions and with their position. Each plan varies in line with the local competitive and legal environment and are structured in accordance with local practice and in line with local legal requirements.

In addition, the members of the Group Executive Committee are also eligible to standard perquisites such as a company car, children allowance, subsidised staff restaurant and other benefits in kind, according to competitive market practice in their country of contract. The monetary value of these other elements of compensation is evaluated at fair value and is included in the compensation tables.

Expenses that are not covered by the lump sum remuneration for expense allowance in accordance with the company's expenses regulations are compensated upon presentation of documentary evidence. The reimbursement of business expenses is not considered compensation and does not need to be approved by the Annual General Meeting.

#### 4.6. Contracts of members of the Group Executive Committee

The employment contracts of the members of the Group Executive Committee are unlimited and incorporate a notice period of minimum six to maximum twelve months: six months for members who have been on the Group Executive Committee for less than five years, nine months for members who have been on the Group Executive Committee between five and less than ten years, and twelve months for members who have been on the Group Executive Committee for ten years and longer. There are no agreements with regard to severance compensation in connection with leaving the company or a "change of control."

### 5. Information on compensation, guarantees, loans and credits granted to the Board of Directors, the Group Executive Committee and former Board members and persons closely associated with them in the business year 2019

#### 5.1. Compensation to the Board of Directors in the business year 2019

In 2019, the members of the Board of Directors received a total compensation of CHF 1.7 million (2018: CHF 1.6 million) in the form of fixed compensation of CHF 0.8 million (2018: CHF 0.7 million), share-based compensation of CHF 0.8 million (2018: CHF 0.8 million) and national insurance contributions of CHF 0.1 million (2018: CHF 0.1 million). In 2019, the total compensation paid to the Board of Directors was slightly higher than the previous year due to the following factors:

- Two additional members being appointed to the Board of Directors,
- The basic retainer for the Chairman of the Board of Directors being reduced to CHF 350,000 (2018: CHF 600,000).



## Compensation for the present members of the Board of Directors (audited)

	Units 2019	Units 2018	CHF <sup>1</sup> 2019	CHF <sup>1</sup> 2018
<b>Hans-Peter Zehnder</b>				
Chairman of the Board of Directors				
Fixed cash compensation for Board activity			175,000	300,000
Lump sum expense allowances			12,000	2,000
Allocated shares for Board activity <sup>2</sup>	6,046	11,785	250,585	434,510
Fixed cash compensation for additional services <sup>3</sup>			60,000	–
Cash compensation as per invoiced hours for additional services <sup>4</sup>			20,000	–
Employer national insurance contributions			63,300	46,879
Other payments			12,475	–
<b>Total compensation</b>			<b>593,360</b>	<b>783,389</b>
<b>Thomas Benz</b>				
Deputy Chairman of the Board of Directors and Member of the Compensation Committee				
Fixed cash compensation for Board activity			50,000	50,000
Fixed cash compensation for Compensation Committee activity			10,000	10,000
Allocated shares for Board and Compensation Committee activity <sup>2</sup>	2,073	2,356	85,895	86,864
Employer national insurance contributions			7,468	7,503
<b>Total compensation</b>			<b>153,363</b>	<b>154,367</b>
<b>Urs Buchmann</b>				
Member of the Board of Directors, the Compensation Committee and the Audit Committee				
Fixed cash compensation for Board activity			40,000	40,000
Fixed cash compensation for Compensation Committee activity			10,000	10,000
Fixed cash compensation for Audit committee activity			10,000	10,000
Allocated shares for Board, Compensation and Audit Committee activity <sup>2</sup>	2,072	2,355	85,853	86,827
Employer national insurance contributions			10,009	10,050
<b>Total compensation</b>			<b>155,862</b>	<b>156,877</b>
<b>Riet Cadonau</b>				
Member of the Board of Directors and Chairman of the Compensation Committee				
Fixed cash compensation for Board activity			40,000	40,000
Fixed cash compensation for Compensation Committee activity			15,000	15,000
Lump sum expense allowances			2,000	2,000
Allocated shares for Board and Compensation Committee activity <sup>3</sup>	1,899	2,160	78,712	79,638
Employer national insurance contributions			9,175	9,072
<b>Total compensation</b>			<b>144,887</b>	<b>145,710</b>
<b>Daniel Frutig</b>				
Member of the Board of Directors since April 2019				
Fixed cash compensation for Board activity			30,000	–
Allocated shares for Board activity <sup>2</sup>	985	–	43,329	–
<b>Total compensation</b>			<b>73,329</b>	<b>–</b>

<sup>1</sup> The amounts are gross amounts including national insurance contributions of the members of the Board of Directors, with the exception of one member whose national insurance contributions are settled by the employer due to the employment contract in question.

<sup>2</sup> The shares are disclosed at the closing price of the shares on the respective grant dates.

<sup>3</sup> One-off payment to the Chairman of the Board of Directors for the on-boarding of the CEO

<sup>4</sup> Additional services of the Chairman of the Board relate to the support of the Group Executive Committee in strategic projects as well as to extra efforts within the BoD's ad hoc committees and is compensated with an annual maximum of CHF 20,000.

	Units 2019	Units 2018	CHF <sup>1</sup> 2019	CHF <sup>1</sup> 2018
<b>Jörg Walther</b>				
Member of the Board of Directors and Chairman of the Audit Committee				
Fixed cash compensation for Board activity			40,000	40,000
Fixed cash compensation for Audit committee activity			15,000	15,000
Lump sum expense allowances			2,000	2,000
Allocated shares for Board and Audit Committee activity <sup>2</sup>	1,899	2,160	78,712	79,638
Cash compensation as per invoiced hours for additional services <sup>3</sup>			180,427	148,155
Employer national insurance contributions			9,175	9,213
<b>Total compensation</b>			<b>325,314</b>	<b>294,006</b>
<b>Ivo Wechsler</b>				
Member of the Board of Directors and the Audit Committee since April 2019				
Fixed cash compensation for Board activity			30,000	–
Fixed cash compensation for Audit committee activity			7,500	–
Lump sum expense allowances			1,500	–
Allocated shares for Board activity <sup>2</sup>	1,231	–	54,153	–
Employer national insurance contributions			4,866	–
<b>Total compensation</b>			<b>98,019</b>	<b>–</b>
<b>Milva Zehnder</b>				
Member of the Board of Directors				
Fixed cash compensation for Board activity			40,000	40,000
Lump sum expense allowances			2,000	2,000
Allocated shares for Board activity <sup>2</sup>	1,382	1,571	57,255	57,922
Employer national insurance contributions			6,673	6,701
<b>Total compensation</b>			<b>105,928</b>	<b>106,623</b>
<b>Total compensation paid to the Members of the Board of Directors in the year of review</b>				
Fixed cash compensation for Board activity			445,000	510,000
Fixed cash compensation for Compensation Committee activity			35,000	35,000
Fixed cash compensation for Audit Committee activity			32,500	25,000
Lump sum expense allowances			19,500	8,000
Allocated shares for Board, Compensation Committee and Audit Committee activity <sup>2</sup>	17,587	22,387	734,494	825,399
Fixed cash compensation for additional services			60,000	–
Cash compensation as per invoiced hours for additional services			200,427	148,155
Employer national insurance contributions			110,666	89,418
Other payments			12,475	–
<b>Total compensation</b>			<b>1,650,062</b>	<b>1,640,972</b>

<sup>1</sup> The amounts are gross amounts including national insurance contributions of the members of the Board of Directors, with the exception of one member whose national insurance contributions are settled by the employer due to the employment contract in question.

<sup>2</sup> The shares are disclosed at the closing price of the shares on the respective grant dates.

<sup>3</sup> Additional services relate to legal services for specific projects (commercial and contract law, compliance, etc.) and to extraordinary expenses incurred within the BoD's ad hoc committees (Corporate Governance, M&A).

## 5.2. Compensation for the Group Executive Committee in the business year 2019

For 2019, the members of the Group Executive Committee received a total compensation of CHF 3.7 million (2018: CHF 3.5 million) in the form of fixed compensation of CHF 1.8 million (2018: CHF 2.0 million), variable compensation of CHF 1.2 million (2018: CHF 0.8 million), other benefits including the value of the discount on the shares of CHF 0.2 million (2018: CHF 0.2 million), and national insurance and pension contributions of CHF 0.5 million (2018: CHF 0.5 million).

In 2019, the total compensation paid to the Group Executive Committee was higher than the previous year due to the following factors:

- Introduction of additional, variable long-term compensation element (LTI),

- In the previous year, the compensation for the role of CEO was higher due to payments made to Dominik Berchtold (CEO until 2 February 2018, as well as the contract-related compensation for his notice period), to Hans-Peter Zehnder (interim CEO from 5 February to 31 December 2018) and to Matthias Huenerwadel (designated CEO as of 12 November 2018), compared to year 2019;
- Compensation for Johannes Bollmann as the new Head of the Competence Center Comfosystems since 4 April 2019, plus compensation for the former Head of the Competence Center Comfosystems, Olaf Schulte, within the same period (because of payments due under contract during the notice period).

In 2019, the Group achieved a net profit of EUR 31.9 million. Consequently, in 2019, the variable cash compensation amounted to 2.4% of the net profit for the members of the Group Executive Committee (2018: 3.2%).

## Compensation for the present members of the Group Executive Committee (audited)

	Units M. Huenerwadel 2019	Units D. Berchtold 2018	CHF <sup>1</sup> M. Huenerwadel 2019	CHF <sup>1</sup> D. Berchtold 2018
<b>Highest-paid member of the Group Executive Committee</b>				
Fixed cash compensation for GEC activity			500,000	582,000
Variable cash compensation			213,206	196,000
Long-term variable compensation (LTI)	6,950	–	231,783	–
Lump sum expense allowances			24,000	2,000
Employer social security and pension contributions			127,201	116,562
Shares acquired <sup>2</sup>	–	4,266	–	54,264
Other payments			33,104	14,156
<b>Total compensation</b>			<b>1,129,294</b>	<b>964,982</b>
	Units 2019	Units 2018	CHF <sup>1</sup> 2019	CHF <sup>1</sup> 2018
<b>Total compensation paid to the Group Executive Committee<sup>3</sup></b>				
Fixed cash compensation			1,755,097	1,932,566
Variable cash compensation			784,896	789,457
Long-term variable compensation (LTI)	11,287	–	376,421	–
Lump sum expense allowances			65,800	63,267
Employer social security and pension contributions			515,223	545,197
Shares acquired <sup>2</sup>	10,551	10,694	111,102	136,028
Other payments			91,060	66,621
<b>Total compensation</b>			<b>3,699,599</b>	<b>3,533,136</b>

<sup>1</sup> The amounts are gross amounts including employee national insurance contributions.

<sup>2</sup> The members of the Group Executive Committee are eligible to purchase shares under the Zehnder Group Management Share Plan. The value disclosed includes the value of the discount on the shares purchased, determined at the closing price of the shares at the grant date, 10 January 2018 and 11 January 2019, less the purchase price. This value is included in the amount approved by the Annual General Meeting.

<sup>3</sup> There were five serving members of the Group Executive Committee on 31 December 2019. The total compensation paid to the Group Executive Committee for 2019 includes the pro-rata compensation for Johannes Bollmann (since 4 April 2019) and the pro-rata compensation for Olaf Schulte up to the end of the normal notice period on 31 August 2019. The pro-rata compensation for Dominik Berchtold up to the end of the normal notice period on 28 February 2019 is included in the total compensation paid to the Group Executive Committee for 2019. There were six serving members of the Group Executive Committee on 31 December 2018. The total compensation paid to the Group Executive Committee for 2018 includes the compensation paid to Dominik Berchtold (CEO until 2 February 2018) and Matthias Huenerwadel (designated CEO from 12 November 2018), as well as the proportion of the compensation for 2018 relating to Hans-Peter Zehnder's role as CEO a.i. from 5 February to 31 December 2018.

The variable cash compensation for the CEO amounted to 42.6% of the fixed compensation and, for the other members of the Group Executive Committee, a maximum of 50.3% of the fixed compensation.

The highest compensation for a member of the Group Executive Committee was paid to CEO Matthias Huenerwadel in the year under review.

In 2019, the Annual General Meeting authorised a maximum budget for compensation of the Group Executive Committee of CHF 5.0 million for fiscal year 2019. The total compensation amount of CHF 3.7 million paid to the Group Executive Committee for fiscal year 2019 as disclosed in the above table is below this upper limit.

### **5.3. Guarantees, loans, credits, etc.**

No Zehnder Group company has given guarantees, waivers of claims outstanding, credits or loans to current or former members of the Board of Directors, to present or former members of the Group Executive Committee, or to persons closely associated with them.

### **5.4. Compensation for former members of the Board of Directors and of the Group Executive Committee in the business year 2019**

Between 1 January 2019 and 28 February 2019, Dominik Berchtold, former CEO up to 2 February 2018, received a compensation due under contract during the notice period.

No compensation was paid to parties closely related to members of the Board of Directors or to the Group Executive Committee.

# Report of the statutory auditor

## to the General Meeting of Zehnder Group AG

### Gränichen

We have audited the accompanying compensation report of Zehnder Group AG for the year ended 31 December 2019. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labelled 'audited' on pages 31 to 33 of the compensation report.

#### Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

#### Auditor's responsibility

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Opinion

In our opinion, the compensation report of Zehnder Group AG for the year ended 31 December 2019 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Thomas Illi  
Audit expert  
Auditor in charge

Thomas Ebinger  
Audit expert

Luzern, 21 February 2020

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# Financial Report

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## Five-year Overview

		2019	2018	2017	2016	2015
<b>Sales</b>	EUR million	<b>644.4</b>	<b>601.8</b>	<b>582.4</b>	<b>538.9</b>	<b>533.0</b>
Change from prior year	%	7.1	3.3	8.1	1.1	1.5
<b>EBITDA<sup>1</sup></b>	EUR million	<b>64.9</b>	<b>53.2</b>	<b>45.7</b>	<b>70.3</b>	<b>26.5</b>
Change from prior year	%	22.1	16.5	-35.0	164.9	-49.5
	% of sales	10.1	8.8	7.8	13.0	5.0
<b>EBIT before one-off effects<sup>1/2</sup></b>	EUR million	<b>42.1</b>	<b>31.1</b>	<b>23.5</b>	<b>15.1</b>	<b>27.0</b>
Change from prior year	%	35.4	32.1	56.4	-44.3	-17.2
	% of sales	6.5	5.2	4.0	2.8	5.1
<b>EBIT</b>	EUR million	<b>42.1</b>	<b>31.1</b>	<b>23.5</b>	<b>43.4</b>	<b>5.2</b>
Change from prior year	%	35.4	32.1	-45.7	726.7	-83.9
	% of sales	6.5	5.2	4.0	8.0	1.0
<b>Net profit<sup>3</sup></b>	EUR million	<b>31.9</b>	<b>24.5</b>	<b>16.5</b>	<b>28.1</b>	<b>0.3</b>
Change from prior year	%	30.6	48.3	-41.3	-	-98.7
	% of sales	5.0	4.1	2.8	5.2	0.1
<b>Cash flow from operating activities</b>	EUR million	<b>43.1</b>	<b>30.5</b>	<b>18.5</b>	<b>17.5</b>	<b>31.8</b>
Change from prior year	%	41.2	65.5	5.3	-44.9	-38.0
	% of sales	6.7	5.1	3.2	3.3	6.0
<b>Investments in property, plant and equipment &amp; intangible assets</b>	EUR million	<b>26.0</b>	<b>24.4</b>	<b>26.8</b>	<b>28.2</b>	<b>29.4</b>
<b>Depreciation &amp; amortisation</b>	EUR million	<b>-22.8</b>	<b>-22.1</b>	<b>-22.1</b>	<b>-26.9</b>	<b>-21.3</b>
<b>Total assets</b>	EUR million	<b>470.5</b>	<b>440.9</b>	<b>419.8</b>	<b>450.5</b>	<b>435.6</b>
<b>Non-current assets</b>	EUR million	<b>211.8</b>	<b>207.8</b>	<b>206.5</b>	<b>210.1</b>	<b>209.1</b>
<b>Net liquidity/ (net debt)<sup>1</sup></b>	EUR million	<b>25.5</b>	<b>21.3</b>	<b>27.5</b>	<b>54.1</b>	<b>41.1</b>
<b>Shareholders' equity<sup>3</sup></b>	EUR million	<b>303.0</b>	<b>283.1</b>	<b>271.2</b>	<b>280.2</b>	<b>269.0</b>
	% of total assets	64.4	64.2	64.6	62.2	61.8
<b>Employees</b>	Ø full-time equivalents	<b>3,413</b>	<b>3,412</b>	<b>3,383</b>	<b>3,247</b>	<b>3,194</b>
<b>Market closing price registered share A</b>	CHF	<b>45.60</b>	<b>33.35</b>	<b>39.95</b>	<b>32.15</b>	<b>38.45</b>
<b>Dividends<sup>4</sup></b>	CHF million	<b>11.7</b>	<b>9.4</b>	<b>5.9</b>	<b>11.1</b>	<b>-</b>
<b>Payout ratio</b>	%	<b>34</b>	<b>35</b>	<b>34</b>	<b>50</b>	<b>-</b>
<b>Market capitalisation<sup>5</sup></b>	CHF million	<b>444.9</b>	<b>325.4</b>	<b>389.8</b>	<b>313.7</b>	<b>375.1</b>
<b>Total market capitalisation<sup>6</sup></b>	CHF million	<b>535.2</b>	<b>391.4</b>	<b>468.9</b>	<b>377.3</b>	<b>451.2</b>

<sup>1</sup> For alternative performance measures, please refer to page 82 of the annual report.

<sup>2</sup> One-off effects in 2016 are related to the sale of the old production facility in China with a one-off positive effect of EUR 40.3 million on the operating result (EBIT) and restructuring costs of EUR 12.0 million.  
In 2015, restructuring costs amounted to EUR 21.8 million.

<sup>3</sup> Including minority interests

<sup>4</sup> For 2019 as proposed by the Board of Directors

<sup>5</sup> Market value of all listed registered shares A at year end; excluding value of unlisted registered shares B

<sup>6</sup> Registered shares A and B; registered shares B recognised at 1/5 of the price of the registered share A at year end

# Data per Share<sup>1</sup>

			2019	2018	2017	2016	2015
<b>Shares outstanding</b>							
Registered shares A	in thousands	units	9,756	9,756	9,756	9,756	9,756
	each with a par value of	CHF	0.05	0.05	0.05	0.05	0.05
Registered shares B (not listed)	in thousands	units	9,900	9,900	9,900	9,900	9,900
	each with a par value of	CHF	0.01	0.01	0.01	0.01	0.01
Number of voting rights or shares	in thousands	units	19,656	19,656	19,656	19,656	19,656
Notional number of shares	in thousands	units	11,736	11,736	11,736	11,736	11,736
	each with a par value of	CHF	0.05	0.05	0.05	0.05	0.05
<b>Market prices (January–December)</b>							
Registered share A	high	CHF	45.90	46.00	40.95	44.20	48.45
Registered share A	low	CHF	31.20	29.15	31.30	30.50	29.50
Registered share A	at year end	CHF	45.60	33.35	39.95	32.15	38.45
<b>Consolidated net profit</b>							
Per registered share A		EUR	2.64	1.98	1.34	1.74	0.01
<b>Consolidated equity<sup>2</sup></b>							
Per registered share A		EUR	24.81	23.21	22.42	22.55	21.76
<b>Dividend (gross)</b>							
Dividend per registered share A <sup>3</sup>		CHF	1.00	0.80	0.50	0.95	–
Payout ratio	% of net profit per share		34	35	34	50	–

<sup>1</sup> All data excluding minority interests; all data on the basis of total shares outstanding at year end, less the average of the shares held by Zehnder Group AG as own shares

<sup>2</sup> Before appropriation of earnings

<sup>3</sup> For 2019 as proposed by the Board of Directors



# Consolidated Balance Sheet

EUR million	Notes page 49 ff.	31 December 2019	31 December 2018	Change from prior year %
<b>Assets</b>				
Liquid assets	1	48.9	42.7	
Trade accounts receivable	2	124.2	104.6	
Other receivables	2	17.9	19.5	
Inventories	3	61.6	59.7	
Prepayments		2.7	2.6	
Accrued income		3.5	4.0	
<b>Current assets</b>		<b>258.6</b>	<b>233.1</b>	<b>11.0</b>
Property, plant and equipment	4	197.2	193.6	
Financial assets	4	11.3	10.7	
Intangible assets	4	3.3	3.5	
<b>Non-current assets</b>		<b>211.8</b>	<b>207.8</b>	<b>2.0</b>
<b>Total assets</b>		<b>470.5</b>	<b>440.9</b>	<b>6.7</b>
<b>Liabilities &amp; shareholders' equity</b>				
Short-term loans	5	15.4	15.5	
Trade accounts payable		31.6	31.5	
Other short-term liabilities		23.5	23.7	
Short-term provisions	6	6.5	8.6	
Accruals and deferred income		57.7	49.6	
<b>Current liabilities</b>		<b>134.7</b>	<b>128.9</b>	<b>4.5</b>
Long-term loans	5	8.0	5.9	
Other long-term liabilities		0.4	0.8	
Long-term provisions	6	24.4	22.2	
<b>Non-current liabilities</b>		<b>32.7</b>	<b>28.9</b>	<b>13.3</b>
<b>Total liabilities</b>		<b>167.4</b>	<b>157.8</b>	<b>6.1</b>
Share capital		0.4	0.4	
Capital reserves		33.6	33.6	
Own shares		-4.2	-6.3	
Retained earnings		261.8	245.9	
Accumulated FX differences		-3.2	-5.1	
Minority interests		14.8	14.7	
<b>Equity</b>	7	<b>303.0</b>	<b>283.1</b>	<b>7.0</b>
<b>Total liabilities &amp; shareholders' equity</b>		<b>470.5</b>	<b>440.9</b>	<b>6.7</b>

# Consolidated Income Statement

EUR million	Notes page 49 ff.	2019	2018	Change from prior year %
<b>Sales</b>	16	<b>644.4</b>	<b>601.8</b>	<b>7.1</b>
Changes in inventories		0.8	0.4	
Own work capitalised		1.5	1.8	
Other operating income	17	4.0	3.6	
Cost of materials		-242.2	-232.2	
Personnel costs		-208.2	-194.7	
Depreciation of property, plant and equipment	4	-22.2	-21.4	
Amortisation of intangible assets	4	-0.6	-0.7	
Other operating expenses	18	-135.4	-127.6	
<b>Operating result (EBIT)</b>		<b>42.1</b>	<b>31.1</b>	<b>35.4</b>
Result from associated companies	4	-	-	
Financial result	19	-1.2	-2.0	
<b>Earnings before taxes</b>		<b>40.9</b>	<b>29.0</b>	<b>41.0</b>
Income taxes	20	-9.0	-4.6	
<b>Net profit</b>		<b>31.9</b>	<b>24.5</b>	<b>30.6</b>
Minority interests		1.3	1.6	
Net profit excluding minority interests		30.6	22.9	
Non-diluted net profit excluding minority interests per registered share A (EUR)	21	2.64	1.98	33.2
Diluted net profit excluding minority interests per registered share A (EUR)	21	2.64	1.98	33.2
Non-diluted net profit excluding minority interests per registered share B (EUR)	21	0.53	0.40	33.2
Diluted net profit excluding minority interests per registered share B (EUR)	21	0.53	0.40	33.2

# Consolidated Cash Flow Statement

EUR million	Notes page 49 ff.	2019	2018
Net profit		31.9	24.5
Depreciation and amortisation of property, plant and equipment	4	22.2	21.4
Depreciation and amortisation of intangible assets	4	0.6	0.7
Other non-cash changes		3.6	3.0
(Gain)/loss on disposals of non-current assets		-0.5	-0.1
(Increase)/decrease of trade accounts receivable		-20.3	-12.3
(Increase)/decrease of other receivables, prepayments and accrued income		2.4	-4.4
(Increase)/decrease of inventories		-0.3	-1.1
Increase/(decrease) of trade accounts payable		-1.1	-0.2
Increase/(decrease) of other short-term liabilities, accruals and deferred income		5.3	3.2
Increase/(decrease) of provisions	6	-0.2	-1.4
(Increase)/decrease of deferred tax assets	4	-0.5	-2.7
<b>Cash flow from operating activities</b>		<b>43.1</b>	<b>30.5</b>
Investments in property, plant and equipment	4	-25.6	-23.0
Investments in intangible assets		-0.4	-1.4
Investments in subsidiaries	24	-6.1	-9.2
Divestment of property, plant and equipment		1.6	0.5
<b>Cash flow from investing activities</b>		<b>-30.5</b>	<b>-33.1</b>
Dividends paid to shareholders		-8.2	-5.0
Dividends paid to minority shareholders		-1.7	-
(Purchase)/sale of own shares		1.0	1.4
Increase/(decrease) of short-term loans	5	-0.9	8.0
Increase/(decrease) of long-term loans	5	2.4	-0.5
<b>Cash flow from financing activities</b>		<b>-7.5</b>	<b>3.9</b>
Currency effects		1.1	0.1
<b>Increase/(decrease) of liquid assets</b>		<b>6.2</b>	<b>1.4</b>
Liquid assets at 1.1.		42.7	41.3
Liquid assets at 31.12.		48.9	42.7
<b>Increase/(decrease)</b>		<b>6.2</b>	<b>1.4</b>

# Consolidated Statement of Changes in Equity

EUR million	Share capital	Capital reserves	Own shares	Goodwill offset	Retained earnings	Accumulated FX differences	Total excluding minority interests	Minority interests	Total including minority interests
<b>Equity at 1.1.2019</b>	<b>0.4</b>	<b>33.6</b>	<b>-6.3</b>	<b>-125.0</b>	<b>370.8</b>	<b>-5.1</b>	<b>268.4</b>	<b>14.7</b>	<b>283.1</b>
Sale of own shares	-	-	2.1	-	-0.4	-	1.7	-	1.7
Share-based compensation									
• Granted	-	-	-	-	0.1	-	0.1	-	0.1
Net profit	-	-	-	-	30.6	-	30.6	1.3	31.9
Netted goodwill	-	-	-	-6.3	-	-	-6.3	-	-6.3
Change in minority interests	-	-	-	-	-	-	-	0.4	0.4
Dividends	-	-	-	-	-8.2	-	-8.2	-1.7	-9.9
Currency effects	-	-	-	-	-	1.9	1.9	0.1	2.0
<b>Equity at 31.12.2019</b>	<b>0.4</b>	<b>33.6</b>	<b>-4.2</b>	<b>-131.2</b>	<b>393.0</b>	<b>-3.2</b>	<b>288.2</b>	<b>14.8</b>	<b>303.0</b>
<b>Equity at 1.1.2018</b>	<b>0.4</b>	<b>33.6</b>	<b>-8.4</b>	<b>-117.5</b>	<b>353.1</b>	<b>-3.3</b>	<b>257.9</b>	<b>13.3</b>	<b>271.2</b>
Sale of own shares	-	-	2.1	-	-0.1	-	2.0	-	2.0
Share-based compensation									
• Granted	-	-	-	-	-	-	-	-	-
Net profit	-	-	-	-	22.9	-	22.9	1.6	24.5
Netted goodwill	-	-	-	-7.5	-	-	-7.5	-	-7.5
Change in minority interests	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-5.0	-	-5.0	-	-5.0
Currency effects	-	-	-	-	-	-1.8	-1.8	-0.1	-2.0
<b>Equity at 31.12.2018</b>	<b>0.4</b>	<b>33.6</b>	<b>-6.3</b>	<b>-125.0</b>	<b>370.8</b>	<b>-5.1</b>	<b>268.4</b>	<b>14.7</b>	<b>283.1</b>

# Consolidation Matrix and Principles

## Consolidation matrix

The consolidated financial statements are presented in euros and include all domestic and foreign companies which Zehnder Group AG controls directly or indirectly by either holding more than 50% of the voting rights or by otherwise having the power to control their operating and financial policies. Assets and liabilities as well as revenues and expenses are included to 100% in accordance with the full consolidation method. Minority interests in equity and in net income of fully consolidated companies are recognised separately.

Holdings with a voting interest of between 20 and 49% (associated companies) are included in accordance with the equity method. Consolidated equity and the financial result for the period are accounted for proportionately.

The following changes were made in the consolidation matrix compared to the previous year:

- Purchase of Recair Holding B.V. as at 7 March 2019 in the Netherlands and merger with Recair B.V. as per 1 October 2019,
- purchase of Recair B.V. as at 7 March 2019 in the Netherlands,
- purchase of Metis B.V. as at 7 March 2019 in the Netherlands,
- purchase of Recair GmbH as at 7 March 2019 in Germany,
- founding of Zehnder Group Enterprise Management (Shanghai) Co., Ltd. as at 31 October 2019 in China.

## Consolidation principles

### General

Zehnder Group prepares its accounts in compliance with all existing guidelines of Swiss GAAP FER (Swiss Accounting and Reporting Recommendations).

The consolidated balance sheet and income statement are based on the audited financial statements of the companies included in the consolidation matrix for the year ended 31 December.

The data presented in the consolidated financial statements are based on uniform accounting and valuation principles which apply to all Group companies.

Intergroup receivables and payables as well as revenues and expenses are eliminated in the consolidated statements. Intermediate profits in inventories are eliminated as well.

### Foreign currency translation

For the year under review, the financial statements of subsidiaries which report in currencies other than the euro were translated into euro (EUR) as follows:

- Balance sheet figures at year-end rates,
- Income statement figures at average-for-the-year rates,
- Cash flow statement figures at average-for-the-year rates.

Differences arising from applying these disparate exchange rates as well as foreign exchange differences on long-term loans of an equity nature to Group companies were booked to the cumulative translation differences of the consolidated equity capital. Foreign currency differences arising from repayments of long-term loans of an equity nature are also booked to consolidated equity capital and are not transferred to the income statement until such time as a disposal takes place.

The most important exchange rates used for consolidation are shown in the following table:

	CHF 1	CNY 100	GBP 1	PLN 100	SEK 100	TRY 100	USD 1
<b>Year-end rates</b>							
2019	0.9214	12.80	1.1758	23.51	9.55	15.00	0.8917
2018	0.8880	12.71	1.1130	23.29	9.79	16.54	0.8738
<b>Average-for-the-year rates</b>							
2019	0.8977	12.95	1.1374	23.27	9.45	15.79	0.8927
2018	0.8646	12.83	1.1320	23.51	9.76	18.15	0.8445

### Capital consolidation

Capital is consolidated to show equity capital as if the Group were one single company. To do this, it is necessary to offset the net worth of consolidated companies against the capital allotted to them.

Capital consolidation is based on the purchase method, whereby the acquisition cost of a Group company is eliminated at the time of acquisition against the fair value of net assets acquired with the remainder recorded as goodwill that is subsequently offset within equity of the Group.

When a gradual acquisition, where the investment in shares in an associated company is increased so that takeover of control occurs, the values of participations held to date are initially posted as an outflow, taking any goodwill into account. The fair value of this outflow is determined by the terms of acquisition at the time of takeover of control. Any resulting profit or loss is reflected in the result from associated companies. A revaluation of the entire shareholding in accordance with the terms of acquisition at the time of takeover of control is subsequently carried out as if it were a new acquisition.

# Accounting and Valuation Principles

The balance sheets of all subsidiaries of Zehnder Group AG have been valued according to uniform valuation principles in accordance with the Swiss accounting and reporting recommendations (Swiss GAAP FER). The financial reporting gives a true and fair view of the financial position, the results of operations, and the cash flows. The consolidated financial statements have been prepared in accordance with the historical cost method with the exception of marketable securities and participations under 20%, which are measured at fair value. The consolidation principles as well as the accounting and valuation principles applied remained unchanged year on year.

## 1. Liquid assets

Cash and cash equivalents, postal checking account, and bank balances are shown at nominal values.

## 2. Trade accounts receivable

Accounts receivable are stated at nominal value. Value adjustments for doubtful accounts are established based on maturity structure and identifiable solvency risks. Besides individual value adjustments with respect to specific known risks, other value adjustments are recognised based on experience.

## 3. Inventories

Inventories are valued on the lower of cost or market principle. Purchased products are valued at acquisition cost and manufactured goods at production cost. Production costs comprise variable manufacturing costs and manufacturing overheads. Valuation adjustments are undertaken for risks arising from time in storage or reduced marketability. Unrealised profits in inventories from intergroup deliveries are eliminated. Any supplier discounts are netted with the cost of materials.

## 4. Property, plant and equipment

Property, plant and equipment are shown in the consolidated balance sheet at acquisition or manufacturing cost (for self-constructed assets) less depreciation and valuation adjustments. The following terms of useful life are applicable for the main items contained in property, plant and equipment:

Buildings	35 to 50 years
Installations	10 to 20 years
Machines and equipment	5 to 15 years
Furniture	5 to 10 years
Computer hardware	3 to 5 years
Vehicles	3 to 5 years

The straight-line method of depreciation is applied for all property, plant and equipment. In general, depreciation commences from the time the asset is put into operation. Plant under construction is not depreciated.

Minor assets to a value of up to EUR 3000 are charged directly as expenses to the income statement. Investments financed through long-term leases are shown on the balance sheet. Expenses for operating leasing are charged appropriate to the period directly to the income statement.

Costs for maintenance, repairs, and minor renovations are charged as expenses to the income statement when they occur. Major renovations and investments are capitalised if they result in appreciation of value. and depreciated at most over the remaining useful life of the corresponding asset.

## **5. Financial assets**

Holdings with a voting interest of less than 20% and loans are valued at nominal or acquisition cost less the necessary valuation adjustments. For the accounting principles of the employer contribution reserves and the active deferred taxes, please refer to sections 10. Pension funds and 13. Income taxes on page 47 of these accounting and valuation principles.

## **6. Intangible assets**

Acquired intangible assets are recognised at acquisition cost. Computer software is written down on a straight-line basis over three to five years, land use rights on the basis of the contract term or over 50 years as a maximum, and other intangible assets over three to ten years. Internally generated intangible assets are fully charged to the income statement in the year in which they are incurred.

## **7. Impairment of assets**

The carrying amounts of assets are reviewed for impairment at each balance sheet date or if there are indications that an asset may be impaired. If an indication of potential impairment exists, the recoverable amount of the respective asset is determined. If the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts. Impairment losses are recognised in the income statement. The recoverable amount is the higher of the estimated asset's net selling price and its value in use. The net selling price is the amount recoverable from the sale of an asset in an arm's-length transaction between independent parties less the cost of disposal. The value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life.

## **8. Trade accounts payable and other liabilities**

Trade accounts payable and other liabilities are shown at nominal value. They include short-term tax liabilities, shown in the balance sheet on the basis of the results for the reporting year. This item also includes taxes on the proposed distribution of profits by subsidiaries.

## **9. Provisions**

Provisions are set up for actual and legal obligations arising from events in the past and for potential risks and losses from existing agreements when an outflow of funds is likely and can be measured in a reliable way.

The provisions are for the purpose of personnel pensions and to cover identifiable risks, including guarantee, procedural and country risks, as well as restructuring measures implemented. Provisions for deferred tax liabilities and for set-off risks in respect of tax audits are also included.

Provisions are broken down according to their maturity, i.e. a distinction is made between short-term provisions with an expected cash outflow within the next twelve months and long-term provisions with an expected cash outflow of funds after a period greater than one year.

The provisions are recalculated annually and adjusted accordingly. It is assumed that there is a high probability of these provisions being utilised.



## 10. Pension funds

Employees of the Swiss Group companies are registered with a legally independent collective foundation that provides benefits in addition to state pensions. The collective foundation is funded through investment income and premiums paid by both employers and employees. The contributions payable are set out in the regulations.

The economic effects of pension plans on the company are presented as follows: although the capitalisation of economic benefit would be admissible, it is not undertaken because the company does not intend to use this to lower employer contributions. Any benefit resulting from freely disposable employer contribution reserves is recognised as an asset. An economic liability is recognised if the conditions for forming a provision are met. The employer contributions to the pension fund for the reporting period are recognised in the income statement.

In most countries abroad, pension and retirement plans are state-organised. They are generally financed through employer and employee contributions. Two of our German companies have a pension plan in addition to the state scheme. The corresponding obligations are specified in part under provisions. In addition, one obligation amounting to EUR 5.0 million was transferred to a pension trust (Contractual Trust Arrangement) and no longer specified on the balance sheet. Any financial income from the outsourced obligation is posted in personnel expenses.

## 11. Derivative financial instruments

Derivative financial instruments are sometimes used to hedge against currency, interest rate and commodity risks. Valuation is undertaken at current value or according to the same valuation principles as for the hedged underlying transaction (current values or according to lower of cost or market principle). The changes in value since the previous valuation are reported in the financial result for the period.

Instruments used to hedge future cash flows are not recognised in the balance sheet, but are reported in the notes until the future cash flow is realised.

## 12. Sales

Sales comprised the sale of products and services after deducting value-added taxes, rebates and other price discounts. Sales are posted if the relevant risks and opportunities that are associated with the services rendered or the ownership of the sold products have been transferred to the customer, the income and costs can be reliably determined and the recoverability of the resulting receivables is adequately assured.

## 13. Income taxes

Income taxes are comprised of current and deferred income taxes.

The current income taxes are calculated with the current tax rates on the basis of the commercial code/ anticipated annual tax results, in accordance with the respective taxable profit calculation regulations. The current income tax liabilities are recognised under accruals and deferred income.

The deferred taxes are comprised of deviations between the Group-wide and tax valuation in the company financial statements. These deviations can lead to postponements in the actual taxation of the profits. Deferred taxes are based on the income tax rates per country. It remains disregarded whether an actual tax expense will also arise in the foreseeable future. Whether an actual tax expense or an actual tax reduction will also arise in the foreseeable future has not been taken into account. Deferred tax assets are posted in the balance sheet under financial assets, and deferred tax liabilities under provisions. Deferred tax assets and deferred tax liabilities are offset provided that they apply to the same taxable entity and are levied by the same tax authority. Deferred tax assets with respect to timing differences will only then be capitalised once it becomes likely that they can be offset by future taxable profits.

Several companies have tax loss carry-forwards. Deferred tax assets have not been capitalised from tax loss carry-forwards.

#### **14. Transactions with related parties**

Associated companies, boards of directors, executive board members, employee benefits plans and companies controlled by major shareholders are considered to be related parties.

# Notes to the Consolidated Financial Statements

## 1. Liquid assets

Liquid assets amounted to EUR 48.9 million (2018: EUR 42.7 million) whereas interest-bearing financial liabilities reached EUR 23.4 million (2018: EUR 21.4 million). Thus, at year end, net liquidity<sup>1</sup> amounted to EUR 25.5 million (2018: EUR 21.3 million).

## 2. Trade accounts receivable and other receivables

EUR million	31.12.2019	31.12.2018
Trade accounts receivable gross*	131.1	110.0
Value adjustments on trade accounts receivable	-6.9	-5.4
<b>Trade accounts receivable net</b>	<b>124.2</b>	<b>104.6</b>
Other receivables gross	17.9	19.5
<b>Other receivables net</b>	<b>17.9</b>	<b>19.5</b>
<b>Total trade accounts receivable and other receivables</b>	<b>142.0</b>	<b>124.1</b>
* Of which more than 12 months overdue gross	3.8	2.8

As well as bad debt operating allowances for receivable risks that are specifically identifiable, additional general allowances are made for the following overdue periods:

1-30 days	0%
31-60 days	10%
61-90 days	10%
91-180 days	25%
181-360 days	50%
More than 360 days	100%

## 3. Inventories

EUR million	31.12.2019	31.12.2018
Raw materials	35.4	34.2
Semi-finished products and goods in process	6.7	5.3
Finished products	32.6	33.5
Valuation adjustments	-13.1	-13.3
<b>Total inventories</b>	<b>61.6</b>	<b>59.7</b>

<sup>1</sup> For alternative performance measures, please refer to page 82 of the annual report.

#### 4. Development of non-current assets

##### Property, plant and equipment

EUR million	Land/ buildings/ installations in buildings	Machinery/ plant	Other fixed assets	Plant under construction	Total
<b>Net book value at 1.1.2019</b>	<b>128.3</b>	<b>52.0</b>	<b>9.0</b>	<b>4.2</b>	<b>193.6</b>
<b>Acquisition cost</b>					
Status 1.1.2019	211.9	242.8	30.3	4.2	489.2
Investments	1.2	8.0	3.2	13.4	25.8
Disposals	-2.3	-6.9	-4.2	-0.6	-14.1
Changes in consolidation matrix	-	0.4	0.3	-	0.7
Reclassifications	0.4	2.7	0.1	-3.1	-
Currency effects	2.1	2.3	0.3	-	4.7
Status 31.12.2019	213.4	249.2	30.0	13.9	506.4
<b>Accumulated valuation adjustments</b>					
Status 1.1.2019	-83.7	-190.7	-21.2	-	-295.7
Ordinary depreciation	-5.8	-12.4	-3.4	-	-21.6
Extraordinary depreciation	-	-	-	-0.6	-0.6
Disposals	1.7	6.0	4.0	0.6	12.3
Reclassifications	-	-	-	-	-
Currency effects	-1.3	-2.0	-0.3	-	-3.6
Status 31.12.2019	-89.1	-199.1	-21.0	-	-309.2
<b>Net book value at 31.12.2019</b>	<b>124.2</b>	<b>50.1</b>	<b>9.0</b>	<b>13.9</b>	<b>197.2</b>
<b>Net book value at 1.1.2018</b>	<b>122.2</b>	<b>46.6</b>	<b>10.6</b>	<b>16.6</b>	<b>196.0</b>
<b>Acquisition cost</b>					
Status 1.1.2018 <sup>1</sup>	203.2	226.6	31.3	16.8	477.8
Investments <sup>1</sup>	5.4	14.2	2.6	0.3	22.4
Disposals	-5.5	-2.0	-3.9	-	-11.4
Changes in consolidation matrix	-	0.2	-	-	0.2
Reclassifications	7.6	3.4	0.1	-11.2	-
Currency effects	1.3	0.4	0.2	-1.7	0.2
Status 31.12.2018	211.9	242.8	30.3	4.2	489.2
<b>Accumulated valuation adjustments</b>					
Status 1.1.2018 <sup>1</sup>	-82.3	-180.0	-20.7	-0.2	-283.2
Ordinary depreciation <sup>1</sup>	-5.6	-11.9	-3.6	-	-21.2
Extraordinary depreciation	-	-0.2	-	-	-0.2
Disposals	5.3	2.2	3.5	-	11.0
Reclassifications	-	-	-0.3	0.2	-
Currency effects	-1.1	-0.8	-0.2	-	-2.1
Status 31.12.2018	-83.7	-190.7	-21.2	-	-295.7
<b>Net book value at 31.12.2018<sup>1</sup></b>	<b>128.3</b>	<b>52.0</b>	<b>9.0</b>	<b>4.2</b>	<b>193.6</b>

<sup>1</sup> Correction of land use rights in China: reallocation from property, plant and equipment to intangible assets, see explanations on page 52

## Financial assets

EUR million	Loans	Reserves for employer contributions	Deferred tax assets	Associated companies	Total
<b>Net book value at 1.1.2019</b>	<b>0.2</b>	<b>2.6</b>	<b>7.8</b>	<b>–</b>	<b>10.7</b>
<b>Acquisition or current book value</b>					
Status 1.1.2019	0.4	2.6	7.8	–	10.8
Increases	–	–	1.0	–	1.0
Decreases	–	–	–0.5	–	–0.5
Currency effects	–	0.1	–	–	0.1
Status 31.12.2019	0.4	2.7	8.3	–	11.4
<b>Accumulated valuation adjustments</b>					
Status 1.1.2019	–0.2	–	–	–	–0.2
Status 31.12.2019	–0.2	–	–	–	–0.2
<b>Net book value at 31.12.2019</b>	<b>0.2</b>	<b>2.7</b>	<b>8.3</b>	<b>–</b>	<b>11.3</b>
<b>Net book value at 1.1.2018</b>	<b>0.5</b>	<b>3.3</b>	<b>5.2</b>	<b>–</b>	<b>9.0</b>
<b>Acquisition or current book value</b>					
Status 1.1.2018	0.7	3.3	5.2	–	9.2
Increases	–	–	3.1	–	3.2
Decreases	–0.3	–0.8	–0.4	–	–1.6
Currency effects	–	0.1	–	–	0.1
Status 31.12.2018	0.4	2.6	7.8	–	10.8
<b>Accumulated valuation adjustments</b>					
Status 1.1.2018	–0.2	–	–	–	–0.2
Status 31.12.2018	–0.2	–	–	–	–0.2
<b>Net book value at 31.12.2018</b>	<b>0.2</b>	<b>2.6</b>	<b>7.8</b>	<b>–</b>	<b>10.7</b>

For further details on reserves for employer contribution, please refer to note 14. Employer contribution reserves and pension fund liabilities on page 55.

## Intangible assets

EUR million	2019	2018
<b>Net book value at 1.1.</b>	<b>3.5</b>	<b>1.5</b>
<b>Acquisition cost</b>		
Status 1.1. <sup>1</sup>	14.3	13.0
Investments <sup>1</sup>	0.4	1.4
Disposals	-0.2	-0.4
Currency effects	0.3	0.2
Status 31.12.	14.8	14.3
<b>Accumulated valuation adjustments</b>		
Status 1.1. <sup>1</sup>	-10.7	-10.2
Ordinary amortisation <sup>1</sup>	-0.6	-0.7
Disposals	0.2	0.4
Currency effects	-0.2	-0.2
Status 31.12.	-11.5	-10.7
<b>Net book value at 31.12.<sup>1</sup></b>	<b>3.3</b>	<b>3.5</b>

<sup>1</sup> Correction of land use rights in China: reallocation from property, plant and equipment to intangible assets, see explanations below

Intangible assets include software licences amounting to EUR 1.0 million (2018: EUR 1.3 million), patents amounting to EUR 0.1 million (2018: EUR 0 million) and land use rights amounting to EUR 2.2 million (2018: EUR 2.2 million).

During the reporting year, land use rights in China were reallocated from property, plant and equipment to intangible assets. The correction of the previous year's values amounts to EUR 2.4 million for acquisition costs and EUR -0.1 million for accumulated amortisation. This does not affect the balance sheet total or the non-current assets, equity capital or disclosed net profit. It also has no effect on liquidity.

## 5. Loans

EUR million	2019	2018
<b>Split by maturity</b>		
Less than 12 months	15.4	15.5
12 months to 60 months	6.9	4.4
More than 60 months	1.1	1.5
<b>Total</b>	<b>23.4</b>	<b>21.4</b>
<b>Split by currency</b>		
CAD	5.1	6.6
CNY	13.9	4.0
EUR	1.3	1.8
GBP	-	5.6
USD	3.2	3.5
<b>Total</b>	<b>23.4</b>	<b>21.4</b>

Short-term loans show an interest rate of 0 to 4% (2018: 2 to 5%). As in the previous year, long-term loans show an interest rate of 0 to 6%, the majority of which consists of mortgage loans.

## 6. Provisions

EUR million	Tax provisions	Pension commitments	Provisions for restructuring	Other provisions	Total
<b>Book value at 1.1.2019</b>	<b>7.5</b>	<b>5.8</b>	<b>2.5</b>	<b>14.9</b>	<b>30.8</b>
New provisions	–	1.6	0.7	4.9	7.2
Use	–0.4	–0.5	–1.8	–2.8	–5.4
Reversals	–0.1	–0.1	–0.2	–1.5	–1.9
Changes in consolidation matrix	–	–	–	–	–
Currency effects	0.1	–	0.1	0.2	0.3
<b>Book value at 31.12.2019</b>	<b>7.1</b>	<b>6.9</b>	<b>1.3</b>	<b>15.6</b>	<b>30.9</b>
Of which short-term	–	0.4	1.3	4.9	6.5
<b>Book value at 1.1.2018</b>	<b>7.6</b>	<b>6.1</b>	<b>4.8</b>	<b>13.9</b>	<b>32.3</b>
New provisions	0.5	0.5	0.4	3.5	4.9
Use	–	–0.4	–2.4	–1.8	–4.6
Reversals	–0.7	–0.4	–0.2	–0.8	–2.2
Changes in consolidation matrix	–	–	–	0.1	0.1
Currency effects	0.1	–	–	–	0.1
<b>Book value at 31.12.2018</b>	<b>7.5</b>	<b>5.8</b>	<b>2.5</b>	<b>14.9</b>	<b>30.8</b>
Of which short-term	–	0.4	2.4	5.8	8.6

The provisions for taxes include deferred taxes as well as current direct tax provisions in accordance with section 9 of the accounting and valuation principles on page 46.

The discount rate for German pension obligations was 1.0% (2.0% in the previous year).

The other provisions include provisions for warranties, earn-out for acquisitions made, pending legal cases as well as personnel-related provisions.

## 7. Equity capital

At the balance sheet date, the equity ratio was 64% (2018: 64%). The factors that contributed to changes in consolidated equity are presented in the consolidated statement of changes in equity.

As in 2018, the share capital totalled CHF 0.6 million, corresponding to EUR 0.4 million at the exchange rate of 1 January 2003. It is made up of 9,756,000 registered shares A with a par value of CHF 0.05 each and 9,900,000 registered shares B with a par value of CHF 0.01 each.

The statutory and legal reserves and those not available for distribution amounted to EUR 4.3 million (2018: EUR 6.2 million).

	Registered shares A units 2019	Value per unit EUR 2019	Value thousand EUR 2019	Registered shares A units 2018	Value per unit EUR 2018	Value thousand EUR 2018
<b>Own shares at 1.1.</b>	<b>164,069</b>	<b>38.48</b>	<b>6,314</b>	<b>224,083<sup>1</sup></b>	<b>37.55</b>	<b>8,415</b>
Transfer at (theoretical) market price	–53,545	31.48	–1,686	–60,014	32.81	–1,969
Gain/(loss) from sale			–386			–132
<b>Own shares at 31.12.</b>	<b>110,524</b>	<b>38.38</b>	<b>4,242</b>	<b>164,069<sup>1</sup></b>	<b>38.48</b>	<b>6,314</b>

<sup>1</sup> Of which 16,648 (1.1.2018) or 6560 (31.12.2018) was reserved for the option program, which expired in 2019

Shares were sold at a discount of 30% to management staff participating in a stock ownership plan and issued to members of the Board of Directors as part of their fee (see note 22. Shares granted on page 59).

## 8. Contingent liabilities

At year end, there were guarantee obligations vis-à-vis third parties totalling EUR 73.0 million (2018: EUR 69.7 million).

## 9. Pledged assets

Of the Group's total assets, EUR 22.2 million served as collateral (2018: EUR 14.2 million). The pledged assets were exclusively land and buildings.

## 10. Liabilities to pension funds

At 31 December 2019, there were liabilities to pension funds in the amount of EUR 0.5 million (2018: EUR 0.6 million).

## 11. Transactions with related parties

In the year under review, as per the previous year, no products were sold to companies that were not fully consolidated. With regard to companies that were not fully consolidated, there were no receivables (2018: EUR 0.2 million).

In the year under review, as per the previous year, Zehnder Group did not complete any major transactions with shareholders and there were no receivables or obligations.

As per the previous year, Zehnder Group completed no major transactions with minority shareholders of subsidiaries. At the end of the reporting year, as in the previous year, there were neither receivables nor obligations with regard to minority shareholders.

During the reporting year, one member of the Board of Directors (Jörg Walther) was compensated for additional services, such as legal advice in specific projects and extraordinary expenses associated with ad hoc Board of Directors committees, with EUR 0.2 million (previous year: EUR 0.1 million). Please see the Compensation Report on page 22 onwards.

## 12. Derivative financial instruments

EUR million	Active value 31.12.2019	Passive value 31.12.2019	Active value 31.12.2018	Passive value 31.12.2018	Purpose
Foreign exchange	–	0.1	0.1	–	hedging
<b>Total</b>	<b>–</b>	<b>0.1</b>	<b>0.1</b>	<b>–</b>	

## 13. Operating leasing not recognised in the balance sheet

Current operating leasing contracts expire as follows:

EUR million	31.12.2019	31.12.2018
Within 12 months	3.9	3.3
In 13–60 months	6.4	7.2
In more than 60 months	–	3.0
<b>Total</b>	<b>10.3</b>	<b>13.5</b>



#### 14. Employer contribution reserves and pension fund liabilities

Please refer to section 10 on page 47 for the accounting and valuation principles applied for pension commitments.

The provisions made in respect of pension commitments are detailed on page 53.

##### Employer contribution reserve (ECR)

EUR thousands	Nominal value 31.12.2019	Balance sheet 31.12.2019	Currency gain (+)/loss (-) on ECR 2019	Balance sheet 31.12.2018	Expense (-)/ income (+) in terms of personnel expense 2019	Expense (-)/ income (+) in terms of personnel expense 2018
Pension trust fund	2,722	2,722	98	2,624	–	–821
<b>Total</b>	<b>2,722</b>	<b>2,722</b>	<b>98</b>	<b>2,624</b>	<b>–</b>	<b>–821</b>

No interest was paid on the employer contribution reserve in either year.

##### Economic benefits/economic liabilities and pension expenses

EUR thousands	Excess/(inadequate) cover 31.12.2019 <sup>1</sup>	Economic share of organ- isation 31.12.2019	Economic share of organ- isation 31.12.2018	Capitalised in business year 2019	Contributions accrued 2019	Pension expenses in personnel expenses 2019	Pension expenses in personnel expenses 2018
Pension trust fund	933	–	–	–	–	–	–
Personnel pension fund collective fund	1,664	–	–	–	1,996	1,996	2,046
Pension plans abroad	–	–	–	–	10,104	10,104	8,122
<b>Total</b>	<b>2,597</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>12,100</b>	<b>12,100</b>	<b>10,168</b>

<sup>1</sup> The 2019 financial statements of the pension trust fund and the collective fund are not yet available as of the date of publication of this annual report. The details regarding the excess coverage in 2019 correspond to the value as at 31 December 2018.

## 15. Segment reporting

In accordance with Swiss GAAP FER 31/8, segment reporting used at top management level for corporate management is disclosed. The Zehnder Group is an indoor climate system supplier. With the two segments, Europe and China & North America, the Group is classified according to geographical regions. These are managed independently from one another and their business performance is assessed separately. The regions of China and North America are reported together on grounds of materiality. Each of them only account for 9% (previous year: 7 to 8%) of total sales.

The Europe segment comprises a total of 42 production, sales and management companies in 17 European countries. The largest locations are in Germany, France, the United Kingdom, Switzerland, and the Netherlands.

The China & North America segment is comprised of a total of 13 production, sales and management companies in China and North America, as well as an associated company. These sites are located in China, the US and in Canada.

		Europe	China & North America	Eliminations	Total
<b>2019</b>					
Sales third	EUR million	531.1	113.3	–	644.4
Sales intercompany	EUR million	3.8	3.4	–7.2	–
<b>Sales</b>	EUR million	<b>534.9</b>	<b>116.6</b>	<b>–7.2</b>	<b>644.4</b>
<b>Operating result (EBIT)</b>	EUR million	<b>31.7</b>	<b>10.4</b>	<b>–</b>	<b>42.1</b>
	% of sales	5.9	8.9		6.5
<b>Investments in property, plant and equipment &amp; intangible assets</b>	EUR million	<b>17.8</b>	<b>8.2</b>	<b>–</b>	<b>26.0</b>
<b>Property, plant and equipment</b>	EUR million	<b>154.6</b>	<b>42.7</b>	<b>–</b>	<b>197.2</b>
<b>Number of employees</b>	Ø full-time equivalents	<b>2,650</b>	<b>763</b>	<b>–</b>	<b>3,413</b>
<b>2018</b>					
Sales third	EUR million	506.5	95.3	–	601.8
Sales intercompany	EUR million	2.6	1.9	–4.5	–
<b>Sales</b>	EUR million	<b>509.2</b>	<b>97.2</b>	<b>–4.5</b>	<b>601.8</b>
<b>Operating result (EBIT)</b>	EUR million	<b>28.8</b>	<b>2.3</b>	<b>–</b>	<b>31.1</b>
	% of sales	5.7	2.3		5.2
<b>Investments in property, plant and equipment &amp; intangible assets</b>	EUR million	<b>20.7</b>	<b>3.7</b>	<b>–</b>	<b>24.4</b>
<b>Property, plant and equipment</b>	EUR million	<b>155.1</b>	<b>38.5</b>	<b>–</b>	<b>193.6</b>
<b>Number of employees</b>	Ø full-time equivalents	<b>2,625</b>	<b>786</b>	<b>–</b>	<b>3,412</b>

## 16. Sales

At EUR 644.4 million consolidated sales in 2019 were 7% higher than in 2018 (2018: EUR 601.8 million). Organically<sup>1</sup>, sales revenues increased by 4%.

For sales by segment, please refer to note 15. Segment reporting on page 56.

Sales by region and business area are classified as follows:

		2019	%	2018	%
<b>Sales by region and business area</b>					
Radiators Europe	EUR million	272.1	42.2	274.9	45.7
Change from prior year	%	-1.0		-2.4	
Radiators North America	EUR million	44.0	6.8	36.5	6.1
Change from prior year	%	20.6		3.8	
Radiators China	EUR million	12.2	1.9	11.6	1.9
Change from prior year	%	5.3		-16.7	
<b>Total business area radiators</b>	EUR million	<b>328.3</b>	<b>51.0</b>	<b>323.0</b>	<b>53.7</b>
Change from prior year	%	1.7		-2.4	
Ventilation Europe	EUR million	259.0	40.2	231.7	38.5
Change from prior year	%	11.8		10.7	
Ventilation North America	EUR million	11.8	1.8	8.5	1.4
Change from prior year	%	39.1		-17.5	
Ventilation China	EUR million	45.2	7.0	38.7	6.4
Change from prior year	%	16.9		21.3	
<b>Total business area ventilation</b>	EUR million	<b>316.0</b>	<b>49.0</b>	<b>278.9</b>	<b>46.3</b>
Change from prior year	%	13.3		10.9	
Total Europe	EUR million	531.1	82.4	506.5	84.2
Change from prior year	%	4.8		3.1	
Total North America	EUR million	55.8	8.7	45.0	7.5
Change from prior year	%	24.1		-1.1	
Total China	EUR million	57.4	8.9	50.3	8.4
Change from prior year	%	14.2		9.8	
<b>Total</b>	EUR million	<b>644.4</b>	<b>100.0</b>	<b>601.8</b>	<b>100.0</b>
Change from prior year	%	7.1		3.3	

## 17. Other operating income

Other income is as follows:

EUR million	2019	2018
License income	0.1	0.1
Gain on disposal of fixed assets	0.5	0.1
Miscellaneous operating income	3.4	3.3
<b>Total</b>	<b>4.0</b>	<b>3.6</b>

The main sources of other operating income are income generated by scrap materials and payments from insurance claims.

<sup>1</sup> For alternative performance measures, please refer to page 82 of the annual report.

## 18. Other operating expenses

The other operating expenses break down as follows:

EUR million	2019	2018
Operating expenses	-45.1	-42.8
Marketing and distribution expenses	-65.1	-62.8
Administration and IT expenses	-25.2	-22.0
<b>Total</b>	<b>-135.4</b>	<b>-127.6</b>

## 19. Financial result

The exchange losses of EUR 0.2 million (2018: EUR 1.3 million) is primarily attributable to unrealised foreign exchange losses.

EUR million	2019	2018
Financial expenses	-1.2	-0.9
Financial earnings	0.2	0.1
Exchange gains/(losses)	-0.2	-1.3
<b>Total financial result</b>	<b>-1.2</b>	<b>-2.0</b>

## 20. Income taxes

The tax ratio (= taxes in percent of earnings before taxes) was 22% (2018: 16%).

EUR million	2019	2018
Current taxes	-9.9	-7.7
Deferred taxes	0.9	3.2
<b>Total taxes</b>	<b>-9.0</b>	<b>-4.6</b>

The Zehnder Group anticipates that tax loss carry-forwards amounting to EUR 56.9 million (2018: EUR 80.6 million) may be applied in the future. The reduction in the tax loss carry-forwards is primarily as a result of the tax reform in Switzerland. This will ultimately be offset with a step-up in the tax balance sheet. The non-capitalised losses carried forward means the reduction has no effect on the expected tax rate. The deferred tax assets on this carried forward items would amount to EUR 8.6 million (2018: EUR 11.9 million).

The differences between the expected income tax expense, based on the expected income tax rate and the effective income tax expense shown in the income statement, has been influenced by the following factors. The expected income tax rate of the Group is based on the profit/loss before taxes and the applicable tax rate in the tax year for the Group companies.

EUR million	2019	2018
Earnings before taxes	40.9	29.0
Expected tax rate in %	24.6	23.7
<b>Expected tax expense</b>	<b>-10.0</b>	<b>-6.9</b>
Effect of tax incentives	0.8	1.0
Effect of non-deductible expenses	-0.3	-0.3
Effect of non-recognition of tax loss carry-forwards	-0.7	-
Effect of use of unrecognised tax loss carry-forwards	1.8	0.1
Other effects	-0.4	1.5
<b>Effective tax expense</b>	<b>-9.0</b>	<b>-4.6</b>
Effective tax rate in %	21.9	15.7

## 21. Net profit per registered share

The undiluted net profit per registered share A is calculated by dividing the net profit excluding minority shares by the total nominal value adjusted shares, less the average number of own shares held by Zehnder Group AG.

For the calculation of the diluted net profit per registered share A, for the outstanding options, whose strike price on the balance sheet date is below the market price (in-the-money) on the balance sheet date, the number of additional registered shares A are calculated and these are added to the total outstanding nominal value adjusted shares.

No dilution effect occurred for the reporting year or the previous year.

		2019	2018
Net profit excluding minority interests	EUR million	30.6	22.9
Notional number of shares	units	11,736,000	11,736,000
Average number of own shares	units	119,203	173,238
<b>Non-diluted net profit excluding minority interests per registered share A</b>	<b>EUR</b>	<b>2.64</b>	<b>1.98</b>
Additional shares from outstanding options (in-the-money)	units	–	–
<b>Diluted net profit excluding minority interests per registered share A</b>	<b>EUR</b>	<b>2.64</b>	<b>1.98</b>

The undiluted/diluted net profit excluding minority interests per registered share B amounts to one-fifth of the undiluted/diluted net profit excluding minority interests per registered share A.

## 22. Shares granted

The Zehnder Group introduced an employee investment plan in 2001. This plan allows operating unit managers and members of Group management to acquire registered shares A. The registered shares A issued also include the Board of Directors' shares. Half of the fee that the members of the Board of Directors receive is made up of registered shares A. The shares are issued at a discount to the persons entitled to receive them.

In 2019, Zehnder Group introduced a long-term, variable compensation element (long-term incentive or LTI). This is granted as part of a long-term investment plan in which rights to shares are awarded under certain conditions. The general contractual basis and exercise conditions are explained in the Compensation Report from page 22 onwards.

The value of shares issued at the time of allocation is equal to the current value. The current value is determined as the closing rate on the day of allocation.

The difference between the current value at the time of allocation and the issue price is recognised in personnel costs.

### Shares granted

		2019	2018
Shares granted for the employee investment plan	units	53,545	57,774
Current value on the day of allocation	CHF	35.10	42.40
<b>Personnel costs</b>	<b>CHF</b>	<b>530,000</b>	<b>933,000</b>
Shares granted for the variable long-term compensation element for the Group Executive Committee (with 100% achievement of objectives)	units	11,287	–
Current value on the day of allocation	CHF	33.35	–
<b>Personnel costs</b>	<b>CHF</b>	<b>165,000</b>	<b>–</b>

## 23. Options

The options plan was discontinued as of 1 January 2012. According to the regulations, the rights to exercise options from the plan continued to exist until 2019 and expired on 1 March 2019.

No options were outstanding as of the balance sheet date. In 2018, as of 31 December, a total of 7680 options were outstanding at an average exercise price of CHF 62.50 each. These were secured with own shares.

No costs were incurred for the option plan in either the reporting year or the previous year.

## 24. Acquisitions

The following acquisition was made in the year under review:

On 7 March 2019, the Zehnder Group acquired the full complement of shares in the Dutch ventilation company Recair for EUR 7.4 million. As a result, the Group acquired net assets amounting to EUR 1.1 million. These included liquid assets of EUR 1.3 million, other current assets of EUR 1.4 million, non-current assets of EUR 0.7 million and liabilities of EUR 2.3 million. Net outflow of liquid assets resulting from the acquisition totalled EUR 6.1 million. The resulting goodwill amounted to EUR 6.3 million and was offset against equity. During the reporting period, Recair contributed EUR 7.0 million to Group sales.

The following acquisitions were made in the previous year:

As at 1 January 2018, the Zehnder Group acquired 100% of the shares in InteliVENT OÜ, based in Tallinn (Estonia). The company was renamed Zehnder Baltics OÜ. Of the purchase price of EUR 1.8 million, EUR 1.4 million was paid in cash and EUR 0.4 million was posted as earn-out.

As at 12 January 2018, Hydro-Air Components, Inc. – located in Buffalo, NY (USA) – acquired a part of NuClimate Air Quality Systems, Inc. based in Syracuse, NY (USA). The purchase price of USD 1.1 million was paid in cash.

Furthermore, the Zehnder Group acquired the Finnish Enervent Group as of 1 September 2018. To this effect, two companies – Ventener AB, based in Täby (Sweden), and Exvent AS, based in Bekkestua (Norway) – were acquired and an acquiring company was founded (Enervent Zehnder OY, based in Porvoo, Finland), which acquired the assets of the Finland-based Enervent OY. The purchase price amounted to EUR 6.8 million.

## 25. Goodwill

In accordance with the consolidation principles, Zehnder Group directly nets acquired goodwill with equity at the time of first consolidation.

If the parts of the acquired goodwill that could be capitalised had been capitalised and written down over a period of five years, the following figures would have resulted:

### Impact of theoretical capitalisation of goodwill on balance sheet

		31.12.2019	31.12.2018
<b>Disclosed equity inclusive minority interests</b>	EUR million	<b>303.0</b>	<b>283.1</b>
Equity ratio	%	64.4	64.2
<b>Acquisition value of goodwill</b>			
Status at beginning of business year	EUR million	125.0	117.5
Additions <sup>1</sup>	EUR million	6.3	7.5
Status at end of business year	EUR million	131.2	125.0
<b>Accumulated amortisation</b>			
Status at beginning of business year	EUR million	– 111.4	– 106.9
Amortisation in current year	EUR million	– 6.3	– 4.5
Status at end of business year	EUR million	– 117.7	– 111.4
<b>Theoretical net book value of goodwill</b>	EUR million	<b>13.6</b>	<b>13.6</b>
<b>Theoretical equity inclusive minority interests and net book value of goodwill</b>	EUR million	<b>316.6</b>	<b>296.7</b>
Theoretical equity ratio	%	65.4	65.3

### Impact of theoretical capitalisation of goodwill on results

		31.12.2019	31.12.2018
<b>Disclosed net profit</b>	EUR million	<b>31.9</b>	<b>24.5</b>
Theoretical amortisation of goodwill	EUR million	– 6.3	– 4.5
<b>Net profit after amortisation of goodwill</b>	EUR million	<b>25.7</b>	<b>20.0</b>

<sup>1</sup> EUR 6.3 million from the acquisition of Recair, Netherlands (2019), whereas in 2018 the amount comprises the following transactions: EUR 5.3 million from the acquisition of Enervent Zehnder OY, Finland, EUR 1.4 million from the acquisition of InteliVENT OÜ, Estonia (Zehnder Baltics OÜ) and EUR 0.8 million related to the acquisition of a part of NuClimate Air Quality Systems, Inc., USA.

**26. Disclosure of compensation paid to the Board of Directors and the Group Executive Committee**

The total compensation for the Board of Directors and Group Executive Committee is shown in the following table. Please also refer to the Compensation Report on page 22 ff.

EUR thousands	2019	2018
Fixed cash compensation	2,112	2,225
Variable compensation (short-term and long-term)	853	683
Employer social security and pension contributions	562	549
Share-based payments	759	831
Compensation for additional services	327	186
<b>Total compensation paid to the Members of the Board of Directors and the Group Executive Committee</b>	<b>4,613</b>	<b>4,473</b>

**27. Events after the balance sheet date**

There were no extraordinary pending transactions, risks or events after the balance sheet date which should be set out in the financial statements.

The 2019 financial statements were approved by the Board of Directors on 21 February 2020.



# Overview of Companies

Status 31.12.2019, countries in alphabetical order

		Activity	Capital stock	Capital share in %	Consolidated
<b>Austria</b>					
Vienna	Zehnder Österreich GmbH	S	5,000	100	fully
<b>Belgium</b>					
Mechelen	Zehnder Group Belgium nv / sa	S	800,010	100	fully
<b>Canada</b>					
Vancouver	Core Energy Recovery Solutions Inc.	S / P	18,766,213	100	fully
<b>China</b>					
Dachang	Dachang Zehnder Indoor Climate Co., Ltd.	P	200,000,000	73	fully
Beijing	Eric & Bason Building Environment Technologies Co., Ltd.	S	8,400,000	36	at equity
Beijing	Zehnder (China) Indoor Climate Co., Ltd.	S	228,250,000	73	fully
Pinghu	Nather Ventilation System Co., Ltd.	S / P	60,000,000	76	fully
Pinghu	Zhejiang Nather Water Treatment Technology Co., Ltd.	S	5,000,000	39	fully
Shanghai	Shanghai Nather Air Technology Co., Ltd.	S	3,200,000	76	fully
Shanghai	Shanghai Zehnder Comfosystems Co., Ltd.	S	USD 400,000	100	fully
Shanghai	Zehnder Group Enterprise Management (Shanghai) Co., Ltd.	S	0 <sup>1</sup>	100	fully
<b>Czech Republic</b>					
Prague	Zehnder Group Czech Republic s.r.o.	S	200,000	100	fully
<b>Estonia</b>					
Tallinn	Zehnder Baltics OÜ	S	2,556	100	fully
<b>Finland</b>					
Porvoo	Enervent Zehnder OY	S / P	250,000	100	fully
<b>France</b>					
Evry	Zehnder Group France	S	7,225,230	100	fully
Evry	Zehnder Group Participations SAS	O	7,744,000	100	fully
Saint-Quentin	HET Transport & Logistique SAS	O	687,000	100	fully
Vaux-Andigny	Zehnder Group Vaux Andigny SAS	P	4,200,000	100	fully
<b>Germany</b>					
Lahr	Zehnder Group Deutschland GmbH	S	2,000,000	100	fully
Lahr	Zehnder GmbH	P	25,000,000	100	fully
Lahr	Zehnder Group Deutschland Holding GmbH	O	2,100,000	100	fully
Lahr	Zehnder Group Grundstücksverwaltungs-GmbH	O	1,100,000	100	fully
Lahr	Zehnder Logistik GmbH	O	250,000	100	fully
Kleve	Recair GmbH	S	25,000	100	fully
Reinsdorf	Paul dPoint Technologies GmbH	S	25,000	100	fully
Reinsdorf	Paul Wärmerückgewinnung GmbH	P	2,100,000	100	fully
<b>Italy</b>					
Campogalliano	Zehnder Group Italia S.r.l.	S	80,000	100	fully

<sup>1</sup> The share capital had not yet been paid in on the balance sheet date. In June 2020, an amount of CNY 100,000 is due to be paid in.

		Activity	Capital stock	Capital share in %	Consolidated
<b>Netherlands</b>					
Zwolle	Zehnder Group Zwolle B.V.	P	908,000	100	fully
Zwolle	Zehnder Group Nederland B.V.	S	18,000	100	fully
Waalwijk	Recair B.V.	S/P	114,000	100	fully
Waalwijk	Metis B.V.	S	18,000	100	fully
<b>Norway</b>					
Bekkestua	Exvent AS	S	300,000	100	fully
<b>Poland</b>					
Bolesławiec	Zehnder Group Bolesławiec Sp. z o.o.	P	51,280,000	100	fully
Wrocław	Zehnder Polska Sp. z o.o.	S	4,000,000	100	fully
<b>Russia</b>					
Moscow	OOO "Zehnder GmbH", Russia	S	1,866,410	100	fully
<b>Spain</b>					
Cerdanyola del Vallès	Zehnder Group Iberica Indoor Climate, S.A.	S	300,500	100	fully
<b>Sweden</b>					
Motala	Zehnder Group Nordic AB	S	6,400,000	100	fully
Motala	Zehnder Group Motala AB	P	120,000	100	fully
Täby	Ventener AB	S	50,000	100	fully
<b>Switzerland</b>					
Gränichen	Zehnder Group AG	O	586,800		fully
Gränichen	Zehnder Group Produktion Gränichen AG	P	2,900,000	100	fully
Gränichen	Zehnder Group International Ltd	O	1,000,000	100	fully
Gränichen	Zehnder Group Schweiz AG	S	500,000	100	fully
Gränichen	Zehnder Group Swiss Property AG	O	2,000,000	100	fully
<b>Turkey</b>					
Manisa	Hotpan Isitma Sistemleri Pazarlama ve Ticaret Aş	S	50,004	100	fully
Manisa	Sanpan Isitma Sistemleri Sanayi ve Ticaret Aş	S/P	46,184,564	100	fully
Istanbul	Zehnder Group İç Mekan İklimlendirme Sanayi Ticaret Ltd Şti	S	3,525,000	100	fully
<b>United Kingdom</b>					
Camberley	Zehnder Group UK Ltd	S	3,500,002	100	fully
Camberley	Zehnder Group UK Holdings Ltd	O	20,000,000	100	fully
Lenham	Zehnder Group Lenham Ltd	P	3,400,002	100	fully
St. Peter Port	Zehnder Group Finance Ltd (in liquidation)	O	EUR 5,000,000	100	fully
<b>USA</b>					
Buffalo NY	Hydro-Air Components, Inc.	S/P	55,950	100	fully
Hampton NH	Zehnder America, Inc.	S	10	100	fully
Ward Hill MA	Runtal North America, Inc.	S/P	193,522	100	fully
Ward Hill MA	Zehnder Group US Holdings, Inc.	O	30	100	fully

Share capital in local currency unless otherwise stated

P: production

S: sales

O: other functions

# Report of the statutory auditor

## to the General Meeting of Zehnder Group AG

### Gränichen

#### Report on the audit of the consolidated financial statements

##### Opinion

We have audited the consolidated financial statements of Zehnder Group AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2019 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and notes ('consolidation matrix and principles' and 'notes to the consolidated financial statements' and 'overview of companies') to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 39 to 64) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

##### Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Our audit approach

###### Overview



Overall Group materiality: CHF 3,200,000

We concluded full scope audit work at 20 Group companies in 11 countries. These Group companies contributed 86% of the Group's sales.

As key audit matter, the following area of focus has been identified:

- Valuation of trade accounts receivable

##### Context of our 2019 audit

This is the first audit we have performed of Zehnder Group AG. Initial audits include some considerations that are not typical for recurring audit mandates. Hence, we must obtain sufficient appropriate audit evidence whether the opening

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balances contained misstatements that have a significant impact on the financial statements of the period under review. Further, we must ensure that the applicable financial reporting methods reflected in the opening balances have been applied consistently in the financial statements of the period under review or that any changes made to them in accordance with the applicable financial reporting framework are correctly considered in the financial reporting and appropriately disclosed and presented in the financial statements.

### Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

On the basis of our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

<b>Overall Group materiality</b>	CHF 3,200,000
<b>How we determined it</b>	0.5% of sales, rounded
<b>Rationale for the materiality benchmark applied</b>	We chose sales as the benchmark because, in our view, it is one of the benchmarks against which the performance of a group is most commonly measured, and it is a generally accepted benchmark for materiality considerations.

### Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises two business divisions and it is active in two regions, Europe, and China and North America. The Group financial statements are a consolidation of 54 reporting units, comprising the Group's operating businesses and centralised service and corporate functions.

The audit strategy for the audit of the consolidated financial statements was determined taking into account the work performed by the Group auditor as well as by the component auditors in the PwC network and third parties. Where audits were performed by component auditors, we ensured that, as Group auditor, we were sufficiently involved in the audit in order to assess whether sufficient appropriate audit evidence was obtained from the work of the component auditors to provide a basis for our opinion. The involvement of the Group auditor was based on audit instructions and structured reporting. It included telephone conferences with the component auditors, an investigation of the risk analysis and on-site visits to discuss the audit with selected component auditors.

### Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



## Valuation of trade accounts receivable

### Key audit matter

As at 31 December 2019, Zehnder Group AG disclosed trade accounts receivable in the amount of EUR 124.2 million.

Trade accounts receivable are recognised at their nominal value. Allowances are determined on the basis of the maturity structure and identifiable credit and solvency risks. In applying this approach, Group management and the Board of Directors make assumptions regarding the underlying valuation and the recoverability of the outstanding receivables. We consider the valuation of trade accounts receivable as a key audit matter because the actual cash inflows from the outstanding receivables are subject to uncertainty.

Please refer to page 45 of the annual report for information on the accounting principles and to page 49 for the notes on the trade accounts receivable.

### How our audit addressed the key audit matter

We tested the appropriateness of the Group's financial reporting in relation to the valuation of trade accounts receivable, including the accounting policies for the determination of specific and general allowances for bad and doubtful debts.

We conducted a critical examination of Group management's methods, assumptions and assessments relating to the impairment testing of the trade accounts receivable. With regard to specific allowances, we examined whether internal and external indicators of credit, solvency and default risks had been appropriately considered. Concerning the general allowances, we analysed whether the assumptions were consistent and based on acceptable historical experience and whether the calculation was performed in a mathematically correct manner based on the maturity structure.

We consider the methods applied to be an appropriate basis for the valuation of trade accounts receivable. The results of our audit support the assumptions used and the assessments made by Group management and the Board of Directors.

### Other matter

The consolidated financial statements of Zehnder Group AG for the year ended 31 December 2018 were audited by another firm of auditors whose report, dated 22 February 2019, expressed an unmodified opinion on those statements.

### Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is available on the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

## **Report on other legal and regulatory requirements**

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Thomas Illi  
Audit expert  
Auditor in charge

Thomas Ebinger  
Audit expert

Lucerne, 21 February 2020



# Balance Sheet Zehnder Group AG

CHF million	Notes page 72 ff.	31 December 2019	31 December 2018
<b>Assets</b>			
Liquid assets		3.8	0.5
Other short-term receivables	1	2.7	6.3
<b>Current assets</b>		<b>6.5</b>	<b>6.7</b>
Financial assets	2	107.8	78.3
Participations	3	288.6	316.0
<b>Non-current assets</b>		<b>396.4</b>	<b>394.3</b>
<b>Total assets</b>		<b>402.9</b>	<b>401.1</b>
<b>Liabilities &amp; shareholders' equity</b>			
Short-term interest-bearing liabilities	4	5.1	6.6
Other short-term liabilities	5	0.1	0.4
Accruals and deferred income		1.0	1.5
<b>Current liabilities</b>		<b>6.2</b>	<b>8.5</b>
Provisions		0.3	0.3
<b>Non-current liabilities</b>		<b>0.3</b>	<b>0.3</b>
Share capital	6	0.6	0.6
Legal retained earnings		46.5	46.5
Voluntary retained earnings			
• Voluntary retained earnings		4.2	4.2
• Available earnings			
– Profit carried forward		338.6	327.5
– Net income for the year		11.0	20.4
Own shares	7	–4.6	–6.9
<b>Shareholders' equity</b>		<b>396.3</b>	<b>392.3</b>
<b>Total liabilities and shareholders' equity</b>		<b>402.9</b>	<b>401.1</b>

# Income Statement Zehnder Group AG

CHF million	Notes page 72 ff.	2019	2018
Dividend income		19.1	20.7
Other operating income		2.4	2.7
<b>Operating income</b>		<b>21.5</b>	<b>23.5</b>
Personnel expenses		- 1.0	- 1.7
Other operating expenses		- 2.5	- 2.2
Impairment losses on loans and participations		- 9.1	- 0.2
<b>Operating profit</b>		<b>8.9</b>	<b>19.3</b>
Financial income		5.1	4.6
Financial expenses		- 2.8	- 3.5
Direct taxes		- 0.2	- 0.1
<b>Net income for the year</b>		<b>11.0</b>	<b>20.4</b>



# Accounting and Valuation Principles

These annual accounts have been prepared in accordance with the provisions of the Swiss Accounting Law (title 32 OR [Swiss Code of Obligations]). The main valuation principles applied that are not prescribed by law are described below. It should be noted that the option of forming and releasing hidden reserves was exercised in order to safeguard the company's long-term best interests.

## **Income from participations**

The income from participations corresponds to the dividend earnings of the company. These are generally stated before the deduction of withholding tax.

## **Own shares**

Own shares are recognised under shareholders' equity in the balance sheet as a deduction at cost at the time of acquisition. If they are later resold, the profit or loss is recognised as financial income or expense on the income statement.

## **Share-based compensation**

If own shares are used for share-based compensation for Board of Director members, then the difference between the current value at the time of allocation and the allocated share payment to the Board members is assigned as a personnel expense.

## **Participations**

Participations are valued at acquisition cost less impairments.

## **Receivables and liabilities**

Receivables and liabilities to third parties and Group companies are recognised at nominal values, less any operating allowance for bad debts.

# Notes to the Financial Statements

## General comments

As Zehnder Group AG has a pure holding company function, the point must be made that the income development of this company in no way reflects the present or future profitability of Zehnder Group. Hence the development of the Group as set out in the consolidated financial statements – and not the individual financial statements of Zehnder Group AG – is decisive for the Board of Directors for their dividend proposal. The aim of the dividend policy laid down by the Board of Directors is to pay out some 30 to 50% of the consolidated net income of Zehnder Group to its shareholders.

## 1. Other short-term receivables

CHF million	31.12.2019	31.12.2018
Accounts receivable from third parties	–	0.4
Accounts receivable from Group companies	2.7	5.9
<b>Total</b>	<b>2.7</b>	<b>6.3</b>

## 2. Financial assets

CHF million	31.12.2019	31.12.2018
Loans to third parties	0.2	0.2
Loans to Group companies	107.6	78.1
<b>Total</b>	<b>107.8</b>	<b>78.3</b>

## 3. Participations

The directly or indirectly held majority interests which are material are included in the Overview of Companies table set out on pages 63 to 64.

#### 4. Short-term interest-bearing liabilities

CHF million	31.12.2019	31.12.2018
Bank loans	–	6.3
Loans from Group companies	5.1	0.3
<b>Total</b>	<b>5.1</b>	<b>6.6</b>

The decrease in bank loans was due to the repayment of fixed advances.

#### 5. Other short-term liabilities

CHF million	31.12.2019	31.12.2018
Other short-term liabilities to third parties	0.1	0.4
<b>Total</b>	<b>0.1</b>	<b>0.4</b>

#### 6. Share capital

	Registered shares A units 2019	Registered shares B units 2019	Value CHF 2019	Registered shares A units 2018	Registered shares B units 2018	Value CHF 2018
Total registered shares A as of 1.1.	9,756,000		487,800	9,756,000		487,800
Total registered shares B as of 1.1.		9,900,000	99,000		9,900,000	99,000
<b>Total at 31.12.</b>	<b>9,756,000</b>	<b>9,900,000</b>	<b>586,800</b>	<b>9,756,000</b>	<b>9,900,000</b>	<b>586,800</b>

As in 2018, total share capital amounted to CHF 0.6 million, corresponding to EUR 0.4 million at the exchange rate of 1 January 2003. It is made up of 9,756,000 registered shares A with a par value of CHF 0.05 each and 9,900,000 registered shares B with a par value of CHF 0.01 each.

The unlisted registered shares B (CHF 0.01 nominal value) are all directly or indirectly held by members of the Zehnder family or by persons closely associated with the family. The great majority of the registered shares B is owned by Graneco AG (Switzerland). On the balance sheet date, Graneco AG and its shareholders held 51.57% of the company's restricted shares and voting rights.

## 7. Own shares

The development of this item can be seen in the table below.

	Registered shares A units 2019	Value per share CHF 2019	Value CHF 2019	Registered shares A units 2018	Value per share CHF 2018	Value CHF 2018
<b>Own shares at 1.1., trading portfolio</b>	<b>157,509</b>	<b>41.39</b>	<b>6,518,538</b>	<b>207,435</b>	<b>41.19</b>	<b>8,544,467</b>
Shares sold	-53,545	35.10	-1,879,430	-57,774	37.51	-2,167,103
Gain/(loss) from sale			-430,164			-165,161
Reclassifications	6,560	54.83	359,716	7,848	39.03	306,335
<b>Own shares at 31.12., trading portfolio</b>	<b>110,524</b>	<b>41.34</b>	<b>4,568,660</b>	<b>157,509</b>	<b>41.39</b>	<b>6,518,538</b>
<b>Own shares at 1.1., long-term stock option plan</b>	<b>6,560</b>	<b>54.83</b>	<b>359,716</b>	<b>16,648</b>	<b>44.35</b>	<b>738,404</b>
Shares sold	-	-	-	-2,240	37.93	-84,963
Gain/(loss) from sale			-			12,611
Reclassifications	-6,560	54.83	-359,716	-7,848	39.03	-306,335
<b>Own shares at 31.12., long-term stock option plan</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,560</b>	<b>54.83</b>	<b>359,716</b>
Total securities at 1.1.	164,069		6,878,254	224,083		9,282,870
Total securities at 31.12.	110,524		4,568,660	164,069		6,878,254

The own shares allocated to the Board of Director members are shown in the Compensation Report from page 22.

## 8. Number of full-time positions

The holding company has no employees.

## 9. Pledged assets and guarantees

The company has guarantee obligations and pledged assets in favour of subsidiaries in the amount of CHF 77.3 million (2018: CHF 76.8 million).

The company has committed itself to balance the loss in excess of the free reserves of a subsidiary. There is no upper limit to this commitment.

The company belongs to a VAT group which comprises all the Swiss companies in Zehnder Group and is thus jointly and severally liable vis-à-vis the Swiss Federal Tax Administration for any VAT debts of this VAT group.

## 10. Disclosure of ownership structure

According to the information available to the Board of Directors, the following shareholders held more than 3% of the share capital of Zehnder Group AG as at the balance sheet date:

- Graneco AG, Gränichen (Switzerland): 15,720 registered shares A and 9,775,600 registered shares B, corresponding to 49.8% of the votes (2018: 49.8%); together with the other registered shares of the company held by the shareholders of Graneco AG, this group holds 51.6% of the voting rights,
- VERAISON SICAV – Engagement Fund, Zurich (Switzerland): 983,525 registered shares A, corresponding to 5.0% of the votes (2018: 6.0%),
- Credit Suisse Funds AG, Zurich (Switzerland): 891,997 registered shares A, corresponding to 4.5% of the votes (2018: 5.9%).

For notification of disclosure of significant shareholdings, please refer to the website of SIX Swiss Exchange: [www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html?companyId=ZEHNDER](http://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html?companyId=ZEHNDER)

As at the balance sheet date, the members of the Board of Directors and of the Group Executive Committee, including persons closely associated with them, owned the following shares and options:

Board of Directors and Group Executive Committee	Registered shares A units <sup>1</sup> 2019	Registered shares A units <sup>1</sup> 2018	Registered shares B units <sup>2</sup> 2019	Registered shares B units <sup>2</sup> 2018	Options unit 2019	Options unit 2018
<b>Hans-Peter Zehnder</b> <sup>4</sup>	203,878	188,348 <sup>5</sup>	20,000	20,000	–	320
Chairman of the Board	1.0 % <sup>3</sup>	1.0 % <sup>3</sup>	0.1 % <sup>3</sup>	0.1 % <sup>3</sup>	–	–
<b>Thomas Benz</b>	35,331	32,951	–	–	–	–
Deputy chairman of the Board	0.2 % <sup>3</sup>	0.2 % <sup>3</sup>	–	–	–	–
<b>Urs Buchmann</b>	16,993	14,614	–	–	–	–
Member of the Board	0.1 % <sup>3</sup>	0.1 % <sup>3</sup>	–	–	–	–
<b>Riet Cadonau</b>	8,260	8,260	–	–	–	–
Member of the Board	–	–	–	–	–	–
<b>Daniel Frutig</b>	–	–	–	–	–	–
Member of the Board since April 2019	–	–	–	–	–	–
<b>Jörg Walther</b>	6,530	4,348	–	–	–	–
Member of the Board	–	–	–	–	–	–
<b>Ivo Wechsler</b>	–	–	–	–	–	–
Member of the Board since April 2019	–	–	–	–	–	–
<b>Milva Zehnder</b>	4,749	3,162	–	–	–	–
Member of the Board	–	–	–	–	–	–
<b>Matthias Huenerwadel</b>	5,800	–	–	–	–	–
Chairman of the Group Executive Committee, CEO since 1 January 2019	–	12,896	–	–	–	320
<b>Dominik Berchtold</b>	–	0.1 % <sup>3</sup>	–	–	–	–
Chairman of the Group Executive Committee, CEO up to 2 February 2018	–	–	–	–	–	–
<b>Johannes Bollmann</b>	1,160	–	–	–	–	–
Competence Center Comfosystems since 4 April 2019	–	–	–	–	–	–
<b>René Grieder</b>	14,780	10,150	–	–	–	240
CFO	0.1 % <sup>3</sup>	0.1 % <sup>3</sup>	–	–	–	–
<b>Tomasz Juda</b>	2,800	800	–	–	–	240
Competence Center Radiators	–	–	–	–	–	–
<b>Cyril Peysson</b>	42,792	38,271	–	–	–	320
Sales Europe/Middle East/ Africa (EMEA)	0.2 % <sup>3</sup>	0.2 % <sup>3</sup>	–	–	–	–
<b>Olaf Schulte</b>	475	475	–	–	–	240
Competence Center Comfosystems up to 3 April 2019	–	–	–	–	–	–

<sup>1</sup> Provided they were acquired under the employee share ownership programme, some of these shares may be subject to a restriction period (see Compensation Report page 22 ff).

<sup>2</sup> The registered shares B are not listed.

<sup>3</sup> Share of total votes in % (only if  $\geq 0.1\%$ )

<sup>4</sup> Excluding Graneco AG, in which Hans-Peter Zehnder holds a 58.4% stake

<sup>5</sup> Correction of number of units

## 11. Statutory auditor's fee

The audit services for the company financial statements and consolidated financial statements amounted to CHF 98,400 (2018: CHF 90,900). In the year under review, as per the previous year, no further audit-related services were invoiced.

## 12. Deviation from consistency of presentation

Provisions of CHF 60.0 million were allocated to participations in the reporting year. In order to ensure comparability, the previous year's figures in the financial statements have been adjusted to the new structure under the items "Participations" and "Provisions."

# Proposal on the Appropriation of Earnings

		CHF
<hr/>		
The balance sheet profit available for distribution comprises		
Retained earnings from previous year		338,580,783
Net gain for 2019 according to the income statement		11,016,576
<b>Balance sheet profit</b>		<b>349,597,359</b>
<hr/>		
<b>The Board of Directors proposes the following appropriation of earnings:</b>		
<hr/>		
Payment of a dividend		11,736,000
To be carried forward to new account		337,861,359
<b>Total appropriation of earnings</b>		<b>349,597,359</b>
<hr/>		

As retained earnings have reached the statutory requirement of 20% of share capital, any corresponding allocation can be waived.

# Report of the statutory auditor

## to the General Meeting of Zehnder Group AG

### Gränichen

#### Report on the audit of the financial statements

##### Opinion

We have audited the financial statements of Zehnder Group AG, which comprise the balance sheet as at 31 December 2019, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (pages 69 to 76) as at 31 December 2019 comply with Swiss law and the company's articles of incorporation.

##### Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Our audit approach

###### Overview



Overall materiality: CHF 4,000,000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter, the following area of focus has been identified:

- Valuation of investments in subsidiaries

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### Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

On the basis of our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

<b>Overall materiality</b>	CHF 4,000,000
<b>How we determined it</b>	1% of total assets (rounded)
<b>Rationale for the materiality benchmark applied</b>	We chose total assets as the benchmark because, in our view, it is a relevant benchmark against which a holding company can be assessed, and it is a generally accepted benchmark for materiality considerations.

### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation of investments in subsidiaries

Key audit matter	How our audit addressed the key audit matter
<p>The Company as at 31 December 2019 had direct and indirect investments in subsidiaries in the amount of CHF 288.6 million (prior year: CHF 316.0 million).</p> <p>The value of these investments is assessed using a capitalised earnings model. In this process, wide-ranging qualitative and quantitative factors are taken into account. The model applies various assumptions that have a significant influence on the calculated value of the investment.</p> <p>We consider the impairment testing of investments in subsidiaries as a key audit matter owing to their significance on the balance sheet.</p> <p>Please refer to page 71 of the annual report for information on the accounting principles and to page 72 for the notes on the investments.</p>	<p>In order to test the appropriateness of the valuation procedures undertaken by Group management and the Board of Directors, we performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>• Assessment whether a methodologically correct valuation process had been chosen and whether the calculations were mathematically correct.</li> <li>• Reconciliation of the budget figures with the current business plans of Group management that had been approved by the Board of Directors.</li> <li>• Critical assessment of the key assumptions, including the expected future earnings, the growth</li> </ul>

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rate and the capitalisation rates used, by comparison with other available internal and external information and by performing sensitivity analyses.

We conducted on the basis of the available documentation a critical assessment of the wider-ranging qualitative and quantitative factors considered in the valuation by Group management.

Additionally, we compared the net assets of the Company with the market capitalisation of the Group.

We consider the valuation procedures to be an appropriate and adequate basis for the impairment testing of the equity investments. The results of our audit support the assumptions of Group management and the Board of Directors.

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#### Other matter

The financial statements of Zehnder Group AG for the year ended 31 December 2018 were audited by another firm of auditors whose report, dated 22 February 2019, expressed an unmodified opinion on those statements.

#### Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors intends either to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is available on the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

#### Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.



We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Thomas Illi  
Audit expert  
Auditor in charge

Thomas Ebinger  
Audit expert

Lucerne, 21 February 2020

## Alternative Performance Measures

In this annual report, the Zehnder Group reports financial key figures that are not defined according to Swiss GAAP FER. These alternative performance measures are intended to aid the management team as well as analysts and investors in forming a clearer understanding of the Group's performance. The following definitions and calculation bases of the Zehnder Group may differ from those employed by other companies.

Alternative performance measure	Definition	Calculation basis / reconciliation (in EUR million)	2019	2018
Organic sales growth	The organic sales growth measures the growth that the Group is able to achieve on its own. Organic sales equate to sales that have been adjusted for acquisition effects and have taken place at constant exchange rates.	<b>Sales</b>	<b>644.4</b>	<b>601.8</b>
		Currency effects	-4.9	8.5
		Acquisition effects	-14.5	-6.1
		<b>Organic sales</b>	<b>625.0</b>	<b>604.2</b>
		<b>Organic sales growth in %</b>	<b>3.8</b>	<b>3.7</b>
EBITDA	Earnings before interest, taxes, depreciation and amortisation (EBITDA) is a key figure used to measure the performance of the Group.	<b>Operating result (EBIT)</b>	<b>42.1</b>	<b>31.1</b>
		Depreciation of property, plant and equipment	22.2	21.4
		Amortisation of intangible assets	0.6	0.7
		<b>EBITDA</b>	<b>64.9</b>	<b>53.2</b>
EBIT before one-off effects	Earnings before interest and taxes (EBIT) adjusted for one-off effects is a key figure used to measure the performance of the Group. One-off effects include, for example, restructuring costs or the sale of properties.	<b>Operating result (EBIT)</b>	<b>42.1</b>	<b>31.1</b>
		One-off effects	-	-
		<b>EBIT before one-off effects</b>	<b>42.1</b>	<b>31.1</b>
ROCE	The return on capital employed (ROCE) measures the profitability and efficiency of the Group's capital utilisation. The net operating profit after tax (NOPAT) is compared with the capital employed (CE).	Trade accounts receivable	124.2	104.6
		Other receivables	17.9	19.5
		Inventories	61.6	59.7
		Prepayments	2.7	2.6
		Accrued income	3.5	4.0
		Trade accounts payable	-31.6	-31.5
		Other short-term liabilities	-23.5	-23.7
		Accruals and deferred income	-57.7	-49.6
		Short-term provisions	-6.5	-8.6
		Long-term provisions	-24.4	-22.2
		Other long-term liabilities	-0.4	-0.8
		Non-current assets	211.8	207.8
		<b>Capital employed (CE)</b>	<b>277.5</b>	<b>261.8</b>
		<b>Operating result (EBIT)</b>	<b>42.1</b>	<b>31.1</b>
		Expected income taxes	-10.3	-7.4
		<b>Net operating profit after tax (NOPAT)</b>	<b>31.7</b>	<b>23.7</b>
		<b>ROCE in %</b>	<b>11.4</b>	<b>9.1</b>
Net liquidity / (net debt)	Net liquidity or debt is a key figure used to measure the Group's financial liquidity or debt.	<b>Liquid assets</b>	<b>48.9</b>	<b>42.7</b>
		Short-term loans	-15.4	-15.5
		Long-term loans	-8.0	-5.9
		<b>Net liquidity / (net debt)</b>	<b>25.5</b>	<b>21.3</b>

# Further Information for Investors

## For further information please contact:

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Press releases  
[www.zehndergroup.com/en/news](http://www.zehndergroup.com/en/news)

## Registered shares A

Security number	27 653 461
SIX	ZEHN
Bloomberg	ZEHN SW
Reuters	ZEHN S

In accordance with Art. 10 of the articles of association, the opting out clause applies.

## Registered shares B (unlisted)

Security number 13 312 654

## Company calendar

Annual General Meeting 2020	2.4.2020
Ex-dividend date	6.4.2020
Dividend payout	8.4.2020
Six-month report	29.7.2020
End of business year	31.12.2020
Announcement of sales for 2020	15.1.2021
Annual report 2020	24.2.2021
Press conference on financial statements and analysts' meeting	24.2.2021
Annual General Meeting 2021	26.3.2021

The Annual Report is available in German and English.  
The German version is binding.

The online versions are published under  
[www.zehndergroup.com/en/investor-relations/reports-and-presentations](http://www.zehndergroup.com/en/investor-relations/reports-and-presentations).

## Imprint

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