

# **Being Focused: Being Better**

## **Speech**

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Chief Executive Officer and Chairman of the Board

*Provisional Draft.*

Annual Shareholder Meeting 2003

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Welcome Ladies and Gentlemen,  
dear Shareholders!

Welcome to the Annual General Meeting 2003 of Pfeiderer AG.  
May I - also on behalf of my colleagues - welcome you warmly  
this year to the Grosse Jurahalle, here in Neumarkt.

I would also like to warmly welcome our many partners and  
friends of our company from industry, politics and society in  
general. I am also very pleased to see our friends from the  
media here, who have followed how Pfeiderer AG has  
developed during last year and have always been fair with their  
comments.

Thank you very much all for your interest and the commitment  
you have in our company.

"He who dares wins" - that is a motto you hear often. But in the  
political and economic sphere in which we operate, I believe it is  
better to say, "He who acts wins!"

Only when you act in good time, make the right decisions and  
apply them with determination can you expect to survive and be  
successful today. That is true for politics, as it is for companies  
in the economy.

However, you need courage, power and trust in order to act:

- \* Courage to face change - even if the need and correctness of this is something that only becomes apparent in the medium term;
- \* Power to drive forward the process of change, even if the external circumstances are unfavorable;
- \* Trusting in our own strength which gives us the confidence to form change successfully;
- \* And trust in each other, thereby creating a basis for management, employees, shareholders and business associates to find a common path towards a successful future.

At Pfleiderer we have acted!

Fiscal 2002 was a major milestone in Pfleiderer AG's more than one hundred year history. By focusing on our Business Centers Engineered Wood and Infrastructure Technology, we have concentrated on the traditional strengths of the company.

By successfully selling our doors, windows and insulation technology operations, we have freed ourselves the German construction sector - an industry that, after eight years of crisis, is now facing the "blackest year" in Post-War Germany.

Let us just look back briefly at the events of fiscal 2002:

- \* The Board of Management and the Supervisory Board of Pfleiderer AG decided in May 2002 that the company should focus on its two Business Centers Engineered Wood and Infrastructure Technology. The new strategic direction meant us selling our windows, doors and insulation technology operations - all of which are closely tied up with the construction sector.

I informed you at length about the goals and basis for this decision at the last Annual General Meeting.

- \* In June 2002 we were able to successfully complete the first stage in these divestments. The Windows business was sold to a management team led by the former general manager.
- \* In September 2002, a contract was signed to sell the Insulation Technology Business Center and our Doors operations.

Pfleiderer Insulation Technology was sold to the Spanish Uralita Group, one of the leading European manufacturers of construction materials.

Pfleiderer Doors was sold to the Danish Vest-Wood Group.

- \* In all cases - and that we see as a particular success - all employees were kept on by the new owners, who have continued production at all locations.

At the end of the first phase in this new corporate strategy, we can say that we successfully completed the planned divestments and achieved our goals.

- \* By selling those parts of the company closely tied in with the construction sector, we have reduced fixed costs and sustainably improved the company's risk structure. Being big alone does not mean value. It is only when labour and capital create value added that a company gains and profits.
- \* By selling off the Doors operations we have freed ourselves of a proven loss-maker which had negatively affected corporate results, with losses into the double-digit millions.
- \* A decisive factor of the success of these divestments was being able to translate our decision quickly into effect. Looking at the economic environment as it is today, selling those parts of the company linked to the construction sector would no longer be possible today in this manner.
- \* Income from the divestments totaling 225 million euros means that we could reduce net corporate indebtedness by around 40 percent. The equity ratio has also considerably improved.

This has safeguarded the company's ability to act and created new scope.

The fact that the economy failed to pick up in the second half of 2002 means that we have had to postpone our growth plans for the while. This we had planned as phase two of our new strategic direction, to take us up to 2005.

However, in such difficult economic times, stability is our first priority. By focusing on just two segments, we have created solid and stable foundations. These we can build on in order to use new opportunity for growth, and to increase our earnings power.

But let us first take a look at the most important financial data for the Pfeleiderer Group in 2002.

I only want to concentrate on the most important data here. An extensive presentation of the fiscal year, with all the facts, figures and data can be found in our Annual Report.

The company's key figures were significantly affected by

- \* focusing our corporate portfolio
- \* and the generally difficult economic climate in Germany.

The Consolidated Financial Statements for 2002 have been drawn up for the first time in accordance with the international accounting standard US GAAP. Accordingly, only the sales of our two continued operations, Engineered Wood and Infra-

structure Technology, are shown. The figures for 2001 have been adjusted accordingly.

Sales for the Pfleiderer Group in fiscal 2002 came to 1,028.4 million euros, just 1.3 percent lower than the comparable figures of the previous year.

48.4 percent of revenue was made outside Germany - by exports as well as from production and sales on local markets.

Earnings before interest, taxes, depreciation and amortization (EBITDA) came to 109.5 million euros, a clear downturn on 2001. The same applies to earnings before interest and taxes (EBIT), which came to 48.9 million euros.

This is a sign of the heavy pressure on profit margins in the Engineered Wood Business Center - due both to intensive competition and a marked fall in prices in this sector in Germany.

For nearly two years now, one of our main competitors on the German market, the HORNITEX Group has been insolvent. The company is able to operate under much more favorable commercial conditions than we. This type of distortion in competition in a toughly fought over market represents a big challenge for all suppliers of engineered woods, and is not without its consequences for the earnings situation.

The bottom line is that the Pfleiderer Group had a positive operating result for fiscal 2002 - in other words EBT for continued operations came to 33.6 million euros. For the Board of Management, this figure before taxes is decisive, as it stands for the sustained performance of our company. We are satisfied with this result, bearing in mind the economic conditions.

However, the divestments mentioned did result in book losses which - together with other non-recurring effects - came in total to 52.5 million euros.

As a result, after subtracting extraordinary losses, EBT came to minus 18.8 million euros.

Results from "discontinued operations" comprises mainly

- \* book losses sustained through the sale of our Doors operations,
- \* book profits from the sale of the Insulation Technology segment.

This figure also includes current operating losses from discontinued operations, for example, the negative result from the Doors operations until its sale at the end of October 2002.

Also included are further value adjustments and "precautionary" measures, as well as expenses for activities which have been

accounted as of 31.12.2002 under US GAAP as "discontinued operations". I'll say more about that later.

The following table is a summary which shows further important data taken from the Consolidated Financial Statements of the Pfeleiderer Group.

- \* Particularly worth mentioning is the decline in net corporate indebtedness, down from over 530 million euros to 307.2 million euros. That is an improvement of around 40 percent. In 2000, our corporate debt stood at over 610 million euros.
- \* With a balance sheet total of 887.4 million euros, the equity ratio as of year ending 2002 was exactly 22.7 percent, compared to 20.8 percent at year ending 2001.
- \* "Return on capital employed" - known for short as ROCE - was down to 8.7 percent, putting it at the same level as in 2000.

The Engineered Wood Business Center suffered - as can be seen in all sales and results figures - in 2002, this was due to the considerable weakness in demand from the furniture industry, as well as overcapacities and pressure on prices on the supply side.

That is the situation in Germany, where Pfeiderer Engineered Wood has sales of around 500 million euros.

This contrasts with our two Polish plants, with 940 employees now contributing around one third of sales to Pfeiderer Engineered Wood, and profiting from dynamic growth in demand in Poland and in Eastern Europe.

Exports, too, have increased markedly, particularly to western countries. Accounting now for 52.5 percent, the foreign share of sales in this segment underlines this.

Apart from greatly improving our cost situation, in future we are also going to be concentrating on further expansion of our international activities for Engineered Wood.

It must also be underlined that our foreign involvement is safeguarding jobs in Germany.

The Infrastructure Technology Business Center developed positively in fiscal 2002, both in terms of sales as well as earnings. Strong contributions to sales were made by

- \* operations in the rail traffic segment - in other words, our rail sleeper business,
- \* as well as our business with poles, masts and towers in Europe and the USA.

Ladies and Gentlemen,

The non-recurring negative effects I have described which result from the divestments, become more accentuated in the Annual Financial Statements of the holding company, Pfeleiderer AG. In order to offset these burdens, we have applied the company's capital reserves. This means that under Section 150 (4) of the German Stock Corporation Act we are not permitted to pay out a dividend from net profits for the last fiscal year.

These accounting effects are the price we have willingly accepted when applying our strategic changes - because they will secure a stable corporate structure for the coming years.

The loss in value of our Doors operations, which became clear when we sold this segment, shows drastically the changed prospects for the German construction and construction supplies sector. Following an extraordinary boom in building after German Reunification in the nineties, the market situation in the construction sector changed dramatically for the worse within just a few years.

Please also bear in mind that in April 2002 we still had to pay around 70 million euros to the Wittelsbacher Ausgleichsfond. The latter made use of its contractual right, dating from 1998, which obliged us to buy up its stake in the Doors activities at a historic share price.

Let me make it quite clear:

We have held on to those segments which are healthy and hold strong long-term positions in their markets.

We have made the company's long-term prospects first priority, rather than short-term earnings effects.

Next year, it is our declared intention to pay a dividend again, provided results and cash flow permit.

I know that the downturn in the share price has gained importance for many of you. But for the company, the strategic divestments of 2002 represent

- \* a decisive step towards consolidating our portfolio,
- \* a safeguard for our financial ability to act and
- \* our determination to continue our policy of value orientated management, which is committed to increasing the long-term value of the company.

That you, our shareholders, have not yet seen the fruits of the new strategic direction is due to several factors.

I cannot deny that the share price is not really buoyed up when

- \* book losses must be accepted when selling off parts of the business,

- \* and when these book losses turn what were initially positive year ending figures into a negative result.

But looking closely at the overall economic situation, it is clear that neither the general state of the product markets, nor the capital markets, have been supportive.

You all know about the current economic weakness in Germany. Increasing unemployment, a growing deficit in public borrowing and the endless burdens of our social security system - this has all led to a climate of deep economic uncertainty. In times such as these, many people are postponing the purchase of that new kitchen or that new furniture for the house for another two years.

The German furniture industry - the main customer for our Engineered Wood Business Center - is suffering greatly as a result. With sales down by 10 percent in 2002, the furniture industry has had to accept further downturns in the first months of this year. With regard to office and shop furniture, the first quarter of 2003 saw a further minus of as much as 16 percent.

You all know about the developments on the capital and stock markets over the last year and a half. This March, the DAX reached its lowest level for over six years - a clear sign of the overall situation.

And you all know what the consequences of this development on the stock market are, with medium-sized companies like Pfleiderer AG suffering particularly. That is particularly the case when funds and institutional investors are forced to sell shares - either because they have changed their investment strategy, or because at the end of the year or the quarter they have to liquidate in order to improve their balance sheets and cash flow positions.

With an average trading volume of over 10,000 share a day - as it was the case with us - large sale orders have a particularly lasting effect on the share price. This is something we felt shortly before Christmas 2002, and again in the spring of 2003.

We have collated the most important factors and causes of the economic situation, and the development of our share price of our company, in an information sheet for you. We are not trying make things look better than they are, to apologize or to find excuses. We simply want to present the causes and provide some explanations.

Ladies and Gentlemen,

In reporting to you today at this Annual Shareholder Meeting for fiscal 2002, my colleagues and I on the Board of Management of Pfleiderer AG can say the following:

At Pfleiderer we have acted.

We have taken decisions and implemented them. With courage and power. And we continue to build on your trust.

- \* We have taken the decisions which - after careful analysis and thought - we considered to be right, and which we still consider to be right today.
- \* The measures necessary to implement this new corporate strategy have been carried out with determination - and as I believe - have achieved good results.

For example, we managed to sell our Insulation Technology operations for over 200 million euros - that is six times the operative EBITDA of this segment - something that all experts have recognized and applauded.

- \* We have guided operative areas of Pfeleiderer AG through what have been a difficult economic environment - and where necessary - made changes in positions.

For example, in the Telecommunication segment, we reduced capacity in good time in reaction to the disappointing market for the development of G3 (UMTS) licenses. On the other hand, we have forced forward our involvement in the rail traffic segment because attractive new opportunities have emerged in Europe and worldwide.

- \* The fundamental data of our company speaks a different language to that of our current market capitalization,

although it should be noted that this has grown pleasingly since April and May.

Alone the book value for the whole of the Pfeiderer Group stands at around 200 million euros. That is around 4 euros 70 cents per share.

Let us use today's AGM as a good opportunity to talk straight and for discussion - as we go forward together to achieve the best possible development of our ... of your company.

The extent to which the current economic climate calls for decisive action can be seen in the first few months of this year. The figures for the first quarter of 2003 show that there is no improvement in market conditions in sight in Germany for engineered woods. On the contrary!

- \* As announced in our Three-Month Report 2003 just over a month ago, the Pfeiderer Group was nearly able to reach the sales figures of the previous year. However, the results for the Group were clearly below those of the previous year.
  
- \* EBT for continued operations for the first quarter of 2003 came to 1.3 million euros. Subtracting the negative figures from discontinued operations gave a result of minus 2.2 million euros before taxes.

- \* The fact that we are still "in the black" in Engineered Wood with a positive figure of 5.6 million euros before interest and taxes is a remarkable achievement, in view of the overall situation of the industry in Germany.

Fortunately, our Polish operations are making a major contribution to results, and this trend continues to grow.

- \* The downturns recorded by Pfeleiderer Infrastructure Technology in the first quarter of 2003 are due to non-recurring sales and results effects in the period under review. Business here continues to be fully on target, or even exceeding it.

All current figures and forecasts confirm our belief that we must expect further pressure on prices and costs and must take resolute measures to counteract this.

In April and May of this year, we set up a package of measures to safeguard and improve earnings. This package involved savings of around 50 million euros. These savings will take full effect within the current fiscal year, and affect to 90 percent the Engineered Wood Business Center in Germany.

We shall

- \* save on personnel and administrative costs,
- \* lower freight costs through IT controlled logistics processes,
- \* increase value added in sales through a market offensive,

and we shall shed around 350 jobs, 300 of which are in Engineered Wood in Germany.

We want to, and shall, make the cuts in jobs as socially compatible as possible. In other words, we shall first use part-time contracts, use early retirement rules and normal fluctuation, not replacing jobs as they are vacated.

However, we will be forced to issue dismissals and to conclude severance agreements. In some cases, that will be a bitter pill. No company happily makes people redundant, the opposite is the case. But in the current economic situation - and in the overall interest of our company - we have no alternative to these savings. We must take action in good time and maintain our ability to act.

In the final instance, all our measures aim to safeguard our production sites and the vast majority of jobs. More than that - we want to increase productivity and earnings power.

Our actions are based on the belief that we have a corporate responsibility towards Germany, for the people that work here and their families. Here in Neumarkt and in all Pfeiderer AG's sites.

But we are also saying this: In order to safeguard jobs everyone can and should make his or her contribution. Economically difficult times show just who is really prepared to act with solidarity and overcome problems.

Corporate success is the best way to contribute to affluence and social security. For all. Those just wanting to protect old privileges will be the first to lose them.

At this point I would like to warmly thank all employees at the Pfeleiderer Group for their hard work, personal commitment, and extraordinary loyalty.

The last 12 to 15 months have greatly tested us, and called for much from us all. And the coming months will not be any easier. We will only achieve what we want if we work together - growth, and added value to the good of all.

For that reason, I am thankful and pleased that the relationship between management and the employee representatives at Pfeleiderer AG has been marked for many years now by fair and constructive partnership. So in thanking you I ask you at the same time to continue this cooperation - even if in these difficult times it will be more difficult to achieve personal interests. Let us strive for suitable and objective solutions that really show solidarity to the good of the whole company. That is something we owe our employees and our shareholders.

Ladies and gentlemen, the fact that we have identified areas for potential savings in all segments can be seen and experienced at today's Annual General Meeting.

- \* We have not sent to all shareholders our annual report, only to those who demanded it by the postcard that came with the invitation to this AGM. This has meant that for around 15,000 shareholders we have made considerable saving in postal charges. The report itself is larger and goes into more detail than ever.
  
- \* At today's event, we have also cut back on technical equipment and have a more modest buffet. Here too, we hope you will understand this.

Ladies and Gentlemen,

Over the last few months, within the framework of corporate governance, much has been said and written about executive pay and publication of their individual salaries.

As Mr Pfleiderer said at the outset, we want to wait and see how the majority of German companies move in this matter.

This year again, the total amount of compensation paid to officers and former officers of the company are shown. This figure also includes payment to former members of the Board of Management.

Both for us as members of the Pfleiderer Board of Management, as well as for many other senior executives in the company, a large part of compensation is variable, so that our pay is

permanently and directly coupled to corporate earnings and the development of our company.

To date, our package of measures to safeguard results to the good of all the Pfleiderer Group has realized a good 15 million euros. However, the greater part of savings will take effect in the third and fourth quarters.

In our experience, the usual seasonal fluctuations in the Engineered Wood segment mean that the summer months tend to be weak, and that things start to pick up again in autumn, when sales and results grow considerably.

Our new brand and sales concept, which aims to strengthen Pfleiderer Engineered Wood's market presence, will add further impetus in the second half of the year.

Looking at fiscal 2003 as a whole, we expect that revenues will once again exceed the 1 billion euros mark.

By the end of the year, even, we expect positive operating results in the double-digit million euro range.

Nevertheless, we are optimistic that even after subtracting expenses from discontinued operations, we will be able to show a clearly positive overall result before taxes.

Ladies and Gentlemen,

in its more than one hundred year history, Pflleiderer AG has also been known for

- \* developing established products and business under its own steam,
- \* gaining new markets through innovations, and
- \* retreating, where necessary, from industrial sectors that no longer fulfilled the criteria of "best ownership".

That is how a timber merchant in 1894 became an internationally active industrial group; with difference business segments and technologically leading products.

Now that it is focused on its two Business Centers Engineered Wood and Infrastructure Technology, Pflleiderer AG is no longer a supplier to the construction and building industry.

Today we see ourselves as a leading European systems supplier

- \* for engineered wood and surface finishings,
- \* for rail track sleeper technology and
- \* for poles and towers of all types and kind.

With our products and services we want to be the preferred industrial supplier for the furniture industry and specialist outlets in attractive markets throughout the world.

We are actively involved in setting up state-of-the-art rail networks.

And we are making an important contribution to high-performance infrastructure for telecommunication and the supply of energy.

The goal of our balanced portfolio of two business centers is

- \* to secure cost leadership with products such as particleboard and
- \* to increase quality leadership with products with a high value added.

Our goal is

- \* to expand our technology leadership in infrastructure technology and
- \* to increase the proportion of international operations in all operational segments.

We intend to

- \* increase our value added by improving profit margins and reducing costs and
- \* extend our strategic market position in our individual business centers.

Throughout the group, we are streamlining administration and reducing personnel costs. By closely interlinking strategic leadership and operative responsibilities, we have created short decision paths and their efficient implementation.

We are creating new emphasis by safeguarding earnings through increased sales.

In the Engineered Wood Business Center, our first aim in sales is to stop the fall in prices over the last few months, and to turn this trend around. The decline in demand in Germany will be at least partly compensated through more exports.

- \* The official receiver of our competitor HORNITEX recently closed down particleboard production at the Nidda site. Involving a production volume of around 350,000 cubic meters, this is the first step towards reducing overcapacity on the German market - something that is urgently necessary.
- \* In the second half of the year, Pfleiderer Engineered Wood will be going to market with a new brand and sales concept which will enable us to direct ourselves for precisely at our customer groups.
- \* In order to trim our range of products and services, in February 2003 we sold a small business unit belonging to Pfleiderer Engineered Wood, ELTEC GmbH, Arnsberg.

This has been divested in the form of a management buyout.

We are also looking for a new owner for Moralt Tischlerplatten in Bad Tölz and Spexard. This company produces specialist niche items for craftsmen. These products need to be better marketed than the industrial structure of Pfeleiderer Engineered Woods currently allows. We expect to be able to report on the successful conclusion of a deal in the near future.

Both these operations - in accordance with our accounting rules - are shown in the Consolidated Financial Statements ending December 31, 2002 as "discontinued operations".

- \* Our plans to set up a new factory near Nowgorod in Russia are starting to take shape. A decision will be taken this year, so that production could start by 2005 at the latest.

The strategic goal of Pfeleiderer Engineered Woods remains to be No 1 in Europe in terms of productivity and earnings power.

We want to emerge from the current process of market consolidation as a winner.

As far as the Infrastructure Technology business segment is concerned, we intend

- \* to further extend our market and technology leadership in individual segments.
- \* to win profitable new markets and niches worldwide.

In all this, we are placing great expectations in track systems business. Pfleiderer track systems has a technologically leading product with its patented "Solid Track" system.

- \* Thanks to its high precision, ability to withstand heavy loads and its durability, this system has unique advantages when constructing new high-speed rail links.
- \* Following the opening of the ICE Cologne-Frankfurt link last year, Pfleiderer track systems is now playing a major role in the new Nuremberg - Ingolstadt - Munich link.
- \* Just last week we signed a contract in which we will be a partner in a consortium set up to construct the new Dutch high-speed rail link. The project has a total volume of 1.2 billion euros. Pfleiderer track systems will have a sales share in the project over the next three years of around 80 million euros.

- \* In order to further participate in market growth in Europe, we are setting up a new sleeper production plant in Brandenburg and expanding capacities in Rumania. In both cases production will start this year.
  
- \* As far as international business is concerned, a few days ago we received an order to supply engineering services for the first high-speed link in Taiwan. We expect a follow-up order to supply the railway sleepers in the near future. In this case, we shall set up a production plant on site.

With this project we expect a sales volume of around 20 million euros. Over the long term, it will give us a foothold on a market with tremendous potential in future.

We have reorganized our operations in the poles, masts and towers business segments into one business center. This segment now includes traditional business with poles made of concrete, steel and plastic in Europe, and also includes our US subsidiary Newmark International. We have also integrated our telecommunications operations.

In future, we want to involve this Business Center more strongly in our neighboring European states. Our strengths are the wide range of products that we offer, the outstanding flexibility of production and individual solutions competence for special products.

Ladies and Gentlemen,

When we published the provisional figures in February this year we informed you for the first time that we were looking for a strategic partner for Pfeleiderer Wind Energy. Over the last three years we have developed wind converters for onshore use for series production and set up the first machines.

Following the sale of several individual units in March this year we received our first major order to set up a wind park in Germany. We also set up a joint venture with the Japanese market leader Ebara, providing exclusive rights to produce our converters under license for Japan and the neighbouring countries.

Parallel to this, we have been developing an innovative new technology for five megawatt offshore plants - in other word for offshore use at sea. We will be starting to test the first prototype in Bremerhaven at the end of this year.

In order that our technological success is translated into economic success in the global growth market for offshore technology, we now need a partner with the right business model. It has never been our goal to construct and operate wind parks at sea. Our traditional strengths lie in the construction of poles and towers and the accompanying full service solutions for our customers. Here we want to continue occupying attractive niche markets.

Ladies and Gentlemen,

Let me repeat on closing:

Fiscal 2002 was a milestone in the more than one hundred year history of Pfeiderer AG. By focusing on our Engineered Wood and Infrastructure Technology Business Centers we are concentrating on the traditional strengths of our company.

We have clearly defined the goals for value-oriented growth - even if we must expect a strong "head wind" during the current year. In such a difficult operating environment it is important that we are to maintain scope to act positively.

This we have achieved by concentrating our portfolio and by reducing corporate indebtedness.

Apart from that Pfeiderer AG has

- \* a stable owner structure which supports a long-term orientation,
- \* motivated executives and employees who are forcing the process of change at high pressure
- \* and a strategy orientated at the needs of all our stakeholders.

That is why we shall continue to act. We intend to increase the corporate value of Pfeiderer AG and to create added value for all our shareholders.

By 2005 we want to

- \* regain 2001 sales levels of 1.4 billion euros,
- \* create new jobs,
- \* increase the foreign share of sales to well in excess of 50 percent,
- \* increase our sales margin to well over 5 percent,
- \* improve ROCE to more than 15 percent.
- \* The equity ratio should then be well over 25 percent.

We are sticking to these goals - despite difficult market conditions. Now it is up to us to turn into reality what we are saying with the title of our annual report:

“Being Focused” means “Being Better”!

That is why we are requesting .... why I am requesting you to continue to give us your support. We want to succeed and we believe in success. We are acting for it. We are working for it ...

- \* with confidence, but self-critically,
- \* with devotion and with our minds,
- \* with competence and our hearts,
- \* with our common strengths,
- \* with courage, power and your trust.

Thank you.

\* \* \* \* \*