

# **New Size and Growing Strength - The Road to Our Sustained Success**

Statement

**Hans H. Overdiek**

Spokesman of Board of Management

Annual General Meeting 2006 of Pfleiderer AG

Tuesday, June 13, 2006, Munich

Ladies and Gentlemen,

Dear Shareholders, Guests and Friends of Pfleiderer AG – welcome!

It gives me great pleasure to welcome you all most cordially to this year's Annual General Meeting.

As spokesman of the Board of Management – and on behalf of my colleagues on the Board – I am pleased to report to you today about the progress the Pfleiderer Group has made over the previous year, as well as giving an outlook for the future.

Last fiscal year was a good, a successful year for the Company:

- \* We completed the strategic realignment of the Pfleiderer Group and are now fully and completely focused on our engineered wood segment.
- \* In integrating the Kunz Group in Germany and North America, we have become one of the top 5 international suppliers of engineered wood worldwide, and have thus caught up with our major competitors.
- \* We have sustainably increased the earnings power of our operating activities and set course for new profit-led growth.
- \* We have significantly strengthened the equity base of the Pfleiderer Group and placed its financing structure on a new and solid foundation.

- \* We have created added value for our shareholders and doubled the market capitalization of Pfleiderer AG since the beginning of 2005 – since mid-2003 we have increased it nearly ten-fold!

We, the employees and Board of Management of the Pfleiderer Group have

- \* turned our plans into reality,
- \* achieved our targets
- \* and kept our promises to you and the capital markets.

And despite the volatility of the last few weeks, you our shareholders are now profiting directly from this positive growth as the market price of the Pfleiderer share increases dynamically. And for the first time again since 2002, the Board of Management and the Supervisory Board are proposing a dividend payment for fiscal 2005.

The successful course of business during the reporting period 2005 is clearly reflected in all the Company's key figures:

- \* The Pfleiderer Group increased revenues in fiscal 2005 by 8.3 percent to 830.5 million euros.
- \* Earnings before interest, taxes, depreciation and amortization – EBITDA – rose by more than 30 percent to 100.6 million euros. The EBITDA margin improved ac-

cordingly to 12.1 percent – compared to 10 percent for 2004.

- \* Operating EBT, earnings of continued operations before taxes and minority interests, rose by as much as 70 percent, reaching 31.9 million euros. The EBT margin of 3.8 percent – compared to 2.4 percent in the previous year – means that we have clearly exceeded our targets.

These key figures – now presented under IFRS rules – only show the activities of the Kunz Group for one month, as the transaction closed on December 1, 2005.

The Business Center Infrastructure Technology, mainly comprising the activities of Pfleiderer track systems, is included in the Financial Statements for year ending December 31, 2005 under “discontinued operations”. These operations achieved an EBT of 11.9 million euros.

All our revenue and earnings figures for 2005 clearly state the significant improvement in operating performance and are largely due to the positive development of Pfleiderer Engineered Wood in Germany and Western Europe. Following what have been painful closures and reductions in manning levels, in our domestic market in Germany, we have achieved

- \* a sustained improvement in cost structures,

- \* raised the price of our products on the market to an acceptable level
- \* and adjusted the supply side to demand through a successful process of consolidation.

Here I would particularly like to thank our employees and their representatives, who through their responsible actions, played a major role in helping us regain full earnings power in Germany.

After deducting for taxes and minority interests, the Pfleiderer Group reported consolidated net income of 28.8 million euros in fiscal 2005.

Please bear in mind that the comparative figures for the previous year include large one-off effects due to the sale of the Poles & Towers divisions in the USA and Europe. The direct comparison of figures is thus only partially possible. As you know, we would have liked to have booked the successful sale of Pfleiderer track systems for the end of 2005. The anti-trust authorities ended all that. Unfortunately, the welcome capital gain of 45 million euros after tax and resulting cash flow from the sale of Pfleiderer track systems to AXA Private Equity will not appear in our figures until the six-month report as of June 30, 2006.

Earnings per share for the reporting period 2005 came to 68 Eurocents. Related to the operative earnings of continued operations, earnings per share came to 51 Eurocents, compared to minus 14 Eurocents in 2004.

Following a successful 2005, the new large Pfleiderer AG got off to a good start in 2006. The figures for the 1st quarter of 2006 which we made public at the beginning of May confirm this. And both the current course of business and the outlook, based on orders taken confirm our targets and our forecast for the future.

Since the beginning of the year, the engineered wood activities of the former Kunz Group - three sites in Germany and eight sites in North America - have been fully consolidated into the Pfleiderer Group. The qualitative jump forward resulting from this acquisition can be seen clearly:

- \* Revenues in the first quarter of 2006 came to 335.8 million euros, an increase of 74 percent on the previous year.
- \* EBITDA as of March 31, 2006 nearly doubled, coming to 41.1 million euros. The EBITDA margin now stands at 12.2 percent.
- \* EBT for continued operations improved in the first three months of the current fiscal year by nearly 28 percent to 8.1 million euros.
- \* Consolidated net income of 6.1 million euros has resulted in earnings per share of 8 Eurocents for continued operations. In the first quarter of the previous

year, this figure stood at just 1 Eurocent. The months of April and May 2006 clearly confirm this positive trend.

- \* As promised, this acquisition has driven forward our process of internationalisation, with the foreign share in revenue now at 66 percent. At the same time, we have greatly reduced Pfleiderer AG's dependence just on its German particleboard business and are now operating with a greatly improved risk structure.

And since the close of the 1st quarter of 2006, we have achieved two further significant milestones in the Company's development. I refer here in particular to the sustained improvement in strengthening our equity base and the greatly improved financial structure which will allow us to grow further.

- \* The sale of Pfleiderer track systems to AXA Private Equity has given us a realized capital of around 45 million euros after tax.
- \* The highly successful subscription rights capital increase generated net proceeds of over 190 million euros.

Following the issue of 10,641,100 new no-par value shares, Pfleiderer AG's registered capital has increased by around one quarter and now stands at 136.5 million euros. The new shares have been trading on the exchange since

April 12, 2006 and are fully entitled to dividend for fiscal 2005.

In January this year, the market price of the Pfeleiderer shares exceeded its original issue price of 19 euros in 1997. Following inclusion of our new shares, the market price then stabilized at a level in excess of 22 euros. However, volatility on the German capital markets over the last few weeks has put pressure on the price of our share, too. At the same time, it must be stressed that there is no fundamental data which justify the recent fall in the share price.

The growth in our share price, as well as the highly successful capital increase, is an impressive confirmation that the Pfeleiderer Group's strategic direction is right. We also see it as a major mark of trust by you, our shareholders and investors, in the employees and management of our Company. You can rest assured that we will continue do everything possible to justify that trust.

Our equity ratio now stands at around 36 percent, with net debt at around 360 million euros, including leasing liabilities - excluding leasing, this figures came to just on 300 million euros as of the end of April. That shows that we are in an excellent position

- \* financially
- \* strategically

\* and in term of organization

Now we can lead Pfleiderer AG in its new size and greater power and take it forward to a more profitable future.

But here, too, we need your support.

On the Agenda of today's General Meeting are a series of resolutions to which I would like to make a few initial comments here.

We, the Board of Management and the Supervisory Board, are asking you, as it was the case in 2001 and 2003, to authorize us again to set up a stock option incentive plan for senior management of the Pfleiderer AG.

Issuing stock options has been internationally usual practice for some time now and is an important part of compensation policy in listed companies. Stock options provide the possibility of offering senior management in Germany and abroad attractive terms of payment compared to the competition based on the Company's increase in value.

The sustained increase in the Pfleiderer Aktiengesellschaft's value as expressed in the market price of the Pfleiderer share will in future be a fundamental part of our compensation package. As such, it is a strong motivator to

work to achieve this increase in value, which must be proven by a long-term increase in the market value of the Pfleiderer share.

We are therefore proposing to create as part of the Pfleiderer Stock Option Plan the means to issue up to May 31, 2011 stock options with subscription rights of up to 4.5 million new Pfleiderer shares. This volume is necessary in order to be able to offer entitled participants competitive compensation in line with the market in future.

Additionally, we are requesting on today's Agendas further authorization up to December 12, 2007 to acquire up to maximum 10 percent of our own registered capital through treasury stock. In line with legal requirements, the previous authorization was limited to at most 18 months and thus expires on December 13, 2006. In this connection, the Company has already bought back a total of 661,342 of its own shares, as explained in detail in the Annual Report.

The existing authorization to buy back own shares is to be renewed up to December 12, 2007 by way of a resolution passed by this General Meeting.

With the changes it has made, Pfleiderer AG had adopted an earnings-led course of growth which will include further acquisition in future. In view of this, the provisions to be re-

solved today such as the authorization to carry out further capital increases for cash or non-cash contributions are essential. An existing authorization resolved by the General Meeting on July 10, 2001 is limited to June 30, 2006. We are therefore proposing that the existing authorization dating from 2001 to be renewed. In the new resolution lasting up to June 12, 2011, new shares up to a total of 68.3 million euros may be issued against cash or non-cash contributions.

I would like to point out here that you can read the exact working of the various resolutions in today's Agenda. This we have already sent to you and the Agenda is also available in the hall here and has been published in the Internet.

Now I would like to return to current developments in the Pfleiderer Group and the outlook.

The integration of the Kunz Group is progressing well, as it can be seen from all the figures we have been reporting. Problems that arose in the particleboard production in Canada last summer have since been solved. Our restructuring measures show that we have increased the EBITDA margin from 7-8 percent in the previous year to 15-16 percent today. And with a relatively small single-digit million euro investment, we have greatly increased the output levels of existing plants.

The same applies to Germany, where with small but well placed investments in Kunz plants we have achieved considerably higher output compared to before the takeover. However, these effects will not be seen to their full extent until the second half of this year. Being able to transfer technical know how to our newly acquired plants has been a great help in this process.

In the Flooring segment, installation of a second flooring production line in Laval and a major overhaul of the MDF plant in Mont Laurier have now been completed. As a result, we have expanded existing production capacity of laminate flooring from 8 million to 18 million square meters. Here, too, we expect a jump in results in the second half of the year, thanks to much higher capacity utilization due to new orders.

Apart from that, our integration teams have identified further savings potential in the areas of procurement, technology and sales and distribution. A comparative analysis is also being carried out on procedures used at Kunz and Pfleiderer to achieve the leanest possible operating structures - and it looks like we can learn at "old Pfleiderer" beyond the efficiency program. Kunz has much leaner structures and higher profitability in its German business and is thus a touchstone for the "old Pfleiderer".

We are also just a little proud to have increased revenues by 550 million euros with just five more people in administration. That is much less than Kunz had overall in its overheads.

The new Pfleiderer AG intends to pursue its course of growth energetically, making full and long-term use of existing potential for synergies and the increased earnings resulting from the integration of Kunz into the Pfleiderer Group.

- \* Today, the Pfleiderer Group with its engineered wood activities is present on three major regional markets: Western Europe, Eastern Europe and North America. Our organizational structure is now divided up into three independently responsible Business Centers based on regional market principles.
- \* Today, worldwide we are producing over 5 million cubic meters of raw particleboard and over 1 million cubic meters of MDF.
- \* The major part of our production is subjected to further refinement, for example coating, finishing or surfacing applied using direct pressing methods.

- \* In Western Europe, our MDF production at Baruth is a down-line supplier to the laminate flooring industry, while our North American subsidiary UNIBOARD is a fully integrated manufacturer of laminate flooring as a finished product, with capacity to produce 18 million square meters of this finished product annually.

We, the Board of Management, are prepared in principle to continue the course of growth through new investments and further acquisitions up to € 500 million over the coming years using the tools available to us. As an interim goal up to the end of 2008, we are targeting revenue of over € 2 billion with an EBITDA margin of over 16%.

Our strategy for development and the operative tasks involved are clearly defined:

1. In **Western Europe** we intend to further improve our market and competitive positions. As mentioned, integrating Kunz is a major step in this direction. But we also want to find a foothold in the European laminate flooring segment through further acquisitions. This segment promises good margins and is currently under pressure to consolidate.

In the wake of our efficiency program "PHW 2006" designed to improve processing and cost structures, we

are now looking at ways to save in the fields of procurement and technical purchasing. To this end, we have set up a new program called "**Beschaffung OPTIMAL**" - Optimal Procurement in English - in which we are looking at ways to counteract the rising cost of raw materials and pre-products. Nevertheless, large increases in the price of wood, glue and energy mean that we have to increase our own prices over the coming months.

With regard to sales and distribution, Pfleiderer's and Kunz's **product and customer structures** complement each other well:

- \* Kunz concentrates on large industrial customers with heavy volumes, complementing Pfleiderer's business ideally and without large overlaps.
- \* With its wodego brand, Pfleiderer has introduced a product line into the market directed at specialist retail outlets, while its Thermopal brand is aimed at the project and buildings segment and is capable of further development.
- \* And through the Kunz plants, we are now supplying new market segments such as the pre-fabricated housing market.

Furthermore, I am confident that a well-targeted acquisition in the laminate flooring sector will provide

us with our own production in Western Europe for this segment in the near future.

Overall, the German market for particleboard and MDF has further consolidated, resulting in a noticeable stabilisation on the supply side. This is having a positive effect on price levels and competition. Naturally, the current stable market is helping us in all our segments.

But we must continue to compete on the market. And it is still true that the supplier who can produce the most economically and efficiently has an advantage - despite rising prices for raw materials and pre-products such as wood, glue and resins, or décor paper. And if we want to get anywhere near the profitability of our Eastern European business we must not shrink back from further adjustments to production and manning levels.

2. In **Eastern Europe**, we are an established supplier of engineered wood and we will continue to participate in the dynamic development of these strongly growing markets.

Our new plant in **Novgorod** in Russia started production of its coating lines in February this year. While the delays in starting up production of the particleboard

line are very regrettable, all signs point to the line going on stream from next July.

We see Russia as a very attractive market with high potential. Demand for engineered wood is increasing, with ever more international furniture manufacturers entering the Russian market. And supplies are short. Many of the local particleboard manufacturers cannot supply at the required quality and will disappear in the face of strong competition.

In Poland, we have made further technological and other improvements to our production lines at Wieruszów and Grajewo, enabling us to further extend our competitive position and earnings power there.

In November 2005, construction of a new **MDF plant** started at the Grajewo site - a move that will increase our portfolio with products and market segments offering very attractive margins.

And by completely taking over the Polish glue manufacturer **SILEKOL**, we have taken a step towards backward integration - in view of the rising prices for pre-products just mentioned, this could play a significant role in future. Not only our Polish plants, but our plants in Germany are now procuring glue from own production within the Group.

And in Eastern Europe, too, we can well imagine new sites, both for particleboard production, as well as for laminate flooring.

3. In taking over the engineered wood activities of the Kunz Group in **North America**, we have gained a new high-earnings market in two senses:

- \* regionally, as we are now producing at a total of eight sites in Canada and the USA,
- \* and in product terms, as our North American subsidiary UNIBOARD already is an integrated supplier of laminate flooring. That means, it produces the carrier material MDF, coats this material, and finishes the product ready for distribution, then selling it under its own brand name.

Following restructuring, it is our declared strategy to continue with the engineered wood activities along stable and profitable lines. This said, the main thrust of further growth and investment will be directed at expanding our Flooring activities. Here, we are looking especially at sale markets in the south of the USA.

Apart from expanding existing capacities, after starting up a second flooring line at Laval we are now looking at concrete plans to set up a new additional site in the south of the USA.

Today, together with one other supplier, Uniboard is the biggest supplier of laminate flooring in the USA in terms of production capacity - and number 5 for raw particleboard and MDF. However, the current market situation - bearing in mind its size and fragmentation - offers attractive potential for further development.

Beyond that, as a Group we shall be making the best possible use of know how exchange between our three business centers over the long term, as we exploit further opportunities and earnings potential in the markets.

Strengthening efficiency and earnings power, participating in market growth in dynamic markets and focussing on products and markets with high earnings margins and strong cash flows - these remain the central markers along which we shall continue to develop Pfleiderer AG as an international supplier of engineered wood.

We have already successfully created the basis for this over the last months. 2006 is a year in which Pfleiderer AG strides forward in its new size, with growing strength and sustained earnings power.

In saying this, I am confident that we will achieve our targets for the current fiscal year. In 2006, we expect revenues to reach around 1.4 billion euros, with

EBITDA coming to around 200 million euros. That corresponds to an EBITDA margin of an average 14.3 percent in 2006.

Our medium-term goal is an EBITDA margin of 16 percent which we intend to achieve through organic growth as well as further acquisitions.

Ladies and Gentlemen, dear shareholders, let me sum all this up:

- \* The new Pfleiderer AG is on course and has picked up speed as a leading international and focussed supplier of engineered wood for the furniture industry and for the interior fittings, fixtures and furnishings segment.
- \* By integrating the Kunz Group, we have greatly improved our market position in Western Europe. At the same time, we have acquired an established player who has been operating for many years on the North American market.
- \* Gaining new markets, products and customer segments remains of major importance for us in future, too.

- \* Expanding our activities in regional growth markets and extending our portfolio with new, high-earning products is creating a foundation for further, earnings-led growth.
  
- \* You, the Company's shareholders, will gain from this growth as the value of the Company increases accordingly.

In participating in the capital increase in the spring of this year, the vast majority of you expressed your attachment to the Company and your confidence that its value will continue to increase. I would like to thank you for this - also on behalf of my colleagues on the Board.

This Board of Management and all our management colleagues in this our / your Company stand firm on this.

We look forward to maintaining your trust and support in future, too. Let us progress together - in new size and strength - down the road to a successful and profitable future. Thank you.