zehnder

always the best climate

2017

ANNUAL REPORT

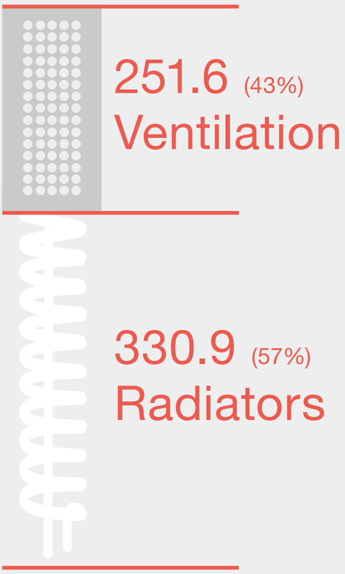
Content

Sales by segment

EUR million

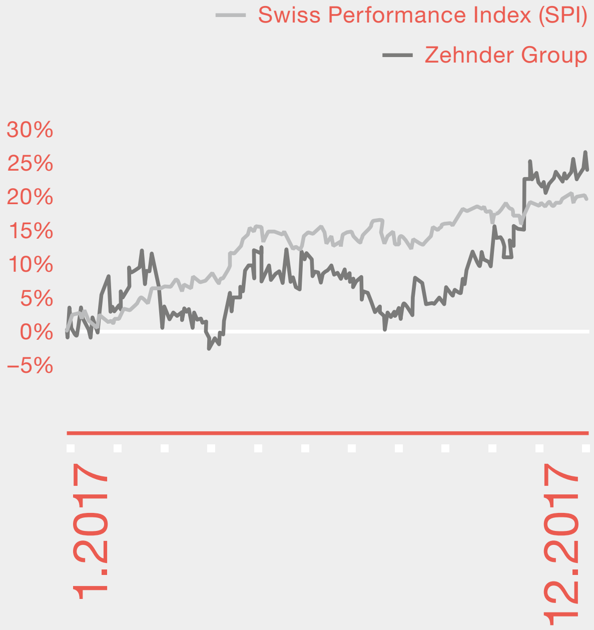
Sales by business area

EUR million



Share price development

1 January to 31 December 2017



Locations

Worldwide

Europe

Belgium
Czech Republic
Denmark
Finland
France
Germany
Great Britain
Italy
Netherlands
Norway
Poland
Russia
Sweden
Switzerland
Spain
Turkey

North America

Canada
USA

Asia

China

Key Figures

		2017	2016	%
Sales	EUR million	582.4	538.9	8.1
EBIT before one-off effects [1]	EUR million	23.5	15.1	56.0
	% of sales	4.0	2.8	
EBIT after one-off effects [1]	EUR million	23.5	43.4	−45.7
	% of sales	4.0	8.0	
Net profit [2]	EUR million	16.5	28.1	−41.3
	% of sales	2.8	5.2	
Net profit before depreciation & amortisation [2]	EUR million	38.6	55.0	−29.8
	% of sales	6.6	10.2	
Investments in property, plant and equipment & intangible assets	EUR million	26.8	28.2	−5.0
Depreciation & amortisation [3]	EUR million	22.1	26.9	−17.8
Total assets	EUR million	419.8	450.5	−6.8
Non-current assets	EUR million	206.5	210.1	−1.7
Shareholders’ equity [2]	EUR million	271.2	280.2	−3.2
	% of total assets	64.6	62.2	
Number of employees	Ø full-time equivalents	3,383	3,247	4.2
Net profit per registered share A [4]	EUR	1.34	1.74	−23.5
Net profit per registered share A before depreciation & amortisation [4]	EUR	3.26	4.05	−19.6
Shareholders’ equity per registered share A [4]	EUR	22.42	22.55	−0.6
Dividend per registered share A [5]	CHF	0.50	0.95	−47.4

1 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 (2016)
2 Including minority interests
3 Including an impairment of EUR 0.4 million (2017) or EUR 4.9 million (2016) in the business area Radiators in Europe
4 Excluding minority interests
5 For 2017 as proposed by the Board of Directors

Heading towards the right path

Dear shareholders,
Following the previous year's somewhat mixed performance, which included stagnating sales figures, the 2017 financial year saw the Zehnder Group boost its sales in all of its key markets. Germany and China in particular demonstrated positive market trends and it was possible for the Group to increase its market shares here. Overall, sales experienced an increase of 8% (10% when adjusted for currency effects), taking the figure to EUR 582.4 million. This positive development is evidence that we are on the right path with our strategic efforts to become a leading international provider of integrated complete solutions for indoor climates.

Achieving an increase of 56%, the operating result (EBIT before one-off effects) also demonstrated the Zehnder Group's return to growth during the year under review. Nevertheless, particularly where the EBIT margin is concerned, it is still too early to start celebrating. At 4.0%, this figure is still undoubtedly too low, and that is why our focus on optimising our processes and cost structure will continue undiminished.

Numerous highlights

In Europe, the new generation of ventilation units – the Zehnder ComfoAir Q model range – made a significant contribution to our growth during the last financial year. The market launch of this range concluded in January 2017 with its introduction in Switzerland. Driven by large-scale projects and growth in its retail business, the Zehnder Group was able to more than double its ventilation sales in China. We believe that there is strong potential for more growth in this region, and as a result we are constructing a new factory for ventilation units in the city of Pinghu (Zhejiang Province), with work scheduled to start in mid-2018. We expect the commissioning stage to take place in spring 2019.

Sales of the classic Zehnder Charleston radiator also demonstrated a positive trend. Recent years have seen continuous investment in market development, and this move is now paying off. As well as this, the Zehnder Zenia multifunctional thermal comfort unit went on display at leading international trade fair ISH in Frankfurt (Germany), and was extremely well received. Working independently of central heating systems, this new radiator provides fast and comfortable heat in the bathroom, while also allowing towels to be dried and pre-warmed behind an infrared heated glass door. Zehnder Zenia demonstrates how even classic products such as radiators can be reinvented and marketed to customers with outstanding added benefits. We are delighted that both the new and traditional products in our portfolio are able to contribute to our growth.

Improved operating result

At EUR 23.5 million, the operating result for the 2017 financial year shows a significant improvement over the previous year's result (EUR 15.1 million before one-off effects). Despite this, we remain dissatisfied with the EBIT margin of 4.0%. Several factors are responsible for our inadequate operating profits: rising steel prices, the weakness of the British pound, the production stoppage in Manisa (Turkey) caused by earthquakes, the measures for achieving the turnaround aimed for at our Buffalo, NY (USA) plant, plus costs for expanding the Canadian company Core Energy Recovery Solutions Inc. (formerly dPoint Technologies Inc.) as well as general pressure on selling prices.

However, as a result of the measures we put in place with the aim of improving profitability – including relocating the production of Yucca bathroom radiators from Lahr (Germany) to Bolesławiec (Poland), and relocating jobs from the Wädenswil (Switzerland) sales office to Gränichen (Switzerland) – as well as the strong sales growth we achieved, it was possible to boost profitability, particularly in the second half of the year. The SAP launch is now largely complete. This has introduced new processes with improved efficiency, enabling us to handle the growth we have experienced without the need for any additional administrative staff. These processes laid the foundations for the improved margin for 2017 as a whole compared with the previous year.

In an effort to achieve even better profitability, during the fourth quarter of 2017 we approved our Step-up programme. This will see us focus 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 efficiency measures that aim to reduce costs. In a move with a more comprehensive scope, we will also be streamlining our organisational aspects and structures, laying the foundation for profitable growth into the future.

Potential for growth in advantageous megatrends

The Zehnder Group is able to take advantage of people's growing demand for healthy solutions and their requirements for room and air quality that go hand in hand with this. It is a trend that is particularly strong in cities and agglomerations experiencing consistent growth. As developments in digitalisation are progressing, so too is the demand for intelligent indoor climate control solutions (smart home solutions). Global climate change is also boosting the need for cooling and ventilation solutions in private renovation and new building projects, where we occupy a leading position. In the future, we believe that the four long-term global megatrends of health, urbanisation, climate change and digitalisation will continue to represent significant drivers of sustained growth within the Zehnder Group.

Complete indoor climate control solutions help achieve a strong position

Zehnder's leading position in the field of ventilation for residential buildings is the foundation on which we are able to deliver our complementary range of heating and climate control solutions, and will continue to drive the Group's profitable growth in the future. Today, almost half of Zehnder's total sales are in the area of ventilation. Some 70% of our customers turn to Zehnder for both heating and ventilation purchases.

There is much to suggest that the upswing in sales figures recorded in 2017 will continue as the current year progresses. In Europe, residential buildings represent the area with the most potential for growth, and account for almost 80% of the market. Almost half of this figure is located in Germany, Italy and France – all markets in which we boast a leading position. However, we are expecting 2018 to bring increased sales figures in other European countries too, as well as in China and North America.

Differentiating ourselves through targeted innovation and investments

Our strong innovative capacity remains key to our ability to maintain a leading market position and demonstrate growth above the market as a whole. In 2017, we invested some EUR 17.7 million or 3% of our sales in research and development – allowing us to create forward-looking products and services that make us stand out.

However, 2017 also saw us continue our efforts to invest in modernising our production facilities and boosting our productivity. In addition to the new factory building for the ventilation business area being planned for the Chinese city of Pinghu, Zehnder is also setting up a new production facility for bathroom radiators in Manisa, Turkey, with production set to commence as early as the second half of 2018.

Immediately after the 2017 financial year drew to a close, we acquired assets and the brand name of NuClimate Air Quality Systems, Inc. – based in Syracuse, NY (USA). This move was part of our efforts to strengthen our market position for cooling solutions in North America. Founded in 2013, NuClimate Air Quality Systems, Inc. specialises in cooling solutions for commercial, institutional and industrial applications.

Change of CEO

At the start of February 2018, CEO Dominik Berchtold informed us that he would like to pursue his career outside of the Group after in-depth discussions with the Board of Directors regarding the implementation of the Zehnder Group strategy. The Board of Directors and Mr Berchtold have therefore come to the mutual decision to end this existing employment relationship. Having held various managerial roles here at Zehnder, Dominik Berchtold has played a significant part in the development of our company to date. On behalf of the Board of Directors, I would like to thank him for the valuable contribution he has made to the development of our company. We have now started looking for a new CEO and expect to be able to appoint a successor by the end of this year. In addition to my position as Chairman of the Board of Directors, I will also be assuming the role of CEO in the interim as a temporary measure before resuming the chairmanship of our company full time once a successor has been appointed.

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

For the 2017 financial year, the Board of Directors is proposing to the Annual General Meeting a dividend of CHF 0.50 per registered share A. This corresponds to a provision of 34% and therefore reflects the long-term dividend policy of the Zehnder Group of distributing around 30 to 50% of the consolidated net income.

A word of thanks

Our ongoing work to adapt our products, systems and solutions in line with the needs of markets requires our staff members to be extremely flexible. We would therefore like to extend our sincere thanks to everyone for their ability to do so, and for the outstanding dedication they have demonstrated.

We also wish to express a special word of thanks to our customers, who reward us with their loyalty to our services and inspire us to deliver our very best performance every single day.

Finally, we would like to thank all shareholders for their loyalty and appreciation of the Zehnder Group and its members of staff.

Yours sincerely,

Hans-Peter Zehnder
Chairman of the Board of Directors

Significant increase in sales and income

In 2017, the Zehnder Group recorded an encouraging 10% organic sales growth, taking its sales figure to EUR 582.4 million. The operating result (EBIT) before one-off effects increased by 56% to EUR 23.5 million, while net profit amounted to EUR 16.5 million. The sales and income of the Zehnder Group showed positive signs of development in the second half of the year in particular.

Sales growth in all key countries

Following the almost stagnant performance recorded in the 2016 financial year's sales, the Zehnder Group was able to achieve an increase in sales during the 2017 financial year, from EUR 538.9 million to EUR 582.4 million. This equates to growth of 8% (+10% when adjusted for currency effects).

The Europe segment accounted for EUR 491.1 million (previous year: EUR 466.5 million) or 84% of consolidated sales, which represents 5% growth (+7% when adjusted for currency effects). Sales in the radiator business area also saw an increase, in this case by 3% (+5% when adjusted for currency effects). Meanwhile, the ventilation business area recorded growth of 8% (+9% when adjusted for currency effects). It was possible to boost sales in every key country, and particularly in Germany due to a positive market trend and gains in market shares. The main growth drivers proved to be the new Zehnder ComfoAir Q ventilation unit, as well as cooling and heating ceilings. In addition to this, sales of the classic Zehnder Charleston radiator demonstrated a positive trend. Recent years have seen continuous investment in market development, and this move is now paying off. The second half of the year was not able to compensate fully for the six-week production stoppage that took place in Manisa (Turkey) during the first half of the year due to earthquakes, but this event did not result in any further negative effects.

The China & North America segment accounted for EUR 91.3 million (EUR 72.4 million in the previous year) or 16% of total sales. Its significant sales growth of 26% (+29% when adjusted for currency effects) was spurred on by the positive trend experienced in the ventilation business area in China. Gaining an opportunity from the air pollution in China's cities – which in some cases reaches significant levels – and the population's growing demand for healthy solutions, ventilation sales more than doubled, compensating significantly for the decline in the radiator business area. Overall, sales proceeds in China rose by a remarkable 61% (+66% when adjusted for currency effects). In North America, the Zehnder Group experienced a reasonably positive trend on the whole. As was the case in other regions, the growth in the ventilation business area made it possible to offset the slight decline in radiator sales. In total, the result was an increase in sales of 4% in North America (+4% when adjusted for currency effects).

Significant improvement in operating result

The operating result (EBIT) saw a significant improvement, increasing 56% to EUR 23.5 million (previous year: EUR 15.1 million before one-off effects), although the EBIT margin of 4.0% (previous year: 2.8%) meant that its performance remained unsatisfactory. Rising steel prices and the continuing trend in favour of lower-price models had a negative impact on profitability, as did further investment in expanding the air cleaning systems business (Clean Air Solutions). In the Europe segment, the devaluation of the British pound proved to be another negative factor, in this case affecting operating profits. EBIT in this segment was EUR 21.1 million (previous year: EUR 17.2 million before one-off effects). This represents an improvement over the previous year, which is primarily the result of lower costs in the area of IT as well as research and development.

Recording an operating result of EUR 2.4 million (previous year: EUR –2.1 million before one-off effects), the China & North America segment returned to profitability. In particular, this was due to the strong sales growth experienced in the ventilation business area in China. The reasonably positive operating result was possible despite the measures that were put in place in order to achieve the turnaround aimed for at the Buffalo, NY (USA) plant, the additional costs involved in expanding the Canadian company Core Energy Recovery Solutions Inc. (formerly dPoint Technologies Inc.), plus the development and launch of new products.

Net profit was EUR 16.5 million (previous year: EUR 28.1 million including one-off effects).

A strong balance sheet

At the end of the year, the Zehnder Group continued to have a high equity ratio of 65% with shareholder equity of EUR 271.2 million (EUR 280.2 million, or 62%, in the previous year). Net liquidity fell by EUR 26.6 million to EUR 27.5 million during the year under review, due in part to the high level of investment activity that took place. Cash flow from operating activities, meanwhile, increased from EUR 17.5 million to EUR 18.5 million.

Ongoing optimisation of processes and cost structure

In order to improve profitability, the year under review saw production of the Yucca bathroom radiator relocated from Lahr (Germany) to Bolesławiec (Poland), where a shared service center for IT and finance was also set up. In Switzerland, jobs were relocated from the Wädenswil sales office to the headquarters in Gränichen. Additionally, the administration and sales office in Täby, Sweden, was closed and integrated into the production site in Motala.

> “The operating result (EBIT) saw a significant improvement, increasing 56% to EUR 23.5 million, although the EBIT margin of 4.0% meant that its performance remained unsatisfactory.”

In January 2017, the Reinsdorf (Germany) and Zwolle (Netherlands) sites were successfully integrated into the new SAP platform. The Europe-wide SAP project, which has harmonised all the processes that take place across the Group, is now officially complete following a five-year implementation phase. With the aims of greater transparency, more harmonisation and improved process efficiency having been attained, the focus is now on additional optimisation and expansion in specific areas. In order to drive forward digitalisation in a targeted manner, both in the area of administration and in the product portfolio, the position of Chief Digital Officer was created during the reporting period. 2018 has seen the Zehnder Group begin the process of expanding and professionalising its customer relationship management platform.

Development and new products

During the year under review, expenditure on research, development and ongoing development of products amounted to EUR 17.7 million (previous year: EUR 20.2 million), with the Europe segment accounting for most of this.

In the radiator business area, the range of electric radiators was adapted in line with the European Ecodesign Directive 2018. The aim of the directive is to reduce the continent's ecological footprint, in particular with respect to energy consumption. In the USA, investment was made in the revision of fan coils. The new models have been available on the market since May 2017. In the decorative radiators area, the Zehnder Group showcased the innovative Zehnder Zenia thermal comfort unit at world-leading trade fair ISH in Frankfurt (Germany). The unit blends seamlessly into the bathroom architecture, hiding preheated towels behind a stylish infrared heated glass door while simultaneously ensuring a comfortable indoor climate. Zehnder Zenia met with a very positive response from the assembled experts and received the Design Plus award.

In the ventilation business area, the market launch of the ComfoAir Q model range concluded in early 2017 with its introduction on the Swiss market. This new generation of centralised ventilation units – consisting of three types with air volumes of 350, 450 and 600 m³/h – is outstandingly easy to commission and use, and features exceptional performance and quiet operation. In 2017, Zehnder ComfoAir Q won the iF DESIGN AWARD. The ComfoAir E model range, designed for project business and prefabricated buildings, was launched in the Netherlands in 2017, and its launch in Germany and Austria is scheduled to take place in the second quarter of 2018. Preparations for introducing the range in Belgium and Poland are currently under way as well.

As an integral part of its digitalisation initiative, the Zehnder Group has also been investing in developing apps that are designed for controlling its products. One notable example, launched in August 2017, is the MyAcova3D app: this provides end users with a virtual means of integrating Acova radiators – Zehnder's French brand – into their rooms and sending queries directly to installation technicians. The new ComfoAir Q ventilation unit now has the ComfoControl app, which provides end users with functions such as controlling and regulating their units or requesting support from an installation technician.

Investment level remains high

Investments in property, plant and equipment and intangible assets in the reporting period amounted to EUR 26.8 million (previous year: EUR 28.2 million). Geographically speaking, the focus was on Europe. In the Turkish city of Manisa, the process of constructing a new production building for bathroom radiators was started during the 2017 financial year. In preparation for this, the Zehnder Group had already purchased a plot of land measuring around 40,000 m² in the city during the previous year. As things stand, the Zehnder Group is still carrying out its Turkish production activities in a rented building. The new production building is set to be commissioned in the second half of 2018.

In Germany, France and Switzerland, further investments were made in automating radiator production processes. At the Lahr (Germany) plant, several robots designed for producing multicolumn radiators were put into operation, while two additional robots for installing aluminium radiators were added in Vaux-Andigny (France). In Switzerland, meanwhile, a new drilling center for producing header tubes used in Zehnder Zmart radiators was commissioned. As well as this, a robot designed for manufacturing Flimmer filters for Clean Air Solutions was installed in Sweden. This wide range of automation measures made it possible to increase productivity, quality, flexibility, capacity and occupational safety in every case.

In North America, it is particularly worth highlighting the investment that was made in the radiator production facilities in Ward Hill, MA (USA). The new welding facility and paint shop that are now in place have reduced throughput times and increased efficiency. Investments in automation were also made in Buffalo, NY (USA) and Vancouver (Canada).

Employees

The number of full-time staff increased from 3,265 at the end of 2016 to 3,353 at the end of 2017. This increase in the workforce is principally the result of additional temporary employees taken on in an effort to boost production capacity; the number of permanent employees remained almost unchanged at the end of the year. In the year under review, the average number of staff working full-time increased from 3,247 to 3,383. Of these, 348 were employed on a temporary basis (previous year: 280) and 60 were trainees (previous year: 48). There were 2,615 employees in Europe (previous year: 2,521) and 768 in China & North America (previous year: 725).

The Zehnder Group relies heavily on its staff undergoing continuing professional development. The medium-term objective of its internal management development programme is to recruit internally for two-thirds of management positions as they become vacant. Vocational training is also extremely important – something that is clear from the increase in the number of Zehnder Group trainees in 2017.

The health of the Zehnder Group's employees is a key concern too, and 2017 once again saw the Group invite them to participate in a running event. Over 200 sports enthusiasts from some 17 countries accepted the challenge, taking to the start line of the 35th Baden-Marathon in Karlsruhe (Germany). A beautiful autumn day greeted the runners, and together with the cheerful atmosphere and phenomenal team spirit that was present, this made the event an unforgettable one.

Overview of key markets

All of the Zehnder Group's key markets performed well during the 2017 financial year, with China, Germany, France and Switzerland achieving the highest increases in sales. This growth is primarily attributable to the ventilation business area, but the radiator business area was also able to record a rise in sales due to the performance of cooling and heating ceilings. There was a slight drop in sales of radiators themselves.

Germany

The dynamic growth in demand that Germany had experienced during the previous year continued during the year under review, with Germany proving to be the Zehnder Group's strongest sales market. The residential construction market was the main factor driving the healthy sales figures. Sales of ventilation units and radiant ceiling panels in particular followed a positive trend, allowing the Zehnder Group to consolidate its leading market position.

A highlight of 2017 came in the form of the Zehnder Group showcasing itself as a healthy indoor climate provider at world-leading trade fair ISH in Frankfurt (Germany). Occupying a space that measured around 600 m², the Zehnder Group presented a range of products that included innovations such as the Zehnder Zenia bathroom radiator, the Zehnder Zeno decorative radiator in a double-layer design and the Zehnder ZBN radiant ceiling panels featuring integrated LED lighting.

France

France experienced significant growth in the production of new residential buildings, plus a revival in new commercial buildings. Precipitated by Emmanuel Macron's election as the new President of France, and the accompanying sense of hope for a sustained period of national economic recovery, the country's prevailing mood is now one of optimism – something that is being reflected in an increased willingness to invest in the construction sector. As was the case in Germany, sales of ventilation units and radiant ceiling panels in France were particularly positive. However, the proportion of the country's total sales that ventilation accounts for remains low.

A significant event for the Zehnder Group during the year under review was the delivery of radiant ceiling panels covering some 20,000 m² and intended for the Moods building in Saint-Denis, near Paris. Designed by architectural firm Valode & Pistre and due for completion in 2019, the building encompasses 30,000 m² of office space as well as informal meeting places, such as gardens and terraces. Its real showstopper, however, is the illuminated façade designed by contemporary artist François Morellet, which changes its appearance in line with the current weather conditions.

Switzerland

Switzerland's construction industry experienced growth during 2017, the year under review, and this had a positive impact on the Zehnder Group's results. Increases in sales were recorded in both the radiator and ventilation business areas.

At the start of 2017, the Wädenswil sales office was relocated to Gränichen in an effort to optimise overall costs through a leaner organisational structure and simplified processes. By the end of April 2018, the sales office in Crissier will also be incorporated into the Gränichen site.

One of 2017's key projects was the new headquarters of the Swiss Red Cross (SRC) in the canton of Aargau. Its inauguration took place at the start of the year on the 125th anniversary of the Aargau canton's SRC branch coming into being. Located in the town of Aarau, the new five-storey building now provides the 35 employees who work there with offices that are bathed in light, and houses modern teaching rooms for the 50 course participants who visit every day. This ideal teaching and working environment was created through the use of customised heating and cooling ceilings from the Zehnder Group. Energy-efficient, maintenance-free and producing no disruptive noise or draughts, they ensure that the environment is able to promote learning and concentration all year round.

United Kingdom

During the year under review, the British market felt the effects of both Brexit and the weakening of the pound. Nevertheless, the country experienced an increase in new construction activities in 2017 and recorded a slight upturn in renovation projects too. The Zehnder Group was able to benefit from the increase in demand that took place, with the heating and ventilation business areas both enjoying higher sales in local currency.

October saw the launch of a new product range with the Greenwood brand: the new generation of Unity CV3 extractor fans. Unity CV3 has been developed with residential construction (new builds and renovation projects) in mind, and not only consumes very little energy, but also operates exceptionally quietly. In recognition of this, the Unity CV3 generation of products has been nominated for two H&V News Awards 2018 in the categories of Air Movement Product of the Year and Domestic Ventilation Product of the Year. The awards ceremony will take place in April 2018.

The Netherlands

The Netherlands experienced a vigorous upturn in its construction industry, with the number of new building projects rising sharply – particularly in the residential sector. The renovation market also saw an increase in demand, however. This growth stimulus has had a positive impact on the activities of the Zehnder Group, and is primarily being felt in the ventilation business area.

Italy

In 2017, Italy's construction industry performed at much the same level as the previous year, with the number of new residential projects in fact experiencing a slight decline. Nevertheless, the Zehnder Group succeeded in boosting its sales as a result of growth in the ventilation business area. Radiator sales remained at the previous year's level, meanwhile.

Belgium

In Belgium, there was a significant increase in new residential spaces. Despite this, the number of new commercial buildings being established in 2017 fell below the previous year's level. Renovation activities experienced an increase both in the residential sector and where commercial properties were concerned. The Zehnder Group was particularly able to benefit from the growing demand in the ventilation business area, although the radiator business area saw a decline.

Spain

Spain is dealing with a backlog in the construction of new apartments, something which prompted strong growth in the country during 2017. While the number of new commercial buildings being constructed increased at a lower rate, this sector too has now returned to a trajectory of growth. The Zehnder Group's ventilation business in Spain remains at a low level, although the growth in this area has now more than compensated for the downturn in the radiator business area.

Poland, Russia and Turkey

In 2017, the number of new building projects in Poland grew at an exceptionally dynamic pace – in both the residential and commercial sectors. The Zehnder Group saw modestly increased sales in the radiator business area, and considerable increases in sales in the ventilation business area.

In Russia, where the Zehnder Group sells mainly radiators, revenues increased considerably despite the difficult economic circumstances.

Meanwhile, sales experienced a significant decline in Turkey, a market in which only radiators are sold. The production building that the Zehnder Group is erecting in the Turkish city of Manisa is likely to begin operating in the second half of 2018. Spanning approximately 16,000 m² and including both warehousing and logistics facilities, the production site will primarily serve key markets within Europe.

China

In China, the Zehnder Group benefited from strong demand in the areas of both ventilation and air purification. The ventilation business has been spurred on by the very poor standards of air quality experienced in some areas of the country – a situation that is unlikely to improve over the short to medium term as urbanisation continues apace. The Zehnder Group was awarded several large-scale projects, allowing it to more than double its ventilation sales. The proportion of China's total sales that ventilation accounts for is now 70%. The radiator business continued its period of decline, however.

In order to accommodate the growth that the ventilation business area has seen, in 2018 the Zehnder Group will start building a new factory for ventilation units in the city of Pinghu located in Zhejiang Province, around 100 km south-west of Shanghai. A new production company has been founded with a view to this: Nather Ventilation System Co., Ltd. It is a wholly owned subsidiary of Shanghai Nather Air Technology Co., Ltd., in which the Zehnder Group holds a 75.5% stake. Steps have already been taken to address the strong growth in demand over the short term: during 2017, the year under review, production was relocated from Shanghai to a larger temporary factory near the new production site.

North America

The upturn in construction activities continued during the year under review, with the residential building sector performing more strongly than its commercial counterpart. The Zehnder Group recorded a slight decrease in radiator sales, although the growth in the ventilation business area compensated for this.

Canada's dPoint Technologies Inc., which primarily operates in the area of enthalpy exchangers (for transferring heat and moisture), also had a role to play in the positive trend experienced in the region:

at the start of 2018, it ramped up the scale of its collaboration with the German companies Paul Wärmerückgewinnung GmbH and Paul dPoint Technologies GmbH, both wholly owned subsidiaries of the Zehnder Group. The companies are now presenting themselves as a single team that uses the brand name CORE – representing the core ventilation unit technology that makes buildings healthy, comfortable and energy-efficient. To reflect its new identity, dPoint Technologies Inc. also changed its company name at the start of 2018 and is now known as Core Energy Recovery Solutions Inc. The new company and brand name was unveiled at the AHR Expo, North America's largest trade fair for heating, ventilation, air conditioning and cooling technology, which took place in Chicago (USA) between 22 and 24 January 2018.

As part of an asset deal, Hydro-Air Components, Inc. – located in Buffalo, NY (USA), and a wholly owned subsidiary of the Zehnder Group – acquired assets and the brand name of NuClimate Air Quality Systems, Inc., based in Syracuse, NY (USA), on 12 January 2018. Founded in 2013, NuClimate Air Quality Systems, Inc. specialises in cooling solutions for commercial, institutional and industrial applications. The asset deal means an expanded market presence for the Zehnder Group in the area of energy-efficient cooling solutions. The measures put in place in order to turn around the Buffalo plant continued to have a negative impact on the operating result during 2017, but should start to affect operating profits positively from 2018 onwards.

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 or her 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.

2018: Slight growth in sales and earnings anticipated

The Zehnder Group will continue to take a resolute approach towards its aim of becoming a leading provider of healthy indoor climate solutions. Several factors are spurring on demand for efficient, intelligent and reliable solutions of the kind that the Zehnder Group offers, such as its comfort ventilation units and Clean Air Solutions: these are climate change, the rapid increase in population being experienced in certain regions, the sharp growth in urbanisation, and the strong increase in demand for a high quality of life and high standards of air quality in indoor areas.

Forecasts for construction activities in the Zehnder Group's key markets are giving us reason to be optimistic. The Group Executive Committee believes that the welcome growth in sales experienced during the past year will continue in 2018, albeit with somewhat weaker momentum than before.

Pressure on prices is set to continue in the 2018 financial year, particularly in the radiator business area. By launching innovations – like the Zehnder Zenia multifunctional radiator presented at ISH in Frankfurt (Germany) in 2017 – and demonstrating its outstanding design skills, the Zehnder Group intends to pursue an increasing number of niche areas in which it can take advantage of better margins. At the same time, the Group will keep investing in its production structures and processes in order to stay competitive on an international scale. A key pillar of this will be the new bathroom radiator production plant in Manisa (Turkey), which is scheduled to open during the second half of 2018.

The initiatives launched as part of the medium-term plan for the period leading up to 2020 are designed to achieve an even better operating result in 2018. They aim to reduce procurement costs, increase reliability of supply, optimise the pricing structure, turn around unprofitable businesses and product segments, and implement additional Group-wide efficiency measures for reducing costs.

The expectations stated on pages 4 to 12 are based on assumptions. If they do not prove true, this will affect the associated results.

Corporate Governance

"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 2017 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.

Group structure and shareholders

The Group structure is presented on pages 18 to 22 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.

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. 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 23 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, 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, 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 2017 the Board met five times, in January, February, April, June and September (in the previous year they met five times: January, February, April, June and October). The meetings each lasted between half a day and two days. In addition, the Board held seven telephone conferences in June, July (three), September, November and December, lasting between 20 minutes 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 24 to 25.

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 Group Reporting, 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 2017, 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 2017, the Audit Committee convened four times. The attendance rate for the meetings was 100%. Each of the meetings lasted between 2 and 4 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. 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 29 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.

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 14 of this report shall apply.

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

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

Independent proxies

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

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

Supplementary to Article 704 Para. 1 of the Swiss Code of Obligations, a resolution by the Annual General Meeting passed by at least a two-thirds majority of the votes represented and an absolute majority of the nominal value of the shares represented is required for:
a) The conversion of registered shares into bearer shares and vice versa
b) Amendments to Article 6, Article 7 and Article 17 of the Articles of Association

Calling of the Annual General Meeting
There are no provisions that deviate from those specified by law.

Listing items on the agenda
The Board of Directors is responsible for listing matters to be discussed on the agenda. The right of the shareholders to include items on the agenda corresponds to statutory provisions. Requests for items to be included on the agenda pursuant to Article 699 Para. 3 of the Swiss Code of Obligations must be submitted to the Chairman of the Board of Directors in writing at least 45 days before the Annual General Meeting, indicating the matters to be discussed and the corresponding proposals.

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.

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 1,013,000 for auditing individual accounts and the consolidated financial statements. Of this, EUR 777,000 was paid to the KPMG group. The KPMG group was paid an additional EUR 57,000 for audit-related services.

A total of EUR 1,409,000 was charged for taxation and legal services throughout the Group. Of this, EUR 95,000 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 2017, 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 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.

Events after the balance sheet date
On 2 February 2018, CEO Dominik Berchtold made the decision to pursue his career outside of the Zehnder Group. His employment with the company will therefore be terminated by mutual agreement as of 30 November 2018, which marks the end of his nine-month notice period. Dominik Berchtold was released from his duties as of 5 February 2018. Hans-Peter Zehnder, Chairman of the Board of Directors at Zehnder Group AG, has taken over as Chairman of the Group Executive Committee in the meantime.

Board of Directors

(Status 1.1. 2018)
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 chairman of the Group Executive Committee
- Supervision of Zehnder's activities in China and North America a.i.
- 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
- 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)
- Since 3.5.2011 Deputy Chairman of the Board of Warema Renkhoff SE (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)
- 7.2011–8.2015 CEO Kaba Group (Switzerland)
- Since 1.9.2015 CEO 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)
- Sika AG (Chairman of the Special Expert Committee)
- 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 corporate governance, commercial and compliance 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.

Hans-Jakob Zehnder

Honorary President
Swiss citizen, born 1923

In 1993, after having spent 34 years at the head of the company he served for a total of 39 years, Hans Jakob Zehnder resigned as Chairman of the Board. In recognition of his outstanding contribution to the development of Zehnder Group, the Board of Directors appointed him Honorary President. This office carries no vote.

Group Executive Committee

(Status 1.1.2018)
Members of the Group Executive Committee,
other activities
and vested interests

Dominik Berchtold

Chairman of the Group Executive Committee, CEO
Swiss citizen, born 1971

- Degree in business administration from the University of Freiburg i. Ü. (Switzerland)
- Executive master of corporate finance from the Institute of Financial Services IFZ, Zug (Switzerland)
- Advanced Management Programme INSEAD (Singapore)
- 1996–1997 finance and marketing assistant at Exsa (Peru); Cervesur (Peru); and Linde (China)
- 1997–2005 various management positions in finance and controlling at Pilatus Aircraft Ltd. (Switzerland); and Transairco SA (Switzerland)
- 2005–2006 manager corporate restructuring at KPMG (Switzerland)
- 2006–2008 director business development Zehnder Group, Gränichen (Switzerland)
- 2008–2012 member of the Group Executive Committee of Zehnder Group (CFO)
- 2013–6.2014 CEO designate, Sales & Marketing Switzerland and Nordic, Head Operations Europe a.i. (as of 11.6.2014)
- 7.2014–10.2014 CEO designate, Sales Nordic, Head Operations Europe a.i.
- Since November 2014 Chairman of the Group Executive Committee, CEO

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 1.1.2018)

Josef Berger	Group Procurement
Josef Brügger	Internal Audit & Compliance
Franz Furrer	Group IT & Digital Officer
Till Hollinger	Group Strategy Officer
Christian Hummel	Group Controlling
Markus Max Inäbnit	Group Human Resources
Thomas Mathys	Group Finance
Anke Mosbacher	Group Marketing
Ulrich Peuckert	Group Logistics
Matthäus Urwyler	Customer Excellence
Tanja Weiss	IR & Communications

Sales Europe

Erik van Heuveln	Sales Belgium and Netherlands
Jiří Stekr	Sales Czech and Slovak Republic
Pierre-Jean Clerval	Sales France
Heiko Braun	Sales Germany, Austria and Luxembourg
Tony Twohig	Sales Great Britain & Ireland (including production Lenham)
Oliver Bock	Sales International and Eastern Europe
Jerzy Stosiek	Sales Poland
Alexander Silin	Sales Russia
Paolo Masetti	Sales Southern Europe
José Ramón Ferrer	Sales Spain
Johannes Bollmann	Sales Switzerland
Orçun Özelmas	Sales Turkey

Competence Center Radiators

Roland Diethelm	R&D Radiators, Group IP
Giovanni Suma	Product Management Radiators
Thierry Baschet	Production Vaux-Andigny (France)
Clemens Ganter	Production Lahr (Germany)
Piotr Kościsz	Production Bolesławiec (Poland)
Felix Meier	Production Gränichen (Switzerland)
Orçun Özelmas	Production Manisa (Turkey)

Competence Center Comfosystems

Arthur Dijkstra	Product Management Comfosystems
René Kosters	Purchasing Comfosystems
Arie Veldhuijzen	Research & Innovation Comfosystems
Hendrik de Wilde	Production Zwolle (Netherlands)
Michael Pitsch	Production Reinsdorf (Germany)

China/North America

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

Shared Services

Andreas Berger	Shared Services Germany
Nynke Floor	Shared Services Netherlands
Eric Scoffier	Shared Services France
Adam Jankowski	International Shared Services (Poland)

Business Units

James Dean	Core
Patrik Fransèhn	Clean Air Solutions
Hubert Roth	Radiant Ceiling Panels Germany

Compensation Report

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 2017.

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 2017.

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 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.

Further, the Articles of Association of Zehnder Group AG include the following provisions on compensation (www.zehndergroup.com/en/investor-relations/corporate-governance).

- **Principles of compensation of 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.
- **Principles of compensation of 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 and a variable performance based compensation element which may not exceed 100% of the fixed remuneration. The variable compensation depends solely on the net profit of the company. Additionally, the members of the Group Executive Committee are entitled to participate in the share purchase plan: This includes the purchase of shares from the company, with a maximum 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 value of the shares at the allocation date must not exceed 20% of the individual annual base salary. The shares are subject to a restriction period of three years.
- **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 is available without further approval, 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 2017 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 (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;
- 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.

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

The levels of authority between the Compensation Committee, the Board of Directors and the Annual General Meeting are 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 2017, the Compensation Committee held three meetings of two hours each on average, which were attended by all members. After formalising the compensation principles and the documentation for the compensation programme within the framework of a Compensation Directive valid as of 2016 globally, the potential future introduction of a share plan as part of the total compensation for the Group Executive Committee was discussed. 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 on the compensation programmes and their disclosure in the Compensation Report, a benchmarking of the compensation of 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. 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 2017, the Compensation Committee appointed Willis Towers Watson to conduct a benchmarking of compensation of the executives. This company has no other mandates by the Zehnder Group. In addition, the Compensation Committee has access to the support and expertise of 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, revenues, profitability, headcount and geographic reach. The peer group comprises the following companies for the CEO and the 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, 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 2017, Willis Towers Watson has been mandated to conduct a detailed 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 compen-

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.

sation structure and levels. In addition, the grading system is also used for talent management matters such as succession planning, career paths and training & 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 (internal 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 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 full commitment, passion and professionalism. Consequently, the clear objective of the compensation policy is to recruit and retain qualified employees, to drive best-in-class performance, to ensure fair 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).

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. 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

Architecture of compensation of the Board of Directors

In CHF	In cash	In shares[1]
Retainer (gross p.a.)		
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
Committee fees (gross p.a.)		
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.)[2]	2,000	

1 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%.
2 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.

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	Registered shares A
Benefits	Protect against risks, attract & retain	Market practice and position		Retirement plan, insurances, perquisites

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 February 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.

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 factor is determined individually on the basis of the complexity of the position in terms of impact, scope and responsibilities. The STI amount paid out for the fiscal year corresponds to the profit-sharing factor multiplied by the Group net profit. 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 set at 75% of the annual base salary for the CEO and all other members of the Group Executive Committee.

Calculation of the STI amount:

	Individual profit-sharing factor	×	**Group net profit (EUR)**	=	**STI amount (EUR)**
Example	0.2 %		30,000,000		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 is a powerful management tool that works best if it is 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 at the start of each year are derived directly from the business strategy by the Board of Directors and reviewed at regular intervals. These performance objectives include financial targets, strategic goals, as well as more qualitative objectives, for example in the area of people and project management. After year-end, the individual performance against the predefined objectives is assessed. The performance management process is not directly connected to any compensation decision. Consequently, the objective setting and the performance assessment are conducted in a very candid and straightforward manner. The overall process has become a powerful and high-quality management instrument.

4.3. Long-term compensation: Zehnder Group Management Share Plan (ZGMSP)

The Zehnder Group Management Share Plan (ZGMSP) is a long-term compensation 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 for more than five years but less than ten years, and twelve months for the members who have been on the Group Executive Committee for more than ten years. 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 2017 business year

5.1. Compensation to the Board of Directors

In 2017, the members of the Board of Directors received a total compensation of CHF 2.1 million (2016: CHF 2.1 million) in the form of fixed compensation of CHF 0.9 million (2016: CHF 0.9 million), share-based compensation of CHF 0.9 million (2016: CHF 0.8 million), variable compensation of CHF 0.1 million (2016: CHF 0.2 million) and national insurance contributions of CHF 0.2 million (2016: CHF 0.2 million). The total compensation remained stable compared to the previous year. The value difference of the share-based compensation is due to the difference in the share price at the date of granting. The variable compensation only concerns the Chairman of the Board of Directors and was lower than in the previous year due to the lower net income results of the company.

Compensation for the present members of the Board of Directors

	Units 2017	Units 2016	CHF[1] 2017	CHF[1] 2016
Hans-Peter Zehnder Chairman of the Board of Directors, China & North America a.i.				
Fixed cash compensation for Board activity[2]			300,000	300,000
Lump sum expense allowances			26,000	26,000
Allocated shares for Board activity[3]	11,645	12,295	463,922	415,110
Fixed cash compensation for additional services			175,000	175,000
Variable cash compensation			115,500	196,000
Employer national insurance contributions			138,223	131,109
Shares acquired[4]	1,434	1,434	14,068	15,896
Other payments			11,434	9,231
Total compensation			**1,244,147**	**1,268,346**
Thomas Benz 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[3]	2,328	2,459	92,734	83,022
Employer national insurance contributions			7,370	5,497
Total compensation			**160,104**	**148,519**
Urs Buchmann 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	7,500
Allocated shares for Board and Compensation Committee activity[3]	2,327	2,357	92,702	79,235
Fixed cash compensation for additional services			11,292	11,307
Employer national insurance contributions			10,678	8,068
Total compensation			**174,672**	**156,110**
Riet Cadonau Member of the Board of Directors and since April 2017 Chairman of the Compensation Committee				
Fixed cash compensation for Board activity			40,000	40,000
Fixed cash compensation for Compensation Committee activity			11,250	–
Lump sum expense allowances			2,000	2,000
Allocated shares for Board and Compensation Committee activity[3]	1,980	1,639	79,988	55,337
Employer national insurance contributions			8,699	5,324
Total compensation			**141,937**	**102,661**
Enrico Tissi Until March 2017 Member of the Board of Directors and Chairman of the Compensation Committee				
Fixed cash compensation for Board activity			10,000	40,000
Fixed cash compensation for Compensation Committee activity			3,750	15,000
Lump sum expense allowances			500	2,000
Allocated shares for Board and Compensation Committee activity[3]	564	2,254	18,426	76,101
Cash compensation as per invoiced hours for additional services			–	15,690
Employer national insurance contributions			1,495	4,864
Total compensation			**34,171**	**153,655**

1 The amounts are gross amounts including Board member national insurance contributions.
2 In relation to the calendar year, the fixed cash compensation for the Board function remained unchanged in the year under review.
3 The shares are disclosed at the closing share price of the share on the grant date 10 January 2018.
4 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, 15 January 2016 and 13 January 2017, less the purchase price. This value is included in the amount approved by the Annual General Meeting.

	Units 2017	Units 2016	CHF[1] 2017	CHF[1] 2016
Jörg Walther Member of the Board of Directors and Chairman of the Audit Committee				
Fixed cash compensation for Board activity			40,000	30,000
Fixed cash compensation for Audit committee activity			15,000	11,250
Lump sum expense allowances			2,000	1,500
Allocated shares for Board and Audit Committee activity[2]	2,134	1,691	85,016	55,280
Cash compensation as per invoiced hours for additional services			115,430	92,411
Employer national insurance contributions			8,654	5,404
Total compensation			**266,100**	**195,845**
Milva Zehnder Member of the Board of Directors				
Fixed cash compensation for Board activity			40,000	30,000
Lump sum expense allowances			2,000	1,500
Allocated shares for Board activity[2]	1,552	1,229	61,830	40,196
Employer national insurance contributions			6,294	3,930
Total compensation			**110,124**	**75,626**
Total compensation paid to the **Members of the Board of Directors in the year of review**				
Fixed cash compensation for Board activity			520,000	530,000
Fixed cash compensation for Compensation Committee activity			35,000	35,000
Fixed cash compensation for Audit Committee activity			25,000	18,750
Lump sum expense allowances			32,500	33,000
Allocated shares for Board, Compensation Committee and Audit Committee activity[2]	22,529	23,924	894,618	804,281
Fixed cash compensation for additional services			186,292	186,307
Cash compensation as per invoiced hours for additional services			115,430	108,101
Variable cash compensation			115,500	196,000
Employer national insurance contributions			181,413	164,196
Shares acquired[3]	1,434	1,434	14,068	15,896
Other payments			11,434	9,231
Total compensation			**2,131,254**	**2,100,762**

1 The amounts are gross amounts including Board member national insurance contributions.
2 The shares are disclosed at the closing share price of the share on the grant date 10 January 2018.
3 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, 15 January 2016 and 13 January 2017, less the purchase price. This value is included in the amount approved by the Annual General Meeting.

5.2. Compensation for the Group Executive Committee

In 2017, the members of the Group Executive Committee received a total compensation of CHF 2.6 million (2016: CHF 2.7 million) in the form of fixed compensation of CHF 1.6 million (2016: CHF 1.5 million), variable compensation of CHF 0.4 million (2016: CHF 0.6 million), other benefits including the value of the discount on the shares of CHF 0.2 million (2016: CHF 0.2 million) in addition to national insurance and pension contributions of CHF 0.4 million (2016: CHF 0.4 million):

- The annual base salaries of the members of the Group Executive Committee remained unchanged with the exception of the annual base salaries of the CEO and CFO.
- In 2017, the Group achieved a net income of EUR 16.5 million. Consequently, in 2017, the variable component of the compensation amounted to 0.8% of the net income for the CEO (2016: 0.7%) and to 1.4% for the other members of the Group Executive Committee (2016: 1.4%).

	Units 2017	Units 2016	CHF [1] 2017	CHF [1] 2016
Highest-paid member of the Group Executive Committee: Dominik Berchtold				
Fixed cash compensation for GEC activity			560,000	526,500
Variable cash compensation			132,000	196,000
Lump sum expense allowances			24,000	24,000
Employer social security and pension contributions			107,913	98,656
Shares acquired [2]	4,315	4,315	42,330	47,832
Other payments			14,371	10,279
Total compensation			**880,614**	**903,267**
Total compensation paid to the Executive Committee incl. Dominik Berchtold				
Fixed cash compensation			1,563,825	1,496,410
Variable cash compensation			371,250	602,000
Lump sum expense allowances			72,000	72,000
Employer social security and pension contributions			406,034	417,561
Shares acquired [2]	9,583	9,047	94,009	100,286
Other payments			43,850	37,436
Total compensation			**2,550,968**	**2,725,693**

1 The amounts are gross amounts including employee national insurance contributions.
2 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, 15 January 2016 and 13 January 2017, less the purchase price. This value is included in the amount approved by the Annual General Meeting.

The highest compensation for a member of the Group Executive Committee was paid to CEO Dominik Berchtold in both years.

In 2017, the Annual General Meeting authorised a maximum budget for compensation of the Group Executive Committee of CHF 3.7 million for fiscal year 2017. The total compensation amount of CHF 2.6 million paid to the Group Executive Committee for fiscal year 2017 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

Hans-Jakob Zehnder (Honorary president), former Chairman of the Board of Directors, received the amount of CHF 86,054 (fixed cash compensation CHF 80,000, lump sum expense allowances CHF 2,000, employer national insurance contributions CHF 4,054) as compensation in 2017.

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.

Report of the Statutory Auditor

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

We have audited section 5 of the remuneration report as shown on pages 29 – 32 of Zehnder Group AG for the year ended December 31, 2017. 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 remuneration report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration 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 remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration 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 remuneration report for the year ended December 31, 2017 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, February 23, 2018

KPMG AG, Landis&Gyrstrasse 1, 6300 Zug

Financial Report

Consolidated Financial Statements

Zehnder Group AG

Five-year Overview

		2017	2016	2015	2014	2013
Sales	EUR million	**582.4**	**538.9**	**533.0**	**525.1**	**522.4**
Change from prior year	%	8.1	1.1	1.5	0.5	−0.3
Of which segment Europe	EUR million	491.1	466.5	465.7	466.8	463.8
Change from prior year	%	5.3	0.2	−0.2	0.6	−1.2
Of which segment China & North America	EUR million	91.3	72.4	67.3	58.3	58.6
Change from prior year	%	26.2	7.5	15.4	−0.5	7.6
EBIT before one-off effects [1]	EUR million	**23.5**	**15.1**	**27.0**	**32.7**	**32.3**
Change from prior year	%	56.0	−44.2	−17.2	1.1	−16.0
	% of sales	4.0	2.8	5.1	6.2	6.2
Net profit [2]	EUR million	**16.5**	**28.1**	**0.3**	**26.0**	**18.2**
Change from prior year	%	−41.3	–	−98.7	42.8	−32.0
	% of sales	2.8	5.2	0.1	5.0	3.5
Net profit before depreciation & amortisation [2]	EUR million	**38.6**	**55.0**	**21.6**	**45.9**	**37.4**
Change from prior year	%	−29.8	154.4	−53.0	22.9	−17.1
	% of sales	6.6	10.2	4.1	8.7	7.2
Investments in property, plant and equipment & intangible assets	EUR million	**26.8**	**28.2**	**29.4**	**25.1**	**35.9**
Depreciation & amortisation [3]	EUR million	**22.1**	**26.9**	**21.3**	**19.9**	**19.1**
Total assets	EUR million	**419.8**	**450.5**	**435.6**	**429.7**	**412.6**
Non-current assets	EUR million	**206.5**	**210.1**	**209.1**	**193.1**	**183.8**
Shareholders' equity [2]	EUR million	**271.2**	**280.2**	**269.0**	**281.8**	**255.5**
	% of total assets	64.6	62.2	61.8	65.6	61.9
Employees	Ø full-time equivalents	**3,383**	**3,247**	**3,194**	**3,239**	**3,265**
Zehnder Group AG						
Dividends [4]	CHF million	5.9	11.1	–	11.7	6.5
Share capital	CHF million	0.6	0.6	0.6	0.6	0.6
Market capitalisation [5]	CHF million	389.8	313.7	375.1	402.9	400.0
Total market capitalisation [6]	CHF million	468.9	377.3	451.2	484.7	481.2

1 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 (2016) respectively restructuring costs of EUR 21.8 million (2015)
2 Including minority interests
3 Including an impairment of EUR 0.4 million (2017) or EUR 4.9 million (2016) in the business area Radiators in Europe
4 For 2017 as proposed by the Board of Directors
5 Market value of all listed registered shares A at year end; excluding value of unlisted registered shares B
6 Registered shares A and B; registered shares B recognised at ⅕ of the price of the registered share A at year end

Data per Share[1]

			2017	2016	2015	2014	2013
Shares outstanding							
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
Market prices (January–December)							
Registered share A	high	CHF	40.95	44.20	48.45	43.45	48.15
Registered share A	low	CHF	31.30	30.50	29.50	33.10	34.05
Registered share A	at year end	CHF	39.95	32.15	38.45	41.30	41.00
Consolidated net profit							
Per registered share A		EUR	1.34	1.74	0.01	2.19	1.42
Consolidated net profit before depreciation and amortisation							
Per registered share A		EUR	3.26	4.05	1.83	3.90	3.06
Consolidated equity[2]							
Per registered share A		EUR	22.42	22.55	21.76	22.94	20.93
Dividend (gross)							
Dividend per registered share A[3]		CHF	0.50	0.95	–	1.00	0.55
Payout ratio	% of net profit per share		34	50	–	38	32

1 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
2 Before appropriation of earnings
3 For 2017 as proposed by the Board of Directors

Consolidated Balance Sheet

EUR million	Notes page 47 ff.	31 December 2017	31 December 2016	Change from prior year %
Assets				
Liquid assets	1	41.3	79.4	
Trade accounts receivable	2	93.4	86.5	
Other receivables	2	14.3	12.6	
Inventories	3	57.4	53.9	
Prepayments		3.0	4.2	
Accrued income		3.9	3.8	
Current assets		**213.3**	**240.4**	**–11.3**
Property, plant and equipment	4	196.0	201.4	
Financial assets	4	9.0	7.2	
Intangible assets	4	1.5	1.5	
Non-current assets		**206.5**	**210.1**	**–1.7**
Total assets		**419.8**	**450.5**	**–6.8**
Liabilities & shareholders' equity				
Loans	5	6.7	17.0	
Trade accounts payable		31.1	26.5	
Other liabilities [1]		22.2	31.2	
Provisions	6	10.0	18.0	
Accruals and deferred income		47.4	44.6	
Current liabilities		**117.3**	**137.3**	**–14.6**
Loans	5	7.2	8.3	
Other liabilities [1]		1.8	3.0	
Provisions	6	22.4	21.6	
Long-term liabilities		**31.3**	**32.9**	**–5.0**
Total liabilities		**148.6**	**170.2**	**–12.7**
Share capital		0.4	0.4	
Capital reserves		33.6	33.6	
Own shares		–8.4	–10.5	
Retained earnings		235.6	230.7	
Accumulated FX differences		–3.3	8.7	
Minority interests		13.3	17.4	
Equity	7	**271.2**	**280.2**	**–3.2**
Total liabilities & shareholders' equity		**419.8**	**450.5**	**–6.8**

1 Includes outstanding payments worth EUR 2.5 million (2017) or EUR 3.0 million (2016) for the acquisition of a property in Turkey.

Consolidated Income Statement

EUR million	Notes page 47 ff.	2017	2016	Change from prior year %
Sales	16	**582.4**	**538.9**	**8.1**
Changes in inventories		1.3	2.0	
Internal additions to plant and equipment		2.6	2.1	
Other income	17	4.0	47.0	
Cost of materials		–220.3	–189.1	
Personnel costs		–196.6	–193.1	
Depreciation of property, plant and equipment	4	–21.4	–25.8	
Amortisation of intangible assets	4	–0.7	–1.1	
Other operating expenses	18	–127.8	–137.5	
Earnings before interest and taxes (EBIT) [1]		**23.5**	**43.4**	**–45.7**
Result from associated companies	4	–0.2	–	
Financial result	19	–1.6	–0.8	
Earnings before taxes		**21.7**	**42.5**	**–48.9**
Income taxes	20	–5.2	–14.4	
Net profit		**16.5**	**28.1**	**–41.3**
Minority interests		1.1	7.7	
Net profit excluding minority interests		15.4	20.3	
Non-diluted net profit excluding minority interests per registered share A (EUR)	21	1.34	1.74	
Diluted net profit excluding minority interests per registered share A (EUR)	21	1.34	1.74	
Non-diluted net profit excluding minority interests per registered share B (EUR)	21	0.27	0.35	
Diluted net profit excluding minority interests per registered share B (EUR)	21	0.27	0.35	

1 Includes 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 (2016).

Consolidated Cash Flow Statement

EUR million	Notes page 47 ff.	2017	2016
Net profit		16.5	28.1
Depreciation and amortisation of property, plant and equipment	4	21.4	25.8
Depreciation and amortisation of intangible assets	4	0.7	1.1
Non-cash change in valuation adjustments on receivables and inventories		0.4	0.1
(Gain) / loss on disposals of non-current assets [1]		–0.2	–44.6
Result from associated companies	4	0.2	–
(Increase) / decrease of trade accounts receivable		–8.8	0.1
(Increase) / decrease of other receivables, prepayments and accrued income		–2.1	4.3
(Increase) / decrease of inventories		–7.9	–1.1
Increase / (decrease) of trade accounts payable		7.3	3.7
Increase / (decrease) of other short-term liabilities, accruals and deferred income		–0.4	15.6
Increase / (decrease) of provisions	6	–6.3	–12.7
(Increase) / decrease of deferred tax assets	4	–2.4	–2.8
Cash flow from operating activities		**18.5**	**17.5**
Investments in property, plant and equipment	4	–26.0	–27.7
Investments in financial assets		–	–0.4
Investments in associated companies		–	–0.1
Investments in intangible assets		–0.8	–0.5
Investments in subsidiaries	24	–3.0	–
Divestment of property, plant and equipment [1]		0.6	36.8
Divestment of intangible assets		–	0.1
Cash flow from investing activities		**–29.2**	**8.1**
Dividends paid to shareholders		–10.2	–
Dividends paid to minority shareholders		–4.3	–3.2
(Purchase) / sale of own shares		1.8	–7.4
Increase / (decrease) of short-term loans	5	–9.5	6.4
Increase / (decrease) of long-term loans	5	–0.5	–0.2
Cash flow from financing activities		**–22.7**	**–4.4**
Currency effects		–4.6	–1.6
Increase / (decrease) of liquid assets		**–38.1**	**19.6**
Liquid assets at 1.1.		79.4	59.7
Liquid assets at 31.12.		41.3	79.4
Increase / (decrease)		**–38.1**	**19.6**

1 Includes 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) respectively a final payment of EUR 35.6 million (2016).

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**
Equity at 1.1.2017	**0.4**	**33.6**	**–10.5**	**230.7**	**8.7**	**262.8**	**17.4**	**280.2**
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	–	–	–	–	–	–	–	–
Change in minority interests	–	–	–	–	–	–	–	–
Dividends	–	–	–	–10.2	–	–10.2	–4.3	–14.4
Currency effects	–	–	–	–	–11.9	–11.9	–1.0	–12.9
Equity at 31.12.2017	**0.4**	**33.6**	**–8.4**	**235.6**	**–3.3**	**257.9**	**13.3**	**271.2**
Equity at 1.1.2016	**0.4**	**33.6**	**–3.0**	**212.7**	**10.4**	**254.0**	**15.0**	**269.0**
Purchase of own shares	–	–	–9.6	–	–	–9.6	–	–9.6
Sale of own shares	–	–	2.2	0.1	–	2.2	–	2.2
Net profit	–	–	–	20.3	–	20.3	7.7	28.1
Netted goodwill	–	–	–	–2.3	–	–2.3	–	–2.3
Change in minority interests	–	–	–	–	0.1	0.1	–0.7	–0.6
Dividends	–	–	–	–	–	–	–3.2	–3.2
Currency effects	–	–	–	–0.1	–1.8	–1.9	–1.4	–3.3
Equity at 31.12.2016	**0.4**	**33.6**	**–10.5**	**230.7**	**8.7**	**262.8**	**17.4**	**280.2**

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:

– Founding of Nather Ventilation System Co., Ltd. on 25 September 2017 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	USD 1	GBP 1	SEK 1	CNY 100	PLN 100	TRY 100
Year-end rates							
2017	0.8552	0.8348	1.1265	0.1017	12.83	23.96	22.07
2016	0.9333	0.9510	1.1736	0.1048	13.70	22.76	27.07
Average-for-the-year rates							
2017	0.9047	0.8909	1.1428	0.1041	13.16	23.47	24.57
2016	0.9165	0.8999	1.2283	0.1060	13.60	22.98	30.25

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 41.3 million (2016: EUR 79.4 million) whereas interest-bearing financial liabilities reached EUR 13.8 million (2016: EUR 25.3 million). Thus, at year end, net liquidity amounted to EUR 27.5 million (2016: EUR 54.1 million).

2. Accounts receivable from sales and services and other receivables

EUR million	31.12.2017	31.12.2016
Accounts receivable gross *	112.0	104.2
Valuation adjustments	–4.3	–5.1
Accounts receivable net	**107.7**	**99.1**
* Of which more than 12 months overdue gross	2.5	2.5

3. Inventories

EUR million	31.12.2017	31.12.2016
Raw materials	32.2	31.9
Semi-finished products and goods in process	4.8	5.0
Finished products	32.3	29.1
Valuation adjustments	–11.9	–12.1
Total inventories	**57.4**	**53.9**

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**
Net book value at 1.1.2017	**132.2**	**45.0**	**12.2**	**12.1**	**201.4**
Acquisition cost					
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
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
Accumulated valuation adjustments					
Status 1.1.2017	–79.8	–179.1	–22.9	–	–281.8
Ordinary depreciation	–5.8	–11.3	–4.0	–	–21.1
Extraordinary depreciation [1]	–	–0.1	–	–0.3	–0.4
Disposals	0.1	5.9	5.2	–	11.2
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
Net book value at 31.12.2017	**122.2**	**46.6**	**10.6**	**16.6**	**196.0**
Net book value at 1.1.2016	**136.1**	**41.2**	**12.6**	**13.0**	**202.9**
Acquisition cost					
Status 1.1.2016	221.9	211.3	37.3	13.0	483.5
Investments	4.3	9.8	4.8	13.1	32.1
Disposals	–16.5	–5.9	–6.9	–	–29.3
Reclassifications	3.1	10.1	0.1	–13.4	–
Currency effects	–0.9	–1.3	–0.2	–0.7	–3.0
Status 31.12.2016	211.9	224.0	35.2	12.1	483.2
Accumulated valuation adjustments					
Status 1.1.2016	–85.7	–170.1	–24.7	–	–280.5
Ordinary depreciation	–5.9	–10.2	–4.8	–	–20.9
Extraordinary depreciation [1]	–	–4.9	–	–	–4.9
Disposals	11.8	5.3	6.4	–	23.6
Currency effects	–	0.8	0.1	–	0.9
Status 31.12.2016	–79.8	–179.1	–22.9	–	–281.8
Net book value at 31.12.2016	**132.2**	**45.0**	**12.2**	**12.1**	**201.4**

1 Comprises an impairment of EUR 0.4 million (2017) or EUR 4.9 million (2016) in the business area Radiators in Europe. The adjustment was necessary because the book value was above the recoverable value.

Financial assets

EUR million	Loans	Reserves for employer contributions	Deferred tax assets	Associated companies	**Total**
Net book value at 1.1.2017	**0.6**	**3.6**	**2.7**	**0.3**	**7.2**
Acquisition or current book value					
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
Accumulated valuation adjustments					
Status 1.1.2017	−0.2	–	–	–	−0.2
Status 31.12.2017	−0.2	–	–	–	−0.2
Net book value at 31.12.2017	**0.5**	**3.3**	**5.2**	**–**	**9.0**
Net book value at 1.1.2016	**0.1**	**3.6**	**–**	**0.2**	**4.0**
Acquisition or current book value					
Status 1.1.2016	0.3	3.6	–	0.2	4.2
Increases	0.4	–	2.8	0.1	3.3
Decreases	–	–	–	–	–
Result from associated companies	–	–	–	–	–
Currency effects	–	–	–	0.1	0.1
Status 31.12.2016	0.8	3.6	2.7	0.3	7.4
Accumulated valuation adjustments					
Status 1.1.2016	−0.2	–	–	–	−0.2
Status 31.12.2016	−0.2	–	–	–	−0.2
Net book value at 31.12.2016	**0.6**	**3.6**	**2.7**	**0.3**	**7.2**

Intangible assets

EUR million	2017	2016
Net book value at 1.1.	**1.5**	**2.2**
Acquisition cost		
Status 1.1.	11.7	11.8
Investments	0.8	0.5
Disposals	–0.3	–0.6
Currency effects	–0.6	0.1
Status 31.12.	11.6	11.7
Accumulated valuation adjustments		
Status 1.1.	–10.3	–9.6
Ordinary amortisation	–0.7	–1.1
Disposals	0.3	0.5
Currency effects	0.5	–0.1
Status 31.12.	–10.1	–10.3
Net book value at 31.12.	**1.5**	**1.5**

5. Loans

EUR million	2017	2016
Split by maturity		
Less than 12 months	6.7	17.0
12 months to 60 months	5.4	5.5
More than 60 months	1.8	2.8
Total	**13.8**	**25.3**
Split by currency		
CAD	3.9	4.2
CHF	0.9	4.2
EUR	5.4	12.3
USD	3.7	4.6
Total	**13.8**	**25.3**

As in the previous year, short-term loans show an interest rate of 1 to 4%; 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**
Book value at 1.1.2017	**8.0**	**6.1**	**9.4**	**16.1**	**39.6**
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
Currency effects	–0.4	–	–0.1	–0.4	–0.9
Book value at 31.12.2017	**7.6**	**6.1**	**4.8**	**13.9**	**32.3**
Of which short-term	–	0.3	4.6	5.0	10.0
Book value at 1.1.2016	**10.1**	**14.7**	**7.3**	**20.1**	**52.3**
New provisions	2.0	0.7	7.1	3.6	13.5
Use	–2.7	–9.3	–3.9	–5.9	–21.8
Reversals	–1.5	–	–1.1	–1.7	–4.4
Currency effects	0.1	–	–	–	–
Book value at 31.12.2016	**8.0**	**6.1**	**9.4**	**16.1**	**39.6**
Of which short-term	–	0.4	9.1	8.5	18.0

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 1.70 % (1.84% in the previous year). At the end of 2016, obligations amounting to EUR 5.0 million were outsourced to a pension trust (Contractual Trust Arrangement). At the same time, a total of EUR 3.8 million was disbursed as a lump-sum payment.

In relation to ongoing restructuring measures, provisions in the amount of EUR 2.8 million were used in 2017. Recalculations of the remaining provisions at the end of 2017 led to a reversal of provisions in the amount of EUR 2.2 million.

The other provisions include provisions for warranties, pending legal cases and other personnel-related provisions.

7. Equity capital

At the balance sheet date, the equity ratio was 65% (2016: 62%). The factors that contributed to changes in consolidated equity are presented in the consolidated statement of changes in equity.

As in 2016, 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 8.0 million (2016: EUR 10.9 million).

	Registered shares A units **2017**	Value per unit EUR **2017**	Value thousand EUR **2017**	Registered shares A units **2016**	Value per unit EUR **2016**	Value thousand EUR **2016**
Own shares at 1.1.	**279,302** [1]	**37.59**	**10,499**	**99,062** [2]	**30.62**	**3,033**
Sale at (theoretical) market price	–57,385	32.90	–1,888	–69,760	32.21	–2,247
Gain / (loss) from sale			–262			78
Purchase at acquisition price	2,166	30.53	66	250,000	38.54	9,635
Own shares at 31.12.	**224,083** [1]	**37.55**	**8,415**	**279,302** [2]	**37.59**	**10,499**

1 Of which 21,368 (1.1.) or 16,648 (31.12.) reserved for the option programme
2 Of which 24,528 (1.1.) or 21,368 (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 68.7 million (2016: EUR 69.4 million).

9. Pledged assets

Of the Group's total assets, EUR 18.4 million served as collateral (2016: EUR 20.4 million). The pledged assets were exclusively land and buildings.

10. Liabilities to pension funds

At 31 December 2017, there were liabilities to pension funds in the amount of EUR 0.6 million (2016: EUR 0.6 million).

11. Transactions with closely associated parties

In the year under review, products at an immaterial value were sold to companies that were not fully consolidated (2016: EUR 0.6 million). With regard to companies that were not fully consolidated, there were receivables of EUR 0.2 million (2016: EUR 0.6 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 year, there were neither receivables nor obligations with regard to minority shareholders (in the previous year, there was an obligation of EUR 3.0 million to the former minority shareholder of Shanghai Nather Air Technology Co., Ltd. (China), owing to the increased share from 51 to 75.5% on 30 June 2016).

12. Derivative financial instruments

EUR million	Active value 31.12.2017	Passive value 31.12.2017	Active value 31.12.2016	Passive value 31.12.2016	Purpose
Foreign exchange	–	0.1	0.2	–	hedging
Interest	–	–	–	0.1	hedging
Total	**–**	**0.1**	**0.2**	**0.1**	

13. Operating leasing not recognised in the balance sheet

Current operating leasing contracts expire as follows:

EUR million	31.12.2017	31.12.2016
Within 12 months	3.1	3.2
In 13–60 months	6.1	6.6
In more than 60 months	0.7	–
Total	**9.9**	**9.8**

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) [1]

EUR thousands	Nominal value 31.12.2017	Not utilised 31.12.2017	Other valuation adjustments 31.12.2017	Balance sheet 31.12.2017	Balance sheet 31.12.2016	Currency effects resulting from ECR 2017	Result from ECR in financial earnings 2017
Pension trust fund	3,339	–	–	3,339	3,644	–305	–
Total	**3,339**	**–**	**–**	**3,339**	**3,644**	**–305**	**–**

1 The 2017 financial statements of the pension trust fund are not yet available as of the date of publication of this annual report. The details for 2017 correspond to those in the 2016 annual financial statements, and the 2016 details correspond to those in the 2015 annual financial statements.

Economic benefits / economic liabilities and pension expenses

EUR thousands	Excess / (inad-equate) cover 31.12.2017 [1]	Economic share of organisation 31.12.2017	Economic share of organisation 31.12.2016	Capitalised in business year 2017	Contributions accrued 2017	Pension expenses in personnel expenses 2017	Pension expenses in personnel expenses 2016
Pension trust fund	824	–	–	–	–	–	–
Personnel pension fund collective fund	–	–	–	–	2,136	2,136	2,141
Pension plans abroad	20	2	–	–	8,040	8,040	8,126
Total	**844**	**2**	**–**	**–**	**10,176**	**10,176**	**10,267**

1 The 2017 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 2017 correspond to the value as at 31 December 2016.

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 8% of total sales.

The Europe segment comprises a total of 34 production, sales and management companies in 13 European countries. The largest locations are in Germany, France, Great Britain, and Switzerland.

The China & North America segment is comprised of a total of 11 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**
2017					
Sales third	EUR million	491.1	91.3	–	582.4
Sales intercompany	EUR million	3.0	1.9	–4.8	–
Sales	EUR million	**494.1**	**93.2**	**–4.8**	**582.4**
EBIT before one-off effects [1]	EUR million	**21.1**	**2.4**	**–**	**23.5**
	% of sales	4.3	2.6		4.0
EBIT after one-off effects [1]	EUR million	**21.1**	**2.4**	**–**	**23.5**
	% of sales	4.3	2.6		4.0
Investments in property, plant and equipment & intangible assets	EUR million	**20.3**	**6.5**	**–**	**26.8**
Property, plant and equipment	EUR million	**154.5**	**41.5**	**–**	**196.0**
Net working capital [2]	EUR million	**90.8**	**28.9**	**–**	**119.7**
Number of employees	Ø full-time equivalents	**2,615**	**768**	**–**	**3,383**
2016					
Sales third	EUR million	466.5	72.4	–	538.9
Sales intercompany	EUR million	3.6	1.6	–5.2	–
Sales	EUR million	**470.1**	**74.0**	**–5.2**	**538.9**
EBIT before one-off effects [1]	EUR million	**17.2**	**–2.1**	**–**	**15.1**
	% of sales	3.7	–2.8		2.8
EBIT after one-off effects [1]	EUR million	**5.2**	**38.2**	**–**	**43.4**
	% of sales	1.1	51.6		8.0
Investments in property, plant and equipment & intangible assets	EUR million	**22.9**	**5.3**	**–**	**28.2**
Property, plant and equipment	EUR million	**159.0**	**42.4**	**–**	**201.4**
Net working capital [2]	EUR million	**92.9**	**21.1**	**–**	**113.9**
Number of employees	Ø full-time equivalents	**2,521**	**725**	**–**	**3,247**

1 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 (2016)
2 Trade accounts receivable plus inventories minus trade accounts payable

16. Sales

At EUR 582.4 million consolidated sales in 2017 were 8% higher than in 2016 (2016: EUR 538.9 million). Adjusted for currency effects, sales revenues increased by 10%.

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

Sales by region and business area are classified as follows:

		2017	%	2016	%
Sales by region and business area					
Radiators Europe	EUR million	281.7	48.4	272.5	50.6
Change from prior year	%	3.4		−3.0	
Radiators North America	EUR million	35.2	6.0	35.9	6.7
Change from prior year	%	−2.0		2.8	
Radiators China	EUR million	13.9	2.4	15.0	2.8
Change from prior year	%	−7.4		−10.2	
Total business area radiators	EUR million	**330.9**	**56.8**	**323.4**	**60.0**
Change from prior year	%	2.3		−2.7	
Ventilation Europe	EUR million	209.4	35.9	194.0	36.0
Change from prior year	%	7.9		5.0	
Ventilation North America	EUR million	10.3	1.8	8.0	1.5
Change from prior year	%	28.7		123.5	
Ventilation China	EUR million	31.9	5.5	13.4	2.5
Change from prior year	%	137.3		11.2	
Total business area ventilation	EUR million	**251.6**	**43.2**	**215.4**	**40.0**
Change from prior year	%	16.8		7.5	
Total Europe	EUR million	491.1	84.3	466.5	86.6
Change from prior year	%	5.3		0.2	
Total North America	EUR million	45.5	7.8	43.9	8.1
Change from prior year	%	3.6		14.0	
Total China	EUR million	45.8	7.9	28.5	5.3
Change from prior year	%	60.9		−1.2	
Total	EUR million	**582.4**	**100.0**	**538.9**	**100.0**
Change from prior year	%	8.1		1.1	

17. Other income

Other income is as follows:

EUR million	2017	2016
License income	0.1	0.1
Gain on disposal of fixed assets [1]	0.3	42.9
Miscellaneous operating income	3.6	4.0
Total	**4.0**	**47.0**

1 Includes the gain on sale of the old production facility in China with a one-off positive effect on the operating result (EBIT) of EUR 40.3 million (2016).

18. Other operating expenses

The other operating expenses break down as follows:

EUR million	2017	2016
Operating expenses	–43.5	–48.1
Marketing and distribution expenses	–62.7	–57.7
Administration and IT expenses	–21.7	–31.6
Total	**–127.8**	**–137.5**

The lower operating expenses in the year under review are due to the reduction in research and development activities. There was an increase in advertising and sales expenses, due primarily to the higher logistics costs associated with the growth in sales. The reduction in administrative and IT expenses can mainly be attributed to the launch of the SAP information technology platform, which was completed at the start of 2017.

19. Financial result

The exchange losses of EUR 1.4 million (2016: EUR 0.3 million) is primarily attributable to unrealised foreign exchange losses.

EUR million	2017	2016
Financial expenses	–0.9	–0.9
Financial earnings	0.6	0.4
Exchange gains / (losses)	–1.4	–0.3
Total financial result	**–1.6**	**–0.8**

20. Income taxes

The tax ratio (= taxes in percent of earnings before taxes) was 24% (2016: 34%). The high level of current taxes in 2016 was primarily due to the profits from the sale of the production facility in China.

EUR million	2017	2016
Current taxes	–6.5	–17.1
Deferred taxes	1.3	2.7
Total taxes	**–5.2**	**–14.4**

Zehnder Group expects that tax loss carryforwards of EUR 84.8 million (2016: EUR 64.9 million) can be utilised in the future. The respective deferred tax assets amount to EUR 12.0 million (2016: EUR 9.8 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	2017	2016
Earnings before taxes	21.7	42.5
Expected tax rate in %	24	25
Expected tax expense	**–5.3**	**–10.5**
Effect of tax incentives	1.5	0.7
Effect of non-deductible expenses	–0.7	–0.7
Effect of non-recognition of tax loss carry forwards	–1.7	–3.0
Effect of use of unrecognised tax loss carry forwards	0.2	0.1
Other effects	0.7	–0.9
Effective tax expense	**–5.2**	**–14.4**
Effective tax rate in %	24	34

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.

		2017	2016
Net profit excluding minority interests	EUR million	15.4	20.3
Notional number of shares	units	11,736,000	11,736,000
Average number of own shares	units	232,454	79,861
Non-diluted net profit excluding minority interests per registered share A	**EUR**	**1.34**	**1.74**
Additional shares from outstanding options (in-the-money)	units	291	1,887
Diluted net profit excluding minority interests per registered share A	**EUR**	**1.34**	**1.74**

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 23 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

		2017	2016
Shares granted	units	56,665	54,604
Current value on the day of allocation	CHF	32.70	36.95
Personnel costs	CHF	470,000	685,000

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

Allocation day	Exercise period	Allocated options units	Exercise price CHF	Outstanding options units 31.12.2017	Outstanding options units 31.12.2016
1 March 2009	2 March 2014–1 March 2017	12,880	17.28	–	4,080
1 March 2010	2 March 2015–1 March 2018	14,080	37.93	6,720	6,960
1 March 2011	2 March 2016–1 March 2019	14,480	62.50	9,680	10,400
Total		**41,440**		**16,400**	**21,440**

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 2017	Options units 2017	Average exercise price CHF 2016	Options units 2016
Outstanding options at 1.1.	**45.92**	**21,440**	**42.95**	**28,240**
Cancelled options	25.96	−4,320	35.25	−4,640
Exercised options	34.17	−720	30.15	−2,160
Outstanding options at 31.12.	**52.99**	**16,400**	**45.92**	**21,440**
Exercisable options at 31.12.	52.99	16,400	45.92	21,440

The outstanding options are hedged with own shares.

24. Acquisitions

No significant acquisition was made in the year under review.

As at 30 June in the previous year, the share in Shanghai Nather Air Technology Co., Ltd. (China) was increased from 51 to 75.5%. The obligation of EUR 3.0 million to the former minority shareholder, which existed in this regard at the end of 2016, was settled during the 2017 year under review.

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

		31.12.2017	31.12.2016
Disclosed equity inclusive minority interests	EUR million	**271.2**	**280.2**
Equity ratio	%	64.6	62.2
Acquisition value of goodwill			
Status at beginning of business year	EUR million	117.5	115.2
Additions [1]	EUR million	–	2.3
Status at end of business year	EUR million	117.5	117.5
Accumulated amortisation			
Status at beginning of business year	EUR million	–102.9	–98.4
Amortisation in current year	EUR million	–4.0	–4.5
Status at end of business year	EUR million	–106.9	–102.9
Theoretical net book value of goodwill	EUR million	**10.6**	**14.6**
Theoretical equity inclusive minority interests and net book value of goodwill	EUR million	**281.8**	**294.8**
Theoretical equity ratio	%	65.5	63.4

Impact of theoretical capitalisation of goodwill on results

		31.12.2017	31.12.2016
Disclosed net profit	EUR million	**16.5**	**28.1**
Theoretical amortisation of goodwill	EUR million	–4.0	–4.5
Theoretical impairment of goodwill	EUR million	–	–
Net profit/(loss) after amortisation of goodwill	EUR million	**12.5**	**23.6**

1 EUR 2.3 million from the increase in the participation in Shanghai Nather Air Technology Co., Ltd. (China) from 51 to 75.5% (2016)

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

Please refer to the Compensation Report on page 23 ff.

27. Events after the balance sheet date

The following event occurred after the balance sheet date:

On 12 January 2018, Hydro-Air Components, Inc. – located in Buffalo, NY (USA) – acquired assets and the brand name of NuClimate Air Quality Systems, Inc. based in Syracuse, NY (USA), as part of an asset deal. This transaction has no significant influence on the consolidated accounts of the Zehnder Group.

The 2017 financial statements were approved by the Board of Directors on 23 February 2018.

Overview of Companies

Status 31.12.2017, only active companies, countries in alphabetical order

		Activity	Capital stock	Capital share in %	Consolidated
Belgium					
Mechelen	Zehnder Group Belgium nv/sa	S	800,010	100	fully
Canada					
Vancouver	dPoint Technologies Inc.	S/P	18,766,213	100	fully
China					
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	31,000,000	76	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
Czech Republic					
Prague	Zehnder Group Czech Republic s.r.o.	S	200,000	100	fully
France					
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
Germany					
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
Italy					
Campogalliano	Zehnder Group Italia S.r.l.	S	80,000	100	fully
Netherlands					
Zwolle	Zehnder Group Zwolle B.V. (formerly Zehnder Group Nederland B.V.)	P	908,000	100	fully
Zwolle	Zehnder Group Nederland B.V. (formerly Zehnder Nederland B.V.)	S	18,000	100	fully
Poland					
Boleslawiec	Zehnder Group Boleslawiec Sp. z o.o.	P	51,280,000	100	fully
Wroclaw	Zehnder Polska Sp. z o.o.	S	4,000,000	100	fully
Russia					
Moscow	OOO «Zehnder GmbH», Russia	S	1,866,410	100	fully
Spain					
Cerdanyola del Vallès	Zehnder Group Iberica Indoor Climate, S.A.	S	300,500	100	fully
Sweden					
Täby	Zehnder Group Nordic AB	S	6,400,000	100	fully
Täby	Zehnder Group Motala AB	P	120,000	100	fully

		Activity	Capital stock	Capital share in %	Consolidated
Switzerland					
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
Turkey					
Manisa	Hotpan Isitma Sistemleri Pazarlama ve Ticaret Aş	S	50,004	100	fully
Manisa	Sanpan Isitma Sistemleri Sanayi ve Ticaret Aş	S/P	19,480,004	100	fully
Istanbul	Zehnder Group Iç Mekan Iklimlendirme Sanayi Ticaret Ltd Şti	S	3,525,000	100	fully
UK					
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
USA					
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

KPMG

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 2017 and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows 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 – 61) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, 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

Completeness and accuracy of provisions

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.

KPMG

Completeness and accuracy of provisions

Key Audit Matter

As at 31 December 2017 the consolidated balance sheet of Zehnder Group contains short- and long-term provisions for pension obligations in Germany (Euro 6.1 million), restructuring provisions (Euro 4.8 million) and other provisions (Euro 13.9 million) relating to warranties, pending legal cases and other personnel related provisions.

These provisions arise from past events, for which financial impacts need to be assessed by Group respectively local managements as at the balance sheet date. The assessment depends on estimates of the future cash outflows and underlying assumptions regarding occurrence of events and cost implications. The recognition and measurement of provisions are subject to uncertainty as they require significant judgements.

Our response

As part of our audit procedures, we have assessed the assumptions applied by Zehnder Group underpinning the recognition of provisions. Specifically, we have evaluated that the provisions were identified and recognized in line with an appropriate process, that the assumptions made were appropriate and the calculations reproducible.

We have amongst others performed the following procedures on provisions:

- Assessment of parameters used to measure pension obligations by reference to public market data (discount rates), public industry data (e.g. mortality data), reconciliation of the related basic data as well as testing of the appropriate accounting and presentation of the obligations determined by the external actuary;
- Reperformance of calculation of restructuring provisions and reconciliation to underlying documentation respectively to contractual obligations as well as assessment of reversals of provisions;
- Reperformance of calculation of other provisions and reconciliation to underlying documentation such as sales statistics, incurred costs (regarding warranty provisions) or personnel data (regarding other personnel related provisions) as well as obtaining written statements of external lawyers with respect to legal cases;
- Assessment of forecasting accuracy related to provisions recorded in the past by carrying out a retrospective review comparing past plan figures to actuals.

For further information on completeness and accuracy of provisions refer to the following:

— Accounting and Valuation principles “9 Provisions”, page 45

— Notes “6 Provisions”, page 51

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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG

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 per 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 determ that a matter should not be communicated in our report because the adverse consequences of doing so wou reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 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 consolidated financial stateme 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, 23 February 2018

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

Balance Sheet Zehnder Group AG

CHF million	Notes page 69 ff.	31 December 2017	31 December 2016
Assets			
Liquid assets		1.1	3.2
Other short-term receivables	1	10.4	13.1
Current assets		**11.5**	**16.3**
Financial assets	2	102.9	101.6
Participations	3	355.5	345.7
Non-current assets		**458.4**	**447.3**
Total assets		**469.9**	**463.6**
Liabilities & shareholders' equity			
Short-term interest-bearing liabilities	4	32.0	39.9
Other short-term liabilities	5	0.3	3.6
Accruals and deferred income		2.4	1.9
Short-term liabilities		**34.7**	**45.3**
Provisions		60.0	60.0
Long-term liabilities		**60.0**	**60.0**
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		307.5	360.5
– Net income/(loss) for the year		25.7	–42.0
Own shares	7	–9.3	–11.5
Shareholders' equity		**375.2**	**358.2**
Total liabilities and shareholders' equity		**469.9**	**463.6**

Income Statement Zehnder Group AG

CHF million	Notes page 69 ff.	2017	2016
Dividend income		29.5	19.6
Other operating income		2.5	2.0
Operating income		**32.0**	**21.6**
Personnel expenses		–1.7	–2.1
Other operating expenses		–2.3	–2.3
Impairment losses on loans and participations		–2.3	–55.7
Operating profit		**25.7**	**–38.4**
Financial income		17.2	4.8
Financial expenses		–16.5	–7.9
Direct taxes		–0.7	–0.5
Net income / (loss) for the year		**25.7**	**–42.0**

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	31.12.2017	31.12.2016
Accounts receivable from third parties	0.4	0.4
Accounts receivable from Group companies	10.0	12.7
Total	**10.4**	**13.1**

2. Financial assets

CHF million	31.12.2017	31.12.2016
Loans to third parties	0.2	0.2
Loans to Group companies	102.7	101.4
Total	**102.9**	**101.6**

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	31.12.2017	31.12.2016
Bank loans	3.9	14.1
Loans from Group companies	28.0	25.7
Total	**32.0**	**39.9**

Decrease in bank debt due to repayment of fixed advances.

5. Other short-term liabilities

CHF million	31.12.2017	31.12.2016
Other short-term liabilities to third parties	0.3	3.6
Total	**0.3**	**3.6**

The reduction in obligations vis-à-vis third parties is based primarily on the obligations in relation to the increased share in Shanghai Nather Air Technology Co., Ltd. (China). This increase took place in 2016.

6. Share capital

	Registered shares A units 2017	Registered shares B units 2017	Value CHF 2017	Registered shares A units 2016	Registered shares B units 2016	Value CHF 2016
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
Total at 31.12.	**9,756,000**	**9,900,000**	**586,800**	**9,756,000**	**9,900,000**	**586,800**

As in 2016, 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 2017	Value per share CHF 2017	Value CHF 2017	Registered shares A units 2016	Value per share CHF 2016	Value CHF 2016
Own shares at 1.1., trading portfolio	**257,934**	**41.27**	**10,643,750**	**74,534**	**34.10**	**2,541,610**
Shares sold	−56,665	35.68	−2,021,625	−67,600	35.43	−2,395,300
Gain/(loss) from sale			−278,661			90,140
Shares bought	2,166	33.15	71,803	250,000	41.50	10,375,000
Reclassifications	4,000	32.30	129,200	1,000	32.30	32,300
Own shares at 31.12., trading portfolio	**207,435**	**41.19**	**8,544,467**	**257,934**	**41.27**	**10,643,750**
Own shares at 1.1., long-term stock option plan	**21,368**	**41.69**	**890,860**	**24,528**	**40.48**	**992,927**
Shares sold	−720	17.28	−12,442	−2,160	30.15	−65,131
Gain/(loss) from sale			−10,814			−4,636
Reclassifications	−4,000	32.30	−129,200	−1,000	32.30	−32,300
Own shares at 31.12., long-term stock option plan	**16,648**	**44.35**	**738,404**	**21,368**	**41.69**	**890,860**
Total securities at 1.1.	279,302		11,534,610	99,062		3,534,537
Total securities at 31.12.	224,083		9,282,870	279,302		11,534,610

As part of a public fixed price share buyback programme in 2016, 250,000 registered shares A were bought back.

The own shares allocated to the Board of Director members are shown in the Compensation Report from page 23.

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 78.6 million (2016: CHF 73.0 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 (2016: 49.8%),
- Credit Suisse Funds AG, Zürich (Switzerland): 1,348,150 registered shares A, corresponding to 6.9% of the votes (2016: 4.3%),
- VERAISON SICAV – Engagement Fund, Zürich (Switzerland): 656,667 registered shares A, corresponding to 3.3% of the votes (2016: no shareholding).

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

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 (Status 31.12.2017)	Registered shares A units [1] 2017	Registered shares A units [1] 2016	Registered shares B units [2] 2017	Registered shares B units [2] 2016	Options unit 2017	Options unit 2016
Hans-Peter Zehnder [4] Chairman of the Board, China & North America a.i.	180,587 0.9 % [3]	166,858 0.9 % [3]	20,000 0.1 % [3]	20,000 0.1 % [3]	320	320
Thomas Benz Vice Chairman of the Board	30,667 0.2 % [3]	28,208 0.1 % [3]	–	–	–	–
Urs Buchmann Member of the Board	12,331 0.1 % [3]	9,872 0.1 % [3]	–	–	–	–
Riet Cadonau Member of the Board	6,166	4,527	–	–	–	–
Enrico Tissi Member of the Board until 6.4.2017	–	16,797	–	–	–	–
Jörg Walther Member of the Board as of 6.4.2016	2,254	–	–	–	–	–
Milva Zehnder Member of the Board as of 6.4.2016	1,639	–	–	–	–	–
Dominik Berchtold Chairman of the Group Executive Committee, CEO	30,577 0.2 % [3]	26,262 0.1 % [3]	–	–	640	960
René Grieder Chief Financial Officer	8,000	5,883	–	–	240	240
Tomasz Juda Competence Center Radiators	800	800	–	–	480	720
Cyril Peysson Sales Europe / Middle East / Africa (EMEA)	35,026 0.2 % [3]	32,125 0.2 % [3]	–	–	640	960
Olaf Schulte Competence Center Comfosystems	475	225	–	–	240	240

1 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 23 ff).
2 The registered shares B are not listed.
3 Share of total votes in % (only if > 0.1%)
4 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 102,600 (2016: CHF 126,400). For further audit-related services invoices amounting to CHF 3,267 were issued in the reporting period (2016: CHF 0).

Proposal on the Appropriation of Earnings

	CHF
The balance sheet profit available for distribution comprises	
Retained earnings from previous year	307,548,702
Net gain for 2017 according to the income statement	25,690,053
Balance sheet profit	**333,238,755**
The Board of Directors proposes the following appropriation of earnings	
Payment of a dividend	5,868,000
To be carried forward to new account	327,370,755
Total appropriation of earnings	**333,238,755**

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

KPMG

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 2016, 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 2017 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.

KPMG

Valuation of investments

Key Audit Matter

Investments held by Zehnder Group AG as at 31 December 2017 amount to CHF 355.5 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 para. 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, 23 February 2018

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

Further Information for Investors

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Press releases
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	12.4.2018
Ex-dividend date	16.4.2018
Dividend payout	18.4.2018
Six-month report	27.7.2018
End of business year	31.12.2018
Announcement of sales for 2018	18.1.2019
Annual report 2018	27.2.2019
Press conference on financial statements and analysts' meeting	27.2.2019

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

A Short Report can be ordered in both languages under investor-relations@zehndergroup.com.

The online versions are also published under www.zehndergroup.com/en/investor-relations/reports-and-presentations.

Annual General Meeting 2019
The Annual General Meeting 2019 will be held on 28 March 2019 in Suhr (Switzerland).

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 direct on our website.
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 14 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 and Core, 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 over 3000 people worldwide and achieved sales of EUR 582 million in 2017. 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.

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