

Outlook for 2005

Meaningful and detailed statements on business developments for the ongoing 2005 business year are difficult to make at the time of going to press. There are two reasons for this: On the one hand the decisive developments are largely confined to the period from early summer to late fall and, on the other, forecasts on sales development are all the harder to make because of the short-term nature of our operations where, as a rule, there are only a few weeks between receipt of an order and shipment.

In the past year, the positive economic forces in most European countries led to an improved economy compared to earlier years. According to the forecasts, however, the much-longed-for upswing has now already passed its peak again. For the current year, the forecasting institutes still expect positive growth rates for most European countries, though lower ones than in 2004. Thus it cannot be ruled out that the somewhat restrained consumption already noticeable in some countries will slow down further. The pressure on prices and the trend towards lower-cost products will probably continue.



Europe constitutes Zehnder Group's most important market. A generally positive mood is essential to sustain a strong economic upswing, but there are major, unsolved problems in too many European countries to allow such a mood to develop. Unemployment rates stagnating at a high level, huge deficits in government budgets, uncertainties about financing old-age pensions as a result of long-term demographic change, the cost explosion in the health sector, a continuing flood of laws and regulations which restrict entrepreneurial freedom of action, job insecurity resulting from globalization and much more make enterprises and consumers extremely careful in their investments.

The two semesters of the past business year differed noticeably. After the first six months we could report very gratifying growth rates for both sales and earnings. This positive trend was curtailed abruptly in the second half of the year. The main reason was the dramatic increase in procurement costs, particularly for sheet metal and steel tubes. Additional costs were also incurred for packaging, transport and energy as a result of the higher oil price and these costs have left their traces in the income statement.

The extraordinary selling price increases necessitated by cost pressure only took effect after a certain delay and could not forestall the decline of margins in the second half of the year. Despite the clear deterioration of the economic environment in the second half, Zehnder Group reached new record levels in fiscal 2004 in both sales and income.

The very satisfactory financial results for 2004 should not blind us to the fact that the business environment for the current year is much less favorable than a year ago. We expect further cost increases and, at the same time, little in the way of an economic boost. Consequently, the already strong price and volume competition is likely to be stepped up further and this will make it more difficult to increase selling prices as required. From our current perspective, these are not ideal conditions to allow us to surpass the prior year's profit yet again.

At the end of January of the current business year we publicized planned restructuring measures in our Vaux-Andigny plant in France, which could lead to the loss of around 100 jobs. Decreasing sales volume in France, our main market, and continually increasing productivity led to permanent overstaffing in that plant, which could no longer be effectively combated with short-time working.

These short-term imponderables notwithstanding, we are not pessimistic about our future. Zehnder Group has many strengths on which we can build and which we can develop further. One such strength is our broad geographic base. Zehnder Group is an international concern that sells its products in many countries. Additionally, Zehnder offers products that are suitable for new construction as well as for renovation and refurbishment. Their utilization possibilities range from private housing and commercial-industrial properties to public buildings. Moreover, now that we have also moved into the comfort ventilation sector, we can meet more recent requirements in residential housing that have arisen from the trend towards building highly insulated, airtight properties.

In the current year Zehnder Group will continue its policy of steady improvement and continual investment in products, markets, production plant, organization and employees. We know we can build on the strong foundations established in the past and therefore have every reason to look to the future with confidence.

We would like to point out that the expectations expressed in this report are based on assumptions. Such assumptions can later prove to have been incorrect and the final results could then differ substantially from the said expectations.