zehnder

always the best climate

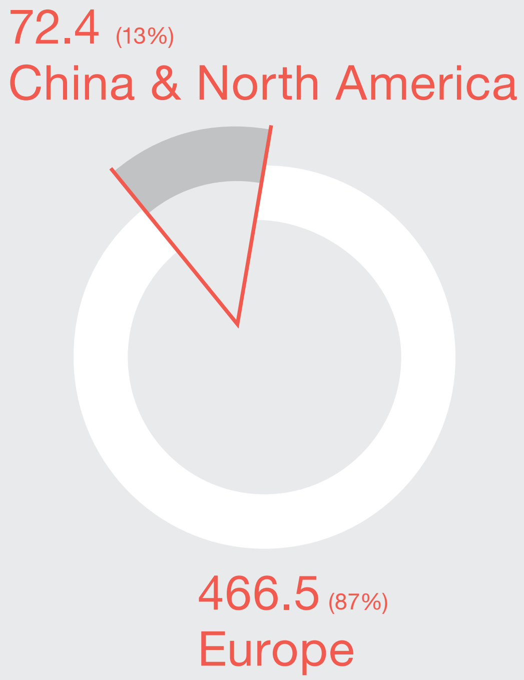
2016

ANNUAL REPORT

Content

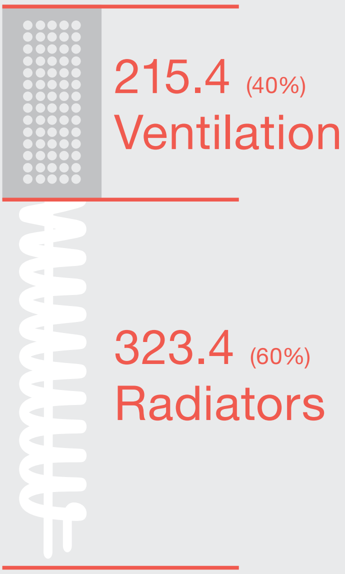
Sales by segment

EUR million



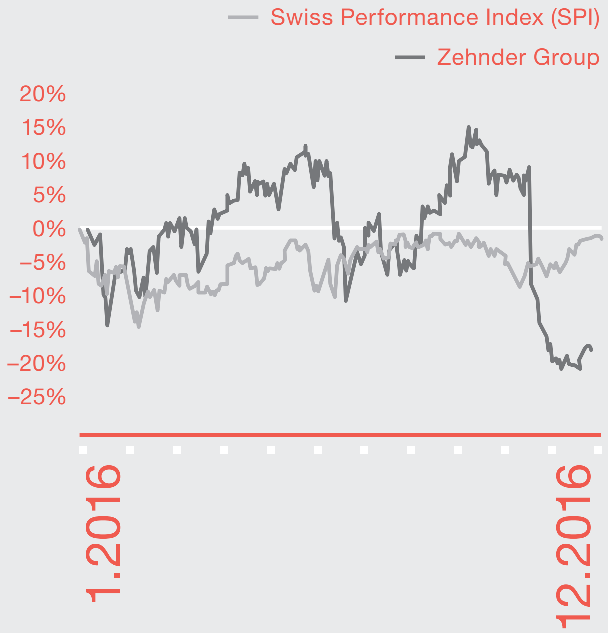
Sales by business area

EUR million



Share price development

1 January to 31 December 2016



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

		2016	2015	%
Sales	EUR million	538.9	533.0	1.1
EBIT before one-off effects [1]	EUR million	15.1	27.0	–44.2
	% of sales	2.8	5.1	
EBIT after one-off effects [1]	EUR million	43.4	5.2	726.7
	% of sales	8.0	1.0	
Net profit [2]	EUR million	28.1	0.3	–
	% of sales	5.2	0.1	
Net profit before depreciation & amortization [2]	EUR million	55.0	21.6	154.4
	% of sales	10.2	4.1	
Investments in property, plant and equipment & intangible assets	EUR million	28.2	29.4	–3.9
Depreciation & amortization [3]	EUR million	26.9	21.3	26.5
Total assets	EUR million	450.5	435.6	3.4
Non-current assets	EUR million	210.1	209.1	0.5
Shareholders’ equity [2]	EUR million	280.2	269.0	4.2
	% of total assets	62.2	61.8	
Number of employees	Ø full-time equivalents	3,247	3,194	1.7
Net profit per registered share A [4]	EUR	1.74	0.01	–
Net profit per registered share A before depreciation & amortization [4]	EUR	4.05	1.83	120.9
Shareholders' equity per registered share A [4]	EUR	22.55	21.76	3.6
Zehnder Group AG				
Share capital	CHF million	0.6	0.6	–
Dividend per registered share A [5]	CHF	0.95	–	–

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 4.9 million in the business area Radiators in Europe
4 Excluding minority interests
5 For 2016 as proposed by the Board of Directors

An eventful year

Dear shareholders,
2016 was an eventful year marked by many positive developments, and some disappointments. The highlights of the year included the successful market launch of the Zehnder ComfoAir Q central ventilation units, as well as the integration of the Vaux-Andigny (France) and Motala (Sweden) production sites and also the Polish and Scandinavian sales companies into the SAP IT platform, which went according to schedule.

Zehnder ComfoAir Q was launched in June and the feedback from the market is very good. This new model range is an example of the Zehnder Group continuing to reaffirm its position as a leading innovator again and again. Zehnder Zmart has also received positive feedback. Installation technicians appreciate the innovative polymer radiator, which is 60% lighter than conventional steel models and therefore considerably easier to install. However, we are still in the initial phase in terms of production and the manufacturing process needs to be optimized further to reduce costs.

Atypical sales performance

With sales growth of 3% at the end of June 2016, the Zehnder Group grew in line with expectations during the first half of the year. However, in the final months of the financial year – which are traditionally among the strongest in terms of sales – we were surprised to see a slump in various areas. France and the United Kingdom were particularly affected. There was a marked contraction in the demand for radiators in France, and customers increasingly favoured models with smaller margins. The factory capacity in France was not sufficiently utilized. In the UK, the fall in the value of sterling in the wake of the Brexit vote led to reduced sales revenues and margins expressed in euros, because the procurement and production costs were largely incurred in euros. Furthermore, price increases were harder than expected to implement. Sales in other markets – such as Germany, Italy, the Netherlands, Belgium and North America, as well as in the Clean Air Solutions and heat exchanger sectors – grew positively as expected.

Unsatisfactory profit situation

The restructuring measures announced in the middle of 2015 were completed in the year under review as planned. The negative trend in the second half of the year, however, put a great deal of pressure on profitability. At EUR 15.1 million, the operating result before one-off effects was considerably lower than the previous year's figure of EUR 27.0 million. To improve the unsatisfactory profit situation, further restructuring measures were introduced. These affected the annual financial statements with one-off costs of EUR 12.0 million.

A one-off positive effect of EUR 40.3 million on EBIT resulted from the sale of the old production facility in Beijing (China), which was concluded at the end of 2016. Thanks to the sale of the facility, it was possible to achieve an EBIT after one-off effects of EUR 43.4 million, and net income compared to the previous year increased from EUR 0.3 million to EUR 28.1 million.

Sound growth potential

The conditions that need to be in place in order for us to harness growth potential are different for the two business areas of radiators and ventilation. The market for radiators is largely saturated. The Zehnder Group assumes that the number of providers will continue to fall and that it can gain larger shares in a stagnating market.

The ventilation business area is driven by consumers' growing awareness of health and comfort. This increases the need for healthy ambient air, which boosts the sales potential for solutions such as those offered by Zehnder. With the acquisition of the Canadian firm dPoint Technologies Inc. in 2015, the Zehnder Group has secured a world-leading position when it comes to membranes for energy recovery systems. As a result, the comfort and energy efficiency of buildings can be increased considerably.

Long-term investment activities

In order to further strengthen its market position and to secure medium-term growth potential, the Zehnder Group is maintaining its investment plans. Geographically speaking, the focus was on Europe. Of particular importance were the new factory and the modernization of the production facilities for enthalpy exchangers in Reinsdorf (Germany), the new training center at the headquarters in Gränichen (Switzerland) and the acquisition of land in Manisa (Turkey) for the construction of a new factory for bathroom radiators. Furthermore, the share in the Chinese ventilation company Shanghai Nather Air Tech Co., Ltd. was increased from 51 to 75.5%.

Optimization of the profit situation in the medium term

2017 remains a challenging year. The focus remains on optimizing processes and costs in order to grow again in the medium term and increase profitability.

Dividends

For the financial year 2016, the Board of Directors is proposing to the Annual General Meeting a dividend of CHF 0.95 per registered share A. This corresponds to a provision of 50% and therefore to the long-term dividend policy of the Zehnder Group of distributing around 30 to 50% of consolidated net income excluding minority interests.

A word of thanks

We would like to express our sincere gratitude to our employees, who demonstrated a great deal of dedication and customer focus in 2016. They are key to the successful development of the Zehnder Group.

Our heartfelt thanks also go to our customers, who inspire us every day to deliver maximum performance and who in turn reward us with their loyalty to our products and solutions.

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

Dominik Berchtold
Chairman of the Group Executive Committee, CEO

Profit increase due to one-off effect of selling property in China

In 2016, the Zehnder Group achieved a turnover of EUR 538.9 million – an increase of 1% compared to the previous year. The operating result (EBIT), before one-off effects, dropped from EUR 27.0 million to EUR 15.1 million. Further restructuring costs totalling EUR 12.0 million had an impact on EBIT. There was a one-off positive effect of EUR 40.3 million resulting from the sale of the old production facility in China. After one-off effects, EBIT amounted to EUR 43.4 million, with net income of EUR 28.1 million.

Modest growth in sales

In the financial year 2016, the Zehnder Group increased its sales from EUR 533.0 million to EUR 538.9 million. This equates to growth of 1% (+3% organically and when adjusted for currency effects). The Europe segment accounted for EUR 466.5 million, or 87% of total sales, which was on par with the previous year (adjusted for currency effects: +2%). Sales in Germany, in particular, increased favourably and also grew in the Netherlands, Italy, Belgium and Poland. On the other hand, France, the UK and Switzerland – all key markets for the Zehnder Group – had negative growth. There was a marked decline in the demand for radiators in France in the second half of the year. At the same time, customers increasingly favoured lower-cost models. In the UK, the fall in the value of sterling put strain on sales expressed in euros. As a whole, the revenue gained from the sale of radiators in Europe fell by 3% (–1% when adjusted for currency effects), in contrast the ventilation business managed to achieve growth of 5% (+7% when adjusted for currency effects).

The China & North America segment accounted for EUR 72.4 million (EUR 67.3 million in the previous year) or 13% of total sales. The growth in the Chinese economy continued to slow down in 2016, which had an impact on the construction industry. The radiator market also saw decline. Despite this, growth in the ventilation business enabled sales to rise by 6% in the local currency (–1% in euros). The construction industry in North America showed signs of growth. The Canadian company dPoint Technologies Inc., which was fully acquired in December 2015, was also able to contribute to the sales growth of 14% (+6% organically and when adjusted for currency effects).

Operating result affected by one-off effects

Despite the restructuring measures introduced in mid-2015 to improve earnings, profitability in 2016 was also under a great deal of pressure. The operating result, before one-off effects, was EUR 15.1 million – far below the value of EUR 27.0 million achieved in the previous year. The trend towards lower-price models, the insufficient utilization of the radiator factories' capacity in France, Switzerland and China, as well as the depreciation of sterling, all had a negative impact on margins. In addition, expenditure on product development, sales and information technology were increased further in order to strengthen market position and exploit potential for growth over the medium term. In a bid to improve unsatisfactory profits, additional restructuring measures were introduced which affected EBIT with one-off costs of EUR 12.0 million. The sale of the old production facility in Beijing (China), which was concluded at the end of 2016, had a one-off positive effect of EUR 40.3 million on EBIT. After one-off effects, EBIT amounted to EUR 43.4 million (EUR 5.2 million in the previous year), with net income of EUR 28.1 million (EUR 0.3 million in the previous year).

A strong balance sheet

At year-end, the balance sheet total was EUR 450.5 million (compared to EUR 435.6 million in the previous year). At the end of the year, the Zehnder Group continued to have a high equity ratio of 62% with shareholder equity of EUR 280.2 million (EUR 269.0 million, or 62%, in the previous year). In the year under review, net liquidity increased from EUR 41.1 million to EUR 54.1 million. The majority of this increase is accounted for by the outstanding payment for the sale of the old production facility in Beijing. Cash flow from operating activities dropped from EUR 31.8 million to EUR 17.5 million.

Additional optimization measures introduced

The comprehensive package of measures announced on 1 June 2015 to reduce the cost base and increase efficiency, sales and profit was fully implemented as planned in 2016.

However, the unsatisfactory profitability, particularly in the second half of the year, forced the Group Executive Committee to introduce further targeted restructuring measures. This included relocating the production of Yucca bathroom radiators from Lahr (Germany) to Bolesławiec (Poland). The administration and sales office in Täby (Sweden) is being closed and integrated into the production site in Motala (Sweden). In addition, an impairment was made on radiator production equipment in Europe. The one-off costs for the restructuring measures totalling EUR 12.0 million have been fully charged to the 2016 result.

"The unsatisfactory profitability, particularly in the second half of the year, forced the Group Executive Committee to introduce further targeted restructuring measures."

The Zmile initiative introduced in 2012 on the basis of the Kaizen methodology for ongoing process optimization in production and administration was continued in the year under review. In Gränichen (Switzerland), for example, the availability of machines was increased by introducing preventive maintenance. Lead times were improved by reducing the waiting times between processes throughout the supply chain between the plant in Vaux-Andigny (France) and the hub in Lahr (Germany). Additionally, the quotation response time was shortened in Zwolle (the Netherlands) which improved the success rate.

In addition, during the year under review, the production facilities in Vaux-Andigny (France) and Motala (Sweden), as well as the sales companies in Poland and Scandinavia, were integrated successfully into the new SAP information technology platform. The integration of the Reinsdorf (Germany) and Zwolle (the Netherlands) facilities then followed in January 2017. SAP is harmonizing processes across international borders – from development to purchasing and beyond to the invoicing of delivered products and services. This reduces complexity whilst increasing efficiency and transparency. This SAP project is now mostly complete.

Development and new products

In order to further expand our market position, the Zehnder Group increased its research and development expenditure by around one-third to EUR 20.2 million (in the previous year expenditure totalled EUR 15.3 million).

In 2016, the Zehnder Group introduced the new ComfoAir Q model range in the markets of Belgium, Germany, the Netherlands, Poland, the UK, Italy and France as planned. The new generation of central ventilation units consists of three types with air volumes of 350, 450 and 600 m^3/h. It will gradually replace the ComfoAir 350/550 models and is winning over customers with its easy commissioning and use, outstanding performance and quiet operation. Energy consumption has been significantly reduced once again. A new, patented filter concept also ensures the highest possible level of hygiene in the unit and air distribution system. The new ventilation units were introduced in Switzerland in January 2017.

The innovative Zehnder Zmart radiator has been launched in additional European markets. Zehnder Zmart is a new generation of radiators with registers made entirely of polymer, which has received the coveted “Best of the Best” Red Dot Award owing to its outstanding design. Sales are concentrated primarily in the markets of Germany, Belgium, France and the Netherlands. In the latter two markets, Zehnder Zmart is sold exclusively via the myZmart app.

Continuing investment in the future

Investments in property, plant and equipment and intangible assets in 2016 totalled EUR 28.2 million (prior-year: EUR 29.4 million). Geographically speaking, investments focused on Europe. Of particular importance were the new factory extension and the modernization of the production facilities for enthalpy exchangers in Reinsdorf (Germany). Spanning an area of 2,400 m^2, the new extension was constructed using low-energy methods and meets the very highest ecological standards. At the Zehnder Group headquarters in Gränichen, investment was made in the new 800 m^2 training center, which has been the site for the Zehnder Academy delivering practical knowledge about the world of modern building services since officially opening on 30 March 2016.

In response to the growing demand for bathroom radiators, the Zehnder Group also decided to construct a new manufacturing plant in Turkey in the year under review, and for this purpose has purchased a 40,000 m^2 plot of land in Manisa, where production is currently conducted in a rented building.

On 30 June 2016, the Zehnder Group increased its share in the Chinese ventilation company Shanghai Nather Air Tech Co., Ltd. from 51 to 75.5%. The company, which has its headquarters in Shanghai, has been operating as a subsidiary of the Zehnder Group since June 2010 and develops, produces and sells ventilation components (heat recovery units, extractor fans, etc.) for residential construction in China.

Employees

The number of full-time staff increased from 3,073 at the end of 2015 to 3,265 at the end of 2016. Insourcing logistics to the Zehnder Group logistics center in Lahr (Germany) resulted in employees from the formerly external logistics service provider being incorporated into Zehnder. At the same time, the Zehnder Group expanded its staff numbers in several sales and service organizations. Owing to the high demand for bathroom radiators, production in the Manisa site (Turkey) was also extended to run over three shifts. In the year under review, the average number of staff working full-time increased from 3,194 to 3,247. Of these, 280 were employed on a temporary basis (2015: 236) and 48 were trainees (2015: 34). There were 2,521 employees working in Europe (2015: 2,526) and 725 in China and North America (2015: 667).

The Zehnder Group relies heavily on the skills of its staff. This is why, in autumn 2016, it launched a Group-wide internal management development program. One of the objectives of this program is to ensure that approximately two-thirds of management positions can be filled by internal staff as they become vacant in the medium term. Professional training is also extremely – and increasingly – important. This can be demonstrated by the fact that the Zehnder Group employed more than twice as many apprentices in 2016 than it did five years prior.

The health of its employees is also a key concern for management. The Zehnder Group invites its employees to take part in an annual run. In 2016, this was the marathon held in Eindhoven (in the Netherlands). Almost 200 employees stepped up to face this athletic challenge in teams of two or four. With these teams, the Zehnder Group represented the second-biggest company delegation.

Overview of key markets

There have been positive developments in local currencies in the markets of Germany, the Netherlands, Italy, Belgium, Poland, China and North America. However, sales in France, the UK and Switzerland – the three largest markets after Germany – failed to reach the levels of the previous year. The ventilation business area benefited from the trend towards energy-efficient construction and from the need for a healthy and comfortable indoor climate. The share of sales accounted for by this business area rose to 40%, while sales in radiators declined.

Germany

In the year under review, sales in Germany saw positive growth, overtaking France as the largest sales market. Growth was primarily from the residential construction sector. As a consequence of low cost financing, the demand for additional housing increased. The Zehnder Group saw modestly increased sales in the radiator business area, and considerable increases in sales in the ventilation business area.

France

Private residential construction in France declined. While sales in the first half of the year were on par with those of the previous year, they declined in the second half of the year. Customers increasingly favoured lower-cost models with smaller margins. In addition, the weather in the autumn was excessively warm, which had a negative impact on the sales of electric radiators. On the other hand, the business area of ventilation saw modest growth.

A notable highlight from the ventilation sector is the collaborative “Terrasse 9” project by the client Bouygues Immobilier and architect Atelier Zündel Cristea in Nanterre, near Paris. “Terrasse 9” consists of three buildings with a total of 147 apartments and offices. The complex produces more energy than it consumes, and therefore meets the standard for an energy-plus house. This energy output is achieved by using appliances such as the Zehnder ComfoAir 350 ventilation unit, installed in every apartment, which guarantee an ideal air quality.

United Kingdom

The United Kingdom continues to be the third-largest market for the Zehnder Group. However, sales in local currency failed to reach the levels of the previous year. The downturn in the radiator business area could not be compensated by the growth in the ventilation business area. In addition, the fall in the value of sterling put strain on sales expressed in euros. The weak British pound also exerted a negative impact on margins, since the procurement and production costs are incurred mainly in euros.

It is difficult to assess what political and economic consequences the United Kingdom’s exit from the European Union will have. Moreover, price increases were met with significant resistance from customers. Because of the considerable air pollution in England’s major cities, growth potential is primarily in the areas of ventilation and Clean Air Solutions. The Zehnder Group has the right products and solutions that can enable a healthy indoor climate, even in a heavily polluted environment.

In February 2016, the new Customer Experience Centre in Camberley was officially opened, showcasing the complete range of indoor climate solutions, including decorative radiators, radiant ceiling panels and ventilation units with heat recovery. The building also includes a high-efficiency one-bedroom apartment, equipped with a standardized indoor-climate solution for the modern home.

Switzerland

Construction remained on par with figures from the previous year in 2016. As a consequence of the weak euro, the Zehnder Group felt increased pricing pressure. The previous year’s sales in local currency could not be matched in either of the two business areas.

The new training center in Gränichen, the Zehnder Academy, was officially opened on 30 March 2016. On a site covering 800 m², architects, planners and installers have access to a state-of-the-art and user-oriented infrastructure. This was designed for seminars that combine theory with practice, including real-time operation of systems, in an optimum manner. The site welcomed around 700 attendees in 2016.

At the end of January 2017, jobs were relocated to Gränichen from the closed sales office in Wädenswil. Knowledge and expertise are now concentrated in one location, which creates synergies and accelerates processes.

The Netherlands

The Dutch construction industry again saw positive growth in 2016, primarily from the residential construction sector. Demand for new builds and renovations grew. In the Netherlands, where the Zehnder Group does most of its business in ventilation, a pleasing level of sales growth was achieved.

Italy

In Italy, modest growth was achieved in the renovations sector, but residential construction declined. Nevertheless, the Zehnder Group succeeded in gaining market share and increasing sales. Both business areas – radiators and ventilation – achieved considerable levels of growth.

Belgium

In Belgium, residential renovation projects increased modestly compared with the previous year, but residential construction saw substantial decline. In Belgium, the Zehnder Group achieved the majority of its sales in the business area of ventilation, which continued to grow in the year under review, but sales in the radiator business area declined.

Spain

Private residential construction in Spain declined in 2016, but new construction of commercial buildings as well as renovations increased. Energy efficiency measures were subsidized by the government. Zehnder Group sales significantly increased in both business areas.

Poland, Russia and Turkey

Intensive market development by the Zehnder Group in Eastern Europe in recent years has yielded positive results. In Poland, for example, total sales increased, and the growth in the ventilation business field compensated for the decline in the sale of radiators. In Russia, where the Zehnder Group sells mainly radiators, revenues increased modestly despite the difficult economic circumstances. The Turkish sales company also succeeded in considerably increasing radiator sales.

Given the strong growth internationally in the demand for bathroom radiators, the Zehnder Group decided in 2016 to build a new manufacturing plant in Manisa (Turkey). Spanning an area of approx. 16,000 m^2, the planned new production plant, including space for warehouse and logistics operations, is located in a commercial zone around 30 km to the north-east of İzmir. The new factory has a design capacity to accommodate a doubling of current annual production volumes in the long term. The Zehnder Group operations in Manisa focus primarily on supplying its main markets in Europe. At the same time, the Group will work on tapping into the Turkish market in a more targeted manner.

China

The growth in the Chinese economy continued to slow down in 2016, which had an impact on the construction industry. The radiator market declined, but owing to the growth in the ventilation business area, sales in local currency increased.

As a result of the severe environmental pollution in China, the Zehnder Group recognizes further growth potential in the areas of ventilation and air purification. On 30 June 2016, the Group increased its share in the Chinese ventilation company Shanghai Nather Air Tech Co., Ltd. from 51 to 75.5%. The company, which has its headquarters in Shanghai, has been operating as a subsidiary of the Zehnder Group since June 2010 and develops, produces and sells ventilation components (heat recovery units, extractor fans, etc.) for residential construction in China.

At the end of the year, the Group was able to conclude the sale of the old production facility in Beijing. The associated one-off positive effect on the operating result was EUR 40.3 million.

North America

Construction saw an upswing in the year under review in North America. Sales in the ventilation business area more than doubled in the year under review and sales in the radiator business area also increased. The company dPoint Technologies Inc., which was completely taken over on 1 December 2015 and does business primarily in the heat exchanger sector, contributed to positive growth. However, the capacity utilization and profitability of the plant in Buffalo, NY, remains unsatisfactory. The company failed to achieve the turn-around it was hoping for and further measures have therefore been introduced.

Risk assessment

The Zehnder Group has a risk management process which has been approved by the Board of Directors. The risk policy defines a structured process which specifies how the risks to the business are monitored. In this process, risks are identified and analyzed in terms of 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 Chief Financial Officer. Risk management focuses on identifying, analyzing and mitigating currency, interest, liquidity and counterparty risks, in order to limit the extent to which they can impair cash flow and net income.

Outlook

The relevant markets are set to remain challenging in the coming year. Macroeconomic conditions will continue to be fragile particularly in the sales markets important to the Zehnder Group, namely France, the United Kingdom and Switzerland. In terms of procurement, steel prices are increasing. At the same time, we are facing increasing pricing pressure from customers. The Zehnder Group's focus on optimizing processes and cost structures will continue unabated. In light of the growing demand in the ventilation business area, the Zehnder Group is planning further investments into new products and services, as well as infrastructure.

The expectations stated on pages 4 to 11 are based on assumptions. If they do not prove true, this will affect the associated results.

Corporate Governance

"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 2016 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 operational Group structure is presented on pages 16 to 19 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 57 to 58 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 69. 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 67 of the annual report and to the consolidated statement of changes in equity on page 37 of the annual report. There is no authorized and no conditional capital. All changes in equity since going public in 1986 are set out under our website [1].

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 586,000 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 [2]. 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.

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 authorized 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 20 ff. and to note 23 of the consolidated financial statements on page 54 of the annual report.

Board of Directors

Election and period of office

Art. 20 of the articles of association lays down that the Board of Directors is made up of at least three members elected by the general meeting of shareholders for a period of one year. Reelection is permissible.

At the general meeting of shareholders, there is a separate vote on the election or reelection 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 authorization, are counted as a single mandate.

The independent proxy also has to be elected each year at the Annual General Meeting.

Internal organization

The articles of association lay down that the chairman (Hans-Peter Zehnder) or his deputy (Thomas Benz) convenes and chairs the meeting. The Board's duties are carried out by the entire Board. For each meeting, all Board members receive relevant documentation one to two weeks in advance. In 2016, the Board met five times, in January, February, April, June, October (in 2015 five times: January, March, April, July, September). The meetings lasted between half a day and two days. In addition, the board held two telephone conferences in August and November which lasted one hour 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 direct, a regular rhythm has been established to hold one of the Board meetings on the premises of an operating company.

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 General Meeting of Shareholders. The members of the compensation committee are: Enrico Tissi, 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 21 to 22.

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 2016, the Audit Committee was composed of Jörg Walther (Chairman) and Dr Urs Buchmann. The Audit Committee convenes at the invitation of the Chairman as often as is required by business activities. In 2016, the Audit Committee convened three times. The attendance rate for the meetings was 100%. Each of the meetings lasted between 2 and 3 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
- Organization 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 recognized 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 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 for the bylaws please refer to our website [3]. 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 analyzed once a year, and appropriate measures decided.

Disclosure of compensation

Information about compensation, shareholdings and loans are published in the Compensation Report on pages 20 to 29.

Shareholders' participation

Please refer to Swiss company law and also to the Zehnder articles of association at our website [4].

Calling of the Annual General Meeting and listing items on the agenda

The Annual General Meeting is called by the Board of Directors or, if necessary, by the auditor 20 days prior to the date of the meeting at the latest. Requests for items to be included on the agenda must be submitted to the Company in writing 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 Art. 10 of the company's articles of association.

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 909,000 for auditing individual accounts and the consolidated financial statements. EUR 697,000 of this total was paid to the KPMG group. The KPMG group was paid an additional EUR 41,000 for audit-related services.

A total of EUR 1,019,000 was charged for taxation and legal services throughout the group. Of this, EUR 53,000 was paid to the KPMG group.

KMPG met with the full Board of Directors once in the 2016 reporting period and informed them of their key findings in relation to the audited business unit reports. In addition KPMG also participated in all three meetings of the newly created 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 in German and English on the Internet under our website [5], the short report is available in both languages also in printed form. Our website also offers an opportunity for interested parties to subscribe to news publications and to 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.

[1]
www.zehndergroup.com/en/investor-relations/corporate-governance

[2]
www.zehndergroup.com/en/investor-relations/shares

[3] + [4]
www.zehndergroup.com/en/investor-relations/corporate-governance

[5]
www.zehndergroup.com/en/investor-relations/reports-and-presentations

Board of Directors

(Status 1.1. 2017)
Members of the Board of Directors,
other activities
and vested interests

Hans-Peter Zehnder

President 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 (CH)
- 1981–1984 Gebr. Bühler AG (CH)
- 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 (CH); R. Nussbaum AG (CH); Lagerhäuser der Centralschweiz AG (CH); and Rouge + Blanc Holding AG (CH)

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 (CH)
- 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
- Chairman of the Board of the Sino-Swiss Partnership Fund, member of the Board of Zehnder (China) Indoor Climate Co. Ltd.
- 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.

Enrico Tissi

Member of the Board,
first elected 2005
Swiss citizen, born 1946

- Non-executive member
- Chairman of the compensation committee
- Degree in engineering from ETH (Swiss Federal Institute of Technology), Zurich (CH)
- 1972–1986 various responsibilities and positions at Rieter AG (CH)
- 1986–1996 delegate of the Board and CEO of Elco Looser Holding AG (CH)
- 1997–2004 delegate of the Board and CEO of Sika Corp. (USA) and a member of group management of Sika AG (CH)
- 2005–2007 vice chairman of Sika Corp. (USA)
- Member of the Board of Georg Utz Holding AG (CH)
- At no time was he a member of the Group Executive Committee of Zehnder Group AG or of any of its subsidiaries.
- He supports Zehnder's subsidiaries in the USA in strategic and conceptual issues.

Thomas Benz

Member of the Board, Deputy Chairman,
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 (CH)
- 1972–1973 Guardian Electric, Chicago (USA)
- End 1973 joined Zettler GmbH (DE)
- 1977–1996 managing partner of Zettler GmbH (DE)
- Since 1997 managing partner of CG International (DE)
- Since 1974 member of the Bavarian Metal Working and Electrical Industry e. V. (DE)
- Since 3.5.2011 Deputy Chairman of the Board of Warema Renkhoff SE (DE)
- 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
- Master of Arts in economics and business administration from the University of Zurich (CH)
- Advanced Management Program at INSEAD (FR)
- 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
- 2007–2011 CEO Ascom Group (CH)
- 7.2011–8.2015 CEO Kaba Group (CH)
- Since 1.9.2015 CEO dormakaba Group (CH)
- 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
- 1990 Admitted to the bar
- 1993 Post-graduate certificate in European Economic Law at the University of St.Gallen
- 1999 MBA University of Chicago, 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 Anti-trust, Member of the Group Legal Executive Committee
- Since 2010 Partner with Schärer Attorneys at Law, Aarau
- 2010–2012 Resun AG, General Counsel and Head Corporate Services, Member of the Executive Committee
- Member of the Board of Directors of SFS Group AG, Huber + Suhner AG, AEW Energie AG, Kraftwerk Augst AG, Immobilien AEW AG, Proderma AG (Chairman of the Board of Directors),
- 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 has no significant business relations with Zehnder Group AG or with any of its subsidiaries.

Milva Zehnder

Member of the Board, first elected 2016
Swiss citizen, born 1985

- Non-executive member
- 2005–2010 Studies of law at University of Lucerne with a Master of Law degree
- 2009 Exchange semester at Fordham University, School of Law, New York
- 2012 Admitted to the bar, attorney-at-law and notary public in the canton of Zug
- 2008–2009 Legal assistant at Geissmann Attorneys at Law, Baden
- 2010–2011 Legal intern at Schweiger Attorneys at Law and Notaries, Zug
- Since 2013 Attorney-at-law and notary public at Schweiger Attorneys at Law and Notaries, Zug
- 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 1.1.2017)
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. (CH)
- Executive master of corporate finance from the Institute of Financial Services IFZ, Zug (CH)
- Advanced Management Program INSEAD (Singapore)
- 1996–1997 finance and marketing assistant at Exsa (PE); Cervesur (PE); and Linde (CN)
- 1997–2005 various management positions in finance and controlling at Pilatus Aircraft Ltd. (CH); and Transairco SA (CH)
- 2005–2006 manager corporate restructuring at KPMG (CH)
- 2006–2008 director business development Zehnder Group
- 2008–2012 member of the Group Executive Committee of Zehnder Group
- 2013–6.2014 CEO designate, Sales & Marketing Switzerland and Nordic, Head Operations Europa a.i. (as of 11.6.2014)
- 7.2014–10.2014 CEO designate, Sales Nordic, Head Operations Europa 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 (CH)
- Master of Advanced Studies in Corporate Finance, Institute of Financial Services Zug (CH)
- 1998–2000 Product Manager, Intercycle SA, Sursee (CH)
- 2003–2007 Controller, Pilatus Aircraft Ltd., Stans (CH)
- 2007–2009 Group Controller, Emhart Glass SA, Cham (CH)
- 2009–2010 Manager Group Reporting & Head of Group Reporting, Zehnder Group, Gränichen (CH)
- 2011–2015 Head of Group Controlling, Zehnder Group, Gränichen (CH)
- Since August 2015 member of the Group Executive Committee of Zehnder Group (Chief Financial Officer)

Tomasz Juda

Competence Center Radiators / RHC
Polish citizen, born 1969

- Engineering degree at the Dresden University of Technology (DE)
- Master’s degree in Business Administration from the St. Gallen Business School at the Cracow University of Economics (PL)
- 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 (PL)
- Since November 2014 member of the Group Executive Committee of Zehnder Group (Head Competence Center Radiators / RHC)

Cyril Peysson

Sales Europe / Middle East / Africa (EMEA)
French citizen, born 1965

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

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)

Group functions

(Status 1.1.2017)

Dominik Berchtold a.i.	Group Marketing
Ian Bergman	Operational Excellence
Josef Brügger	Internal Audit & Compliance
Franz Furrer	Group IT
Christian Hummel	Group Controlling
Markus Max Inäbnit	Group Human Resources
Thomas Mathys	Group Finance
Ulrich Peuckert	Group Logistics
Matthäus Urwyler	Group Pricing
Tanja Weiss	Group Reporting

Peter Krantz	Clean Air Solutions

Sales Europe

(Status 1.1.2017)

Michel Donck	Sales Belgium
Jiří Stekr	Sales Czech Republic
Elisabeth Bardet	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
Paolo Masetti	Sales Italy
Erik van Heuveln	Sales Netherlands
Jerzy Stosiek	Sales Poland
Alexander Silin	Sales Russia
José Ramón Ferrer	Sales Spain
Johannes Bollmann	Sales Switzerland
Emre Polat	Sales Turkey

Shared Services

(Status 1.1.2017)

Andreas Berger	Shared Services Germany
Nynke Floor	Shared Services Netherlands
Eric Scoffier a.i.	Shared Services France

Competence Center Radiators/RHC

(Status 1.1.2017)

Roland Diethelm	R&D Radiators, Group IP
Felix Heldstab	Purchasing Radiators / Group Purchasing
Michael Himmelsbach	Radiant Heating and Cooling (RHC)
Giovanni Suma	Product Management Radiators
Thierry Baschet	Production Vaux-Andigny (FR)
Piotr Kościsz	Production Bolesławiec (PL)
Felix Meier	Production Gränichen (CH)
Orçun Özelmas	Production Manisa (TR)
Hubert Roth	Production Lahr (DE)

Competence Center Comfosystems

(Status 1.1.2017)

Arthur Dijkstra	Product Management Comfosystems
René Kosters	Purchasing Comfosystems
Arie Veldhuijzen	Research & Innovation Comfosystems
Hendrik de Wilde	Production Zwolle (NL)
Michael Pitsch	Paul Wärmerückgewinnnung, Reinsdorf (DE)

China/North America

(Status 1.1.2017)

Zhangeng Guo	Sales and Production Zehnder China
Chunlin Jin	Sales and Production Nather China
James Dean	dPoint Technologies (CA)
Wesley Owens	Sales and Production Runtal and Zehnder North America
Scott A. Pallotta	Sales and Production Zehnder-Rittling North America

Compensation Report

The compensation report describes the compensation policy and programs 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 2016.

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 Board of Directors and the Group Executive Committee.

1. Governance and method of determination of compensation

1.1. Shareholders’ involvement

In recent years, the role of shareholders in compensation matters has substantially gained in importance. The General Meeting of Shareholders approves the maximum compensation amounts paid to the Board of Directors and to the Group Executive Committee in a binding vote. The provisions of the Articles of Association of Zehnder Group AG (Article 16) foresee that the General Meeting of Shareholders votes annually and prospectively on the maximum aggregate compensation amounts as follows:

- The total compensation of the Board of Directors for the period to the next General Meeting of Shareholders;
- 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 [6].

- **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 may be paid in cash and in shares. In exceptional cases, members of the Board of Directors may receive additional variable compensation.
- **Principles of compensation of the Group Executive Committee (Articles 33, 34 and 37):** The members of the Group Executive Committee receive an individual fixed compensation, an expense lump sum and a variable compensation element which may not exceed 100% of the fixed remuneration. The variable compensation depends on the net profit of the company. In addition, members of the Group Executive Committee are entitled to participate in a management share purchase plan and to buy shares of the company, with a maximum discount of 30% on the volume-weighted average share price of 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 fixed compensation. 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 General Meeting of Shareholders (Article 37):** To the extent that the maximum total compensation amount as approved by the General Meeting of Shareholders does not suffice, an amount of up to 20% of the maximum total compensation amount approved for the Group Executive Committee is available, without further approval, for the compensation of the members of the Group Executive Committee who have been appointed after the General Meeting of Shareholders.
- **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. In principle, the members of the Board of Directors are not entitled to participate in the occupational pension plans.

[6]
www.zehndergroup.com/en/investor-relations/corporate-governance

1.2. Compensation Committee

According to the Articles of Association, the General Meeting of Shareholders elects annually and individually 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 General Meeting of Shareholders. Members are eligible for re-election. At their 2016 General Meeting, the shareholders elected the following members of the Compensation Committee:

	Executive/Independent Member of the BoD	Chairman/Member
Enrico Tissi	Indep. Member of the BoD	Chairman
Thomas Benz	Indep. Member of the BoD	Member
Urs Buchmann	Indep. Member of the BoD	Member

As determined in 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 amounts of compensation of the Board of Directors and of the Group Executive Committee to be submitted to vote at the General Meeting of Shareholders;
- 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 regarding the compensation report;
- Submission of proposals to the entire Board regarding amendments to the Articles of Association in respect of the compensation system;
- Submission of proposals to the entire Board 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	

BoD = Board of Directors, GEC = Group Executive Committee

The levels of authority between the Compensation Committee, the Board of Directors and the General Meeting of Shareholders are summarized 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 2016, the Compensation Committee held three meetings of two hours each on average which were attended by all members. After having harmonized the variable compensation programs throughout the entire organization in 2015, including the implementation of the profit-sharing scheme and of the management share purchase plan for all management level employees globally, the Compensation Committee formalized the compensation principles and documented the compensation programs in a Compensation Directive valid globally, as of 2016. Furthermore, the Compensation Committee conducted his regular activities throughout the year, including the annual review of the compensation policy, taking into consideration the feedback of external shareholders about the compensation programs and their disclosure in the compensation report, a full benchmarking review 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 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 sessions 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 are available to the full Board of Directors.

The Compensation Committee is entitled to bring in external consultants regarding specific compensation issues. In 2016, the Compensation Committee appointed Willis Towers Watson to conduct a benchmarking analysis of compensation of the executives. This company has no other mandate with Zehnder. 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 capitalization, revenue, profitability, headcount and geographic reach. Executives who are fulfilling their role at the expected performance level are generally awarded target compensation at median level of the relevant benchmark data.

In 2016, 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) have 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. Further, Willis Towers Watson is appointed as global compensation data provider for compensation benchmarking below the Group Executive Committee level. In order to ensure consistency across the organization, the roles within the organization are all evaluated using the job grading methodology of Willis Towers

Compensation policy and principles

Alignment to business strategy	Compensation programs 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 long-term company's success	Executives and management level employees 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 organization.

Watson. The grading system is the basis for compensation activities such as benchmarking and determination of compensation structure and levels. In addition, the grading system is also used for talent management matters such as succession planning, career paths and learning & development decisions.

While the benchmarking data is one factor considered by the Compensation Committee to determine compensation of executives, other factors will be considered as well, such as internal compensation structure (internal equity), profile of the individual (seniority, skills set, experience) and affordability to the company. Further, the performance of the company in any given year will directly impact the level of compensation actually paid to the individual through the profit-sharing plan.

2. Compensation policy and principles

Zehnder'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 ultimate 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 behaviours that are in line with the company's values and high standards of integrity. The compensation programs are designed to fulfil these fundamental objectives along 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 executive management, 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

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
Management share plan (ZGMSP)	Align to 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, gratuities

Directors is paid in cash and 50% is paid in form of Zehnder Group AG registered shares A. These shares are granted with a discount of 30% on the relevant share price, determined as the average volume-weighted share price of the share during the period between 1 October and 31 December of the respective year. The shares are subject to a restriction period of three years during which they cannot be sold, transferred or pledged. The restriction period also applies in case of termination of mandate, except in case of termination following death, where the restriction immediately lapses.

The cash compensation is paid out monthly and the registered shares A are allocated in February for the previous compensation period covering the period from the General Meeting of Shareholders of the previous year to the General Meeting of Shareholders 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 General Meeting of Shareholders.

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 incentive, the participation to a management share plan, as well as occupational benefits.

4.1. Annual base salary (ABS)

The annual base salary (ABS) is determined individually on the basis of the scope and responsibilities associated with the position experience and qualifications of the individual. The ABS is reviewed annually and adjustments reflect individual performance, salary history, competitive positioning, market salary trends and the affordability of 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 incentive. However, there is a contractually agreed upper limit for the STI amount set at 75% of the ABS for the CEO and for the 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 following year.

The decision to directly and solely link the STI to the financial results of the company (Group net profit) was driven by the conviction that the performance management is a powerful management tool that works best if it is disconnected from the compensation. The performance management process has been implemented globally several years ago. At the beginning of each year, individual performance objectives are determined and agreed upon between the employee and the direct manager. For the CEO and the other members of the Group Executive Committee, the performance objectives are derived directly from the business strategy and are periodically reviewed and confirmed by the Board of Directors. They 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 assessment is the basis for talent management decisions, such as career moves (promotion, new assignment, demotion) and individual development activities. 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 program 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 ABS 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 termination following death where the restriction immediately lapses.

The ZGMSP strengthens the link between compensation and company long-term performance, as the compensation invested in the program 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 benefits 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. Zehnder'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, subsidized 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 General Meeting of Shareholders.

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 2016 business year

5.1. Compensation to the Board of Directors

In 2016, the members of the Board of Directors received a total compensation of CHF 2.2 million (2015: CHF 1.6 million) in the form of fixed compensation of CHF 0.9 million (2015: CHF 0.7 million), share-based compensation of CHF 0.8 million (2015: CHF 0.8 million), variable compensation of CHF 0.2 million (2015: CHF 0.0 million) and social security contributions of CHF 0.2 million (2015: CHF 0.1 million). The increase in compensation compared to the previous year is due to the fact that there are two additional members of the Board of Directors compared to previous year. In addition, an Audit Committee has been constituted and includes two members who receive committee fees.

Compensation for the present members of the Board of Directors

	Units 2016	Units 2015	CHF 2016	CHF 2015
Hans-Peter Zehnder Chairman of the Board of Directors, China & North America a.i.				
Fixed cash compensation for Board activity [1]			300,000	245,001
Lump sum expense allowances/actual expenses			26,000	26,000
Allocated shares for Board activity [2]	12,295	9,976	415,110	371,056
Fixed cash compensation for additional services			175,000	175,006
Variable cash compensation			196,000	–
Employer social security and pension contributions			131,109	117,198
Shares acquired [3]	5,283	5,283	58,562	63,713
Other payments			9,231	8,512
Total compensation			**1,311,012**	**1,006,486**
Thomas Benz Deputy chairman of the Board of Directors and Member of the Compensation Committee				
Fixed cash compensation for Board activity			50,000	50,000
Fixed cash compensation for Compensation Committee activity			10,000	11,250
Lump sum expense allowances/actual expenses			1,690	6,825
Allocated shares for Board and Compensation Committee activity [2]	2,459	2,457	83,022	92,788
Employer social security and pension contributions			5,497	5,583
Total compensation			**150,209**	**166,446**
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			7,500	–
Lump sum expense allowances/actual expenses			13,708	1,456
Allocated shares for Board, Compensation Committee and Audit Committee activity [2]	2,357	2,008	79,235	75,738
Fixed cash compensation for additional services			11,307	11,307
Employer social security and pension contributions			8,068	7,510
Total compensation			**169,818**	**146,011**
Riet Cadonau Member of the Board of Directors				
Fixed cash compensation for Board activity			40,000	40,000
Lump sum expense allowances/actual expenses			2,000	2,000
Allocated shares for Board activity [2]	1,639	1,607	55,337	60,586
Employer social security and pension contributions			5,324	5,737
Total compensation			**102,661**	**108,323**
Enrico Tissi Member of the Board of Directors and Chairman of the Compensation Committee				
Fixed cash compensation for Board activity			40,000	40,000
Fixed cash compensation for Compensation Committee activity			15,000	13,750
Lump sum expense allowances/actual expenses			2,270	2,810
Allocated shares for Board and Compensation Committee activity [2]	2,254	2,162	76,101	81,418
Cash compensation as per invoiced hours for additional services			15,690	47,070
Employer social security and pension contributions			4,864	6,147
Total compensation			**153,925**	**191,195**

1 Related to the calendar year, the fixed cash compensation for Board activity remained unchanged in the year under review.
2 The shares are disclosed as the closing share price of the share on the grant date, 13 January 2017.
3 The Chairman of the board and the members of the Group Executive Committee are eligible to purchase shares under the Zehnder Group 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, less the purchase price.

	Units 2016	Units 2015	CHF 2016	CHF 2015
Jörg Walther Member of the Board of Directors and Chairman of the Audit Committee				
Fixed cash compensation for Board activity			30,000	–
Fixed cash compensation for Audit committee activity			11,250	–
Lump sum expense allowances/actual expenses			1,500	–
Allocated shares for Board and Audit Committee activity [1]	1,691	–	55,280	–
Cash compensation as per invoiced hours for additional services			92,411	–
Employer social security and pension contributions			5,404	–
Total compensation			**195,845**	**–**
Milva Zehnder Member of the Board of Directors				
Fixed cash compensation for Board activity			30,000	–
Lump sum expense allowances/actual expenses			1,500	–
Allocated shares for Board activity [1]	1,229	–	40,196	–
Employer social security and pension contributions			3,930	–
Total compensation			**75,626**	**–**
Total compensation paid to the present members of the Board of Directors				
Fixed cash compensation for Board activity			530,000	415,001
Fixed cash compensation for Compensation Committee activity			35,000	35,000
Fixed cash compensation for Audit Committee activity			18,750	–
Lump sum expense allowances/actual expenses			48,669	39,092
Allocated shares for Board, Compensation Committee and Audit Committee activity [1]	23,924	18,210	804,279	681,585
Fixed cash compensation for additional services			186,307	186,313
Cash compensation as per invoiced hours for additional services			108,101	47,070
Variable cash compensation			196,000	–
Employer social security and pension contributions			164,207	142,175
Shares acquired [2]	5,283	5,283	58,562	63,713
Other payments			9,231	8,512
Total compensation			**2,159,106**	**1,618,461**

1 The shares are disclosed as the closing share price of the share on the grant date, 13 January 2017.
2 The Chairman of the board and the members of the Group Executive Committee are eligible to purchase shares under the Zehnder Group 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, less the purchase price.

5.2. Compensation for the Group Executive Committee

In 2016, the members of the Group Executive Committee received a total compensation of CHF 2.7 million (2015: CHF 2.1 million) in the form of fixed compensation of CHF 1.5 million (2015: CHF 1.6 million), variable compensation of CHF 0.6 million (2015: CHF 0.0 million), other benefits including the value of the discount on the shares of CHF 0.2 million (2015: CHF 0.2 million) and social security/pension contributions of CHF 0.4 million (2015: CHF 0.3 million).

- The fixed remuneration remained stable compared to previous year. Considering the disappointing business results in 2015, the Board of Directors had decided not to increase the compensation of the Group Executive Committee for 2016.
- In 2016, the Group realized a net profit of EUR 28.1 million. Consequently, in 2016 the variable component of the compensation amounted to 0.7 percent of net income for the CEO (2015: 0 percent) and to 1.4 percent on average for the other executive members of the Group Executive Committee (2015: 0 percent). In 2015, the Group Executive Committee had foregone its variable remuneration and no STI (short-term incentive) payments were made.

	Units 2016	Units 2015	CHF 2016	CHF 2015
Highest-paid member of the Group Executive Committee: Dominik Berchtold				
Fixed cash compensation			526,500	526,500
Variable cash compensation			196,000	–
Lump sum expense allowances / actual expenses			24,000	24,000
Employer social security and pension contributions			98,656	71,788
Shares acquired [1]	4,315	3,518	47,832	42,427
Other payments			10,279	10,279
Total compensation			**903,267**	**674,994**

	Units 2016	Units 2015	CHF 2016	CHF 2015
Total compensation paid to the Executive Committee incl. Dominik Berchtold				
Fixed cash compensation			1,496,410	1,548,357
Variable cash compensation			602,000	–
Lump sum expense allowances / actual expenses			72,000	48,000
Employer social security and pension contributions			417,561	328,570
Shares acquired [1]	9,047	8,478	100,286	102,241
Other payments			37,436	32,384
Total compensation			**2,725,693**	**2,059,552**

1 The Chairman of the board and the members of the Group Executive Committee are eligible to purchase shares under the Zehnder Group 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, less the purchase price.

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

In 2016, the Annual General Meeting of shareholders authorized a maximum budget for compensation of the Group Executive Committee of CHF 3.7 million for fiscal year 2016. The total compensation amount of CHF 2.7 million paid to the Group Executive Committee for fiscal year 2016 as disclosed in the above compensation table is below the approved limits.

5.3. Guarantees, loans, credits, etc.

No Zehnder Group company has given guarantees, waivers of claims outstanding, credits or loans to present 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) received in 2015 and 2016 the amount of CHF 85,255 (fixed cash compensation CHF 80,000, lump sum expense allowances CHF 2,000, employer social security CHF 3,255) as compensation.

In the year under review, no compensation was paid to any former member 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 26 to 29 of Zehnder Group AG for the year ended 31 December 2016. 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 31 December 2016 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, 24 February 2017

KPMG AG, Landis&Gyrstrasse 1, 6300 Zug

Financial Report

Consolidated Financial Statements

Zehnder Group AG

Five-year Overview

		2016	2015	2014	2013	2012
Sales	EUR million	**538.9**	**533.0**	**525.1**	**522.4**	**523.8**
Change from prior year	%	1.1	1.5	0.5	–0.3	1.6
Of which segment Europe	EUR million	466.5	465.7	466.8	463.8	469.3
Change from prior year	%	0.2	–0.2	0.6	–1.2	1.8
Of which segment China & North America	EUR million	72.4	67.3	58.3	58.6	54.5
Change from prior year	%	7.5	15.4	–0.5	7.6	0.5
EBIT before one-off effects [1]	EUR million	**15.1**	**27.0**	**32.7**	**32.3**	**38.5**
Change from prior year	%	–44.2	–17.2	1.1	–16.0	–24.7
	% of sales	2.8	5.1	6.2	6.2	7.3
Net profit [2]	EUR million	**28.1**	**0.3**	**26.0**	**18.2**	**26.8**
Change from prior year	%	–	–98.7	42.8	–32.0	–34.7
	% of sales	5.2	0.1	5.0	3.5	5.1
Net profit before depreciation & amortization [2]	EUR million	**55.0**	**21.6**	**45.9**	**37.4**	**45.1**
Change from prior year	%	154.4	–53.0	22.9	–17.1	–23.4
	% of sales	10.2	4.1	8.7	7.2	8.6
Investments in property, plant and equipment & intangible assets	EUR million	**28.2**	**29.4**	**25.1**	**35.9**	**39.4**
Depreciation & amortization [3]	EUR million	**26.9**	**21.3**	**19.9**	**19.1**	**18.2**
Total assets	EUR million	**450.5**	**435.6**	**429.7**	**412.6**	**407.3**
Non-current assets	EUR million	**210.1**	**209.1**	**193.1**	**183.8**	**177.7**
Shareholders' equity [2]	EUR million	**280.2**	**269.0**	**281.8**	**255.5**	**247.6**
	% of total assets	62.2	61.8	65.6	61.9	60.8
Employees	Ø full-time equivalents	**3,247**	**3,194**	**3,239**	**3,265**	**3,266**
Zehnder Group AG						
Dividends [4]	CHF million	11.1	–	11.7	6.5	10.6
Share capital	CHF million	0.6	0.6	0.6	0.6	0.6
Market capitalization [5]	CHF million	313.7	375.1	402.9	400.0	429.3
Total market capitalization [6]	CHF million	377.3	451.2	484.7	481.2	516.4

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) respectively restructuring costs of EUR 21.8 million (2015)
2 Including minority interests
3 Including an impairment of EUR 4.9 million in the business area Radiators in Europe
4 For 2016 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 recognized at ⅕ of the price of the registered share A at year end

Data per Share[1]

			2016	2015	2014	2013	2012
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	44.20	48.45	43.45	48.15	67.30
Registered share A	low	CHF	30.50	29.50	33.10	34.05	39.80
Registered share A	at year end	CHF	32.15	38.45	41.30	41.00	44.00
Consolidated net profit							
Per registered share A		EUR	1.74	0.01	2.19	1.42	2.33
Consolidated net profit before depreciation and amortization							
Per registered share A		EUR	4.05	1.83	3.90	3.06	3.89
Consolidated equity[2]							
Per registered share A		EUR	22.55	21.76	22.94	20.93	20.41
Dividend (gross)							
Dividend per registered share A[3]		CHF	0.95	–	1.00	0.55	0.90
Payout ratio	% of net profit per share		50	–	38	32	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 2016 as proposed by the Board of Directors

Consolidated Balance Sheet

EUR million	Notes page 43 ff.	31 December 2016	31 December 2015	Change from prior year %
Assets				
Liquid assets	1	79.4	59.7	
Trade accounts receivable	2	86.5	89.0	
Other receivables	2	12.6	17.7	
Inventories	3	53.9	52.8	
Prepayments		4.2	3.7	
Accrued income		3.8	3.6	
Current assets		**240.4**	**226.5**	**6.1**
Property, plant and equipment	4	201.4	202.9	
Financial assets	4	7.2	4.0	
Intangible assets	4	1.5	2.2	
Non-current assets		**210.1**	**209.1**	**0.5**
Total assets		**450.5**	**435.6**	**3.4**
Liabilities & shareholders' equity				
Loans	5	17.0	10.3	
Trade accounts payable		26.5	24.6	
Other liabilities [1]		31.2	40.4	
Provisions	6	18.0	19.3	
Accruals and deferred income		44.6	30.7	
Current liabilities		**137.3**	**125.2**	**9.7**
Loans	5	8.3	8.3	
Other liabilities [2]		3.0	–	
Provisions	6	21.6	33.0	
Long-term liabilities		**32.9**	**41.4**	**–20.3**
Total liabilities		**170.2**	**166.6**	**2.2**
Share capital		0.4	0.4	
Capital reserves		33.6	33.6	
Own shares		–10.5	–3.0	
Retained earnings		230.7	212.7	
Accumulated FX differences		8.7	10.4	
Minority interests		17.4	15.0	
Equity	7	**280.2**	**269.0**	**4.2**
Total liabilities & shareholders' equity		**450.5**	**435.6**	**3.4**

1 Includes the advanced payments of EUR 14.1 million in relation to the sale of the old production facility in China (2015)
2 Includes outstanding payments worth EUR 3.0 million for the acquisition of a property in Turkey (2016)

Consolidated Income Statement

EUR million	Notes page 43 ff.	2016	2015	Change from prior year %
Sales	16	**538.9**	**533.0**	**1.1**
Changes in inventories		2.0	–0.7	
Internal additions to plant and equipment		2.1	1.0	
Other income	17	47.0	2.7	
Cost of materials		–189.1	–179.9	
Personnel costs		–193.1	–193.1	
Depreciation of property, plant and equipment	4	–25.8	–20.0	
Amortization of intangible assets	4	–1.1	–1.2	
Other operating expenses	18 / 26	–137.5	–136.5	
Earnings before interest and taxes (EBIT)		**43.4**	**5.2**	**726.7**
Result from associated companies	4 / 24	–	2.4	
Financial result	19	–0.8	–2.8	
Earnings before taxes		**42.5**	**4.8**	**780.5**
Income taxes	20	–14.4	–4.5	
Net profit		**28.1**	**0.3**	**–**
Minority interests		7.7	0.2	
Net profit excluding minority interests		20.3	0.1	
Non-diluted net profit excluding minority interests per registered share A (EUR)	21	1.74	0.01	
Diluted net profit excluding minority interests per registered share A (EUR)	21	1.74	0.01	
Non-diluted net profit excluding minority interests per registered share B (EUR)	21	0.35	–	
Diluted net profit excluding minority interests per registered share B (EUR)	21	0.35	–	

Consolidated Cash Flow Statement

EUR million	Notes page 43 ff.	2016	2015
Net profit		28.1	0.3
Depreciation and amortization of property, plant and equipment	4	25.8	20.0
Depreciation and amortization of intangible assets		1.1	1.2
(Gain) / loss from sale of subsidiaries [1]	26	–	11.6
Non-cash change in valuation adjustments on receivables and inventories		0.1	0.2
Loss / (gain) on disposals of non-current assets [2]		–44.6	–0.2
Result from associated companies [3]	24	–	–2.4
(Increase) / decrease of trade accounts receivable		0.1	1.2
(Increase) / decrease of other receivables, prepayments and accrued income		4.3	–6.0
(Increase) / decrease of inventories		–1.1	6.6
Increase / (decrease) of trade accounts payable		3.7	–3.2
Increase / (decrease) of other short-term liabilities, accruals and deferred income		15.6	–6.1
Increase / (decrease) of provisions	6	–12.7	8.5
(Increase) / decrease of deferred tax assets	4	–2.8	–
Cash flow from operating activities		**17.5**	**31.8**
Investments in property, plant and equipment	4	–27.7	–29.0
Investments in financial assets		–0.4	–
Investments in associated companies [4]		–0.1	–0.3
Investments in intangible assets		–0.5	–0.3
Investments in subsidiaries [5]	24	–	–12.9
Divestment of property, plant and equipment [2]		36.8	3.2
Divestment of intangible assets		0.1	–
Divestment of subsidiaries [1]	26	–	–4.8
Cash flow from investing activities		**8.1**	**–44.0**
Dividends paid to shareholders		–	–11.1
Dividends paid to minority shareholders		–3.2	–
(Purchase) / sale of own shares		–7.4	–1.0
Increase / (decrease) of short-term loans	5	6.4	9.1
Increase / (decrease) of long-term loans	5	–0.2	–0.9
Cash flow from financing activities		**–4.4**	**–4.0**
Currency effects		–1.6	2.2
(Decrease) / increase of liquid assets		**19.6**	**–13.9**
Liquid assets at 1.1.		59.7	73.7
Liquid assets at 31.12.		79.4	59.7
(Decrease) / increase		**19.6**	**–13.9**

1 Equals loss from the sale of the production plant in Châlons-en-Champagne, France, in the amount of EUR 11.6 million, of which EUR 4.8 million is cash outflow (2015).
2 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). The outstanding payment in 2016 amounted to EUR 35.6 million. In the previous year, the deposit amounted to EUR 1.5 million.
3 Includes profit from the revaluation of the 33% participation in dPoint Technologies Inc., Canada, in relation to the complete acquisition as at 1 December 2015 (2015).
4 Purchase of 49% of the shares in Eric & Bason Building Environment Technologies Co., Ltd., in China (2015)
5 Purchase of Eco Concept Habitat, France, and the remaining 67% of dPoint Technologies Inc., Canada (2015)

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 1.1.2016	**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**
Equity at 1.1.2015	**0.4**	**33.6**	**–2.0**	**238.7**	**–2.7**	**268.1**	**13.7**	**281.8**
Purchase of own shares	–	–	–7.7	–	–	–7.7	–	–7.7
Sale of own shares	–	–	6.6	–	–	6.7	–	6.7
Net profit	–	–	–	0.1	–	0.1	0.2	0.3
Netted goodwill	–	–	–	–15.1	–	–15.1	–	–15.2
Change in minority interests	–	–	–	–	–	–	–	–
Dividends	–	–	–	–11.1	–	–11.1	–	–11.1
Currency effects	–	–	–	–	13.1	13.1	1.1	14.2
Equity at 31.12.2015	**0.4**	**33.6**	**–3.0**	**212.7**	**10.4**	**254.0**	**15.0**	**269.0**

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 recognized 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 Zehnder Logistik GmbH on 3 February 2016 in Germany,
- Increase in share of Shanghai Nather Air Tech Co., Ltd. from 51 to 75.5% on 30 June 2016 in China,
- Founding of Paul dPoint Technologies GmbH on 23 November 2016 in Germany.

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							
2016	0.9333	0.9510	1.1736	0.1048	13.70	22.76	27.07
2015	0.9238	0.9169	1.3574	0.1089	14.13	23.48	31.42
Average-for-the-year rates							
2016	0.9165	0.8999	1.2283	0.1060	13.60	22.98	30.25
2015	0.9389	0.8999	1.3779	0.1068	14.53	24.00	33.43

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. Unrealized 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 capitalized 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 recognized 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 recognized 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 utilized.

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 capitalization 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 recognized as an asset. An economic liability is recognized if the conditions for forming a provision are met. The employer contributions to the pension fund for the reporting period are recognized in the income statement.

In most countries abroad, pension and retirement plans are state-organized. 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 recognized in the balance sheet, but are reported in the notes until the future cash flow is realized.

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 recognized 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 capitalized 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 capitalized from tax loss carry-forwards.

Notes to the Consolidated Financial Statements

1. Liquid assets

Liquid assets amounted to EUR 79.4 million (2015: EUR 59.7 million) whereas interest-bearing financial liabilities reached EUR 25.3 million (2015: EUR 18.6 million). Thus, at year end, net liquidity amounted to EUR 54.1 million (2015: EUR 41.1 million).

2. Accounts receivable from sales and services and other receivables

EUR million	31.12.2016	31.12.2015
Accounts receivable gross *	104.2	112.6
Valuation adjustments	–5.1	–5.9
Accounts receivable net	**99.1**	**106.7**
* Of which more than 12 months overdue gross	2.5	2.4

3. Inventories

EUR million	31.12.2016	31.12.2015
Raw materials	31.9	31.8
Semi-finished products and goods in process	5.0	4.1
Finished products	29.1	29.3
Valuation adjustments	–12.1	–12.4
Total inventories	**53.9**	**52.8**

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 1.1.2016	**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
Changes in consolidation matrix	–	–	–	–	–
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
Changes in consolidation matrix	–	–	–	–	–
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**
Net book value at 1.1.2015	**122.6**	**43.4**	**9.5**	**11.4**	**186.9**
Acquisition cost					
Status 1.1.2015	204.7	225.0	34.0	11.4	475.1
Investments	5.5	6.0	5.2	12.4	29.0
Disposals	–1.4	–7.7	–5.2	–0.2	–14.6
Changes in consolidation matrix	–3.9	–19.3	–0.5	–	–23.6
Reclassifications	6.5	1.3	2.7	–10.5	–
Currency effects	10.5	6.1	1.1	–0.1	17.6
Status 31.12.2015	221.9	211.3	37.3	13.0	483.5
Accumulated valuation adjustments					
Status 1.1.2015	–82.1	–181.6	–24.6	–	–288.2
Ordinary depreciation	–5.1	–10.6	–4.4	–	–20.0
Extraordinary depreciation	–	–	–	–	–
Disposals	1.3	7.2	4.6	–	13.1
Changes in consolidation matrix	3.9	19.7	0.5	–	24.1
Currency effects	–3.8	–4.8	–0.8	–	–9.5
Status 31.12.2015	–85.7	–170.1	–24.7	–	–280.5
Net book value at 31.12.2015	**136.1**	**41.2**	**12.6**	**13.0**	**202.9**

1 Comprises an impairment of EUR 4.9 million 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 1.1.2016	**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
Result from associated companies	–	–	–	–	–
Changes in consolidation matrix	–	–	–	–	–
Currency effects	–	–	–	−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**
Net book value at 1.1.2015	**0.1**	**3.2**	**–**	**–**	**3.4**
Acquisition or current book value					
Status 1.1.2015	0.3	3.2	–	–	3.6
Increases	–	–	–	0.2	0.2
Result from associated companies	–	–	–	−0.3	−0.3
Changes in consolidation matrix	–	–	–	0.2	0.2
Currency effects	–	0.4	–	0.1	0.5
Status 31.12.2015	0.3	3.6	–	0.2	4.2
Accumulated valuation adjustments					
Status 1.1.2015	−0.2	–	–	–	−0.2
Status 31.12.2015	−0.2	–	–	–	−0.2
Net book value at 31.12.2015	**0.1**	**3.6**	**–**	**0.2**	**4.0**

Intangible assets

EUR million	2016	2015
Net book value at 1.1.	**2.2**	**2.8**
Acquisition cost		
Status 1.1.	11.8	11.6
Investments	0.5	0.3
Disposals	–0.6	–0.4
Changes in consolidation matrix	–	–0.4
Currency effects	0.1	0.7
Status 31.12.	11.7	11.8
Accumulated valuation adjustments		
Status 1.1.	–9.6	–8.8
Ordinary amortization	–1.1	–1.2
Disposals	0.5	0.4
Changes in consolidation matrix	–	0.4
Currency effects	–0.1	–0.4
Status 31.12.	–10.3	–9.6
Net book value at 31.12.	**1.5**	**2.2**

5. Loans

EUR million	2016	2015
Split by maturity		
Less than 12 months	17.0	10.3
12 months to 60 months	5.5	5.3
More than 60 months	2.8	3.0
Total	**25.3**	**18.6**
Split by currency		
CAD	4.2	–
CHF	4.2	6.1
EUR	12.3	7.7
USD	4.6	4.8
Total	**25.3**	**18.6**

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% (4 to 6% in the previous year), 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 1.1.2016	**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
Book value at 1.1.2015	**11.2**	**11.6**	**3.2**	**13.6**	**39.6**
New provisions	0.7	4.5	7.8	9.2	22.2
Use	–	–0.4	–3.1	–1.7	–5.3
Reversals	–1.8	–1.0	–0.3	–1.6	–4.7
Changes in consolidation matrix	–0.4	–	–0.4	0.2	–0.6
Currency effects	0.5	–	0.1	0.3	1.0
Book value at 31.12.2015	**10.1**	**14.7**	**7.3**	**20.1**	**52.3**
Of which short-term	–	3.5	6.1	9.6	19.3

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 41.

The discount rate for German pension obligations was 1.84% (4.07% in the previous year). Obligations amounting to EUR 5.0 million were outsourced to a pension trust (Contractual Trust Arrangement). A total of EUR 3.8 million was disbursed as a lump-sum payment.

The other provisions include warranty reserves as well as pending legal cases.

7. Equity capital

At the balance sheet date, the equity ratio was 62% (2015: 62%). The factors that contributed to changes in consolidated equity are presented in the consolidated statement of changes in equity.

As in 2015, 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 10.9 million (2015: EUR 3.4 million).

	Registered shares A units **2016**	Value per unit EUR **2016**	Value thousand EUR **2016**	Registered shares A units **2015**	Value per unit EUR **2015**	Value thousand EUR **2015**
Own shares at 1.1.	**99,062** [1]	**30.62**	**3,033**	**69,210** [2]	**28.30**	**1,958**
Sale at (theoretical) market price	–69,760	32.21	–2,247	–218,148	30.61	–6,677
Gain/(loss) from sale			78			35
Purchase at acquisition price	250,000	38.54	9,635	248,000	31.12	7,717
Own shares at 31.12.	**279,302** [1]	**37.59**	**10,499**	**99,062** [2]	**30.62**	**3,033**

1 Of which 24,528 (1.1.) or 21,368 (31.12.) reserved for the option program
2 Of which 37,888 (1.1.) or 24,528 (31.12.) reserved for the option program

Shares were sold at a discount of 30% to management staff participating in a stock ownership plan (see note 22. Shares granted on page 53). Furthermore, in 2015, 174,215 shares were used for the acquisition of dPoint Technologies Inc., Canada (see note 24. Acquisitions on page 54).

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 69.

8. Contingent liabilities
At year end, there were guarantee obligations vis-à-vis third parties totalling EUR 69.4 million (2015: EUR 65.3 million).

By the end of the year, there was no further obligation (in the previous year, there was a further obligation regarding an increased share in Shanghai Nather Air Tech Co., Ltd., China, of around EUR 1.3 million; the obligation was dependent on the minority shareholders exercising put options).

9. Pledged assets
Of the Group's total assets, EUR 20.4 million served as collateral (2015: EUR 32.4 million). The pledged assets were exclusively land and buildings.

10. Liabilities to pension funds
At 31 December 2016, there were liabilities to pension funds in the amount of EUR 0.6 million (2015: EUR 0.6 million).

11. Transactions with closely associated parties
In the year under review, products at the value of EUR 0.6 million were sold to companies that were not fully consolidated (in the previous year, the purchase of products from companies not fully consolidated totalled EUR 0.9 million). With regard to companies that were not fully consolidated, there were receivables of EUR 0.6 million (in the previous year, there were neither receivables nor obligations).

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. Owing to the increased share in Shanghai Nather Air Tech Co., Ltd., China, from 51 to 75.5% on 30 June 2016, there was an obligation at the end of the year with regard to the former minority shareholder totalling EUR 3.0 million (in the previous year, there were neither receivables nor obligations).

12. Derivative financial instruments

EUR million	Active value 31.12.2016	Passive value 31.12.2016	Active value 31.12.2015	Passive value 31.12.2015	Purpose
Foreign exchange	0.2	–	–	–	hedging
Interest	–	0.1	–	0.3	hedging
Total	**0.2**	**0.1**	**–**	**0.3**	

13. Operating leasing not recognized in the balance sheet
Current operating leasing contracts expire as follows:

EUR million	31.12.2016	31.12.2015
Within 12 months	3.2	2.4
In 13–60 months	6.6	4.4
In more than 60 months	–	0.6
Total	**9.8**	**7.4**

14. Employer contribution reserves and pension fund liabilities

Please refer to section 10 on page 42 for the accounting and valuation principles applied for pension commitments.

The provisions made in respect of pension commitments are detailed on page 47.

Employer contribution reserve (ECR)[1]

EUR thousands	Nominal value 31.12.2016	Not utilized 31.12.2016	Other valuation adjustments 31.12.2016	Balance sheet 31.12.2016	Balance sheet 31.12.2015	Currency effects resulting from ECR 2016	Result from ECR in financial earnings 2016
Pension trust fund	3,644	–	–	3,644	3,607	37	–
Total	**3,644**	**–**	**–**	**3,644**	**3,607**	**37**	**–**

1 The 2016 financial statements of the pension trust fund are not yet available as of the date of publication of this annual report. The details for 2016 correspond to those in the 2015 annual financial statements, and the 2015 details correspond to those in the 2014 annual financial statements.

Economic benefits / economic liabilities and pension expenses

EUR thousands	Excess / (inadequate) cover 31.12.2016[1]	Economic share of organization 31.12.2016	Economic share of organization 31.12.2015	Capitalized in business year 2016	Contributions accrued 2016	Pension expenses in personnel expenses 2016	Pension expenses in personnel expenses 2015
Pension trust fund	857	–	–	–	–	–	–
Personnel pension fund collective fund	3,813	–	–	–	2,141	2,141	2,247
Pension plans abroad	–	–	–	–	8,126	8,126	11,751
Total	**4,670**	**–**	**–**	**–**	**10,267**	**10,267**	**13,998**

1 The 2016 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 2016 correspond to the value as at 31 December 2015.

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. They only account for 5% and 8% of total sales, respectively.

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 ten 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**
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**
2015					
Sales third	EUR million	465.7	67.3	–	533.0
Sales intercompany	EUR million	2.8	0.3	–3.1	–
Sales	EUR million	**468.5**	**67.6**	**–3.1**	**533.0**
EBIT before one-off effects [1]	EUR million	**26.9**	**0.1**	**–**	**27.0**
	% of sales	5.7	0.2		5.1
EBIT after one-off effects [1]	EUR million	**5.1**	**0.1**	**–**	**5.2**
	% of sales	1.1	0.2		1.0
Investments in property, plant and equipment & intangible assets	EUR million	**27.9**	**1.5**	**–**	**29.4**
Property, plant and equipment	EUR million	**156.7**	**46.2**	**–**	**202.9**
Net working capital [2]	EUR million	**95.2**	**22.0**	**–**	**117.2**
Number of employees	Ø full-time equivalents	**2,526**	**667**	**–**	**3,194**

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 Trade accounts receivable plus inventories minus trade accounts payable

16. Sales

At EUR 538.9 million consolidated sales in 2016 were slightly higher than in 2015 (2015: EUR 533.0 million). On an organic basis and adjusted for currency effects, sales revenues increased by 3%.

For sales by segment, please refer to note 15. Segment reporting on page 50.

Sales by region and business area are classified as follows:

		2016	%	2015	%
Sales by region and business area					
Radiators Europe	EUR million	272.5	50.6	280.9	52.7
Change from prior year	%	–3.0		–2.7	
Radiators North America	EUR million	35.9	6.7	34.9	6.6
Change from prior year	%	2.8		17.7	
Radiators China	EUR million	15.0	2.8	16.7	3.1
Change from prior year	%	–10.2		11.4	
Total business area radiators	EUR million	**323.4**	**60.0**	**332.5**	**62.4**
Change from prior year	%	–2.7		–0.3	
Ventilation Europe	EUR million	194.0	36.0	184.8	34.7
Change from prior year	%	5.0		3.8	
Ventilation North America	EUR million	8.0	1.5	3.6	0.7
Change from prior year	%	123.5		–3.6	
Ventilation China	EUR million	13.4	2.5	12.1	2.3
Change from prior year	%	11.2		22.0	
Total business area ventilation	EUR million	**215.4**	**40.0**	**200.4**	**37.6**
Change from prior year	%	7.5		4.6	
Total Europe	EUR million	466.5	86.6	465.7	87.4
Change from prior year	%	0.2		–0.2	
Total North America	EUR million	43.9	8.1	38.5	7.2
Change from prior year	%	14.0		15.3	
Total China	EUR million	28.5	5.3	28.8	5.4
Change from prior year	%	–1.2		15.6	
Total	EUR million	**538.9**	**100.0**	**533.0**	**100.0**
Change from prior year	%	1.1		1.5	

17. Other income

Other income is as follows:

EUR million	2016	2015
License income	0.1	0.1
Gain on disposal of fixed assets [1]	42.9	0.2
Miscellaneous operating income	4.0	2.4
Total	**47.0**	**2.7**

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	2016	2015
Operating expenses	–48.1	–41.5
Marketing and distribution expenses	–57.7	–56.3
Administration and IT expenses	–31.6	–27.2
Loss from sale of production plant in Châlons-en-Champagne, France	–	–11.6
Total	**–137.5**	**–136.5**

The higher operating expenses in the year under review are due to the expansion of research and development activities.

For additional details on the loss from the sale of the production plant in Châlons-en-Champagne (FR), please refer to note 26. Sale of companies on page 56.

19. Financial result

The exchange losses of EUR 0.3 million (exchange losses of EUR 2.5 million in the previous year) is primarily attributable to unrealized foreign exchange losses.

EUR million	2016	2015
Financial expenses	–0.9	–0.8
Financial earnings	0.4	0.5
Exchange gains / (losses)	–0.3	–2.5
Total financial result	**–0.8**	**–2.8**

20. Income taxes

The tax ratio (= taxes in percent of earnings before taxes) was 34% (2015: 93%). The absolute increase in income tax is primarily due to the profits from the sale of the production facility in China.

EUR million	2016	2015
Current taxes	–17.1	–4.1
Deferred taxes	2.7	–0.4
Total taxes	**–14.4**	**–4.5**

Zehnder Group expects that tax loss carryforwards of EUR 64.9 million (2015: EUR 53.9 million) can be utilized in the future. The respective deferred tax assets amount to EUR 9.8 million (2015: EUR 8.4 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	2016	2015
Earnings before taxes	42.5	4.8
Expected tax rate in %	25	24
Expected tax expense	**–10.5**	**–1.1**
Effect of non-deductible expenses	–0.7	–3.2
Effect of non-recognition of tax loss carry forwards	–3.0	–3.1
Effect of use of unrecognized tax loss carry forwards	0.1	0.7
Other effects	–0.2	2.3
Effective tax expense	**–14.4**	**–4.5**
Effective tax rate in %	34	93

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.

		2016	2015
Net profit excluding minority interests	EUR million	20.3	0.1
Notional number of shares	units	11,736,000	11,736,000
Average number of own shares	units	79,861	62,146
Non-diluted net profit excluding minority interests per registered share A	**EUR**	**1.74**	**0.01**
Additional shares from outstanding options (in-the-money)	units	1,887	3,139
Diluted net profit excluding minority interests per registered share A	**EUR**	**1.74**	**0.01**

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 20 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 recognized in personnel costs.

Shares granted

		2016	2015
Shares granted	units	54,604	40,573
Current value on the day of allocation	CHF	36.95	40.20
Personnel costs	CHF	685,000	556,000

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 31.12.2016	Outstanding options units 31.12.2015
1 March 2008	2 March 2013–1 March 2016	13,440	35.25	–	5,360
1 March 2009	2 March 2014–1 March 2017	12,880	17.28	4,080	4,800
1 March 2010	2 March 2015–1 March 2018	14,080	37.93	6,960	7,680
1 March 2011	2 March 2016–1 March 2019	14,480	62.50	10,400	10,400
Total		**54,880**		**21,440**	**28,240**

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 2016	Options units 2016	Average exercise price CHF 2015	Options units 2015
Outstanding options at 1.1.	**42.95**	**28,240**	**46.02**	**38,880**
Cancelled options	35.25	−4,640	64.89	−7,280
Exercised options	30.15	−2,160	30.90	−3,360
Outstanding options at 31.12.	**45.92**	**21,440**	**42.95**	**28,240**
Exercisable options at 31.12.	45.92	21,440	31.57	17,840

The outstanding options are hedged with own shares.

24. Acquisitions

On 30 June 2016, the share in Shanghai Nather Air Tech Co., Ltd., China, was increased from 51 to 75.5%. This transaction has no significant influence on the consolidated accounts of the Zehnder Group.

In the previous year on 1 December 2015, the remaining 67% share in dPoint Technologies Inc., Canada, was acquired for EUR 12.7 million. The purchase price paid comprised EUR 7.3 million in cash, with the balance of EUR 5.4 million settled by the transfer of 174,215 registered shares A in the Zehnder Group AG. Thus, the Group acquired net assets in the amount of EUR 1.0 million (receivables from third parties of EUR 1.0 million, inventory of EUR 0.4 million, property, plant and equipment of EUR 0.5 million, liabilities to third parties of EUR 1.5 million and cash and cash equivalents of EUR 0.6 million). Following acquisition, the Zehnder Group booked the minority shareholding at fair value of the transaction, thereby realizing a net profit of EUR 2.6 million (after deducting goodwill in respect of the minority shareholding recognized in equity of EUR 4.0 million). This profit was reflected – together with the profit from existing shares in dPoint Technologies Inc. up until the date of acquisition – in the result of associated companies (totalling EUR 2.4 million). As a result, the acquisition of dPoint Technologies Inc. now reflects 100% of the shareholding at fair value. The resulting goodwill amounted to EUR 14.7 million (net change) and was offset against equity.

In addition, 100% of Eco Concept Habitat, France, was acquired retroactively in the previous year on 1 January 2015 and merged with Zehnder Group France. This transaction had no significant influence on the consolidated accounts of the Zehnder Group.

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 capitalized had been capitalized and written down over a period of five years, the following figures would have resulted:

Impact of theoretical capitalization of goodwill on balance sheet

		31.12.2016	31.12.2015
Disclosed equity inclusive minority interests	EUR million	**280.2**	**269.0**
Equity ratio	%	62.2	61.8
Acquisition value of goodwill			
Status at beginning of business year	EUR million	115.2	100.0
Additions [1]	EUR million	2.3	19.2
Disposals [1]	EUR million	–	–4.0
Status at end of business year	EUR million	117.5	115.2
Accumulated amortization			
Status at beginning of business year	EUR million	–98.4	–96.7
Amortization in current year	EUR million	–4.5	–1.7
Status at end of business year	EUR million	–102.9	–98.4
Theoretical net book value of goodwill [2]	EUR million	**14.6**	**16.8**
Theoretical equity inclusive minority interests and net book value of goodwill	EUR million	**294.8**	**285.8**
Theoretical equity ratio	%	63.4	63.2

Impact of theoretical capitalization of goodwill on results

		31.12.2016	31.12.2015
Disclosed net profit	EUR million	**28.1**	**0.3**
Theoretical amortization of goodwill	EUR million	–4.5	–1.7
Theoretical impairment of goodwill	EUR million	–	–
Net profit/(loss) after amortization of goodwill	EUR million	**23.6**	**–1.4**

1 EUR 2.3 million from the increase in the participation in Shanghai Nather Air Tech Co., Ltd., China, from 51 to 75.5% (2016) and EUR 14.7 million from the increase in the participation in dPoint Technologies Inc., Canada, from 33 to 100% including the revaluation of the 33% participation (2015).
2 Of which EUR 0.1 million from the acquisition of associated companies (2015)

26. Sale of companies

No significant sale was made in the year under review.

On 1 July 2015 of the previous year, the 100% participation in Zehnder Group Châlons-en-Champagne SAS, France, was sold to Callista Private Equity GmbH & Co. KG. The sale resulted in a loss of EUR 11.6 million, of which EUR 4.8 million is cash outflow. On 30 June 2015, the company showed the following balance sheet items: accounts receivable from third parties in the amount of EUR 0.4 million, inventories of EUR 1.4 million, liabilities to third parties in the amount of EUR 1.4 million and provisions in the amount of EUR 1.1 million.

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

Please refer to the Compensation Report on page 20 ff.

28. Events after the balance sheet date

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

The 2016 financial statements were approved by the Board of Directors on 24 February 2017.

Overview of Companies

Status 31.12.2016, 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
Shanghai	Shanghai Nather Air Tech Co., Ltd.	S / P	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 Nederland B.V.	S / P	907,560	100	fully
Zwolle	Zehnder Nederland B.V.	S	18,000	100	fully
Poland					
Bolesławiec	Zehnder Group Bolesławiec Sp. z o.o.	P	51,280,000	100	fully
Wrocław	Zehnder Polska Sp. z o.o.	S	4,000,000	100	fully
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	4,480,004	100	fully
Manisa	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

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 2016 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 34 to 58) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, 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.

Completeness and accuracy of provisions

Key Audit Matter

As at 31 December 2016 provisions in the amount of EUR 39.6 million are recognized on the balance sheet with regards to

- Pension obligations
- Income taxes
- Restructuring
- Other risks.

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

Our response

As part of our audit procedures, we have assessed the assumptions applied by group management underpinning the recognition of provisions. Specifically, we have evaluated that all provisions were identified and recognized in line with an acceptable methodology, the calculations were reproducible and underpinning assumptions chosen by management were appropriate.

We have, amongst others, performed the following procedures on such provisions for which, due to quantitative and qualitative factors, an increased amount of judgement was required:

- 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 company specific employee information with information used in the calculation of such provisions by the actuary, as well as reconciliation of the actuarial valuation results with the financial statements;
- Reviewing correspondence with tax authorities, recalculating tax provisions on entity level by using local parameters published by local tax authorities;
- Assessment as to whether the conditions for the recognition of provisions are met as well as reconciliation of restructuring provisions with management plans and contractual obligations;
- 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 41

— Notes “6 Provisions”, page 47

KPMG

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.

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

Report on Other Legal and Regulatory Requirements

In accordance with article 728a 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 statements according to the instructions of the Board of Directors.

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

KPMG AG

Markus Forrer
Licensed Audit Expert
Auditor in Charge

Silvan Jurt
Licensed Audit Expert

Zug, 24 February 2017

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

Balance Sheet Zehnder Group AG

CHF million	Notes page 66 ff.	31 December 2016	31 December 2015
Assets			
Liquid assets		3.2	10.2
Other short-term receivables	1	13.1	9.7
Current assets		**16.3**	**20.0**
Financial assets	2	101.6	136.3
Participations	3	345.7	351.9
Non-current assets		**447.3**	**488.2**
Total assets		**463.6**	**508.1**
Liabilities & shareholders' equity			
Short-term interest-bearing liabilities	4	39.9	38.1
Other short-term liabilities	5	3.6	0.3
Accruals and deferred income		1.9	1.5
Short-term liabilities		**45.3**	**39.9**
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		360.5	339.9
– Net income / (loss) for the year		–42.0	20.6
Own shares	7	–11.5	–3.5
Shareholders' equity		**358.2**	**408.2**
Total liabilities and shareholders' equity		**463.6**	**508.1**

Income Statement Zehnder Group AG

CHF million	Notes page 66 ff.	2016	2015
Dividend income		19.6	22.6
Other operating income		2.0	1.8
Operating income		**21.6**	**24.5**
Personnel expenses		–2.1	–1.2
Other operating expenses		–2.3	–2.8
Impairment losses on loans and participations		–55.7	–1.1
Operating profit		**–38.4**	**19.4**
Financial income		4.8	9.4
Financial expenses		–7.9	–8.5
Direct taxes		–0.5	0.2
Net income / (loss) for the year		**–42.0**	**20.6**

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 recognized 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 recognized 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 recognized 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	31.12.2016	31.12.2015
Accounts receivable from third parties	0.4	–
Accounts receivable from Group companies	12.7	9.7
Total	**13.1**	**9.7**

2. Financial assets

CHF million	31.12.2016	31.12.2015
Loans to third parties	0.2	0.2
Loans to Group companies	101.4	136.1
Total	**101.6**	**136.3**

3. Participations

The directly or indirectly held majority interests held by the company which are material are included in the Overview of Companies table set out on pages 57 to 58.

4. Short-term interest-bearing liabilities

CHF million	31.12.2016	31.12.2015
Bank loans	14.1	10.9
Loans from Group companies	25.7	27.2
Total	**39.9**	**38.1**

Increase in bank debt due to inclusion of additional fixed advances.

5. Other short-term liabilities

CHF million	31.12.2016	31.12.2015
Other short-term liabilities to third parties	3.6	0.3
Total	**3.6**	**0.3**

The increase in obligations vis-à-vis third parties is based primarily on the obligations in relation to the increased share in Shanghai Nather Air Tech Co., Ltd. in China.

6. Share capital

	Registered shares A units **2016**	Registered shares B units **2016**	Value CHF **2016**	Registered shares A units **2015**	Registered shares B units **2015**	Value CHF **2015**
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 2015, 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 2016	Value per share CHF 2016	Value CHF 2016	Registered shares A units 2015	Value per share CHF 2015	Value CHF 2015
Own shares at 1.1., trading portfolio	**74,534**	**34.10**	**2,541,610**	**31,322**	**37.53**	**1,175,473**
Shares sold	–67,600	35.43	–2,395,300	–214,788	34.39	–7,386,266
Gain/(loss) from sale			90,140			41,693
Shares bought	250,000	41.50	10,375,000	248,000	33.82	8,387,710
Reclassifications	1,000	32.30	32,300	10,000	32.30	323,000
Own shares at 31.12., trading portfolio	**257,934**	**41.27**	**10,643,750**	**74,534**	**34.10**	**2,541,610**
Own shares at 1.1., long-term stock option plan	**24,528**	**40.48**	**992,927**	**37,888**	**37.60**	**1,424,455**
Shares sold	–2,160	30.15	–65,131	–3,360	30.90	–103,825
Gain/(loss) from sale			–4,636			–4,703
Reclassifications	–1,000	32.30	–32,300	–10,000	32.30	–323,000
Own shares at 31.12., long-term stock option plan	**21,368**	**41.69**	**890,860**	**24,528**	**40.48**	**992,927**
Total securities at 1.1.	99,062		3,534,537	69,210		2,599,928
Total securities at 31.12.	279,302		11,534,610	99,062		3,534,537

As part of a public fixed price share buyback program, 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 20.

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 73.0 million (2015: CHF 68.4 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 has undertaken to guarantee all liabilities of a subsidiary vis-à-vis its creditors. 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 hold more than 3% of the share capital of Zehnder Group AG:

- Graneco AG, Gränichen (CH), holds 16,600 registered shares A and 9,771,200 registered shares B, corresponding to 49.8% of the votes (2015: 49.8%),
- Credit Suisse Funds AG, Zürich (CH), holds 839,442 registered shares A, corresponding to 4.3% of the votes (2015: <3%),
- Alecta pensionsförsäkring, ömsesidigt, Stockholm (SE), holds 785,500 registered shares A, corresponding to 4.0% of the votes (2015: 4.0%).

For notification of disclosure of significant shareholdings please refer to the website of SIX Swiss Exchange [7].

Members of the Board of Directors and of the Group Executive Committee, including persons closely associated with them, own the following shares and options:

	Registered shares A units[1] 2016	Registered shares A units[1] 2015	Registered shares B units[2] 2016	Registered shares B units[2] 2015	Options unit 2016	Options unit 2015
Hans-Peter Zehnder[4] Chairman of the Board, China & North America a.i.	166,858 0.9%[3]	159,006 0.8%[3]	20,000 0.1%[3]	20,000 0.1%[3]	320	320
Thomas Benz Deputy chairman of the Board	28,208 0.1%[3]	25,749 0.1%[3]	–	–	–	–
Urs Buchmann Member of the Board	9,542	7,823	–	–	–	–
Riet Cadonau Member of the Board	4,527	2,888	–	–	–	–
Enrico Tissi Member of the Board	16,797	14,543	–	–	–	–
Jörg Walther Member of the Board as of 6.4.2016	–	–	–	–	–	–
Milva Zehnder Member of the Board as of 6.4.2016	–	–	–	–	–	–
Dominik Berchtold Chairman of the Group Executive Committee, CEO	26,262 0.1%[3]	21,947 0.1%[3]	–	–	960	1,200
René Grieder CFO	5,883	4,100	–	–	240	240
Tomasz Juda Competence Center Radiators/RHC	800	800	–	–	–	–
Cyril Peysson Sales Europe/Middle East/Africa (EMEA)	32,125 0.2%[3]	29,176 0.1%[3]	–	–	960	1,280
Olaf Schulte Competence Center Comfosystems	225	–	–	–	–	–

1 Provided they were acquired under the employee share ownership program, some of these shares may be subject to a restriction period (see Compensation Report page 20 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 126,400 (2015: CHF 98,368). No invoices for further audit-related services were issued in the reporting period (2015: CHF 81,818).

[7] www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html?companyId=ZEHNDER

Proposal on the Appropriation of Earnings

	CHF
The balance sheet profit available for distribution comprises	
Retained earnings from previous year	360,464,571
Net loss for 2016 according to the income statement	−41,977,490
Balance sheet profit [1]	**318,487,081**
The Board of Directors proposes the following appropriation of earnings	
Payment of a dividend	11,637,000
To be carried forward to new account	306,850,081
Total appropriation of earnings	**318,487,081**

1 Due to the negative posting of own shares in the amount of CHF 11,534,609, the General Meeting has a maximum of CHF 306,952,472 available for profit distribution.

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 63 to 69) for the year ended 31 December 2016 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 2016 amount to CHF 345.7 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 65

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 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, 24 February 2017

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

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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

Announcement of sales for 2016	13.1.2017
Annual report 2016	27.2.2017
Press conference on financial statements and analysts' meeting	3.3.2017
General meeting of shareholders	6.4.2017
Ex-dividend date	10.4.2017
Dividend payout	12.4.2017
Six-month report	28.7.2017
End of business year	31.12.2017
Announcement of sales for 2017	19.1.2018

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.

General Meeting of Shareholders 2018
The general meeting of shareholders 2018 will be held on 12 April 2018 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 dPoint, the Zehnder Group is a market and technology leader in its business areas.

The Zehnder Group has had its headquarters in Gränichen, Switzerland, since 1895. It employs around 3000 people worldwide and achieved sales of EUR 538.9 million in 2016. 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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