

**zehnder**

always the  
best climate

2018

ANNUAL REPORT

## **Content**

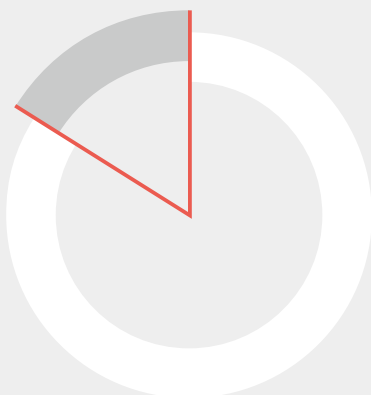
3	Key Figures
4	Letter to shareholders
6	Group Executive Committee Report
12	Corporate Governance
22	Compensation Report
35	Financial Report

## Sales by segment

EUR million

**95.3** (16%)

**China & North America**

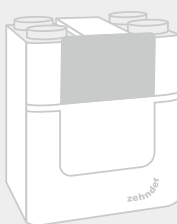


**506.5** (84%)

**Europe**

## Sales by business area

EUR million



**278.9** (46%)

**Ventilation**

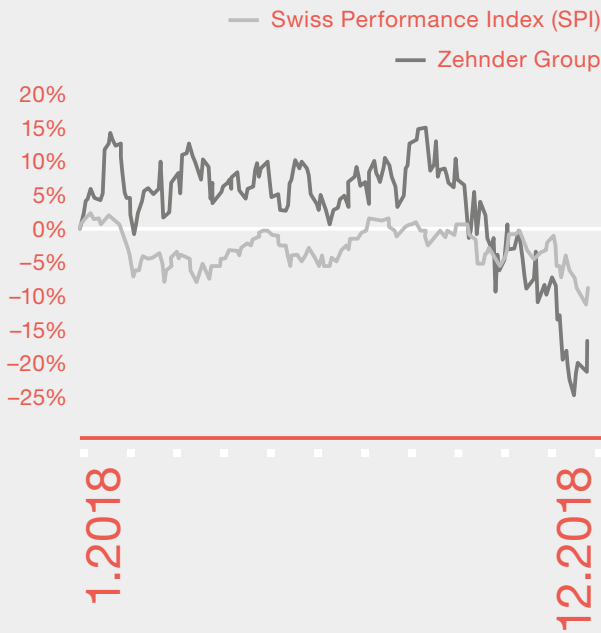


**323.0** (54%)

**Radiators**

# Share price development

1 January to 31 December 2018



# Locations

Worldwide

## Europe

- Austria
- Belgium
- Czech Republic
- Denmark
- Estonia
- Finland
- France
- Germany
- Italy
- Netherlands
- Norway
- Poland
- Russia
- Sweden
- Switzerland
- Spain
- Turkey
- United Kingdom

## North America

- Canada
- USA

## Asia

- China



## Key Figures

		2018	2017	%
Sales	EUR million	601.8	582.4	3.3
EBITDA	EUR million	53.2	45.7	16.5
	% of sales	8.8	7.8	
EBIT	EUR million	31.1	23.5	32.1
	% of sales	5.2	4.0	
Net profit <sup>1</sup>	EUR million	24.5	16.5	48.3
	% of sales	4.1	2.8	
Cash flow from operating activities	EUR million	30.5	18.5	65.5
	% of sales	5.1	3.2	
Investments in property, plant and equipment & intangible assets	EUR million	24.4	26.8	-8.9
Depreciation & amortisation	EUR million	-22.1	-22.1	-0.1
Total assets	EUR million	440.9	419.8	5.0
Non-current assets	EUR million	207.8	206.5	0.6
Net liquidity/(net debt)	EUR million	21.3	27.5	-22.5
Shareholders' equity <sup>1</sup>	EUR million	283.1	271.2	4.4
	% of total assets	64.2	64.6	
Return on capital employed (ROCE)	%	9.1	7.3	
Number of employees	Ø full-time equivalents	3,412	3,383	0.9
Market closing price registered share A	CHF	33.35	39.95	-16.5
Net profit per registered share A <sup>2</sup>	EUR	1.98	1.34	48.2
Shareholders' equity per registered share A <sup>2</sup>	EUR	23.21	22.42	3.5
Dividend per registered share A <sup>3</sup>	CHF	0.80	0.50	60.0
Payout ratio	%	35	34	

<sup>1</sup> Including minority interests

<sup>2</sup> Excluding minority interests

<sup>3</sup> For 2018 as proposed by the Board of Directors

# Effective action

## Dear shareholders,

On 5 February 2018, after Dominik Berchtold had tendered his resignation as CEO, I took on the interim role of the Zehnder Group's operational manager and added this to my existing position as Chairman of the Board of Directors.

Working in this capacity over the year under review, I chose to sharpen my focus on three areas: boosting sales, eliminating areas of operational weakness, and achieving a sustained reduction in costs. These aims also allowed me to continue pursuing the strategy that the Group Executive Committee had set out back in the second half of 2017.

## Growth in sales and improved results

The areas in which we have taken action have had a positive impact on the Zehnder Group's sales figures: by reaching EUR 601.8 million in the year under review, it was in fact possible for the Group to surpass the EUR 600 million mark for the very first time. This equates to growth of 3% and can primarily be attributed to the ventilation business in Europe and China. Overall, ventilation sales rose by 11%. Meanwhile, the radiator business – which is a declining market – recorded a decrease of 2%. Sales in 2018 stagnated in Germany, France, the United Kingdom and Switzerland, which represent our four key markets and together account for more than half of our sales, but the figures in the Netherlands, Belgium, Poland, Russia and Spain in particular experienced positive trends in contrast to this.

2018 saw us reduce procurement costs and improve delivery reliability. The highlights of the year under review included the welcome contribution that the Clean Air Solutions product line made to the Group's figures by putting in a profitable performance once again. Business in North America delivered less pleasing results, however, leading to restructuring measures at the Buffalo, NY (USA) plant.

On the whole, the year under review saw us achieve significant operational progress and improved profitability. The EBIT margin rose 1.2 percentage points to 5.2% in comparison to the previous year. We will continue to lower costs and boost efficiency in the interests of attaining an EBIT margin of 8% – our aim for the medium term. At the same time, however, we intend to remain firmly on our path of investing in growth and innovation.

## Expansion of the ventilation business, optimisations in the radiator business

The leading position that we hold in the field of residential building ventilation has continued to drive growth within the Group. In Europe, the takeover of InteliVENT OÜ in Estonia and Enervent in Finland is enabling us to expand both our geographical footprint and our product range. In China, meanwhile, we are increasing our network of distributors.

With the radiator business operating in a challenging environment, the gradual measures that we have taken to optimise our structures have been a vital step. Autumn 2018 saw the opening of our new bathroom radiator factory in Manisa (Turkey), featuring significantly more capacity than the production areas in the previous rented building were able to offer.



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

For the 2018 financial year, the Board of Directors is proposing to the Annual General Meeting a dividend of CHF 0.80 per registered share A. The provision of 35% reflects the Zehnder Group's long-term dividend policy of distributing 30 to 50% of the consolidated net profit.

### **A fond farewell to Hans-Jakob Zehnder, honorary president of the Zehnder Group**

My father, who had spent many years of his life serving as Chairman of the Executive Board, Chairman of the Board of Directors and Honorary President, passed away on 3 October 2018 at the age of 95. Taking up a position at Zehnder in 1953 – the third generation of the family to do so – he brought a remarkable breadth of vision and boundless energy to his efforts in expanding the business. In the 1960s, he became an early adopter of the internationalisation concept, founding subsidiaries abroad and thus laying the groundwork for the international profile of the Group as we know it today. We owe a huge debt of thanks to his extraordinary entrepreneurial spirit and hold his life's achievements in extremely high esteem.

### **New CEO**

On 1 January 2019, I handed the chairmanship of the Group Executive Committee – including the responsibility for the China & North America segment – to Matthias Huenerwadel, who joined our company in mid-November. With his extensive experience as an industry manager, I am confident that he is the right person to drive the Zehnder Group forwards into a profitable future. I would like to wish Matthias Huenerwadel all the very best as he takes up his new position and am delighted that I will now be able to

focus my full attention on my role as Chairman of the Board of Directors.

### **Additional members of the Board of Directors**

The Board of Directors will propose the election of Daniel Frutig and Ivo Wechsler as additional members at the Annual General Meeting in March 2019. These individuals possess extensive industry knowledge, including expertise in finance, that they will be able to contribute to the Zehnder Group.

### **A word of thanks**

On behalf of the Board of Directors and the Group Executive Committee, I would like to extend my thanks to our 3,500 or so employees whose dedication and enthusiasm enabled us to make real strides in 2018.

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

Of course, I must also take this opportunity to extend my immense thanks to you, our valued shareholders, for the trust and sense of loyalty that you have continued to show to our company.

Yours sincerely,

**Hans-Peter Zehnder**  
Chairman of the Board of Directors

# Sales exceed EUR 600 million for the first time and results increase once again

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In the 2018 financial year, the Zehnder Group boosted its sales by 3% to EUR 601.8 million and its operating result (EBIT) from EUR 23.5 million to EUR 31.1 million. This enabled the EBIT margin to rise from 4.0 to 5.2%. Net profit amounted to EUR 24.5 million.

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## **Increase in sales due to ventilation business**

In the 2018 financial year, the Zehnder Group increased its sales from EUR 582.4 million to EUR 601.8 million, equating to growth of 3% (+4% organically). However, the market conditions in the key markets became increasingly challenging in the second half of the year. The sales growth is primarily attributable to the ventilation business in Europe and China. Ventilation sales in the financial year increased by 11% (+10% organically) and now account for 46% of total sales (previous year: 43%). Radiator revenues decreased by 2% (–1% organically).

As in the previous year, the Europe segment accounted for 84% or EUR 506.5 million of consolidated sales (previous year: EUR 491.1 million), which represents an increase in sales of 3% (+3% organically). While the key markets of Germany, France, the United Kingdom and Switzerland demonstrated sideways trends, as did Italy, sales in the Netherlands, Belgium, Poland, Spain and Russia in particular put in a positive performance. The significant sales growth of 11% in the ventilation business area in Europe (+9% organically) more than compensated for the slight decline of 2% (–2% organically) in the European radiator business. The warm temperatures in autumn had a negative effect on radiator sales. The ComfoAir Q ventilation unit was the primary growth driver, but the Estonian ventilation company InteliVENT OÜ, which was acquired as of 1 January 2018, and the Finnish ventilation company Enervent acquired as of 1 September 2018 also contributed a total of 3% to growth in the European ventilation business.

The China & North America segment accounted for EUR 95.3 million (EUR 91.3 million in the previous year) or 16% of total sales. The 4% growth (+8% organically) for the entirety of 2018 was therefore significantly lower than for the first half of the year (+10%, +20% organically). In China, ventilation sales continued to grow in the second half of the year, but at a lower rate than in the first six months. For the year as a whole, ventilation sales rose by 21% (+24% organically) and thus accounted for 77% of total sales in China at the end of the year (previous year: 70%). While sales in the radiator business area remained stable in the first half of the year, sales for the entirety of the year fell by 17% (–15% organically) due to the lack of major projects involving radiant ceiling panels.



Overall, the result for China in 2018 was growth of 10% (+13% organically). In North America, sales fell just slightly below the previous year's level with a decline of 1%. However, the region achieved organic growth of 3%. Revenues in the radiator business area demonstrated a positive trend in the second half of the year. In addition, the acquisition of part of NuClimate Air Systems, Inc. contributed 1% to growth in North America. Ventilation sales continued to decline, and – as in the previous year – only accounted for around one fifth of sales in North America.

#### **Further improvements in the operating result**

The operating result (EBIT) increased by a considerable 32% to EUR 31.1 million (previous year: EUR 23.5 million). This resulted in an improvement in the EBIT margin, which reached 5.2% (compared to 4.0% in the previous year).

The business also saw the impact of the Step-up programme, whose measures were adopted in the fourth quarter of 2017. The programme focuses on five principal objectives: reducing procurement costs, increasing our reliability of supply, optimising our pricing structure, turning around unprofitable businesses and product segments, and implementing general Group-wide measures that aim to boost efficiency and reduce costs. Significant progress was made in every single one of these areas.

In the Europe segment, the EBIT figure managed to reach EUR 28.8 million in the year under review (compared to EUR 21.1 million in the previous year) as a result of growth in the field of ventilation and the effects of the Step-up programme. 2018 also marked the point at which the Clean Air Solutions product line became profitable again. The business chose to suspend production and sales of the Zehnder Zmart polymer radiator: despite our best efforts, it was not possible to achieve the cost reductions that would have been necessary to make this a profitable product on the market. Real progress could be seen in the area of heating and cooling ceiling systems, however, where the impact of the measures that had been introduced was evident. At the end of 2018, production of radiators for the British market was relocated from Gränichen (Switzerland) to Vaux-Andigny (France); this is accompanied by a headcount reduction of 35 at the Gränichen production plant.

“The operational measures that have been introduced led to improved profitability in 2018. We will continue to pursue these areas of optimisation in the interests of attaining an EBIT margin of 8% – our aim for the medium term.”

At EUR 2.3 million, EBIT in the China & North America segment remained at the previous year's level (of EUR 2.4 million). China experienced welcome growth as a result of increased sales in the ventilation business, although it was not possible to achieve the aim of turning around the unprofitable Buffalo, NY (USA) plant in 2018. Inventory as well as property, plant and equipment amounting to approximately EUR 1.0 million were written down as part of efforts made to put this area of the business back on course, and the acquisition of part of NuClimate Air Systems, Inc. – headquartered in Syracuse, NY (USA) – in January 2018 is also set to help us realign the Buffalo plant's fortunes.

As a result of the increases in sales and profitability, the Zehnder Group's net profit rose by some 48% to EUR 24.5 million (previous year: EUR 16.5 million).

#### **Expansion of product range**

Expenditure on research and development in the year under review amounted to EUR 16.5 million (previous year: EUR 17.7 million), with the majority of investments being made in Europe. The focus of 2018 was on developing existing products and launching products on new markets; one example of the work carried out in this area was the launch of the ComfoAir E ventilation unit in Germany. This new model range, which is positioned just below the ComfoAir Q range on the market and was launched in the Netherlands in 2017, has been designed specifically with project business and prefabricated buildings in mind.

In China, 2018 saw us launch some new ventilation units including the ERV-D heat recovery series and the FA-V400 cabinet unit. Sold through the retail channel, these new products are designed to save more energy and operate at a quieter level.

### **Complementary acquisitions expand the ventilation business in Europe**

With a view to expanding both its product range and its geographical territory, one of the Zehnder Group's areas of focus is on making complementary acquisitions. As of 1 January 2018, this has included the takeover of ventilation company InteliVENT OÜ: based in Tallinn (Estonia) – it specialises in planning, installing and selling heating, indoor climate and energy solutions. This acquisition aims to enhance our market position in the Baltic states of Estonia, Latvia and Lithuania.

In Finland, meanwhile, the Zehnder Group acquired Porvoo-based ventilation company Enervent on 1 September 2018. Enervent is a leading provider of high-quality, energy-efficient ventilation units and focuses on accommodating the specific climate-related needs and legal requirements found in the Nordic nations. Its development, production and sales activities are all based at its Porvoo headquarters. In addition, the company also has sales offices in Oslo (Norway) and Stockholm (Sweden).

### **Investments in infrastructure**

Investments in property, plant and equipment and intangible assets in the reporting period amounted to EUR 24.4 million (previous year: EUR 26.8 million), a figure that included investments of EUR 20.7 million (previous year: EUR 20.3 million) in Europe. Particularly worthy of note is the investment made in the new production site in Manisa (Turkey). Commencing operation on schedule in September 2018, it features significantly more capacity than the production areas in the previous rented building were able to offer. The site will primarily supply bathroom radiators to our key European markets. Investments were also made with a view to enhancing production efficiency; these included new laser welding and cutting machines in Lahr (Germany) and Bolesławiec (Poland). Another step forward that was made during the year under review was the decision to construct a Center of Climate building in Lahr (Germany): 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. The final design planning stage began in 2018 and construction is scheduled to commence at the end of 2019, with the new centre hopefully opening in spring 2021.

In order to accommodate the growth that the ventilation business area has seen in China, the Zehnder Group is building a new factory for ventilation units in the city of Pinghu (located in Zhejiang Province), around 100 km south-west of Shanghai. The plot of land required for this project was purchased in 2018. 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.

### **A strong balance sheet**

At the end of the year, the Zehnder Group continued to have a high equity ratio of 64% with shareholder equity of EUR 283.1 million (EUR 271.2 million, or 65%, in the previous year). Net liquidity fell from EUR 27.5 million to EUR 21.3 million during the year under review, due in part to the acquisition activity that took place. However, cash flow from operating activities increased significantly from EUR 18.5 million to EUR 30.5 million.

### **Employees**

The number of full-time staff increased from 3,353 at the end of 2017 to 3,412 at the end of 2018. This rise is primarily attributable to the acquisitions of companies in Estonia and Finland, and to the expansion of sales activities for ventilation in China and Europe. In the year under review, the average number of staff working full-time increased from 3,383 to 3,412. Of these, 348 were employed on a temporary basis (previous year: 348) and 64 were trainees (previous year: 60). There were 2,625 employees working in Europe (previous year: 2,615) and 786 in China & North America (previous year: 768).

The Zehnder Group relies on its staff undergoing continuing professional development. In 2018 we successfully completed our first Group-wide internal management programme, and half of the alumni have already been offered management positions that have opened up within the Group. Vocational training is also extremely important to the Zehnder Group, something that was reflected by 2018's increase in the number of trainees.

The Zehnder Group is committed to ensuring that it is not only its customers who benefit from the slogan "always the best climate", but that its employees do, too – and it is delighted to have so many long-serving employees. In 2018, the Bolesławiec (Poland) production plant celebrated its 20-year anniversary. Since the point at which it opened its doors with its original 50 or so employees, 17 have remained with the company to this day.

## Overview of key markets

Sales in the key markets of Germany, France, the United Kingdom and Switzerland, as well as in Italy, demonstrated sideways trends during the 2018 financial year. Counteracting this, however, were welcome rates of growth in China, the Netherlands, Belgium, Poland, Spain and Russia, something that was mostly attributable to the ventilation business. The most important markets where this area of business is concerned are Germany, China, the Netherlands, Switzerland, the United Kingdom, Belgium and Italy. 2018 also saw the Zehnder Group consolidate its position in the residential segment of most markets through the heat recovery solutions it offers in the field of ventilation. As well as this, it gained market shares in the area of bathroom radiators – although radiator sales as a whole demonstrated a slight decline.

### Germany

Germany proved to be the Zehnder Group's strongest sales market in 2018. Investments in construction grew at a low rate, hampered by a lack of capacity available from tradespeople. Against this backdrop, the Zehnder Group achieved overall sales figures on a par with the previous year's level. While radiator sales were in decline, ventilation sales saw an increase, particularly where distributed ventilation solutions were concerned. Through the expansion measures carried out in this area over the year under review, customers can now benefit from even more flexibility during planning and installation work. The Zehnder Group also gained market shares relating to central heat recovery units and decorative radiators during the year under review.

### France

France in 2018 saw an increase in construction projects, with the focus on both residential and commercial properties. The renovation business also experienced growth, but only to a minor extent in the area of residential buildings. The Zehnder Group increased its market shares for electric bathroom radiators in what is a growing market. The market for hot water decorative radiators – products that are a key part of the Zehnder Group's portfolio – did experience some decline, but the Group was able to increase its market shares in this area too. This was as opposed to electric radiators, an area in which the Zehnder Group lost market shares. The trend in favour of lower-priced radiators also continued unabated, with the result that radiator sales fell on the whole. Sales in the ventilation business did improve, but only accounted for a small proportion of total sales figures. As a result, total sales for 2018 fell slightly below the 2017 level.

## United Kingdom

In the United Kingdom, 2018 was plagued by uncertainty over the country's exit from the European Union. Despite having to operate in such a challenging environment, the Zehnder Group was still able to sustain sales revenues in the local currency. Growth in the area of ventilation, due in part to the new Unity CV3 extractor fan, was able to compensate for a decline in radiator sales. Expressed in euros, sales figures fell just below the previous year.

Among the highlights of 2018 in the United Kingdom was the opening of the new Specification Centre within the renowned Business Design Centre (BDC), located in the London borough of Islington. The centre's services are aimed at consultants, architects and interior designers, and it showcases the wide variety of indoor climate solutions that Zehnder has to offer. It also houses a Bisque showroom, providing a range of services including heat loss calculation, cooling unit design and consultation for tailored solutions. Bisque is a decorative radiator brand owned by the Zehnder Group and specialises in practical radiators whose exciting styles, colours and shapes make them stand out.

### Switzerland

The Swiss building industry stagnated in 2018, albeit at a high level – and the Zehnder Group's sales figures demonstrated the same kind of performance, with results that remained at the previous year's level in the local currency. However, the Zehnder Group did achieve growth in cooling and heating ceilings within the radiator business area, and was able to obtain market shares in the declining heat recovery unit market within the ventilation business area. Adjusted for currency effects, the results in euros showed a slight decline.

### The Netherlands and Belgium

The Zehnder Group's activities in the Netherlands and Belgium are primarily focused on the ventilation business. In the Netherlands, 2018 was another year of growth for the construction industry: increases were seen in new-build and renovation projects in the residential and commercial sectors alike. The Zehnder Group was able to benefit from this, enjoying higher sales and increased market shares. In particular, it made a name for itself as a reliable partner for prefabricated building projects.

While the Belgian construction industry did not generate growth in 2018, the Zehnder Group was still able to increase its market shares and sales in this area, partly as a result of the success achieved by the ComfoAir Q ventilation unit.

## Italy

Political instability in Italy, following the country's parliamentary elections in spring 2018, had a negative impact on the construction industry. Despite this, the Zehnder Group was still able to maintain the same level of sales as it had in the previous year. Growth in the area of ventilation was able to compensate for the decline felt in the radiator business.

## Spain

2018 marked another year of growth for the Spanish construction industry. The number of new building projects rose sharply, particularly in the residential sector – but there was a slight increase in demand for renovation business too. The Zehnder Group recorded a considerable increase in sales in both the radiator and ventilation business areas.

## Poland, Russia and Turkey

In 2018, the Polish construction industry grew at an exceptionally dynamic pace, with the residential new-build sector and renovation business both feeling the benefits. The Zehnder Group was able to boost its sales in both the radiator and ventilation business areas. It was more than just these healthy sales figures that were cause for celebration, however. The production plant in Bolesławiec marked its 20-year anniversary too: it has been responsible for producing over five million radiators since its opening, and its product range is expanding all the time.

Russia was another location of a special anniversary, as the sales company there has now been representing the Zehnder Group's radiator business for some 15 years. 2018 saw a significant rise in sales revenues, with Zehnder Charleston conventional multi-column radiators and radiant ceiling panels both achieving their highest sales figures in the history of Zehnder's presence in Russia.

27 September 2018 marked the official opening of the Zehnder Group's new factory for bathroom radiators in the Turkish city of Manisa. Spanning around 16,000 m<sup>2</sup>, including space for warehouse and logistics operations, the new production site offers significantly more capacity than the production areas in the previous rented building. This demonstrates that the Zehnder Group is keen to meet the growing international demand for bathroom radiators. The Group's operations in Manisa focus primarily on supplying its main markets in Europe.

## China

The strong demand that China had previously shown for ventilation and air cleaning solutions continued in the year under review. The Zehnder Group was able to boost its ventilation sales figures once again, although the growth rate did fall during the second half of the year. The radiator business experienced another decline in 2018, with the effects particularly felt in the radiant ceiling panel business, where there were no large-scale projects.

## North America

The Zehnder Group's business in North America focuses on fulfilling niche demands. The area of conventional radiators continued to see a small amount of expansion in 2018 and achieved healthy margins. The Clean Air Solutions product line is still in the development stages, as is the area of ventilation for residential purposes. North America is among the many places demonstrating an increased awareness of the importance of a healthy indoor climate. The situation at the Buffalo, NY (USA) plant remains challenging. In Vancouver (Canada), meanwhile, investments in 2018 were targeted at a new production line in the hope of making a positive impact on profitability over the long term.

## Risk assessment

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, risks are identified and analysed in terms of both probability of occurrence and severity. Measures for managing such risks are determined based on these findings. 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.

## Outlook

As the second half of 2018 demonstrated, the Zehnder Group is operating in a market environment in which it faces growing challenges. It is difficult to say with any certainty how trade disputes, Brexit, the Chinese property market or Switzerland's stock of vacant residential buildings will have an impact on the business. We are continuing to devote our resources principally to attaining an EBIT margin of 8% in the medium term and will consistently follow up on the operational measures that we have introduced with this in mind. We intend to achieve yet more improvement in our operating results in 2019 and will remain on the same strategic course by pursuing a growth strategy for our ventilation business and a harvest strategy in the area of radiators. We will also sharpen our focus on innovation, digitisation and new products with the aim of enabling the Zehnder Group to keep growing over the medium term.

The expectations stated on pages 4 to 11 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 entirety of the 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 2018 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 17 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 60 to 61 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 page 72. 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 70 of the annual report and to the consolidated statement of changes in equity on page 41 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 of the consolidated financial statements on page 58 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 2018, the Board met six times, in January, February, April, June, September and December (in the previous year they met five times: January, February, April, June and September). The meetings each lasted between half a day and two days. In addition, the Board held four telephone conferences in February, July (two) and September, lasting between half an hour and two hours each. The members of the Group Executive Committee attended the Board meetings and participated in the telephone conferences. 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 2018, the Audit Committee was composed of Jörg Walther, Chairman, and Urs Buchmann, Member. The Audit Committee convenes at the invitation of the Chairman as often as is required by business activities. In 2018, the Audit Committee convened four times. The attendance rate for the meetings was 100%. 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.zehndergroup.com/en/investor-relations/corporate-governance](http://www.zehndergroup.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 and forecast). 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.

### **Other permissible activities**

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 28 to 32.

### **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 13 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 A 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

KPMG AG have been auditors for Zehnder Group AG since 1984. They also audit the consolidated financial statements of Zehnder Group. The auditor in charge commenced his duties in 2012. 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 KPMG. Various auditing firms invoiced a total of EUR 883,000 for auditing individual accounts and the consolidated financial statements. Of this, EUR 577,000 was paid to the KPMG group. The KPMG group was paid an additional EUR 25,000 for audit-related services.

A total of EUR 1,365,000 was charged for taxation and legal services throughout the Group. Of this, EUR 91,000 was paid to the KPMG group.

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. In 2018, KPMG AG attended all four meetings of the Audit Committee.

### 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. Shareholders receive short reports on business development and six-month reports. The annual report is 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. The abridged report is also available in both languages in printed form. 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 1.1.2019)

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
- Chairman and Delegate 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); R. Nussbaum AG (Switzerland); and Lagerhäuser der Central-schweiz 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
- 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 (today a Xerox company)
- 2007–2011 CEO Ascom Group (Switzerland)
- 2011–2015 CEO Kaba Group (Switzerland)
- Since 2015 CEO (since 2018 Chairman of the Board of Directors) dormakaba Group (Switzerland)
- 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.



## 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), Care & Cure AG
- 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.



## 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 1.1.2019)

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)
- 12.11.–31.12.2018 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)
- Since July 2017 member of the board of SwissHoldings



## 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)



## Olaf Schulte

### **Competence Center Comfosystems**

Dutch citizen, born 1972

- Bachelor's degree in Industrial Management
- Master's degree in Information Management
- Various posts at Dutch companies
- 10.2000–6.2012 various roles at the Dutch subsidiary of the Zehnder Group
- 7.2012–10.2014 head of the Dutch manufacturing company Zehnder Group Nederland
- Since November 2014 member of the Group Executive Committee of Zehnder Group (Head Competence Center Comfosystems), Gränichen (Switzerland)

## Group Functions

(Status 1.1.2019)

<b>Josef Berger</b>	Group Procurement
<b>Josef Brügger</b>	Internal Audit & Compliance
<b>Franz Furrer</b>	Group IT & Digital Officer
<b>Christian Hummel</b>	Group Controlling
<b>Markus Max Inäbnit</b>	Group Human Resources
<b>Thomas Mathys</b>	Group Finance
<b>Ulrich Peuckert</b>	Group Logistics/SCM
<b>Ann-Cathrin Rubin</b>	Group Marketing Communications
<b>Matthäus Urwyler</b>	Customer Excellence
<b>Tanja Weiss</b>	IR & Communications

## Competence Center Radiators

<b>Roland Diethelm</b>	R&D Radiators, Group IP
<b>Giovanni Suma</b>	Product Management 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)

## Competence Center Comfosystems

<b>Robert IJkens</b>	Product Management Comfosystems
<b>Arie Veldhuijzen</b>	Research & Innovation Comfosystems
<b>Hendrik de Wilde</b>	Production Zwolle (Netherlands)
<b>Michael Pitsch</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>Jukka Riekkinen</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>Johannes Bollmann</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>Eric Scoffier</b>	Shared Services France
<b>Adam Jankowski</b>	International Shared Services (Poland)

## Business Units

<b>James Dean</b>	Core
<b>Patrik Fransèhn</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 2018.

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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 2018.

## 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.

2018, the Annual General Meeting of Shareholders approved the amendment to the Articles of Association regarding long-term compensation. 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, being 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. As a basic principle, the members of the Board of Directors are not entitled to participate in the occupational pension plans.

## 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 2018 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;
- 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;

## 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, GEC = Group Executive Committee

- 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 2018, the Compensation Committee held five meetings of an hour and a half each on average, which were attended by all members. During the year, the Compensation Committee reviewed the structure and the implementation of the long-term incentive plan (LTI) for 2019 (see 6. Outlook) and revised the compensation policies for the Board of Directors, Group Executive Committee and managers. Furthermore, 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, the benchmarking of the compensation of the Board of Directors and the Group Executive Committee, and the determination of the individual remuneration of the members of the Board of Directors and the Group Executive Committee, for the attention of the full 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. From 5 February to 31 December 2018, both roles were executed by the same person, as Dr Hans-Peter Zehnder was acting

as CEO a.i. alongside his role as the Chairman of the Board of Directors. 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 participate 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 2018, the Compensation Committee appointed Agnès Blust Consulting AG to conduct a benchmarking of compensation of the Board of Directors, to support the design and implementation of the long-term incentive plan (LTI) as well as the shareholding guideline for the Group Executive Committee. In addition, it appointed Willis Towers Watson to benchmark the compensation of the executives. These two companies have 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, Burkhalter, Conzzeta, Daetwyler, Feintool, Forbo, Gurit, Huber & Suhner, Interroll, Komax, Landis & Gyr, Metall Zug, Meyer Burger, Phoenix Mecano, Rieter,

## 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 and management level employees may participate in the company's long-term success by becoming shareholders under 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.

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.

In the year under review, Agnès Blust Consulting AG was mandated to carry out a benchmarking of the compensation of the Board of Directors. In the process, published data from the aforementioned benchmark companies was analysed with regard to the structure and the amounts. The report is 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 addition, Willis Towers Watson has been mandated to conduct a benchmark analysis of the compensation of the members of the Group Executive Committee. 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).

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	300,000	300,000
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> For non-Swiss members of the Board of Directors or in cases where effective business expenses are in excess of CHF 2,000, 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.

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, the participation in the management share plan, as well as occupational benefits and perquisites.

## 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
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

#### 4.1. 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.

#### 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. 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. 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 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 continues to exist until 2019.

#### 4.4. 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.

#### 4.5. 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 2018

#### 5.1. Compensation to the Board of Directors in the business year 2018

In 2018, the members of the Board of Directors received a total compensation of CHF 1.6 million (2017: CHF 2.1 million) in the form of fixed compensation of CHF 0.7 million (2017: CHF 0.9 million), share-based compensation of CHF 0.8 million (2017: CHF 0.9 million) and national insurance contributions of CHF 0.1 million (2017: CHF 0.2 million). The total compensation paid to the Board of Directors in 2018 decreased compared to the previous year due to the following factors:

- Lower share price at grant date in January 2019 compared to the previous year,
- The compensation paid to the Chairman of the Board of Directors in 2018 in relation to his role as CEO a.i. is disclosed under "Compensation for the Group Executive Committee".



## Compensation for the present members of the Board of Directors

	Units 2018	Units 2017	CHF <sup>1</sup> 2018	CHF <sup>1</sup> 2017
<b>Hans-Peter Zehnder</b>				
Chairman of the Board of Directors, CEO a.i. from 5 February until 31 December 2018 <sup>2</sup>				
Fixed cash compensation for Board activity <sup>3</sup>			300,000	300,000
Lump sum expense allowances			2,000	26,000
Allocated shares for Board activity <sup>4</sup>	11,785	11,645	434,510	463,922
Fixed cash compensation for additional services			–	175,000
Variable cash compensation			–	115,500
Employer national insurance contributions			46,879	138,223
Shares acquired <sup>5</sup>		1,434	–	14,068
Other payments			–	11,434
<b>Total compensation</b>			<b>783,389</b>	<b>1,244,147</b>
<b>Thomas Benz</b>				
Vice 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>4</sup>	2,356	2,328	86,864	92,734
Employer national insurance contributions			7,503	7,370
<b>Total compensation</b>			<b>154,367</b>	<b>160,104</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>4</sup>	2,355	2,327	86,827	92,702
Fixed cash compensation for additional services			–	11,292
Employer national insurance contributions			10,050	10,678
<b>Total compensation</b>			<b>156,877</b>	<b>174,672</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	11,250
Lump sum expense allowances			2,000	2,000
Allocated shares for Board and Compensation Committee activity <sup>4</sup>	2,160	1,980	79,638	79,988
Employer national insurance contributions			9,072	8,699
<b>Total compensation</b>			<b>145,710</b>	<b>141,937</b>

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

<sup>2</sup> From 5 February until 31 December 2018, the Chairman of the Board of Directors executed the role as CEO a.i. The CEO-related compensation amounting to CHF 497,974 for 2018 is published under "Total compensation paid to the Group Executive Committee".

<sup>3</sup> In relation to the calendar year, the fixed cash compensation for the Board function remained unchanged in the year under review.

<sup>4</sup> The shares are disclosed as the closing share price of the shares on the respective grant dates.

<sup>5</sup> The Chairman of the Board and 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 as the closing share price of the share at the grant date, 13 January 2017, less the purchase price. This value is included in the amount approved by the Annual General Meeting.

	Units 2018	Units 2017	CHF <sup>1</sup> 2018	CHF <sup>1</sup> 2017
<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>	2,160	2,134	79,638	85,016
Cash compensation as per invoiced hours for additional services			148,155	115,430
Employer national insurance contributions			9,213	8,654
<b>Total compensation</b>			<b>294,006</b>	<b>266,100</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>	1,571	1,552	57,922	61,830
Employer national insurance contributions			6,701	6,294
<b>Total compensation</b>			<b>106,623</b>	<b>110,124</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			510,000	520,000
Fixed cash compensation for Compensation Committee activity			35,000	35,000
Fixed cash compensation for Audit Committee activity			25,000	25,000
Lump sum expense allowances			8,000	32,500
Allocated shares for Board, Compensation Committee and Audit Committee activity <sup>2</sup>	22,387	22,530	825,399	894,618
Fixed cash compensation for additional services			–	186,292
Cash compensation as per invoiced hours for additional services			148,155	115,430
Variable cash compensation			–	115,500
Employer national insurance contributions			89,418	181,413
Shares acquired <sup>3</sup>	–	1,434	–	14,068
Other payments			–	11,434
<b>Total compensation<sup>4</sup></b>			<b>1,640,972</b>	<b>2,131,254</b>

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

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

<sup>3</sup> The Chairman of the Board and 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 as the closing share price of the share at the grant date, 13 January 2017, less the purchase price. This value is included in the amount approved by the Annual General Meeting.

<sup>4</sup> The compensation for Enrico Tissi (member of the Board of Directors and Chairman of the Compensation Committee until March 2017), in the amount of CHF 34,171 (fixed cash compensation CHF 13,750, lump sum expenses allowance CHF 500, allocated shares CHF 18,426, employer national insurance contribution CHF 1,495) for the period from January to March 2017, is included in the total compensation paid for 2017.



## 5.2. Compensation for the Group Executive Committee in the business year 2018

For 2018, the members of the Group Executive Committee received a total compensation of CHF 3.5 million (2017: CHF 2.6 million) in the form of fixed compensation of CHF 2.0 million (2017: CHF 1.6 million), variable compensation of CHF 0.8 million (2017: CHF 0.4 million), other benefits including the value of the discount on the shares of CHF 0.2 million (2017: CHF 0.2 million), and national insurance and pension contributions of CHF 0.5 million (2017: CHF 0.4 million). The total compensation paid to the Group Executive Committee for 2018 increased compared to the previous year due to the following factors:

- Selected annual base salary increases to align compensation to the market,
- Selected increases of individual profit-sharing amounts in order to adjust to the responsibility of the position,
- The CEO-related compensation for the Chairman of the Board of Directors, Dr Hans-Peter Zehnder, for 2018, and during the same period of time, the contract-related compensation for the former CEO, Dominik Berchtold, for his notice period,

- Matthias Huenerwadel, designated CEO, new member of the Group Executive Committee as of 12 November 2018,
- Higher STI amounts for 2018 compared to the previous year due to a higher Group net profit in the business year 2018.

In 2018, the Group achieved a net income of EUR 24.5 million. Consequently, in 2018, the variable component of the compensation amounted to 3.2% of the net income for the members of the Group Executive Committee (2017: 2.3%).

The variable compensation for the members of the Group Executive Committee was in average 44.4% of the fixed compensation.

In 2018, the highest compensation for a member of the Group Executive Committee was paid to former CEO Dominik Berchtold because of the payments due under contract during the notice period.

	Units 2018	Units 2017	CHF <sup>1</sup> 2018	CHF <sup>1</sup> 2017
<b>Highest-paid member of the Group Executive Committee: Dominik Berchtold (CEO up to 2 February 2018)</b>				
Fixed cash compensation for GEC activity			582,000	560,000
Variable cash compensation			196,000	132,000
Lump sum expense allowances			2,000	24,000
Employer social security and pension contributions			116,562	107,913
Shares acquired <sup>2</sup>	4,266	4,315	54,264	42,330
Other payments			14,156	14,371
<b>Total compensation</b>			<b>964,982</b>	<b>880,614</b>
<b>Total compensation paid to the Group Executive Committee including Dominik Berchtold (CEO up to 2 February 2018)<sup>3</sup></b>				
Fixed cash compensation			1,932,566	1,563,825
Variable cash compensation			789,457	371,250
Lump sum expense allowances			63,267	72,000
Employer social security and pension contributions			545,197	406,034
Shares acquired <sup>2</sup>	10,694	9,583	136,028	94,009
Other payments			66,621	43,850
<b>Total compensation</b>			<b>3,533,136</b>	<b>2,550,968</b>

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

<sup>2</sup> The Chairman of the Board and 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 as the closing share price of the share at the grant date, 13 January 2017 and 10 January 2018, less the purchase price. This value is included in the amount approved by the Annual General Meeting.

<sup>3</sup> The total compensation paid to the Group Executive Committee for 2018 includes the compensation paid to Matthias Huenerwadel (designated CEO from 12 November 2018) as well as the proportion of the compensation for 2018 related to Hans-Peter Zehnder's role as CEO a.i. from 5 February to 31 December 2018.

In 2018, the Annual General Meeting authorised a maximum budget for compensation of the Group Executive Committee of CHF 3.7 million for fiscal year 2018. The total compensation amount of CHF 3.5 million paid to the Group Executive Committee for fiscal year 2018 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 2018

Hans-Jakob Zehnder (Honorary president), former Chairman of the Board of Directors, received until October 3, 2018 the amount of CHF 65,234 (fixed cash compensation CHF 60,645, lump sum expense allowances CHF 1,516, employer national insurance contributions CHF 3,073) as compensation.

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

## 6. Outlook

The Compensation Committee revised the compensation system for the Group Executive Committee and proposed the introduction of a long-term incentive plan (LTI). This was approved by the Board of Directors and is implemented for the 2019 business year.

As part of a long-term share plan, the LTI will be granted in the form of Performance Share Units (PSUs). The new LTI rewards the long-term performance and the sustainable success of Zehnder 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 conditions subject to vesting comprise 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.

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 growth in earnings per share (EPS growth).

### 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. This will be published in the 2019 compensation report.

### Rewarding long-term performance

The total number of shares to be transferred to the participants following 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:

	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 compar- ison 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 Zehnder 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, death, disability or a change of control at the company.

Clawback and malus provisions apply to PSUs or shares awarded under the LTI.

### Shareholding guideline

To align the interests of the Group Executive Committee more closely with those of the shareholders, a shareholding requirement is being introduced from the 2019 fiscal year onwards. Within five years of the 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 base salary in Zehnder Group AG shares, as stated in the table below:

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



# Report of the Statutory Auditor

To the General Meeting of Shareholders of Zehnder Group AG, Gränichen

We have audited section 5 of the compensation report as shown on pages 28 – 32 of Zehnder Group AG for the year ended 31 December 2018. The audit was limited to the information according to articles 14 – 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance).

## Responsibility of the Board of Directors

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 compensation system and defining individual compensation 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 compensation 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 compensation, 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 for the year ended 31 December 2018 of Zehnder Group AG complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Markus Forrer  
Licensed Audit Expert  
Auditor in Charge

Silvan Jurt  
Licensed Audit Expert

Zug, 22 February 2019

KPMG AG, Landis + Gyr-Strasse 1, 6300 Zug

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# Financial Report

## Consolidated Financial Statements

36	Five-year Overview
37	Data per Share
38	Consolidated Balance Sheet
39	Consolidated Income Statement
40	Consolidated Cash Flow Statement
41	Consolidated Statement of Changes in Equity
42	Consolidation Matrix and Principles
44	Accounting and Valuation Principles
47	Notes to the Consolidated Financial Statements
60	Overview of Companies
62	Report of the Statutory Auditor

## Zehnder Group AG

66	Balance Sheet
67	Income Statement
68	Accounting and Valuation Principles
69	Notes to the Financial Statements
74	Proposal on the Appropriation of Earnings
75	Report of the Statutory Auditor

## Five-year Overview

		2018	2017	2016	2015	2014
<b>Sales</b>	EUR million	<b>601.8</b>	<b>582.4</b>	<b>538.9</b>	<b>533.0</b>	<b>525.1</b>
Change from prior year	%	3.3	8.1	1.1	1.5	0.5
<b>EBITDA</b>	EUR million	<b>53.2</b>	<b>45.7</b>	<b>70.3</b>	<b>26.5</b>	<b>52.6</b>
Change from prior year	%	16.5	-35.0	164.9	-49.5	2.2
	% of sales	8.8	7.8	13.0	5.0	10.0
<b>EBIT before one-off effects<sup>1</sup></b>	EUR million	<b>31.1</b>	<b>23.5</b>	<b>15.1</b>	<b>27.0</b>	<b>32.7</b>
Change from prior year	%	32.1	56.4	-44.3	-17.2	1.1
	% of sales	5.2	4.0	2.8	5.1	6.2
<b>Net profit<sup>2</sup></b>	EUR million	<b>24.5</b>	<b>16.5</b>	<b>28.1</b>	<b>0.3</b>	<b>26.0</b>
Change from prior year	%	48.3	-41.3	-	-98.7	42.8
	% of sales	4.1	2.8	5.2	0.1	5.0
<b>Cash flow from operating activities</b>	EUR million	<b>30.5</b>	<b>18.5</b>	<b>17.5</b>	<b>31.8</b>	<b>51.3</b>
Change from prior year	%	65.5	5.3	-44.9	-38.0	35.3
	% of sales	5.1	3.2	3.3	6.0	9.8
<b>Investments in property, plant and equipment &amp; intangible assets</b>	EUR million	<b>24.4</b>	<b>26.8</b>	<b>28.2</b>	<b>29.4</b>	<b>25.1</b>
<b>Depreciation &amp; amortisation</b>	EUR million	<b>-22.1</b>	<b>-22.1</b>	<b>-26.9</b>	<b>-21.3</b>	<b>-19.9</b>
<b>Total assets</b>	EUR million	<b>440.9</b>	<b>419.8</b>	<b>450.5</b>	<b>435.6</b>	<b>429.7</b>
<b>Non-current assets</b>	EUR million	<b>207.8</b>	<b>206.5</b>	<b>210.1</b>	<b>209.1</b>	<b>193.1</b>
<b>Net liquidity / (net debt)</b>	EUR million	<b>21.3</b>	<b>27.5</b>	<b>54.1</b>	<b>41.1</b>	<b>63.7</b>
<b>Shareholders' equity<sup>2</sup></b>	EUR million	<b>283.1</b>	<b>271.2</b>	<b>280.2</b>	<b>269.0</b>	<b>281.8</b>
	% of total assets	64.2	64.6	62.2	61.8	65.6
<b>Employees</b>	Ø full-time equivalents	<b>3,412</b>	<b>3,383</b>	<b>3,247</b>	<b>3,194</b>	<b>3,239</b>
<b>Market closing price registered share A</b>	CHF	<b>33.35</b>	<b>39.95</b>	<b>32.15</b>	<b>38.45</b>	<b>41.30</b>
<b>Dividends<sup>3</sup></b>	CHF million	<b>9.4</b>	<b>5.9</b>	<b>11.1</b>	<b>-</b>	<b>11.7</b>
<b>Payout ratio</b>	%	<b>35</b>	<b>34</b>	<b>50</b>	<b>-</b>	<b>38</b>
<b>Market capitalisation<sup>4</sup></b>	CHF million	<b>325.4</b>	<b>389.8</b>	<b>313.7</b>	<b>375.1</b>	<b>402.9</b>
<b>Total market capitalisation<sup>5</sup></b>	CHF million	<b>391.4</b>	<b>468.9</b>	<b>377.3</b>	<b>451.2</b>	<b>484.7</b>

<sup>1</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>2</sup> Including minority interests

<sup>3</sup> For 2018 as proposed by the Board of Directors

<sup>4</sup> Market value of all listed registered shares A at year end; excluding value of unlisted registered shares B

<sup>5</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>

			2018	2017	2016	2015	2014
<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	46.00	40.95	44.20	48.45	43.45
Registered share A	low	CHF	29.15	31.30	30.50	29.50	33.10
Registered share A	at year end	CHF	33.35	39.95	32.15	38.45	41.30
<b>Consolidated net profit</b>							
Per registered share A		EUR	1.98	1.34	1.74	0.01	2.19
<b>Consolidated equity<sup>2</sup></b>							
Per registered share A		EUR	23.21	22.42	22.55	21.76	22.94
<b>Dividend (gross)</b>							
Dividend per registered share A <sup>3</sup>		CHF	0.80	0.50	0.95	–	1.00
Payout ratio	% of net profit per share		35	34	50	–	38

<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 2018 as proposed by the Board of Directors

# Consolidated Balance Sheet

EUR million	Notes page 47 ff.	31 December 2018	31 December 2017	Change from prior year %
<b>Assets</b>				
Liquid assets	1	42.7	41.3	
Trade accounts receivable	2	104.6	93.4	
Other receivables	2	19.5	14.3	
Inventories	3	59.7	57.4	
Prepayments		2.6	3.0	
Accrued income		4.0	3.9	
<b>Current assets</b>		<b>233.1</b>	<b>213.3</b>	<b>9.3</b>
Property, plant and equipment	4	195.8	196.0	
Financial assets	4	10.7	9.0	
Intangible assets	4	1.3	1.5	
<b>Non-current assets</b>		<b>207.8</b>	<b>206.5</b>	<b>0.6</b>
<b>Total assets</b>		<b>440.9</b>	<b>419.8</b>	<b>5.0</b>
<b>Liabilities &amp; shareholders' equity</b>				
Loans	5	15.5	6.7	
Trade accounts payable		31.5	31.1	
Other liabilities		23.7	22.2	
Provisions	6	8.6	10.0	
Accruals and deferred income		49.6	47.4	
<b>Current liabilities</b>		<b>128.9</b>	<b>117.3</b>	<b>9.9</b>
Loans	5	5.9	7.2	
Other liabilities		0.8	1.8	
Provisions	6	22.2	22.4	
<b>Long-term liabilities</b>		<b>28.9</b>	<b>31.3</b>	<b>-7.7</b>
<b>Total liabilities</b>		<b>157.8</b>	<b>148.6</b>	<b>6.2</b>
Share capital		0.4	0.4	
Capital reserves		33.6	33.6	
Own shares		-6.3	-8.4	
Retained earnings		245.9	235.6	
Accumulated FX differences		-5.1	-3.3	
Minority interests		14.7	13.3	
<b>Equity</b>	7	<b>283.1</b>	<b>271.2</b>	<b>4.4</b>
<b>Total liabilities &amp; shareholders' equity</b>		<b>440.9</b>	<b>419.8</b>	<b>5.0</b>



# Consolidated Income Statement

EUR million	Notes page 47 ff.	2018	2017	Change from prior year %
<b>Sales</b>	16	<b>601.8</b>	<b>582.4</b>	<b>3.3</b>
Changes in inventories		0.4	1.3	
Internal additions to plant and equipment		1.8	2.6	
Other income	17	3.6	4.0	
Cost of materials		-232.2	-220.3	
Personnel costs		-194.7	-196.6	
Depreciation of property, plant and equipment	4	-21.4	-21.4	
Amortisation of intangible assets	4	-0.7	-0.7	
Other operating expenses	18	-127.6	-127.8	
<b>Earnings before interest and taxes (EBIT)</b>		<b>31.1</b>	<b>23.5</b>	<b>32.1</b>
Result from associated companies	4	-	-0.2	
Financial result	19	-2.0	-1.6	
<b>Earnings before taxes</b>		<b>29.0</b>	<b>21.7</b>	<b>33.6</b>
Income taxes	20	-4.6	-5.2	
<b>Net profit</b>		<b>24.5</b>	<b>16.5</b>	<b>48.3</b>
Minority interests		1.6	1.1	
Net profit excluding minority interests		22.9	15.4	
Non-diluted net profit excluding minority interests per registered share A (EUR)	21	1.98	1.34	
Diluted net profit excluding minority interests per registered share A (EUR)	21	1.98	1.34	
Non-diluted net profit excluding minority interests per registered share B (EUR)	21	0.40	0.27	
Diluted net profit excluding minority interests per registered share B (EUR)	21	0.40	0.27	

# Consolidated Cash Flow Statement

EUR million	Notes page 47 ff.	2018	2017
Net profit		24.5	16.5
Depreciation and amortisation of property, plant and equipment	4	21.4	21.4
Depreciation and amortisation of intangible assets	4	0.7	0.7
Non-cash change in valuation adjustments on receivables and inventories		3.0	0.4
(Gain)/loss on disposals of non-current assets		-0.1	-0.2
Result from associated companies	4	-	0.2
(Increase)/decrease of trade accounts receivable		-12.3	-8.8
(Increase)/decrease of other receivables, prepayments and accrued income		-4.4	-2.1
(Increase)/decrease of inventories		-1.1	-7.9
Increase/(decrease) of trade accounts payable		-0.2	7.3
Increase/(decrease) of other short-term liabilities, accruals and deferred income		3.2	-0.4
Increase/(decrease) of provisions	6	-1.4	-6.3
(Increase)/decrease of deferred tax assets	4	-2.7	-2.4
<b>Cash flow from operating activities</b>		<b>30.5</b>	<b>18.5</b>
Investments in property, plant and equipment	4	-24.0	-26.0
Investments in intangible assets		-0.5	-0.8
Investments in subsidiaries	24	-9.2	-3.0
Divestment of property, plant and equipment		0.5	0.6
<b>Cash flow from investing activities</b>		<b>-33.1</b>	<b>-29.2</b>
Dividends paid to shareholders		-5.0	-10.2
Dividends paid to minority shareholders		-	-4.3
(Purchase)/sale of own shares		1.4	1.8
Increase/(decrease) of short-term loans	5	8.0	-9.5
Increase/(decrease) of long-term loans	5	-0.5	-0.5
<b>Cash flow from financing activities</b>		<b>3.9</b>	<b>-22.7</b>
Currency effects		0.1	-4.6
<b>Increase/(decrease) of liquid assets</b>		<b>1.4</b>	<b>-38.1</b>
Liquid assets at 1.1.		41.3	79.4
Liquid assets at 31.12.		42.7	41.3
<b>Increase/(decrease)</b>		<b>1.4</b>	<b>-38.1</b>

# Consolidated Statement of Changes in Equity

EUR million	Share capital	Capital reserves	Own shares	Retained earnings	Accumulated FX differences	Total excluding minority interests	Minority interests	Total including minority interests
<b>Equity at 1.1.2018</b>	<b>0.4</b>	<b>33.6</b>	<b>-8.4</b>	<b>235.6</b>	<b>-3.3</b>	<b>257.9</b>	<b>13.3</b>	<b>271.2</b>
Purchase of own shares	-	-	-	-	-	-	-	-
Sale of own shares	-	-	2.1	-0.1	-	2.0	-	2.0
Net profit	-	-	-	22.9	-	22.9	1.6	24.5
Netted goodwill	-	-	-	-7.5	-	-7.5	-	-7.5
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>245.9</b>	<b>-5.1</b>	<b>268.4</b>	<b>14.7</b>	<b>283.1</b>
<b>Equity at 1.1.2017</b>	<b>0.4</b>	<b>33.6</b>	<b>-10.5</b>	<b>230.7</b>	<b>8.7</b>	<b>262.8</b>	<b>17.4</b>	<b>280.2</b>
Purchase of own shares	-	-	-0.1	-	-	-0.1	-	-0.1
Sale of own shares	-	-	2.2	-0.3	-	1.9	-	1.9
Net profit	-	-	-	15.4	-	15.4	1.1	16.5
Netted goodwill	-	-	-	-	-	-	-	-
Dividends	-	-	-	-10.2	-	-10.2	-4.3	-14.4
Currency effects	-	-	-	-	-11.9	-11.9	-1.0	-12.9
<b>Equity at 31.12.2017</b>	<b>0.4</b>	<b>33.6</b>	<b>-8.4</b>	<b>235.6</b>	<b>-3.3</b>	<b>257.9</b>	<b>13.3</b>	<b>271.2</b>

# Consolidation Matrix and Principles

## Consolidation matrix

The consolidated financial statements are presented in euros and include all domestic and foreign companies in which Zehnder Group AG directly or indirectly holds more than 50% of the voting rights. 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.

Companies in which the participation is 50% or less can also be fully consolidated, provided that legally binding agreements on supervision have been signed.

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

- Purchase of IntelliVENT OÜ as at 1 January 2018 in Estonia and renaming Zehnder Baltics OÜ,
- Purchase of a part of NuClimate Air Systems, Inc. as at 12 January 2018 in the USA,
- Purchase of Ventener AB as at 1 September 2018 in Sweden,
- Purchase of Exvent AS as at 1 September 2018 in Norway,
- Founding of Enervent Zehnder OY on 1 September 2018 in Finland,
- Founding of Zehnder Österreich GmbH on 9 October 2018 in Austria,
- Founding of Zhejiang Nather Water Treatment Technology Co., Ltd. on 12 December 2018 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.

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>							
2018	0.8880	12.71	1.1130	23.29	9.79	16.54	0.8738
2017	0.8552	12.83	1.1265	23.96	10.17	22.07	0.8348
<b>Average-for-the-year rates</b>							
2018	0.8646	12.83	1.1320	23.51	9.76	18.15	0.8445
2017	0.9047	13.16	1.1428	23.47	10.41	24.57	0.8909

### 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.

Basically, capital is consolidated in accordance with the Anglo-Saxon purchase method. The assets and liabilities of the consolidated subsidiary are valued on the date of the first consolidation in accordance with the Group's guidelines. After this revaluation, any goodwill remaining (positive difference between the purchase price and the total disclosed equity capital of the acquired company after revaluation) is directly charged to the Group's equity capital at the time of acquisition. Any goodwill on associated companies is also charged to the equity capital.

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 consolidation principles as well as the accounting and valuation principles applied remained unchanged year on year.

## 1. Liquid assets

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

## 2. Trade accounts receivable

Trade accounts receivable are shown at nominal value less allowances for specific currency or credit risks as well as general allowances for bad and doubtful debts. The latter are 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 3,000 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 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.

## **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.

## **6. Intangible assets**

Acquired intangible assets are recognised at acquisition cost. Computer software is written down on a straight-line basis over 3 to 5 years, other intangible assets over 3 to 10 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 12 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 outsourced 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 the income statement.

## 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 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. All intergroup sales are eliminated during the process of consolidation.

## 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 credits 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 credits have not been capitalised from tax loss carry-forwards.



# Notes to the Consolidated Financial Statements

## 1. Liquid assets

Liquid assets amounted to EUR 42.7 million (2017: EUR 41.3 million) whereas interest-bearing financial liabilities reached EUR 21.4 million (2017: EUR 13.8 million). Thus, at year end, net liquidity amounted to EUR 21.3 million (2017: EUR 27.5 million).

## 2. Accounts receivable from sales and services and other receivables

EUR million	31.12.2018	31.12.2017
Accounts receivable gross*	129.3	112.0
Valuation adjustments	-5.1	-4.3
<b>Accounts receivable net</b>	<b>124.1</b>	<b>107.7</b>
*Of which more than 12 months overdue gross	2.8	2.5

## 3. Inventories

EUR million	31.12.2018	31.12.2017
Raw materials	34.2	32.2
Semi-finished products and goods in process	5.3	4.8
Finished products	33.5	32.3
Valuation adjustments	-13.3	-11.9
<b>Total inventories</b>	<b>59.7</b>	<b>57.4</b>

#### 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 1.1.2018</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	204.6	226.6	31.3	16.8	479.2
Investments	6.4	14.2	2.6	0.3	23.4
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	1.2	0.4	0.2	-1.7	0.1
Status 31.12.2018	214.3	242.8	30.3	4.2	491.6
<b>Accumulated valuation adjustments</b>					
Status 1.1.2018	-82.4	-180.0	-20.7	-0.2	-283.3
Ordinary depreciation	-5.6	-11.9	-3.6	-	-21.2
Extraordinary depreciation	-	-0.2	-	-	-0.2
Disposals	5.3	2.2	3.5	-	11.0
Changes in consolidation matrix	-	-	-	-	-
Reclassifications	-	-	-0.3	0.2	-
Currency effects	-1.1	-0.8	-0.2	-	-2.1
Status 31.12.2018	-83.8	-190.7	-21.2	-	-295.8
<b>Net book value at 31.12.2018</b>	<b>130.5</b>	<b>52.0</b>	<b>9.0</b>	<b>4.2</b>	<b>195.8</b>
<b>Net book value at 1.1.2017</b>	<b>132.2</b>	<b>45.0</b>	<b>12.2</b>	<b>12.1</b>	<b>201.4</b>
<b>Acquisition cost</b>					
Status 1.1.2017	211.9	224.0	35.2	12.1	483.2
Investments	1.1	10.5	2.3	11.4	25.2
Disposals	-0.3	-5.9	-5.5	-	-11.7
Changes in consolidation matrix	-	-	-	-	-
Reclassifications	0.6	3.9	0.3	-4.9	-
Currency effects	-8.8	-6.0	-1.0	-1.8	-17.5
Status 31.12.2017	204.6	226.6	31.3	16.8	479.2
<b>Accumulated valuation adjustments</b>					
Status 1.1.2017	-79.8	-179.1	-22.9	-	-281.8
Ordinary depreciation	-5.8	-11.3	-4.0	-	-21.1
Extraordinary depreciation	-	-0.1	-	-0.3	-0.4
Disposals	0.1	5.9	5.2	-	11.2
Changes in consolidation matrix	-	-	-	-	-
Reclassifications	-0.3	0.1	0.2	-	-
Currency effects	3.4	4.6	0.7	-	8.7
Status 31.12.2017	-82.4	-180.0	-20.7	-0.2	-283.3
<b>Net book value at 31.12.2017</b>	<b>122.2</b>	<b>46.6</b>	<b>10.6</b>	<b>16.6</b>	<b>196.0</b>

## Financial assets

EUR million	Loans	Reserves for employer contributions	Deferred tax assets	Associated companies	Total
<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
Result from associated companies	–	–	–	–	–
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>
<b>Net book value at 1.1.2017</b>	<b>0.6</b>	<b>3.6</b>	<b>2.7</b>	<b>0.3</b>	<b>7.2</b>
<b>Acquisition or current book value</b>					
Status 1.1.2017	0.8	3.6	2.7	0.3	7.4
Increases	–	–	2.6	–	2.7
Decreases	–0.1	–	–0.2	–	–0.3
Result from associated companies	–	–	–	–0.2	–0.2
Currency effects	–	–0.3	–	–	–0.4
Status 31.12.2017	0.7	3.3	5.2	–	9.2
<b>Accumulated valuation adjustments</b>					
Status 1.1.2017	–0.2	–	–	–	–0.2
Status 31.12.2017	–0.2	–	–	–	–0.2
<b>Net book value at 31.12.2017</b>	<b>0.5</b>	<b>3.3</b>	<b>5.2</b>	<b>–</b>	<b>9.0</b>

For further details on reserves for employer contribution, please refer to note 14. Employer contribution reserves and pension fund liabilities on page 53.

## Intangible assets

EUR million	2018	2017
<b>Net book value at 1.1.</b>	<b>1.5</b>	<b>1.5</b>
<b>Acquisition cost</b>		
Status 1.1.	11.6	11.7
Investments	0.5	0.8
Disposals	-0.4	-0.3
Currency effects	0.3	-0.6
Status 31.12.	11.9	11.6
<b>Accumulated valuation adjustments</b>		
Status 1.1.	-10.1	-10.3
Ordinary amortisation	-0.7	-0.7
Disposals	0.4	0.3
Currency effects	-0.2	0.5
Status 31.12.	-10.6	-10.1
<b>Net book value at 31.12.</b>	<b>1.3</b>	<b>1.5</b>

## 5. Loans

EUR million	2018	2017
<b>Split by maturity</b>		
Less than 12 months	15.5	6.7
12 months to 60 months	4.4	5.4
More than 60 months	1.5	1.8
<b>Total</b>	<b>21.4</b>	<b>13.8</b>
<b>Split by currency</b>		
CAD	6.6	3.9
CHF	-	0.9
CNY	4.0	-
EUR	1.8	5.4
GBP	5.6	-
USD	3.5	3.7
<b>Total</b>	<b>21.4</b>	<b>13.8</b>

Short-term loans show an interest rate of 2 to 5% (2017: 1 to 4%). 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	Provisions for deferred taxes	Pension commitments	Provisions for restructuring	Other provisions	Total
<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
<b>Book value at 1.1.2017</b>	<b>8.0</b>	<b>6.1</b>	<b>9.4</b>	<b>16.1</b>	<b>39.6</b>
New provisions	2.7	0.5	0.4	3.1	6.7
Use	–1.1	–0.3	–2.8	–3.5	–7.6
Reversals	–1.6	–0.1	–2.2	–1.4	–5.3
Changes in consolidation matrix	–	–	–	–	–
Currency effects	–0.4	–	–0.1	–0.4	–0.9
<b>Book value at 31.12.2017</b>	<b>7.6</b>	<b>6.1</b>	<b>4.8</b>	<b>13.9</b>	<b>32.3</b>
Of which short-term	–	0.3	4.6	5.0	10.0

The provisions for taxes include deferred taxes as well as other provisions for taxes in accordance with section 9 of the accounting and valuation principles on page 45.

The discount rate for German pension obligations was 2.0% (1.7% 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% (2017: 65%). The factors that contributed to changes in consolidated equity are presented in the consolidated statement of changes in equity.

As in 2017, the share capital totalled CHF 0.6 million, corresponding to EUR 0.4 million at the exchange rate on 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 6.2 million (2017: EUR 8.0 million).

	Registered shares A units 2018	Value per unit EUR 2018	Value thousand EUR 2018	Registered shares A units 2017	Value per unit EUR 2017	Value thousand EUR 2017
<b>Own shares at 1.1.</b>	<b>224,083<sup>1</sup></b>	<b>37.55</b>	<b>8,415</b>	<b>279,302<sup>2</sup></b>	<b>37.59</b>	<b>10,499</b>
Sale at (theoretical) market price	–60,014	32.81	–1,969	–57,385	32.90	–1,888
Gain/(loss) from sale	–	–	–132	–	–	–262
Purchase at acquisition price	–	–	–	2,166	30.53	66
<b>Own shares at 31.12.</b>	<b>164,069<sup>1</sup></b>	<b>38.48</b>	<b>6,314</b>	<b>224,083<sup>2</sup></b>	<b>37.55</b>	<b>8,415</b>

<sup>1</sup> Of which 16,648 (1.1.) or 6,560 (31.12.) reserved for the option programme

<sup>2</sup> Of which 21,368 (1.1.) or 16,648 (31.12.) reserved for the option programme

Shares were sold at a discount of 30% to management staff participating in a stock ownership plan (see note 22. Shares granted on page 57).

Major shareholders as defined in Art. 663c of the Swiss Code of Obligations (company law) are disclosed in the individual financial statements of Zehnder Group AG, see page 72.

## 8. Contingent liabilities

At year end, there were guarantee obligations vis-à-vis third parties totalling EUR 69.7 million (2017: EUR 68.7 million).

## 9. Pledged assets

Of the Group's total assets, EUR 14.2 million served as collateral (2017: EUR 18.4 million). The pledged assets were exclusively land and buildings.

## 10. Liabilities to pension funds

At 31 December 2018, there were liabilities to pension funds in the amount of EUR 0.6 million (2017: EUR 0.6 million).

## 11. Transactions with closely associated parties

In the year under review, no products were sold to companies that were not fully consolidated (2017: immaterial value). With regard to companies that were not fully consolidated, there were receivables of EUR 0.2 million (2017: 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.

## 12. Derivative financial instruments

EUR million	Active value 31.12.2018	Passive value 31.12.2018	Active value 31.12.2017	Passive value 31.12.2017	Purpose
Foreign exchange	0.1	–	–	0.1	hedging
<b>Total</b>	<b>0.1</b>	<b>–</b>	<b>–</b>	<b>0.1</b>	

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

Current operating leasing contracts expire as follows:

EUR million	31.12.2018	31.12.2017
Within 12 months	3.3	3.1
In 13–60 months	7.2	6.1
In more than 60 months	3.0	0.7
<b>Total</b>	<b>13.5</b>	<b>9.9</b>

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

Please refer to section 10 on page 46 for the accounting and valuation principles applied for pension commitments.

The provisions made in respect of pension commitments are detailed on page 51.

##### Employer contribution reserve (ECR)

EUR thousands	Nominal value 31.12.2018	Balance sheet 31.12.2018	Currency gain (+)/loss (-) on ECR 2018	Balance sheet 31.12.2017	Expense (-)/ income (+) in terms of personnel expense 2018	Expense (-)/ income (+) in terms of personnel expense 2017
Pension trust fund	2,624	2,624	106	3,339	-821	-
<b>Total</b>	<b>2,624</b>	<b>2,624</b>	<b>106</b>	<b>3,339</b>	<b>-821</b>	<b>-</b>

In the 2018 financial year, restructuring measures in connection with the relocation of production from Gränichen (Switzerland) to Vaux-Andigny (France) were fully funded by the pension trust fund. The corresponding provisions of the Zehnder Group were applied at the same amount. The reduction in the employer contribution reserve and release of the provision had no effect on liquidity.

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

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

EUR thousands	Excess/(inad- equately) cover 31.12.2018 <sup>1</sup>	Economic share of organisation 31.12.2018	Economic share of organisation 31.12.2017	Capitalised in business year 2018	Contributions accrued 2018	Pension expenses in personnel expenses 2018	Pension expenses in personnel expenses 2017
Pension trust fund	1,300	-	-	-	-	-	-
Personnel pension fund collective fund	4,603	-	-	-	2,046	2,046	2,136
Pension plans abroad	-	-	2	-	8,122	8,122	8,040
<b>Total</b>	<b>5,903</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>10,168</b>	<b>10,168</b>	<b>10,176</b>

<sup>1</sup> The 2018 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 2018 correspond to the value as at 31 December 2017.

## 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 7 to 8% of total sales.

The Europe segment comprises a total of 39 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 12 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>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>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>40.7</b>	<b>–</b>	<b>195.8</b>
<b>Number of employees</b>	Ø full-time equivalents	<b>2,625</b>	<b>786</b>	<b>–</b>	<b>3,412</b>
<b>2017</b>					
Sales third	EUR million	491.1	91.3	–	582.4
Sales intercompany	EUR million	3.0	1.9	–4.8	–
<b>Sales</b>	EUR million	<b>494.1</b>	<b>93.2</b>	<b>–4.8</b>	<b>582.4</b>
<b>EBIT</b>	EUR million	<b>21.1</b>	<b>2.4</b>	<b>–</b>	<b>23.5</b>
	% of sales	4.3	2.6		4.0
<b>Investments in property, plant and equipment &amp; intangible assets</b>	EUR million	<b>20.3</b>	<b>6.5</b>	<b>–</b>	<b>26.8</b>
<b>Property, plant and equipment</b>	EUR million	<b>154.5</b>	<b>41.5</b>	<b>–</b>	<b>196.0</b>
<b>Number of employees</b>	Ø full-time equivalents	<b>2,615</b>	<b>768</b>	<b>–</b>	<b>3,383</b>



## 16. Sales

At EUR 601.8 million consolidated sales in 2018 were 3% higher than in 2017 (2017: EUR 582.4 million). Adjusted for currency effects, sales revenues increased by 4%.

For sales by segment, please refer to note 15. Segment reporting on page 54.

Sales by region and business area are classified as follows:

		2018	%	2017	%
<b>Sales by region and business area</b>					
Radiators Europe	EUR million	274.9	45.7	281.7	48.4
Change from prior year	%	-2.4		3.4	
Radiators North America	EUR million	36.5	6.1	35.2	6.0
Change from prior year	%	3.8		-2.0	
Radiators China	EUR million	11.6	1.9	13.9	2.4
Change from prior year	%	-16.7		-7.4	
<b>Total business area radiators</b>	EUR million	<b>323.0</b>	<b>53.7</b>	<b>330.9</b>	<b>56.8</b>
Change from prior year	%	-2.4		2.3	
Ventilation Europe	EUR million	231.7	38.5	209.4	35.9
Change from prior year	%	10.7		7.9	
Ventilation North America	EUR million	8.5	1.4	10.3	1.8
Change from prior year	%	-17.5		28.7	
Ventilation China	EUR million	38.7	6.4	31.9	5.5
Change from prior year	%	21.3		137.3	
<b>Total business area ventilation</b>	EUR million	<b>278.9</b>	<b>46.3</b>	<b>251.6</b>	<b>43.2</b>
Change from prior year	%	10.9		16.8	
Total Europe	EUR million	506.5	84.2	491.1	84.3
Change from prior year	%	3.1		5.3	
Total North America	EUR million	45.0	7.5	45.5	7.8
Change from prior year	%	-1.1		3.6	
Total China	EUR million	50.3	8.4	45.8	7.9
Change from prior year	%	9.8		60.9	
<b>Total</b>	EUR million	<b>601.8</b>	<b>100.0</b>	<b>582.4</b>	<b>100.0</b>
Change from prior year	%	3.3		8.1	

## 17. Other income

Other income is as follows:

EUR million	2018	2017
License income	0.1	0.1
Gain on disposal of fixed assets	0.1	0.3
Miscellaneous operating income	3.3	3.6
<b>Total</b>	<b>3.6</b>	<b>4.0</b>

## 18. Other operating expenses

The other operating expenses break down as follows:

EUR million	2018	2017
Operating expenses	-42.8	-43.5
Marketing and distribution expenses	-62.8	-62.7
Administration and IT expenses	-22.0	-21.7
<b>Total</b>	<b>-127.6</b>	<b>-127.8</b>

## 19. Financial result

The exchange losses of EUR 1.3 million (2017: EUR 1.4 million) is primarily attributable to unrealised foreign exchange losses.

EUR million	2018	2017
Financial expenses	-0.9	-0.9
Financial earnings	0.1	0.6
Exchange gains/(losses)	-1.3	-1.4
<b>Total financial result</b>	<b>-2.0</b>	<b>-1.6</b>

## 20. Income taxes

The tax ratio (= taxes in percent of earnings before taxes) was 16% (2017: 24%).

EUR million	2018	2017
Current taxes	-7.7	-6.5
Deferred taxes	3.2	1.3
<b>Total taxes</b>	<b>-4.6</b>	<b>-5.2</b>

Zehnder Group expects that tax loss carryforwards of EUR 80.6 million (2017: EUR 84.8 million) can be utilised in the future. The respective deferred tax assets amount to EUR 11.9 million (2017: EUR 12.0 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	2018	2017
Earnings before taxes	29.0	21.7
Expected tax rate in %	24	24
<b>Expected tax expense</b>	<b>-6.9</b>	<b>-5.3</b>
Effect of tax incentives	1.0	1.5
Effect of non-deductible expenses	-0.3	-0.7
Effect of non-recognition of tax loss carry forwards	-	-1.7
Effect of use of unrecognised tax loss carry forwards	0.1	0.2
Other effects	1.5	0.7
<b>Effective tax expense</b>	<b>-4.6</b>	<b>-5.2</b>
Effective tax rate in %	16	24

## 21. Net income per registered share

The undiluted net income per registered share A is calculated by dividing the net income 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 income 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 significant dilution effect occurred for the reporting year or the previous year.

		2018	2017
Net profit excluding minority interests	EUR million	22.9	15.4
Notional number of shares	units	11,736,000	11,736,000
Average number of own shares	units	173,238	232,454
<b>Non-diluted net profit excluding minority interests per registered share A</b>	<b>EUR</b>	<b>1.98</b>	<b>1.34</b>
Additional shares from outstanding options (in-the-money)	units	–	291
<b>Diluted net profit excluding minority interests per registered share A</b>	<b>EUR</b>	<b>1.98</b>	<b>1.34</b>

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

## 22. Shares granted

The company 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 (see Compensation Report page 22 ff. also).

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

### Shares granted

		2018	2017
Shares granted	units	57,774	56,665
Current value on the day of allocation	CHF	42.40	32.70
Personnel costs	CHF	933,000	470,000

## 23. Options

The options plan was discontinued as of 1 January 2012. According to the regulations, the rights to exercise options from the plan continue to exist until 2019. Each option carries the right to acquire one registered share A at a price fixed at the time of allocation. The rights to exercise options are defined as follows:

### Allocated options

		Allocated options units	Exercise price CHF	Outstanding options units 31.12.2018	Outstanding options units 31.12.2017
Allocation day	Exercise period				
1 March 2010	2 March 2015–1 March 2018	14,080	37.93	–	6,720
1 March 2011	2 March 2016–1 March 2019	14,480	62.50	7,680	9,680
<b>Total</b>		<b>28,560</b>		<b>7,680</b>	<b>16,400</b>

The options are cancelled if a holder leaves the company. The vesting period is lifted as soon as the holder reaches retirement age. After this, the options must be exercised within 18 months at the latest. The number of options and the average exercise price are made up as follows:

### Outstanding options

	Average exercise price CHF 2018	Options units 2018	Average exercise price CHF 2017	Options units 2017
<b>Outstanding options at 1.1.</b>	<b>52.99</b>	<b>16,400</b>	<b>45.92</b>	<b>21,440</b>
Cancelled options	45.51	–6,480	25.96	–4,320
Exercised options	42.95	–2,240	34.17	–720
<b>Outstanding options at 31.12.</b>	<b>62.50</b>	<b>7,680</b>	<b>52.99</b>	<b>16,400</b>
Exercisable options at 31.12.	62.50	7,680	52.99	16,400

The outstanding options are hedged with own shares.

## 24. Acquisitions

The following acquisitions were made in the year under review:

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.

These two transactions had no significant influence on the consolidated accounts of the Zehnder Group.

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. As a result, the Group acquired net assets amounting to EUR 1.5 million (current assets of EUR 2.1 million, non-current assets of EUR 0.2 million, liabilities of EUR 0.8 million). The resulting goodwill amounted to EUR 5.3 million and was offset against equity. In 2018, the Enervent Group contributed revenue of EUR 3.8 million.

No significant acquisition was made in the previous year.

## 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

		31.12.2018	31.12.2017
<b>Disclosed equity inclusive minority interests</b>	EUR million	<b>283.1</b>	<b>271.2</b>
Equity ratio	%	64.2	64.6
<b>Acquisition value of goodwill</b>			
Status at beginning of business year	EUR million	117.5	117.5
Additions <sup>1</sup>	EUR million	7.5	–
Status at end of business year	EUR million	125.0	117.5
<b>Accumulated amortisation</b>			
Status at beginning of business year	EUR million	– 106.9	– 102.9
Amortisation in current year	EUR million	– 4.5	– 4.0
Status at end of business year	EUR million	– 111.4	– 106.9
<b>Theoretical net book value of goodwill</b>	EUR million	<b>13.6</b>	<b>10.6</b>
<b>Theoretical equity inclusive minority interests and net book value of goodwill</b>	EUR million	<b>296.7</b>	<b>281.8</b>
Theoretical equity ratio	%	65.3	65.5

### Impact of theoretical capitalisation of goodwill on results

		31.12.2018	31.12.2017
<b>Disclosed net profit</b>	EUR million	<b>24.5</b>	<b>16.5</b>
Theoretical amortisation of goodwill	EUR million	– 4.5	– 4.0
<b>Net profit after amortisation of goodwill</b>	EUR million	<b>20.0</b>	<b>12.5</b>

<sup>1</sup> EUR 5.3 million from the acquisition of Enervent Zehnder OY, Finland, EUR 1.4 million from the acquisition of IntelliVENT OÜ, Estonia (Zehnder Baltics OÜ), and EUR 0.8 million related to the acquisition of a part of NuClimate Air Quality Systems, Inc., USA (2018)

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

Please refer to the Compensation Report on page 22 ff.

## 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 2018 financial statements were approved by the Board of Directors on 22 February 2019.

# Overview of Companies

Status 31.12.2018, 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. (formerly dPoint Technologies 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	0 <sup>1</sup>	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
<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
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
<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
<b>Norway</b>					
Bekkestua	Exvent AS	S	250,000	100	fully

<sup>1</sup> The share capital had not yet been paid in on the balance sheet date. In February 2019, an amount of CNY 5 million is due to be paid in.

		Activity	Capital stock	Capital share in %	Consolidated
<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	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



# Statutory Auditor's Report

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 2018 and the consolidated statement of income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 38 to 61) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated results of operations 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.

### Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



#### Revenue recognition

Key audit matters are those matters that, in our professional judgment, 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.





## Revenue recognition

### Key Audit Matter

The consolidated income statement 2018 of Zehnder Group presents revenue (sales) of EUR 601.8 million.

Revenue is recognized when the relevant risks and rewards associated with the ownership of the products have been transferred to the customer, income and costs can be reliably measured and the recoverability of the resulting receivables is adequately assured.

There is a risk that revenue may be overstated because of fraud resulting from potential pressure felt by Group or local management to achieve performance targets. Revenue is moreover an important element of measuring the Group's performance.

Furthermore, there is a risk that revenue is not recognised at the correct point in time or that rebates, credit notes and other discounts are not approved and recognized in line with Group internal guidance.

### Our response

We assessed the appropriateness of the Group's accounting policies with regards to revenue recognition, including the approval and recognition criteria for rebates, credit notes and other discounts.

Due to the reliance of revenue recognition and accounting for rebates, credit notes and other discounts on information technology (IT), we evaluated the integrity of the general IT control environment and the key process controls, which ensure complete, correct and accurate recognition of revenue transactions. Further, we tested the operating effectiveness of controls related to rebates, credit notes and other discounts.

We identified transactions that deviated from the standard process and validated on a sample basis their existence and accuracy by reconciliation to underlying documents. Furthermore, we analysed specific journal entries.

We performed a trend analysis per legal entity by comparing the reported results with our expectation in consideration of internal benchmarks and information on market developments.

We also considered the appropriateness of disclosures on revenue recognition in the consolidated financial statements.

For further information on revenue refer to the following:

- Accounting and Valuation principles 12, page 46
- Notes 15 and 16, page 54 and 55



### **Responsibility 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.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

In accordance with article 728a paragraph 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that the 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.

KPMG AG

Markus Forrer  
Licensed Audit Expert  
Auditor in Charge

Silvan Jurt  
Licensed Audit Expert

Zug, 22 February 2019

KPMG AG, Landis + Gyr-Strasse 1, 6300 Zug

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# Balance Sheet Zehnder Group AG

CHF million	Notes page 69 ff.	31 December 2018	31 December 2017
<b>Assets</b>			
Liquid assets		0.5	1.1
Other short-term receivables	1	6.3	10.4
<b>Current assets</b>		<b>6.7</b>	<b>11.5</b>
Financial assets	2	78.3	102.9
Participations	3	376.1	355.5
<b>Non-current assets</b>		<b>454.4</b>	<b>458.4</b>
<b>Total assets</b>		<b>461.1</b>	<b>469.9</b>
<b>Liabilities &amp; shareholders' equity</b>			
Short-term interest-bearing liabilities	4	6.6	32.0
Other short-term liabilities	5	0.4	0.3
Accruals and deferred income		1.5	2.4
<b>Short-term liabilities</b>		<b>8.5</b>	<b>34.7</b>
Provisions		60.4	60.0
<b>Long-term liabilities</b>		<b>60.4</b>	<b>60.0</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		327.5	307.5
– Net income for the year		20.4	25.7
Own shares	7	–6.9	–9.3
<b>Shareholders' equity</b>		<b>392.3</b>	<b>375.2</b>
<b>Total liabilities and shareholders' equity</b>		<b>461.1</b>	<b>469.9</b>

# Income Statement Zehnder Group AG

CHF million	Notes page 69 ff.	2018	2017
Dividend income		20.7	29.5
Other operating income		2.7	2.5
<b>Operating income</b>		<b>23.5</b>	<b>32.0</b>
Personnel expenses		-1.7	-1.7
Other operating expenses		-2.2	-2.3
Impairment losses on loans and participations		-0.2	-2.3
<b>Operating profit</b>		<b>19.3</b>	<b>25.7</b>
Financial income		4.6	17.2
Financial expenses		-3.5	-16.5
Direct taxes		-0.1	-0.7
<b>Net income for the year</b>		<b>20.4</b>	<b>25.7</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 shareholder's 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 remuneration**

If own shares are used for share-based remuneration for Board of Director members, then the difference between acquisition value 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	31.12.2018	31.12.2017
Accounts receivable from third parties	0.4	0.4
Accounts receivable from Group companies	5.9	10.0
<b>Total</b>	<b>6.3</b>	<b>10.4</b>

## 2. Financial assets

CHF million	31.12.2018	31.12.2017
Loans to third parties	0.2	0.2
Loans to Group companies	78.1	102.7
<b>Total</b>	<b>78.3</b>	<b>102.9</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 60 to 61.

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

CHF million	31.12.2018	31.12.2017
Bank loans	6.3	3.9
Loans from Group companies	0.3	28.0
<b>Total</b>	<b>6.6</b>	<b>32.0</b>

The increase in bank loans was due to the inclusion of fixed advances.

#### 5. Other short-term liabilities

CHF million	31.12.2018	31.12.2017
Other short-term liabilities to third parties	0.4	0.3
<b>Total</b>	<b>0.4</b>	<b>0.3</b>

#### 6. Share capital

	Registered shares A units 2018	Registered shares B units 2018	Value CHF 2018	Registered shares A units 2017	Registered shares B units 2017	Value CHF 2017
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 2017, total share capital amounted to CHF 0.6 million, corresponding to EUR 0.4 million at the exchange rate on 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).



## 7. Own shares

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

	Registered shares A units 2018	Value per share CHF 2018	Value CHF 2018	Registered shares A units 2017	Value per share CHF 2017	Value CHF 2017
<b>Own shares at 1.1., trading portfolio</b>	<b>207,435</b>	<b>41.19</b>	<b>8,544,467</b>	<b>257,934</b>	<b>41.27</b>	<b>10,643,750</b>
Shares sold	-57,774	37.51	-2,167,103	-56,665	35.68	-2,021,625
Gain/(loss) from sale			-165,161			-278,661
Shares bought	-	-	-	2,166	33.15	71,803
Reclassifications	7,848	39.03	306,335	4,000	32.30	129,200
<b>Own shares at 31.12., 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>
<b>Own shares at 1.1., long-term stock option plan</b>	<b>16,648</b>	<b>44.35</b>	<b>738,404</b>	<b>21,368</b>	<b>41.69</b>	<b>890,860</b>
Shares sold	-2,240	37.93	-84,963	-720	17.28	-12,442
Gain/(loss) from sale			12,611			-10,814
Reclassifications	-7,848	39.03	-306,335	-4,000	32.30	-129,200
<b>Own shares at 31.12., 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>
Total securities at 1.1.	224,083		9,282,870	279,302		11,534,610
Total securities at 31.12.	164,069		6,878,254	224,083		9,282,870

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 76.8 million (2017: CHF 78.6 million).

The company has taken over a rental guarantee for two subsidiaries. There is no upper limit to this commitment. 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 (2017: 49.8%),
- Credit Suisse Funds AG, Zürich (Switzerland): 1,150,356 registered shares A, corresponding to 5.9% of the votes (2017: 6.9%),
- VERAISON SICAV – Engagement Fund, Zürich (Switzerland): 1,173,600 registered shares A, corresponding to 6.0% of the votes (2017: 3.3%).

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> 2018	Registered shares A units <sup>1</sup> 2017	Registered shares B units <sup>2</sup> 2018	Registered shares B units <sup>2</sup> 2017	Options unit 2018	Options unit 2017
<b>Hans-Peter Zehnder</b> <sup>4</sup> Chairman of the Board, CEO a.i. from 5 February to 31 December 2018	198,348 1.0 % <sup>3</sup>	180,587 0.9 % <sup>3</sup>	20,000 0.1 % <sup>3</sup>	20,000 0.1 % <sup>3</sup>	320	320
<b>Thomas Benz</b> Vice Chairman of the Board	32,951 0.2 % <sup>3</sup>	30,667 0.2 % <sup>3</sup>	–	–	–	–
<b>Urs Buchmann</b> Member of the Board	14,614 0.1 % <sup>3</sup>	12,331 0.1 % <sup>3</sup>	–	–	–	–
<b>Riet Cadonau</b> Member of the Board	8,260	6,166	–	–	–	–
<b>Jörg Walther</b> Member of the Board	4,348	2,254	–	–	–	–
<b>Milva Zehnder</b> Member of the Board	3,162	1,639	–	–	–	–
<b>Dominik Berchtold</b> Chairman of the Group Executive Committee, CEO up to 2 February 2018	12,896 0.1 % <sup>3</sup>	30,577 0.2 % <sup>3</sup>	–	–	320	640
<b>Matthias Huenerwadel</b> CEO designated as of 12 November 2018	–	–	–	–	–	–
<b>René Grieder</b> CFO	10,150 0.1 % <sup>3</sup>	8,000	–	–	240	240
<b>Tomasz Juda</b> Competence Center Radiators	800	800	–	–	240	480
<b>Cyril Peysson</b> Sales Europe / Middle East / Africa (EMEA)	38,271 0.2 % <sup>3</sup>	35,026 0.2 % <sup>3</sup>	–	–	320	640
<b>Olaf Schulte</b> Competence Center Comfosystems	475	475	–	–	240	240

<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 ≥ 0.1%)

<sup>4</sup> Excluding Graneco AG, in which Hans-Peter Zehnder holds a 51.1% stake.

**11. Statutory auditor's fee**

The audit services for the company financial statements and consolidated financial statements amounted to CHF 90,900 (2017: CHF 102,600). In the year under review, no further audit-related services were invoiced (2017: CHF 3,267).

## Proposal on the Appropriation of Earnings

	CHF
The balance sheet profit available for distribution comprises	
Retained earnings from previous year	327,452,714
Net gain for 2018 according to the income statement	20,428,449
<b>Balance sheet profit</b>	<b>347,881,164</b>
<b>The Board of Directors proposes the following appropriation of earnings:</b>	
Payment of a dividend	9,388,800
To be carried forward to new account	338,492,364
<b>Total appropriation of earnings</b>	<b>347,881,164</b>

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



# Statutory Auditor's Report

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 2018, the income statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 66 – 73) for the year ended 31 December 2018 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.

## Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



### Valuation of investments

Key audit matters are those matters that, in our professional judgment, 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

### Key Audit Matter

Investments held by Zehnder Group AG as at 31 December 2018 amount to CHF 376.1 million. Annually management assesses for each investment whether there is any indication for impairment. If such indicators are identified, valuation of investments is tested by applying a discounted-cash-flow ("DCF") model. Such DCF-model requires various assumptions, driving significantly the resulting valuation of the tested investment.

### Our response

Our procedures included evaluating the valuation method applied by management. In particular, we have assessed the mathematical accuracy and reproducibility of the model used for the impairment tests and the appropriateness of group management's assumptions underpinning the calculation.

We have, amongst others, performed the following procedures on investments for which, due to quantitative and qualitative factors, a detailed DCF valuation was conducted:

- assessing the reasonableness of the forecasts by back-testing historical forecasts to actual results;
- comparing business plan data against the latest Board approved plans and management approved forecasts;
- challenging the robustness of the key assumptions, including forecasted cash flows, long-term growth rates and the discount rates by comparing them with publicly available data;
- conducting sensitivity analysis, taking into account the historical forecasting accuracy of the Group.

If the determined amount was below the book value of the investment, we verified that a respective valuation allowance was recorded.

For further information on the valuation of investments we refer to the following:

— Accounting and Valuation principles "Participations", page 68



### **Responsibility 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 either intends 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.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



## **Report on Other Legal and Regulatory Requirements**

In accordance with article 728a paragraph 1 item 3 CO and the 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 as presented on page 74 complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Markus Forrer  
Licensed Audit Expert  
Auditor in Charge

Silvan Jurt  
Licensed Audit Expert

Zug, 22 February 2019

KPMG AG, Landis + Gyr-Strasse 1, 6300 Zug

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# Further Information for Investors

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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 2019	28.3.2019
Ex-dividend date	1.4.2019
Dividend payout	3.4.2019
Six-month report	26.7.2019
End of business year	31.12.2019
Announcement of sales for 2019	17.1.2020
Annual report 2019	26.2.2020
Press conference on financial statements and analysts' meeting	26.2.2020
Annual General Meeting 2020	2.4.2020

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).

## Shareholder information

Zehnder Group AG regularly informs interested parties on business developments and major events in the Group. Should you wish to receive such press releases, please contact us at the above address or register directly on our website:  
[www.zehndergroup.com/en/investor-relations/reports-and-presentations](http://www.zehndergroup.com/en/investor-relations/reports-and-presentations)

## Company profile

Operating worldwide, the Zehnder Group improves quality of life by providing outstanding indoor climate solutions. It develops and manufactures its products in 15 of its own factories, 5 of which are located in China and North America. Its sales activities, spanning more than 70 countries, take place through local sales companies and representative offices.

Zehnder's products and systems for heating and cooling, comfort indoor ventilation, and interior air purification feature outstanding energy efficiency and excellent design. With brands such as Zehnder, Runtal, Acova, Bisque, Greenwood, Paul, Core and Enervent, the Zehnder Group is a market and technology leader in its business areas.

The Zehnder Group has had its headquarters in Gränichen (Switzerland) since 1895. It employs around 3,500 people worldwide and achieved sales of EUR 602 million in 2018. 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.

## Imprint

### Published by

Zehnder Group AG  
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### Concept/ Design/ Realisation

Linkgroup AG, Zurich  
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