

Outlook for 2008

Meaningful and detailed statements on business developments for the ongoing 2008 business year are difficult to make while this report is being prepared. 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 economy developed favorably in most European countries. However, this did not apply equally to all sectors of industry. After a relatively satisfactory first six months, the market forces unexpectedly lost momentum in mid-year and the seasonal upswing so typical for our sector was much weaker than anticipated. This development impacted particularly strongly on radiator sales in our three largest markets, France, Germany and Italy.



Even if most forecasts assume that the economy as such will grow in 2008, we have some justified reservations – given the lack of reliable, sector-specific indicators – about whether this applies in the same way to radiators, our main product. A major issue is whether the declining market in the second half of 2007 can be made good in the current year. As there is a lack of positive signals, we are assuming that in key markets the adverse development of economic activity relevant for our main product will continue.

The above notwithstanding, our target for 2008 is to grow further. Even if this is not possible in every country, the overall conditions are in place. With the takeover of the British Bisque Group we strengthened our market position noticeably in the radiator sector. The British market now ranks fourth among Zehnder Group's main sales areas and the chances of benefiting from this good positioning and the growing acceptance of high-quality radiators are fully intact.

In the past year Hydro-Air Components Inc., acquired in 2006, moved to a newly constructed production and administration facility. The change of location burdened the first half of the reporting year in terms of both sales and earnings and delayed the planned launch of new products. Now that relocation has been completed, however, the necessary business environment for continuing the encouraging development of the company has been created and the company can put all its efforts into its operational business. In the current year the product range will be enhanced, which should stimulate growth.

In the comfort ventilation sector we assume that sales will continue to be boosted by growing comfort requirements, increasing environmental awareness, and the trend towards more highly insulated and energy-efficient construction methods for residential housing. The target is to enhance our leading market position even further. The development of new products in Germany and the expansion of our sales organization there provide a basis for successful market penetration. Additionally, the Group is steadily implementing its strategy of internationalization.

We also anticipate that the marketing of industrial air purification equipment launched in various European countries in 2007 under the label "Zehnder Clean Air Solutions" will contribute to sales growth.

Finally, various acquisition projects within the scope of our defined business strategy are being assessed. With the successful conclusion of any one of these projects our growth target could be reached even earlier.

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 deviate from the said expectations.