

Outlook for 2004

Meaningful and detailed statements on business developments for the ongoing 2004 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 recessive forces in most European countries led to a disappointing economic result. Yet the forecasts for the ongoing year are again optimistic. Now that the lean years – 2002 and 2003 – are over, it is assumed that 2004 will at last bring the much-longed-for upswing. Whether it will be a robust one is questionable – given the slow-moving economic reforms and the shifts in the exchange rates which are so unfavorable for the euro zone.

In view of the uncertainty regarding the sustainability and strength of the anticipated recovery and because of the late cyclical nature of the construction supply industry we do not believe that a general economic upturn will already impact noticeably on our sector of industry in the current year. We only expect to benefit in the medium term, not the short term.



In the past two years, our sector of industry has been strongly hit by the lack of stimulus from new private and public construction. We believe that sustainable recovery in our sector is only possible if new construction is stimulated on a broad front. Considering that employment has (still) not picked up across the board and that many public authorities are reporting what could well be record deficits, we suspect that the willingness to investment will hardly improve noticeably in the short term. A more likely short-term scenario is that our sector will continue to stagnate, with inadequate production capacity utilization as well as price and volume competition.

For us it would be a tremendous success if – adjusted for exchange rates and acquisitions – we were to reach the prior year's record sales level. Although this will be no easy task, we will make every effort to master the challenges of yet another difficult year.

Despite this reserved forecast, there is no reason for pessimism. Zehnder Group has not only survived this slump, but has mastered the past few years extraordinarily well. Since 1999 we have increased sales by roughly one quarter and have strengthened our market position as the leading radiator house. At the same time, we have successfully entered the related sector of comfort ventilation. Additionally, our group has maintained its profitability at a high level over all these years and its balance sheet is healthy. In short, we have fulfilled all the conditions for continuing our strategy of long-term, profitable growth.

Many factors have contributed to this success. The main ones were a flexible approach to changing market conditions and the courage to move onto new ground. This would not have been possible without the exceptional flexibility of our staff in all functions and at all levels in our company. To ensure that they retain their motivation and can carry out their tasks successfully, we have steadily invested in markets, products, plant, technology, organization, processes, training, IT and communication. We are all aware that in future, too, we will do well to be guided by our proven philosophy – always renew, always change.

Of course, this also provides the entrepreneurial and operational environment that allows us to offer our customers even better products and even better services. And this, in turn, creates customer loyalty and long-term growth. Given our leading market position in Europe, the United States and China, we have good reason to approach the future with optimism.

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.
