

COMBINED MANAGEMENT REPORT OF THE PFLEIDERER GROUP AND PFLEIDERER AG



Economists and most companies were surprised by the severity of the financial market crisis and its effects on business activity. At Pfeleiderer, strategies were reviewed and measures were initiated. Pfeleiderer's long-term strategy was not questioned, but the focus shifted to cost and cash management, the balance sheet and financing, as well as capacity management. We reacted at an early stage and started programs to reduce costs, because in our industry low variable costs are the crucial factor for competitiveness. Compared to its competitors, Pfeleiderer made progress and moved up to position number 2 worldwide in terms of utilized production capacity. Demand for our products reached its lowest point in summer 2009, but has recovered again slightly since then. The 20% revenue decline experienced in 2009 to 1,382 million euros is not the consequence of structural changes in our business model, but a substantial cyclical market exaggeration, which was intensified by exchangerate distortions and sharp falls in prices. EBITDA before restructuring costs nearly halved to 118 million euros compared to the prior year. For a return to comfortable margins, we need not only additional cost adjustments, but also an ongoing revival of demand with capacity adjustments in the industry, in which significant capacity shut-downs have already taken place. However, this is not yet sufficient in all regions to bring supply and demand back into equilibrium. Competitors are currently discussing further plant closures.

Business and Operating Environment

GROUP STRUCTURE AND BUSINESS ACTIVITIES

The Pfeiderer Group has specialized in the production and marketing of engineered wood since 2003, and has consistently expanded in recent years by systematically establishing ultra-modern plants in growth regions as well as by making targeted acquisitions. With consolidated revenues of 1.4 billion euros and approximately 5,600 employees, Pfeiderer is one of the world's two leading system suppliers of engineered wood. The product range encompasses PARTICLEBOARD and medium- and high-density FIBERBOARD (MDF/HDF), also with surface finishes, as well as laminate flooring.



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Pfeiderer aims to be one of the top three suppliers in each of its regional markets in terms of market share and production capacity. Pfeiderer has already attained this position in Western Europe with production facilities in Germany and Sweden, in Eastern Europe with plants in Poland and Russia, and in North America with production sites in the United States and in Canada. The Pfeiderer Group now generates approximately 72% of its revenues outside Germany.

Today, 26 Pfeiderer plants supply customers in more than 80 countries. Pfeiderer is a preferred partner to the furniture industry, which accounts for about 33% of Group revenues. Pfeiderer also serves the wholesale market segment, which has a similar share of revenues at roughly 32%. In addition, Pfeiderer products are sold to home-improvement stores, the flooring industry, retailers as well as architects and interior designers.

The Group's legal structure

Pfeiderer is managed as a strategic holding company with independent business centers, which in turn are divided into business units. The business centers correspond with the regions Western Europe, Eastern Europe and North America. A list of main subsidiaries is included in the notes to the consolidated financial statements.

Divisions and organizational structure

Purchasing and sales markets with a strong local character require customer proximity and flexibility on the spot. All Pfeiderer locations are therefore assigned to the aforementioned business centers as regional organizational units, which are operationally independent and bear full responsibility for revenues and earnings. The Western Europe region operates ten plants at eight sites in Germany as well as two plants in Sweden. There are five plants in the Eastern Europe region and Pfeiderer operates nine production plants in the North America region, the tenth started operation in the first quarter of 2010. An overview of the plants' locations can be found in the folding cover of this Annual Report, as well as on the Internet.

Areas of application for engineered wood

The engineered wood produced by Pfleiderer can be divided into three main categories: particleboard, medium- and high-density fiberboard (MDF/HDF) and laminate flooring.

Raw particleboard is highly versatile as a carrier material and construction material and therefore is used in the furniture industry as well as in interior fittings such as wall and ceiling cladding. Particleboard is easy to work with and upon request can also be supplied in special formats and thicknesses. If raw particleboard is coated with decorative paper that was previously soaked in melamine resin, one speaks of melamine-coated particleboard. Under high pressure and temperature, the melamine film is bonded directly with the board in a short-cycle press and in this way forms a hardwearing synthetic surface. The furniture industry applies melamine-coated particleboard everywhere that it is not subject to strong abrasion, such as kitchen-cabinet doors or shelves.

High pressure laminate (HPL) is an extremely hardwearing surface for the furniture industry and interior fittings. It is used everywhere that surfaces are subject to particularly intensive use. One example for the application of HPL is kitchen work surfaces. A wide selection of decorative finishes with HPL opens up many possibilities to design living space individually.

Tongued and grooved raw particleboard is frequently used as the base surface for carpets and other types of floor covering. When the tongued and grooved connections are glued, the surface is virtually joint-free, which is ideal for laying the floor covering. This type of particleboard is also suitable for cladding or strengthening walls, ceilings and roof surfaces.

Multi-function panels (MFP) are variously used in wooden construction. The panels consist of long and thin pressed chips, which are spread randomly and glued with high quality melamine-reinforced urea resins. Due to their high longitudinal and lateral stiffness and their good moisture resistance, these panels are extremely stable and capable of bearing high loads. They are therefore particularly suitable as construction materials for trade-fair stands and interior fittings.

Pyroex panels are hardly inflammable engineered wood and combine all the advantages of particleboard such as high stiffness and versatility for decorative coatings with additional safety in the case of fire. Primary areas of application include interior cladding of public buildings as well as rooms with a high fire danger such as laboratories, filling station sales areas and television studios.

Medium-density fiberboard (MDF) is the ideal material for creative interior designers: Its finer surface texture is suitable for many design possibilities and makes MDF the main type of board when appearance is important. The coating on MDF is even, of high quality and makes the decorative effect even more expressive. Instead of wood chippings as with particleboard, wood fibers are used to make MDF. This gives the board a homogeneous, uniform structure and a very smooth surface. Moreover, MDF is heavier than particleboard as it has a higher density. Due to these material properties, MDF is highly suitable for three-dimensional furniture fronts as well as for painted or high-gloss surfaces.

Laminate flooring is a floor covering consisting of several layers. The surface of laminate flooring is produced with the help of multi-layer technology at high temperatures and under high pressure, resulting in a hardwearing, stable surface. The specially developed, moisture-resistant HDF carrier material forms the core layer. The third layer is an insulating base layer, which is directly bonded to the underside of the panel on which the laminate is fixed. Apart from bathrooms and rooms with a floor drain, laminate flooring can be laid quickly and easily in all types of rooms and also on stairs. Due to the integrated insulating layer and the panels' glue-free click locking, do-it-yourself enthusiasts can lay laminate flooring with no trouble. And due to the strong and precise connections, dirt cannot penetrate the joints, making the floor very easy to clean.

Strong competitive position in three key markets

In order to reduce dependence on the economic cycles of individual regions, Pfeleiderer has spread its business activities over three regions. Due to very different developments in these regions, however, the regional weighting shifted compared to the prior year. The most important sales region by far is Western Europe with 52.0% of Group revenues, although the region lost some of its relative importance (2008: 53.4%). In particular, the revenues generated in Eastern Europe declined significantly due to disadvantageous exchange rate developments and accounted for only 19.9% of Group revenues, compared with 23.7% in 2008. The development of revenues in the North America region was relatively stable, with the result that its share of the total increased from 22.9% to 28.1%.

In each of the three markets it serves, Pfeleiderer aims for a position among the top three suppliers. In our core market, Germany, we are the undisputed leader for particleboard and the fourth-largest supplier for MDF, but hardly smaller than the market leader. In Poland, depending on the product, Pfeleiderer is in either first or second position, and we are also the market leader in our market in the northwest of Russia. In the North East American market, we see Pfeleiderer as the third-largest supplier of particleboard and the second-largest of MDF. With laminate flooring, we have gained significant market share in North America in the past two years through the acquisition of Pergo, and are now the market leader by a significant margin.

Special features of the engineered wood industry

Engineered wood may seem to be a simple product, but its production process certainly is not. The complexity of the production process is described in the chapter of this Annual Report entitled "Delivering value added". The engineered wood industry features a very high level of capital intensity, reflected by investment costs of 150 million euros and more for a production plant. This is why the degree of capacity utilization and a balanced supply and demand structure play such an important role for profitability. Due to the complexity of the production plants, the planning process and the establishment of a new plant take approximately three years. Although the products are standardized to a great extent, wide-ranging production expertise is required to achieve a competitive cost position. By means of process controls which optimize the use of materials and throughput times, it is possible to achieve overall production costs lower than the competitors. Economies of scale are another factor

for success, i.e., the size of the production facilities: Large plants are more efficient than small ones and a production network of large plants allows further savings in terms of distribution and purchasing, for example. And this applies not only to raw materials, but also to production equipment, spare parts and maintenance. Raw materials play a very important role, accounting for 50 to 60% of total costs. As we mainly process scrap wood (see environmental report), whose value is low in relation to transport costs, the plants must be located close to suppliers of raw materials such as sawmills and forests. Wood is generally sourced within a radius of 200 kilometers around a plant. The radius of sales operations is generally limited to a few hundred kilometers; the product-specific transport costs would otherwise reduce our margins unacceptably. This means that sales markets are also largely characterized by local competitive factors. Only a few products such as HPL or laminate flooring can be sold worldwide from one plant.

The market for engineered wood is dominated by a small number of large operators. Pfleiderer is today number 2 in terms of utilized production capacity.

MANAGEMENT AND CONTROL

The Executive Board of Pfleiderer AG was composed of four members until November 15, 2009. Upon the departure of Dr. Robert Hopperdietzel, responsibilities were redistributed within the Executive Board, which has consisted of three members since then. In addition to their functional duties, some members of the Europe have been assigned responsibility for one or two regional corporate units. The responsibilities of the members of the Executive Board are described in this Annual Report in the report of the Supervisory Board.



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[http://www.pfleiderer.com/en/
investor-relations/
corporate-governance-242.html](http://www.pfleiderer.com/en/investor-relations/corporate-governance-242.html)

In the statement of corporate management and the corporate governance report, which is also part of this Annual Report and can be accessed on the Internet, the system of remuneration of the Executive Board and the stock option plan is described, and the declaration of compliance is presented in its full form.

Management, Goals, Strategy

INTERNAL MANAGEMENT SYSTEM

The Executive Board manages the Pfliederer Group and its operating units by defining strategic and operating guidelines as well as operating and financial key figures such as EBIT, EBITDA and ROCE. These key figures apply throughout the Group, serving equally as planning and management tools with the application of standard systems.

The best-practice system implemented throughout the Group is another management tool. Efficiency and productivity are continually improved by systematically transferring know-how and comparing and analyzing the differences between the plants. In addition, Pfliederer aims to operate the broadest possible cross-functional network to utilize synergies and generate economies of scale.

Goals for 2009	Goal accomplishment in 2009
Improve relative competitive position	From third to second place in terms of installed production capacity
Reduce costs by 80 million euros	Costs reduced by more than 100 million euros
Put new plant in Moncure, NC, USA, into operation in Q4 2009	Went into operation later in Q1 2010

Expectations and planning for the coming year are based on indicators for the construction industry such as number of building permits, which are usually granted about a year before a building is completed. Home completions correlate to a high degree with furniture sales, one of our most important markets. The development of private consumption also plays a decisive role in determining the demand for our products. House refurbishment activity is generally a good indicator of demand for laminate flooring. For our mid-term planning, we make use of trend growth in our markets and forecasts for the development of populations and disposable incomes. Market analyses and studies of the engineered wood industry also support the planning process.

STRATEGY

The strategic goal of the Pfliederer Groups is to continually expand its leading international market position, defend its cost leadership, generate an appropriate return on shareholders' capital over the long term, and to remain an attractive employer. We want to be the most competitive supplier of engineered wood and to emerge strengthened from the cyclical low. The focus of tactical targets can be set with consideration of external factors such as economic cycles. Thus, in the current economic situation, cost and cash flow management and strengthening our financial position take priority over growth targets.

Our corporate strategy is based on cost controls, differentiating ourselves from the competition, risk controls and growth. Key criteria for Pfliederer's success are advanced technology, customer focus to set us apart from the competition, and growth based on our competitive advantage.

Cost leadership is a key competitive advantage given the relatively standardized products. It allows us to sell our products at competitive prices while achieving the best possible margins. Our size and internal benchmark processes help us to identify possibilities for improving cost efficiency and to implement them quickly throughout the Group. Large plants and higher output reduce our production costs per unit. Our biggest plants (“mega sites”) in Grajewo (Poland), Novgorod (Russia) and Moncure (North Carolina, USA) are exemplary responses to this challenge.

Although we mainly produce commodities i.e., standardized products, we do not sell them solely in terms of the price: Our customers expect us to process their orders with a high degree of flexibility, that our quality is superior to that of our competitors, and that we always deliver reliably and often within very ambitious deadlines. In order to **differentiate ourselves from our competitors**, we adapt our products to specific customer requirements and also provide additional services such as just-in-time concepts, advice on decorative surfaces, cutting to size, or other individual customer specifications. We have developed and applied some of the most advanced production methods in our industry. This allows us to produce a wide range of high quality products – both standardized and customer-specific solutions. At the same time, we are able to keep production costs at low levels. Furthermore, our focus on high-end and high-growth customers allows us to develop high quality products and additional services that set us apart from the competition and make us a preferred supplier.

As a result of our **regional diversification strategy**, we are one of the few companies in the industry with a global reach. We are able to serve our customers in very different markets and nearly all over the world. In this way, we can compensate for cyclical fluctuations and avoid dependency on individual markets.

We make use of **growth opportunities** on the one hand by increasingly investing in regions where the population has growing disposable income (Eastern Europe), where the population is growing (North America) or where our engineered wood has great potential to replace other, more expensive materials such as solid wood or plywood (North America, Eastern Europe). In addition to the aforementioned goals, we utilize growth and cost opportunities by increasing the value-added depth of our production process. Through the acquisition of Pergo in 2007, we expanded our product range and added laminate flooring to our existing engineered wood offering. This increased the value-added depth of our MDF/HDF products and made good use of synergies.

However, the utilization of production capacities is also important for profitable growth in our industry. This is why Pflleiderer decided in spring 2009 to suspend production at its smallest and least efficient particleboard plant in Gschwend, Germany, with the help of short-time work. If one adds the plant closures by competitors, more than half of the unused capacity in Central Europe has already been taken out of the market. Most of these plants are already in the stage of final disassembly and will

not return to production. We assume that more of our competitors' inefficient plants will be finally closed down during the year 2010, thus bringing supply and demand closer to equilibrium in Central Europe. In Eastern Europe, the problem of excess capacity has been relatively small and according to current estimates will be eliminated by natural market growth during 2010. The North American panel market features many small and often inefficient producers. We anticipate further consolidation also in this market. The driver of this market consolidation is the cost position of the various plants. During the crisis, when product prices tend to fall to the level of the variable costs of the most efficient supplier, the plants with high levels of costs are the first to come under pressure. According to a survey carried out in summer 2009, most Pfeiderer plants are among the most efficient plants within their regional sales areas and can therefore profit from this cutthroat competition.

Overview of Business Development

ECONOMIC SITUATION

In 2009, nearly all our sales markets experienced the worst recession of the postwar period. With a probably reduction of GDP of 5.0% compared to the prior year, the German economy had its worst year since the great depression of the nineteen-thirties. This slump was primarily caused by the sharp contraction of world trade, which had a particular impact on the German economy with its high dependence on exports. According to initial estimates, economic output in the United States shrank by 2.4% last year, in Canada by 2.6% and in Russia by 8.6%. Russia suffered in particular from the fall in raw material prices. Within Europe, only Poland was able to buck this trend, with positive economic growth of probably 1.7%. In Eastern Europe, however, currencies depreciated substantially. The Polish złoty, an important currency for Pfeiderer, fell by 23% and the ruble by 21% against the euro.

Due to the meltdown of banks' equity capital base, the banking sector has restricted its lending policy, significantly raising interest rates on loans to companies, and the financial market crisis has had an impact on the other sectors of the economy. Companies intensified the crisis by reducing inventories to an unprecedented extent in the first half of the year and through their very hesitant investment policy. As a result of state support action for the banking sector and deficit-financed spending programs, the freefall of economic output was halted and there were already the first sings of recovery in some markets in the summer of 2009. In the United States, the real-estate market, which triggered the crisis in the first place, stabilized again and numbers of residential building permits are increasing again. However, the need for reductions in government deficits and corporate debt in many parts of the western world and the ongoing need for the recapitalization of the banking sector mean that only moderate growth rates can be expected for the foreseeable future.

DEVELOPMENT OF THE INDUSTRY

Compared to the prior-year period, the German engineered wood industry recorded a 17.5% drop in revenues in 2009, which is unusually severe in historic terms. This decrease was intensified to a certain extent by the government's car scrappage scheme. The state incentive program shifted private households' consumption patterns in favor of the automotive industry with its strong lobby, and thus intensified the revenue decline in the furniture industry. Whereas sales of furniture remained almost unchanged in Germany during the recession of 2003, in 2009 they fell by 11.5%. The revenues generated by the kitchen sector, which is also important to Pfleiderer, fell by 9.2%, while office furniture sales were down by 15.6% and home furniture sales fell by 11.1%. The resulting lack of capacity utilization in the engineered wood industry led to significant excess capacity and sharp price falls. During the year, production capacity of more than one million cubic meters was finally closed down. According to IFO, a German economic research institute, the furniture industry's business expectations improved significantly during the second half of 2009. Another positive aspect is that the numbers of building permits have been rising again since June 2009, which usually leads to an increase in demand for furniture with a time lag of about one year. Business expectations in the wood sector also improved noticeably in the second half of 2009, and have been positive gain since January 2010.

The North America market for engineered wood 2009 was again in a difficult environment in 2009, when the anticipated recovery failed to materialize. According to RISI, an information service that specializes in the North American engineered wood industry, new construction work was nearly 40% lower than in 2008 and only about a quarter of the peak level reached in 2006. Furniture production also decreased again compared to the prior year by approximately 20%. As a result, demand for particleboard in North America declined by approximately 24% and demand for MDF by 16%. In the southeast of the United States, particleboard prices fell by about 11% and MDF prices by about 6%. For 2010, RISI anticipates an increase in house building again with corresponding positive effects on the furniture industry and on sales of particleboard and MDF.

The Eastern European engineered wood markets held up better in terms of volumes than our other two sales regions. In Poland, sales of raw particleboard, surface-finished particleboard and laminated HDF decreased by approximately 4% in 2009 compared to 2008. Sales of kitchen work surfaces and raw HDF each fell by 5%. In some Eastern European export markets which play a significantly less important role for us than Poland, demand fell by 20 to 40%. Raw particleboard prices in Poland were down by 12% compared to the prior year, while prices of surface-finished particleboard fell by 10% and laminated HDF by 15%. Prices of kitchen work surfaces and HDF were much more stable, with little movement compared to the prior year. In Russia, the sharp drop in demand at the end of 2008 and beginning of 2009 led to particleboard prices falling by 20 to 25%.

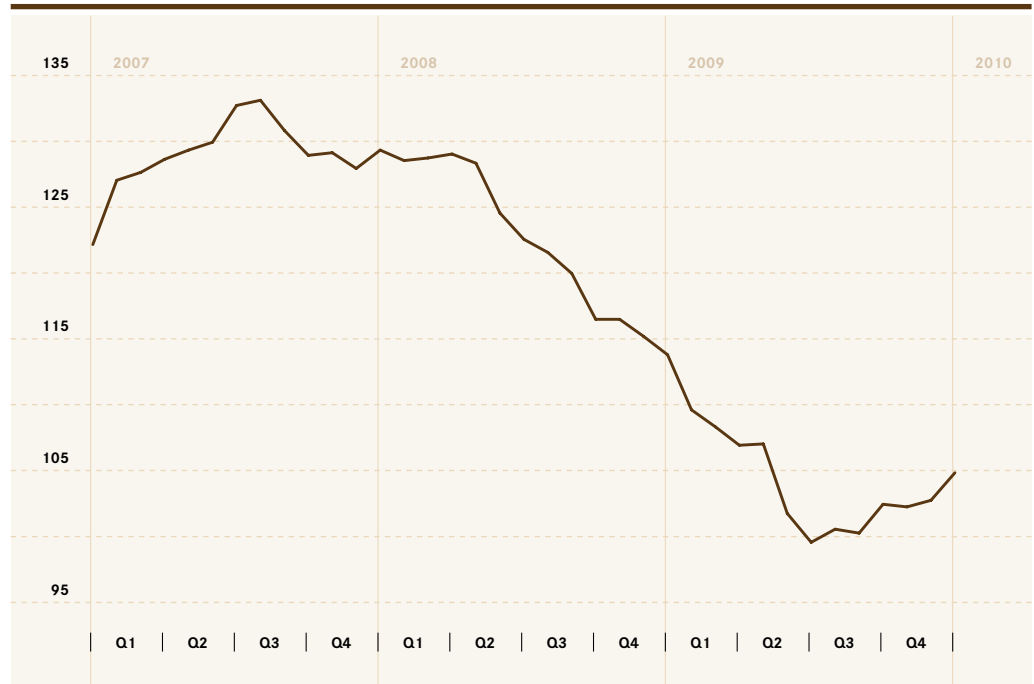
RAW MATERIAL PRICES AND SELLING PRICES

Raw materials play a crucial role, accounting for 50 to 60% of total costs. The cost of wood is the biggest factor, accounting for approximately 40% of raw material costs, followed by glue at approximately 25%. Wood prices remained fairly constant during the first half of 2009, but increased significantly in the second half of the year. This was a result of the hard winter, lower felling activity and the sharp rise in the use of wood as a fuel to generate heat and power. Glue prices, however, continued to fall into the summer and then also rose in autumn. Glue prices tend to follow the oil price with a time lag of about six months.

Selling prices for particleboard in Germany declined until the summer, falling for a while for individual orders to the level of the variable costs of the most efficient producers. Since then, they have increased again slightly, but still not sufficiently to cover costs for all plants operating in our industry. Prices for MDF decreased continuously for most of 2009, and then stabilized at the end of the year.

RAW PARTICLEBOARD GERMANY

Price index 2005=100



Source: Federal Statistical Office

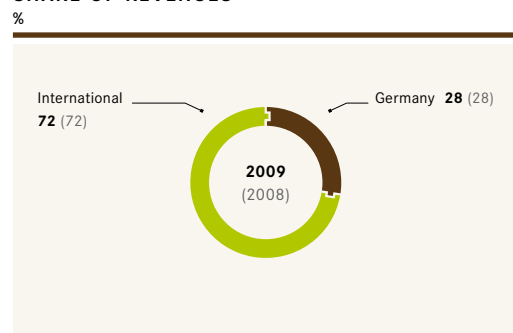
Revenues and Earnings

The financial crisis that started in 2008 continued in 2009 and also had an impact on demand for engineered wood. Our worldwide revenues decreased compared to the prior year by 20.4% to 1,381.5 million euros. Of this revenue decrease, a good 3% is due to exchange rate movements and about 7% was caused by price falls. Prices fell the most sharply for raw particleboard, while prices of surface-finished panels remained more stable. In the last quarter of 2009, there was an upturn of prices of raw particleboard in Europe, however. This was partially due to advancing capacity adjustments in Europe as well as rising demand. Unit sales of all types of board fell by a good 11% in 2009, whereas unit sales of laminate flooring remained fairly flat. Raw particleboard was hit the hardest, with a drop of nearly 16% by volume; surface-finished board performed a little better at minus 11%, while unit sales of MDF/HDF even increased slightly. Demand from individual customer sectors varied only slightly. The fall in demand was most pronounced from the flooring industry, while demand from home-improvement stores remained fairly stable. The proportion of revenues generated outside Germany was the same as the prior-year level at 72.2%.

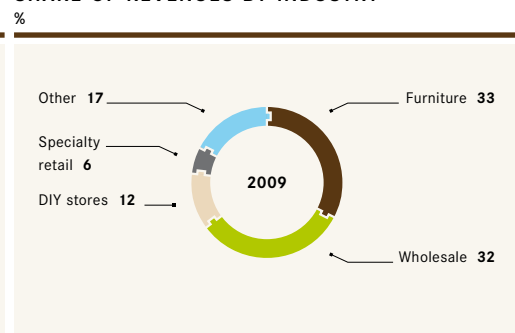
The **gross margin** of 24.2% was close to the prior-year level of 25.1%. Gross profit of 334.7 million euros was affected by one-time charges of 2.9 million euros and by the release of provisions for patent risks of 10.0 million euros. Lower sales volumes and reduced prices were partially offset by actions taken to cut costs. As a result of various measures, cost savings of more than 100 million euros were achieved last year. The biggest contribution came from the Purchasing department; in addition to the generally lower raw material costs – in particular for glue, glue input materials and additives – Purchasing also achieved structural and thus permanent cost reductions. Prices of chemicals and glue, which are affected by oil prices after a certain time lag, were approximately halved in summer 2009 compared to the peaks of the year 2008. During the last quarter of 2009, however, an upturn in both glue and wood prices was apparent. The hard winter made felling work more difficult and low levels of construction limited sawmills' activities. Furthermore, as a result of the frosty temperatures, energy consumption increased, in particular for wood drying.

Falling unit sales led to a significant reduction in plants' utilization of capacity, which has improved again significantly since September, however. We counteracted the insufficient capacity utilization by

SHARE OF REVENUES

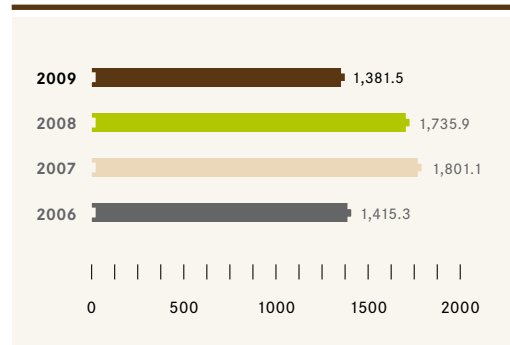


SHARE OF REVENUES BY INDUSTRY

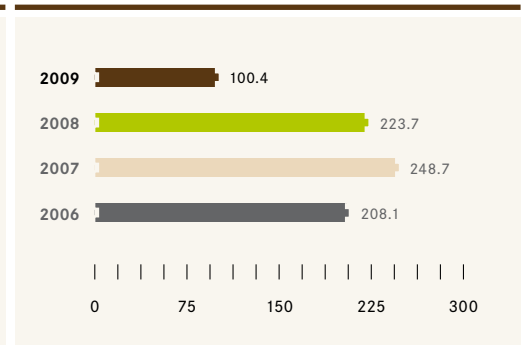


REVENUES

MILLION EUROS

**EBITDA**

MILLION EUROS



reducing overtime and the deployment of temporary workers as well as by the selective introduction, depending on the order situation, of temporary short-time working in some plants. At the end of the year, only the Gschwend plant was still affected by short-time working.

As a result of the lower unit sales, selling expenses fell compared to the prior year by 10.5% to 200.0 million euros. Administrative expenses of 121.3 million euros remained close to the prior-year level of 122.4 million euros. The balance of other operating income and expense was a net expense of 26.8 million euros, which included restructuring costs of 17.5 million euros, unplanned depreciation and impairments of land and buildings of 6.7 million euros and provisions for legal disputes.



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EBITDA before restructuring expenses fell to 117.9 million euros from 223.7 million euros in 2008. As a result, the unadjusted EBITDA margin was 8.5% (2008: 12.9%). Exchange rate effects reduced EBITDA by 7.4 million euros. After restructuring expenses, EBITDA amounted to 100.4 million euros. The restructuring measures primarily related to staff reductions in the Western Europe region as well as other programs for optimizing fixed costs.

Personnel expenses of 256.6 million euros were 1.4% lower than in 2008 (260.2 million euros).



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EBIT includes restructuring expenses and one-time charges of 24.3 million euros, and fell to minus 16.1 million euros, compared to plus 97.6 million euros in 2008. Depreciation and amortization totaled 116.5 million euros. This includes unplanned impairments of land and buildings of 6.7 million euros in connection with the aforementioned restructuring measures.

The **net financial expense** of 48.8 million euros was significantly lower than the prior-year net expense of 80.0 million euros, and reflects the reduction of 2.7 million euros in the net interest expense due to the generally lower level of market interest rates and exchange rate effects, as well as breakeven on other financial income/expense. In 2008, other financial expense amounted to 28.4 million euros.

The result of continuing operations before income taxes was thus a loss of 64.9 million euros, compared to a profit of 17.6 million euros in 2008. The balance of tax payments and tax income recorded as a result of recognizing tax-loss carryforwards at our subsidiary Pergo was tax income of 8.2 million euros. The **loss for the period** (including discontinued operations) amounted to 56.7 million euros, compared with a profit for the period of 28.8 million euros in 2008.

After deducting the loss attributable to minority interests and hybrid capital investors, the loss attributable to the shareholders of Pfeleiderer AG amounts to 69.8 million euros, compared to a profit of 5.8 million euros in 2008. Although the Company has decided to utilize the option of omitting the payment of interest due on the hybrid bond on August 14, 2009, profit attributable to the hybrid capital investors is still recognized in the income statement because those investors continue to be entitled to the subsequent payment of the interest under the terms and conditions stated in the prospectus. A liability in that amount has been recognized in the balance sheet. By deferring the interest payment, the Company is avoiding a cash outflow in the currently difficult market situation.

Basic and diluted **loss per share** from continuing operations amounted to 1 euro and 42 cents, compared with earnings per share of 24 euro cents in 2008.

Financial position

The most important objectives of financial management at Pfeiderer AG include safeguarding liquidity and financial flexibility. A broad range of financing instruments is applied to meet these requirements. An additional goal is to secure a diversified pool of creditors and investors, particularly in the currently difficult environment for corporate finance. Borrowings are undertaken with the longest possible maturities. The Company maintains a balanced ratio between equity and borrowed capital. Pfeiderer is with 32.0% well above the average equity ratio of German companies, as calculated at 24.8% by the Bundesbank in a special publication in November 2009, and this balance sheet ratio gives Pfeiderer a sound basis for its course of profit-oriented growth.

Current financing requirements are covered by a combination of cash flow from operating activities and borrowing. In addition to conventional bank credit, Pfeiderer also makes use of instruments such as syndicated loans, corporate bonds, leasing, the sale of receivables in the framework of ABS transactions, and commercial papers. The average interest rate was approximately 5.0%.

In the second quarter of 2009, Pfeiderer breached certain financial covenants that had been agreed with banks for certain loans. As a result, the conditions for the Group's financing had to be renegotiated. These negotiations were completed at the beginning of 2010 and now secure Group financing of approximately 800 million euros for Western Europe and North America (including a new credit from Germany's KfW bank of approximately 140 million euros) and 300 million euros for Eastern Europe. This financing is available to the Group until the end of 2013 and is linked to the fulfillment of the usual financial covenants such as interest cover and gearing. The so-called net leverage covenant – the ratio of net debt to EBITDA – has been suspended for the year 2010. An additional factor is that the interest expense can increase if the covenants are not fulfilled. For the coming years, the interest margin on top of the applicable market interest rate will depend on the level of the net leverage covenants. However, the costs of financing in 2010 are likely to be higher than in 2009 by a low double-digit million euros amount. We therefore intend to take various measures to reduce the Company's level of debt in the coming years. This includes the sale of treasury shares which already took place in January 2010, the capital increase we carried out in February 2010, the planned sale of activities not essential for our core business operations, and above all the cash flow from operating activities anticipated as of 2011.

Pfeiderer uses derivative financial instruments exclusively to hedge currency and interest-rate risks from operating activities. Currency futures are primarily applied to hedge fluctuations in the exchange rate of the Polish zloty against the euro and of the Canadian dollar against the US dollar. The Company hedges exposures that are already recognized as well as future exposures if their occurrence is sufficiently likely. More information on derivative financial instruments is provided in the notes to the consolidated financial statements.

KEY FINANCIALS

	DEFINITIONS	2009	2008	
Net debt	Financial liabilities – Financial receivables – Cash and cash equivalents	million euros	854,2	635,5
Leverage	Net debt: EBITDA	factor	8.5	2.8
Equity ratio	Equity: total assets	%	32.0	37.7
Gearing	Net debt: Equity	%	135.2	89.4
Capital employed	Net working capital + Net assets	million euros	1,476.6	1,357.6
Return on capital employed (ROCE)	EBIT: Capital employed	%	- 1.1	7.2

CASH FLOWS

Operating activities resulted in a net cash outflow of 13.7 million euros in 2009, compared to a net cash inflow of 228.4 million euros in 2008. This was primarily due to the 113.7 million euros reduction in EBIT and the decrease in current liabilities (excluding financial debt) of 77.8 million euros. The latter mainly reflects the reduction in trade payables of 54.9 million euros.

CAPITAL EXPENDITURE

Capital expenditure including advance payments made decreased in 2009 compared to the prior year by 0.6% to 157.7 million euros, and was thus still significantly higher than depreciation and amortization. 16.6 million euros of the total was invested in the Western Europe region. 101.1 million euros was invested in North America, most of which was for the development of the MDF plant in Moncure, North Carolina, USA. Due to difficult ground conditions and new safety regulations, completion was delayed here and costs were increased. In Eastern Europe, investment of 37.7 million euros mainly reflects expenditure for the development of the MDF plant in Novgorod, Russia. The completion of the plant in Novgorod has been interrupted until the demand situation in the Russian market stabilizes again. A settlement has been reached with the property developer as a result of the delay.

Net assets

Compared to the end of 2008, total assets increased by 4.4% to 1,971.2 million euros. The increase was nearly solely due to current assets, which rose sharply by 12.4% to 422.6 million euros. This increase was on the one hand caused by growth of cash and cash equivalents of 28.1% to 59.3 million euros and on the other hand of receivables and other assets of 40.7% to 177.0 million euros.

Significant changes occurred on the liabilities side of the balance sheet. As credit agreements are linked to financial covenants, which were breached as of December 31, 2009, these financial liabilities are presented as current until the signing of the new credit agreement on January 11, 2010. Partially due to this effect, current liabilities increased compared to the end of 2008 by 589.2 million euros to 1,105.3 million euros. However, current financial liabilities also increased due to the intensified utilization of credit lines. Increased utilization of credit lines resulted on the one hand in higher levels of liquidity, and on the other hand were the result of the negative CASH FLOW from operating activities.



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Equity fell by 11.1% to 631.7 million euros, mainly due to the Group's net loss. As a result, the equity ratio decreased to 32.0%.

The Pfleiderer Group's net debt increased from 635.5 million euros at the end of 2008 to 854.2 million euros at the end of last year, whereby gearing rose to 135.2%. In order to improve this balance sheet ratio, we will focus on reducing net debt and raising profitability again. This purpose has been served by injection of equity capital from the sale of treasury shares and the capital increase in the first quarter of 2010.





The combination of expertise on carrier material and surface finishings creates genuine advantages. Not only do we produce both of these products individually; under pressure and high temperature in the short-cycle press we also create a lasting bond between the two. In this way, we can produce nearly all decorative panels with the most varying features, such as fire-retarding, water-resistant, antibacterial and antistatic. And of course we can also supply combinations of those features.

Segment Report

Segment reporting is based on the regions of Western Europe, Eastern Europe and North America, where Pfeleiderer operates with independent subsidiaries. Business developed very differently from region to region, resulting in a shift in regional weighting. Eastern Europe became less important – due not least to massive exchange rate distortions – and North America gained importance due to increases in market share. In Europe, especially the first half of 2009 featured falling volumes and prices, but this development began to turn around in the second half of the year. In Western Europe, and hesitantly also in North America, capacity adjustments took place as the year progressed, and will probably continue in 2010. Pfeleiderer was able to maintain or improve its market position in all markets.

SEGMENT OVERVIEW

MILLION EUROS	WESTERN EUROPE		EASTERN EUROPE		NORTH AMERICA		GROUP*	
	2009	2008	2009	2008	2009	2008	2009	2008
Revenues	741.9	945.8	285.0	420.3	401.8	404.9	1,381.5	1,735.9
EBIT	1.3	112.5	2.6	28.9	4.3	-20.2	-16.1	97.6
- margin in %	0.2	11.9	0.9	6.9	1.1	-5.0	-1.2	5.6
Capital expenditure	16.6	58.7	37.7	60.3	101.1	37.4	157.7	158.7
Employees (year end)	2,663	2,830	1,584	1,734	1,212	1,080	5,592	5,777

* Figures for the Group differ from the totals for the regions due to consolidation adjustments.



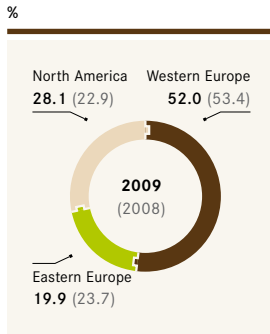
<http://www.pfleiderer.com/en/company/company-structure-237.html>

WESTERN EUROPE

The revenues generated in the Western Europe region decreased compared to the prior year by 21.6% to 741.9 million euros. About 9% of that decrease are due to falling prices and 13% are caused by lower unit sales. The fall in prices of standard products continued into the summer, but prices have recovered slightly since then. All sales sectors and regions were affected – export markets more than domestic markets, however. Demand for furniture probably suffered in the first half of 2009 from the state car scrappage incentive programs, as for political reasons purchasing power was diverted into the automotive industry. Sales of office furniture suffered in particular in this downswing. Production of kitchen furniture held up quite well, not least due to strong exports. Towards the end of the third quarter, demand increased once again, especially in the area of interior fittings and shop refurbishment. Unit sales dropped the most sharply for raw particleboard, whereas sales of MDF nearly equaled the prior-year level. Market share was gained for surface-finished particleboard as well as for HPL and elements.

Unit sales of flooring decreased in Europe and insufficient utilization of capacity affected prices in the lower and middle market segment. With its products in the upper market segment, Pergo was able to avoid this price pressure to a large extent. We opened flooring competence centers in Berlin, Paris, Zurich and Barcelona, allowing the local markets to be processed more effectively. Pergo established the Folddown standard for laying laminate flooring, a click locking without using glue. We anticipate revenue growth as a result of further new products and marketing activities in the future.

REVENUES BY SEGMENT



EBIT in the Western Europe region fell from 112.5 million euros to 1.3 million euros, including restructuring costs and impairment charges of 13.7 million euros. Strict cost management and substantial savings to be achieved in 2009 were already decided upon and initiated in January 2009. The derived structural methods are intended to adjust the cost position to the lower level of demand. The main reactions to the market situation were capacity reductions through short-time working, savings of 30 million euros due for example to productivity improvements, a workforce reduction of 160 persons, and customer incentive innovations. In the first half of the year, short-time working arrangements were applied at most of the plants at various intervals, especially in the production of raw particleboard. The plant in Gschwend has been operating with 100% short-time work since the summer of 2009 and will continue to do so in the coming months of 2010. For the further optimization of our processes and to reduce costs, the merger of Business Unit Industry and Business Unit Kunz was prepared for January 1, 2010. As a result, those units' accounting, IT and sales activities were centralized.

In the area of new products, Pflleiderer received more awards than ever before in 2009. Details are provided in the research and development report. Since September 2009, the economic situation of our industry has been improving. The mood within the furniture industry and in the wood trade has improved from month to month and numbers of new building permits also indicate a revival. Despite these signs of recovery, the focus will remain on cost optimization in 2010.

EASTERN EUROPE

In Eastern Europe, we recorded a decrease in revenues of 32.3% to 285.0 million euros. 60.4 million euros or 14.4% of the decrease was due to exchange rate effects, most of the rest was caused by falling prices. For example, prices of raw particleboard in Poland fell by 12% and prices of surface-finished board were down by 10%. The furniture industry, our most important customer sector in Eastern Europe, had to cope with substantial revenue losses as a result of the financial crisis. Nonetheless, we were able to increase our unit sales of some products: by 10% for raw MDF, and by 29% for laminated HDF. Unit sales of surface-finished particleboard fell by 12%, primarily due to falling exports to the Baltic countries. Unit sales of kitchen work surfaces decreased by 4%. Due to significant cost-reducing actions, including a cut of headcount workforce of 12%, we were able to further strengthen our competitiveness and market position in Poland.

In Russia, the demand situation was very difficult in the first half of the year; unit sales fell by about 30%. However, capacity utilization improved again from the third quarter due to competitors being forced out of the market. Nonetheless, particleboard prices are still a good 20% lower than in the prior year. As long as the situation in Russia remains so difficult, we will continue to wait with the completion of the MDF plant in Novgorod. We will continue construction there when the market situation improves again.

Overall, the demand situation in Eastern Europe, particularly in Poland, has proven to be very stable. The revenue decline is mainly the result of exchange rate effects and falling prices. But the weak zloty improved the competitiveness of the Polish furniture industry, especially in the first half of the year.

Earnings came under pressure primarily due to the low level of prices for our products. EBIT amounted to only 2.6 million euros, compared with 28.9 million euros in 2008. Demand should improve again in 2010, thus at least stabilizing prices and allowing revenue to increase again.

NORTH AMERICA

In our North American markets, we generated revenues of 401.8 million euros, nearly matching the prior-year level of 404.9 million euros, although the flooring market and the panel market shrank considerably. Exchange rate effects boosted revenues by 8.9 million euros. Contrary to the general market trend, our unit sales of flooring increased by about 5%, so we increased our share of a shrinking market to over 30%. One of the reasons for this success is our strong position in DIY stores, which have gained market share in this crisis at the expense of specialist retailers.

Our unit sales of raw particleboard decreased by 11%; however, this was significantly better than the overall market contraction of 25%. Our unit sales of melamine-faced boards increased by about 1% and of MDF/HDF by 9%. Towards the end of the year, the furniture industry revived perceptibly. A new short-cycle press went into operation at our Val d'Or plant in Canada. This strengthens our leading position in the North American market for directly finished board. Furthermore, our Uniboard subsidiary has now also entered into a first cooperative venture with Kustom Material Laminators (KML), one of the leading producers of melamine-faced boards in the western states of the USA. This cooperation will allow customers to access the entire design portfolio for melamine-faced panels from Uniboard in the United States. The ramp-up of the new MDF plant in Moncure, USA, was postponed by a quarter due to more complicated foundation work and additional fire prevention regulations, and took place in the first quarter of 2010. We will supply among others our plant for laminate flooring in Raleigh from Moncure, thus benefiting from a significant cost advantage.

EBIT for 2009 amounted to 4.3 million euros, compared to a loss of 20.2 million euros in 2008. Earnings were reduced by restructuring costs and impairments totaling 3.3 million euros.

In general, the competitive situation in North America is still suffering from significant excess capacity and a fragmented supplier market. We anticipate further market consolidation. In addition, in the second half of 2010, demand should start to increase again due to the expected slight recovery of the real-estate market.

Net assets and results of operations of the Parent Company, Pfleiderer AG

Pfleiderer AG is the parent company of the Pfleiderer Group and primarily performs the holding company functions. It is responsible for the strategic alignment and management of the Group. At December 31, 2009, Pfleiderer AG employed 55 people, including the Executive Board, compared to 54 one year earlier.

In addition to its holding company functions, Pfleiderer AG is also responsible for centralized power purchasing for the production sites in Germany. The electricity costs incurred are charged to the subsidiaries without adding a mark-up, so that they directly benefit from this arrangement. In 2009, electricity charges totaled 40.0 million euros, compared to 36.0 million euros in the prior year.

The parent company incurred charges from the transfer of losses from the Western Europe region of 35.9 million euros in 2009. In the prior year, income on investments of 54.6 million euros and impairments of financial assets of 4.7 million euros were recorded. Net financial income improved slightly from 5.6 million euros to 6.8 million euros. The income generated by holding company activities therefore decreased to -29.2 million euros (2008: 55.5 million euros). After consideration of other operating expense and income, personnel expenses, and depreciation and amortization, the parent company posted a loss on ordinary activities of 57.1 million euros, compared to a profit of 19.6 million euros in 2008. After consideration of taxation, the loss for the year was 57.0 million euros. In 2008, Pfleiderer AG had posted a profit for the year of 15.4 million euros.

The total assets of Pfleiderer AG increased in 2009 by 1.4% to 915.5 million euros. On the assets side, the main increase was of receivables and other assets from 604.5 million euros to 620.4 million euros. This item primarily comprises receivables from subsidiaries, which result from holding activities as well as from the financing of subsidiaries in the context of the Pfleiderer Group's cash pooling.

On the liabilities side, the most significant effect resulted from the increase in liabilities to banks from 241.6 million euros to 378.9 million euros. This change resulted primarily from the higher utilization of short-term credit lines. These funds, as well as the liabilities to subsidiaries incurred within the Group of 177.5 million euros (2008: 242.5 million euros), were allocated to the operating companies of the Group as part of Pfleiderer's cash pooling.

Equity decreased from 386.9 million euros to 329.8 million euros. The equity ratio at the end of December 2009 fell accordingly to 36.0% (2008: 42.9%).

At the Annual General Meeting, a proposal will be made that no dividend be distributed for the year 2009.

Production

Measured in terms of installed production capacity, Pflleiderer has moved up internationally from third to second place in the area of particleboard and fiberboard. We are thus among the industry's undisputed global leaders. The fact that we have achieved this position has a lot to do with our high levels of capital expenditure in the past. The Pflleiderer Group now benefits from that, because we are able to maintain our excellent position in the market with no need for any substantial cash outflows. Capital expenditure in production facilities in 2009 was therefore mainly limited to maintenance investment and our new plant in Moncure, USA.

22 sites with 26 plants in the regions Western Europe, Eastern Europe and North America; production facilities in the countries Canada, the United States, Germany, Sweden, Poland and Russia – we produce engineered wood where we see markets with potential for the future and with strong customers. With our installed production capacities at those sites, we are able to supply not only the countries where they are located, but a total of more than 80 countries worldwide.

The geographical distribution of our sites reflects our strategy of risk distribution, because crises do not usually occur in all regions at the same time. This did in fact occur for the first time last year, but we can already state that North America – where the crisis started – is also very likely to be the first region to return to a normal growth path.

PRODUCTION CAPACITIES

MIO. M ³	Particleboard	MDF/HDF
North America	1.30	0.54
Western Europe	2.72	0.58
Eastern Europe	1.70	0.29
Total	5.72	1.41

ORGANIZATIONAL STRUCTURE

So that we can react flexibly to changing markets, our production units have a decentralized organization and report to the responsible management of the respective region. To achieve better coordination of our worldwide activities, in connection with the elimination of the Executive Board position for Technology & Plants/Operations, the position of Chief Technical Officer (CTO) was created. The CTO is responsible for the headquarters department of Group Technology and reports directly to the Chairman of the Executive Board. Group Technology coordinates the corporate functions of Operations Control (with the Group's own GPPS – Global Pflleiderer Production System), Technical Inhouse Consulting for process engineering, and Environmental/Safety Management. The functions of the CTO also include the central coordination of the persons responsible for technology and the plant managers at the Pflleiderer Group.



The Pfeleiderer Group has defined a large number of metrics for the control of its production processes, which are measured at all the plants. It is quickly noticed if one of these parameters is non-typical, and appropriate action can be taken.

With this organizational matrix, the Group is optimally positioned to continually improve its production processes and to reduce specific consumption. These efforts are aided by GPPS, which measures approximately 80 parameters in the production process and thus allows comparability between the individual plants. By making these comparisons, it is possible to recognize strengths and weaknesses and to realize potential for cost savings.

QUALITY

Our customers depend on us – on our reliability of supply and on the quality of our products. As the Pfeleiderer world is increasingly growing together and our products are delivered between our sites and across the borders of the individual business centers, a Group-wide definition of quality has become necessary. Because each site has its own regional requirements and sets its own priorities in quality assurance accordingly.

For this reason, a project group was established in 2009 that first will analyze various structures and processes, and then make proposals for harmonized quality management throughout the Group. The members of this “Pfeleiderer Quality Initiative” are the responsible quality managers of the business centers.

A number of key issues have been defined on the basis of the first analysis. These include the harmonized reporting of external complaints and the harmonization of specifications and testing methods. The first report with uniform key figures defined for the entire Group was completed early in 2010. It creates transparency and comparability, thus allowing any weaknesses to be identified and best practices to be transferred from one production unit to another.

The efficient Pfeleiderer quality management system will be present throughout our entire value chain in the future, and therefore has an important cross-divisional function at the Group. It has already been decided that the quality executives will continue their successful work in 2010 as the “Quality Committee”. Independently of this development, quality management will continue to perform its duties locally in the individual regions, so that we can react flexibly, quickly and individually to the respective market and customer requirements.

Research and Development

Sustainable, functional, trendy: We place the highest requirements on our products, which gives us competitive advantages. In order to make the maximum use of these advantages, Pfleiderer's research and development work in 2009 concentrated once again on creating innovative products with value added. We presented a lot of new products last year – and many of our products were recognized with major design prizes.

PFLEIDERER PRODUCTS SUPPORT SUSTAINABLE CONSTRUCTION

As a producer of engineered wood that works with a natural resource, we have been committed to the principle of sustainability for decades. This commitment is reflected in our research work and our innovations: One example of this is our "Livingboard" product. Since 2009, Livingboard is the only surface-finished particleboard on the European market to support customers in obtaining the LEED seal of approval in platinum for sustainable construction. The building certification system that is currently the most widespread internationally, Leadership in Energy and Environmental Design (LEED), considers all of the environmentally relevant aspects of a building. It also makes the highest demands in terms of engineered wood, which Livingboard fulfills without exception. For example, in order to gain a point in the "quality of room climate" category, thus allowing the Premium Standard to be awarded, it is not enough to fulfill the strict VOC (volatile organic compound) requirements of emissions of hazardous materials. Particleboards must also be made with glue free of urea-formaldehyde, which is the case with our Livingboard.

Pfleiderer also fulfills the LEED requirements in the "materials and resources" category with no exceptions. For example, we primarily use wood from as near as possible to our production facilities which is certified according to the guidelines of the Forest Stewardship Council (FSC) for sustainable forestry. Furthermore, a proportion of at least 20% recycled material (pre-consumer) such as sawdust or wood chip is possible in Livingboard particleboard. Furthermore, the Pfleiderer Group in Germany and many other parts of Europe guarantees that – in the spirit of regional supply – the raw materials used from the first inputs to the production stage and then to the construction site do not travel more than 800 kilometers.

In the North American market, we have supported sustainable construction in the spirit of LEED for a long time. Particleboards and medium-density fiberboards from Pfleiderer subsidiary Uniboard can help to gain certification according to LEED criteria. With its NuGreen particleboard, Uniboard allows its North American customers for engineered wood to obtain the maximum number of points that can be achieved in the areas "quality of room climate" and "materials and resources". NuGreen consists completely of recycled wood (pre-consumer) from sustainably managed forests. In addition, this type of particleboard is produced without urea resin.



see p. 62 Environmental report

RESEARCH WORK FOR THE USE OF FAST-GROWING RAW MATERIALS

Against the backdrop of the approaching shortage of wood as a raw material and a result of its increased price, we continue to research into the use of fast-growing alternative raw materials. Cross-over fundamental research on various other issues was carried out in 2009 also in cooperation with Germany's Federal Ministry for Research and Development and with selected universities.

PRIZES FOR INNOVATIVE PFLEIDERER PRODUCTS

Modern engineered wood is not only sustainable, but is also in line with the spirit of our era in terms of design. HPL-SolidColor, the high-pressure laminate produced by Pfleiderer subsidiary Duropal, combines an attractive appearance with versatile functionality. Thanks to specially developed recipes, this dyed-through laminate material has very good processing properties so that it can be used universally as surface and/or edge material. This very homogenous material is also highly wear resistant. Duropal already received awards for its development in 2008 – the “Architecture Innovation Prize + Office XXL.” In 2009, the product was once again a prize winner– this time in the design competition “Interzum Award: Intelligent Material & Design,” which takes place in advance of the “Interzum” trade fair, the world's leading trade fair for suppliers of the furniture industry and interior fitters.

Pfleiderer subsidiary Thermopal also won an important design prize in 2009. In addition to its standard collection, Thermopal commissioned six renowned design agencies and architects' offices to prepare 54 avant-garde designs for interior fittings. This bold step beyond the usual range of decorative patterns earned Germany's coveted “Red Dot Design Award”. This “Designers' Collection” series of decorative surfaces was developed specifically for interior fittings in hotels, shops as well as spa and recreation centers. The “Red Dot” design competition is the biggest initiative of its kind, with more than 11,000 entries from 61 countries. The Designers' Collection from Thermopal convinced the jury in the “Architecture and Interior Design” product group of the “Product Design” category. The assessment criteria included degree of innovation, functionality and formal quality.

Both HPL-SolidColor from Duropal and Designers' Collection from Thermopal have been proposed for the 2010 German Design Prize. This prize is the country's highest official award in the field of design. Each year, a specialized jury recognizes excellent performance in the field of product and communication design.



<http://www.duropal.com>



<http://www.thermopal.com>



Research and development at the Pfleiderer Group ensure that our products do well not only in design competitions. Because these new developments are ultimately only successful if they are also appreciated and bought by customers.



Engineered wood is versatile. Depending on the planned application, particleboard or fiberboard can be given various properties. That's why we do a lot to expand these possibilities.

The non-flammable decorative panel “flameprotect compact,” which Thermopal launched on the market in 2009, convinced the jury for the “Architecture and Construction Innovation Prize”. The purpose behind this award is to select those products from the multitude of construction products offered on the market that fulfill fire-protection requirements particularly well. While most of the fire-resistant panels used in decorative interior fitting can at best be deemed to be “flame resistant”, “flameprotect compact” from Thermopal is classified as non-flammable according to European Standard DIN EN 13501-1. This material composed of mineral components thus fulfills the requirements for special constructions. Because, the use of non-flammable materials is stipulated for many areas in meeting rooms, hotels, schools, kindergartens, hospitals and homes.

NEW SURFACES CONVINCED CUSTOMERS WITH AUTHENTIC FEEL AND INDIVIDUAL LOOK

Optics of course plays a major role in the development of our decorative surfaces. But as our products are mainly used in interior fitting, our experts also ensure that they also feel right. At “Interzum”, several Pflleiderer subsidiaries presented their surface innovations in 2009.

In 2009, Duropal added “Fine Grain” to its product portfolio; this is a particularly matt surface that resembles structural paint and appeals with a perceptible fine-grain effect giving decorative surfaces a texture. The fine grain is also visually perceptible and provides for a lively appearance. The new “Fine Matt” surface from Pflleiderer Industry offers a similar appearance, but has different feel and texture from “Fine Grain”. This surface was developed for direct coating and combines visual with haptic effects, creating a natural appearance. “Fine Matt” is harder-wearing than conventional matt surfaces and has proven to be a versatile design element for plain, wood and fantasy decors. Dark plain colors in particular profit from the new structures, because they are less sensitive to finger marks than the previously available matt surfaces.



<http://www.industrie.pfleiderer.com>

The new surface “Illusion” makes use of the 3D effect: Soft waves on an absolutely flat surface create the illusion of a visible depth of several centimeters. The appeal is that it is nearly impossible to separate physical reality and perceived visual depth. The eyes see just a two-dimensional image, but the brain sees an illusion of three dimensions.

Our “topX” high-gloss surface quality also premiered at Interzum. This is a surface that is even harder, more scratch resistant and hardwearing than the usual high-pressure laminates. In order to fulfill these requirements, Duropal had to depart from conventional HPL production and go new ways in terms of production technology.



<http://www.pergo.com>

PERGO FLOOR-LAYING TECHNOLOGY BECOMES MORE ESTABLISHED IN THE MARKET

Pergo, our producer of laminate flooring, once again proved its credentials as a pioneer of innovation and technology in 2009. Our Swedish subsidiary, which is regarded as the inventor of laminate flooring, has marketed its Folddown technology for the glue-free laying of laminate flooring worldwide since 2009. Folddown is a system by which one panel is connected to another simply by being lowered onto it, which makes it much easier to lay laminate flooring. The PerfectFold-Clip developed by Pergo is compatible with all known click systems, including those for other producers.

Through the cooperation between Pergo and the German machine-tool manufacturer, Wächter Pack-automatik, which produces industrial equipment for the flooring industry, numerous machines licensed by Pergo are already on the market that insert the clip into the floor panels during the production process. With the marketing of the Folddown solution under license, Pergo has been fully living up to its role as a system supplier since 2009. The first version of the clip was developed for laminate flooring; a version for parquet flooring is also under development. The Pfeleiderer subsidiary further developed the clip on the basis of five of its own patents for Folddown technology. In 2009, Pergo concluded license agreements for this technology with Belgian company Unilin as well as with Austrian company Egger GmbH & Co.

Due to the revenue decrease of 20.4% in 2009, Pfeleiderer reduced its expenditure for research and development from 4.1 million euros in the prior year to 2.8 million euros.

Environmental Report

As one of the world's leading producers of engineered wood, Pfleiderer is convinced that profitable growth and a responsible approach to the use of scarce resources are by no means mutually exclusive, but that they actually complement each other. It is therefore only natural for the Pfleiderer Group to conserve energy and raw materials, to reduce emissions and to produce sustainable products. This is to the benefit of the environment while reducing costs for the Group, is in line with customers' wishes, and fulfills legal requirements.

We see environmental protection as going far beyond a voluntary commitment. We actually see environmental protection as a key foundation of our corporate strategy. Because a sustainable approach supports us with cost controls and the reduction of risks while making an important contribution to maintaining our long-term competitiveness.

Our understanding of environmental and climate protection is reflected throughout our entire value chain. This is why the three key pillars of our environmental strategy also mark stages of this process: organization, production and products. Here we see areas for concrete action with medium- and long-term targets.

TARGETS OF PFLEIDERER'S ENVIRONMENTAL STRATEGY

One of the mid-term targets in the area of **organization** is to implement transparent processes through the Group-wide introduction of recognized environmental management systems such as ISO 14001. In those regions where we are already successfully certified according to this international standard, we regard it as a constant duty to continually improve our processes. Also in the area of **production**, we keep a watchful eye on the steady optimization of our processes in order to further reduce the input of energy and raw materials while maintaining constant product quality. In line with our environmental strategy, we aim to conserve resources also in the area of **products**: Our Research and Development department is constantly investigating new methods of applying raw materials so as to conserve valuable resources as far as possible. At present, it is occupied with the production of particularly light engineered wood.

FULL INFORMATION ON ENVIRONMENTAL PROTECTION ALSO ON THE PFLEIDERER WEBSITE

In 2009, we started publishing statements on our environmental strategy also on the Pfleiderer website. Under the heading "Responsibility", comprehensive information is available on environmental and climate protection at Pfleiderer. For example, with the use of animated graphics, we show the environmentally friendly stages along our value chain. We also explain the connection between wood and the climate, we provide an overview of important environmental certificates that the Pfleiderer Group has obtained, and we name the appropriate contact persons.



<http://www.pfleiderer.com/en/responsibility/the-environment-502.html>

We want to create transparency with the new environmental contents of our website. The implementation of this project in 2009 was therefore an important step for us. In this chapter of the Annual Report, we present additional successes and milestones that we reached in 2009 in our three strategic areas of organization, production and products.

ALL GERMAN PLANTS CERTIFIED ACCORDING TO ISO 14001

Our environmental targets and the specific programs are derived from the international environmental management standard ISO 14001, which specifies globally recognized requirements to be placed on an environmental management system. This standard requires a process of continuous improvement in organizations' environmental performance. Starting with the Western Europe region, it is our mid-term goal to have the entire Pfeleiderer Group certified according to ISO 14001. We moved appreciably nearer to this target in 2009: All of the Pfeleiderer plants at the eight sites in Germany have been certified according to ISO 14001 since last summer. The plants were examined by external institutions and it was confirmed that they are able to monitor and control key environmental factors such as emissions, waste, energy and water consumption, and thus also to improve these factors over the long term.

SUSTAINABLE FORESTRY: A MUST FOR COMPANIES IN THE WOOD SECTOR

At Pfeleiderer, environmental protection already starts with purchasing. We take special care in selecting the suppliers of our most important raw material: wood. We do so because we are highly aware of our responsibility towards this natural and renewable resource, and thus consistently follow the principle of sustainable forestry. In this way, we support the goal of only harvesting as much wood as is re-generated. The forests from which we source wood are properly managed and used, keeping them in a healthy condition. At the same time, following the principle of sustainable forestry, many functions of the forest are strengthened, such as maintaining biological diversity and the many possibilities for leisure and recreation.

For this reason, but also of course for economic reasons, Pfeleiderer solely uses wood from sustainably managed and/or certified forests for its products. Thanks to the latest technology, we are able to use recycled wood in the production of our boards. Certification systems such as PEFC (Program for the Endorsement of Forest Certification) or FSC (Forest Stewardship Council) have the goal of sustainable



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Even though wood is available in sufficient quantities as a raw material: Only the sustainable use of this resource today will secure the availability of starting materials for our products tomorrow.

forestry and are fundamentally adhered to by Pfeleiderer's purchasing departments. These programs support companies that act in accordance with ecological, social and economic standards. In this spirit, Pfeleiderer fundamentally does not use wood from non-sustainable or destructive forestry.



<http://www.pfleiderer.com/en/responsibility/certification-486.html>

Pfleiderer has the medium-term goal of having all its plants certified for the use of wood from forests that are managed sustainably. Because with the relevant certificates, our customers obtain audited certainty: They are guaranteed that the wood in a Pfeleiderer product with an FSC seal of approval is from a certified and thus sustainably managed forestry operation. In 2009, additional plants of our North American Pfeleiderer subsidiary, Uniboard, were certified according to FSC guidelines: The particle-board plant in Moncure, North Carolina, USA, the laminating plant in Fostoria, Ohio, USA, and the fiberboard plant in Mont-Laurier, Canada, have been FSC-certified since 2009. An overview of the most important international certificates at the Pfeleiderer Group is provided in the table on the Pfeleiderer website.

RESPONSIBLE USE OF RAW MATERIALS AND ENERGY

We see ourselves as responsible not only for the renewable resource, wood, but also for the other raw materials used for our products. We therefore work consistently on ways to use the required raw materials as economically as possible. The Group-wide database of the Global Pfeleiderer Production System (GPPS) offers an overview of the resource consumption of the companies of the Group. This allows strengths and weaknesses to be recognized and potential to be utilized. Comparisons can thus be made within the Group not only in the area of raw materials, but also in the area of energy. If the GPPS shows that more energy is used in one plant than in another, the method selected according to the "best practice" principle can be introduced to reduce energy consumption.

Another instrument with which CO₂ emissions can be specifically monitored at the Group is the Monitoring Guidelines of the European Emission Trading Directive. On the basis of this directive, those Pfeleiderer plants that are subject to the European Emission Trading Directive publish their values, which are subsequently checked by an independent certification auditor.



<http://www.pfleiderer.com/de/verantwortung/emissionswerte-479.html>

We produce most of the energy that is required in our production ourselves. We operate biomass cogeneration plants or other biomass incineration plants at most of our locations. These plants burn wood that could not be used in our production for quality reasons, or that we purchased specifically as fuel. The energy produced in this way flows directly into our production process. This allows us to contribute towards reducing the proportion of fossil fuel in our energy consumption to a minimum. The long-term replacement of fossil fuels with alternative energies is one of Pfeleiderer's declared goals.

WATER STAYS IN THE PROCESS CYCLE

We do not recycle only wood, however: As the production of fiberboard is particularly water intensive, we deal particularly economically with water along the lines of integrated plant planning. Some of the waste water from the production process, which is left over from cleaning equipment or from washing and shredding wood chips, is reused at another stage of the production process – as an input material for glue, for example. The remaining volume of water is cleaned and flows back into the production process. As early as in the planning stage for new plants, we ensure that this process is designed as optimally as possible. For example, our fiberboard plant in Grajewo, Poland, is equipped with the latest technological methods of waste water treatment: After the waste water is evaporated, the distillate is returned to the production process. As a result, no waste process water is produced by this plant any more.



<http://www.pfleiderer.com/en/responsibility/environmental-policy-485.html>

In addition to the resource-conserving recycling of waste water in the production process, we also keep a watchful eye on our emissions in the area of production. We monitor them constantly so that we can continue minimizing them. We decided to do this in the context of our environmental strategy with Group-wide validity.

CLEAN AIR DUE TO PATENTED CLEANING OF DISCHARGE AIR

One example of our constant efforts to gradually reduce our emissions is the innovative method of cleaning discharge air that Pfeleiderer subsidiary Uniboard uses at its Canadian sites Sayabec and Mont-Laurier. In a two-stage process, at first the dust is eliminated by means of a water shower. Subsequently, this air is chemically treated and flows into the process cycle in neutralized form. This “scrubber” process applied by Pfeleiderer subsidiary Uniboard is unique in this form and is patent protected. The scrubber will be used in a further developed form also in our new plant in Moncure, North Carolina, USA.

NO UNNECESSARY JOURNEYS

We are not only working on ways of consistently reducing the emissions of our production plants, but we are also looking for environmentally compatible solutions in the areas of logistics and transport. Most of our suppliers are located within about 200 kilometers of the plant in question. This avoids unnecessary journeys and reduces the burden on the environment. Furthermore, the Group’s own transport company, JURA-Spedition GmbH, was one of the first companies in Germany to change over its entire fleet of trucks, approximately 60 semitrailer tractors, to the Euro-5 European emission standard. In 2009, JURA-Spedition also carried out individual driver training courses, allowing it to reduce its fleet fuel consumption by 5% compared to 2008.

For many years now, Pfeleiderer has limited business trips to a reasonable level and makes frequent use of video or telephone conference calls for discussions involving more than one location. These environmentally friendly communication possibilities were used more intensively in 2009 than in the prior years – also of course due to the global economic and financial crisis and the Group-wide savings plan. Company cars are also regularly checked for the effect and sense of their use.



The Pfeleiderer Group takes its social responsibility very seriously also in environmental matters. Our plants certified according to ISO 14001 ensure that our environmental performance is continually improved.



<https://www.cdproject.net>

PARTICIPATION IN CARBON DISCLOSURE PROJECT

Transparency – particularly with regard to emissions – is important to us. We therefore participated last year for the third time in succession in the Carbon Disclosure Project (CDP). The CDP aims to promote the dialogue between investors and companies on the issue of climate protection and to create more transparency with regard to climate-damaging greenhouse gases. For this reason, it uses comprehensive, standardized questionnaires to collect data and information on CO₂ emissions, climate risks and reduction targets from the 200 largest listed companies in Germany, on a voluntary basis.

WOOD PRODUCTS PROTECT THE CLIMATE

Wood products are deemed to be carbon sinks per se: The CO₂ that the trees have removed from the atmosphere before being processed remains stored in the processed wood, in the finished product, that is. Through this effect, wood products contribute towards reducing greenhouse gases. Wood products also promote forest growth: Sustainable forestry means that only as much wood is harvested as is regenerated. This is how sustainable forestry contributes towards maintaining and even expanding the earth's forests. Those forests consistently oriented towards reforestation are particularly effective in reducing the level of carbon dioxide in the atmosphere; because trees that are growing absorb CO₂ and produce oxygen.

For this reason, the European Panel Federation (EPF) published a policy document in 2009 demanding support for CO₂ storage in wood products. The Federation proposes that future accounting guidelines for forestry management also take into consideration the storage of carbon in wood products. This would create a balance between the relatively short CO₂ storage duration with the thermal incineration of wood and the much longer CO₂ storage when wood is used as a material in products. Sustainably produced wood products are fundamentally climate friendly. This approach and the demands of the EPF are also supported by the Environment Council of the European Union.

SUSTAINABLE PFLEIDERER PRODUCTS

Pfleiderer has long recognized the potential of its brands' sustainable products. For example, raw particleboards for use in buildings such as our Livingboard panels have an environmental product declaration (EPD) from the Institute of Construction and the Environment since 2009. In this way, architects and users find neutral, comprehensive and comparable information on the respective construction material and its sustainability. Pergo, our laminate flooring subsidiary, also makes use of such product declarations.

Pfleiderer also supports its customers in gaining the LEED seal of approval in platinum for sustainable construction. The internationally most widespread building certification system, Leadership in Energy and Environmental Design (LEED), considers all environmentally relevant aspects of a building and places extremely high requirements on the wood materials used. Since 2009 for example, Livingboard from Pfleiderer is the only particleboard on the European market that is LEED certified also in surface-finished form. In the North American market, the Pfleiderer Group has for some time supported sustainable building in the spirit of LEED: Particleboards and MDFs from Pfleiderer subsidiary Uniboard can contribute towards obtaining LEED certification. With its NuGreen particleboard, for example, Uniboard helps its customers to achieve the maximum possible score for wood materials in the areas "Quality of room climate" and "Materials and resources". NuGreen particleboard is made completely of recycled wood and is also produced without any urea resin.



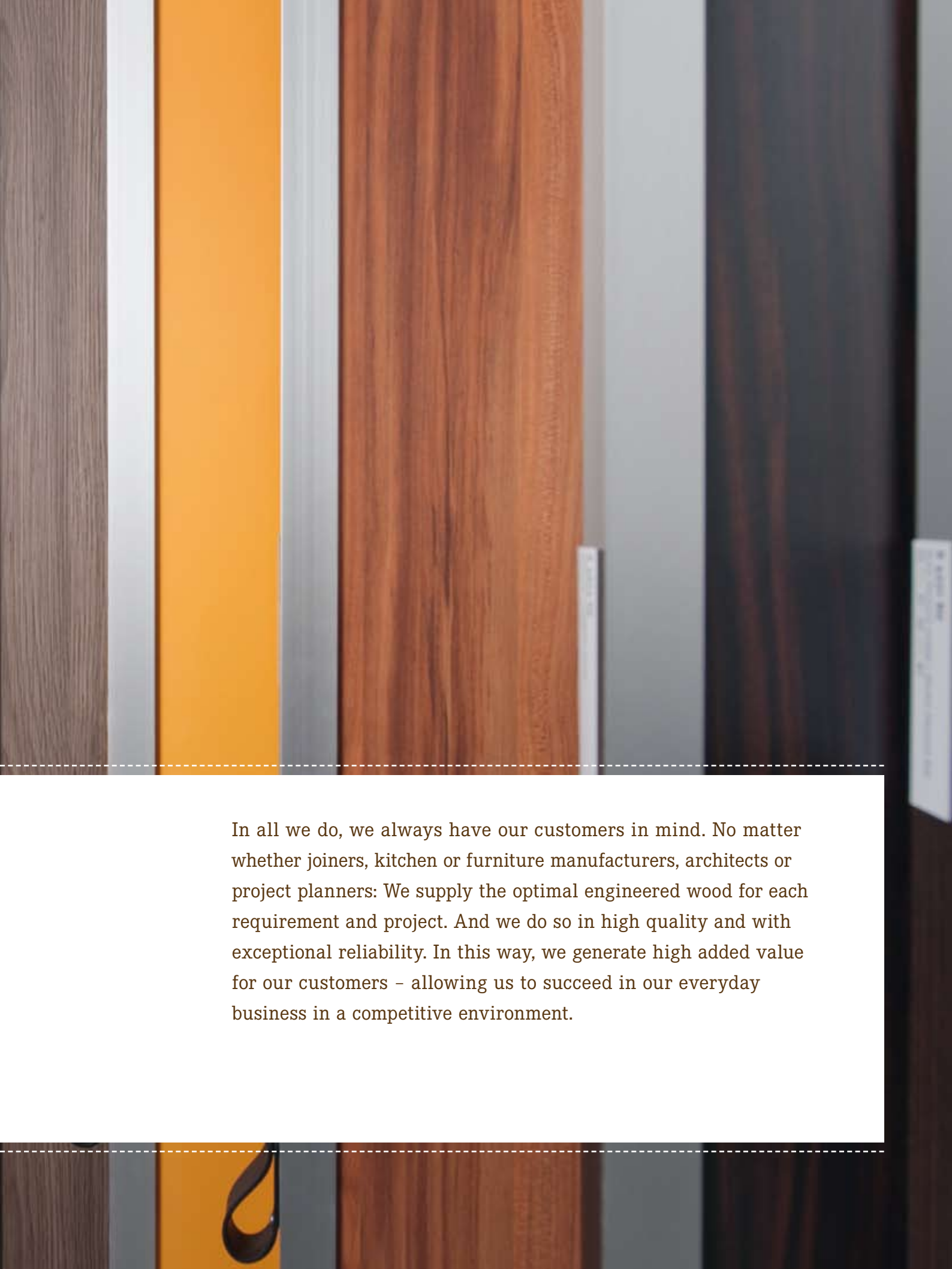
see page 58

Information on the efforts of our Research and Development department to produce panels that are particularly resource conserving can be found in the corresponding chapter of this Annual Report.

OUR PRODUCTS: FULL OF ENERGY UNTIL THE END

Our products store CO₂ during their entire lives. The longer the life of a material made of wood lasts, the greater this storage effect is. At the end of their lives, our products can either be recycled once again or can be incinerated to produce energy, thus helping to replace fossil fuels. When they are burnt, no more CO₂ is released than was stored in the wood during each product's life. Another advantage of incineration is that it results in very little waste.





In all we do, we always have our customers in mind. No matter whether joiners, kitchen or furniture manufacturers, architects or project planners: We supply the optimal engineered wood for each requirement and project. And we do so in high quality and with exceptional reliability. In this way, we generate high added value for our customers - allowing us to succeed in our everyday business in a competitive environment.

Human Resources

The work of our Human Resources department was faced with great challenges in the year 2009: On the one hand, short-time work and personnel reductions; on the other hand, providing motivation to improve integration and ongoing human resources development. Although some planned projects had to be postponed or cancelled due to the strict cost-reduction program, the Pfeleiderer Group can look back on successes in the year under review – be it in the areas of integration and intercultural cooperation, human resources development or in various social projects.



<http://www.pfleiderer.com/en/careers>

As of December 31, 2009, the Pfeleiderer Group employed a workforce of 5,592 people. Compared to December 31, 2008 (5,777), the total therefore decreased by 185 employees or 3.2%. The number of persons employed in North America increased by 12.2% due to preparations for the start of operation of the MDF plant in Moncure, North Carolina, USA; but in Western and Eastern Europe, the Group had to reduce employee numbers in the context of its cost-reducing program.

This development reflects one of the main areas of human resources work in 2009: Due to the massive drops in demand in the first several months of 2009 and excess market capacity, in addition to cost-reducing actions for external services and raw materials, Pfeleiderer was no longer able to rule out capacity adjustments in terms of personnel. Already at the beginning of the year, therefore, the Group was obliged to cut jobs in Eastern Europe. At most of the German plants, Pfeleiderer had to require its employees to reduce the hours accumulated on their working-time accounts during the first half of 2009 or to accept non-working shifts and short-time work.

PFLEIDERER COMMENCES TALKS WITH TRADE UNION AND EMPLOYEE COUNCIL

Since demand for Pfeleiderer's products recovered somewhat as the year progressed, working times had returned to normal in nearly all the plants in Germany already by the middle of 2009. Only the raw particleboard plant in Gschwend continued with 100% short-time work until the end of 2009 and thereafter. Against this backdrop, Pfeleiderer's Executive Board and the management of Business Center Western Europe also entered into discussions with the trade union IG Metall, which is responsible for the engineered wood industry, and the employee councils.

The objective of these negotiations was, and still is, to jointly find measures to be taken with a rapid impact in order to be able to react effectively to the development of demand in Germany. Supplements to the wage-tariff agreements, which exist at most sites in Germany, give the employees there a guarantee for their sites and secure their jobs until 2010. Pfeleiderer sees itself as bound to the applicable wage-tariff agreements and remained loyal to them also in 2009. This principle also applies to the year 2010, in which the constructive discussions will be continued. Despite dismissal protection in the supplementary agreements, it was possible in 2009 to begin a process of socially acceptable job reductions in Germany, with a focus on actions such as preretirement part-time work and voluntary severance.

FOCUS ON HUMAN RESOURCES DEVELOPMENT

The key challenge for Pfeleiderer's Human Resources department in 2009 was certainly achieving the rather opposing goals of short-time work and personnel reductions on the one hand, while providing motivation to improve integration and other human resources development for the workforce on the other. Pfeleiderer is fully aware of the importance of each individual employee: After all, the Group owes its excellent position as one of the world's leading producers of engineered wood primarily to its workforce. We therefore intensified our activities in the field of human resources development last year, and introduced a system of structured successor planning. Potential successor candidates are identified from within the Group for all management positions. In this context, the Group-wide program for the recognition and encouragement of high potential was implemented for the first time in the United States and in Sweden – taking cultural differences into consideration.

Another project is also concerned with the future structure of our workforce: In 2009, Pfeleiderer's Human Resources department started to tackle the international challenges resulting from demographic change. It is important to utilize the potential synergies that exist between the Group's various locations. An analysis and wide-ranging data collection have already started, and the first results are expected in 2010.

LEARNING FROM EACH OTHER: FURTHER PROGRESS WITH INTERNATIONAL NETWORKING

The Pfeleiderer world has grown considerably in recent years. For this reason, international networking continues to be a focus of our human resources work. Ultimately, we profit from shared knowledge, can define best practices, and in this way we can best utilize synergies and can benefit from the potential offered. This is why Pfeleiderer continued to place emphasis on the Group-wide exchange of information also in 2009. Annual meetings are organized by an increasing number of departments – from Human Resources and Financial Controlling to Plant Managers. Video and telephone conferences and collaboration on joint projects maintain the contacts between employees and help the Pfeleiderer world to grow together.

If required, the Human Resources department provides help with intercultural networking. Employees who are frequently travelling in different culture areas receive specific support. In cooperation with the Chair of Intercultural Management of Heilbronn University, those employees receive training in workshops or on a one-to-one basis. In the workshops, the participants learn to see the respective



We make sure that the right person is sitting at the right desk by means of Group-wide human resources development. Pfeleiderer also ensures that valuable know-how is retained within the Group.



Our daily dealings with each other are characterized by mutual respect. This is backed up by our guidelines, which are jointly implemented at all levels of the hierarchy and are adapted to local needs.

country and its culture in a broader context. In this way, background knowledge about a country's cultural history, its legal system, form of government and prevailing value system can facilitate international collaboration within the Group enormously.

MANAGEMENT CONFERENCE DEALS WITH OPPORTUNITIES OF THE CRISIS

The international management conference entitled MoVE (**M**ore **V**alue and **E**motion) also contributes to the ongoing international networking at the Pfeleiderer Group. This conference is an important platform at the Group to bring all the international members of Pfeleiderer's top level of management together for a few days. In 2009, MoVE was held under the motto of "Managing the unexpected" and dealt with the challenges and opportunities arising for companies out of the global economic crisis.

EMPLOYEE COUNCILS AND MANAGEMENT IMPLEMENT IMPROVED WORKING CONDITIONS

In 2009, the constructive exchange of opinions between the management, including human resources managers, and the employee councils intensified at Business Center Western Europe. In the context of employee council conferences, members of the employee councils and members of the management, including human resources managers, prepared concepts for the improvement of working conditions. As a result of these projects, new health-friendly shift models were implemented last year and new ways of employee qualification were applied. This year, activities will focus on the issue of employee discussions and a qualification offensive for the level of master technicians and foremen.

INDICATORS FOR DAILY COOPERATION

Our "guidelines for Management and Cooperation" are indicators towards which we orient our every-day work and cooperation. We see management and cooperation as key issues on the way into the future that to a large extent determine whether or not we achieve our goals successfully and profitably. Therefore, with these Guidelines, we have agreed on basic rules to give us support and orientation. This is a matter of leadership, organization and responsibility, as well as the internal attitude towards the Pfeleiderer Group and each other. And the guideline process continues: Regular meetings at all departmental levels ensure that the Guidelines are a fixed element of day-to-day work at Pfeleiderer.



http://pfeleiderer.com/uploads/PF_Guidelines_e.pdf

TOP PRIORITY FOR HEALTH AND SAFETY AT WORK

One of our mottos is “We are a responsible company”. As a company, we bear a lot of responsibility – for our environment, our suppliers, the state and society, and not least of course for our employees. The health and safety at work of the workforce have top priority at Pfeleiderer. In the area of health care, the preventive measures we took in 2009 ranged from organized running training to courses on good nutrition.

The offensive we started in the year 2008 on the subject of safety at work was continued in our Business Centers also in 2009. As a result, we were able to significantly reduce the frequency of accidents at work at some Pfeleiderer locations already in 2009. We now aim to stabilize this development and to achieve sustainability here. We are pushing forward with the application of best practices. Keeping statistics on accidents at work in the individual plants is a fixed element of our internal reporting system.



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<http://www.pfleiderer.com/en/careers/tmp1-435.html>

PFLEIDERER SHOWS SOCIAL RESPONSIBILITY

Naturally, we also want to fulfill our responsibility towards society. We therefore support numerous social projects by means of activities within and outside the Group. In the year 2009 for example, Pfeleiderer trainees helped to create an ecological adventure park for children in Neumarkt, adding several attractions to the facility. With a lot of imagination, a small budget and great commitment, the twelve junior managers installed an “odor bar”, a “fingertip memory” and a “catwalk of the senses”. These additions to the theme park enable children to get to know their senses in a playful way. The social project is a fixed element of our junior managers’ training course.

The opportunity to participate in the regional “Youth Research” contest in the region of Upper Palatinate has been a fixed element of the commercial and technical training of our apprentices for many years. In 2009, we supported this annual competition for the fourteenth time as one of the main sponsors. Right from the start, we have provided our apprentices with space, time and the means to bring their ideas to fruition. Use is often made in the competition of practical ideas from the young people’s working environment. Job starters learn to develop their projects independently, from the idea to its implementation. This promotes key interdisciplinary qualifications such as team spirit, decision-making skills and responsibility, which are important for later working life.



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<http://www.pfleiderer.com/en/responsibility>

Pergo North America provided financial support in 2009 for the US initiative “Just for Kids Campaign”. Its goal is to establish a new children’s hospital in Raleigh, North Carolina, USA, where Pfeleiderer has a production facility. Our Russian Pfeleiderer subsidiary donated furniture to financially disadvantaged families in Podberezje near Novgorod, and supported the refurbishment of the local kindergarten. Uniboard employees reroofed a holiday camp building for mentally handicapped adults in Canada. Other examples can be seen under the heading “Responsibility” on our website.

Disclosures in accordance with Sections 289 (4) and 315 (4) of the German Commercial Code (HGB)

Composition of subscribed capital

As of December 31, 2009, the subscribed capital of Pfeleiderer AG amounted to 136,514,816.00 euros. At the balance sheet date, the share capital was composed of 53,326,100 no-par value registered shares. Due to a capital increase against cash contributions, the subscribed share capital has amounted to 150,166,272.00 euros since February 5, 2010, and is composed of 58,658,700.00 no-par value shares.

All shares confer their holders the same rights and obligations, with the exception of treasury shares held by Pfeleiderer AG, which do not confer any rights on the Company. As of December 31, 2009, Pfeleiderer AG held a total of 2,643,458 treasury shares. The Company sold all of those treasury shares on the stock exchange on January 19, 2010.

Restrictions affecting the voting rights or the transfer of shares

The granting of stock options pursuant to the Company's stock option programs is conditional upon the beneficiaries making a personal investment in shares of Pfeleiderer AG which are then subject to a lockup period. If a beneficiary sells locked shares prematurely before expiry of the three-year lockup period after stock options are granted, the stock options become void without replacement. At December 31, 2009, 176,562 shares of Pfeleiderer AG were locked due to personal investments by stock option beneficiaries.

The Executive Board of Pfeleiderer AG is not aware of any other restrictions affecting the voting rights or the transfer of shares.

Interests in the share capital exceeding 10% of the voting rights

The Company's Executive Board is aware of the following interests in the share capital which exceed 10% of the voting rights:

In accordance with Section 21 Subsection 1 of the German Securities Trading Act (WpHG), Patrick Aurel Pfeleiderer, Wiesbaden, PAP Beteiligungs-GmbH, Neumarkt, PAP Vermögensverwaltung GmbH & Co. KG, Neumarkt, EHP Beteiligungs-GmbH, Neumarkt, EHP Vermögensverwaltung GmbH & Co. KG, Neumarkt, Christian Alexander Pfeleiderer, Frankfurt am Main, CAP Beteiligungs-GmbH, Neumarkt, CAP Vermögensverwaltung GmbH & Co. KG, Neumarkt, Hans Theodor Pfeleiderer, Bad Großpertholz (Austria), HTP Beteiligungs-GmbH, Neumarkt, and HTP Unternehmensverwaltung GmbH & Co. KG, Neumarkt, informed the Company in writing on April 26 and 27, 2006 that their voting rights in the Company exceeded the 5% and 10% thresholds on April 20, 2006, and at that time each amounted 10.58%. Ernst-Herbert Pfeleiderer, Neumarkt, informed the Company in writing on April 27, 2006, in accordance with Section 21 Paragraph 1 of the German Securities Trading Act (WpHG), that his voting rights in the Company exceeded the 5% and 10% thresholds on April 20, 2006, and amounted to 10.96%. The aforementioned persons and companies also informed the Company that their voting rights are fully or partially assigned to them in accordance with Section 22 Paragraph 2, Section 22 Subsection 1 Paragraph 1 No. 1 and Section 22 Paragraph 1 Sentence 1 No. 2 of the German Securities Trading Act (WpHG).

In accordance with Section 21 Paragraph 1 of the German Securities Trading Act (WpHG), Wood Engineering Holding B.V., Amsterdam (Netherlands), informed the Company on February 10, 2010, that its voting rights in the Company fell below the threshold of 25% on February 5, 2010, and at that time amounted to 23.30% (13,688,154 voting rights). In addition, Wood Coöperatief U.A., Amsterdam (Netherlands), Wood Engineering, L.P., Grand Cayman (Cayman Islands), Wood Engineering GP Ltd., Grand Cayman (Cayman Islands), One Equity Partners II, L.P., New York (USA), OEP Holding Corporation, New York (USA), Bank One Investment Corporation, Chicago (USA), JPMorgan Capital Corporation, Chicago (USA), Banc One Financial LLC, Chicago (USA) and JPMorgan Chase & Co., New York (USA) each informed the Company on February 10, 2010, in accordance with Section 21 Paragraph 1 of the WpHG that their voting rights in the Company fell below the threshold of 25% on February 5, 2010, and at that time each amounted to 23.30% (13,688,154 voting rights). The aforementioned companies also notified the Company that the voting rights are assigned to them in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 of the WpHG.

Shares conferring special control rights

The Company has not issued any shares conferring special control rights.

System of the control of voting rights if employees are shareholders and do not exercise their control rights directly

Employees who participate in the Company's stock option program and have made a personal investment in shares of Pfeleiderer AG can exercise the control rights conferred by these shares directly in accordance with the Articles of Incorporation and applicable law. Shares issued by the Company to employees as part of the stock option program are transferred directly. Employees can also exercise the control rights conveyed by these shares directly in accordance with the Articles of Incorporation and applicable law.

Statutory provisions and provisions of the Articles of Incorporation governing the appointment and dismissal of members of the Executive Board and amendments to the Articles of Incorporation

Sections 84 and 85 of the German Stock Corporation Act (AktG) and Section 31 of the German Co-determination Act (MitbestG) govern the appointment and dismissal of members of the Executive Board. In accordance with Article 6 Paragraph 1 of the Company's Articles of Incorporation, the Executive Board must have at least two members. In all other respects, the Supervisory Board determines the number of Executive Board members in accordance with Article 6 Paragraph 2 of the Company's Articles of Incorporation.

Statutory provisions concerning amendments to the Articles of Incorporation are included in Sections 133 and 179 of the German Stock Corporation Act (AktG). In accordance with Article 16 of the company's Articles of Incorporation, the Supervisory Board is authorized to amend the Articles of Incorporation if they affect only the wording. Unless required otherwise by law, Article 21 Paragraph 3 of the Articles of Incorporation stipulates that resolutions of the Annual Shareholders' Meeting require a simple majority of the votes cast or a simple majority of the share capital represented at the time of the resolution.



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[http://www.pfleiderer.com/en/
investor-relations/statutes-247.html](http://www.pfleiderer.com/en/investor-relations/statutes-247.html)

Powers of the Executive Board to issue or repurchase shares**Authorized Capital**

In accordance with Article 4 Paragraph 2 of the Company's Articles of Incorporation, the Executive Board was authorized as of December 31, 2009, with the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions in the period up to June 18, 2012, by up to 68,257,408.00 euros by issuing up to 26,663,050 no-par value shares against cash and/or noncash contributions (authorized capital). Due to a capital increase against cash contributions carried out on February 5, 2010, with utilization of the authorized capital, the Executive Board is currently authorized, with the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions in the period up to June 18, 2012, by up to 54,605,952.00 euros by issuing up to 21,330,450 no-par value shares against cash and/or non-cash contributions (authorized Capital).

The shareholders must generally be granted subscription rights to the new no-par value shares. However, the Executive Board is authorized, with the consent of the Supervisory Board, to preclude shareholders' statutory subscription rights in certain cases. Additional details are provided by Article 4 Paragraph 2 of the Company's Articles of Incorporation.

Conditional Capital

By resolution of the Annual Shareholders' Meeting of June 23, 2009, the Executive Board was authorized, with the consent of the Supervisory Board, until June 22, 2014, to issue bonds with warrants and/or convertible bonds ("bonds"), with or without limited terms, in a total volume of up to 200,000,000.00 euros against cash contributions and to grant the bondholders warrant and conversion rights to up to 21,330,440 shares in Pfeleiderer AG with a notional interest in the share capital of up to 54,605,926.40 euros. The bond conditions can also include the obligation to exercise conversion rights. These bonds are issued subject to shareholders' statutory subscription rights. However, the Executive Board is authorized, with the consent of the Supervisory Board, to preclude shareholders' statutory subscription rights in certain cases. To date, the Executive Board has not made use of this authorization. For this purpose, the share capital has been conditionally increased by up to 54,605,926.40 euros by the issue of up to 21,330,440 new shares (Conditional Capital I). Further details are governed by the resolution granting authorization of June 23, 2009, and by Article 4 Paragraph 3 of the Company's Articles of Incorporation.

In addition, the Company's share capital has additionally been conditionally increased by up to 1,989,836.80 euros (conditional capital). The conditional capital increase through the issue of up to 777,280 new no-par value shares of the Company will only be implemented to the extent that stock options were granted under the authorization applicable until June 30, 2006, and under the Pfeleiderer Stock Option Plan 2001, that the holders of those stock options exercise their rights to subscribe for shares of the Company, and that Company does not settle the stock options by issuing treasury shares or by way of cash compensation. Further details are governed by the resolution granting authorization of July 10, 2001, and by Article 4 Paragraph 4 of the Company's Articles of Incorporation.

In addition, the Company's share capital has been conditionally increased by up to 11,661,644.80 euros (conditional capital). The conditional capital increase of up to 4,555,330 new no-par value shares will only be implemented to the extent that stock options were granted under the authorization applicable until May 31, 2011, and under the Pfeleiderer Stock Option Plan 2006, that the holders of those stock options exercise their rights to subscribe for shares of the Company, and that the Company does not settle the stock options by issuing treasury shares or by way of cash compensation. Further details are governed by the resolution granting authorization of June 13, 2006, and by Article 4 Paragraph 5 of the Company's Articles of Incorporation.

Purchase of own shares

On June 23, 2009, the Annual Shareholders' Meeting authorized the Company in accordance with Section 71 Paragraph 1 No. 8 of the German Stock Corporation Act (AktG) to buy the Company's own shares in the period until December 22, 2010, with a notional interest in the current share capital of up to 10%. The shares may be bought through the stock exchange or by way of a public offer to buy shares or a public invitation to make offers to sell shares addressed to all shareholders. The Executive Board was authorized, with the consent of the Supervisory Board, to sell such acquired treasury shares in certain cases with the preclusion of shareholders' subscription rights in a way other than through the stock exchange or on the basis of an offer to all shareholders. Further details are governed by the resolution granting authorization of June 23, 2009. The Company did not make use of the authorization to acquire its own shares in 2009.

Material agreements of the Company which are subject to a change of control resulting from a takeover bid

In the case of a change of control, the banks financing the Pfeleiderer Group can make the loans granted to the Group immediately repayable.

In the case of a change of control, the hybrid bond issued in 2007 must be either repurchased by the issuer or continue to be serviced with additional interest.

An agreement exists with the Chairman of the Executive Board granting him an extraordinary right to terminate his contract of service in the case of a change of control. The agreement does not provide for any additional severance compensation beyond the contractual remuneration.

Compensation arrangements agreed by the Company with the members of the Executive Board or employees for the case of a takeover bid

Apart from the agreement with the Chairman of the Executive Board of the Company described in the previous paragraph, there are no arrangements with members of the Executive Board or employees that become effective in the case of a takeover bid.

Overall Assessment of the Economic Situation

In 2009, the Executive Board of Pfeleiderer AG was faced with the most difficult economic environment in our industry in many years. In addition to declining unit sales, revenues were reduced also by significant price falls and exchange rate movements. Despite achieving cost reductions significantly better than the targeted 80 million euros, it was not possible to avoid a loss for the year. This also led to distressing personnel reductions and a plant closure with the aid of short-time work. As a result of breaching financial covenants, credit agreements with the banks had to be renegotiated. Pfeleiderer reached an agreement with the banks, including KfW, on the continuation of the financing until 2013. This puts the Group's financing on a sound footing again, although at higher costs.

Demand revived again in the second half of 2009, particularly in Eastern and Western Europe, and has so far continued improving in the first quarter of 2010. As we have a more favorable cost position than our competitors, we believe we are well prepared to cope with the presently tough competition and to enter the next upswing with bigger market shares than before the crisis.

Events after the Balance Sheet Date

On January 11, 2010, Pfeleiderer AG announced that it had reached an agreement with approximately 30 banks on the conditions for long-term and secure financing for the producer of engineered wood. As a result, a financial package of around 800 million euros is now available until the end of 2013. This includes a KfW loan of 140 million euros, which was awarded at usual market conditions from the Germany fund. Compared to 2009, financing costs will increase by a small double-digit million figure.

If the financing agreements had already been signed before the end of 2009, current financing liabilities in the balance sheet would have been 425.8 million euros lower and non-current financial liabilities would have been higher by the same amount.

Independently of Pfeleiderer AG, the subsidiary Pfeleiderer Grajewo S.A., a company listed on the Polish stock exchange, also held talks with its banks. The financing volume under discussion amounts to the equivalent of approximately 300 million euros. Agreement has already been reached with the five banks involved on a financing package also extending until 2013.

On January 19, 2010, Pfeleiderer AG sold 2,643,458 treasury shares, i.e., 4.96% of the share capital, through the stock exchange. The Company thus disposed of all of its treasury shares and achieved sale proceeds of 18.5 million euros.

On February 4, 2010, Pfeleiderer AG issued 5,332,600 new shares out of the capital increase of approved capital against cash contributions decided upon with the consent of the Supervisory Board of 13,651,456 euros from 136,514,816.00 euros to 150,166,272.00 euros for a price of 6 euros and 50 cents per share. The shares were placed with institutional investors in Germany and abroad by way of an accelerated bookbuilding procedure. Shareholders' subscription rights were excluded for this issue. Pfeleiderer AG realized gross proceeds of 34.7 million euros, which has been applied to reduce the Pfeleiderer Group's financial liabilities. The new shares were admitted for trading without a prospectus in the regulated market (Prime Standard) of the Frankfurt Stock Exchange.

As a result of the capital increase, the shareholdings of our shareholders subject to notification rules were diluted and thus fell below certain thresholds. According to its notification of February 10, 2010, OEP now holds 23.30% of Pfeleiderer's shares; according to its notification of February 9, 2010, Surteco AG holds 2.74%, and according to its notification of February 12, 2010, Active Value Investors holds 2.87%.

In February 2010, we reached a settlement with the property developer of the MDF plant in Novgorod with regard to the construction work already carried out and the property developer's outstanding claims.

Risk Report

One of the fundamental management tasks is to establish and operate an effective internal control system (ICS) and a risk management system (RMS) in accordance with applicable corporate governance requirements and best practice principles.

Like many other companies, Pfeleiderer too is exposed to a large number of risks connected with entrepreneurial activities. The uncertainties and continual changes in various laws and regulations that apply to Pfeleiderer AG are counteracted by means of a Group-wide uniform system of control and risk management and the internal auditing process. These instruments are regularly further developed and adapted to changing conditions.

As part of the existing process, the Executive Board and the Supervisory Board are regularly informed about the risks that could significantly influence the business development of the business units or of the Group.

RISK MANAGEMENT SYSTEM

A risk management system that complies with legal requirements is used for the early identification, assessment and appropriate management of significant risks and risks threatening Pfeleiderer's continued existence. This risk management system is an integral component of the entire management and reporting process. Its framework is defined in a risk management manual.

The risk management manual provides instructions on:

- risk identification and assessment,
- deciding on the management of current risks and on new or supplementary measures of risk management, and
- tracking risk developments and the measures taken.

External and internal risks are systematically identified for all of the Group's business units and subsidiaries. Risk management is coordinated and continually enhanced by a central unit of Pfeleiderer AG. Particular attention is paid to the regular exchange of experience with other companies so that new ideas and methods can be integrated into the own risk management. The management of the operating units is responsible for the early detection, full identification and management of risks. For this purpose, each operating unit and central unit has appointed risk managers who ensure compliance with the risk management system for each area of the Group.

The Group's risk situation is systematically re-evaluated each month. Risks are assessed in terms of their extent of damage and probability of occurrence. In addition, special reports are submitted if the risk situation changes suddenly. The results are consolidated into quarterly reports, which are submitted to the Executive Board, the Chairman of the Supervisory Board, and the Audit Committee.

The Internal Auditing department and the external auditors perform reviews of the risk management system's suitability and effectiveness in order to recognize at an early stage any risks which could pose a threat to Pfeleiderer's continuing existence.

In addition to its own measures for minimizing risk, Pfeleiderer always takes the necessary precautions to cover foreseeable substantial risks using insurance policies with appropriate deductibles in line with standard market conditions. However, it cannot be ruled out that the insurance cover may not be adequate in individual cases or that adequate insurance cover for certain risks may not be available on the market, or may not be available at commercially reasonable terms. Pfeleiderer regularly reviews its existing insurance cover and optimizes it annually in cooperation with external insurance brokers and risk experts.

KEY RISK AREAS

Macroeconomic and political risks as well as industry risks

As a global player, Pfeleiderer is exposed to changes in its global business conditions. In fiscal 2009, Pfeleiderer was indirectly affected by the financial crisis. The ongoing development of the global crisis and its impact on the world economy cannot yet be finally assessed.

Pfeleiderer's business environment is subject to extremely intensive price competition. The Company is faced with strong, internationally active competitors, some of which are larger in certain business segments. In addition to product innovations, Pfeleiderer meets this challenge by means of suitable measures for reducing costs and increasing productivity.

The development of business in 2009 was affected by moderate price increases in the international energy and raw material markets. Further price increases for individual raw materials cannot be ruled out in 2010. Pfeiderer uses a large variety of raw materials in its production processes; but since there are sufficient numbers of suppliers of those materials, there is virtually no dependency on individual suppliers. Supply is secured with a multi-sourcing purchasing policy. Supplier failures, supplier delays or quality problems could lead to disturbances of production and thus have a negative impact on profitability. Pfeiderer counteracts these risks by entering into long-term supply agreements and has a highly efficient purchasing organization, which constantly secures the timely availability of raw materials in appropriate quality. The high energy needs with prices often influenced by taxes and other levies for political reasons is a risk in particular for the German sites. We counteract these risks through process optimization and the use of our own power-heat cogeneration plants.

The development of the world economy and of future growth markets has been slowed down considerably by the ongoing global crisis. In this context, it is quite possible that further market consolidation will take place with a sustained effect on Pfeiderer's market position. Another factor is that further customer insolvencies cannot be ruled out in the relevant markets.

Operating risks

Pfeiderer operates production facilities in which machines are mainly kept running continuously in multi-shift operation. The resulting high level of organizational and technical complexity means that in the event of disruptions to the value chain, there is a risk of production interruptions and quality problems, as well as environmental and occupational safety risks. Despite our maintenance management, the risk of fire and explosion can never be entirely ruled out in the wood processing industry. Resulting damage to plant and machinery as well as possible losses due to downtime are covered to the commercially viable extent by appropriate insurance. However, any fire, explosion or environmental damage can also lead to serious personal injury, which cannot be completely covered by insurance policies. The required technical and organizational precautions have been taken to prevent such incidents, and appropriate action and emergency plans have been prepared to deal with any possible occurrences.

Personnel risks

Pfeiderer counteracts possible personnel risks arising from staff fluctuation, loss of know-how, demotivation, insufficient qualification, and competition for specialists and executives with modern human resources tools. Attractive remuneration systems as well as a wide range of training and further training programs have been installed to promote employee loyalty to the Group. Close contacts with selected universities support the recruitment of qualified new talent. Pfeiderer ensures that it has highly qualified talent at all levels, especially skilled production workers, thanks to its vocational training program that is widely recognized for its quality and trains more people than the Company actually needs.

Financing risks

Pfleiderer defines financial risks as liquidity risk, foreign currency risk and interest rate risk, arising in particular from business operations and corporate financing. Managing all the Pfleiderer Group's financial risk by applying appropriate financial monitoring instruments tools is the responsibility of the Corporate Finance department of Pfleiderer AG. The operating units are responsible for managing accounts receivable. In general, business transactions have to be carried out within the insurance limits of the overall credit insurance policy. These framework agreements are negotiated by Corporate Finance.

Following successful negotiations in 2009, Pfleiderer agreed with its banks on new credit conditions at the beginning of 2010. As a result, credit facilities of approximately 800 million euros is available to us until 2013. The package includes a loan of 140 million euros from the Germany fund of the state-owned support bank, KfW. In addition, Pfleiderer's subsidiary listed on the Polish stock exchange reached an basic agreement with its banks covering further loans in zloty amounts equivalent to about 300 million euros. As a result of the new agreements, financing costs will be higher than in 2009 by a small double-digit million amount.

The new credit agreements include financial covenants usual in the market which have to be fulfilled during the term of the loans. As the ongoing development of the global crisis and its effects on the world economy cannot be finally assessed at present, the risk that credit lines might fall due because of the agreed financial covenants not being fulfilled cannot be entirely ruled out. This situation is continuously monitored in order to take timely countermeasures if required.

Risks arising from significant changes in interest rates can be largely ruled out during the planning period due to existing credit lines and additionally agreed interest rate hedges. The Corporate Finance department of Pfleiderer AG regularly monitors developments on financial markets.

Foreign currency risks are of particular importance for the Pfleiderer Group due to the growth of its international operations. The currencies with a fairly major impact are the Polish zloty, the Canadian dollar, the US dollar, the Swedish krona and the Russian ruble. Pfleiderer limits its currency risk through the local procurement of raw materials and equipment (natural hedges) and by means of specific currency hedges.

Derivative financial instruments are used to hedge interest rate and currency exposures with the aim of minimizing risks resulting from fluctuations in exchange rates and market interest rates. The Company's guidelines on risk management and on the application of hedges require that these types of risk are generally hedged. Only marketable interest rate derivatives and currency futures with prime-rated banks are used for this purpose. Derivative financial transactions are limited to hedging the operating business and the related financing. The Company does not enter into derivative financial transactions for speculative purposes.

The Pfleiderer Group's risks from derivative financial instruments are mainly limited to defaults by counterparties ("counterparty risk"). The Group's maximum default risk is the positive fair value of the derivatives. In the case of currency futures, the maximum risk corresponds to the change in the exchange rate of the hedged amount.

Further information, in particular relating to the significance of financial instruments for the net assets, financial position, and results of operations, is provided in the consolidated financial statements according to IFRSs, primarily in the notes on financing instruments and risks.

Regulatory and legal risks

Changes in the legal environment can result in risks for the Group, can increase costs and restrict sales possibilities. We attempt to react to such changes in good time by means of an intensive information policy.

Pfleiderer's legal department is responsible for ensuring that legally relevant matters are dealt with correctly in terms of both form and content, especially when drafting contracts and conducting litigation; external legal counsel is obtained if necessary. Pfleiderer has recognized appropriate provisions to cover warranty claims, which the Group is almost inevitably confronted due to its business activities and as a result of the sale of companies in recent years.

On March 4, 2009, as with other companies in the engineered wood sector, the premises of Pfleiderer were searched due to suspicion of anticompetitive behavior. On March 9, 2010, notifications of accusations and hearings involving Pfleiderer AG and its subsidiaries were received from Germany's Federal Antitrust Authority, with reference to proceedings for alleged violation of antitrust regulations by companies in the particleboard industry and their responsible persons. A renowned firm of attorneys has been commissioned to act in these proceedings. Due to the current stage of the proceedings, no reliable estimate can be made of any possible damage. Apart from this, Pfleiderer AG and its subsidiaries are not involved in any in legal or arbitration proceedings which, according to current assessments, could have a material negative impact on the financial situation of the Group.

IT risks

Major disruptions of IT systems can lead to data losses and negative effects on business and production processes, despite backup actions. Potential IT risks such as unauthorized data access or data misuse are limited with a number of measures such as authorization concepts, internal IT security guidelines and IT infrastructure standards, which involve employees, organizations, applications, systems and networks. In addition, technical protection measures such as firewalls or virus scanners are reviewed annually in the context of an internal IT security audit.

Environmental risks

As a company in the engineered wood industry, Pfleiderer is exposed to process-related risks within the framework of its existing production processes. Environmental protection measures and environmentally compatible investments in our production plants make an important contribution towards minimizing environmental pollution and conserving resources sustainably.

In order to minimize potential environmental risks, environmental officers have been trained and deployed at the Group and in the business units, and appropriate guidelines have been issued. According to expert opinions, contamination is to be anticipated at certain production sites, for which we have recognized sufficient provisions. Due to continuous changes in the regulatory environment and advances in research and development, additional expenditure in the areas of the environment and product quality cannot be ruled out for the future.

Risks from buying, selling and restructuring

In connection with restructuring measures, risks can arise from the sale or acquisition of property, companies or other business activities. Appropriate risk strategies are in place for such risks.

Project risks

The processing of major projects is always connected with risks. Technical problems and quality problems with subcontractors can lead to higher costs than planned and cause missed deadlines, as happened in Moncure/USA for example. Pfeleiderer is constantly improving its control instruments in order to limit these risks.

INTERNAL CONTROL SYSTEM (ICS)

The ICS at Pfeleiderer AG is based on key guidelines, procedures etc., which determine the ICS environment. These are communicated throughout the Group in the following rules for example:

- Code of Conduct, Legality Guidelines
- Manuals (Accounting Manual, Treasury Manual)
- Guidelines (Guidelines for signatures and power of attorney, Guidelines for the prevention of corruption with regard to Compliance, Guidelines on dealing with Non-cash Benefits for customers and employees)
- Rules of procedure

The sets of rules of Pfeleiderer AG listed above pursue the following goals:

- Providing instructions for acting daily in business operations in order to adhere to laws and regulations relevant to the Group and to establish internal Group guidelines.
- Ensuring identification with and the management of significant operating, strategic, compliance-relevant and accounting-relevant risks.
- Securing the quality of financial reporting including the development and implementation of processes which quickly generate relevant and reliable information.

SAP software features prominently in the system landscape of Enterprise Resource Planning at Pfeleiderer AG. The ISC includes both automated and manual controls.

With regard to the accounting process, the clear allocation of responsibilities and controls (e.g. closing schedule/accounting manual) with regard to preparation of financial statements, based on the ICS environment and the SAP landscape, results in other key elements for risk monitoring and control. This includes the “four-eyes principle,” sensible separation of functions and/or compensating controls as well as access rules for IT systems, e.g. by the regular review of authorization concepts. Manual controls (e.g. IFRS package review) and automated controls (e.g. reconciliation checks in the SAP-SEM consolidation) firmly anchored in the financial statements process have preventive and detective

effects, ensuring the completeness, validity and accuracy of transaction data and master data. This makes sure there is sufficient security, so that the consolidated financial statements are prepared in accordance with applicable law despite the potential risks.

Within the context of the audits performed in 2009 by the internal auditing department, in line with professional standards, there was a focus on the ICS as well as on compliance-relevant issues. For the deficits identified during the audit, action plans were prepared and the relevant bodies were informed (Executive Board/Audit Committee/External Auditors). In the context of so-called follow-up audits, the implementation of the action plans was supervised. By regularly reviewing the current ICS for its appropriateness internal auditing and the external auditors ensure that the system is effective in recognizing at an early stage any risks that might jeopardize the existence of the Company.

Responsibility for the ICS – interaction with the Pfeleiderer management

A management principle at Pfeleiderer is the delegation of entrepreneurial responsibility and authority to the operating units. This principle of subsidiarity draws a clear line between the responsibilities of headquarters and the business units. The Pfeleiderer headquarters determine the Group's general strategic and operational targets and bear overall responsibility for the process. The business units are responsible for all operating issues and activities, and are subject to regular monitoring by the Executive Board in the context of the monthly business reviews or by internal auditing.

In the fulfillment of its tasks related to the ICS, the Executive Board is served by local management, which is commissioned with the performance and monitoring of the ICS. The local management is obliged to ensure the transparency and effectiveness of its local sub-ICS systems and their compliance with the goals defined by the Executive Board of Pfeleiderer AG. The management of the business units and the headquarters departments is responsible for the implementation of suitable offsetting measures to reduce the probability of occurrence and the effects of risks.

Development in 2009

In the context of the Pfeleiderer's Group-wide compliance program, a number of measures were further developed in 2009.

On the one hand, additional Group-wide guidelines and manuals were prepared or updated ("Minimum Internal Control Standard", "Guidelines for Signatures and Power of Attorney"), and Group-wide workshops were carried out to ensure that these guidelines were implemented as effectively and efficiently as possible.

The “Minimum Internal Control Standard” ensures that in all operating units and at the headquarters of the Pfeiderer Group, there is a sufficient extent of standardized internal controlling instructions, and that they are regularly reviewed.

The standards cover all significant processes, such as:

- Purchasing, from ordering to paying
- Accounting & controlling
- Bank & liquidity management
- Wages and salaries payroll
- Fixed assets
- Sales, from ordering to paying
- Inventory management
- Travel expenses
- IT security and controls

On the other hand, Group-wide risk management and ICS workshops were held. Furthermore, a concept was developed and implemented for management evaluation in terms of compliance. These measures serve to ensure that in future assessments of the top managements of Pfeiderer AG, important risk management, ICS and compliance issues are given even more consideration.

OVERALL RISK ASSESSMENT

At present, no risks have been identified at the Pfeiderer Group that could jeopardize the continued existence of the Group. A consolidated consideration of all material risks has been performed to arrive at an overall assessment. However, like any other company, Pfeiderer AG is confronted with potential risks, especially with the uncertainty of global economic developments, which could materially affect the course of its business and its net assets, financial position, and results of operation.

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Opportunities and Outlook

Pfleiderer plans to focus its business on the three regions of Western Europe, Eastern Europe and North America also in the future. Particularly in Western Europe and North America, we expect ongoing market consolidation with the reduction of production capacities. This will present us with opportunities to raise our sales prices to an acceptable level once again and to pass on the pressure of rising raw material costs to our customers, even if the revival of demand is only moderate.

The consequences of the financial market crisis will affect economic growth in our sales markets also in 2010. Banks and companies will continue to reduce their levels of debt in 2010, thus dampening growth to less than its potential. Another factor is that rising unemployment could dampen private consumption. Against this backdrop, we anticipate regional differences in the development of demand this year. Whereas in Eastern Europe – especially in Poland – demand should continue improving and our capacity utilization there is likely to remain good, Western Europe may well feature weak demand. Above all our business with office furniture manufacturers and the export business to the United Kingdom will probably not see a revival. In North America, there are several indicators from the real estate market of stabilization or even a slight revival of new construction activity, which should lead to increasing demand for our products after a certain time lag. Furthermore, there are signs in North America of increasing substitution of inexpensive particleboard for solid wood and plywood furniture. Our business in North America will receive additional revenues and earnings impetus due to the ramp-up of MDF production at our plant in Moncure/USA.

In total, revenues in 2010 should increase compared to the prior year, while profitability is likely to remain unsatisfactory. A repeated loss is likely in 2010, despite additional cost-reducing measures of up to 30 million euros solely in the area of administration, due not least to the higher interest expense. A dividend payment for the year 2010 is therefore unlikely. In the year 2011, a significantly better price level for our products, a revival of demand, and lower interest charges due to the gradual debt reduction should lead to a profit being posted once again.

For the years 2010 and 2011, we do not plan capital expenditure in capacity expansion, but only for the maintenance of existing plants. This should amount to significantly less than 100 million euros per annum. When the market stabilizes in Russia, however, we will continue the interrupted construction of our MDF plant in Novgorod, investing an additional 50 to 60 million euros. Our capital expenditure of the past three years will provide us with significant growth opportunities, as we now have more and more efficient production capacities than in the particularly successful year 2007 for example. Compared with then, we now also dispose of the capacities of the MDF plant in Grajewo/Poland, the particleboard and MDF plant in Moncure/USA, and the additional laminating capacities in Novgorod/Russia and Val d'Or/Canada. Furthermore, we will also complete the new MDF plant in Novgorod when the market situation improves.

In the coming years, the Pfleiderer Group will focus on debt reduction, cash management and the further strengthening of its market position. Despite the difficult market situation, we believe that compared to the competition, we are well prepared to achieve our goals.

Disclaimer

This report contains forward-looking statements based on the current assessments of the Pfeleiderer management and on certain assumptions concerning future developments. Such statements are subject to risks and uncertainties outside the possible control and/or sphere of influence of Pfeleiderer and which therefore cannot be accurately assessed by us. These risks and uncertainties can lead to actual developments differing substantially from the assessments. Those risks and uncertainties include future market and economic conditions, the actions of other market players, the successful integration of new acquisitions, and the realization of expected synergy effects.

Neumarkt, March 17, 2010



Hans H. Overdiek



Heiko Graeve



Pawel Wyrzykowski

Responsibility statement

Pursuant to Section 37y of the German Securities Trading Act (WpHG) in conjunction with Section 37w, Paragraph 2, No. 3 of the German Securities Trading Act (WpHG)

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operation of the Group, and the Group management report includes a fair review of the development and performance of the business and position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Neumarkt, March 17, 2010



Hans H. Overdiek



Heiko Graeve



Pawel Wyrzykowski