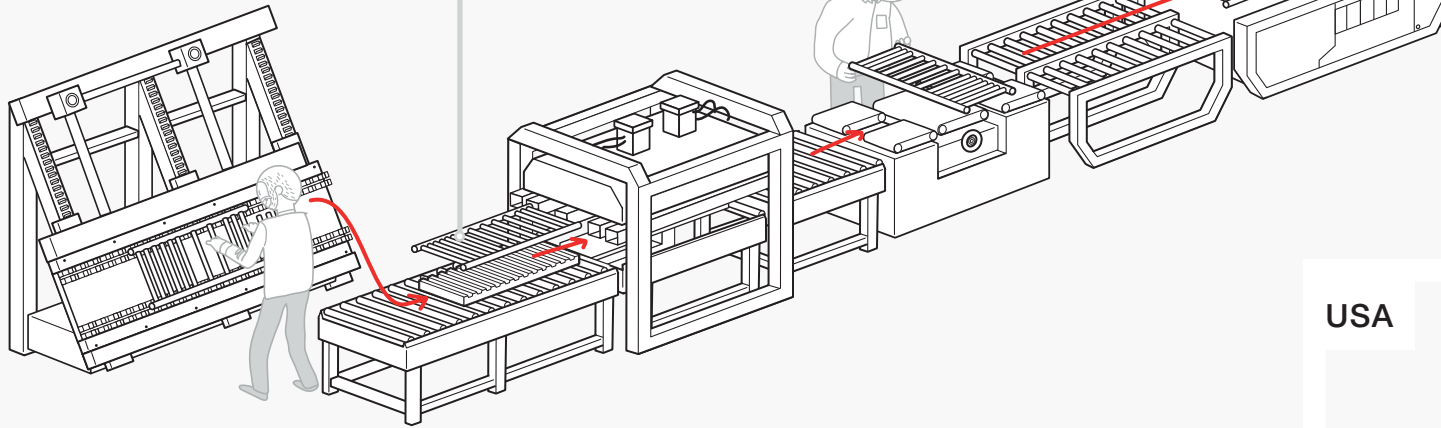
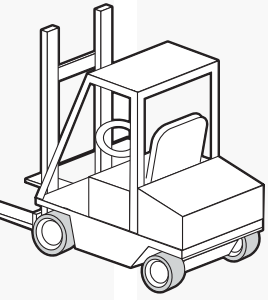


POLAND 🇵🇱

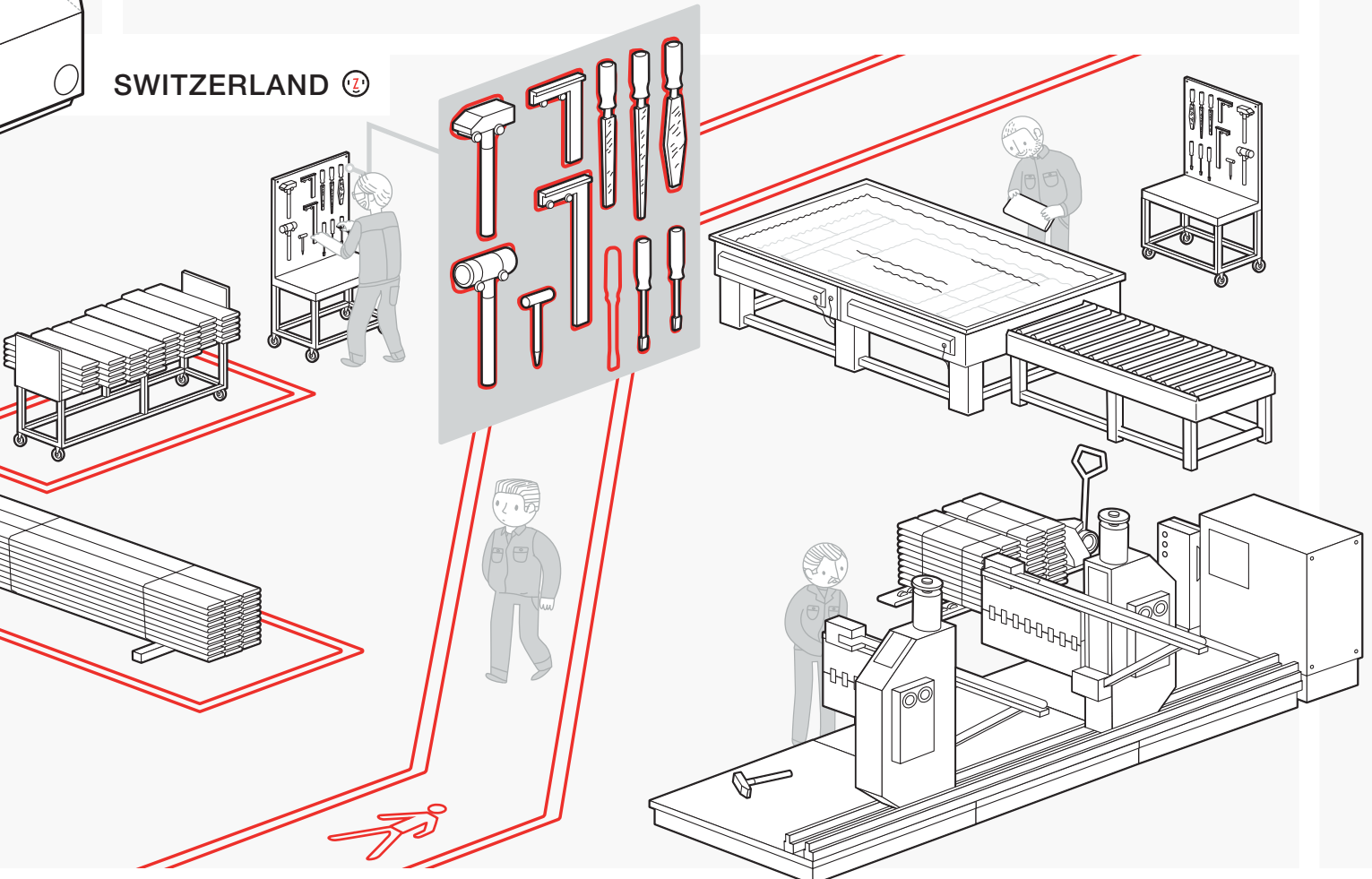
Annual Report 2013

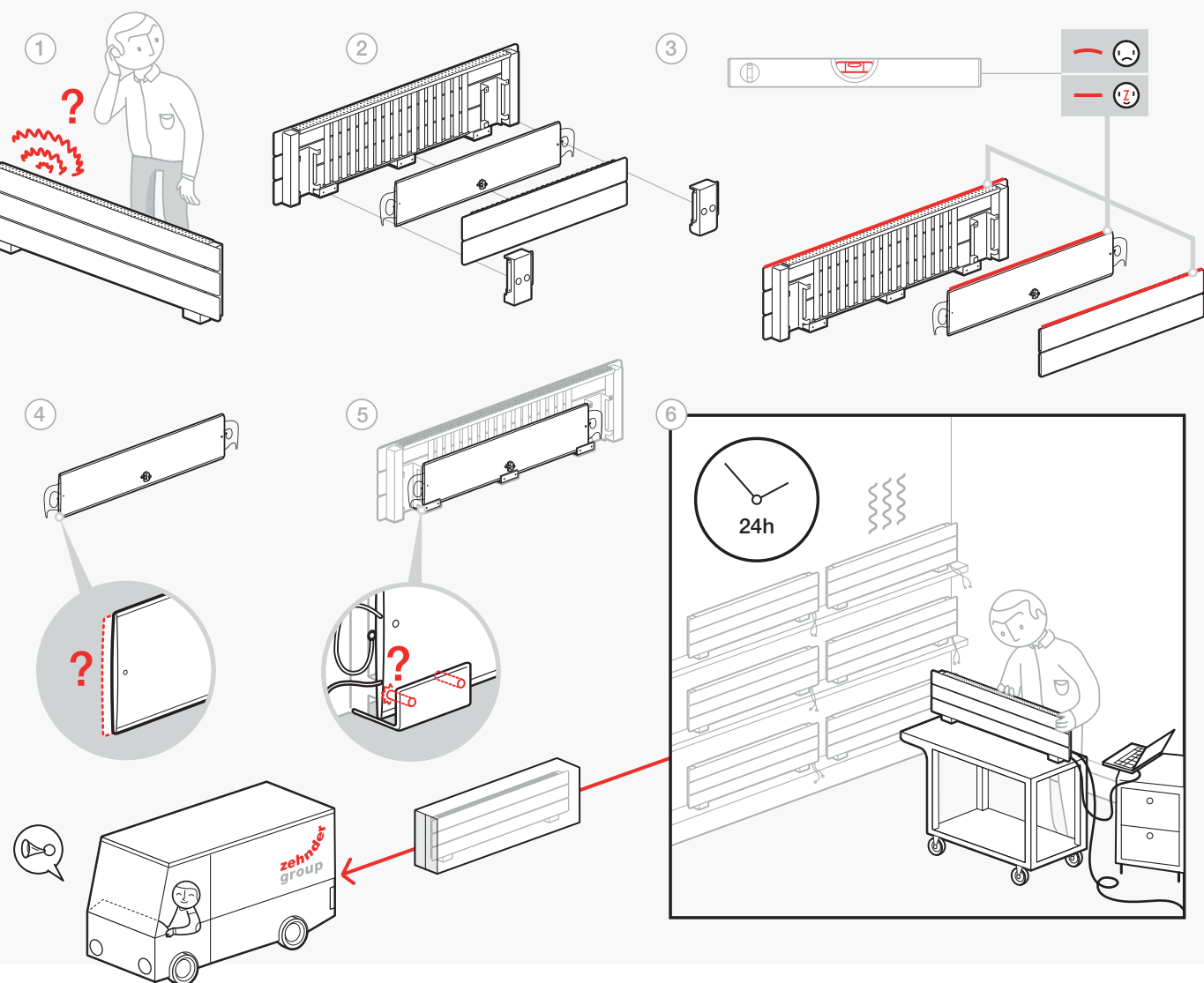
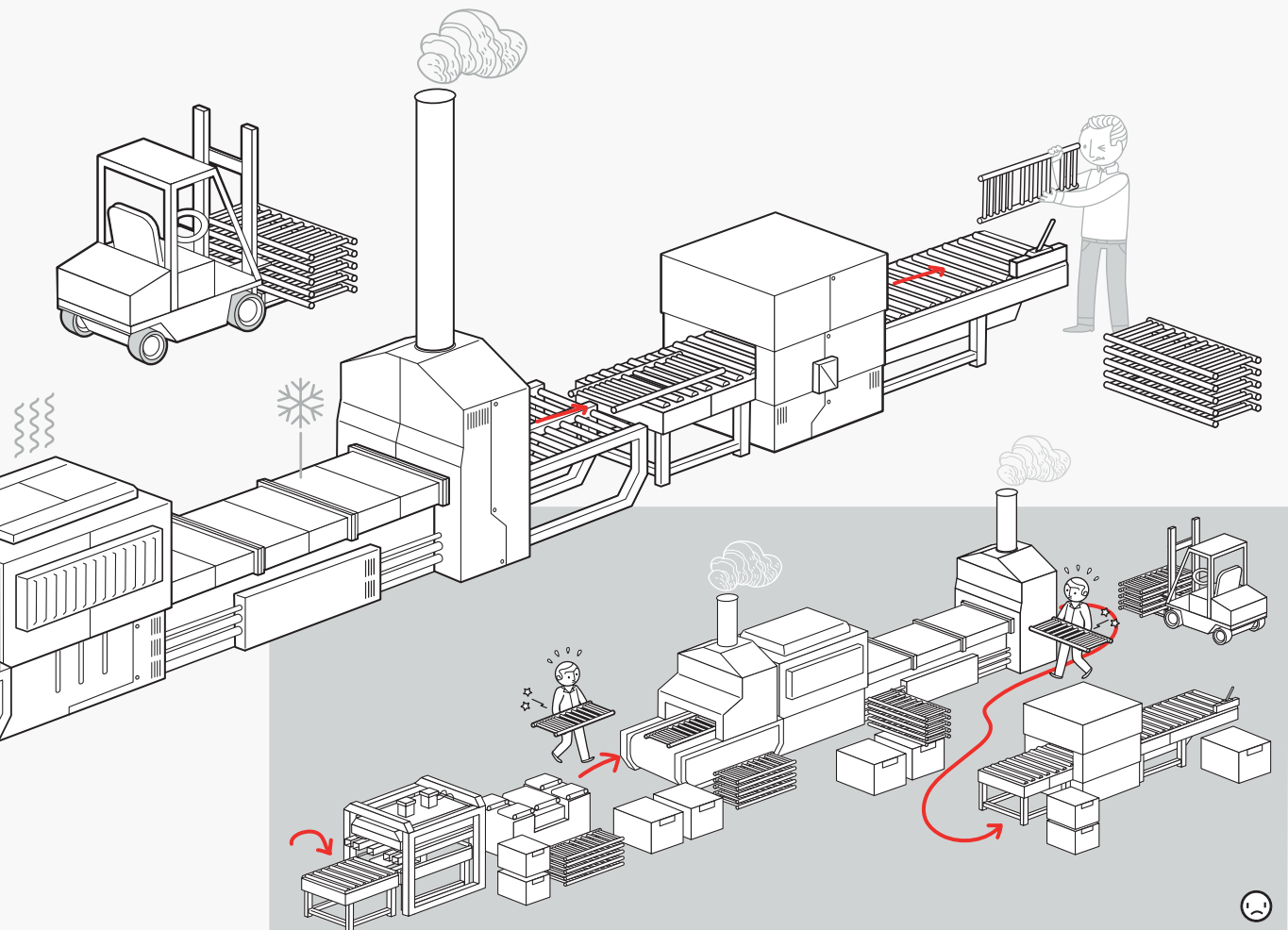
zehnder
group



USA

SWITZERLAND 🇨🇭





At a Glance

2013

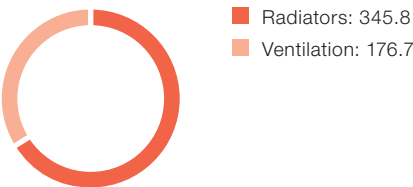
Sales by region

EUR million



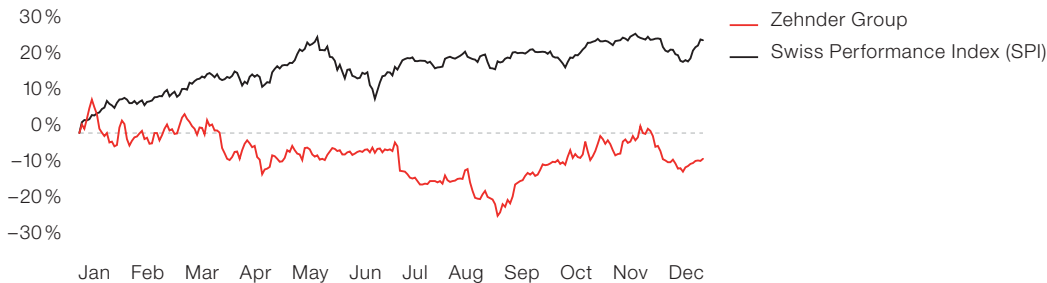
Sales by segment

EUR million



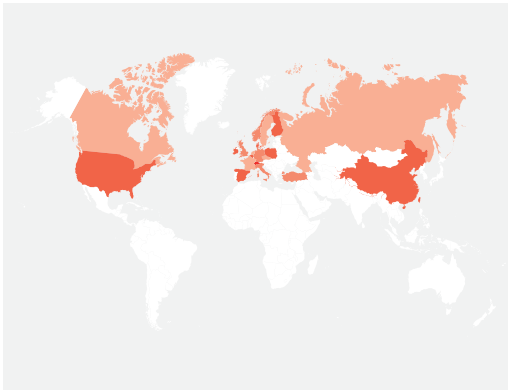
Share price

1.1. – 31.12.2013



Locations

→ Worldwide



- Europe**
- Belgium
 - Czech Republic
 - Denmark
 - Finland
 - France
 - Germany
 - Italy
 - Netherlands
 - Norway
 - Poland
 - Russia
 - Sweden
 - Switzerland
 - Spain
 - Turkey
 - UK
- North America**
- Canada
 - USA
- Asia**
- China

Key figures

		2013	2012	%
Net sales	EUR million	522.4	523.8	-0.3
EBIT	EUR million	32.3	38.5	-16.0
	% of sales	6.2	7.3	
Net income^[1]	EUR million	18.2	26.8	-32.0
	% of sales	3.5	5.1	
Net income before depreciation & amortization^[1]	EUR million	37.4	45.1	-17.1
	% of sales	7.2	8.6	
Investments in property, plant & equipment	EUR million	35.1	37.3	-5.8
Depreciation & amortization	EUR million	19.1	18.2	4.9
Total assets	EUR million	412.6	407.3	1.3
Total fixed assets	EUR million	183.8	177.7	3.5
Shareholders' equity^[1]	EUR million	255.5	247.6	3.2
	% of total assets	61.9	60.8	
Number of employees	31 December	3,283	3,135	4.7
Net earnings per bearer share^[2]	EUR	1.41	2.31	-39.1
Net earnings per bearer share before depreciation & amortization^[2]	EUR	3.04	3.87	-21.4
Shareholders' equity per bearer share^[2]	EUR	20.82	20.30	2.5
Zehnder Group AG				
Share capital	CHF million	0.6	0.6	-
Dividend per bearer share ^[3]	CHF	0.55	0.90	-38.9

[1] including minority interests

[2] excluding minority interests

[3] for 2013 as proposed by the Board of Directors

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2013

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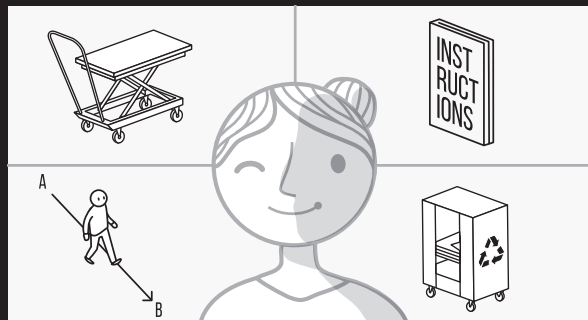
Topic of the year

Zmile!

Always a bit better – that is the goal Zehnder Group sets itself each day. And to achieve it, the Group initiated its own “Zmile” programme in 2012 with the aim of integrating the Japanese working philosophy Kaizen into its daily business. The name Zmile was derived from smile, improvements should make everybody happy. Kaizen centres on the pursuit of continuous improvement across all functions and business units. The Zmile programme combines the Kaizen philosophy and Zehnder’s values (hence the “Z”) to make them appropriate for the business. This Annual Report highlights some of these successful measures and their initiators – the employees and their teams who committed their minds, bodies and souls to making many small changes that ultimately resulted in big improvements.

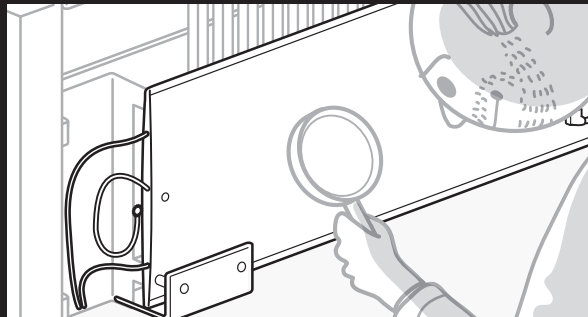
The Netherlands

At Zehnder’s site in Zwolle, ten team members put many small ideas into practice – making a useful contribution to improving the work flow; increasing efficiency and saving a significant amount of time.



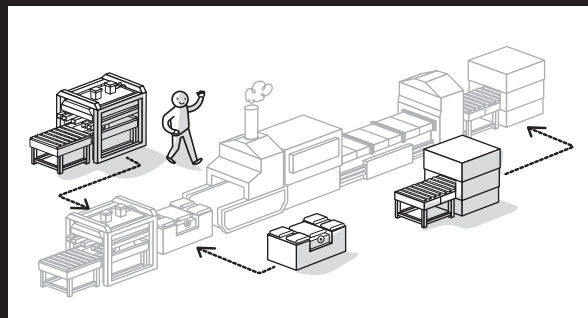
USA

At Runtal’s American site in Ward Hill, it was all about getting to the bottom of things. The seven team members there did not give in until they had managed to turn an acceptable product into a perfect product – a product that is now opening new doors to Runtal.



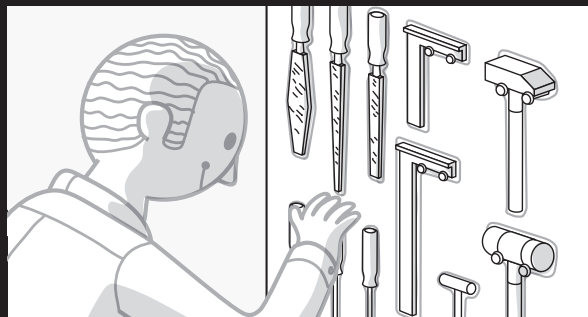
Poland

At Zehnder Group’s Polish site, the key word is motivation. The six-member team in Boleslawiec poured their energy into optimising the production line. This resulted not only in excellent radiators, but also in higher productivity.



Switzerland

At Zehnder Group’s headquarters in Gränichen, the proverbial Swiss orderliness was a major success factor. Fourteen employees helped in the big tidy up, creating both a pleasant and efficient working environment.



Chairman's Foreword

We strive to find the right balance between improving results in the short term and optimising earnings in the long term

→ Hans-Peter Zehnder, Chairman of the Board of Directors



Ladies and gentlemen

When drafting Zehnder Group's budget last year, we were cautious and only budgeted for very modest sales growth as we were not expecting any major economic upturns in our target markets. Looking back, however, we have to admit that our budget was too optimistic. Most of our Group companies were unable to reach the targets set. With total sales of EUR 522.4 million, Zehnder Group remained just under the level achieved in 2012 (EUR 523.8 million). This can be primarily attributed to price pressure, especially in the radiator segment, and the fact that customers increasingly switched to less expensive models. In contrast Group costs remained as planned. Overall, Zehnder Group posted earnings before interest and taxes (EBIT) of EUR 32.3 million in 2013 (2012: 38.5) and an EBIT margin of 6.2 %, which fell far short of our expectations.

Ventilation continues to grow

Sales in the ventilation segment rose 1.3 %, a slight improvement over 2012. While the comfort ventilation business developed encouragingly in many European markets, the downturns in Switzerland and the Netherlands dampened overall performance. However, about 30 % higher sales were achieved by Zehnder Group in the small clean air sub-segment.

Sales growth in the radiator segment was satisfactory in the UK, Russia and our most important market France. The radiant heating and cooling systems business also continued its positive trend of 2012. Nevertheless, the radiator segment registered a decline in sales of 1.0 %, primarily caused by lower revenues from Germany, Italy and Switzerland.

The US business continued on the upward trajectory it has enjoyed since mid-2012. Our two companies there posted significantly higher sales than in the previous year. Sales revenues in China picked up again in 2013, reversing the negative trend of 2012 despite the Chinese government's continued efforts to curb economic activity in the construction industry.

Innovation remains strong

Developments in the ventilation segment prove that we are on the right track with our strategy, even if the competition is becoming noticeably tougher. We continue to be highly innovative. We launched new radiators and ventilation units in a number of countries in 2013. As in previous years, several Zehnder Group products won prizes awarded by independent experts, including the ComfoAir 180, our compact ventilation system, which won the Plus X Award 2013 from an international jury. When architects, such as those responsible for a Minergie-compliant development in Lausanne choose our radiators instead of under floor heating that is not least the result of the successful, comprehensive customer advice we offer at Zehnder Group.

Growing profitability is our mission

The results for the first half of the year disappointed us, so in the second half of the year we put all our efforts into improving those results without losing sight of our long-term objectives. We therefore introduced several measures from early August 2013, focusing on three key areas: bringing our budget in line with the trend of weak sales development; setting ambitious cost targets and stopping recruitment; and focusing on priorities. All started innovations, improvements and investments aimed at increasing efficiency will be completed with the necessary diligence before any new initiatives are introduced.

Dominik Berchtold takes over

As planned, I will hand over my operational management responsibilities to Dominik Berchtold as of 1 November

when I turn 60. He has been with Zehnder Group since 2006 and has gained an intimate knowledge of the company and markets with the functions he has exercised. I will continue to be engaged as Chairman of the Board of Directors for Zehnder Group, visiting clients and business units and supporting my successor with advice.

Our thanks

On behalf of the Board of Directors, I would like to thank our customers for the trust they place in our products and our abilities. We measure our work by their satisfaction, which again presented a considerable challenge to our employees this year. Although we have only partly succeeded in achieving the targets set, I appreciate and value everybody's great commitment. Last but not least, I would also like to extend my thanks to our shareholders for placing their trust in us and remaining confident that results will improve.



Hans-Peter Zehnder

Chairman of the Board of Directors

Zehnder Group

In brief

Zehnder Group is a listed international group with strong family ties; its headquarters are in Switzerland.

↑ 1923



↑ 1930



↑ 1980



↑ 2001



1895 Jakob Zehnder founded a mechanical workshop in Gränichen, Switzerland.

1923 The legendary 'Zehnderli', Zehnder's light motorcycle, set out to conquer Switzerland.

1930 Production of the first steel radiators.

1953 A first step abroad, to Germany.

1959 Gebrüder Zehnder became a limited company. Management was now in the hands of the third generation.

1967 Further expansion abroad, this time to France. Production of the first single-column radiator.

1980 Launch of the towel radiator, a revolutionary innovation.

1986 Successful IPO on Zurich stock exchange.

1988 Hans-Peter Zehnder (fourth generation) took over operational management. Runtal, a major competitor, was acquired, which eased access to new markets in Europe and the USA.

1994 Takeover of Acova, the French market leader in the special radiator sector.

2001 Zehnder moved into the comfort ventilation business.

2002 Takeover of StorkAir, a Dutch ventilation company.

2006 Strengthened market position in the USA and China: Hydro-Air Components (Buffalo/USA) taken over and a third company established in China (Shanghai).

2007 Acquisition of a Swedish company, Freshman AB (air cleaning technology), and the British Bisque Group (radiators).

2008 Takeover of Greenwood (ventilation products) in the UK and a Swiss company, Cesovent (ventilation components). Divestment of Faral in Italy. Start of the strategic initiative energiZe (organization, management, logistics, research and development, marketing).

2010 Acquisition of a Chinese ventilation company, Shanghai Nather Air Tech Co. Ltd.

2011 Takeover of Italian cooling specialist Nest Italia S.r.l.

2012 Complete takeover of the Turkish company Sanpan Isıtma Sistemleri Sanayi ve Ticaret Ltd (Sanpan).

Strategy

In the interests of all stakeholders, Zehnder Group strives to achieve sustainable and profitable growth. The focus is on organic growth, supplemented by acquisitions in line with corporate strategy and by suitable cooperation agreements.

In the radiator sector we focus on higher-end market niches for steel radiators, and in the ventilation segment on energy-efficient systems. Zehnder Group brands stand for innovation, design and reliability. In the final analysis, the strategy is designed to make Zehnder a comprehensive systems supplier, capable of offering customers intelligent all-in packages for heating, cooling and ventilation to provide a healthy and comfortable indoor climate.

Market position

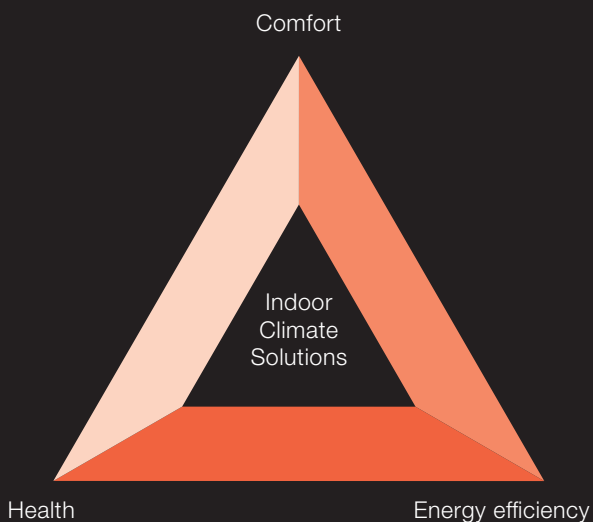
Zehnder Group's objective is to be a leader in all its target markets. In the radiator business Zehnder has for many years been the market leader in numerous countries. In the ventilation sector, too, the company now has a leading market position in many European countries such as Germany, the Netherlands, Belgium, Austria, Italy, and Switzerland.

Vision

By 2015 we want to be the leading company in the field of indoor climate solutions – in certain product segments worldwide, and in systems for selected market segments in Europe, North America and China.

Mission Statement

We want to be the most attractive provider of energy-efficient, healthy and comfortable indoor climate solutions.



Zehnder Group Highlights 2013

Spine Tower, Istanbul

Beautiful views with Zehnder Fina radiators

At 191 metres, the Spine Tower in the western part of Istanbul is one of Turkey's tallest buildings. The condominiums on the upper 17 storey offer a breath taking view over the Bosphorus. The floors below feature offices, a fitness centre and a swimming pool. A total of 200 Fina radiators were installed in the Spine Tower by Zehnder. The Spine Tower is the first project by the developer Tilaga A.S., the subsidiary of a large Turkish mining industry group. Tilaga is now planning to construct another high-rise building in the Asian part of Istanbul and there is a good chance that Zehnder Group will also be equipping that one with radiators.



Tower Bridge, London

Stratos convectors coated in desired colour

Who does not know London's Tower Bridge? The drawbridge over the Thames that was inaugurated in 1894 by the then Prince of Wales was a technical marvel. It mainly consists of steel. Its grey Portland limestone is merely a facade to match the nearby Tower of London, which was built in the 11th century. Tower Bridge has become a London landmark, a tourist attraction and a venue for exhibitions and events. In February 2013 the rooms in the two bridge towers were refurbished and equipped

with 82 Zehnder Stratos convectors. The heating elements were specially coated for the purpose at Zehnder in the desired colour RAL 7040 Window Grey.



Le Mont-sur-Lausanne, Switzerland

Nova radiators for Minergie-compliant residential estate

The Minergie-compliant residential estate Maillefer in Le Mont-sur-Lausanne comprises 13 blocks with 233 flats. After an evaluation of different heating systems, the developer decided to opt for radiators rather than under-floor heating. The decisive factors were the legal requirements regarding energy efficiency and the planned large windows. The new energy regulations prescribe that it must be possible to regulate the temperature of each room by means of an independent thermostat, which is easier to implement with radiators. Zehnder offered the best comfort/cost-effectiveness balance and was therefore awarded the contract. The residential estate is being equipped with Nova radiators. The project will be completed in 2014.



Zehnder in Dachang, China

Production started up

Zehnder Group opened its new development and production facility in China in October 2013. The facility is located in the Dachang Chaobai River development zone, only around 45 kilometres from the centre of Beijing. This zone borders motorways on three sides and is thus well connected from a transport perspective. The facility includes two production halls with an effective area of some 45,000 m². In addition, there are 800 m² of exhibition space and 3,000 m² of offices. All the spaces are ventilated with our own products. Zehnder produces for the Chinese market radiators with and without fans; heating and ventilation units; and heat pumps at the Dachang site. At its inauguration the new facility employed 400 staff.

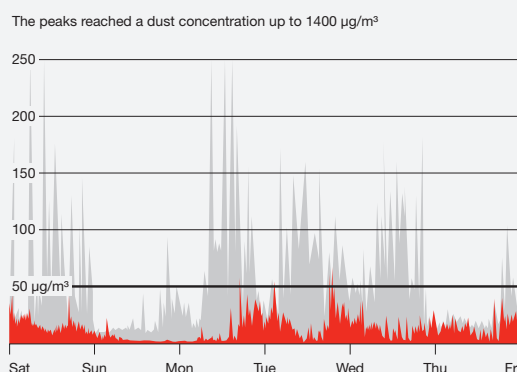


Kuehne + Nagel, Paris

Zehnder ensures clean air

Clean air is a competitive factor for the Kuehne + Nagel distribution centre in Mitry-Mory near Paris. The logistics company transports goods including fresh produce such as yogurt for the world's largest food companies. These goods need to arrive at retail stores exactly in the same condition as they left the production facility – without any dust on the transport pallets. Zehnder's clean air units use thousands of the finest Flimmer® hairs to efficiently filter dust from the air and thus considerably improve the quality of the air, which also benefits employees.

The graph shows the dust values recorded before (grey) and after the installation (red) of the Zehnder filter systems.



Plus X Award

ComfoAir 180 – small is beautiful

The Plus X Award is the world's most important innovation prize for technology, sport and lifestyle. Once again in 2013 a Zehnder Group product won. The international jury, made up of 130 members from 32 nations, awarded prizes to the new Zehnder compact ventilation unit ComfoAir 180 in three categories: innovation, high quality and functionality. ComfoAir 180 is the centrepiece of the ventilation system developed for apartments. The innovative ventilation unit is so compact that it can even be put in a kitchen cabinet or an alcove.





Image on previous page



A phenomenon with many names, whether butterfly effect; snowball reaction; domino effect; or chain reaction – small changes taken together can have a huge effect. For example, having to lift a slightly lighter weight slightly less high doesn't sound like much of an improvement, but it leads to more efficient movements, saves time and, at the end of the day, increases productivity. At Zehnder Group's location in Zwolle in the Netherlands, this was tried out on the production line of the comfort heat recovery unit CA 350.

- 1 Steffen Hefferich
- 2 Lenie Schurink
- 3 Roelof Jonkers
- 4 Karin den Oudsten
- 5 Brian Dwars
- 6 Edwin Aafjes
- 7 Jeroen Oostenbrink
- 8 Jeroen van den Bos
- 9 Viresh Kalika
- 10 Murat Karabulut

The Zmile Effect

Could the process be shorter? Could two materials be combined to make it easier to access them? These questions were raised by Zehnder's Dutch site production; which also came up with the answers. Daily morning meetings provided the ideal setting. As there is always room for improvement, the team responsible for the CA 350 heat recovery unit production line set about improving the work flow. The first step was to exchange materials and change production steps. Where cutting cardboard had previously been a laborious task, the so-called "supermarket" – the system's official name – has significantly simplified the individual production steps. Difficult-to-operate forklifts have been replaced with smooth-running trolleys, and manuals no longer need to be put together individually but are now available as ready-for-use brochures. Good figures on paper and smiles on the faces of the employees – that's the Zmile effect at Zehnder in Zwolle.

People say the Dutch don't beat around the bush, they just get on with it. And if they think a change will be useful, they seize the opportunity.

ZMILE METHOD The 7 MUDA (Wastes) in the production

Taiichi Ohno, who devised Toyota's production system, identified 7 types of waste. These were later expanded upon and applied to other types of work.

Reduction of MUDA increases the added value.

- Overproduction
- Inventory
- Transportation
- Delays and waiting
- Over-processing
- Movement
- Mistakes and rework



- 1 Returnable supplier packaging for polystyrene housings
- 2 Documentation kitting separating assembly and material preparation leading to increased productivity
- 3 Adjustable assembly cart for an ergonomic height



Report of the Group Executive Committee

Sales at prior-year level in challenging environment

Zehnder Group generated sales of EUR 522.4 million in 2013, on a par with the prior-year level (2012: 523.8). In Europe, the ventilation business grew by 2 %, while radiator sales fell by 3 %. In North America and China, Zehnder Group posted sales growth of 11 % and 4 %, respectively.

Construction suppliers again faced a challenging environment in 2013 with construction of residential property continuing to shrink in Europe. According to estimates published by construction business research group Euroconstruct in November 2013, the volume of new residential property built in the year under review was 3.6 % lower than in 2012 and renovations contracted by 1.3 %. Construction for industry, manufacturing and the public sector declined by 3.5 % over the same period according to Euroconstruct estimates.

Zehnder Group increased its sales by 2.6 % in the second half of the year compared with the second half of 2012, nearly offsetting the decline experienced in the first half of 2013.

The operating result before interest and taxes (EBIT) was EUR 32.3 million (2012: 38.5), including the positive one-off effect of EUR 9.2 million generated through the sale of a building in China. Net income was EUR 18.2 million (2012: 26.8).

The results for 2013 remained below expectations overall. The Group Executive Committee took action in the middle of the year, introducing measures to increase efficiency and reduce costs.

Growth in several segments

The radiator segment in particular suffered amid the difficult economic climate and the exceptionally cold period in the first quarter. Sales at the end of the year were EUR 345.8 million (2012: 349.4). With demand declining, pressure on prices rose. The still small radiant heating and cooling systems segment posted another year of growth, especially in France and the United Kingdom.

In 2013, Zehnder Group's ventilation systems generated sales of EUR 176.7 million, 1 % higher than in 2012 (in local currencies + 2 %). The UK, Italy and France posted

pleasing growth rates, while sales in Switzerland, the Netherlands and China developed at a below-average rate.

With 34 % of Group sales in the reporting year, ventilation contributed one more percentage point compared with 2012.

Strong balance sheet

Zehnder Group's financial position remains strong and continues to ensure it has the freedom to make entrepreneurial decision. As at the end of 2013, equity represented 61.9 % of the balance sheet total (2012: 60.8). Net liquidity was EUR 32.2 million (2012: 26.3). The Board of Directors will propose to the shareholders to pay a dividend of CHF 0.55 per bearer share. This proposal is in line with the long-term dividend policy of maintaining a stable payout ratio of about one third of the profit.

→ Zehnder Group's financial position remains strong and continues to ensure it has the freedom to make entrepreneurial decision.

Investments in property, plant and equipment

In 2013, a large share of overall investment was made in the new production and development centre in Dachang, China, which became operational towards the end of the year under review.

Other major investments included the completion of the logistics hub and the modernisation of the multicolumn radiator production in Lahr, Germany.

Construction of the planned new training and office building in France began at the end of 2013. This investment is an important element for the further development of the business in France. The customer training section

of the chapter on sustainability gives a detailed outline of what customer training means to Zehnder.

Sales and infrastructure expanded

As previously announced, Zehnder created two new sales organisations in 2012, one in the Czech Republic and one in Turkey. This means that Zehnder can now operate in even closer proximity to its customers in these markets.

The introduction of the SAP IT platform continued as planned. The introduction of a new software is, though, only secondary, as the main focus is on improving the organisational structure. Primary tasks include the definition and subsequent implementation of new standardised processes. In the year under review, the sales organisation in Italy and the logistics centre in Lahr, Germany, among others, started working with SAP. As of 1 January 2014, the sales organisation in Switzerland and one production site in Germany also followed suit.

→ **SAP is more than an IT project. The main focus is on improving the organisational development.**

Processes further improved through Kaizen

Zmile, Zehnder's programme devised to anchor the Kaizen philosophy within the company, aims at continuously improving the processes used at Zehnder. In 2013, a number of companies again achieved good results in this respect. The examples in this Annual Report illustrate what potential this holds for Zehnder Group.

New products launched

In 2013, Zehnder successfully launched the Zehnder Vitalo and Runtal Cosmopolitan radiators in different markets, as well as various Acova products for the DIY segment in France. In the comfort ventilation systems segment, Zehnder launched the ComfoAir 180, ComfoAir Slimline 330 and ComfoSchool as well as the revamped

large ComfoAir XL unit and the Zehnder ComfoBox compact energy centre, which is based on a brine/water heat pump, among others.

Zehnder's range of radiant heating and cooling systems was expanded with the introduction of activated plaster-board panels. Three new units were added to the clean air solutions range and the control system improved. Zehnder's subsidiaries in North America and China also launched new radiators and ventilation units. The ComfoAir 180 comfort ventilation system was chosen by an international panel of experts as one of the winners of a Plus X Award 2013 (see Highlights, pp. 6–7).

→ **The ComfoAir 180 comfort ventilation system was chosen by an international panel of experts as one of the winners of a Plus X Award 2013.**

Development and market opportunities in the countries

France

In France, our biggest market in Europe, Zehnder Group's sales increased amid difficult economic conditions in the radiator and ventilation segments. Zehnder defended market shares and even recorded significant growth in the towel radiator segment. The launch of the Runtal brand was intensified, among others via the Cosmopolitan model. Runtal is geared toward customers with high demands in terms of design, primarily in the renovations market. Zehnder Group intends to open further showrooms for premium products in and around Paris as well as other major cities.

Radiant heating and cooling systems posted sales growth in the double figures, with training seminars for sales staff and the pursuing of intensive market development having a positive impact.

Zehnder Group also recorded marked increases in the ventilation and clean air systems business.

The merger of 3 businesses in France into a single marketing entity in 2013 brings us synergy to the organisation.

Management is taking a cautiously optimistic view of the outlook for 2014. The construction industry will be faced with the introduction of new governmental certification of sustainable construction – the HPE (high energy performance) and THPE (very high energy performance). This will further increase demand for Zehnder's energy-efficient products in the coming years. This year will also see the Acova brand celebrate its 50th anniversary. Zehnder will take this as an opportunity to further increase brand awareness by way of numerous activities.

→ The construction industry will be faced with the introduction of new governmental certification of sustainable construction. This will further increase demand for Zehnder's energy-efficient products in the coming years

Germany

The German construction industry remained relatively stable in 2013. Residential construction grew moderately, while construction for industry, manufacturing and the public sector declined slightly. In this environment, total sales were slightly below the previous year's level.

Sales in the radiator segment fell year on year. The market share in the bathroom radiators segment remained unchanged.

Zehnder recorded a year-on-year increase in sales of comfort ventilation systems and implemented price increases as planned. The ComfoAir 180 was successfully

launched (see Highlights, pp. 6–7) and an online shop for end customers in Germany offering replacement filters went live.

As a result of a longstanding partnership between Zehnder and a leading supplier of software for building services, all users of the widely used CAD program liNear have been able to access planning data related to Zehnder radiators free of charge since 2013. The data sets are in line with the Association of German Engineers' guidelines and offer information on how to install radiator systems. The integration into the CAD system renders accessing the Zehnder products considerably easier.

In 2014, Zehnder wants to take advantage of opportunities opening up in the radiant heating and cooling systems segment in the area of activated plasterboard ceiling panels. With an expanded system warranty for its comfort ventilation systems Zehnder will give customers an additional incentive to order everything from a single provider. Zehnder is also aiming to increase growth significantly in the clean air solutions segment by making further invests in distribution.

Switzerland

Despite construction activity being lively in Switzerland, Zehnder sales declined in 2013. The shortfalls experienced as a result of the long cold winter could not be fully compensated during the second half of the year. Due to strong competition, pressure on prices is high.

The introduction of the ComfoAir 330 SL (Slimline) ventilation unit closed a gap in the product range, allowing Zehnder to recover market share. This compact model is equipped with heat exchangers and humidity recovery, is practically silent and fits into a built-in closet.

Given the Swiss government's energy saving targets, the market for energy-efficient heating, ventilation and air

conditioning will continue to grow. Zehnder's focus is on expanding its range of decentralised home ventilation systems and associated air distribution units as well as large central units.

A strong service offering remains an important distinguishing feature, which is why Zehnder attaches great importance to having qualified employees. In 2014, the premium strategy for Runtal radiators will enter the next phase. From then on, the Runtal range will only be available from selected partners specialising in design.

UK and Ireland

In the UK, around 1 % more residential property was built and renovated in 2013 than in 2012. This was beneficial for Zehnder and led to higher radiator sales.

Zehnder posted substantial growth in the radiant heating and cooling systems segment. The heating, ventilation and air-conditioning of large buildings in the railway industry produced particularly remarkable results. In the autumn, Zehnder recorded a good sales start for the heat recovery units redeveloped and produced in the UK, and simple air fans also met sales targets. The ventilation segment therefore achieved a pleasing level of growth overall.

In 2014, the Vireo range of comfort ventilation systems with heat recovery produced by the British subsidiary will be introduced to an even wider market.

Italy

The Italian economy continued to contract in 2013. Radiator sales fell, although Zehnder succeeded in increasing its market share. Despite a very high number of competitors, Zehnder recorded pleasing growth in the ventilation segment and further strengthened its leading market position.

Alongside the merger of three Italian subsidiaries came the introduction of the SAP IT platform and a complete overhaul of the price lists. Products newly added to the range include the Zehnder Aura, Aura Electric, Nova, Fare LCD and Charleston Electric in the radiator segment, and the Premivent, ComfoAir 100 Plus, Renoventil and ComfoAir 180 in the ventilation segment.

The economic projections by the National Institute of Statistics (Istat) suggest that economic conditions are set to improve slightly in 2014.

The Netherlands

The radiator segment in the Netherlands contracted in 2013. Zehnder was not able to fully compensate for the exit from the aluminium radiator business in 2012 with sales in the other product categories. Nevertheless, sales of bathroom radiators increased compared with 2012, as did the market share.

The ventilation market in the Netherlands declined again in 2013, both for new builds and renovations. Thus, Zehnder suffered a year-on-year drop in sales of comfort ventilation systems. Clean air solutions, on the other hand, generated a significant increase in sales revenues. High-profile reference customers, such as an order placed by a nationally well-known retail group, boosted sales.

In 2014, Zehnder wants to win new customers in the Netherlands for its comfort ventilation systems ComfoAir XL and ComfoSchool as well as for radiators with the launch of Lateo, the new Zehnder product. Sales of clean air products will be heavily promoted via marketing measures.

North America

Growth in the US construction market continued to be subdued. The construction of private residential property sector offered welcome rays of hope. Runtal North

America, for example, exceeded its sales targets for 2013. The Kaizen initiative resulted in production gains, without the need for major investment in production plants.

Growth in North America offered up a mixed picture. While sales in imported comfort ventilation systems continued to increase, business with locally produced ventilation units suffered from the strong competition and high price pressure.

The continuing stagnation in the construction market means that competition will intensify. Zehnder sees growth prospects in the electric radiator market Runtal North America tapped into during the year under review. In addition, 2014 will see training for architects, installers and strategic partners in the ventilation business further intensified.

China

In recent years, the Chinese government introduced a number of measures and guidelines in an effort to cool the overheating construction sector. Nevertheless, Zehnder achieved pleasing growth in the radiator segment. Due to a number of large-volume contracts not materialising, sales in the ventilation segment dropped. Given the bad air quality in China's major cities, Zehnder continues to have sound growth opportunities.

→ The relocation of production from Beijing to the new facility in Dachang was completed successfully.

The relocation of production from Beijing to the new facility in Dachang was completed successfully without any significant business problems or interruption of operations (see Highlights, pp. 6–7). The sale of a property in Beijing contributed to one-off profit.

Eastern Europe

The fiscal environment in Poland hampered business. Tighter regulation of banks led to fewer private loans being granted, which had a negative effect on Zehnder's project business. In addition, the zloty weakened versus the euro, further impacting Zehnder's sales figures. Despite these challenging conditions, sales remained on a par with the previous year's level. Zehnder's market position in the bathroom radiator and comfort ventilation systems for single-family homes segments substantially improved.

→ Zehnder plans further, targeted growth of its business in Eastern Europe.

In Russia and the CIS (Commonwealth of Independent States), the economic climate cooled down in 2013. Interest rates on mortgages were high, and national budgets for infrastructure projects were slashed. Despite this, Zehnder posted markedly higher sales.

Zehnder plans further, targeted growth of its business in Eastern Europe with the main focus being on Poland and Russia as well as the Czech Republic, Slovakia, Hungary and the Balkans.

Belgium

Zehnder was able to win new market shares in both the ventilation and radiator businesses for new builds. This success is directly linked to the establishing of a team of system advisors. Overall, however, sales declined.

Spain

Sales in the ventilation segment picked up noticeably towards the end of the year. Training measures enabled the sales team to further expand its technical knowledge. Nevertheless, sales revenues fell year on year. Cost-cutting measures successfully countered declining sales.

Outlook

The economic environment continues to be plagued by uncertainties, thereby leading to an expected reduction in the volume of new construction projects and a flat trend in renovations. As a result, Zehnder Group expects no growth in the radiator segment in Europe in 2014, while growth in the ventilation segment will continue at a low level. Management expects a modest economic recovery in North America and China in 2014, which will translate into mid-single digit growth. The Group Executive Committee forecasts a modest improvement in operating profit in 2014 compared with 2013 (not including the one-off effect of the sale of the property in China).

The expectations expressed on pp. 2–3 and 12–17 are based on certain assumptions. Should these assumptions later prove to have been incorrect, this would have an impact on these expectations.



Image on previous page



- 1 Jeff Lightizer
- 2 Hector Jimenez
- 3 Narciso Melo
- 4 Yosetty Castillo
- 5 Junior Reyes
- 6 Bill Holland
- 7 Ray Bolger

A big thing

The electric baseboard is a brand new product. Although it looks similar to a water-based radiator, it is in fact a complete electric heating system. The electric baseboard is designed and produced by Runtal and is available in different shapes and sizes. Rigorous research and development efforts continued well into the production phase, as several unforeseen problems needed to be eliminated, such as quiet clicking noises, minor difficulties in production or the fact that devices suddenly switched off after some time.

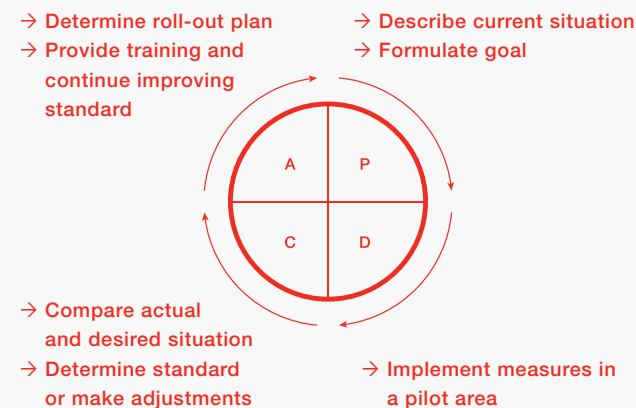
Production, assembly, electrification – the product passed through the entire factory, was worked on by many different people, and potential sources of error lurked everywhere. In order to identify weak points, every individual step was meticulously documented and visualised by a dedicated team of employees. A whole series of tests was carried out until it became clear that one of the sources of the faults lay in a supplier's faulty component. The solution was quickly found, and production continued faultlessly from then on.

Zmile stands for continuous improvement. Because only constant monitoring can turn acceptable results into perfect products, and in the case of the electric baseboards, a heating unit into a long-lasting lifestyle product, ready to take new markets by storm.

Errors are wrong – that much was clear at Runtal in Ward Hill on the US East Coast; and on that basis, the staff there continued optimising the production process for the new electrical baseboards until they were entirely error-free. In this case, Zmile acted as an effective optimisation method, without which this product line would probably not exist in its current form. That would be a shame since this “next big thing” paves the way into new markets for the company.

ZMILE METHOD PDCA Improvement Cycle

PDCA is the acronym for Plan/Do/Check/Act. The PDCA-Cycle is a problem solving method used to bring about continuous improvement.



- 1 An eye to quality: visual inspection of the fins
- 2 Product checking over a range of external conditions in a test chamber
- 3 Systematic control with check lists



Sustainability

Quality is the priority

As modern humans we spend more than 70 percent of our time indoors, which means that a controlled indoor climate is essential for our health and sense of well-being. This is the basis of Zehnder Group's business model.

Our extensive experience and our position as a market leader in the area of healthy and comfortable indoor climate solutions mean that we are excellently positioned to achieve the aims of our sustainable corporate strategy.

Our products combine a high degree of energy efficiency with economic efficiency, proving that our sustainable approach is the right one. At Zehnder Group sustainable corporate management and success on the market go hand in hand, which is why we want to expand and further develop the standard we have achieved, despite increasing market pressure. Given this backdrop, the quality of our products and services is our highest priority.

Sustainable construction remains a trend and the relevant building regulations are continuously being expanded and elaborated. Regulatory frameworks such as the EU Energy Performance of Buildings Directive continue to be our most important guidelines. From 2020 all new buildings in the EU will have to meet ultra-low energy standards, and national standards are gradually being adapted to the EU directive. Our range of energy efficient, healthy and convenient system solutions is therefore very much in line with the market and its overall development.

Employees as the key to success

In 2013 we concentrated on introducing a harmonised IT platform and anchoring the Kaizen philosophy. In SAP we are making a sustainable investment in our future. Several locations are already working successfully with the newly defined processes in SAP, with more locations set to follow suit in the coming years. Besides technology, we are also investing in our employees, the most important factor in our success. We selected 15 employees from across all of our European locations as well as Turkey and the United States, and trained them to become Kaizen coaches. They will help us to further anchor the Kaizen philosophy in our company. Kaizen is a Japanese attitude to life and work that has at its heart a constant striving for improvement. Within the company

we combined Kaizen with our own Zehnder values and principles to create a programme with the inspiring name of Zmile. Zmile topics such as process orientation and the focus on quality and customers are vital to the company's sustainable development.

Innovation remained an important product development driver in 2013. We are continuously and diligently working on ensuring the constant improvement of existing products as well as new, customer-friendly solutions. The increased customer focus of our entire development process means that innovations are more in line with requirements. Training our customers will assume even greater importance in future, with the establishment of a new education and training centre in France marking an important step in this direction.

As previously announced, Dominik Berchtold will be replacing me as Chief Executive Officer in the coming year. As a long-time Zehnder employee who has fulfilled a variety of management functions, Mr Berchtold knows the company extremely well and will ensure the continuation of our long-term corporate strategy.

We look forward to an exciting and successful future in which we can put our strengths and competencies to full use.



Hans-Peter Zehnder
Chairman of the Board of Directors

Introduction

Zehnder Group not only uses sustainable production methods, but also produces sustainable products. When used as recommended, they have a useful life of several decades. This, among other reasons, is why we strive for long-term growth and are convinced that profitability and sustainability are not mutually exclusive.

→ We strive for long-term growth and are convinced that profitability and sustainability are not mutually exclusive.

Living by our values and principles

In 2013 the Group-wide introduction of the values and management principles adopted in September 2011 remained a primary focus. In all subsidiaries within Europe and the US, workshops and training sessions were held for all employees at every level. In each instance the events were introduced by a member of the Group Executive Committee in person, clearly demonstrating the Group-wide importance of our principles. In 2013 the focus was on implementing the values and management principles when working in teams. For instance, concrete objectives in relation to the company's work ethic were elaborated with employees, which will be reflected in their personal annual targets. All employees need to understand how these values and management principles impact on all areas of Zehnder and how they and their line management live by them. The teams will continue to discuss the principles on a regular basis, so that they can continually assess their own behaviour to see where they are able to identify improvement possibilities.

Safety, health, quality

We consistently pursue annual objectives to improve our processes and standards in relation to integrated quality and environmental management. This has led to the quality of processes and products, as well as energy

efficiency being continuously improved; resources being conserved: waste and environmental damage being avoided; and compliance with relevant legal requirements. This constant improvement in quality and environmental performance can only be achieved if our employees have a high degree of individual responsibility.

All major companies in Europe are ISO 9001 and ISO 14001-certified. Our products meet international and local standards. We are active in various networks, which allows us to keep up to date with all new developments and, where necessary, to rapidly adapt our products and innovations. We are a member of the following networks: EVIA (European Ventilation Industry Association), sia (Schweizer Ingenieur- und Architektenverband, issuing body for local norms in the construction industry), DIN (Deutsches Institut für Normung, the German Institute for Standardisation), revha (Federation of 28 European HVAC Associations) and ehi (The Association of European Heating Industry). Zehnder is also represented in the technical committee that develops the Declaration of Performance (DoP) for the EN 422 standard in Europe, which gives us a decisive influence on the standard (see the Environment section for further information on the DoP). In Switzerland Zehnder Group is a founding member of the Sustainable Construction Network Switzerland, which coordinates and supports sustainable construction.

→ Zehnder is also represented in the technical committee that develops the Declaration of Performance (DoP) for the EN 422 standard in Europe.

A further focus in 2013 was industrial safety and the health of our employees. Risk analyses were conducted for most group companies with the help of external experts. The number of accidents was reduced significantly. In

Switzerland a health management programme was initiated together with employee representatives.

Recognition by third parties

We lead the market because our customers appreciate and use Zehnder Group's successful products and solutions. Our innovative capacity means that we constantly achieve recognition at home and abroad. After receiving a special award at the 14th Innovation Award Architecture + Technology at ISH 2013, the new designer heating element Zehnder Vitalo was also voted best product of 2013 by the Plus X Award's distinguished judges. It was also commended in the categories Innovation, High Quality and Design by the international committee of 130 members from 32 countries.

→ **Our innovative capacity means that we constantly achieve recognition.**

The cleverly designed interior structure of the heating element consisting of a copper tube meander embedded in a graphite-filled aluminium honeycomb structure allows optimal, fast-reacting heat dissipation, ensuring high performance and energy efficiency. This combination of innovative components and high-quality materials makes the very low depth of only 16mm possible, making Zehnder Vitalo space-saving and lending an aesthetic lightness to the heating element. The product Runtal Splash won the award of the French Archidesignclub in the category Architecture and Designer Radiators. This is of particular significance as this prize is awarded on the basis of a survey among around 22,000 architects, interior designers, decorators and engineering consultancies. The Runtal Folio also won the IF Product Design Award and the Interior Innovation Award in 2013.

Transparency for stakeholders

When it comes to sustainability, Zehnder Group not only seeks to continually improve, but also to report in a trans-

parent manner. This is why we organise our report in line with our major stakeholders: employees, customers, shareholders, the environment, suppliers and the community. Communicating with stakeholders is a key requirement if we are to meet the challenges of today's market in a sustainable manner. This is why, in accordance with the standards of the Global Reporting Initiative (GRI), we are including our sustainability performance in the annual report for the fourth time this year. We have been assessed and it has been confirmed that we fulfil the GRI's application level C (explanation on page 35). Besides sustainable system solutions for the construction sector, Zehnder Group has set itself a number of other goals related to sustainable corporate management, including service and safety for satisfied customers, safe working conditions for skilled employees, the minimization of our production facilities' environmental footprint, and responsibility towards the community.

Employees

Partnership, trust and respect

Zehnder Group sees itself as an international, family-led and innovative group of industrial companies with a Swiss parent company. As such it offers interesting, challenging positions for motivated employees, who always strive with passion to exceed the expectations of our customers. The relationship between the company and its employees is one of partnership and is based on trust and mutual respect. We have Group-wide, high-level guidelines for recruitment, performance management, remuneration, human resource development, education and executive development. These help us create a healthy and motivating working environment, which supports the highest performance in all areas. We set ourselves the aim of recruiting the best talents, encouraging our employees in their professional development and retaining them within the company. This is in line with our sustainable, long-term corporate philosophy.

→ Zehnder Group offers interesting, challenging positions for motivated employees, who always strive with passion to exceed the expectations of our customers.

At the end of the reporting year, Zehnder Group employed 3,283 people worldwide (2012: 3,135), of which 274 were employed on a temporary basis (2012: 201) and 33 were in training (2012: 33). The regional breakdown of employees in 2013 was as follows: 2,558 in Europe (2012: 2,491), 252 in the United States (2012: 206) and 473 in China (2012: 438). The total share of women employed was 27 % (2012: 20), 10 % in management (2012: 10). Including employees who left due to retirement, the average fluctuation rate was 11 % (2012: 10). Since 2013, employee turnover is tracked on a quarterly basis and appropriate measures are discussed and introduced where necessary.

Employees by function in full-time employment



- Production direct: 1,336
- Production indirect: 338
- Sales and marketing: 894
- Logistics: 204
- Research and development: 127
- Administration and IT: 384
- Total employees: 3,283

Promoting competence

Our employees benefit from numerous internal and external training opportunities and can improve their knowledge and skills in line with their personal and vocational

needs. The programmes focus on: products, knowledge in sales and IT, languages (English in particular), job safety and leadership. Managers and future managers are encouraged and developed under the banner of talent development. In addition, several refresher courses on basic technical knowledge were held at local level in the fields of heating, ventilation and indoor climate to further develop our competence as a systems provider at all levels. In France, the Netherlands and Switzerland, management employees received training in leadership and employee absence management. Employees in the production plants in France were given the opportunity to further develop their skills in a variety of general or technical disciplines. During 2013 the company began to record employees' training hours at Group level for the first time. This data will now be analysed and evaluated.

→ E-learning modules were prepared for the introduction of SAP.

The Zehnder Group Academy continued to focus on the development of e-learning modules in 2013. The experience gained from the use of e-learning for the induction of new employees and managers in Switzerland was very positive. Around 80 of the most senior managers in Zehnder Group successfully completed technical further education courses (radiators, comfort ventilation) with the help of digital media. Seven e-learning modules have been prepared for the systematic roll-out in 2014, five technical modules and two sales modules, in English, French and German. Depending on the level of demand in the various countries, further language versions will be produced in future. E-learning modules were also prepared for the introduction of SAP and the associated training required. The training seminars were integrated into the Zehnder Group Academy at the end of 2013 with an eye to the SAP roll-out.

Based on the positive experiences gained from the talent development management training sessions for new managers carried out in Germany and the UK, we will be repeating these sessions each year. The Group-wide Graduate Trainee Programme, an 18-month programme for graduate entrants, was continued in Switzerland, Germany and the Netherlands in 2013. Those taking part will be employed in Sales, Marketing, Finance and Technology, and the programme equips them with the practical skills they need for their position. We increased our presence at regional education trade fairs and are planning to systematically establish and maintain contacts with local vocational grammar schools and colleges in the vicinity of our branches.

Giving our best with passion

Approximately 95 % (2012: 95 %) of all employees took part in meetings to formulate and agree development and performance targets in 2013. The degree to which these targets have been achieved is assessed at the end of each year and influences the variable salary component. We intend to hold such meetings with all employees in future. To this end an internal training course was developed in 2013 that will mainly be held in countries where target agreements have yet to become standard for all employees.

→ **Zehnder employees are expected to be passionate about making every possible effort to exceed customers' expectations.**

When recruiting, particular emphasis is placed on excellent professional qualifications, sound experience and the personal suitability of potential employees. Whether working alone or in a team, Zehnder employees are expected to be passionate about making every possible effort to exceed customers' expectations. Among other things, regular visits are conducted to technical universities in

Germany and Switzerland to establish contact with the most suitable candidates.

Safety first

Management attaches high importance to occupational safety and employees' health. We place great emphasis not only on complying with applicable law and local regulations, but also on achieving further progress through the in-house exchange of information regarding examples of best practice in order to ensure that we achieve above-average standards. The systematic application of corrective action should make accidents involving absences of a day or more completely avoidable. With these aspects in mind, safety measures are defined, communicated, implemented, monitored and, where necessary, improved by local management. Regular training sessions for employees in the correct use of the machinery they work with are of particular importance in preventing accidents. Overall we recorded 81 accidents at work in 2013 (2012: 84), of which 55 in Europe (2012: 66), 9 in the US (2012: 3) and 17 in China (2012: 15). In 2013 several key indicators were recorded each month to assess occupational safety.

A positive working environment

Preventative healthcare initiatives were taken in a number of Zehnder Group subsidiaries, such as running and cycling groups set up by employees. In Switzerland a course was held on ergonomics at work, while Germany offered low-priced gym memberships and flexible working models. Healthcare days on issues such as back problems, nutrition and addiction are planned in collaboration with the medical officer of the employer's liability insurance association and health insurance companies. In addition to active absence management, we hold regular meetings with employees on preventative healthcare.

To foster a good working environment we have a policy of zero tolerance towards any form of harassment or discrimination. For cases that cannot be resolved locally

there is a special reporting system in which an outside body can be called in. This body consists of a highly experienced former member of the Zehnder Group Executive Committee and Board of Directors. No cases of discrimination were reported in the year under review.

Some subsidiaries, such as the one in Poland, conducted surveys on employee satisfaction in 2013, while France processed the results from the previous year's survey. The Group-wide focus was on the implementation of our values and management principles. Further surveys on employee satisfaction are planned for 2014.

Customers

Long-term, successful partnerships

When it comes to improving our products, our most important sparring partners are our customers. Innovations must produce added value for everyone. The customer experience is the starting point both for the development of new products and for customer contact. Competitive, sustainable solutions try to achieve a balance between customer and product orientation, and innovations need to include these two viewpoints from the outset. Zehnder aims to provide services that are market-oriented and in line with its requirements, i.e. innovations that meet the needs of both today and tomorrow.

→ The customer experience is the starting point both for the development of new products and for customer contact.

We aim to build long-term successful partnerships. Therefore, we at Zehnder devise comprehensive customer solutions that distinguish themselves from the interchangeable products available on the market. When building a house, coherent integrated solutions are needed, rather than individual products that fulfil only one function.

Zehnder Group's main customers are installers. They mainly purchase our products from wholesale outlets and install them for end users, who increasingly have a good knowledge and clear expectations when it comes to planning and product selection. The end users are typically private customers and general contractors, but also include schools, hospitals, airports and public authorities. In order to reach and satisfy our end customers, planners and architects are important partners for us, particularly in the area of heating, ventilation and air conditioning.

From the product idea to the customer

The very first step for any developer is to visualize the customer's experience of using the product. To ensure that the development creates added value that is actually recognised, developers need to consider the entire value chain in their work. Ultimately, all of a product's advantages must be able to be presented to the customer in an easily understandable manner. This presentation is called the value promise or value proposition, and is formulated for every Zehnder Group product.

A core focus for management in 2013 was the improvement of the development process, from initial idea to customer benefit. Each step from value proposition and value pricing; to the value of the product from the customer's perspective; internal and external value training; and branding is systematised and implementation supported.

With all product managers having received training in this context last year, the training was this year extended to sales partners, who must also be able to pass on the message of our products. Only in this way can we earn and retain the attention and loyalty of our customers.

Initial test seminars on value selling consisting of e-learning elements and face-to-face events were held in late 2013.

Customer training

Specific courses are offered at all locations for installers, service technicians, planners and plumbers. These range from short workshops lasting a matter of hours to training courses over several days. Professional customer training sessions are important because they ensure that our systems and products are installed competently and on time. The objectives of these training courses are in particular to impart a basic understanding of ventilation, how to use and install the various products, how they work and where it is appropriate to use devices with a heat recovery function. The number of participants was 11,628 in 2013. Zehnder defined new performance indicators in 2013; these counted customer training sessions in the Group as a whole and measured the success of the training. The introduction of the new method of measurement means that the number of participants in 2013 is not comparable with the previous year's figures.

→ Professional customer training sessions are important because they ensure that our systems and products are installed competently and on time.

The road shows taking place on a regular basis in several countries are primarily targeted at the requirements of architects, planners and tradesmen. The main topics of these seminars are planning, construction, installation and operation of efficient air conditioning systems. Participants benefit from the experts' years of experience and gain valuable insights into innovative solutions for the perfect room conditions, a combination of the highest comfort, efficient energy consumption and low CO₂ emissions.

To meet the individual and diverse needs and requirements, Zehnder attaches great importance to local support. Our field employees maintain regular and direct

contact with installers and other customers so that optimal solutions can be found in specific cases.

To guarantee the safety and quality of all our products they are subjected to extensive function and safety tests in accordance with the European Union's harmonisation rules (CE) before leaving the factory. The internal quality team also performs additional spot checks. Should there nevertheless be complaints, they are registered in the form of a Customer Improvement Notice and discussed soon after in the management teams, following which appropriate improvement measures are introduced immediately.

Customer contact is also our priority when Zehnder takes part in exhibitions and trade shows. In 2013 we exhibited our products and system solutions at the following events, among others: ISH 2013 (Germany), Swiss Minergie Expo (Switzerland), Climat World 2013 (Russia), Expotorre (Italy), Bauen und Modernisieren 2013 (Switzerland), Greenbuild 2013 (US) and the Bau- und Energiemesse 2013 (Switzerland).

Zehnder Comfosystems Cesavent AG is an exhibition partner of the Umwelt Arena in Spreitenbach, Switzerland, in the construction and modernisation sector. The Zehnder products are exhibited in the areas "Building services" and "House of the future". The Umwelt Arena aims to make experiencing and understanding environmentally friendly products and their technology comprehensible to a broader public.

Customer satisfaction

We regularly ask our customers the question: "Will you be recommending us to your friends and colleagues?" We want our customers to not only be satisfied with Zehnder and its products and service, but also to recommend the company and its brands. Such a level of customer satisfaction is a sign of confidence and results from experiences with our products and our service. The Net

Promoter Score® (NPS) that Zehnder collects is an indicator of the quality of its customer relationships. Zehnder conducted a representative NPS survey for the clean air solutions segment. The results of this survey will be available in the second quarter of 2014.

Shareholders

Zehnder Group does not focus solely on maximising its earnings in the short term or on a temporary rise in its share price. It pursues a long-term strategy so it can enhance the value of the company regardless of the economic cycle. This maxim is primarily of importance to our farsighted shareholders, but also for our employees, production locations, suppliers and our customers.

- **Zehnder Group pursues a long-term strategy so it can increase the company's value regardless of the economic cycle.**

Worthwhile long-term participations

Our bearer shares are listed on the SIX Swiss Exchange. Taking all corporate events (such as distributions and splits) into account, it has turned in a negative performance over the last three years, dropping 8 % a year (Swiss Performance Index SPI outperformed by 11 %). Over the past 20 years to the end of 2013, though, the value of the bearer share has increased by an annual 9 % (SPI outperformed by 7 %).

For many years, the company has generally paid out about one third of its consolidated annual results as a dividend.

Regular and open dialogue

We maintain an ongoing open dialogue with our shareholders and other stakeholders on the capital markets. This is primarily the responsibility of the CEO and CFO. Shareholders and other stakeholders can order annual

and half-year reports from us, which are also available on our website along with our press releases and other information. Zehnder Group holds a media and analysts conference at least once a year. Personal presentations and meetings are held with individual shareholders and interested investors as needed.

Investment newspaper "Finanz und Wirtschaft" has assigned our shareholder relationship a grade of B+ (with A being the best grade possible) in the three categories of growth, investor relations and transparency.

Environment

Increasing demand for sustainable products

The importance of sustainable construction continues to grow. This is demonstrated on the one hand by an increasing acceptance of professional recommendations and on the other by statutory requirements.

- **The rising popularity of standards increases demand for products such as those offered by Zehnder Group.**

Standards such as Minergie in Switzerland, LEED in the United States and DGNB in Germany also take into account optimal energy and resource efficiency as well as high quality for users. These guidelines affect both new buildings and renovations or modernisations. Their rising popularity increases demand for products such as those offered by Zehnder Group. The trend includes not only the ventilation and heating segments, but also, for example, the heat exchangers and ceiling cooling panel segments and is in evidence globally. Even in countries with hot, humid climates, the buildings of the future are being constructed in an increasingly sealed manner. They are cooled and dehumidified with suitable products that are significantly more energy efficient than traditional air-conditioning systems.

In its new Construction Products Regulation, the EU will in future require a Declaration of Performance (DoP) for each product. This declaration is a description of the product's essential characteristics including its energy performance, and requires a greater amount of detail than previous descriptions. Zehnder heating elements will carry labels bearing these details from the beginning of 2014.

Open-Innovation as a proven approach

Zehnder's focus is on optimising system solutions and products with a view to reducing their environmental impact as far as possible. Environmental performance is a criterion that is included in the development of every new product. Product life cycle management is currently being further expanded and ecological balance sheets are being created for new developments. This will allow the factors required for a high environmental performance and quality to be identified and measures to be agreed. As in 2012, Zehnder's main focus is on materials. New products must be manufactured in a more energy-saving manner, use less energy to operate, become lighter to make them easier to install, and be more convenient to use and conducive to health. Meeting these diverse needs is a priority for Zehnder when developing products. This is why we work with partners in the construction industry, to find out about our customers' technical requirements and what they expect to pay for products that meet them. This method, called the open innovation approach, has proven its worth. The Zehnder ComfoAir 180 is an example of how to develop a comfort ventilation system that is small, easy to install and is suitable for use in both renovations and new builds.

In the area of cooling, particular progress was made in responding to the needs of the southern European market. The Comfo DEW by Zehnder Group Treviso in Italy combines ventilation and dehumidification not only in heated homes, but also in those that are cooled. This combination guarantees comfortable indoor conditions

regardless of the climatic conditions and is therefore an ideal, energy-efficient solution that maintains a healthy atmosphere in the home.

→ In the area of cooling, particular progress was made in responding to the needs of the southern European market.

The product Vireo was launched in the UK in 2013. This next generation of intelligent comfort ventilation with heat recovery and a fresh-air function was developed by Greenwood Air Management, a British subsidiary of the Zehnder Group. Vireo corresponds to the Zehnder maxim about the best possible customer orientation as its installation requires only eight steps and therefore requires very little time.

Improving production

Our production location in Gränichen, Switzerland, has served as a role model for a number of years by reducing the carbon footprint of its production and following a best-practice approach. Switzerland's first solar vacuum tube collector system, which is directly integrated into our production process and was put into operation in mid 2012, proved its worth in 2013. There are now 400 square meters of solar panels on the roof of our new logistics warehouse, providing between 30 % and 50 % of the energy required for the process and thermal heat in the coating unit. The vacuum tubes generate high temperatures even when sun radiation is low and could, in an ideal scenario, even temporarily power the solar collectors by themselves. This large-scale solar-thermal plant considerably improves and optimises the energy balance of production in Switzerland. This allowed the costs of generating the energy required for the process heat for the coating of radiators to be reduced by over 30 % in 2013, representing a reduction of almost 14.5 tonnes of propane, equivalent to about 18,700 litres of heating oil and in line with expectations. New chemicals

were introduced in the pre-treatment baths in the fourth quarter of 2013. This optimisation meant that the process temperatures of the heated baths could be lowered, which will in future lead to a further 15 % reduction in heating.

→ **Switzerland's first solar vacuum tube collector system, which is directly integrated into our production process and was put into operation in mid 2012, proved its worth in 2013.**

The integrated quality and environmental management ensures secure, efficient production processes at all locations, which, like Gränichen, are striving for more environmentally friendly production and a continuous improvement of working conditions.

Proprietary products put to use

In the production plants in Boleslawiec in Poland, for example, dust emissions were reduced by 40 % year-on-year thanks to improved ventilation and the use of Zehnder Clean Air Solutions. This resulted in a reduction in the number of workplaces where employees need to wear face masks. Improvements in galvanic production processes led to the bath life of the chrome-plating facility being extended by more than 50 %, a reduction in chemical consumption of around 36 % and a reduction in water use of 15 % compared with 2012. Furthermore, optimisations in the coating process led to a reduction in petrol consumption of 5 % per unit. Since mid 2013, waste has been separated and disposed of in an environmentally friendly manner in Poland. Six vehicles were also replaced by highly efficient diesel vehicles. The use of solar panels to heat water in the office buildings has proven its worth. In Zwolle in the Netherlands, cardboard packaging is increasingly being replaced with reusable packaging for deliveries between Zehnder and its suppliers.

In the UK all waste is now recycled following a switch to a different refuse collection company. In addition, there is an increase in the sharing of company cars and the use of low-energy light bulbs. This reduces emissions and saves energy.

Suppliers

Innovative supplier base

When evaluating suppliers, Zehnder Group places emphasis on reliable, innovative partners with high quality standards. Our global purchasing strategy is constantly evolving and innovations are implemented in stages. For instance, a purchasing radar was introduced in 2013. This is a management tool that can be used by each business unit to determine its most important improvement initiatives for the year. During the same period, supplier evaluation was introduced and the roll-out of purchase strategies extended to B class materials.

The objective of supply management is to establish an IT-based high-quality information base that allows the cost structure to be optimised and which incorporates our sustainability and innovation requirements. The reliability of our suppliers is key if we are to ensure customer satisfaction and the quality that we require of our products. Selecting suppliers is based on criteria such as quality, reliability of supply and optimisation of total costs (Total Cost of Ownership). The introduction of SAP will allow us to establish our requirements more systematically and demand improvements where necessary. Product logistics continues to be a top priority. Aside from in the UK and France, Zehnder Group has practically no vehicles of its own. Logistics is almost completely outsourced.

Strategic relationships

Zehnder Group maintains business relationships with around 2,000 suppliers (2012: 2,100), mainly from the steel, electrical and plastics industries. The total material costs for 2013 were EUR 185 million (2012: 186). Steel is

Environmental Performance of Zehnder Group^[1]

		Unit	2013	2012
Energy	Total energy consumption	MWh	110,112	138,865
	Energy consumption per employee (FTE) ^[2]	MWh	33.5	44.3
	<i>Energy, direct</i>			
	Natural gas ^[3]	MWh	33,589	27,953
	Coal and propane	MWh	22,745	55,187
	Heating oil	MWh	3,617	4,162
	<i>Energy, indirect</i>			
	Electricity	MWh	47,121	48,024
	District heating	MWh	3,040	3,539
Water	Total water consumption	m ³	265,298	284,950
	Water consumption per employee (FTE) ^[2]	m ³	80.8	90.9
	Drinking water for sanitary installations	m ³	33,234	29,729
	Industrial water for production processes	m ³	232,064	255,221
Waste	Total waste	t	5,995	7,576
	Waste per employee (FTE) ^[2]	t	1.8	2.4
	External recycling ^[3]	t	4,520	5,969
	Non-hazardous and non-recyclable waste ^[4]	t	962	1,133
	Hazardous waste ^[5]	t	513	474

[1] Zehnder Group's environmental monitoring is continually being enhanced; individual data points are not yet available for all Group companies; further information is available in the GRI web index

[2] FTE (Full Time Equivalent) = full-time jobs

[3] Steel, aluminium, copper, plastics, cardboard

[4] Incineration or landfill

[5] E-waste, chemical waste, solvents, filter dust, filter mats, powder

[6] as a result of improved data quality, the 2012 figure for natural gas has increased

the leading material category, accounting for 19 % of expenditure. The other main material categories are motors and fans, sheet metal and aluminium.

All products intended for further processing are managed according to a specifically defined strategy. These strategies and their implementation are discussed and optimised at regular Group-wide meetings. Negotiations with suppliers, for example for steel, are held for the entire Group and regular meetings take place between all European purchasers and strategic suppliers. Having a local presence and short communication and delivery channels are important to us. This proximity is beneficial in terms of communication as well as the maintenance of long-term relationships with our business partners. And so, wherever possible, we always invite local suppliers to submit a bid. Over 75 % of the suppliers Zehnder Group works with around the world are based in Western Europe. Suppliers in Asia account for a 7 % share of the total purchase volume (of which 52 % come from China).

To ensure that our most important suppliers share our values and principles, we require them to complete a questionnaire in which, among other things, they commit to avoiding the use of child labour and to abiding by environmental standards. We ask that our business partners are ISO 14001-certified and that they handle pollutants in a responsible manner. Following a test period, we recently started to also carry out our own audits at suppliers. In 2013 we carried out audits in Switzerland, Germany, the Netherlands, France and Italy.

Community

Responsible player

For Zehnder Group and all its companies, maximum customer orientation; leadership on issues within the industry; professional and ethical behaviour in the market and with our employees; and a strong attachment to our locations around the world form part of our identity as a responsible player in society.

At the company's headquarters in Gränichen, Switzerland, Zehnder Group has for more than 100 years been regarded as a reliable employer with a long-term perspective. Through its investments in recent years, most recently in the form of the integration of solar process heat for a production facility (see "Improving production" section), Zehnder is constantly renewing the Group's commitment to Switzerland. In addition, Zehnder is involved with local sports and cultural associations and organisations. As a main sponsor of FC Aarau, Zehnder is above all supporting young people. Among others, it also supports FC Gränichen, EHC Olten, the BMC Racing Cup Gränichen, Openair Gränichen and the voluntary organisation Nez Rouge, which is dedicated to the cause of preventing road accidents.

→ For Zehnder Group and all its companies, professional and ethical behaviour in the market and with our employees forms part of our identity as a responsible player in society.

As in Gränichen, Zehnder's production facilities are valued as an employer outside Switzerland, where our presence is especially welcomed in economically less developed locations such as Vaux Andigny, France, and Buffalo, USA. We believe that having knowledge of the local market is important. That is why we always try to hire local people for senior management positions. Almost all our business unit heads come from the country in which the company is located.

Correct conduct

The Code of Conduct is applicable Group-wide and sets out clear rules on such issues as the environment, health and safety, compliance, fairness and acting in the best interests of the company. Employees are required to sign it along with their employment contract. Strict adherence

to the Code of Conduct is monitored and is supported and promoted through regular training seminars.

→ The Code of Conduct is applicable Group-wide and sets out clear rules on such issues as the environment, health and safety, compliance, fairness and acting in the best interests of the company.

Every three years, the entire top management attends a training session on anticorruption guidelines. Every five years, each business unit is subjected to a compliance review to ensure the ethical conduct of its employees. So far no case of corruption has been identified. Furthermore, Zehnder Group has never been involved in proceedings arising from any violation of competition laws. In the reporting year there were no significant fines or non-financial penalties for infringements of any laws or regulations.



Statement GRI Application Level Check

GRI hereby states that **Zehnder Group** has presented its report "Annual Report 2013" to GRI's Report Services which have concluded that the report fulfils the requirement of Application Level C.

GRI Application Levels communicate the extent to which the content of the G3 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3 Guidelines. For methodology, see www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 21 February 2014

Nelmaria Arbex
Deputy Chief Executive
Global Reporting Initiative



The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. www.globalreporting.org

Disclaimer: Where the relevant sustainability reporting includes external links, including to non-financial material, this statement only concerns material submitted to GRI at the time of the Check on 21 February 2014. GRI explicitly excludes the statement being applied to any later changes to such material.

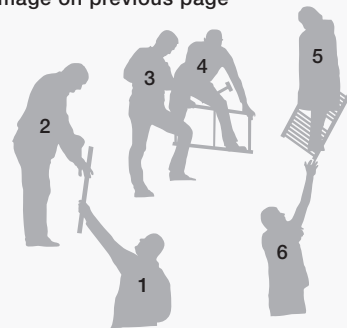
SPAWANIE
Welding
Menedżer: Dariusz Kopeć

LUTOWANIE
Furnace brazing
Menedżer: K...



We all need a little fun. It may sound a cliché, but it is actually a valid formula for success and is one that also applies to Zehnder Group. Fun and joy are contagious; motivation is a prerequisite for good work. This is why the Polish site in Bolesławiec set about perfecting the brazing process in their radiator production with enthusiasm. The result?: Products of first-class quality and higher productivity during production.

Image on previous page



- 1 Piotr Różyło
- 2 Zbigniew Waśniewski
- 3 Grzegorz Kowalczyk
- 4 Tadeusz Oleksy
- 5 Lucyna Zienkiewicz
- 6 Dariusz Kraśnicki

Improving process flow with a Zmile

The furnace brazing process is part of the most important production line at Zehnder Group's Polish site. Although only a few employees work on the 60-metre-long production line and the work is not technically very difficult, there was potential for process improvement. Material flow is a key factor in the production process. A fast moving conveyor loaded with semi-finished goods of variable geometry allows little time for any tool change and means that even a small manipulation of the product quickly accumulates to a big effort. Thanks to the Zmile programme, opportunities to optimise the system were identified. Suggestions for improvement were developed as a team and the process was then rebuilt step by step. Exchanging tools was made easier, the workplace was reorganised and the production line

was straightened. Thanks to value stream design (VSD), the process was made faster and productivity increased. The work is now also physically easier for the employees to perform, which means that the measures taken also constitute to improvement in terms of health and safety. Another reason to Zmile.

As early as 2011, Zehnder Bolesławiec was the first Zehnder Group location to start realising improvement measures using Kaizen. Motivation was a big issue from the beginning, because people are the most important part. We all need to have fun to do good work, and success should be celebrated – of that we are convinced.

ZMILE METHOD

VSD

(Value Stream Design)

Value stream design is a Lean Management method to analyse the flow of information and material through a process in order to optimise the added value for the customer. The method was originally used by Henry Ford and perfected by Toyota.

- Agree the current state map with everyone involved in the process
- Eliminate MUDA (waste) where ever possible
- Agree on and define the future state map
- Implement the future state map



2



- 1 Improved flow with value stream design
- 2 Fewer process steps due to innovative cap design
- 3 Improved flow leads to higher productivity

2013

Corporate Governance

Introduction

This Corporate Governance report contains the disclosures required by the Corporate Governance Directive issued by SIX Swiss Exchange effective as at 31 December 2013 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 42 to 47 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 89 to 91 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 103. There are no cross-shareholdings.

Capital structure

For details regarding the capital structure please refer to note 3 of the notes to the individual financial statements of Zehnder Group AG on page 97 of the annual report and to the consolidated statement of changes in equity on page 63 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 bearer shares listed on SIX Swiss Exchange with a nominal value of CHF 0.05 each (a total of CHF 487,800), and 9,900,000 unlisted registered shares 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 bearer shares have a 49,6 % share of the votes and

account for 83,1 % of the share capital, the registered shares a 50,4 % share of the votes and 16,9 % of the share capital. The dividend per registered share is one fifth of the dividend per bearer share.

For additional information on shares please refer to our website [2]. There are no profit sharing certificates. There are no limitations on the transferability of bearer shares. There are no convertible bonds outstanding.

With regard to options granted, please refer to the disclosure of compensation and shareholdings in the individual financial statements of Zehnder Group AG on page 98ff of the annual report.

Board of Directors

Election and period of office

The articles of association lay 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 three years. Re-election is permissible.

At the general meeting of shareholders there is a separate vote on the election or re-election of each candidate.

The current members of the Board have held office as follows:

	first elected	period expires
Hans-Peter Zehnder	1988	2014
Thomas Benz	1993	2014
Urs Buchmann	2010	2016
Riet Cadonau	2013	2016
Enrico Tissi	2005	2014

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 two weeks in advance. In 2013 the Board met five times, in January, March, April, September, October (in 2012 five times: January, March, April, June, November). The meetings lasted between half a day and two days. In addition the board held two telephone conferences in June and November which lasted one and a half and one and three quarter hours. 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.

The Board is supported by a compensation committee, made up of three non-executive, independent Board members. The Board appoints the members of the compensation committee and its chairman. The members of the compensation committee are: Thomas Benz, chairman; Urs Buchmann, member; Enrico Tissi, member. The compensation committee has its own regulations, approved by the Board. With regard to the members of the Group Executive Committee and the executive members of the Board it is responsible for proposing the compensation policy to the Board, for determining the various components that make up total compensation, for approving employment contracts and for defining the conditions governing early termination of contract. Moreover, it determines the fees and all other compensation for the chairman of the Board. It proposes compensation for the other Board members. Every year the compensation committee examines the compensation paid to all

Group managers. In 2013 it held two meetings (2012: three meetings).

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 bye-laws. For the articles of association and for the bye-laws 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 analysed once a year and appropriate measures decided.

[3] → www.zehndergroup.com/corporate-governance-en

Board of Directors (Status 1.1.2014)

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

→ f. l. r. Urs Buchmann, Thomas Benz, Hans-Peter Zehnder, Enrico Tissi, Riet Cadonau



Hans-Peter Zehnder	Member of the Board, Chairman	until AGM 2014
Thomas Benz	Member of the Board, Deputy Chairman	until AGM 2014
Urs Buchmann	Member of the Board	until AGM 2016
Riet Cadonau	Member of the Board	until AGM 2016
Enrico Tissi	Member of the Board	until AGM 2014
Hans-Jakob Zehnder	Honorary President	
KPMG AG	Auditors	

Hans-Peter Zehnder

Swiss citizen, born 1954

Executive member, Chairman and Delegate of the Board (since 1993). For career details, please refer to the disclosure on page 45.

Thomas Benz

Swiss and German citizen, born 1947

- Non-executive member
- Chairman of the compensation committee
- Degree in electrical engineering from ETH (Swiss Federal Institute of Technology), Zurich
- 1972–1973 Guardian Electric, Chicago, USA
- End 1973 joined Zettler GmbH, Germany
- 1977–1996 managing partner of Zettler GmbH, Germany
- Since 1997 managing partner of CG International, Germany
- Since 1974 member of the Bavarian Metal Working and Electrical Industry e. V., Germany
- Since 3 May 2011 Deputy Chairman of the Board of Warema Renkhoff SE, Germany
- At no time was he a member of the Group Executive Committee of Zehnder Group AG or of any of its subsidiaries
- He has no significant business relations with Zehnder Group AG or with any of its subsidiaries

Urs Buchmann

Swiss citizen, born 1957

- Studied law (doctorate) at the university of Bern
- Non-executive member, member of the compensation committee
- Long-term career in corporate investment banking in Asia
- Currently head of Corporate & Institutional Clients Asia Pacific 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

Riet Cadonau

Swiss citizen, born 1961

- Non-executive member
- Master of Arts in economics and business administration from the University of Zurich, Switzerland
- Advanced Management Program at INSEAD, France
- 1990–2001 various management positions at IBM Switzerland, lastly as a member of the Management Board and Director of IBM Global Services
- 2001–2005 member of the Executive Board of the Ascom Group, from 2002 Deputy CEO and General Manager of the Transport Revenue Division, which was acquired by ACS in 2005
- Until 2007 Managing Director ACS Europe + Transport Revenue
- 2007–2011 CEO Ascom Group, Switzerland
- Since 1 July 2011 CEO Kaba Group, Switzerland

Enrico Tissi

Swiss citizen, born 1946

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

Hans-Jakob Zehnder

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 1.1.2014)

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

→ f. l. r. Cyril Peysson, Josef Brügger, Dominik Bächtold, Hans-Peter Zehnder, Stephen Grao, Jürg Ammann



Hans-Peter Zehnder	Chairman, North America/China
Dominik Bächtold	CEO designate, Sales Switzerland & Nordic
Jürg Ammann	Operations Europe
Josef Brügger	Finance, Controlling and IT
Stephen Grao (until 13.1.2014)	Americas/Asia-Pacific/International & UK
Cyril Peysson	Sales Europe/Middle East/Africa (EMEA)

Hans-Peter Zehnder
Chairman of the Group
Executive Committee

- Studied economics (doctorate) at the University of St. Gallen, Switzerland
- 1981–1984 Gebr. Bühler AG
- 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
- Since 1993 chairman of the Group Executive Committee
- Member of the board of directors of AZ Medien AG, Switzerland; R. Nussbaum AG, Switzerland; Lagerhäuser der Centralschweiz AG, Switzerland; and Rouge + Blanc Holding AG, Switzerland

Dominik Berchtold
Swiss citizen, born 1971

- Degree in business administration from the University of Freiburg i. Ue., Switzerland
- Executive master of corporate finance from the Institute of Financial Services IFZ, Zug, Switzerland
- Advanced Management Program INSEAD, Singapore
- 1996–1997 finance and marketing assistant at Exsa, Peru; Cervetur, Peru; and Linde, China
- 1997–2005 various management positions in finance and controlling at Pilatus Aircraft Ltd., Switzerland; and Transairco S. A., Switzerland
- 2005–2006 manager corporate restructuring at KPMG, Switzerland
- 2006–2008 director business development Zehnder Group
- Since 2008 member of the Group Executive Committee of Zehnder Group (until end of 2012 Chief Financial Officer, as of 1 January 2013 CEO designate, Sales Switzerland & Nordic)

Jürg Ammann
Swiss citizen, born 1958

- Degree in mechanical engineering and Doctor of Philosophy in Industrial Engineering from ETH (Swiss Federal Institute of Technology), Zurich
- 1984–1985 scientific assistant at the Institute for Lightweight and Aeronautical Structures, ETH Zurich
- 1985–1988 system engineer, Hewlett Packard
- 1988–1994 consultant, Stiftung BWI
- 1995–1996 assistant to the CEO, Systor AG
- 1996–2001 senior consultant and skill group manager, Cap Gemini Ernst & Young
- 2001–2011 chief information officer and head Multiclient Products, Siegfried Ltd.
- Since June 2011 member of the Group Executive Committee of Zehnder Group (head of Operations Europe)

Josef Brügger
Swiss citizen, born 1960

- Business diploma, Fribourg, Switzerland
- Bachelor of Science in business administration from Bern University of Applied Sciences, majoring in accounting, 1986, Berne, Switzerland
- 1979–1983 Various positions in the field of accountancy in industrial and trust companies
- 1987–1988 Controller of Group accountancy, Gebrüder Sulzer AG, Winterthur, Switzerland
- 1988–1993 CFO / Controller, Sulzer Plasma Technik, Inc., Troy, USA
- 1993–2001 Head of finance and administration (accountancy, HR, IT, logistics), Sulzer Metco AG, Wohlen, Switzerland
- 2001–2012 Head of Shared Service Center Switzerland, Zehnder Group International Ltd, Gränichen, Switzerland
- Since 2013 member of the Executive Committee of Zehnder Group (Chief Financial Officer)

Stephen Grao
British citizen, born 1960

- BA from Loughborough University, UK
- MBA from Cass Business School, London, UK
- Master of Business in China/Asia Business Strategy from the University of South Australia
- 1982–1983 marketing assistant at OCP SA, France
- 1984–1999 various management functions in Europe and Asia for Thorn PLC, UK
- 1999–2003 responsible for the North and South American operations of Philips Lighting, Netherlands
- 2004–2006 various international management positions at CompAir Group, UK
- From 2008 until 13.1.2014 member of the Group Executive Committee of Zehnder Group (Americas/Asia-Pacific / International & UK)

Cyril Peysson
French citizen, born 1965

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

Group functions (Status 1.1.2014)

Jürg Ammann a.i.	Group Logistics
Jürg Ammann a.i.	Manager Business Segment Radiant Heating and Cooling
Franz Furrer	Group IT
René Grieder	Group Controlling
Felix Heldstab	Group Purchasing
Peter Krantz	Manager Business Segment Clean Air Solutions
Erhard Krumpholz	Group Intellectual Property
Thomas Mathys	Group Finance
Cyril Peysson	Manager Business Segment Radiators
Jean-Marie Schmid	Group Marketing
Thomas Schumann	Group Technology
Stefan Wiesendanger	Manager Business Segment Comfosystems
Markus Zbinden	Group Human Resources

Sales Europe (Status 1.1.2014)

Erwin Crommelynck	Sales Belgium
Jiri Stekr	Sales Czech Republic
Elisabeth Bardet	Sales France
Jean Pierre Boscher	Acova
Eric Le Corre	Zehnder
Elisabeth Bardet a.i.	Comfosystems
Donat Feser	Sales Germany and Austria
Lothar Gildenast	Radiators
Michael Himmelsbach	Radiant ceiling panels and Clean Air Solutions
Heiko Braun	Comfosystems
Oliver Bock	Sales International
Paolo Masetti	Sales Italy
Rossella Bonfanti	Radiators
Odoacre Oriani	Comfosystems, Radiant ceiling panels and Clean Air Solutions
Erik van Heuveln	Sales Netherlands
Jerzy Stosiek	Sales Poland
Vitaly Gritsenko	Sales Russia
Peter Krantz	Sales Clean Air Solutions Scandinavia

José Ramón Ferrer	Sales Spain
Alois Bachmann	Sales Switzerland
Romano Roller a.i.	Sales Turkey
Tony Twohig	Sales UK & Ireland
Allan Jones	Retail Radiators
Tony Twohig a.i.	Commercial Radiators and Radiant ceiling panels
Mike Kemball	Comfosystems

Development and Production Europe (Status 1.1.2014)

Roland Diethelm	Production Gränichen/CH
Herbert Oettle	Production Lahr/DE
Michael Pitsch	Paul Wärmerückgewinnung, Reinsdorf/DE
Robert Cahill/Thierry Baschet	Production Châlons-en-Champagne/FR
Thierry Baschet	Production Vaux Andigny/FR
Paolo Masetti	Production Vedelago/IT
Olaf Schulte	Production Zwolle/NL
Tomasz Juda	Production Boleslawiec/PL
Carry Turesson	Production Motala/SE
Orçun Özelmas	Production Manisa/TR
Conrad Thrower	Production Lenham/UK

North America/China (Status 1.1.2014)

Zhangeng Guo	Sales and Production Zehnder China
Chunlin Jin, Yitao Jin	Sales and Production Nather China
Wesley Owens	Sales and Production Runtal USA
Scott A. Pallotta	Sales and Production Zehnder-Rittling USA

Disclosure of compensation

Principles

Zehnder Group's employees are the company's greatest asset. There would be no entrepreneurial success without their full commitment and their continued energy. Consequently, the objective of the compensation policy is to recruit qualified employees, and to retain those already working.

The most important principles are

- Rewarding sustainable performance in relation to comparable and relevant markets
- Participating in the company's success
- Assuring internal equality
- Balancing short-term and long-term compensation

Fixed basic salary

The fixed salary is determined on the basis of the functional responsibility level in the company, the scope and impact of the function, as well as the employee's experience and skills. This fixed part of the compensation package is reviewed annually. Salary adjustments reflect individual performance, salary history, internal compensation practices, and market salary trends.

Short-term variable compensation

Short-term variable compensation is designed to allow Zehnder employees to participate in the current success of the Group on the basis of their personal contribution and the Group targets achieved.

Long-term compensation

Acquired shares

The Zehnder Group Management Share Plan (ZGMSP), a long-term, globally consistent compensation programme, was designed for the management of operating units and at headquarters. Depending on the management level, participants may take between 10 and 15 % of their annual cash compensation in the form of company bearer shares. The bearer shares are sold with a

30 % discount on the purchase price and are subject to a three-year restriction period.

Allocated options

The options plan was repealed as of 1 January 2012. According to the regulations, the rights to exercise options from the plan continue to exist until 2019.

Other employee benefits

Other employee benefits are country-specific and structured in accordance with local practice and are in line with local legal requirements.

Content and procedures for determining compensation for the Board of Directors and the Group Executive Committee, and participation in shareholding programs

Upon the request of the compensation committee, the Board of Directors periodically determines the compensation for its members. This fixed compensation is made up of a fee and an expense allowance. Half the fee is paid in bearer shares, which are allocated at a 30 % discount. The bearer shares are subject to a three-year restriction period.

The compensation committee of the Board, made up of three non-executive members without vested interests, determines the compensation structure for the Group Executive Committee and for executive members of the Board; it ensures that the compensation structure is complied with. Total compensation is made up of a basic salary and a profit-related, short-term variable salary. The variable compensation is paid out in the following year. It is calculated using a fixed formula based on the disclosed net income for the year and the individual targets reached. Moreover, in cases of exceptional performance, the Board may at its discretion pay out an additional bonus to the Group Executive Committee.

Overall compensation is in line with that paid in comparable industrial companies headquartered in Switzerland and is intended to allow recruitment and retention of the highly qualified personnel necessary for the success of the company. There are no agreements with regard to severance compensation.

Members of the Group Executive Committee may take 20 % of their compensation in the form of bearer shares. The ZGMSP (Zehnder Group Management share plan) regulation to this effect was approved by the Board of Directors.

Notice periods for employment contracts and severance compensation

For members of the Group Executive Committee in particular, the notice period is at least six months. For persons who have been in the Group Executive Committee for more than five years the notice period is nine months, and for more than 10 years it is 12 months. There are no agreements with regard to severance compensation in connection with leaving the company or if there is a change in the majority shareholder.

Shareholders' participation

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

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. 8 of the company's articles of association.

Auditors

KPMG AG, Basle, 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 cor-

responds 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 926,000 for auditing individual accounts and the consolidated financial statements. EUR 549,000 of this total was paid to the KPMG group.

A total of EUR 1,206,000 was charged for taxation and legal services throughout the group. Of this, EUR 61,000 was paid to the KPMG group. In the reporting year further consulting services were purchased from the KPMG group in the amount of EUR 117,000.

KPMG AG, Basle, holds regular meetings with the chairman of the Board of Directors of Zehnder Group AG. KPMG meets with the entire Board at least once a year. At these meetings KPMG presents significant information on the financial statements of the companies audited.

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 in printed form and on the Internet under our website [5], which 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.

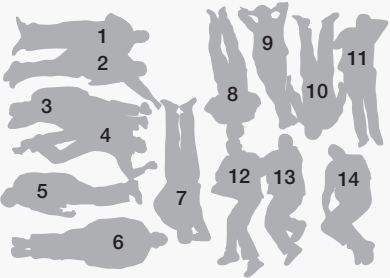
Additional information including the company calendar is set out on page 109 of this annual report.

[4] → www.zehndergroup.com/corporate-governance-en

[5] → www.zehndergroup.com/reports-presentations



Image on previous page



- 1 Petscher Jörg
- 2 Ljatifi Ramadan
- 3 Uslu Hasan
- 4 Bucche Narayan
- 5 La Placa Calogero
- 6 Meier Felix
- 7 Tishuki Fehrik
- 8 Küng Willy
- 9 Lehner Peter
- 10 Banovci Fadil
- 11 Glavic Franjo
- 12 Nguyen Phuc
- 13 Callakaj Tahir
- 14 Schmid Jakob

Everything in order

Although things were far from disorderly before, Zmile showed that there is always potential for improvement. This led to the implementation of 5S, a methodology used to increase efficiency, in the RX radiator production unit, which involved ensuring that working areas are safe, clean and clearly laid out. In a first step, the team was informed of the plan and process facilitators trained. The second step was all about working together to identify opportunities for improvement before tackling them head on. This meant sorting out, tidying and cleaning. Working materials and tools were arranged on shadow boards. Walkways and storage areas were questioned; redefined and repositioned using appropriate markings on the ground. It may not have resulted in a completely new layout, but it did bring new order into the space, and means that tools are now more easily accessible, communication routes are shorter and processes more structured. Everything runs more smoothly, which saves valuable time.

By making work places tidier, Zehnder was able to reduce the production costs per radiator and significantly increase productivity in the area of RX. In the eyes of the initiators, this success was largely down to the great collaboration within the team. The whole team threw themselves into the task and their can-do attitude meant that a great deal was achieved.

ZMILE METHOD 5S

5S like MUDA (waste) is a key concept from Japanese production principles. Repetition is need for success.

→ Sort out (Seiri)

Everything that is not needed to work at this place is sorted out.

→ Straighten (Seiton)

What is needed regularly is given a defined ergonomic and identified location.

→ Scrub (Seiso)

The workplace is thoroughly cleaned. Any defects discovered (cleaning is checking) are identified and corrected.

→ Standardise (Seiketsu)

The new standard is described and taught. The following criteria need to be

considered: Equipment, material, location, labelling, cleaning, management, frequency, responsibility, safety out.

→ Sustain & self-discipline (Shitsuke)

Discipline is necessary to ensure that orderliness and cleanliness are maintained. The status needs to be regularly checked and improved where appropriate, to ensure success.

The question whether orderliness is an inherently Swiss trait or not may be open to interpretation, but nobody can deny that a certain sense of order does prevail in Zehnder Group's tranquil home country. And that's a good thing. After all, you need a clear overview to truly recognise progress – a premise confirmed by the production of RX radiators at Zehnder's main site in Gränichen, Switzerland.



1



2



3

- 1 Higher safety and less searching time with an area to hang up belts
- 2 Floor markings for clear rules or what is allowed where
- 3 A place for everything and everything in its place with shadow boards

Glossary

Air distribution

→ The quality of the air indoors is crucial to our wellbeing and health. An air distribution system takes the fresh air prepared in the ventilation device to the consumer and returns the waste air full of odours and moisture to the unit. In terms of their easy and safe installation and of hygiene (cleaning), our solutions make us market leaders.

Clean air

→ The limit values applying to fine dust in exterior air are often greatly exceeded indoors. Our clean air devices use unique special filters to filter fine dust out of the indoor air and are usually used in an industrial setting (logistics, production, food-stuffs industry). They allow our customers to cut cleaning costs, improve product quality and protect their employees' health.

Comfort

→ Comfort is a state of well-being but is also applied to user-friendly products. A good indoor climate creates feelings of comfort. Good products and systems are simple to install and easy to handle. It follows that comfort is a result of simplicity in planning, ordering, assembly, service, product operation, functionality, longevity and reliability, as well as low maintenance requirements.

Convection and radiation

→ A radiator gives off heat through convection and radiation. Convection needs a medium (for example air) to transport the heat, whereas radiation does not. Thermal radiation passes through the air in the room unhindered, but is absorbed by objects and people or reflected by metallic surfaces. The combination of convection and radiation produces the total thermal output.

Cooling with radiators

→ In principle, radiators can also be used for cooling purposes. The principles of radiation and convection can also cool rooms. Thanks to their increased heat transmission, so-called fan coils are particularly well suited to cooling applications. The same applies to radiation heaters, for example radiant ceiling panels, where the room gives off heat to the cool radiation surface.

Energy efficiency

→ Energy efficiency is the ratio between energy output and energy input. An energy-efficient indoor climate calls for efficient heating and cooling, temperature controls, a ventilation control system and the use of renewable energy. The degree of energy efficiency is influenced by many other factors, such as thermal insulation, airtightness and a sun-protected building envelope. Highly airtight buildings require automatic ventilation.

Enthalpy exchangers

→ A thermal recovery unit fitted with an enthalpy exchanger also transmits moisture through a membrane. This allows our devices to enhance system efficiency further by using latent heat, and to improve comfort levels by avoiding situations where the air is too dry or too damp.

Health

→ Health is a state of physical, mental and social wellbeing. Among the many factors which influence our health, our environment clearly plays a major role. Consequently, as we spend more than 70 % of our time indoors, the quality of this environment is decisive. Moreover, the freshness and quality of the air around us, as well as the odours, dust, pollen, vermin, humidity, air circulation, room temperature and noise level impact strongly our health.

Heat pumps

→ Heat pumps use the natural energy in our environment to heat rooms and water. They function in the same way as a refrigerator. Heat is taken from a low to a high temperature level. Just as a refrigerator gives off heat from the cool unit to the warmer room, heat from the earth or exterior air is fed into the indoor heating system. The system uses a refrigerant which vaporises in the cool area, is compressed

sed via a compressor and then gives off heat when it condenses again at a higher temperature. The brine/water heat pump integrated in Zehnder's ComfoBox 5 uses the most efficient principle for indoor heating.

Low-temperature radiators

→ Radiators with a flow temperature of less than 50 °C are known as low-temperature radiators. They are also suited for use with heat pumps at even lower temperatures or with condensing gas burners.

Radiant ceiling panels

→ Radiant ceiling panels are as close as we can get to mimicking the way heat is given off by the sun. Our radiant ceiling panels are used wherever convection heating is not economically viable or where the enhanced comfort of air not circulating is appreciated, for example in large indoor areas, and increasingly also in offices.

Radiators

→ A radiator transfers heat from a heating medium (usually water or, in electric radiators, oil) to the environment (usually air) to produce and maintain the desired room temperature. Within only a few days we supply our customers with customised designer radiators directly to their chosen site.

System supplier, system-based business

→ Alongside our traditional component-based business, we are increasingly supplying customers with complete systems combining heating, hot water preparation, ventilation and cooling. This guarantees installers and our end customers a reliable system for an optimal indoor climate with regard to comfort, health (allergies) and energy efficiency.

Thermal comfort

→ Thermal comfort is key to ensuring a sense of cosiness in a room. Apart from clothing and human activity, it depends on room temperature, relative air humidity, air speed and the temperature of the surfaces enclosing the room.

Thermal recovery, thermal recovery unit

→ Our thermal recovery units transfer up to 95 % of the energy of warm, used indoor air to the cold, fresh exterior air. The performance levels reached (ratio between useful heat and electricity used) clearly exceed even those of the best heat pumps for indoor heating. They also filter out harmful pollen and dust from the air and reliably prevent mould forming indoors.

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Zehnder Group AG

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Five-year Overview

		2013	2012	2011	2010	2009
Net sales	EUR million	522.4	523.8	515.4	475.9	436.5
change from prior year	%	-0.3	1.6	8.3	9.0	-3.9
of which Radiators	EUR million	345.8	349.4	348.2	335.1	317.8
change from prior year	%	-1.0	0.3	3.9	5.4	-8.1
of which Ventilation	EUR million	176.7	174.3	167.1	140.8	118.7
change from prior year	%	1.3	4.3	18.7	18.7	9.7
EBIT^[1]	EUR million	32.3	38.5	51.1	50.4	43.0
change from prior year	%	-16.0	-24.7	1.3	17.3	27.6
	% of net sales	6.2	7.3	9.9	10.6	9.9
Net income^[2]	EUR million	18.2	26.8	41.1	38.2	33.4
change from prior year	%	-32.0	-34.7	7.4	14.5	1,092.9
	% of net sales	3.5	5.1	8.0	8.0	7.7
Net income before depreciation & amortization^[2]	EUR million	37.4	45.1	58.9	55.8	51.9
change from prior year	%	-17.1	-23.4	5.4	7.6	30.4
	% of net sales	7.2	8.6	11.4	11.7	11.9
Investments in property, plant & equipment	EUR million	35.1	37.3	34.9	20.0	24.5
Depreciation & amortization	EUR million	19.1	18.2	17.8	17.6	18.5
Total assets	EUR million	412.6	407.3	406.0	378.4	352.5
Fixed assets	EUR million	183.8	177.7	160.1	141.4	128.5
Shareholders' equity^[2]	EUR million	255.5	247.6	239.7	217.4	182.0
	% of total assets	61.9	60.8	59.0	57.5	51.6
Employees	31 December	3,283	3,135	3,094	2,945	2,867
Zehnder Group AG						
Dividends ^[3]	CHF million	6.5	10.6	2.3	7.3	15.2
Nominal value repayment	CHF million	-	-	14.1	14.7	-
Share capital	CHF million	0.6	0.6	14.7	29.3	29.3
Market capitalization ^[4]	CHF million	400.0	429.3	501.0	553.7	339.0
Total market capitalization ^[5]	CHF million	481.2	516.4	602.6	666.0	407.8

[1] before gain/loss on sale of subsidiaries

[2] including minority interests

[3] for 2013 as proposed by the Board of Directors

[4] market value of all listed bearer shares at year end; excluding value of unlisted registered shares

[5] bearer and registered shares; registered shares recognized at 1/5 of the bearer share price at year end

Data per Share^[1]

			2013	2012	2011	2010	2009
Shares outstanding							
bearer shares	in thousands	total	9,756	9,756	9,756	9,756	9,756
	each with a par value of	CHF	0.05	0.05	1.25	2.50	2.50
registered shares (not listed)	in thousands	total	9,900	9,900	9,900	9,900	9,900
	each with a par value of	CHF	0.01	0.01	0.25	0.50	0.50
number of voting rights or shares	in thousands	total	19,656	19,656	19,656	19,656	19,656
notional number of shares	in thousands	total	11,736	11,736	11,736	11,736	11,736
	each with a par value of	CHF	0.05	0.05	1.25	2.50	2.50
Market prices (January–December)							
bearer shares	high	CHF	48.15	67.30	71.00	58.30	37.50
bearer shares	low	CHF	34.05	39.80	42.50	34.00	16.30
bearer shares	at year end	CHF	41.00	44.00	51.35	56.75	34.75
Consolidated net income							
per bearer share		EUR	1.41	2.31	3.41	3.19	2.80
Consolidated net income before depreciation and amortization							
per bearer share		EUR	3.04	3.87	4.93	4.69	4.33
Consolidated equity^[2]							
per bearer share		EUR	20.82	20.30	19.42	17.63	14.80
Dividend (gross) and nominal value repayment							
dividend per bearer share ^[3]		CHF	0.55	0.90	0.20	0.63	1.30
nominal value repayment per bearer share		CHF	–	–	1.20	1.25	–
payout ratio	% of net income per share		32	32	33	43	31

[1] all data excluding minority interests; all data on the basis of total shares outstanding at year end

[2] before appropriation of earnings

[3] for 2013 as proposed by the Board of Directors

Consolidated Balance Sheet

EUR million	Notes page 69 ff	2013 31 December	2012 31 December	%
Assets				
Liquid assets	1	61.8	53.5	
Trade accounts receivable	2	89.3	86.5	
Other receivables	2	12.9	13.9	
Inventories	3	57.8	68.5	
Prepayments		2.9	4.0	
Accrued income		4.0	3.1	
Total current assets		228.7	229.6	-0.4
Fixed assets	4	177.2	170.3	
Financial assets	4	3.7	4.1	
Intangible assets	4	2.9	3.3	
Total fixed assets		183.8	177.7	3.5
Total assets		412.6	407.3	1.3
Liabilities & shareholders' equity				
Loans	5	17.0	14.0	
Trade accounts payable	5	25.4	28.0	
Other liabilities	5	34.7	43.1	
Provisions	6	5.6	4.7	
Accruals and deferred income	5	32.9	26.1	
Current liabilities		115.6	115.9	-0.3
Loans	5	12.6	13.2	
Other liabilities	5	–	0.3	
Provisions	6	28.8	30.3	
Long-term liabilities		41.4	43.8	-5.4
Total liabilities		157.0	159.7	-1.7
Share capital		0.4	0.4	
Capital reserves		33.6	33.6	
Own shares		-2.2	-2.6	
Retained earnings		218.9	211.5	
Accumulated FX differences		-6.4	-4.8	
Minority interests		11.2	9.5	
Total equity	7	255.5	247.6	3.2
Total liabilities & shareholders' equity		412.6	407.3	1.3

Consolidated Income Statement

EUR million	Notes page 69 ff	2013	2012	%
Net sales	18	522.4	523.8	-0.3
Changes in inventories		-1.2	-0.1	
Internal additions to plant and equipment		0.2	0.6	
Other income ^[1]		15.1	6.1	
Total income		536.5	530.4	1.2
Cost of materials	19	-184.5	-186.3	
Personnel costs	19	-174.4	-171.2	
Depreciation of fixed assets	4	-18.0	-16.9	
Amortization of intangible assets	4	-1.1	-1.1	
Other operating expenses	20	-126.1	-116.4	
Earnings before interest and taxes (EBIT)		32.3	38.5	-16.0
Result from associated companies	4	-0.3	-0.2	
Financial result	21	-3.6	-0.4	
Earnings before taxes		28.4	37.9	-25.2
Income taxes	22	-10.1	-11.1	
Net income		18.2	26.8	-32.0
Minority interests		1.7	-0.3	
Net income excluding minority interests		16.5	27.1	

[1] includes the sale of real estate in China with a one-off positive effect on operating profit (EBIT) of EUR 9.2 million

Consolidated Cash Flow Statement

EUR million	2013	2012
Net income	18.2	26.8
Depreciation and amortization of tangible fixed assets	18.0	16.9
Depreciation and amortization of financial assets and securities	–	0.2
Depreciation and amortization of intangible assets	1.1	1.1
Net income before depreciation and amortization	37.4	45.1
Non-cash change in valuation adjustments on receivables and inventories	2.9	1.4
Loss/(gain) on disposals of tangible fixed assets	–9.6	–1.2
Increase/(decrease) of provisions	–0.4	–1.3
Result from associated companies	0.3	0.2
Increase/(decrease) of trade accounts payable	–2.1	2.3
Increase/(decrease) of other short-term liabilities, accruals and deferred income	5.1	–5.9
(Increase)/decrease of trade accounts receivable	–4.2	4.7
(Increase)/decrease of inventories	7.2	–1.2
(Increase)/decrease of other receivables, prepayments and accrued income	1.2	–0.1
Cash flows from operating activities	37.9	44.0
Investments in tangible fixed assets	–35.1	–37.3
Investments in financial assets ^[1]	–1.0	–1.6
Investments in intangible assets	–0.8	–2.1
Investments in subsidiaries ^[2]	–	–4.7
Divestment of tangible fixed assets ^[3]	11.5	8.4
Cash flows from investing activities	–25.3	–37.4

[1] Increase of the participation in dPoint Technologies Inc. by 5 % to 31 % (2013), respectively by 8 % to 26 % (2012)

[2] acquisition of all minority shares (49 %) in Sanpan Isıtma Sistemleri Sanayi ve Ticaret AŞ (2012)

[3] includes the proceeds from the final payment in relation to the sale of real estate in China amounting to EUR 9.7 million (prepayment of EUR 6.2 million in 2012)

EUR million	2013	2012
Dividends paid to shareholders	-8.6	-1.9
Nominal value repayment	-	-11.6
(Purchase)/sale of own shares	0.4	-0.1
Increase/(decrease) of short-term loans	3.2	11.4
Increase/(decrease) of long-term loans	-0.3	-17.9
Increase/(decrease) of other liabilities	-0.3	-
Cash flows from financing activities	-5.6	-20.1
Currency effects	1.4	1.4
Increase/(decrease) of cash and cash equivalents	8.4	-12.0
Cash and cash equivalents at 1.1.	53.5	65.5
Cash and cash equivalents at 31.12.	61.8	53.5
Increase/(decrease)	8.4	-12.0

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 1.1.2013	0.4	33.6	-2.6	211.5	-4.8	238.1	9.5	247.6
Purchase of own shares	-	-	-0.9	-	-	-0.9	-	-0.9
Sale of own shares	-	-	1.3	-	-	1.3	-	1.3
Net income	-	-	-	16.5	-	16.5	1.7	18.2
Netted goodwill	-	-	-	-0.5	-	-0.5	-	-0.5
Currency effects	-	-	-	-	-1.6	-1.6	-	-1.6
Dividends	-	-	-	-8.6	-	-8.6	-	-8.6
Equity at 31.12.2013	0.4	33.6	-2.2	218.9	-6.4	244.3	11.2	255.5
Equity at 1.1.2012	10.1	33.6	-2.6	190.9	-4.0	228.0	11.7	239.7
Nominal value repayment	-9.7	-	-	-	-	-9.6	-	-9.6
Purchase of own shares	-	-	-1.4	-	-	-1.4	-	-1.4
Sale of own shares	-	-	1.3	-	-	1.3	-	1.3
Net income	-	-	-	27.1	-	27.1	-0.3	26.8
Netted goodwill	-	-	-	-4.6	-	-4.6	-	-4.6
Additions minority interests	-	-	-	-	-	-	-2.0	-2.0
Currency effects	-	-	-	-	-0.8	-0.8	0.1	-0.7
Dividends	-	-	-	-1.9	-	-1.9	-	-1.9
Equity at 31.12.2012	0.4	33.6	-2.6	211.5	-4.8	238.1	9.5	247.6

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:

- Merger of Acova SAS and Zehnder Group Services SAS with Zehnder SAS to form Zehnder Group France, retroactively as of 1 January 2013,
- Merger of Runtal North America, Inc. with Steam Radiators Business Trust to form Runtal North America, Inc., retrospectively as of 1 January 2013,
- Merger of Runtal Italia S.r.l. and Zehnder Group Italia S.r.l. with Zehnder Technosystems S.r.l. to form Zehnder Group Italia S.r.l. as of 1 October 2013,
- The stake in dPoint Technologies Inc. was increased by 5 % to 31 % as at 21 March 2013.

Consolidation Principles

General

The consolidated balance sheet and income statement of the Zehnder Group 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,
- cash flow statement figures at average-for-the-year rates,
- income 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							
2013	0.8159	0.7264	1.1979	0.1121	11.89	24.12	33.97
2012	0.8283	0.7567	1.2234	0.1161	12.01	24.55	42.31
Average-for-the-year rates							
2013	0.8128	0.7533	1.1782	0.1157	12.17	23.86	39.71
2012	0.8298	0.7783	1.2333	0.1150	12.35	23.95	43.25

Capital consolidation

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

Basically, capital is consolidated in accordance with the Anglo-Saxon purchase method. The assets and liabilities of the consolidated subsidiary are valued on the date of the first consolidation in accordance with the Group's guidelines. After this revaluation or "step up", 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.

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, financial assets and securities

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 from impairment. 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 tangible fixed assets. 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 and loans

Holdings with a voting interest of less than 20 % and loans are valued at nominal or acquisition cost less the necessary valuation adjustments.

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.

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 made for pension and retirement plans, to cover recognizable risks such as warranty, litigation, currency, and country risks, and to fund ongoing restructuring measures. They also include provisions for deferred taxes. These arise from differences in individual company accounts between Group assessment and assessment for tax purposes. Such differences can lead to a time lag before taxes on income are due. Deferred taxes are calculated on the basis of taxes on earnings payable per country. Actual tax expenditure in the foreseeable future is not taken into consideration. The provisions for taxes also include provisions for offsetting risks resulting from tax audits.

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, pension and retirement plans are state organised. One of our German companies has a pension plan in addition to the state scheme. Its liabilities in this respect are recognized in the balance sheet under provisions.

11. Derivative financial instruments

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

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

Notes

to the Consolidated Financial Statements

1. Liquid assets

The reasons for changes in liquid assets are set out in the cash flow statement. Liquid assets amounted to EUR 61.8 million (2012: EUR 53.5 million) whereas interest-bearing financial liabilities reached EUR 29.6 million (2012: EUR 27.1 million). Thus, at year end, net liquidity amounted to EUR 32.2 million (2012: EUR 26.3 million).

2. Accounts receivable from sales and services and other receivables

All reported accounts receivable from sales and services as well as the other receivables are due within one year.

EUR million	31.12.2013	31.12.2012
Accounts receivable gross*	107.6	105.8
Valuation adjustments	-5.3	-5.3
Accounts receivable net	102.2	100.5
* of which more than 12 months overdue gross	1.9	1.2

3. Inventories

EUR million	31.12.2013	31.12.2012
Raw materials	36.0	38.7
Semi-finished products and goods in process	3.7	4.5
Finished products	29.0	33.7
Valuation adjustments	-10.9	-8.4
Total inventories	57.8	68.5

4. Development of fixed assets

EUR million	Land/ buildings/ installations in buildings	Machinery/ plant	Other fixed assets	Plant under construction	Total
Tangible fixed assets					
Net book value at 1.1.2013	98.6	37.2	9.8	24.8	170.3
Acquisition or current book value					
Status 1.1.2013	172.2	221.1	31.8	24.8	449.8
Investments	2.3	8.4	4.5	19.8	35.1
Disposals	-8.9	-12.3	-2.9	-	-24.0
Reclassifications	25.2	10.4	-0.5	-35.6	-0.6
Currency effects	-1.9	-2.1	-0.3	0.1	-4.3
Status 31.12.2013	188.9	225.6	32.6	9.1	456.1
Accumulated valuation adjustments					
Status 1.1.2013	-73.5	-183.9	-22.0	-	-279.5
Ordinary depreciation	-4.8	-10.0	-3.3	-	-18.0
Extraordinary depreciation	-	-	-	-	-
Disposals	1.9	11.7	2.4	-	16.0
Reclassifications	-	-0.1	0.6	-	0.5
Currency effects	0.6	1.3	0.2	-	2.1
Status 31.12.2013	-75.8	-181.0	-22.1	-	-278.9
Net book value at 31.12.2013	113.1	44.6	10.5	9.1	177.2

EUR million					
	Land/ buildings/ installations in buildings	Machinery/ plant	Other fixed assets	Plant under construction	Total
Tangible fixed assets					
Net book value at 1.1.2012	94.0	32.6	7.0	18.7	152.3
Acquisition or current book value					
Status 1.1.2012	165.8	217.0	26.5	18.7	427.9
Investments	0.9	13.4	4.7	18.4	37.3
Disposals	-1.4	-13.9	-2.4	-	-17.8
Reclassifications	6.0	3.2	2.9	-12.1	-
Currency effects	0.9	1.5	0.2	-0.1	2.4
Status 31.12.2012	172.2	221.1	31.8	24.8	449.8
Accumulated valuation adjustments					
Status 1.1.2012	-71.9	-184.3	-19.5	-	-275.6
Ordinary depreciation	-4.3	-9.7	-3.0	-	-16.9
Disposals	0.2	12.6	1.7	-	14.5
Reclassifications	2.7	-1.6	-1.2	-	-
Currency effects	-0.3	-1.0	-0.1	-	-1.4
Status 31.12.2012	-73.5	-183.9	-22.0	-	-279.5
Net book value at 31.12.2012	98.6	37.2	9.8	24.8	170.3

EUR million	Financial assets	Loans	Reserves for employer contributions	Associated companies	Total
Financial assets					
Net book value at 1.1.2013	0.1	0.3	3.2	0.5	4.1
Acquisition or current book value					
Status 1.1.2013	1.9	1.0	3.2	0.5	6.6
Investments	–	–	–	0.1	0.2
Disposals	–0.1	–0.2	–	–	–0.2
Result from associated companies	–	–	–	–0.3	–0.3
Status 31.12.2013	1.9	0.8	3.1	0.3	6.1
Accumulated valuation adjustments					
Status 1.1.2013	–1.8	–0.6	–	–	–2.5
Extraordinary amortization	–	–	–	–	–
Status 31.12.2013	–1.8	–0.6	–	–	–2.5
Net book value at 31.12.2013	–	0.2	3.1	0.3	3.7

EUR million					
	Financial assets	Loans	Reserves for employer contributions	Associated companies	Total
Financial assets					
Net book value at 1.1.2012	2.0	0.3	3.2	-	5.5
Acquisition or current book value					
Status 1.1.2012	3.9	0.8	3.2	-	7.8
Investments	-	0.3	-	0.2	0.5
Disposals	-1.6	-0.1	-	-	-1.6
Result from associated companies	-	-	-	-0.2	-0.2
Changes in consolidation matrix	-0.4	-	-	0.4	-
Status 31.12.2012	1.9	1.0	3.2	0.5	6.6
Accumulated valuation adjustments					
Status 1.1.2012	-1.8	-0.5	-	-	-2.3
Extraordinary amortization	-	-0.2	-	-	-0.2
Status 31.12.2012	-1.8	-0.6	-	-	-2.5
Net book value at 31.12.2012	0.1	0.3	3.2	0.5	4.1

	2013	2012
Intangible assets		
Net book value at 1.1.	3.3	2.3
Acquisition or current book value		
Status 1.1.	10.2	8.6
Investments	0.8	2.1
Disposals	-0.3	-0.5
Reclassifications	0.6	-
Currency effects	-0.1	-
Status 31.12.	11.2	10.2
Accumulated valuation adjustments		
Status 1.1.	-7.0	-6.3
Ordinary amortization	-1.1	-1.1
Disposals	0.3	0.5
Reclassifications	-0.5	-
Status 31.12.	-8.3	-7.0
Net book value at 31.12.	2.9	3.3

Investments in tangible fixed assets were undertaken in the following regions:

EUR million	2013	2012
Europe	20.9	25.2
Switzerland	2.7	5.0
China/ North America	11.6	7.0
Total	35.1	37.3

5. Trade accounts payable/other liabilities/accruals and deferred income/loans

The above items fall due as set out in the table below.

EUR million	less than 12 months	12 months to 60 months	more than 60 months	2013	2012
Trade accounts payable	25.4	–	–	25.4	28.0
Other liabilities	34.7	–	–	34.7	43.4
Accruals and deferred income	32.9	–	–	32.9	26.1
Loans	17.0	8.6	4.0	29.6	27.1
Total	110.0	8.6	4.0	122.7	124.7

The accruals and deferred income item included current tax liabilities in the amount of EUR 1.0 million (2012: EUR 1.5 million).

6. Provisions

EUR million	Provisions for deferred taxes	Pension commitments	Provisions for restructuring	Other provisions	Total
Book value at 1.1.2013	11.6	9.3	1.1	13.0	35.0
New provisions	0.5	1.7	1.5	0.7	4.5
Use	–	–0.3	–1.0	–0.3	–1.7
Reversals	–2.0	–0.1	–	–1.2	–3.2
Currency effects	–0.1	–	–	–0.1	–0.2
Book value at 31.12.2013	10.1	10.6	1.5	12.1	34.3
of which short term	–	–	0.6	5.0	5.6
Book value at 1.1.2012	11.8	9.2	5.0	11.2	37.2
New provisions	0.8	0.5	–	3.1	4.4
Use	–	–	–2.4	–0.1	–2.4
Reversals	–0.9	–0.4	–1.7	–1.3	–4.3
Currency effects	–	–	–	–	0.1
Book value at 31.12.2012	11.6	9.3	1.1	13.0	35.0
of which short term	–	–	1.1	3.7	4.7

The provisions for taxes include deferred taxes as well as other provisions for taxes in accordance with point 9 of the accounting and valuation principles on page 67.

The discount rate for German pension commitments was 4.9 % (2012: 5.06 %).

Provisions for restructuring are calculated annually and adjusted accordingly. It is assumed that there is a high likelihood of these provisions being used.

The other provisions are primarily provisions for guarantees, for contaminated sites and dismantling real estate, and for pending legal proceedings.

7. Equity capital

On 31 December 2013, the equity ratio was 62 % (2012: 61%). The factors that contributed to changes in consolidated equity are presented in the consolidated statement of changes in equity.

As in 2012 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 bearer shares with a par value of CHF 0.05 each and 9,900,000 registered shares with a par value of CHF 0.01 each.

The statutory and legal reserves and those not available for distribution amounted to EUR 3.0 million (2012: EUR 3.6 million).

	2013 Bearer shares units	2013 Value per unit EUR	2013 Value EUR 1,000	2012 Bearer shares units	2012 Value per unit EUR	2012 Value EUR 1,000
Own shares at 1.1.	83,042^[1]	31.54	2,619	83,240^[2]	30.65	2,551
Nominal value repayment			-			-42
Sale at (theoretical) market price	-32,363	39.08	-1,265	-33,493	39.39	-1,319
Loss (gain) from sale			-48			47
Purchase at acquisition price	25,000	34.89	872	33,295	41.50	1,382
Own shares at 31.12.	75,679^[1]	28.79	2,179	83,042^[2]	31.54	2,619

[1] of which 49,747 (1.1.) or 47,587 (31.12.) reserved for the option program
 [2] of which 56,840 (1.1.) or 49,747 (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 Shares granted, p. 86).

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.

8. Contingent liabilities

At year end, there were guarantee obligations vis-à-vis third parties totalling EUR 7.5 million (2012: EUR 27.3 million).

In addition, there are potential obligations to increase the stakes in Shanghai Nather Air Tech Co. Ltd and in dPoint Technologies Inc. totalling around EUR 0.9 million. The obligation relating to dPoint Technologies Inc. is dependent on whether the defined milestones are achieved, and for Shanghai Nather Air Tech Co. Ltd it is dependent on the minority shareholders exercising put options.

9. Pledged assets

Of the group's total assets, EUR 30.2 million served as collateral (2012: EUR 41.7 million). The pledged assets were exclusively land and buildings.

10. Liabilities to pension funds

At 31 December 2013, the Swiss Group companies had liabilities to mandatory pension funds in the amount of EUR 0.4 million (2012: EUR 0.2 million).

11. Accounts receivable and payable vis-à-vis closely associated persons

As in the previous year there were no accounts receivable from or payable to not fully consolidated companies or known shareholders.

12. Transactions with closely associated persons

In the reporting year products worth EUR 0.7 million were purchased from not fully consolidated companies (2012: EUR 0.4 million).

13. Deferred tax assets

There are a few companies that have tax loss carryforwards. In view of their economic situation and the legally limited period over which such carryforwards can be exploited, deferred tax assets are not capitalized. However, Zehnder Group expects that tax loss carryforwards of EUR 34.6 million (2012: EUR 24.0 million) can be utilized in the future. The respective deferred tax assets amount to EUR 5.6 million (2012: EUR 4.9 million).

14. Minority interests

During the reporting year Zehnder Group undertook no significant transactions with third party shareholders in subsidiaries with the exception of fulfilling existing obligations.

15. Derivative financial instruments

EUR million	31.12.2013 active value	31.12.2013 passive value	31.12.2012 active value	31.12.2012 passive value	purpose
Interest	–	0.6	–	0.8	hedging
Total	–	0.6	–	0.8	

16. Operating leasing not recognized in the balance sheet

Current operating leasing contracts expire as follows:

EUR million	31.12.2013	31.12.2012
within 12 months	2.6	2.5
in 13–60 months	5.6	4.4
in more than 60 months	0.9	0.1
Total	9.1	7.1

17. Employer contribution reserves and pension fund liabilities

This disclosure refers to the Swiss pension funds. Please see point 10 of the accounting and valuation principles on page 68.

Economic liabilities relating to foreign pension funds are detailed under provisions on page 76.

Employer contribution reserve (ECR) in EUR 1,000 2013	Nominal value 31.12.2013	Not utilized 31.12.2013	Other valuation adjustments 31.12.2013	Balance sheet 31.12.2013	Balance sheet 31.12.2012	Currency effects resulting from ECR 2013	Result from ECR in financial earnings 2013
Pension trust fund	3,139	-	-	3,139	3,186	-47	-
Personnel pension fund collective fund ^[1]	-	-	-	-	-	-	-
Total	3,139	-	-	3,139	3,186	-47	-

Employer contribution reserve (ECR) in EUR 1,000 2012	Nominal value 31.12.2012	Not utilized 31.12.2012	Other valuation adjustments 31.12.2012	Balance sheet 31.12.2012	Balance sheet 31.12.2011	Currency effects resulting from ECR 2012	Result from ECR in financial earnings 2012
Pension trust fund	3,186	-	-	3,186	3,162	25	-
Personnel pension fund Zehnder Group	-	-	-	-	-	-	-
Total	3,186	-	-	3,186	3,162	25	-

[1] the staff pension funds of Zehnder Group were transferred to a Swiss collective fund as of 1 January 2013

Economic benefits/economic liabilities and pension expenses in EUR 1,000 2013	Excess/inadequate cover 31.12.2013	Economic share of organization 31.12.2013	Economic share of organization 31.12.2012	Capitalized in business year 2013	Contributions accrued 2013	Pension expenses in personnel expenses 2013	Pension expenses in personnel expenses 2012
Pension trust fund	524	-	-	-	-	-	-
Personnel pension fund collective fund ^[1]	n/a ^[2]	-	-	-	2,270	2,270	2,165
Total	524	-	-	-	2,270	2,270	2,165

Economic benefits/economic liabilities and pension expenses in EUR 1,000 2012	Excess/inadequate cover 31.12.2012	Economic share of organization 31.12.2012	Economic share of organization 31.12.2011	Capitalized in business year 2012	Contributions accrued 2012	Pension expenses in personnel expenses 2012	Pension expenses in personnel expenses 2011
Pension trust fund	264	-	-	-	-	-	-
Personnel pension fund Zehnder Group	2,492	-	-	-	2,165	2,165	1,766
Total	2,756	-	-	-	2,165	2,165	1,766

[1] the staff pension funds of Zehnder Group were transferred to a Swiss collective fund as of 1 January 2013

[2] the financial statements of the collective fund are not yet available as of the date of publication of this annual report; it is assumed that no inadequate cover exists per 31.12.2013

18. Sales

At EUR 522.4 million consolidated sales in 2013 remained on a par with 2012 (2012: EUR 523.8 million). On an organic basis and adjusted for currency effects, sales revenues were 1 % higher than in 2012.

		2013	2013 %	2012	2012 %
Sales by region and segment					
Radiators Europe	EUR Million	295.7	56.6	304.6	58.2
change from prior year	%	-2.9		-1.0	
Radiators North America ^[1]	EUR Million	30.6	5.9	27.1	5.2
change from prior year	%	12.7		30.7	
Radiators China	EUR Million	19.5	3.7	17.7	3.4
change from prior year	%	10.3		-10.2	
Total radiators	EUR million	345.8	66.2	349.4	66.7
change from prior year	%	-1.0		0.3	
Ventilation Europe	EUR Million	168.1	32.2	164.7	31.4
change from prior year	%	2.1		7.4	
Ventilation North America ^[1]	EUR Million	2.1	0.4	2.2	0.4
change from prior year	%	-8.7		-68.0	
Ventilation China	EUR Million	6.5	1.2	7.4	1.4
change from prior year	%	-12.4		9.8	
Total ventilation	EUR million	176.7	33.8	174.3	33.3
change from prior year	%	1.3		4.3	
Total Europe	EUR Million	463.8	88.8	469.3	89.6
change from prior year	%	-1.2		1.8	
Total North America	EUR Million	32.6	6.2	29.4	5.6
change from prior year	%	11.1		5.8	
Total China	EUR Million	26.0	5.0	25.1	4.8
change from prior year	%	3.6		-5.1	
Total	EUR million	522.4	100.0	523.8	100.0
change from prior year	%	-0.3		1.6	

[1] movement between the radiator and ventilation segments mainly due to product reclassification (2012)

19. Cost of materials and personnel costs

The cost of materials declined by 1 % primarily because of lower purchase volume and lower purchase prices.

Personnel costs rose by 2 %. Social security and pension fund expenditure amounted to 21 % (2012: 21 %) of total personnel costs. Personnel figures developed as follows (as at 31 December):

	2013	2012
By region		
Europe	2,187	2,128
Switzerland	371	363
China/ North America	725	644
Total employees	3,283	3,135

20. Other operating expenses

The other operating expenses break down as follows:

EUR million	2013	2012
Operating expenses	-47.3	-46.0
Marketing and advertising expenses	-47.0	-44.5
Administration expenses	-31.8	-25.9
Total	-126.1	-116.4

More resources were once again put into improving processes, IT, developing products and tapping new markets in the reporting year. Accordingly, the other operating expenses are higher than in the prior year.

21. Financial result

The exchange losses of EUR 2.9 million (exchange gains of EUR 1.0 million in the previous year) is primarily attributable to non-realized foreign exchange losses.

EUR million	2013	2012
Financial expenses *	-1.2	-1.8
Financial earnings	0.4	0.4
Exchange gains/(losses)	-2.9	1.0
Total financial result	-3.6	-0.4
*of which depreciation and amortization of financial assets and securities	-	0.2

22. Income taxes

The tax ratio (taxes in percent of earnings before taxes) was 36 % (2012: 30 %). The increased tax ratio in the reporting year was due primarily to the geographic distribution of the Group result.

EUR million	2013	2012
Current taxes	-11.9	-10.8
Deferred taxes	1.8	-0.2
Total taxes	-10.1	-11.1

23. 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:

		31.12.2013	31.12.2012
Impact of theoretical capitalization of goodwill on balance sheet			
Disclosed equity inclusive minority interests	EUR million	255.5	247.6
Equity ratio	%	61.9	60.8
Acquisition value of goodwill			
Status at beginning of business year	EUR million	99.0	94.4
Additions	EUR million	0.8	5.1
Disposals	EUR million	-0.3	-0.5
Status at end of business year	EUR million	99.5	99.0
Accumulated amortization			
Status at beginning of business year	EUR million	-92.4	-85.0
Amortization in current year	EUR million	-2.3	-7.4
Impairment	EUR million	-	-
Disposals	EUR million	-	-
Status at end of business year	EUR million	-94.7	-92.4
Theoretical net book value of goodwill^[1]	EUR million	4.8	6.6
Theoretical equity inclusive minority interests and net book value of goodwill	EUR million	260.3	254.2
Theoretical equity ratio	%	62.4	61.4
Impact of theoretical capitalization of goodwill on results			
Disclosed net income	EUR million	18.2	26.8
Theoretical amortization of goodwill	EUR million	-2.3	-7.4
Net income after amortization of goodwill	EUR million	15.9	19.4

[1] of which EUR 2.5 million (31.12.2013) or EUR 2.3 million (31.12.2012) from the acquisition of associated companies

As in 2012, no impairment of value was noted on the theoretically capitalized and correctly amortized goodwill.

24. Shares granted

The company introduced an employee investment plan in 2001. This plan allows operating unit managers and members of Group management to acquire bearer shares. The bearer shares 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 bearer shares. The shares are issued at a discount to the persons entitled to receive them (see Disclosure of compensation p. 48 also).

The market value of the shares issued is determined on the day of valuation. The day of valuation is defined as the last day on which the person entitled must inform the company of their acquisition of shares. The market value is determined as the closing rate on the day of valuation.

The difference between market value and the purchase price at the time of purchase is recognised in personnel costs.

		2013	2012
Shares granted			
Shares granted	Number	29,953	31,733
Fair value per share at valuation date	CHF	42.80	60.70
Personnel costs	CHF	436,000	476,000

25. 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 bearer share at a price fixed at the time of allocation. The rights to exercise options are defined as follows:

		Allocated options units	Exercise price CHF	31.12.2013 Outstanding options units	31.12.2012 Outstanding options units
Allocated options					
Allocation day	Exercise period				
1 March 2006	2 March 2011 – 1 March 2014	13,040	48.53	4,000	4,480
1 March 2007	2 March 2012 – 1 March 2015	13,920	66.25	7,680	8,400
1 March 2008	2 March 2013 – 1 March 2016	13,440	35.25	6,480	8,400
1 March 2009	2 March 2014 – 1 March 2017	12,880	17.28	8,240	9,200
1 March 2010	2 March 2015 – 1 March 2018	14,080	37.93	9,680	10,400
1 March 2011	2 March 2016 – 1 March 2019	14,480	62.50	11,360	12,080
Total		81,840		47,440	52,960

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:

	2013 Average exercise price CHF	2013 Options units	2012 Average exercise price CHF	2012 Options units
Outstanding options				
Outstanding options at 1.1.	45.39	52,960	44.25	58,800
Cancelled options	47.45	–3,360	45.56	–4,880
Exercised options	31.55	–2,160	37.40	–960
Outstanding options at 31.12.	45.34	47,440	45.39	52,960
Exercisable options at 31.12.	51.37	19,360	56.44	15,280

26. 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 2013 financial statements were approved by the Board of Directors on 3 March 2014.

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

Please refer to the disclosure in the individual financial statements of Zehnder Group AG on page 98.

28. Risk assessment

Zehnder Group operates a risk assessment process, which was approved by the Board of Directors. The risk policy defines a structured process which, in turn, specifies how business risks are to be monitored; it is an integral part of midterm planning. In this process risks are identified, analysed with regard to probability and magnitude, assessed, and measures for risk control are determined. Each member of the Group Executive Committee is required to implement the measures in his area of responsibility. The Board is periodically informed on significant changes in risk assessment as well as on risk management activities undertaken. The internal control system for financial reporting defines control measures to reduce the various risks. Compliance with the internal guidelines is monitored through internal spot checks and periodically by external specialists.

Financial risks are monitored via the treasury department of Zehnder Group under the leadership of the CFO. Risk management focuses on the recognition, analysis and hedging of foreign exchange, interest, liquidity and counterparty risks in order to limit their impact on cash flow and net result.

Overview of Companies

Status 31.12.2013, only active companies,
countries in alphabetical order

		Activity	Capital stock	Interest in %	Consolidated
Belgium					
Mechelen	Zehnder Group Belgium nv/sa	S	800,010	100	fully
Canada					
Vancouver	dPoint Technologies Inc.	S/P	7,122,784	31	at equity
China					
Dachang	Dachang Zehnder Indoor Climate Co. Ltd	P	10,000,000	73	fully
Peking	Zehnder (China) Indoor Climate Co. Ltd	S/P	228,250,000	73	fully
Shanghai	Shanghai Nather Air Tech Co. Ltd	S	3,200,000	51	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					
Châlons-en-Champagne	Zehnder Group Châlons-en-Champagne SAS	P	3,300,000	100	fully
Evry	Zehnder Group France (formerly Acova SAS)	S	7,225,230	100	fully
Evry	Zehnder Group Participations	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
Reinsdorf	Paul Wärmerückgewinnung GmbH	S/P	2,100,000	100	fully
Italy					
Campogalliano	Zehnder Group Italia S.r.l. (formerly Zehnder Tecnosystems S.r.l.)	S	80,000	100	fully
Vedelago	Zehnder Group Treviso S.r.l.	S/P	99,000	100	fully

		Activity	Capital stock	Interest in %	Consolidated
Netherlands					
Zwolle	Zehnder Group Nederland B.V.	S/P	907,560	100	fully
Zwolle	Zehnder Nederland B.V.	S	18,000	100	fully
Poland					
Boleslawiec	Zehnder Group Boleslawiec Sp. z o.o.	P	51,280,000	100	fully
Wroclaw	Zehnder Polska Sp. z o.o.	S	4,000,000	100	fully
Russia					
Moscow	OOO "Zehnder GmbH", Russia	S	1,866,000	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
Switzerland					
Gränichen	Runtal Holding Company SA	O	220,000	100	fully
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 Verkaufs- und Verwaltungs-AG	O	100,000	100	fully
Gränichen	Zehnder Group Swiss Property AG	O	2,000,000	100	fully
Wädenswil	Zehnder Comfosystems Cesavent AG	S	100,000	100	fully

		Activity	Capital stock	Interest in %	Consolidated
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 İç Mekan İklimlendirme Sanayi Ticaret Ltd Şti	S	25,000	100	fully
UK					
Camberley	Zehnder Group UK Limited	S	3,500,002	100	fully
London	Zehnder Group UK Holdings Limited	O	20,000,000	100	fully
Rustington	Ventilation Holding UK Ltd (Greenwood Air Management Ltd)	S/P	3,400,002	100	fully
St. Peter Port	Zehnder Group Finance Ltd	O	EUR 82,485,738	100	fully
USA					
Buffalo NY	Hydro-Air Components, Inc.	S/P	55,950	100	fully
Greenland NH	Zehnder America, Inc.	S	10	100	fully
Ward Hill MA	Runtal North America, Inc.	S/P	193,522	100	fully
Ward Hill MA	Zehnder Group US Holdings, Inc.	O	30	100	fully

Share capital in local currency unless otherwise stated

P: production

S: sales

O: other functions

Report of the Statutory Auditor

on the Consolidated Financial Statements to the General Meeting
of Shareholders of Zehnder Group Ltd, Gränichen

As statutory auditor, we have audited the accompanying consolidated financial statements of Zehnder Group Ltd, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes, as presented on pages 59 through 91, for the year ended 31 December 2013.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Swiss GAAP FER and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2013 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

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

KPMG AG

Markus Forrer
Licensed Audit Expert
Auditor in Charge

Daniel Spichiger
Licensed Audit Expert

Basel, 3 March 2014

Balance Sheet

Zehnder Group AG

CHF million	Notes page 96 ff	2013 31 December	2012 31 December
Assets			
Current assets			
Liquid assets		3.8	3.5
Securities and financial investments	1	3.1	3.7
Accounts receivable from Group companies		10.8	10.7
Accounts receivable from third parties		0.1	0.9
Prepayments and accrued income		0.1	–
Total current assets		18.0	18.7
Financial assets			
Participations	2	305.5	320.0
Loans to Group companies		144.6	131.7
Loans to third parties		0.2	0.2
Total financial assets		450.4	451.9
Total assets		468.3	470.6
Liabilities & shareholders' equity			
Short-term liabilities			
Short-term liabilities to Group companies		0.2	1.2
Short-term liabilities to third parties		0.1	–
Short-term loans to Group companies		5.9	30.1
Short-term loans to third parties		20.6	15.0
Accruals and deferred income		2.1	0.8
Total short-term liabilities		29.0	47.2
Long-term liabilities			
Provisions		60.0	60.0
Total long-term liabilities		60.0	60.0
Shareholders' equity			
Share capital	3	0.6	0.6
General legal reserves		46.5	46.5
Legal reserve for own shares		3.6	4.2
Special reserves		0.6	–
Profit carried forward		301.6	266.5
Net income for the year		26.4	45.6
Total shareholders' equity		379.3	363.4
Total liabilities and shareholders' equity		468.3	470.6

Income Statement

Zehnder Group AG

CHF million	Notes page 96 ff	2013	2012
Income			
Dividend income	4	26.2	47.5
Interest income		5.7	8.9
Other operating income		2.0	1.8
Total income		34.0	58.2
Expenses			
Personnel expenses		-0.9	-0.8
Interest and other financial expenses		-3.4	-8.9
Taxes		-0.3	-0.1
Other expenses		-3.0	-2.7
Total expenses		-7.6	-12.5
Net income for the year		26.4	45.6

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 % of the consolidated net income of Zehnder Group to its shareholders.

The balance sheet and income statement are drawn up in line with Swiss company law.

1. Securities and financial investments

The table below shows the development of this item.

	2013 Bearer shares units	2013 Value per share CHF	2013 Value CHF	2012 Bearer shares units	2012 Value per share CHF	2012 Value CHF
Own shares at 1.1., trading portfolio	33,295	44.00	1,464,980	26,400	51.35	1,355,640
Nominal value repayment			–			–
Shares sold	–30,203	48.53	–1,465,775	–32,533	50.03	–1,627,730
Gain/(loss) from sale			136,843			–42,840
Shares bought	25,000	42.77	1,069,290	33,295	49.99	1,664,284
Unrealised price gains/(losses) at 31.12.2012			–53,566			–199,304
Reclassifications	–	–	–	6,133	51.35	314,930
Own shares at 31.12., trading portfolio	28,092	41.00	1,151,772	33,295	44.00	1,464,980
Own shares at 1.1., Long Term Stock Option Plan	49,747	44.00	2,188,868	56,840	51.35	2,918,734
Nominal value repayment			–			–60,272
Shares sold	–2,160	30.24	–65,326	–960	43.51	–41,766
Gain/(loss) from sale			–29,714			7,530
Shares bought	–	–	–	–	–	–
Unrealised price gains/(losses) at 31.12.2012			–142,761			–320,428
Reclassifications	–	–	–	–6,133	51.35	–314,930
Own shares at 31.12., Long Term Stock Option Plan	47,587	41.00	1,951,067	49,747	44.00	2,188,868
Total securities at 1.1.	83,042		3,653,848	83,240		4,274,374
Total securities at 31.12.	75,679		3,102,839	83,042		3,653,848

2. Participations

The direct or indirect majority holdings decisive for the total value of the Group are set out in table form on pages 89 to 91 of this report.

3. Share capital

	2013 Bearer shares units	2013 Registered shares units	2013 Value CHF	2012 Bearer shares units	2012 Registered shares units	2012 Value CHF
Total bearer shares as of 1.1.	9,756,000		487,800	9,756,000		12,195,000
Total registered shares as of 1.1.		9,900,000	99,000		9,900,000	2,475,000
Nominal value repayment	-	-	-	-	-	-14,083,200
Total at 31.12.	9,756,000	9,900,000	586,800	9,756,000	9,900,000	586,800

As in 2013, 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 bearer shares with a par value of CHF 0.05 each and 9,900,000 registered shares with a par value of CHF 0.01 each.

The unlisted registered shares (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 is owned by Graneco AG (Switzerland).

4. Dividend income

The dividend income comprises all dividends received by the company. These are generally recognized before deduction of any withholding taxes.

5. Disclosure of compensation

Compensation for the present members of the Board of Directors

	Notes page 102 ff	2013 units	2012 units	2013 CHF	2012 CHF
Hans-Peter Zehnder Chairman of the Board and of the Group Executive Committee					
Fixed cash compensation for board activity				80,000	80,000
Allocated shares for board activity	1	2,352	2,285	84,553	116,480
Fixed cash compensation for GEC activity				699,998	699,998
Variable cash compensation for GEC activity	2			182,000	270,000
Employer social security and pension contributions	3			136,848	155,460
Shares acquired	4	4,117	4,000	7,969	63,860
Other payments	6			10,762	11,512
Total compensation				1,202,130	1,397,310

	Notes page 102 ff	2013 units	2012 units	2013 CHF	2012 CHF
Thomas Benz Deputy chairman of the Board					
Fixed cash compensation for board activity				40,000	40,000
Allocated shares for board activity	1	1,176	1,142	42,276	58,232
Fixed cash compensation for additional services				5,905	5,920
Employer social security and pension contributions	3			5,144	6,303
Total compensation				93,325	110,455

	Notes page 102 ff	2013 units	2012 units	2013 CHF	2012 CHF
Urs Buchmann Member of the Board					
Fixed cash compensation for board activity				40,000	40,000
Allocated shares for board activity	1	1,176	1,142	42,276	58,232
Fixed cash compensation for additional services				11,307	11,307
Employer social security and pension contributions	3			5,850	6,847
Total compensation				99,433	116,386

	Notes page 102 ff	2013 units	2012 units	2013 CHF	2012 CHF
Riet Cadonau					
Member of the Board as of 23.4.2013					
Fixed cash compensation for board activity				30,000	–
Allocated shares for board activity	1	–	–	–	–
Employer social security and pension contributions	3			1,875	–
Total compensation				31,875	–

	Notes page 102 ff	2013 units	2012 units	2013 CHF	2012 CHF
Enrico Tissi					
Member of the Board					
Fixed cash compensation for board activity				40,000	40,000
Allocated shares for board activity	1	1,176	1,142	42,276	58,232
Fixed cash compensation for additional services				157,584	183,080
Employer social security and pension contributions	3			10,623	12,901
Total compensation				250,483	294,213

	Notes page 102 ff	2013 units	2012 units	2013 CHF	2012 CHF
Peter Wiesendanger					
Member of the Board up to 23.4.2013					
Fixed cash compensation for board activity				10,000	40,000
Allocated shares for board activity	1	1,176	1,142	42,276	58,232
Employer social security and pension contributions	3			1,497	4,194
Total compensation				53,773	102,426

Each member of the Board is paid an expense allowance of CHF 2,000 or – provided the expenses exceed this sum – the actual expenses incurred are reimbursed.

	Notes page 102 ff	2013 units	2012 units	2013 CHF	2012 CHF
Total compensation paid to the present members of the Board of Directors					
Fixed cash compensation for board activity				240,000	240,000
Allocated shares for board activity	1	7,056	6,853	253,657	349,407
Fixed cash compensation for GEC activity				699,998	699,998
Variable cash compensation for GEC activity	2			182,000	270,000
Fixed cash compensation for additional services				174,796	200,307
Employer social security and pension contributions	3			161,837	185,705
Shares acquired	4	4,117	4,000	7,969	63,860
Other payments	6			10,762	11,512
Total compensation				1,731,019	2,020,789

Compensation for the Group Executive Committee

Hans-Peter Zehnder is chairman of the Group Executive Committee. Disclosure of his compensation is set out under compensation for present members of the Board of Directors. Consequently, his compensation is not set out again in this disclosure.

	Notes page 102 ff	2013 units	2012 units	2013 CHF	2012 CHF
Total compensation paid to the Executive Committee excl. Hans-Peter Zehnder					
Fixed cash compensation				1,635,601	1,312,806
Variable cash compensation	2			497,832	500,359
Employer social security and pension contributions	3			428,964	429,904
Shares acquired	4	6,865	5,841	13,289	93,251
Other payments	6			38,959	24,455
Total compensation				2,614,645	2,360,775

The highest compensation for a member of the Executive Committee is paid to its chairman, Hans-Peter Zehnder (see compensation for the present members of the Board of Directors).

Compensation for a former member of the Board of Directors

	2013 CHF	2012 CHF
Hans-Jakob Zehnder Honorary president		
Fixed cash compensation	80,000	80,000
Employer social security and pension contributions	3,255	3,255
Total compensation	83,255	83,255

Guarantees, etc.

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

Notes to disclosure of compensation

1. Allocated shares

Compensation for board activities is fixed and made up of a fee and a small expense allowance. Half the compensation must be drawn in bearer shares. These are allocated at a discount of 30 % on the purchase price. The bearer shares are subject to a three-year restriction period.

Disclosure of the shares allocated in the reporting year corresponds to the closing price on the grant date minus 16.038 % (accounting for the three-year vesting period).

2. Variable cash compensation

The variable cash compensation for the Group Executive Committee is made up of a profit-related, variable salary and an individual bonus. The variable part is paid out in the following year. It is calculated using a fixed formula based on the disclosed net income for the year as well as on individual compensation factors. The latter reflect such aspects as the complexity of the position held, personal experience and personal success. The variable salary can only be earned provided that net income for the year is positive. The targeted variable compensation for the chairman of the Group Executive Committee it ranges from 50 % to 100 % of the fixed basic salary. For all other members of the Group Executive Committee it ranges from 35 % to 75 % of the fixed basic salary. There is a contractually agreed upper limit for variable compensation for all members of the Group Executive Committee: for the chairman of the Group Executive Committee it is 100 %, for all other members 75 %. The individual bonus of up to a maximum of 10 % of the fixed basic salary is linked to reaching individual targets.

3. Employer social security and pension contributions

These are employer contributions to state social security systems and/or independent pension funds at home and abroad.

4. Acquired shares

Members of the Group Executive Committee may take 20 % of their total fixed compensation in the form of bearer shares. The regulations governing this were approved by the Board of Directors.

The bearer shares are sold with a 30 % discount on the purchase price to those who qualify; the shares are subject to a three-year restriction period.

The value disclosed under Acquired shares corresponds to the closing price on the grant date minus 16.038 % (accounting for the three-year vesting period) and less the purchase price.

5. Options granted

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.

6. Other payments

The other payments primarily include the legally required child benefit payments, the private share in a company car, and the right to eat in the subsidized staff restaurant.

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 bearer shares and 9,771,200 registered shares, corresponding to 49.8 % of the votes (2012: 49.8 %),
- Alecta pensionsförsäkring, ömsesidigt, Stockholm (SE), holds 939,500 bearer shares, corresponding to 4.8 % of the votes (2012: 4.8 %).

For notification of disclosure of significant shareholdings please refer to the website of SIX Swiss Exchange [6].

[6] → www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html?fromDate=19980101&issuer=2375

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

	2013 Bearer shares units ^[1]	2012 Bearer shares units ^[1]	2013 Registered shares units ^[2]	2012 Registered shares units ^[2]	2013 Options unit	2012 Options units
Hans-Peter Zehnder^[4] Chairman of the Board and of the Group Executive Committee, North America/China	106,542 0.5 % ^[3]	100,073 0.5 % ^[3]	20,000 0.1 % ^[3]	20,000 0.1 % ^[3]	1,600	1,600
Thomas Benz Deputy chairman	21,918	20,742	–	–	–	–
Urs Buchmann Member of the Board	4,558	3,382	–	–	–	–
Riet Cadonau Member of the Board as of 23.4.2013	–	–	–	–	–	–
Enrico Tissi Member of the Board	10,278	9,102	–	–	–	–
Peter Wiesendanger^[5] Member of the Board up to 23.4.2013	–	3,182	–	20,000 0.1 % ^[3]	–	–
Jürg Ammann Operations Europe	900	700	–	–	–	–
Dominik Berchtold CEO designate, sales Switzerland & Nordic	11,990	9,861	–	–	1,440	1,440
Josef Brügger Finance, Controlling and IT	2,480	1,630	–	–	1,200	1,200
Stephen Grao Americas/Asia-Pacific/International & UK (up to 13.1.2014)	5,722	4,017	–	–	960	960
Cyril Peysson Sales Europe/Middle East/Africa (EMEA)	22,713	19,132	–	–	1,920	1,920

- [1] provided they were acquired under the employee share ownership program, some of these shares may be subject to a restriction period (see Corporate Governance: Content and procedures for determining compensation for the Board of Directors and the Group Executive Committee, and participation in shareholding programs, page 48).
- [2] the registered shares 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
- [5] excluding Graneco AG, in which Peter Wiesendanger holds a 13.5 % stake

6. Pledged assets and guarantees

The company has guarantee obligations and pledged assets in favour of subsidiaries in the amount of EUR 5.5 million (2012: EUR 25.6 million).

The company has granted one subsidiary a subordination of no more than EUR 10.7 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.

7. Risk assessment

Zehnder Group operates a risk assessment process, which was approved by the Board of Directors. The risk policy defines a structured process which, in turn, specifies how business risks are to be monitored; it is an integral part of midterm planning. In this process risks are identified, analysed with regard to probability and magnitude, assessed, and measures for risk control are determined. Each member of the Group Executive Committee is required to implement the measures in his area of responsibility. The Board is periodically informed on significant changes in risk assessment as well as on risk management activities undertaken. The internal control system for financial reporting defines control measures to reduce the various risks. Compliance with the internal guidelines is monitored through internal spot checks and periodically by external specialists.

Financial risks are monitored via the treasury department of Zehnder Group under the leadership of the CFO. Risk management focuses on the recognition, analysis and hedging of foreign exchange, interest, liquidity and counterparty risks in order to limit their impact on cash flow and net result.

Proposal on the Appropriation of Earnings

	CHF
The balance sheet profit available for distribution comprises	
Net income for 2013 according to the income statement	26,393,691
+ retained earnings from previous year	301,620,656
Balance sheet profit available to the general meeting of shareholders	328,014,347
The Board of Directors proposes the following appropriation of earnings	
Payment of a dividend	6,454,800
To be carried forward to new account	321,559,547
Total	328,014,347

As the legal reserve corresponds to 20 % of the share capital, an allocation to the reserves is not required.

Report of the Statutory Auditor

on the Financial Statements to the General Meeting
of Shareholders of Zehnder Group Ltd, Gränichen, Switzerland

As statutory auditor, we have audited the financial statements of Zehnder Group Ltd, which comprise the balance sheet, income statement and notes as presented on pages 94 through 105 for the year ended 31 December 2013.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2013 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

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

KPMG AG

Markus Forrer
Licensed Audit Expert
Auditor in Charge

Daniel Spichiger
Licensed Audit Expert

Basel, 3 March 2014

Further Information for Investors

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Press releases [\[7\]](#)

Bearer shares

Security number	13 255 733
SIX	ZEH
Bloomberg	ZEH SW
Reuters	ZEH S

In accordance with Art. 8 of the articles of association, the opting out clause applies.

Registered shares (unlisted)

Security number 13 312 654

Company calendar

Announcement of sales for 2013	17.1.2014
Annual report 2013	7.3.2014
Press conference on financial statements and analysts' meeting	7.3.2014
General meeting of shareholders	9.4.2014
Ex-dividend date	11.4.2014
Dividend payout	16.4.2014
Six-month report	15.8.2014
End of business year	31.12.2014
Announcement of sales for 2014	16.1.2015

[\[7\]](#) → www.zehndergroup.com/news-events

Information and reports, as well as this annual report, are available in German and English. The German version is binding.

General meeting of shareholders 2015

The general meeting of shareholders 2015 will be held on 15 April 2015 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 [\[8\]](#).

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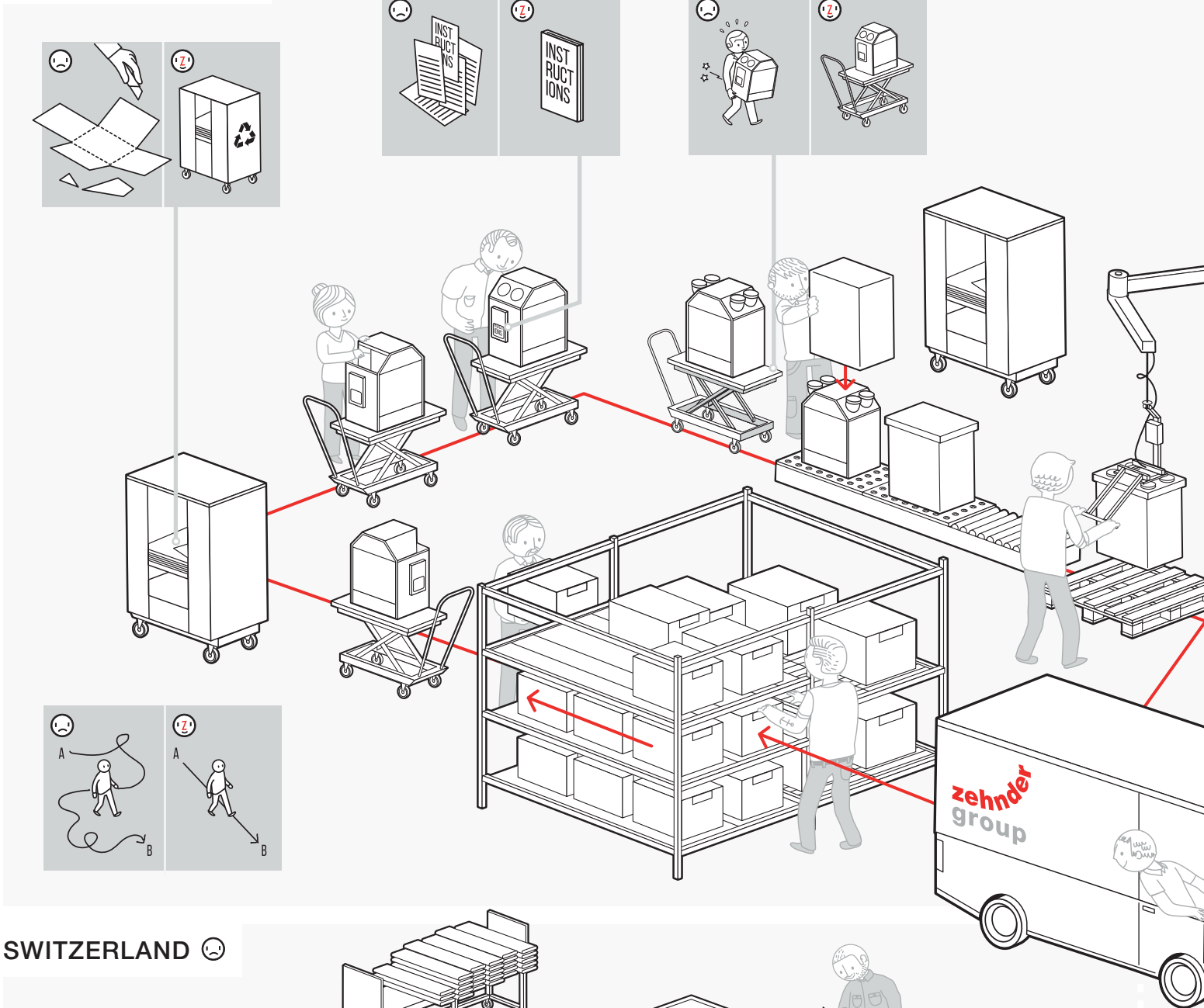
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