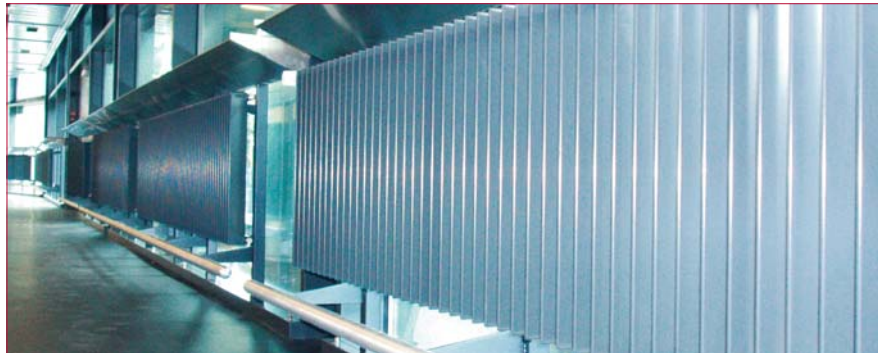


Outlook for 2006

Meaningful and detailed statements on business developments for the ongoing 2006 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.

As expected, the buoyant forces in most European economies, particularly the major ones, began to flag in the past year. The forecasts for the current year anticipate a return to somewhat higher growth rates than in 2005, but only provided that the global engine for growth, the United States, does not slow down. For Europe, however, only a weak upswing is expected. This will hardly be enough to counteract the effects of long-term unsolved problems, effects which were already recognized many years ago.



Europe is Zehnder Group's main market. Yet the positive mood necessary for a strong economic upswing is dampened by major problems in too many European countries. The following issues are in the foreground: Stagnating unemployment at a high level, huge public deficits, uncertainties about old age pension financing as a result of long-term demographic change, the cost explosion in the health service, the continuing flood of legislation and regulation which severely limits freedom of action in the business world, and fear of being made redundant as a result of globalization. Given these and other issues, companies and consumers tend to be guided by prudence in their actions and investments. It is more than likely that companies will continue to favor low investments and consumers high savings. Pressure on prices and the trend towards less expensive products will probably continue.

The two halves of the past business year varied considerably. In the first six months demand was slow and costs rose more or less across the board. This difficult environment impacted particularly on the radiator sector. Compared to the record first half of 2004, earnings were substantially lower. It was only towards the end of the year that demand picked up again noticeably, which led to better capacity utilization. There are signs that in 2006 major cost factors, particularly steel, will begin to ease up.

Conversely, however, there was a massive, speculative increase in the price of aluminum. In the fourth quarter of 2005, the price rose by more than 30 percent and, in December 2005, reached its highest level in 17 years. Experience shows that margins in the aluminum radiator sector can decrease temporarily, because the necessary price increases can only be passed on to the market with a certain time lag.

Our comfort ventilation sector, though still young, developed very well in 2005. There are two main reasons for this: Our efforts to expand into new markets are beginning to bear fruit and our main sales area, the Netherlands, is again showing good growth after a market-related downturn in 2004. Given the current strong demand, we anticipate further above-average growth in this sector.

More than twelve months ago we announced that restructuring measures were planned for our plant in Vaux Andigny in France. The personnel cuts involved could not be implemented up to the time of going to press, because French law gives employee representatives and trade unions numerous grounds for filing objections, which are then specifically used to delay the implementation of the necessary measures.

With growing demand in the fourth quarter of 2005, the forecast for 2006 is rather more positive. However, with the increase in the cost of raw materials in the aluminum sector and the delay in adjusting the production capacities in France, some reservations must be made.

In 2005, a very difficult business year, Zehnder Group maintained its profitability at a high level. This is attributable to the Group's many strategic strengths, which include the Group's broad geographic base. Zehnder Group operates at international level and sells its products in numerous countries. Moreover, our products are suitable for both the construction and the refurbishment sectors and cover a wide variety of applications, be it for residential, commercial, industrial or public buildings. With our move into the comfort ventilation sector we can now also meet more recent requirements in residential and commercial buildings, resulting from the trend towards heat insulated, airtight buildings.

In the current year Zehnder Group will continue its policy of continual improvements and of investing in products, markets, systems and plant, as well as its organization and employees in order to further enhance and optimize its long-term competitiveness.

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.
