

**zehnder**

always the  
best climate

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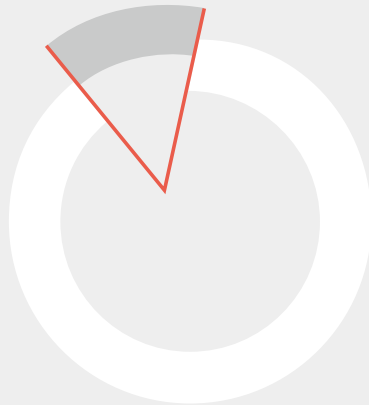
SIX-MONTH REPORT

17

## Sales by segment

EUR million

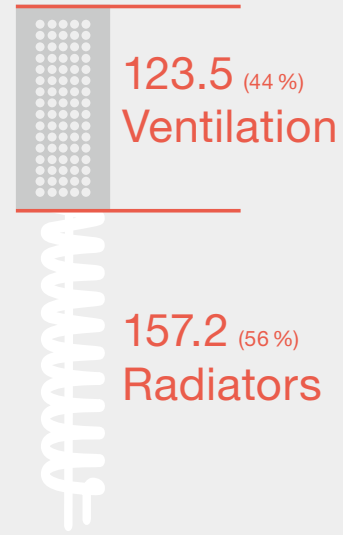
38.7 (14 %)  
China & North America



241.9 (86 %)  
Europe

## Sales by business area

EUR million



At the world's leading trade fair ISH in Frankfurt (DE) this year, the Zehnder Group showcased the Zehnder Zenia decorative radiator.

The innovative multifunctional bathroom heater blends seamlessly into the bathroom architecture, hiding the preheated towels behind a stylish infrared heating element made of glass and ensuring a comfortable indoor climate.

# Key Figures

		1st half-year 2017	1st half-year 2016	Change from prior year %
Sales	EUR million	280.6	261.6	7.3
EBIT	EUR million	5.6	10.6	-47.1
	% of sales	2.0	4.0	
Net profit <sup>1</sup>	EUR million	1.6	6.7	-75.5
	% of sales	0.6	2.5	
Net profit before depreciation & amortisation <sup>1</sup>	EUR million	12.8	17.8	-27.8
	% of sales	4.6	6.8	
Investments in property, plant and equipment & intangible assets	EUR million	12.7	13.6	-6.4
Depreciation & amortisation	EUR million	11.2	11.1	0.7
Total assets	EUR million	436.9	440.3	-0.8
Non-current assets	EUR million	206.3	214.0	-3.6
Shareholders' equity <sup>1</sup>	EUR million	264.2	270.7	-2.4
	% of total assets	60.5	61.5	
Number of employees	Ø full-time equivalents	3,361	3,180	5.7
<b>Share key figures</b>				
Registered shares A (CHF 0.05 par value)	Units	9,756,000	9,756,000	-
thereof average number of own shares	Units	241,011	57,696	
Registered shares B (not listed; CHF 0.01 par value)	Units	9,900,000	9,900,000	-
Net profit per registered share A <sup>2</sup>	EUR	0.13	0.57	
Closing price	CHF	34.90	37.80	-7.7

<sup>1</sup> Including minority interests

<sup>2</sup> Excluding minority interests

# Increase in sales but unsatisfactory profit situation

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The first half of 2017 saw the Zehnder Group achieve sales of EUR 280.6 million, amounting to 7 % more than in the previous year. The operating result (EBIT) continues to be under pressure and fell from EUR 10.6 million in the same period last year to EUR 5.6 million. Net profit decreased from EUR 6.7 million to EUR 1.6 million.

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## Sales growth in both segments

In the first half of 2017, the Zehnder Group achieved sales of EUR 280.6 million, representing a rise of 7 % compared with the previous year (EUR 261.6 million). When adjusted for currency effects, this resulted in sales growth of 8 %.

In the Europe segment, sales revenues rose by 6 % (+7 % when adjusted for currency effects) to EUR 241.9 million. The main markets of Germany, France and Switzerland experienced positive growth, with sales also rising for the Zehnder Group in the Netherlands, Italy, Belgium and Poland. In the United Kingdom, growth was achieved in the local currency, and in euros, revenues were on par with those of the previous year. Both business areas – radiators and ventilation – recorded growth in sales in the first half of 2017. With sales growth of 9 % (+10 % when adjusted for currency effects), ventilation outpaced radiators, which posted a growth rate of 4 % (+5 % when adjusted for currency effects). The ventilation business area accounted for 44 % of sales in Europe in the first half of 2017.

In the China & North America segment, sales increased to EUR 38.7 million, representing growth of 16 % (+15 % when adjusted for currency effects) compared with the same period last year. In China, sales revenues rose by 35 % (+37 % when adjusted for currency effects). The ventilation business area experienced welcome growth. Sales in this area more than doubled and accounted for almost three quarters of total revenues in China at the end of June 2017. Radiator sales, on the other hand, continued to decline. In North America, revenues for the first six months of the year were 7 % above the previous year (+3 % when adjusted for currency effects). Ventilation sales accounted for 23 % of sales and also saw an increase in this region in the first six months of the year, compensating for the slight decline in the radiators business area.

## Operating profits under pressure

The operating result (EBIT) reached EUR 5.6 million in the first six months of 2017 (EUR 10.6 million in the previous year). The EBIT margin decreased from 4.0 to 2.0 %. In the Europe segment, an EBIT of EUR 6.5 million was achieved (EUR 10.7 million in the previous year), while in the China & North America segment, the break-even point was unable to be reached. China demonstrated positive growth. Measures aimed at achieving a turnaround at the Buffalo plant in the USA still hampered profitability in North America, as expected. The result was an operating loss of EUR –0.9 million (compared to EUR –0.1 million in the previous year).

A rise in steel prices, increased demand for lower-price models with smaller margins and the fall in the value of Sterling in particular had a negative effect on the operating result. Furthermore, production in Manisa (TR) had to be stopped from 31 May to 11 July 2017 to carry out the structural reinforcement measures necessary as a result of the increased number of earthquakes to hit the region. In North America, costs arising from the expansion of Canadian company dPoint Technologies Inc. and the development and launch of new products impacted on profitability.

Net profit fell from EUR 6.7 million in the same period last year to EUR 1.6 million during the first half of 2017.

#### **Ongoing optimisation measures**

In order to improve profitability and as had already been announced when the 2016 annual report was published, production of the Yucca bathroom radiator was relocated from Lahr (DE) to Bolesławiec (PL) in the first six months of 2017. A shared service centre for information technology and finance was also set up in Bolesławiec. In Täby (SE), the administration and sales office was closed and integrated into the production site in Motala (SE). In Switzerland, jobs were relocated from the Wädenswil sales office to Gränichen. Knowledge and expertise are now concentrated at the headquarters of the Zehnder Group, which creates synergies and accelerates processes.

In January 2017, the Reinsdorf (DE) and Zwolle (NL) sites were successfully integrated into the new SAP information technology platform. The Europe-wide SAP project, which harmonises processes across international borders – from development and purchasing right the way up to the invoicing of delivered products and services – is now officially complete following a five-year implementation phase. It was possible to achieve the objectives of greater transparency, harmonisation and increased process efficiency. The focus is currently on optimisation and purposeful expansion. In order to drive forward digitalisation in a targeted manner, the position of Chief Digital Officer was created during the reporting period.

#### **Healthy balance sheet – financial flexibility**

The balance sheet of the Zehnder Group continues to remain healthy. Shareholders' equity including minority interests amounted to EUR 264.2 million at the end of June 2017 (end of December 2016: EUR 280.2 million). At 60.5 %, the equity ratio remained at the high level recorded at the end of 2016 (62.2 %).

Cash flow from operating activities amounted to EUR –9.1 million in the reporting period (prior year reporting period: EUR +10.6 million). Net liquidity decreased from EUR 54.1 million at the 2016 year end to EUR 17.1 million. The lower net liquidity is due in part to a dividend awarded to minority shareholders in China amounting to EUR 4.4 million, which was paid out in relation to the sale of the old production facility in Beijing last year. Furthermore, the purchase price of EUR 3.0 million, which was established in the previous year to increase the share in Chinese ventilation company Shanghai Nather Air Tech Co., Ltd. from 51 to 75.5 %, was settled in the first six months of 2017.

Investments in property, plant and equipment and intangible assets amounted to EUR 12.7 million in the reporting period (prior year reporting period: EUR 13.6 million). Around two thirds were made in Europe, with one third in the China & North America segment. Of particular importance was the investment in the radiator production facilities in Ward Hill (USA). The new welding facility and paint shop allow time to be saved and increase efficiency.

#### **Product developments and innovations**

With the aim of securing and building on its market position in the long term, the Zehnder Group invested EUR 9.0 million during the reporting period in research and development (prior year reporting period: EUR 10.0 million). The majority of these outgoings were spent within the ventilation business area in Europe. In January 2017, the Zehnder Group introduced the ComfoAir Q model range in Switzerland as planned. This brings the market launch of the new generation of centralised ventilation units, consisting of three types with air volumes of 350, 450 and 600 m³/h, to its conclusion in Europe. The model range is winning over customers with its easy commissioning and use, outstanding performance and quiet operation. Energy consumption has been significantly reduced once again. A new, patented filter concept also ensures the highest possible level of

hygiene in the unit and air distribution system. During the reporting period, the ComfoAir E model range, which is used in project business, was launched in the Netherlands.

Further investment was also made in product development in the radiators business area. By the end of the year under review, almost the entire European range of electric radiators will have been adapted to the European Ecodesign Directive, which comes into force in 2018. The aim of the directive is to reduce the continent's ecological footprint, in particular with respect to energy consumption. In North America, investment was made in the revision of fan coils. These have been available on the market since May 2017. In the decorative radiators area, the Zehnder Group showcased the innovative Zehnder Zenia multifunctional bathroom heater at the world's leading trade fair ISH in Frankfurt (DE). The heater blends seamlessly into the bathroom architecture, hiding the pre-heated towels behind a stylish infrared heating element made of glass and ensuring a comfortable indoor climate. In addition, the Zehnder Group presented the Zehnder Zmart eValve decorative radiator – an intelligent, energy-efficient radiator solution for domestic hot water operation with an electronic control panel and Smart Home functions that can be flexibly adapted to the personal heating requirements of the occupants at any time.

## Outlook

The ventilation business area is likely to see further positive growth, with the largest gains expected in Germany and China. Conditions in other relevant markets, particularly France, the United Kingdom and Switzerland, are set to remain challenging. With respect to procurement, steel prices have risen compared against the previous year. At the same time, pricing pressure from customers remains high. The Zehnder Group's focus on optimising processes and cost structures will continue unabated. The additional measures that have been introduced are set to create improved results from the next financial year onwards.

To strengthen its market position, expenditure on product development and infrastructure is being continued. This includes the construction of a new factory for bathroom radiators in Manisa (TR) as well as investment in a new factory for ventilation units close to Shanghai (CN).

For the entirety of 2017, the Group Executive Committee is expecting an increase in sales, although pressure on operating profits is set to remain high during the second half of the year.

# Consolidated Balance Sheet

EUR million	30 June 2017	31 December 2016	30 June 2016
<b>Assets</b>			
Liquid assets	52.5	79.4	54.0
Trade accounts receivable	91.6	86.5	91.2
Other receivables	18.3	12.6	12.7
Inventories	61.2	53.9	57.0
Prepayments	2.9	4.2	4.0
Accrued income	4.1	3.8	7.3
<b>Current assets</b>	<b>230.6</b>	<b>240.4</b>	<b>226.2</b>
Property, plant and equipment	198.1	201.4	207.6
Financial assets	6.9	7.2	4.7
Intangible assets	1.2	1.5	1.7
<b>Non-current assets</b>	<b>206.3</b>	<b>210.1</b>	<b>214.0</b>
<b>Total assets</b>	<b>436.9</b>	<b>450.5</b>	<b>440.3</b>
<b>Liabilities &amp; shareholders' equity</b>			
Loans	28.1	17.0	6.5
Trade accounts payable	30.7	26.5	30.8
Other liabilities	28.0	31.2	37.7
Provisions	15.8	18.0	15.2
Accruals and deferred income	39.1	44.6	35.2
<b>Current liabilities</b>	<b>141.7</b>	<b>137.3</b>	<b>125.5</b>
Loans	7.4	8.3	7.6
Other liabilities	2.4	3.0	4.0
Provisions	21.3	21.6	32.5
<b>Long-term liabilities</b>	<b>31.0</b>	<b>32.9</b>	<b>44.1</b>
<b>Total liabilities</b>	<b>172.7</b>	<b>170.2</b>	<b>169.6</b>
Share capital	0.4	0.4	0.4
Capital reserves	33.6	33.6	33.6
Own shares	-8.4	-10.5	-0.9
Retained earnings	221.7	230.7	217.0
Accumulated FX differences	4.9	8.7	7.5
Minority interests	12.0	17.4	13.1
<b>Equity</b>	<b>264.2</b>	<b>280.2</b>	<b>270.7</b>
<b>Total liabilities &amp; shareholders' equity</b>	<b>436.9</b>	<b>450.5</b>	<b>440.3</b>

# Consolidated Income Statement

EUR million	1st half-year 2017	1st half-year 2016	Change from prior year %
<b>Sales</b>	<b>280.6</b>	<b>261.6</b>	<b>7.3</b>
Changes in inventories	1.4	-0.2	
Internal additions to plant and equipment	1.5	0.6	
Other income	1.6	1.9	
Cost of materials	-104.6	-84.5	
Personnel costs	-100.0	-94.6	
Depreciation of property, plant and equipment	-10.8	-10.5	
Amortisation of intangible assets	-0.4	-0.6	
Other operating expenses	-63.8	-63.0	
<b>Earnings before interest and taxes (EBIT)</b>	<b>5.6</b>	<b>10.6</b>	<b>-47.1</b>
Result from associated companies	-0.1	-0.1	
Financial result	-1.8	-1.3	
<b>Earnings before taxes</b>	<b>3.7</b>	<b>9.2</b>	<b>-59.6</b>
Income taxes	-2.1	-2.5	
<b>Net profit</b>	<b>1.6</b>	<b>6.7</b>	<b>-75.5</b>
Minority interests	0.2	-	
Net profit excluding minority interests	1.5	6.6	
Undiluted net profit excluding minority interests per registered share A (EUR)	0.13	0.57	
Diluted net profit excluding minority interests per registered share A (EUR)	0.13	0.57	
Undiluted net profit excluding minority interests per registered share B (EUR)	0.03	0.11	
Diluted net profit excluding minority interests per registered share B (EUR)	0.03	0.11	



# Consolidated Cash Flow Statement

EUR million	1st half-year 2017	1st half-year 2016
Net profit	1.6	6.7
Depreciation and amortisation of property, plant and equipment	10.8	10.5
Depreciation and amortisation of intangible assets	0.4	0.6
Non-cash change in valuation adjustments on receivables and inventories	-0.1	-1.2
Loss/(gain) on disposals of non-current assets	0.1	-0.1
Result from associated companies	0.1	0.1
(Increase)/decrease of trade accounts receivable	-6.1	-4.1
(Increase)/decrease of other receivables, prepayments and accrued income	-5.0	0.6
(Increase)/decrease of inventories	-9.7	-3.8
Increase/(decrease) of trade accounts payable	5.2	6.6
Increase/(decrease) of other short-term liabilities, accruals and deferred income	-4.3	-0.1
Increase/(decrease) of provisions	-2.1	-5.1
<b>Cash flows from operating activities</b>	<b>-9.1</b>	<b>10.6</b>
Investments in property, plant and equipment	-12.6	-13.4
Investments in associated companies	-	-0.1
Investments in intangible assets	-0.1	-0.2
Investments in subsidiaries <sup>1</sup>	-3.0	-
Divestment of property, plant and equipment	0.6	0.5
<b>Cash flows from investing activities</b>	<b>-15.1</b>	<b>-13.2</b>
Dividends paid to shareholders	-10.2	-
Dividends paid to minority shareholders	-4.4	-0.4
(Purchase)/sale of own shares	1.8	2.2
Increase/(decrease) of short-term loans	11.8	-3.7
Increase/(decrease) of long-term loans	-0.5	-0.7
<b>Cash flows from financing activities</b>	<b>-1.5</b>	<b>-2.5</b>
Currency effects	-1.2	-0.7
<b>Increase/(decrease) of liquid assets</b>	<b>-26.8</b>	<b>-5.8</b>
Liquid assets at 1.1.	79.4	59.7
Liquid assets at 30.6.	52.5	54.0
<b>Increase/(decrease)</b>	<b>-26.8</b>	<b>-5.8</b>

<sup>1</sup> Includes the settlement of the purchase price of EUR 3.0 million, which was established in the previous year to increase the share in Chinese ventilation company Shanghai Nather Air Tech Co., Ltd. from 51 to 75.5 % (2017).

## Consolidated Statement of Changes in Equity

EUR million	Share capital	Capital reserves	Own shares	Retained earnings	Accumulated FX differences	Total excluding minority interests	Minority interests	Total including minority interests
<b>Equity at 1.1.2017</b>	<b>0.4</b>	<b>33.6</b>	<b>-10.5</b>	<b>230.7</b>	<b>8.7</b>	<b>262.8</b>	<b>17.4</b>	<b>280.2</b>
Purchase of own shares	-	-	-0.1	-	-	-0.1	-	-0.1
Sale of own shares	-	-	2.2	-0.3	-	1.9	-	1.9
Net profit	-	-	-	1.5	-	1.5	0.2	1.6
Currency effects	-	-	-	-	-3.8	-3.8	-1.2	-4.9
Dividends	-	-	-	-10.2	-	-10.2	-4.4	-14.6
<b>Equity at 30.6.2017</b>	<b>0.4</b>	<b>33.6</b>	<b>-8.4</b>	<b>221.7</b>	<b>4.9</b>	<b>252.2</b>	<b>12.0</b>	<b>264.2</b>
<b>Equity at 1.1.2016</b>	<b>0.4</b>	<b>33.6</b>	<b>-3.0</b>	<b>212.7</b>	<b>10.4</b>	<b>254.0</b>	<b>15.0</b>	<b>269.0</b>
Sale of own shares	-	-	2.2	0.1	-	2.2	-	2.2
Net profit	-	-	-	6.6	-	6.6	-	6.7
Netted goodwill	-	-	-	-2.3	-	-2.3	-	-2.3
Additions minority interests	-	-	-	-	0.1	0.1	-0.7	-0.6
Currency effects	-	-	-	-0.1	-3.0	-3.1	-0.8	-3.9
Dividends	-	-	-	-	-	-	-0.4	-0.4
<b>Equity at 30.6.2016</b>	<b>0.4</b>	<b>33.6</b>	<b>-0.9</b>	<b>217.0</b>	<b>7.5</b>	<b>257.5</b>	<b>13.1</b>	<b>270.7</b>

# Segment Reporting

		Europe	China & North America	Eliminations	Total
<b>1st half-year 2017</b>					
Sales third	EUR million	241.9	38.7	–	280.6
Sales intercompany	EUR million	1.1	0.9	–2.0	–
<b>Sales</b>	EUR million	<b>243.0</b>	<b>39.7</b>	<b>–2.0</b>	<b>280.6</b>
<b>Earnings before interest and taxes (EBIT)</b>	EUR million	<b>6.5</b>	<b>–0.9</b>	<b>–</b>	<b>5.6</b>
	% of sales	2.7	–2.3		2.0
<b>Investments in property, plant and equipment &amp; intangible assets</b>	EUR million	<b>8.0</b>	<b>4.7</b>	<b>–</b>	<b>12.7</b>
<b>Property, plant and equipment</b>	EUR million	<b>155.8</b>	<b>42.3</b>	<b>–</b>	<b>198.1</b>
<b>Net working capital <sup>1</sup></b>	EUR million	<b>100.9</b>	<b>21.2</b>	<b>–</b>	<b>122.1</b>
<b>Number of employees</b>	Ø full-time equivalents	<b>2,604</b>	<b>757</b>	<b>–</b>	<b>3,361</b>
<b>1st half-year 2016</b>					
Sales third	EUR million	228.3	33.3	–	261.6
Sales intercompany	EUR million	1.4	0.6	–2.0	–
<b>Sales</b>	EUR million	<b>229.7</b>	<b>33.9</b>	<b>–2.0</b>	<b>261.6</b>
<b>Earnings before interest and taxes (EBIT)</b>	EUR million	<b>10.7</b>	<b>–0.1</b>	<b>–</b>	<b>10.6</b>
	% of sales	4.7	–0.4		4.0
<b>Investments in property, plant and equipment &amp; intangible assets</b>	EUR million	<b>12.3</b>	<b>1.3</b>	<b>–</b>	<b>13.6</b>
<b>Property, plant and equipment</b>	EUR million	<b>163.7</b>	<b>44.0</b>	<b>–</b>	<b>207.6</b>
<b>Net working capital <sup>1</sup></b>	EUR million	<b>97.0</b>	<b>20.4</b>	<b>–</b>	<b>117.5</b>
<b>Number of employees</b>	Ø full-time equivalents	<b>2,463</b>	<b>717</b>	<b>–</b>	<b>3,180</b>

<sup>1</sup> Trade accounts receivable plus inventories minus trade accounts payable

## Sales by Region and Business Area

		1st half-year 2017	1st half-year 2017 %	1st half-year 2016	1st half-year 2016 %
Radiators Europe	EUR million	135.1	48.2	130.5	49.9
Change from prior year	%	3.6		0.2	
Radiators North America	EUR million	17.9	6.4	18.2	7.0
Change from prior year	%	-1.9		8.7	
Radiators China	EUR million	4.1	1.5	6.0	2.3
Change from prior year	%	-31.4		-5.8	
<b>Total business area radiators</b>	EUR million	<b>157.2</b>	<b>56.0</b>	<b>154.7</b>	<b>59.1</b>
Change from prior year	%	1.6		0.9	
Ventilation Europe	EUR million	106.7	38.0	97.8	37.4
Change from prior year	%	9.1		4.1	
Ventilation North America	EUR million	5.3	1.9	3.5	1.3
Change from prior year	%	51.2		139.5	
Ventilation China	EUR million	11.4	4.1	5.6	2.1
Change from prior year	%	106.0		26.7	
<b>Total business area ventilation</b>	EUR million	<b>123.5</b>	<b>44.0</b>	<b>106.9</b>	<b>40.9</b>
Change from prior year	%	15.5		7.1	
Total Europe	EUR million	241.9	86.2	228.3	87.3
Change from prior year	%	6.0		1.8	
Total North America	EUR million	23.2	8.3	21.7	8.3
Change from prior year	%	6.6		19.1	
Total China	EUR million	15.6	5.5	11.6	4.4
Change from prior year	%	34.6		7.5	
<b>Total</b>	EUR million	<b>280.6</b>	<b>100.0</b>	<b>261.6</b>	<b>100.0</b>
Change from prior year	%	7.3		3.3	

# Notes to the Six-month Report

**Consolidation and valuation principles**

The unaudited consolidated interim report for the first six months of 2017 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 2016 annual report. The consolidation and valuation principles published in the 2016 annual report have been applied consistently in preparing this interim report.

**Consolidation matrix**

The consolidation matrix remained unchanged in the first half of 2017.

**Events after the balance sheet date**

Between the balance sheet date and the publication of this six-month report, no significant events requiring disclosure occurred.

# Further Information for Investors

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## Registered shares A

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

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

## Registered shares B (unlisted)

Security number 13 312 654

## Company calendar

Six-month report	28.7.2017
End of business year	31.12.2017
Announcement of sales for 2017	19.1.2018
Financial statements 2017 and press / analysts' conference	28.2.2018
General meeting of shareholders	12.4.2018

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 dPoint, the Zehnder Group is a market and technology leader in its business areas.

The Zehnder Group has had its headquarters in Gränichen (CH) since 1895. It employs around 3000 people worldwide and achieved sales of EUR 539 million in 2016. The company is listed on the SIX Swiss Exchange (symbol ZEHN/number 27 653 461). The unlisted registered shares B are held by the Zehnder family and persons closely associated with them.