

"On Track for New Growth and New Strength"

Statement

Hans H. Overdiek

Spokesman of the Management Board

Provisional Draft.

Annual Shareholders' Meeting 2004

Tuesday, June 15, Munich

Ladies and Gentlemen,
Dear Shareholders, Associates and Friends,

May I warmly welcome you all to this year's Shareholders' Meeting of Pfeleiderer AG.

I do so personally as Spokesman of the Board of Management of Pfeleiderer AG, as well as on behalf of my colleagues, Director of Finance, Dr. Jürgen Koch, and Director of Personnel, Michael Ernst.

Following the departure of Professor Bufe in August last year, the three of us have been leading the company. In a time of far-reaching restructuring and cost-cutting in the company, many see this sliming down at the top as an important sign standing for the credibility and seriousness of the senior executive leadership. I believe that this team puts us in a good position to ensure that Pfeleiderer AG will continue to develop successfully.

Today, for the first time, we are holding our Shareholders' Meeting in Munich. For some of our private shareholders this move was difficult to understand. But - and this may sound surprising - this decision also reflects our desire to make savings.

While we feel obliged to Neumarkt as the company headquarters, in the past we always had to battle to ensure that the Jura-Hallen were properly equipped and set up, with

sufficient infrastructure to cope with an event of this size. In a Congress Center or a hotel like the Hilton Munich the necessary infrastructure is already in place. This means that we can cut back setting up and dismantling time from four to five days in the past to just 1½ days.

By changing the location of the event, we are saving up to 20 percent of the total administrative costs. In difficult economic times, where companies are forced to reducing personnel, we feel that we are obliged to take this step.

In his statement at the beginning of the Meeting, Mr. Ernst-Herbert Pfleiderer pointed out the possibilities open to us under Article 17 of the Company's Articles of Association with regard to where to hold the shareholders' meeting. The alternatives to Neumarkt are cities as Munich, Frankfurt, Berlin or Stuttgart. We feel that Munich is the best choice.

And I am sure that the employees of the Hilton Hotel will do all they can to make our stay here in Munich as pleasant as possible. My warm thanks to the hotel staff for their efforts.

Ladies and Gentlemen,

Fiscal 2003 was both a difficult and eventful year for Pfleiderer AG. We continued to sharpen our corporate focus, a process started in 2002. We further trimmed back our corporate portfolio and disposed of smaller units no longer part of the core

business. We disposed of operations that were no longer living up to our earnings requirements.

This has left deep tracks in our balance sheet. Particularly having to terminate involvement in the wind converters business left a bitter taste due to the losses these operations had been causing.

However, in doing so we have created the foundation for profitable growth for the coming years. In future, we can concentrate our management capacities and financial resources on further developing our core operations.

With regard to all the units disposed of - be it ELTEC Elementefertigung in Arnsberg, Moralt Tischlerplatten in Bad Tölz, or the onshore or offshore activities of Pfleiderer Wind Energy - we have found a specific solution which ensures that business can continue to exist and thus - as far as within our means - continue to provide security for existing jobs.

Economically speaking, 2003 was marked by

- * unchanged weakness in the economy in Germany,
- * low levels of consumer and public spending,
- * insufficient political reforms to the system.

According to the Federal Bureau for Statistics, GDP in 2003 was down on average by 0.1 percent on the previous year. Impetus from exports was largely negated by weak domestic demand.

The situation for the engineered wood sector was even more difficult. The German furniture industry - the most important customer for Pfleiderer Engineered Wood - was hit for the third

year running by a marked decline in sales. With sales down by 1.6 percent in 2001 and a downturn of 10 percent in 2002, the German Association for Wood and Plastic Processors HDH stated that sales in this sector were down by 2.3 percent in 2003. Nor did the first quarter of 2004 show any major signs of improvement.

At the same time, the supply side remains static, still characterized by over-production. In the case of raw particleboard, for example, this is between 10 to 15 percent. Continued competitive pressure led to very unsatisfactory prices, even if there were some initial signs of improvement at the beginning of 2004.

In view of this, ladies and gentlemen, in the spring of 2003 we introduced a package of cost saving measures to safeguard earnings for Pfleiderer AG. These measures were put into place vigorously during 2003. As a result of heavy reductions in production and personnel costs, we saved around 50 million euros. This has meant that despite the difficult operating conditions, positive results were achieved in continued operations. We shall further profit from these savings during the current fiscal year - our central administrative costs in 2004 will be more than 15 percent lower than the previous year.

In view of the difficult state of the economy and industry, we see it as a success that in fiscal 2003 the **Pfleiderer Group**

* maintained generally stable sales in excess of one billion euros,

- * operative results - despite extraordinary expenses - reached positive double figures at 11.3 million euros,
- * and that we have further reduced our liabilities to banks. Corporate net indebtedness as of December 31, 2003 stood at around 260 million euros - and will continue to fall.
- * And let me say this in advance: As of June 30, 2004 our equity ratio will lie over 25 percent again.

This means that we have achieved our targets. We have kept our promises, namely

- * stable sales,
- * positive operating results,
- * low indebtedness,
- * lean structures,
- * and low costs.

For that reason, I would like to warmly thank all staff and employees in the Pfeleiderer Group. Fiscal 2003 made many demands on us. Changes in structure and personnel, the increased workload, as well as the essential savings made in production and personnel costs have all left their marks. But there was always a feeling of the will and determination to work together for the long-term success of the company. For that reason, may I offer my deepest thanks for hard work, commitment and loyalty.

My thanks also go to the employee representatives. Despite our differences in position, our talks and negotiations were generally marked by a feeling of trust and understanding for each other, as well as by constructive efforts to find reasonable solutions for the company.

However, in 2004 we are again be faced with major tasks and challenges. In view of the overall economic situation, job security in the Group will again largely depend on how quickly, flexibly and realistically we react to changes in the market and to the orders situation. Given that economic growth in Germany is expected to remain weak with tough competition on this market, only those, who have their costs under control, will survive.

Ladies and Gentlemen,

2003 was more than just a turning point. Not only did we achieve our targets. We also set course for a better future and took the first steps on route for new growth and more value added.

In August 2003, **Pfleiderer Engineered Wood** Germany introduced its new brand and sales concept to the market. We have trimmed back cost structures, become more hard-hitting and are directing our sales strategies more closely to individual target groups.

- * We have introduced the new brand "wodego" which 150 regional dealers are distributing to specialist trade outlets on a broad basis - the range runs from raw particleboard to HPL elements. An integral part of the concept is the "Duropal" brand, which offers high-pressure laminates and elements such as worktops or window sills. "Duropal" has a highly rated image on both the domestic market, as well as internationally, and will continue to play an important role in our marketing activities.

By the way, an example of these products can be seen on the cover of our latest Annual Report - here as interior furnishings in the City Library of Pforzheim. The shelves are made of laminated particleboard from our "wodego" brand range.

- * In the spring of this year, we further improved the market position of "Thermopal". This is an established brand which has now been positioned as a design-oriented product aimed primarily at architects and those working in the field of interior design.

One particular performance highlight of Thermopal is its extraordinary flexibility, coming in a vast range of surfaces and designs. There are 14 different carriers, over 300 decors and 16 different surface designs to choose from. This gives Thermopal a wide range of applications, be it for example as fire-resistant wall paneling, or as magnetic pin boards. "We manufacture every décor with every structure

on every carrier" - that is the demanding claim that characterizes the Thermopal philosophy for discerning customers.

- * We have now introduced national and international Key Account Management to look after large volume customers in the furniture industry. This target group accounts for around 40 percent of our annual sales in Germany. Our aim is to develop close partnerships with major industrial customers and their suppliers - involving a high degree of trust, networked processing and a common strategic approach.

Starting at the same time as our new brand concept, we have introduced new SAP-R/3 software in order processing, dispatch and logistics. The most important aspects this new sales concept are a better supply and more service quality. This is only possible through more efficient warehousing, new logistics concepts and corresponding IT systems.

Simultaneously introducing new systems, structures and procedures - together with the high pressure on budgets and less staff - inevitably led to considerable frictional loss and teething problems at first. We also placed heavy demands on our customers, causing some frustration. I say that quite openly. But we have greatly improved over the last few weeks and months, and have now put much to right.

In the meantime, those difficulties have been resolved and our concept is increasingly showing its worth. Especially our main and regional dealers are profiting from noticeable improvements due to these innovations - themselves important multipliers as far as the distribution and sale of our products is concerned.

Now that the initial issues have been resolved, we are on the right track for improved market positioning and greater earnings. The first successes will be visible in improved results for the first months of this year.

We have managed

- * to further expand the share of products with higher value added,
- * to create added value through additional service and customer utility,
- * to gain additional earnings potential through brand creation and customer loyalty,
- * to further reduce production and administration costs through improved process management and inventory optimization.

And we are just at the start of this development.

But bear in mind, ladies and gentlemen, that the framework conditions in the market for engineered wood in Germany still remain unsatisfactory. This becomes very clear when you look at prices for raw particleboard. The price index based on 1995 shows that the market is cyclical. However, the long-term trend also shows that there has been a continuous downward movement in prices. And while we have managed to stop the fall over the last few months, earnings for raw particleboard in Germany have still not reached an acceptable level.

Added to this, recently we have had to accept considerably lower prices for volume orders in the direct coated board segment (DBS).

However, the poor situation in Germany should not distract us from the fact that the market for engineered wood in principle remains a growth market in which attractive earnings can be made. Consumption of carrier material in western Europe has been rising continuously since 1990. At the same time, there has been a recognizable change in the percentage share of different product groups. One focal point is the growing share of MDF, which has nearly doubled over the last six years. At present, Pfleiderer Engineered Wood does not have its own production facilities for this product. This strategic gap needs to be closed.

And while the German market for engineered wood remains difficult, developing our Polish engineered wood activities has brought pleasing results. Our two plants in Grajewo and Wieruszow increased sales in fiscal 2003 by 22 percent. The negative exchange rate of the Polish Sloty did slightly weaken this positive contribution when translated into our German balance sheet and income statement. However, seen overall the contribution to earnings is considerable.

And the outlook for more growth is no less pleasing. You only need look at a comparison of per capital expenditure in the main European countries to see the enormous growth potential for furniture - and thus for engineered wood - in eastern Europe.

For example, while Germans spend more than 350 euros per year on furniture, the European average is around 250 euros. In Poland, this figure is somewhat over 30 euros, in Russia less than 20 euros. Given increasing prosperity and purchasing power among our eastern European neighbours, we can expect a considerable rise in demand over the long term.

That is why last year we expanded our surface coating capacities in Poland with new plant and a new production line for worktops. Over the last few weeks we further extended our press capacities for raw particleboard at the Grajewo plant from 30 to 42 meters.

And there appears to be no end to the growth and increasing demand. So it is hardly surprising that the share price of our listed Polish subsidiary - Pfleiderer Grajewo S.A. - nearly trebled during the course of 2003.

A similar picture of domestic stagnation and dynamic international growth can be seen on the markets that make up our **Business Segment Infrastructure Technology**. However, we are pleased to say that **Pfleiderer track systems**, with its sleeper systems for rail track traffic, is still recording good earnings on the domestic market.

Of course we are concerned about the fight for funds that the Federal Ministry of Transport is having to put up. And we have to ask ourselves to what extent loss of income from the planned motorway toll system will have an effect on investment in the

rail sector. However, to date we have not recorded any negative changes to incoming orders here.

On the contrary - we are well under way with our sleeper systems. A major part of this is due to our "Solid Track" Technology, now used internationally in the construction of new high speed rail links.

- * At the moment - and you may have seen it on your trip to Munich - a new stretch is being constructed between Nuremberg and Ingolstadt for the ICE 3. Pfleiderer track systems is supplying more than half of the track sleepers with its patented system RHEDA 2000.
- * Since June last year, Pfleiderer track systems has been working on construction of the new Dutch high speed stretch linking Amsterdam and Brussels - not only as a supplier of around 280,000 sleeper units, but also as a Joint Venture Partner, responsible for project design, engineering and quality management. This project alone represents sales of around 80 million euros up to 2006.
- * And at the end of last year, Pfleiderer track systems gained a foothold in Asia - winning an order to participate in a new high speed link in Taiwan, running from Taipeh to the southern metropolis of Kaohsiung. The engineering services and the supply of around 115,000 sleepers - the majority will be produced locally in Taiwan - represent sales of nearly 25 million euros over the next 12 months.

The strategic importance of this project must also be seen in the opportunity this gives Pfleiderer track systems to prove its abilities, especially the technology it uses in its "Solid Track" RHEDA 2000 System - which is suitable for all three leading high speed rail systems,

- * the ICE 3 in Germany,
- * the French TGV in the Netherlands, and
- * the Japanese Shinkansen in Taiwan.

Pfleiderer track systems is particularly interested in participating in the development of infrastructure networks in eastern Europe and Asia.

To this end, we are participating in the "German High-Speed Initiative" in China, combining transportation technology from Siemens AG and turnout systems from BWG. The Initiative bundles the specific competences of all three companies, providing Chinese rail network providers with competent consultancy and turn-key solutions from a single source. In December last year a Competence Center was set up with the regional rail company in the Chinese province of Guangdong, where cooperation is going on to develop a modern intercity network. A second competence center was set up just a few days ago in Peking.

Our German plants and sites are also profiting from these international projects:

- * In July last year, our concrete sleeper plant in Coswig celebrated a remarkable anniversary, having just produced its 4 millionth sleeper and just completed 1 million running meters of turnout sleepers since inauguration. The anniversary sleeper was part of an initial delivery of around 15,000 sleepers at the start of the project in Taiwan.
- * And in the autumn of last year, we opened a new turnout sleeper plant in Brandenburg-Kirchmöser. Production here is mainly destined for export to neighbouring European countries.

As well as serving these major projects, Pfleiderer track systems is permanently involved a wide range of "smaller" projects where it is demonstrating its know-how and abilities. Our five plants in Germany alone produced 1.3 million sleepers and 300,000 meters of turnout sleepers in fiscal 2003, a new record.

Pfleiderer Poles & Towers, an independent company within the Business Segment Infrastructure Technology since the end of 2003, also did well in fiscal 2003.

A large number of creative and technologically sophisticated products show what our employees are capable - in the best sense of the word. For example

- * the concrete columns for the new Pinakothek Museum of Modern Art in Munich and
- * the steel lighting towers at the new Terminal 2 at Munich Airport.

Incidentally, both projects are illustrated in our current Annual Report.

Unlike the engineered wood and sleeper systems, Pfleiderer Poles and Towers is not a large volume industrial supplier. With a wide range of various products made of concrete, steel and reinforced plastic, it is active on many small heterogeneous niche markets. These are

- * highly fragmented in terms of region and sector and
- * demand a high level of sales and development effort.

At the same time, this means that there are high barriers to market entry. And - like the Telecommunication segment - expectations linked to this business from earlier years could not always be fulfilled. These are the reasons why we decided to dispose of our wind tower operations in Leipzig during the course of this year - ideally through sale to a suitable partner, or if necessary by closing down the plant.

The whole wind energy sector in Germany seems to have passed its zenith. After many years of earnings, the wind tower sector of Pfleiderer Poles & Towers has been suffering for nearly a year now from poor order books, as well as heavy competition and pressure on prices. This has been exacerbated recently by the jump in the price of steel. That explains our resolved decision to dispose of this operation.

Ladies and Gentlemen,

All the activities, measures and plans I have discussed during my statement are reflected in the figures shown in the Financial Statements of the Pfleiderer Group for fiscal 2003. We presented these figures at the end of March at our Balance Sheet Conference. These are now available for you in the form of our latest Annual Report which we have either already sent you, or which you can pick up here today.

Accordingly, I would like to limit myself to just mentioning the most important figures and changes. As I said, the details can be found in the Annual Report, or we would be happy to expand on them in the discussion to follow.

The Pfleiderer Group with its two Business Segments Engineered Wood and Infrastructure Technology reported sales of 1 billion 20.9 million euros for the fiscal year 2003 - this is practically stable compared to the figure for the previous year.

The results clearly reflect competition and pressure on prices in the German engineered wood industry. Sales of 715 million euros mean that the Group's overall results are largely determined by this business segment.

That explains the strong decline in Group figures in earnings before interest, taxes, depreciation and amortization (EBITDA), as well as in earnings before interest and taxes (EBIT). Yet

despite all adverse conditions, we managed to achieve a remarkable profit of 29.4 million euros before taxes on earnings and special effects.

Like the example of the steel tower plant in Leipzig shows, we have made provisions in our Financial Statement for 2003 which will enable us to act should developments make this necessary. Overall, we have made accruals of around 18 million euros - these are initially non-cash-flow-related. That explains why our operative result stands at 11.3 million euros.

When looking at these figures, we must also bear in mind currency exchange fluctuations. The negative effects of the strong US dollar and the Polish Sloty resulted in Group sales being pushed down by around 44 million, and in terms of EBT 5.3 million euros.

Streamlining our portfolio, especially the disposal of our wind energy activities as mentioned, resulted in considerable financial burdens. Operative losses and negative balance sheet effects from our "discontinued operations" came to 45 million euros in 2003.

That is why we are reporting a negative overall EBT of minus 33.7 million euros. To this must be added tax payments due of around 11 million euros - almost exclusively outside Germany. As a result, the equity ratio for the Pfleiderer Group as of cut-off date is down from 22.7 to 17.9 percent. This includes negative

effects amounting to around 15 million euros due to currency exchange rates.

In view of this, we are counting on your understanding as shareholders when we propose that no dividend be paid for fiscal 2003.

While I know that this is not very pleasing from your point of view, the figures I have just presented also point to a clear positive message for the future:

- * In drawing up the Financial Statements for 2003 we have broken free from the burdens and risks from the past and
- * we have assessed future market developments with healthy realism and taken this into account in our future plans.

Let me assure you today that in drawing up the Financial Statements for 2003 we have created the foundations for stable and reliable corporate development. Now we want to build on that. It is something we can build on. And you can count on that.

We are extremely pleased with the way in which corporate indebtedness has been reduced. I am sure you remember that in the summer of 2002 debts stood at well in excess of 500 million euros.

Income raised from the sale of the Insulation Technology segment meant that we were able to reduce net indebtedness of the Pfleiderer Group to 307 million euros by the end of 2002. We initially wanted to push this to under 300 million euro during

the course of 2003. In actual fact, net corporate indebtedness as of December 31, 2003 came to 260.7 million euros for Pfleiderer AG.

This was, and this is, an important milestone on the way to greater corporate independence and freedom to act.

The fact that we have been able to fund debt reduction through tough asset management and from current cash flow underlines the strength of the company's financial position. And even if cash flow in 2003 was well below the previous year's levels - bearing in mind the current situation - we can be satisfied with an operative cash flow of just on 62 million euros.

However, the Financial Statements of 2003, ladies and gentlemen, only reflect an "interim stage" on the way to our goals, namely to

- * further reduce corporate indebtedness,
- * further strengthen the company's capital foundations,
- * thereby increasing our ability to act, so that we can strengthen our market positions in the Business Segments Engineered Wood and Infrastructure Technology.

That is why we decided in February this year to sell our concrete and steel poles business in the USA to Valmont Industries, a world market leader for poles, towers and infrastructure technology.

Our affiliate Newmark International, which incorporated our poles and towers business in the USA, had optimized its business potential over the last few years, expanding its focus on the south-east of the USA. This led to it reporting remarkable results. We were now faced with two choices - either further expand the regional market leadership of this company, which would have required considerable financial expenditure - or give the company a new chance to develop by finding either a new partner or owner. We decided that the second avenue was the better and have found an ideal partner in Valmont Industries.

The business activities of Pfleiderer Poles & Towers in Germany and Europe remain unaffected by the sale, as there were hardly any interactions or synergies existing here between the USA and Europe.

On the other hand, income from sale of the seven production sites in the USA came to just on 115 million US dollars - that is more than eight times the EBITDA reported by Newmark International in its operations last year. This and additional book profits of around 30 million euros make it clear what sort of "strategic mark-up" we achieved from the sale.

As the transaction was completed in mid-April, these positive effects came too late to be shown in our three-month report for the first quarter of 2004. The income was first shown in the April figures.

At the same time, business in general continued to improve as determined at the end of March.

In the first four months of 2004, the Pfleiderer Group reported sales in excess of 320 million euros - putting it well over the figure of 292 million euros for the same period of the previous year.

Earnings before taxes (EBT) of 5.6 million euros for the first quarter of 2004 are considerably better compared to the previous year's figures. As of April 30, 2004 this trend was continuing, at 9 million euros.

Book profit from the sale of our US activities will affect EBT for discontinued operations. This results in overall EBT for the Pfleiderer Group standing at 39.3 million euros as of April 30, 2004, with corporate net indebtedness at under 200 million euros.

Apart from special effects resulting from the sale of Newmark International, we see four operative reasons for the positive upturn during the first months of 2004:

1. Increased sales and better prices for engineered wood, particularly in Poland, but also to some extent in Germany. We are currently experiencing pleasingly good uptake in production capacity and more price stability for raw particleboard in Germany.

2. Positive impetus from our marketing and sales concept for engineered wood. This particularly applies to Poland, where we have set up a network of dealers covering the whole market who have positioned themselves well due to their proximity to their customers.

But in Germany, too, our new corporate strategy is beginning to bear first fruits. We are recording increasing market success through our marketing channels, the brands "Thermopal" and "wodego", as well as from national and international key account management.

3. In the Infrastructure Technology segment, Pfleiderer track systems continues to experience stable ordering. On the international front it is recording sales and earnings from new high speed projects in the Netherlands and Taiwan.
4. Finally, throughout the Group we are seeing positive effects from the cost saving measures introduced last year. These will continue to have a positive effect on cost structures this year, too.

But let me repeat one thing quite clearly - there are still no grounds for premature euphoria.

- * The general economic situation in Germany remains weak. There are no signs of a significant economic recovery in this country.

- * Furthermore, the market for engineered wood in Germany has not fundamentally improved. There is still over-capacity on the supply side. And sales in the furniture industry continue to decline.
- * Experience has shown that the coming summer months are usually a time of slack business for engineered wood. The effect this will have on volumes sold and on prices cannot be precisely forecast at present.
- * In principle, our statement remains unchanged: It is our international activities in the first instance which are fuelling the increase in earnings we need, and which are offering attractive potential for growth.

In view of this, we are sticking to our overall forecast for 2004 - when comparing figures we expect

- * stable sales and
- * a positive operating result, as well as positive overall EBT.

However, should the positive trend towards more business seen in the first months of 2004 continue or strengthen, then we do see some room for upward correction. I am confident that when we publish our six-month report in the first half of August we will be able to provide more concrete forecasts for fiscal 2004.

We are also standing by our targets for the end of 2004, namely

- * to reduce corporate indebtedness - ceteris paribus - to less than 200 million euros,

- * to further strengthen our equity basis and
- * to expand our core activities - including through acquisitions.

Here we have adopted two main strategic thrusts for our operating activities. And as a matter of principle we will only invest money where we see the highest return on investment.

Our goals here are:

1. Consolidation and improvement of earnings power in Germany

We at Pfleiderer AG want to adopt a proactive role in the process of consolidation - long overdue - of the engineered wood sector in Germany. And I am sincerely convinced

- * that the supply structures for engineered wood in Germany will experience a sustained improvement during the course of the year,
- * that over-capacity will at least be partially reduced and
- * that the initial recovery of prices will continue.

Within our own organization, we shall vigorously pursue a policy of strict cost management. This means that we shall be continuously reviewing personnel and cost structures and adjusting them to the market or changes in business. Nor are individual Pfleiderer site "sacrosanct" in this process.

As I see it, that includes the optimization of our internal procedures and operations, in particular with regard to logistics and warehousing relating to engineered woods. Here I see considerable potential for further added value. That is why we have strengthened the management of Pfleiderer Engineered Wood in Germany over the last few weeks.

As far as acquisitions are concerned, I see MDF (medium density fibreboard) for the Business Segment Engineered Wood as a priority. After all, it is our declared and unchanged goal to be able to supply this strategically important product with its high added value from our own production.

So let me state quite categorically - if we don't succeed this year in gaining access to an MDF plant in Germany, then we shall start construction of a new plant outside Germany at the latest next year.

Looking at Pfleiderer Poles & Towers, we shall take suitable strategic decisions in reaction to the changes in the various niche markets as they arise.

As market leader in Germany, with the widest range of products of all suppliers, Pfleiderer Poles & Towers can best achieve further growth by expanding its business throughout Europe. In Germany, on the other hand, stagnating markets are forcing us to concentrate forces in order to improve efficiency.

However, in view of the high market entry barriers, setting up new production capacities and distribution structures outside Germany would not only be expensive, but also highly risky. Accordingly, Pfleiderer Poles & Towers will be looking for strategic alliances or partnerships with international partners. Our current positioning as a technologically competent supplier with a high degree of flexibility, able to provide sophisticated solutions, is an excellent starting point.

The second major strategic thrust is

2. Exploiting high-earning growth opportunities in international markets

Right at the top of the list here is the expansion of our engineered wood capacities in Poland and the new construction of a plant in Russia, already underway. On May 12, 2004 we laid the foundation stone for a new production plant close to the city of Novgorod - that is roughly half way between Moscow and St. Petersburg. Last year we had purchased 100 hectares, and now that all building permits have been granted, we have started construction in spring this year.

In one step we will have a raw particleboard production capable of producing up to 350,000 cubic meters, as well as a coating line producing exclusively for the Russian market. We want to start production by the end of 2005 at the latest. In the first year, that is 2006, we expect sales of around 80 million euros.

In the years to come, the plant will be extended successively in two further stages.

The strategically good location of the site in central Russia and widespread cooperation with industrial partners also wanting to set up in the close vicinity of our plant makes us optimistic, and we are placing big expectations in this project.

As announced at the beginning of this year, we have increased the capital of Pfleiderer Grajewo S.A. which is listed on the Polish stock exchange. The purpose of this move is to finance the growth of Pfleiderer Engineered Wood in Poland and Russia. Pfleiderer Grajewo S.A. acts as parent company as far as our operations in eastern Europe are concerned.

During last week, 1.6 million new shares were successfully placed. Particularly worthy of note here is

- * that the capital increase was more than five times over-subscribed and
- * that the issue price of the new share at 180 Sloty was not only in the upper book-building range, but actually exceeded the reference price for the Grajewo share on the Warsaw exchange on the actual day of issue.

As a result of the capital increase, the Pfleiderer Group has received funds in excess of 62 million euros which we shall use

- * to finance our investment in Russia and
- * to tighten up holding structures in our Polish affiliates.

Following this, Pfleiderer AG will hold just over 60 percent of the share capital in Pfleiderer Grajewo S.A. and will thus maintain its industrial command over the company.

But we are also pressing ahead with the further internationalization of Pfleiderer track systems' activities in rail networks worldwide. Firstly, we want to maintain our leading market position in Germany at the very least. Secondly, Pfleiderer track systems will continue to build on earnings-led growth internationally on a step-by-step basis using its own resources.

Just a few days ago we received an order to supply more than 500,000 sleepers for rail projects in Turkey. This new international success, worth over 20 million euros, will occupy our two plants in Hungary and Rumania for the next 18 months. That will further increase earnings power in this area.

Apart from expanding our presence in Europe - I am thinking here especially of the immense need to develop rail infrastructure in eastern and south-eastern Europe - we have also identified China as a highly attractive target market.

The sum of all this for the Pfleiderer Group adds up to a clear strategic direction: we want to continue to grow profitably through our international activities.

Let me draw your attention to the map which shows the current distribution of 18 production sites for Pfleiderer Engineered Wood and Pfleiderer Infrastructure Technology in Europe and Asia.

Dynamic growth in foreign markets and poor operating conditions in Germany leave us no choice but to expand our business abroad in order to create substantial added value for our shareholders.

It is this clear strategy of further internationalization with particular focus on the growth markets of eastern Europe which over the last few months have

- * attracted noticeable attention for us on the capital markets
- * and made Pfleiderer AG increasingly attractive for international investors.

In the last few weeks various studies, analyses and media reports have assessed that our strategy is convincing and target-oriented.

A decisive condition which paved the way for a new "upbeat" assessment by the capital market of our company was the decision by the majority shareholder, Pfleiderer Unternehmensverwaltung, to reduce its shareholding initially from 70 percent to 62 percent - and in March to currently just under 14 percent. This involved disposing of some 23 million shares - widely spread - to over 30 different institutional investors.

Talks with new shareholders have confirmed the original impression that they are financial investors interested in a medium to long-term investment.

We, the Board and management of Pfleiderer AG, see the latest changes in the ownership structure of the company positively.

- * For one thing, the considerable interest shown by the capital market in Pfleiderer AG underlines that this was the right direction for the future.
- * Secondly, the significantly higher free float makes our share more attractive for institutional and private investors.
- * Thirdly, this step has improved conditions for taking up fresh capital to finance corporate growth via the stock exchange.

The fact that we have been dealing with corporate governance and had already realized most of the guidelines and recommendations is to our benefit in this situation. As the Chairman of the Supervisory Board mentioned at the outset, we shall continue to accord major attention to the principles of transparent, responsible management and monitoring, directed at increasing the value of the company.

The most obvious - and perhaps most convincing - argument in support of Pfleiderer AG's change in strategy and operative focus can be seen in the way our share price has moved over

the last eighteen months. Following an absolute low in the spring of 2003, the share price has more than trebled to date. This should also further your and our strengths, as well as building confidence and trust in how the company continues to develop in future.

Remember, Ladies and Gentlemen,

"Discovering Pfeiderer" is the title of this year's annual report. This refers to the images, in particular the products we produce, how they are made and where they are applied.

But "Discovering Pfeiderer" should also be understood as an expression of Pfeiderer AG's new self-confidence,

- * moving forward with confidence to new growth and improved value added,
- * on track for new strength, taking up new market opportunities and exploiting new earnings potential,
- * attractive again for the capital market for both shareholders and employees.

Please continue to put your faith in us as we move forward.

Let me sum up:

- * In fiscal 2003, Pfeiderer AG successfully pressed forward in its drive to focus further and has found new strength.

- * We have liberated ourselves from the burdens and risks of the past and created the foundations for stable, reliable corporate development.
- * We have considerably reduced corporate liabilities once again, with corporate net indebtedness now lying well below 200 million euros.
- * Following the successful capital increase in Poland, the Pfleiderer Group now has an equity ratio of over 25 percent. We can be proud of that. Pfleiderer AG is now back to "investment grade", based on its main financial data. With the ratio of net indebtedness to EBITDA of well under three, we have reached a solid level at which we can certainly feel comfortable. The same applies to our gearing.
- * Now we must increase our earnings power by the consolidating our operating activities in Germany where necessary. Pfleiderer AG is a market leader for engineered wood in Germany and Poland, as is Pfleiderer track systems in its field in Germany. Strategically, we are well positioned for more success as the business develops.
- * We shall put opportunities for foreign earnings-led growth to good use in order to reduce our dependence on the German market. In the international markets, we see considerable opportunity for growth and earnings potential for our business segments.

We have a lot to do. And the ideas are all there, in our new Annual Report:

Directing Opportunity. Designing Quality. Inspiring Creativity.
