zehnder

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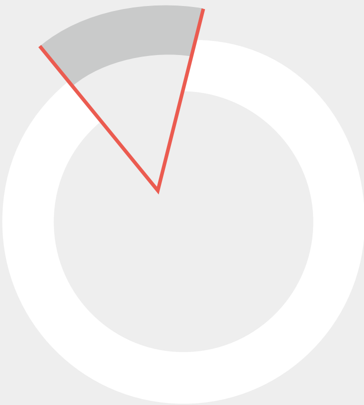
2018

SIX-MONTH REPORT

Sales by segment

EUR million

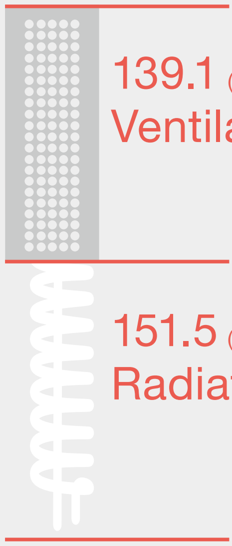
42.6 (15 %)
China & North America



248.0 (85 %)
Europe

Sales by business area

EUR million



139.1 (48 %)
Ventilation

151.5 (52 %)
Radiators

In the first half of 2018, the proportion of total sales attributable to ventilation rose to 48 % (44 % in the previous year).

Ventilation sales grew by a remarkable 54 % in China and by 10 % in Europe.

The new ComfoAir Q ventilation unit makes a major contribution to ventilation growth in Europe.

Our comprehensive package of strategic and operational improvement measures is taking effect and leading to significantly higher profitability.

Key Figures

		1st half-year 2018	1st half-year 2017	Change from prior year %
Sales	EUR million	290.6	280.6	3.6
EBITDA	EUR million	25.1	16.8	49.9
	% of sales	8.6	6.0	
EBIT	EUR million	14.1	5.6	152.8
	% of sales	4.9	2.0	
Net profit [1]	EUR million	10.6	1.6	546.8
	% of sales	3.6	0.6	
Cash flow from operating activities	EUR million	–6.0	–9.1	33.5
Investments in property, plant and equipment & intangible assets	EUR million	17.0	12.7	33.6
Depreciation & amortisation	EUR million	11.0	11.2	–1.6
Total assets	EUR million	453.1	436.9	3.7
Non-current assets	EUR million	209.9	206.3	1.8
Net liquidity / (net debt)	EUR million	–1.3	17.1	
Shareholders' equity [1]	EUR million	274.4	264.2	3.9
	% of total assets	60.6	60.5	
Number of employees	Ø full-time equivalents	3,384	3,361	0.7
Market closing price registered share A	CHF	41.10	34.90	17.8
Registered shares A (CHF 0.05 par value)	Units	9,756,000	9,756,000	–
Own shares	Ø Units	182,612	241,011	–24.2
Registered shares B (not listed; CHF 0.01 par value)	Units	9,900,000	9,900,000	–
Net profit per registered share A [2]	EUR	0.88	0.13	594.1
Shareholders' equity per registered share A [2]	EUR	22.6	21.9	2.8

1 Including minority interests
2 Excluding minority interests

Further growth in sales and earnings during the first half of 2018

In the first half of 2018, the Zehnder Group increased its sales by 4 % to EUR 290.6 million, with the operating result (EBIT) more than doubling from EUR 5.6 million over the same period last year to EUR 14.1 million. Net profit improved significantly, rising from EUR 1.6 million to EUR 10.6 million.

Ventilation business drives growth in sales

In the first half of 2018, the Zehnder Group achieved sales of EUR 290.6 million, representing a rise of 4 % compared with the previous year (EUR 280.6 million). Organically and when adjusted for currency effects, this resulted in sales growth of 6 %. This growth is primarily attributable to the ventilation business in China and Europe. The ventilation business rose by a considerable 13 % during the first half of 2018.

In the Europe segment, sales revenues rose by 3 % (+4 % organically and when adjusted for currency effects) to EUR 248.0 million. Sales in the Netherlands, Belgium, Poland, Russia and Spain in particular experienced positive trends. In the key markets of Germany, Switzerland and the United Kingdom, there was a slight increase in sales in the local currency. However, both Switzerland and the United Kingdom saw revenues in euros below the previous year's level due to the devaluation of the Swiss franc and the British pound. Sales in France and Italy also fell a little below the previous year's level. In France, it was the shrinking market and the ongoing trend in favour of lower-priced radiators that resulted in lower sales figures. Meanwhile, political instability in Italy following the country's parliamentary elections in spring 2018 had a negative impact on the construction industry. Although revenues in Europe's radiator business area fell by 3 % (–2 % when adjusted for currency effects), the ventilation business area grew by 10 % (+11 % organically and when adjusted for currency effects). This growth was accelerated in particular by the new ComfoAir Q ventilation unit, whose launch was completed in 2017. In the first half of 2018, the proportion of sales in Europe attributable to ventilation grew further, reaching 47 % (44 % in the previous year).

In the China & North America segment, sales increased to EUR 42.6 million, representing significant growth of 10 % (+20 % organically and when adjusted for currency effects) compared with the same period last year. This rise was primarily driven by China, where sales revenues grew by 40 % (+46 % when adjusted for currency effects). Here, the strong growth in the ventilation business continued during the first half of 2018, amounting to as much as 81 % of total sales in China at the end of June 2018 (74 % in the previous year). Radiator sales also grew in the local currency, although they remained at the previous year's level when reported in euros. In North America, revenues for the first six months of the year were 2 % above the previous year, organically and in the local currency. However, a decline of 10 % was recorded in euros. Radiator sales experienced positive growth in the local currency, while ventilation sales fell during the first half of the year. This business area was responsible for a good fifth of sales in North America.

Growth in sales and operating improvements boost operating result

The operating result (EBIT) reached EUR 14.1 million in the first six months of 2018 (EUR 5.6 million in the previous year). The EBIT margin rose from 2.0 % for the same period last year to 4.9 %.

In the Europe segment, EBIT increased to EUR 13.7 million (EUR 6.5 million in the previous year). Our Step-up programme is already bearing fruit: launched at the end of 2017 as part of our medium-term plan for 2018–2020, its aim is to increase profitability.

We were able to achieve a turnaround in operating activity in the China & North America segment, and the increase in profitability resulted in a slightly positive operating result of EUR 0.4 million (EUR –0.9 million in the previous year). China experienced welcome growth thanks to the sales increase in the ventilation business, although rising material costs hampered profitability in North America.

Our comprehensive package of strategic and operational improvement measures is taking effect and leading to significantly higher profitability. The Group profit figure saw the full effect of the considerable rise in the operating result. The Zehnder Group's net profit rose from EUR 1.6 million during the same period in the previous year to EUR 10.6 million in the first half of 2018.

High equity ratio ensures financial flexibility

With a slightly higher equity level of EUR 274.4 million at the end of June 2018 (compared with EUR 271.2 million at the end of December 2017), resulting from the pleasing Group profit figure, the Zehnder Group continues to have a high equity ratio of 61 % (compared to 65 % at the end of December 2017). Cash flow from operating activities amounted to EUR –6.0 million during the reporting period (EUR –9.1 million during the previous year's period), particularly as a result of growth in net current assets at the balance sheet date. This is mostly attributable to higher customer receivables associated with the growth in sales and the accumulation in stock required in order to fulfil anticipated demand during the second half of 2018. Investments in property, plant and equipment and intangible assets in the reporting period increased to EUR 17.0 million (EUR 12.7 million during the previous year's period). At the end of June 2018, there was a net debt amount of EUR 1.3 million (compared with net liquidity of EUR 27.5 million at the end of December 2017).

Increased investment in assets and market development

Of the investments made in property, plant and equipment and intangible assets, amounting to a significant increase of around 40 %, 85 % was invested in Europe and 15 % in the China & North America segment. Particularly worthy of note is the investment made in the new production site in Manisa (Turkey). Construction of the new production building was completed on schedule, and the facilities are now being installed with a view to production commencing in autumn 2018 as planned. Offering significantly higher capacity than the production areas in the previous rented building, the new site will primarily supply bathroom radiators to our key European markets. Additionally, investments in measures aimed at boosting production efficiency have been made in Lahr (Germany) and Bolesławiec (Poland).

In January 2018, the Zehnder Group acquired part of NuClimate Air Quality Systems, Inc., based in Syracuse, NY (USA). This will enable us to expand our market presence in the area of energy-efficient cooling solutions in North America. With the aim of strengthening its market position in the Baltic states, the Zehnder Group acquired ventilation company InteliVENT OÜ, based in Tallinn (Estonia), as of 1 January 2018. InteliVENT OÜ has been a customer of the Zehnder Group since 2012 and sells the Group's products almost exclusively.

On 16 July, at the start of the second half of 2018, we also signed the agreement for the acquisition of the ventilation company Enervent, headquartered in Porvoo (Finland). The agreement is set to come into effect on 31 August 2018. Through this acquisition, the Zehnder Group is expanding its geographical market position in the Nordic region and its product range.

Strategic initiatives on course

The Zehnder Group's leading position in the field of ventilation for residential buildings is the foundation on which we are able to deliver our complementary range of heating and climate control solutions, and will continue to drive the Group's profitable growth in the future. Throughout the Group, we focus on product innovations such as the ComfoAir Q ventilation unit – which makes a major contribution to ventilation growth in Europe. Add-on acquisitions in Europe, including the 2018 acquisitions of InteliVENT OÜ in Estonia and Enervent [1] in Finland, represent a pillar of our growth strategy. They enable us to expand our geographical presence and product range, as well as allowing us to exploit synergies in the areas of purchasing, product expertise and production. In China, we are continually expanding our sales structure and, as a result, our customer base. The impressive growth in ventilation business we have once again seen in China, amounting to 54 % in the first half of 2018, is evidence that our strategy is paying off.

In an effort to improve profitability, during the fourth quarter of 2017 we launched our Step-up programme. Step-up focuses on five objectives: reducing procurement costs, increasing our reliability of supply, optimising our pricing structure, turning around unprofitable businesses and product segments, and implementing Group-wide efficiency measures that aim to reduce costs. We are on the right track with these initiatives too.

Sales growth also expected in the second half of the year

The sales growth that we have seen in the ventilation business is expected to continue in the second half of 2018. Our new products, including the ComfoAir Q ventilation unit and the Unity CV3 extractor fan, are set to play a part in this trend. The radiator business continues to present challenges, but new products in this area – such as the multifunctional Zehnder Zenia thermal comfort unit and the Zehnder Ribbon decorative radiator – are being extremely well received.

Price pressure continues, both on the supplier side and on the customer side. The Zehnder Group is maintaining an unwavering focus on optimising processes and cost structures. The warehouse in Camberley (United Kingdom) is being closed, having been integrated into the logistics centre in Saint-Quentin (France) on 1 July 2018. The partial relocation of production from Gränichen (Switzerland) to Vaux-Andigny (France) that has been announced will largely take place by the end of 2018, and will be accompanied by a loss of 35 jobs at the Gränichen site. The consultation procedure associated with this project was completed at the end of June 2018. The costs are covered by existing restructuring provisions. Production and sales of the innovative Zehnder Zmart polymer radiator, which is also manufactured in Gränichen, are coming to an end. Despite significant efforts, it has not been possible to achieve the cost reductions required to make this product innovation marketable. We are currently exploring possibilities of using its novel technology in other ways. As part of the Step-up programme, we will be consistently pursuing additional initiatives for boosting our income situation.

The Group Executive Committee is adhering to its medium-term goals and continuing to aim for medium-term sales growth of 5 % on average plus an EBIT margin of 8 %. Looking towards the second half of 2018, the Group Executive Committee believes that sales growth will continue to take place in a stable financial environment, and that it will be possible to achieve an EBIT margin slightly above the first half of 2018.

[1] The transaction is expected to close on 31 August 2018.

Consolidated Balance Sheet

EUR million	30 June 2018	31 December 2017	30 June 2017
Assets			
Liquid assets	38.1	41.3	52.5
Trade accounts receivable	112.2	93.4	91.6
Other receivables	19.3	14.3	18.3
Inventories	66.4	57.4	61.2
Prepayments	3.5	3.0	2.9
Accrued income	3.7	3.9	4.1
Current assets	**243.2**	**213.3**	**230.6**
Property, plant and equipment	199.5	196.0	198.1
Financial assets	9.0	9.0	6.9
Intangible assets	1.4	1.5	1.2
Non-current assets	**209.9**	**206.5**	**206.3**
Total assets	**453.1**	**419.8**	**436.9**
Liabilities & shareholders' equity			
Loans	33.5	6.7	28.1
Trade accounts payable	36.5	31.1	30.7
Other liabilities	21.6	22.2	28.0
Provisions	9.9	10.0	15.8
Accruals and deferred income	47.6	47.4	39.1
Current liabilities	**149.2**	**117.3**	**141.7**
Loans	5.8	7.2	7.4
Other liabilities	1.2	1.8	2.4
Provisions	22.5	22.4	21.3
Long-term liabilities	**29.5**	**31.3**	**31.0**
Total liabilities	**178.7**	**148.6**	**172.7**
Share capital	0.4	0.4	0.4
Capital reserves	33.6	33.6	33.6
Own shares	−6.3	−8.4	−8.4
Retained earnings	238.5	235.6	221.7
Accumulated FX differences	−5.6	−3.3	4.9
Minority interests	13.8	13.3	12.0
Equity	**274.4**	**271.2**	**264.2**
Total liabilities & shareholders' equity	**453.1**	**419.8**	**436.9**

Consolidated Income Statement

EUR million	1st half-year 2018	1st half-year 2017	Change from prior year %
Sales	**290.6**	**280.6**	**3.6**
Changes in inventories	1.3	1.4	
Internal additions to plant and equipment	–	1.5	
Other income	2.2	1.6	
Cost of materials	–108.8	–104.6	
Personnel costs	–98.3	–100.0	
Depreciation of property, plant and equipment	–10.7	–10.8	
Amortisation of intangible assets	–0.3	–0.4	
Other operating expenses	–61.9	–63.8	
Earnings before interest and taxes (EBIT)	**14.1**	**5.6**	**152.8**
Result from associated companies	–	–0.1	
Financial result	–0.7	–1.8	
Earnings before taxes	**13.4**	**3.7**	**262.0**
Income taxes	–2.8	–2.1	
Net profit	**10.6**	**1.6**	**546.8**
Minority interests	0.4	0.2	
Net profit excluding minority interests	10.2	1.5	
Non-diluted net profit excluding minority interests per registered share A (EUR)	0.88	0.13	
Diluted net profit excluding minority interests per registered share A (EUR)	0.88	0.13	
Non-diluted net profit excluding minority interests per registered share B (EUR)	0.18	0.03	
Diluted net profit excluding minority interests per registered share B (EUR)	0.18	0.03	

Consolidated Cash Flow Statement

EUR million	1st half-year 2018	1st half-year 2017
Net profit	10.6	1.6
Depreciation and amortisation of property, plant and equipment	10.7	10.8
Depreciation and amortisation of intangible assets	0.3	0.4
Non-cash change in valuation adjustments on receivables and inventories	1.9	–0.1
(Gain)/loss on disposals of non-current assets	–0.3	0.1
Result from associated companies	–	0.1
(Increase)/decrease of trade accounts receivable	–18.8	–6.1
(Increase)/decrease of other receivables, prepayments and accrued income	–5.3	–5.0
(Increase)/decrease of inventories	–9.8	–9.7
Increase/(decrease) of trade accounts payable	5.1	5.2
Increase/(decrease) of other short-term liabilities, accruals and deferred income	–0.2	–4.3
Increase/(decrease) of provisions	–0.4	–2.1
Cash flow from operating activities	**–6.0**	**–9.1**
Investments in property, plant and equipment	–16.7	–12.6
Investments in intangible assets	–0.3	–0.1
Investments in subsidiaries	–2.3	–3.0
Divestment of property, plant and equipment	0.5	0.6
Cash flow from investing activities	**–18.8**	**–15.1**
Dividends paid to shareholders	–5.0	–10.2
Dividends paid to minority shareholders	–	–4.4
(Purchase)/sale of own shares	2.0	1.8
Increase/(decrease) of short-term loans	25.7	11.8
Increase/(decrease) of long-term loans	–0.6	–0.5
Cash flow from financing activities	**22.1**	**–1.5**
Currency effects	–0.4	–1.2
Increase/(decrease) of liquid assets	**–3.2**	**–26.8**
Liquid assets at 1.1.	41.3	79.4
Liquid assets at 30.6.	38.1	52.5
Increase/(decrease)	**–3.2**	**–26.8**

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 1.1.2018	**0.4**	**33.6**	**–8.4**	**235.6**	**–3.3**	**257.9**	**13.3**	**271.2**
Purchase of own shares	–	–	–	–	–	–	–	–
Sale of own shares	–	–	2.1	–0.1	–	2.0	–	2.0
Net profit	–	–	–	10.2	–	10.2	0.4	10.6
Netted goodwill	–	–	–	–2.1	–	–2.1	–	–2.1
Currency effects	–	–	–	–	–2.3	–2.3	0.1	–2.2
Dividends	–	–	–	–5.0	–	–5.0	–	–5.0
Equity at 30.6.2018	**0.4**	**33.6**	**–6.3**	**238.5**	**–5.6**	**260.6**	**13.8**	**274.4**
Equity at 1.1.2017	**0.4**	**33.6**	**–10.5**	**230.7**	**8.7**	**262.8**	**17.4**	**280.2**
Purchase of own shares	–	–	–0.1	–	–	–0.1	–	–0.1
Sale of own shares	–	–	2.2	–0.3	–	1.9	–	1.9
Net profit	–	–	–	1.5	–	1.5	0.2	1.6
Netted goodwill	–	–	–	–	–	–	–	–
Currency effects	–	–	–	–	–3.8	–3.8	–1.2	–4.9
Dividends	–	–	–	–10.2	–	–10.2	–4.4	–14.6
Equity at 30.6.2017	**0.4**	**33.6**	**–8.4**	**221.7**	**4.9**	**252.2**	**12.0**	**264.2**

Segment Reporting

		Europe	China & North America	Eliminations	Total
1st half-year 2018					
Sales third	EUR million	248.0	42.6	–	290.6
Sales intercompany	EUR million	1.3	0.8	–2.1	–
Sales	EUR million	**249.2**	**43.4**	**–2.1**	**290.6**
EBIT	EUR million	**13.7**	**0.4**	**–**	**14.1**
	% of sales	5.5	0.9		4.9
Investments in property, plant and equipment & intangible assets	EUR million	**15.1**	**1.9**	**–**	**17.0**
Property, plant and equipment	EUR million	**158.1**	**41.4**	**–**	**199.5**
Number of employees	Ø full-time equivalents	**2,602**	**782**	**–**	**3,384**
1st half-year 2017					
Sales third	EUR million	241.9	38.7	–	280.6
Sales intercompany	EUR million	1.1	0.9	–2.0	–
Sales	EUR million	**243.0**	**39.7**	**–2.0**	**280.6**
EBIT	EUR million	**6.5**	**–0.9**	**–**	**5.6**
	% of sales	2.7	–2.3		2.0
Investments in property, plant and equipment & intangible assets	EUR million	**8.0**	**4.7**	**–**	**12.7**
Property, plant and equipment	EUR million	**155.8**	**42.3**	**–**	**198.1**
Number of employees	Ø full-time equivalents	**2,604**	**757**	**–**	**3,361**

Sales by Region and Business Area

		1st half-year 2018	1st half-year 2018 %	1st half-year 2017	1st half-year 2017 %
Radiators Europe	EUR million	130.8	45.0	135.1	48.2
Change from prior year	%	–3.2		3.6	
Radiators North America	EUR million	16.6	5.7	17.9	6.4
Change from prior year	%	–7.4		–1.9	
Radiators China	EUR million	4.1	1.4	4.1	1.5
Change from prior year	%	–		–31.4	
Total business area radiators	EUR million	**151.5**	**52.1**	**157.2**	**56.0**
Change from prior year	%	–3.6		1.6	
Ventilation Europe	EUR million	117.1	40.3	106.7	38.0
Change from prior year	%	9.7		9.1	
Ventilation North America	EUR million	4.3	1.5	5.3	1.9
Change from prior year	%	–18.6		51.2	
Ventilation China	EUR million	17.6	6.1	11.4	4.1
Change from prior year	%	54.1		106.0	
Total business area ventilation	EUR million	**139.1**	**47.9**	**123.5**	**44.0**
Change from prior year	%	12.6		15.5	
Total Europe	EUR million	248.0	85.3	241.9	86.2
Change from prior year	%	2.5		6.0	
Total North America	EUR million	20.9	7.2	23.2	8.3
Change from prior year	%	–9.9		6.6	
Total China	EUR million	21.7	7.5	15.6	5.5
Change from prior year	%	39.8		34.6	
Total	EUR million	**290.6**	**100.0**	**280.6**	**100.0**
Change from prior year	%	3.6		7.3	

Notes to the Six-month Report

Consolidation and valuation principles

The unaudited consolidated interim report for the first six months of 2018 was drawn up in line with the provisions of Swiss GAAP FER 31. This six-month report is intended to be read in conjunction with the 2017 annual report. The consolidation and valuation principles published in the 2017 annual report have been applied consistently in preparing this interim report.

Consolidation matrix

The consolidation matrix was changed in the first half of 2018 as follows:

– Acquisition of InteliVENT OÜ in Estonia as of 1 January 2018,
– Acquisition of a part of NuClimate Air Quality Systems, Inc. in the USA in line with an asset deal on 12 January 2018.

The acquisitions had no material impact on Zehnder Group's 2018 interim consolidated financial statements.

Events after the balance sheet date

On 16 July 2018, the Zehnder Group signed the agreement for the acquisition of the ventilation company Enervent, headquartered in Porvoo (Finland). The agreement is set to come into effect on 31 August 2018.

Further Information for Investors

For further information please contact:

Zehnder Group AG
Investor Relations
Moortalstrasse 1
5722 Gränichen (Switzerland)

Phone +41 62 855 15 21
investor-relations@zehndergroup.com
www.zehndergroup.com

Press releases
www.zehndergroup.com/en/news

Registered shares A

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

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

Registered shares B (unlisted)
Security number 13 312 654

Company calendar

Six-month report	27.7.2018
End of business year	31.12.2018
Announcement of sales for 2018	18.1.2019
Financial statements 2018 and press / analysts' conference	27.2.2019
General meeting of shareholders	28.3.2019
Six-month report	26.7.2019

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

Company profile
Operating worldwide, the Zehnder Group improves quality of life by providing outstanding indoor climate solutions. It develops and manufactures its products in 14 of its own factories, 5 of which are located in China and North America. Its sales activities, spanning more than 70 countries, take place through local sales companies and representative offices.

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

The Zehnder Group has had its headquarters in Gränichen, Switzerland, since 1895. It employs over 3000 people worldwide and achieved sales of EUR 582 million in 2017. The company is listed on the SIX Swiss Exchange (symbol ZEHN/number 27 653 461). The unlisted registered shares B are held by the Zehnder family and persons closely associated with them.