PFLEIDERER
AKTIENGESELLSCHAFT

Annual Shareholders' Meeting 2009 of Pfleiderer AG

Tuesday, June 23, 2009

Speech/Report by the Executive Board

Hans H. Overdiek, CEO of Pfleiderer AG

– Check against delivery –

Welcome

Ladies and Gentlemen,

On behalf of the entire Executive Board, I also would like to welcome you to the Annual Shareholders' Meeting of Pfleiderer AG here in Munich.

We have a year behind us of unprecedented challenges for the world economy and thus also for the German economy. Hardly any of us foresaw a year ago the extent to which the global sales crisis would affect us in all our markets. The international engineered wood industry has suffered and Pfleiderer with it. I am therefore particularly pleased that you are expressing your enduring interest in our company by attending our Annual Shareholders' Meeting.

In the next hour, I would first like to give you an overview of how Pfleiderer's environment developed in the year 2008 – with regard to the general economic situation as well as developments in our industry. After that, I would like to explain to you in detail how our company performed in view of those conditions. I believe that our company's overall performance last year was very respectable, also in comparison with the competition, even if our overall earnings were not of the magnitude we had anticipated at the beginning of the year 2008 – primarily due to the crisis in our markets.

And I am quite sure ladies and gentlemen, that Pfleiderer AG is better able to cope with the current difficulties than some of our competitors around the world, and that we will recover faster from the recession due in particular to our international reach and our product segments.

Pfleiderer share

I would like to begin with a subject that is certainly very important to you: the development of the Pfleiderer share price during 2008. Our share price came under severe pressure, as did the market in general – represented here by the MDAX.

Our shares started 2008 at a price of over 14 euros, and reached their peak for the year at nearly 17 euros in April. Until then, they had outperformed the flat trend of the MDAX by more than 20 percent. Unfortunately, we were unable to maintain this strength, in neither relative nor absolute terms, partially because as the year progressed, investors increasingly sold their shares in companies they regarded as exposed to cyclical effects.

The insolvency of Lehman Brothers on September 15 and the resulting catastrophic consequences in both credit markets and currency markets then led to a further sustained period of weakness, and our shares ended the year at a price of 6 euros and 60 cents. This is less than half the price at the end of the year 2007, but is within the framework of the general development of the MDAX index, which also lost 40 percent of its value at the beginning of last year. Overall, Pfleiderer's shares thus largely maintained their position in the MDAX.

Many of you will have followed this share-price development with a certain degree of dismay, and will have asked yourselves how such a dramatic fall can be explained.

Economic slump affecting Pfleiderer's business

Although we performed well in the first half of 2008, also in comparison with record year 2007, our revenue and earnings then fell significantly due to rapidly worsening macroeconomic factors in our markets. Those factors had a massive impact on the development of our share price, which came under particular pressure due to being regarded as a cyclical stock, although we were still able to report impressive key figures in many areas.

The initial effects of the US real-estate crisis on our business were already apparent in 2007. However, they were limited to North America and in particular to sales of particleboard, a lot of which is used in new housing construction. When the US real-estate crisis spread to the rest of the world during 2008 and affected other credit markets, other Pfleiderer segments also started to feel the consequences: Credit became tighter for our customers and for their customers – consumers – depressing overall demand and thus also our business operations. This was apparent also from the development of GDP growth rates, which fell sharply in all of our markets.

Economic developments ultimately also had significant effects on the currencies that are important for the success of our business: the US dollar, the euro, the ruble and the zloty. The insolvency of Lehman Brothers and the threatening collapse of the global financial system in the fourth quarter of last year were the final factors that unsettled equity investors and led them to sell large parts of their holdings.

Nonetheless, from an operating perspective we can report on a number of achievements, which I would now like to explain to you.

Gains in market share

In recent years, we have often said that all of our operating activities are focused on supplying products offering added value to stable, high-growth customers.

When these efforts are successful, they pay off irrespective of the economic situation, and for Pfleiderer they certainly paid off in 2008. In Germany, the particleboard market expanded by a good six percent and the fiberboard market actually grew by nine percent. In North America, all of our markets contracted by double-digit percentages. So while nearly all of our markets shrank, we held our volumes fairly constant. This means that we were able to gain market share despite difficult conditions in many segments. And we managed this although we are regarded as the price leader in nearly all of our segments. We did not achieve these gains in market share as a result of price wars, but as a result of our quality leadership, our comprehensive product portfolio, our service and our reliability.

For example, last year we doubled our market share for laminate flooring in North America, where business is still impacted by the disastrous real-estate and financial-market crisis, to more than 30 percent. As a result, our revenue in this segment measured in local currency increased by a stunning 24 percent, while the overall domestic market shrank by 15 percent.

In total, our revenue in North America measured in US dollars remained fairly stable compared with 2007, despite sharp drops in demand for particleboard by 17 percent and for MDF products by 10 percent. And we were in the black also in the first quarter of 2009.

In Eastern Europe, we have disproportionately strong growth in the areas of MDF and HDF, due in particular to the ramp-up of our plant in Poland.

We also performed well in our core market of Germany. The market data from the European Panel Forum once again confirms the strengthening of our leading position in the particleboard segment. Whereas demand declined, as I mentioned previously, and despite price pressure in this segment, our revenue fell by less than 5 percent. Our figures for the whole of Europe are quite similar, and we achieved record results with an EBITDA margin of more than 17 percent.

In other words: Despite the dramatic contraction of our markets, we succeeded in maintaining our sales volumes almost at the prior-year levels. How did we manage this?

In North America, we opened up new sales channels to new customer groups that we had not previously served. We also adapted our product lines for surface-finished products and laminate flooring – which are produced in Canada and the United States – to better fulfill the needs and demands of our target groups. In all fairness, I have to add that our success was also aided by the fall in importers' competitiveness due to the weak dollar.

And in Germany, we benefited from our uncompromising focus on high-value customers, high-margin products and strong customer-relations management.

As you can see, ladies and gentlemen, we were able to maintain our volumes in all of our markets and even increased them in some areas, thus preventing an even bigger decline in overall revenue.

Revenue reduced by falling prices

Nonetheless, our revenue for the year of approximately 1.74 billion euros was about 3 percent lower than in the previous year. I would therefore like to briefly explain some of the revenue-related factors that significantly distorted our largely stable sales volumes.

A significant factor affecting our industry continued to be low capacity utilization and the resulting limitation of all suppliers' ability to maintain their prices. Consequentially, the entire industry – and we too – have suffered from price falls, which in some cases were quite drastic. This price pressure is likely to remain an important factor also for the rest of this year, unless there is significant consolidation in the industry in the coming months.

Currency exchange rates also played a major role last year: For example, the extremely strong Polish zloty affected the export performance of our customers in Poland until the middle of the year, and thus our own sales position. Since then, however, the zloty has fallen against the euro by nearly 30 percent, so we now expect a sustained improvement in sales volumes. Unfortunately, this also has negative effects on our sales in the region measured in euros.

The US dollar has also had our full attention: Starting the year 2008 at 1.45 dollars per euro, it weakened in the second quarter and sometimes approached the mark of 1.60 dollars per euro. It was then rediscovered by investors as a safe reserve currency in the second half of the year, despite the lasting recession of the US economy, and improved to 1.25 dollars per euro in the fourth quarter. I'm sure you can imagine the effects of these enormous and unpredictable fluctuations on our quarterly results.

Against this backdrop, at the beginning of 2008 we decided to close our MDF plant at La Baie in the north of Canada. The currency-related distortions of sales in the United States of products made in Canada – more than 50 percent of which came from this plant – no longer allowed sustained sales because costs became uncompetitive. This plant closure also reduced our revenue by approximately 30 million euros.

Our customers made rapid inventory adjustments during the second quarter and increasingly towards the end of the year, as a result of which our revenue slumped in the fourth quarter. We then took similar measures in order to safeguard our working capital. However, the fact is that these adjustments cost us sales volumes and revenue. But on the positive side, one should be aware that inventories are now extremely low, so any revival of demand will be directly reflected by orders being placed with us.

Ladies and gentlemen, the extent to which a company can make short-term adjustments its product strategy, sales and marketing in the face of such a drastic drop in demand as we have seen in the past six months is very limited. This applies in particular to the plants that normally operate around the clock with a seven-day week.

One can only be prepared as a result of a long-term strategy and be positioned with the right products and the right sales channels with the right customers.

What helped us to cope with the worsening crisis better than some of our competitors in 2008 is the fact that at an early stage we already started to prepare for a more difficult environment with leaner structures, efficiency improvements and cost reductions. We did our homework in good time.

I would now like to explain to you how we worked on our operating cost efficiency and flexibility, and thus on our competitiveness, also within the Pfleiderer Group.

Cost analysis

In the year 2008, Pfleiderer had a total purchasing volume of approximately one billion euros, which is more than half of the Group's entire sales revenue. And, ladies and gentlemen, the price levels of the raw materials we need peaked as of the middle of the year, in some cases continuing into the fourth quarter.

I'm sure you will remember that the price of crude oil reached the record level of 145 US dollars per barrel last July. This had painful consequences for us in terms of urea and methanol prices, which at times tripled compared with what we had to pay at the beginning of 2007. By the end of 2008, the oil price had fallen by almost 70 percent – representing at least one positive factor of the economic downturn.

So with the usual time lag of three to six months, the situation for urea and methanol also improved. Chemical prices began to fall in the fourth quarter of 2008. However, we have observed that the level of prices for these commodities have now stabilized – although at a lower level – and are not falling any further.

Wood prices were fairly stable in Germany, but rose sharply in Poland after the beginning of 2008 and have remained at a high level. The markets have also featured rising prices In North America, and especially in Canada, reflecting reduced felling rates and the lower volumes of waste wood from sawmills due to the recession. In recent months, however, there have been slight price reductions also for wood.

In view of the high and very volatile volumes of purchased goods and services needed for the production of engineered wood, procurement plays a very important role for the value chain of our products – and thus also for the success of the Pfleiderer Group.

At this point, may I point out that our Annual Report 2008 deals in detail with our procurement activities as a special subject. Nonetheless, I would now like to give you a brief overview of our activities in this area.

We believe that effective procurement constitutes a substantial competitive advantage. For this reason, the Pfleiderer Group last year once again optimized the structures and processes of its purchasing activities, making use of strategic know-how also from other industries.

As a result of volume effects, Pfleiderer's procurement department achieves favorable prices all over the world and is responsible for the selection of strategic suppliers. We have specialists responsible for each group of materials – wood, glue and other primary products, as well as paper and technical services.

In order to optimize its worldwide purchasing management, Pfleiderer continuously expanded its commodity procurement expertise in 2008, further intensified the close cooperation between the purchasing department and other departments, and made its material-needs management even more efficient. Systematic material-costs and supplier management take place at headquarters at the highest level of aggregation.

Due to the centrally controlled matrix organization and the close cooperation between purchasing and the technical departments, Pfleiderer's purchasing is optimally organized to efficiently manage procurement spending as a key block of costs. This has given us a clear competitive advantage in the industry, and last year made a significant contribution to our efforts to reduce costs.

For example, in the year 2008 we surpassed our original cost-cutting target of 50 million euros by 60 percent, saving a total of 80 million euros. I believe this result is more than respectable, ladies and gentlemen. Making savings of this magnitude is a tremendous performance that shows what a highly motivated and well organized staff can achieve in a serious situation.

I set these targets myself, and I am deeply impressed by the commitment displayed by all of my colleagues at all levels of the company in meeting this challenge.

The cost reductions we achieved have helped us to offset a large part of the increased prices of raw materials, to largely maintain our margins, and to extend the advantages we have over our competitors.

Our competitiveness is also of course determined by our financial resources. And this brings me to the issue of Pfleiderer's debt, which some of you regard as our main problem.

Net financial result

Last year, our net indebtedness at first increased only slightly in a year-on-year comparison, despite all of the economic turbulence. At December 31, it amounted to 635.5 million euros.

This net debt is equivalent to a gearing ratio, which is the relationship between net financial liabilities and equity, of 0.89, and leverage related to EBITDA of 2.8. These two figures are also only slightly above the prior-year levels and are significantly below the limits that our creditors have imposed and which we intend to fulfill.

Let's now have a look at our interest and currency situation, where we have unfortunately incurred painful losses – as have many other companies.

Our net financial expense amounted to 80 million euros. A large part of this expense was accounted for by debt servicing, namely 51.6 million euros. The remaining 28.4 million euros was accounted for by our interest-rate and exchange-rate hedging transactions and by currency-translation losses on financial positions denominated in foreign currencies on the balance sheet date.

We informed you on Wednesday in an ad-hoc announcement that our EBITDA margin is falling as a result of the worse-than-expected economic developments in Europe, resulting in the possibility of a breach of covenant at the end of the second quarter. We have therefore meanwhile commenced discussions with our banks and assume that we will secure the framework of our financing nevertheless, although with higher interest expenses. In this context, it is important that our liquidity is secured for the coming months. And the banks have constructively accepted our request for discussions.

In Eastern Europe, we succeeded in restructuring our debt four weeks ago, and at conditions constituting an increase in our interest rates of just 140 base points.

At present, however, I would not like to make any forecasts regarding our future interest rates, because they depend on a number of other credit conditions.

After this overview of our share-price development, our strategic and operating positioning and financial situation, I now turn to the quintessence of all these elements, the overall performance of Pfleiderer AG in 2008.

P&L, earnings per share

As I have already indicated, in a situation of a weaker market environment in nearly all of our regions, we performed better than most of our competitors.

Compared with 2007, our revenue decreased by only 65.2 million euros or 3.6 percent to 1,735.9 million euros, whereby 32.2 million euros or nearly exactly half of the decrease was caused by the closure of our plant in La Baie, Canada. Factors increasing our revenue compared with 2007 were the first full year of Pergo's consolidation with two additional months of revenue, positive exchange-rate effects, and the revenue generated by our new plant in Moncure in the United States.

In line with Pfleiderer's strategy of internationalization, we thus increased the share of revenue generated outside Germany. It rose from 71.3 percent in 2007 to 72.2 percent last year, due in particular to our growth in Eastern Europe.

Our gross margin decreased from 27.3 percent in 2007 to 25.1 percent in 2008. This was the result not only of price pressure in the market, but also of increased raw-material costs – in particular for glue and chemicals – which could not be fully passed on in the form of higher sale prices. The ratio of material expenses to total revenue therefore increased to 54.3 percent.

EBITDA decreased from 248.7 million euros to 223.7 million euros. The EBITDA margin fell only moderately compared with the prior year, however, from 13.8 percent to 12.9 percent, as we partially compensated for the loss of revenue and the higher prices of raw materials with the cost-cutting actions I have already mentioned. Selling expenses fell by 9.6 percent and administrative expenses by 2.9 percent. Transport costs were also optimized once again.

The positive balance of other operating income and expenses decreased by 7.8 million euros to 12.5 million euros. It is composed of various income items totaling 48.1 million euros, such as currency gains, negative goodwill from the allocation of the prices paid for acquisitions, the sale of emission rights and the sale of land, as well as other operating expenses totaling 35.6 million euros.

Systematic depreciation and amortization increased again slightly compared with the prior year to 112.3 million euros. In addition, impairments of 13.8 million euros were recognized, primarily related to the plant transfer from La Baie to Moncure.

Personnel expenses of 260.2 million euros were 2.5 percent lower than in 2007.

Earnings before interest and taxes (EBIT) fell from 136.8 million euros to 97.6 million euros; this represents an operating margin of 5.6 percent.

As I have already explained, the net financial result worsened in 2008 to an expense of 80 million euros.

The profit from continuing operations before income taxes therefore fell to 17.6 million euros. There was a tax gain for the full year of 11.2 million euros, primarily due to the capitalization of deferred taxes on loss carryforwards at companies of the Group.

The loss from discontinued operations includes a tax expense of 6.1 million euros. The profit for the period thus amounts to 22.3 million euros. After minority interests and the share of earnings due to the hybrid bondholders, we report a net profit of 5.8 million euros.

This is equivalent to diluted earnings per share from continuing operations of 24 euro cents and a loss per share from discontinued operations of 13 euro cents.

In view of the difficult economic situation, the Executive Board and the Supervisory Board propose to the shareholders that the balance sheet profit be carried forward to new account.

Ladies and gentlemen, you can imagine that we did not find it easy to make this decision not to pay any dividend to our shareholders this year. Nonetheless, in view of the current economic situation I – along with the Executive Board and the Supervisory Board – regard it as absolutely necessary – in order to protect the company’s financial resources as much as possible.

Not paying a dividend would allow us to suspend servicing the hybrid bond and to continue at a later date. That would of course also support the company’s liquidity.

Following this overview of Pfleiderer’s profit and loss situation, I would now like to have a look at our statement of cash flows.

Cash flows

Even under the very difficult conditions prevailing in 2008, we succeeded in increasing our cash flow from operating activities compared with the prior year by 30.4 million euros or 15 percent to 228.4 million euros. This virtually covered our capital expenditure as well as our debt servicing.

The main factor for this success was the strict management of our current assets, allowing us to significantly reduce our inventories and receivables. During 2008, we were able to reduce our inventories by 47 million euros and our receivables by 35 million euros.

As a result, we had a sound liquidity situation at the end of the year: Cash and cash equivalents amounted to 46.3 million euros, which is two and a half times as much as at the end of 2007.

In this context, let me once again briefly describe last year's investment requirements, which clearly show that we already adopted a defensive and cautious approach at an early stage.

Our total investment amounted to just under 190 million euros. Of that total, nearly 160 million euros was spent on property, plant and equipment and approximately 30 million euros was spent on acquisitions such as Moncure and decopa.

All in all, ladies and gentlemen, our total investment spending was just a third of what we spent in 2007.

Our investment requirements for 2009 will total approximately 100 million euros, which is once again lower than in the prior year. A large part of this spending will flow into the expansion of our plant in Moncure and into the modernization of other plants.

I would now like to pass on to our balance sheet.

Balance sheet

Our consolidated balance sheet total decreased compared with the end of the prior year by 1.8 percent to 1,887.5 million euros.

On the assets side of the balance sheet, current assets decreased by 22.5 million euros to 375.9 million euros, primarily due to the reduction in inventories that I just mentioned. So the target of reducing inventories by 15 percent compared with the prior year was surpassed by a significant margin.

Cash and cash equivalents increased to 46.3 million euros. Non-current assets decreased to 1,511.6 million euros, reflecting the reductions in property, plant and equipment to 829.3 million euros and in intangible assets to 540.6 million euros; the latter was partially the result of currency translation. There were opposing effects from the increase in deferred taxes to 123.2 million euros, which was mainly due to the capitalization of loss carryforwards.

On the other side of the balance sheet, the financial structure shifted towards more non-current liabilities.

Current liabilities decreased to 516.1 million euros. This was primarily due to the reduction in current financial liabilities to 153.4 million euros.

On the other hand, non-current liabilities increased to 660.4 million euros, mainly as a result of restructuring non-current financial liabilities with the help of the successful issue of a promissory-note loan in tranches with periods of three, five and seven years.

Equity fell to 710.9 million euros. A total of 51.5 million euros was distributed as dividend payments to our own shareholders, minority interests and hybrid bondholders. Equity was reduced by 39.8 million euros as a result of currency translation. In addition, redeeming the hybrid bond in a volume of 10.7 million euros also resulted in a decrease in equity. So at the end of 2008, the equity ratio was 37.7 percent.

Ladies and gentlemen, Pfleiderer's level of debt is regarded by some market players as our main problem. I would like to emphasize once again that the Group's growth in recent years, which led to this level of debt, was absolutely necessary. Without this growth, we would not have achieved the advantages of scale that are so essential in our industry, and which allowed us to attain our current competitive cost structure and the results of the years 2007 and 2008 including cash flows in each year of 200 million euros or more. We assume that we will be able to service our debt from our net cash inflow from operating activities and that we will only have to resort to the capital market to finance consolidation processes, which we intend to actively pursue.

In the context of our planning, we of course constantly carried out appropriate risk analyses to test the limits of our indebtedness also under difficult market conditions. But we did not foresee the probability of such a rapid downturn and slump in all those market segments in which we are active.

Overview of regional developments

Ladies and gentlemen, let me now continue by presenting the regional development of our business. One of the reasons why we proceeded with the development of our international business was to reduce the impact of regional cycles and our dependence on sales in Germany. That worked very well in 2007, when only the United States was in a crisis; in 2008 it partially worked, and in 2009 it did not because Western Europe, Eastern Europe and North America all slipped into recession at the same time.

Economic developments led to shifts in the revenue breakdown by region in 2008. Despite a slight decrease, Western Europe remained our most important sales region with a good 53 percent of total revenue. Eastern Europe not only increased its share of total revenue from 22 to nearly 24 percent, but also posted growth in absolute terms of nearly 7 percent. As a result of the recession, North America's revenue decreased both in absolute terms and as a share of the Group's total. This region has now had negative growth for three years in succession – although it is apparent that the downward trend is gradually coming to an end. This means we can assume that the recession will be overcome in this region first. We believe we can already see the first signs of this turnaround.

But now let me turn to the segment report in more detail.

Although revenue in Western Europe decreased slightly compared with the prior year, we actually gained market share in the region. We also succeeded in raising our EBIT slightly: in absolute terms to 113 million euros, equivalent to a margin of 11.9 percent, which is the highest level within the Group.

This not only underscores our strong positioning with customers, but it also demonstrates our ability to foresee changing conditions and to adapt to them quickly and effectively.

Our performance in Eastern Europe was rather mixed. Russia developed very satisfactorily throughout the year 2008, and our new surface-finishing plant went into operation in the third quarter.

However, our business in Poland had to contend with very difficult conditions last year. Due to the strong zloty, many customers had problems exporting their products – mainly furniture, over a large part of the year. So demand for our particleboard was 15 percent lower than in 2007 in nominal terms. Overcapacity also led to price erosion in the market for particleboard and MDF.

In total, however, revenue in Eastern Europe increased by 7 percent to 420 million euros. I believe we can be satisfied with this result, even though our EBIT margin suffered from the high raw-material costs in Poland, for wood for example.

As a reaction to the enormous price and cost pressure, we initiated cost-cutting actions, with which we were able to save 27 million euros last year alone.

Finally, North America was also a “relative” success story. Our business in the region was still affected by the disastrous real-estate and financial-market crisis.

Nonetheless, we succeeded in gaining market share in the areas of panels and laminate flooring, so our revenue measured in US dollars remained fairly stable compared with 2007, despite double-digit drops in demand for particleboard and MDF products in this market.

Our North American subsidiary, Pergo, actually increased its revenue from laminate flooring measured in local currency by an astonishing 24 percent, while the total domestic market shrank by 15 percent.

As you can see from the table, the drop in revenue measured in euros was caused by two other factors: On the one hand, because the US dollar was on average 7 percent weaker against the euro than in 2007. And on the other hand, because of our decision to transfer the La Baie plant to Moncure.

On an adjusted basis, our revenue in North America was actually slightly higher than in 2007. The same applies to our EBIT, which fell to minus 20 million euros. This was primarily due to impairments recognized in connection with the transfer of the La Baie plant to Moncure.

Without these costs, our EBIT would have increased year on year despite the drop in prices and the sharp increase in the cost of raw materials.

Current developments in 2009

As we have already communicated, we expect an extremely difficult and volatile year 2009. But today we do not feel able to give you any reliable and serious guidance for the full year. Why not?

Our customers are unable to prepare any long-term plans. This of course limits our ability to issue reliable forecasts for the year 2009. This will not be possible until we have significantly better forecasting certainty for general business developments in our regions. It would be foolish to make any predictions at this stage.

But back to the first quarter of 2009: Particularly during the first few weeks of this year, our customers continued the inventory adjustments they started at the end of 2008. This led to a general dampening of demand for our products.

But demand remained weak even when this adjustment process came to an end in the middle of the quarter. This was due to the continuation of the worldwide recession, which caused a sharp drop in international trade.

The slump in demand immediately resulted in pressure on prices in all of our regions. Consequently, the prices of our products fell by between 7 and 10 percent compared with the prior year. We assume that this price pressure will last for a long time in view of excess capacity worldwide.

Furthermore, our revenue was impacted by the weakness of the Polish zloty and the Russian ruble. This currency-related fall in revenue amounted to approximately 14 million euros in the first quarter of this year.

So overall, our first-quarter revenue decreased by 23 percent to 358 million euros.

Nonetheless, we succeeded in achieving a gross margin of 28.7 percent – more than two percentage points better than the prior-year figure of 26.6 percent. Unexpectedly sharp falls in raw-material prices, our extremely successful efforts to cut costs, and some positive special effects helped us to achieve this result.

Compared with the same period of last year, our operating profit in the first quarter decreased by more than 28 percent, with EBIT amounting to 23 million euros. One reason for this substantial decline was an impairment of 4 million euros due to poor utilization of capacity.

In addition, the mark-to-market valuation on the balance sheet date of financial items denominated in foreign currencies, of forward exchange transactions and of interest-rate hedges led to a loss of approximately 5 million euros in the first quarter.

Finally, we had a substantial increase in the Group’s effective tax rate to 40.2 percent; for the first quarter of 2008 it had been below 24 percent. This increase is primarily due to the regional distribution of our earnings in the period, but is also a result of the minimum taxation rules in Germany.

Developments in our segments varied greatly in the first quarter.

In Eastern Europe, we had to cope with three negative factors: first, declining demand; second, falling prices; and third, weakening currencies. As a result, revenue in this segment measured in euros decreased by 38 percent year on year.

In Western Europe, we suffered from a substantial drop in exports from our German plants, whereas domestic sales here in Germany were relatively stable and we profited from our strong positioning with high-quality products.

Revenue in North America was fairly stable, however, at a similar level to the first quarter of last year. I think, ladies and gentlemen, that a decrease of just 6 percent is a respectable result in the present situation.

Unfortunately, contrary to our expectations, the negative quantity trend and the related price pressure continued in the second quarter, with a further negative impact on our earnings. As I said, I cannot give you any really reliable guidance for the development of revenue and earnings in 2009, but I do not rule out a loss for the period.

To close my comments on the first quarter of 2009 let me turn to another event during the period: the investigations by the German antitrust authorities that were initiated at the beginning of March.

These investigations are related to non-specific accusations concerning price fixing in the entire industry, and not against Pfleiderer in particular. The investigators confiscated documents in our offices on March 4 and we immediately filed a complaint.

If you now ask me when these investigations will be completed, I have to refer you to the antitrust authorities, because we simply do not know. And I'm afraid that is all we can say on this subject at the moment. I hope you understand that due to the ongoing investigations I cannot make any further comments.

Reference projects and awards

You encounter our products every day and almost everywhere: at home, at work, in public buildings and rooms. But you generally cannot recognize whether the desk, the bed, the kitchen cabinets or the wardrobe have been made out of our products. Nonetheless, due to our quality, supply reliability, innovative power and willingness to develop customer-specific solutions, we are a sought-after supplier to the furniture industry, to interior fitters and to wholesalers and retailers. We supply customers in more than 80 countries from our comprehensive range of base materials and finished surfaces.

Worldwide, the Pfleiderer Group ranks third in the engineered-wood industry. We are one of the international market leaders. Ladies and gentlemen, so that you can find out what our market success is based on, for the first time we have asked our subsidiaries to present their range of products at this shareholders' meeting. You will find a presentation of the products from our German companies in the foyer and in the Rumford room.

You might ask why I am going into this in so much detail. Without the sale success of our subsidiaries we would have no revenue or earnings. An overview of the current year includes a brief description of these achievements. And I am limiting myself just to the highlights.

The Pfleiderer subsidiaries wodego and Duropal equipped the AIDA cruise liner with engineered wood. At the beginning of April, the AIDAluna was christened in Palma de Mallorca. We supplied the exclusive wooden decors for the 1,425 cabins.

Just a few weeks ago, we were able to report that three of our subsidiaries now supply our products to one of the world's biggest automobile producers. Pergo supplies flooring, wodego suppliers base materials, and Duropal supplies the laminated surfaces for the new design of Volkswagen's car showrooms. As we have heard, our products are also already on their way to Mexico.

So the Pfleiderer Group supplies excellent products with outstanding quality. That is also the opinion of various jurors. Duropal has received various awards for its "SolidColor" surface, such as the XXL Office Award and the interzum Award. Thermopal has received the German red dot Award for its Designer's Collection. Both companies have been nominated with their products for the German Design Prize 2010 – the most highly valued prize awarded by the Federal Republic of Germany in the field of design.

Special projects

Ladies and gentlemen, let me now briefly turn to our special projects, Moncure and Nowgorod.

Moncure, our new particleboard and MDF plant in North Carolina, USA, is progressing according to plan. All of the machines from our old plant in Canada have meanwhile been transferred to the new location and are waiting there until the new building is completed. The entire plant will be ready to go into operation in the fourth quarter of this year. We expect that by then, the worst phase of the recession in North America will be over and that the economic upturn will commence.

Unfortunately, things are not running so smoothly in Nowgorod in Russia.

Construction work is well behind schedule. We therefore terminated the agreement with the construction company several months ago. The construction work will not be resumed before the middle of 2010.

Personnel

In recent years, at this point in my speech I have always emphasized the importance of our workforce and of good, forward-looking and well-qualified personnel development.

The fact that we have been able to report results in these difficult times that are significantly better than those of some of our competitors is due to our qualified, committed and highly motivated employees. The success of Pfleiderer worldwide stands and falls with their commitment, their knowledge and their skills. This applies to the forklift truck drivers, the press operators, the shift foremen and the office staff, as well as to our application technicians, sales personnel, IT specialists and financial controllers, and of course also to our executives. I believe that all those people constitute a very significant factor for our competitiveness.

We have already taken many opportunities to express this fact both internally and externally, and in the presence of our shareholders here today, once again I am proud to thank all of our employees for their great efforts.

I am convinced that this close collaboration within the Group is what has made Pfleiderer so successful in the past and that it will ensure our competitive leadership in the future. Gaining and retaining the right staff are the declared goals of our personnel policy.

Not only the Executive Board, but all of our management staff feel deeply committed to this culture, and the activities that we carry out every day in the field of human resources are too numerous to go into in detail here. I will therefore limit myself to just a few examples. Please refer to our Annual Report for a more detailed description.

First of all the hard facts: As of December 31, 2008, the Pfleiderer Group employed 5,777 persons – which is 72 fewer than a year earlier. 3,208 of them were employed abroad and 2,569 in Germany.

The successful growing together and the ongoing networking within the Group were the main areas of Pfleiderer's human resources work in 2008. But we had successful and positive developments also in the areas of training, idea management, work safety and health care.

With the acquisitions of Pergo and Kunz in past three years, many employees have recently joined the Pfleiderer Group in Germany and abroad. In order to ease their integration and to regularly inform the entire workforce about new developments in the various regions, the Corporate Communication department launched a new corporate medium in 2008.

The Pfleiderer newsletter appears four times each year in several languages. In addition to reports on all aspects of the Group – its strategy, employees, plants, customers and products – the Corporate Communication department uses the newsletter to address issues with Group-wide relevance and to make them accessible to our entire workforce.

Well-qualified career starters are essential for a company's long-term success. We therefore place particular emphasis on the training of our next-generation workforce. Once again, Pfleiderer was able to demonstrate the high quality of its occupational training in 2008.

At our locations in Germany, we offer apprenticeships in 17 different professions. At December 31, 2008, the Group had a total of 164 apprentices.

In addition to occupational training, Pfleiderer intensified its close cooperation with universities in Germany and abroad last year. In March 2008, the "Talents meet Pfleiderer" workshop was held for the first time for 17 students from various German and Polish universities. The goal of this event was to support talented young people with the further development of their personal and methodical competences in order to prepare them for their career entry.

For 14 years, Pfleiderer has been active also as an initiator, sponsor and organizer of the “Trainee Research” competition for our career entrants. This offers trainees in Neumarkt the opportunity to participate in the nationwide “Youth Research” competition – and with great success: An employee of wodego, a Pfleiderer subsidiary, took first place in “Youth Research” in June 2008 with his “Thread-Master.” With the help of this invention, for the first time it is now possible to cut threads absolutely straight also in places with difficult access.

Under the name of “KNIFF,” Pfleiderer has introduced a Group-wide ideas management system for employees whose job training took place a long time ago. The goal is to offer attractive prizes as incentives for innovations at all levels. Since KNIFF was introduced, the Pfleiderer Group has already evaluated 2,000 ideas, of which more than 60 percent have been implemented.

In the conviction that all accidents at work can be prevented, Pfleiderer started a work-safety offensive in 2008. The Group has reorganized its work-safety organizations and committees at all its sites and has introduced a structured analysis of accidents at work. Clear goals have been defined and a system of benchmarking and reporting has been decided upon for work safety. Similar to our Global Pfleiderer Production System (GPPS) in the area of production technology, standards can be set by comparing all Pfleiderer plants worldwide and employees can learn and profit from best-practice methods.

I believe that at this point it is appropriate to mention the person who was responsible in the past at Executive Board level for all of our human resources activities and who therefore initiated many of the methods I have mentioned. Mr. Michael Ernst is no longer sitting here with us at the Executive Board table. But I would like to take this opportunity to thank him wholeheartedly, also on behalf of the entire Executive Board, for his successful work.

Ladies and gentlemen, all of these internal initiatives and progress cannot and should not lead us to forget that we are in the middle of a deep recession synchronously affecting the whole world. The market situation is extremely difficult, not only in Germany, but also in all of our other regions. We have been forced to make personnel adjustments above all in our foreign markets, which were affected by the downswing earlier. At the end of May 2009, the Group employed 240 persons fewer than a year earlier.

In Germany, we have been able to counteract the employment situation caused by the smaller order backlog in the first few months of the year by means of working-time accounts, non-working shifts and short-time work. But today we can see clearly that we are not faced by a short-term or medium-term drop in demand, but with a massive slump in demand that leads us to question the long-term utilization of the production capacities we have in our industry at present.

In my view, we are confronted by a new wave of consolidation such as we already experienced in the years 2003 to 2005. This clearly implies that on the employment side, painful staff-reduction processes also have to be coped with. This requires both sides to make difficult compromises in the collective-bargaining process – employers and trade unions and the workforces they represent. This cannot be avoided by refusing to accept the realities we are faced with. The Executive Board of Pfleiderer AG has held discussions with the employee representatives with the aim of achieving solutions in the best interests of the company and acceptable to both sides.

We are not helped by insisting on honoring wage-tariff agreements concluded in 2007 under completely different economic conditions from those now prevailing. I ask the IG Metall trade union, and also our employees, to accept this position as a fair offer. No-one expects to resolve the crisis only by reducing personnel costs, which due to the current low level of capacity utilization are a factor behind our high production costs. But – and I say this in all honesty – personnel costs in Germany also have to make a contribution to the required cost reductions.

Environment

The Pfleiderer Group primarily works with wood – a natural and renewable raw material. Environmental protection is therefore in our own best interests and is a core element of our corporate philosophy: We support the principle of sustainable forestry and continually reduce the environmental impact of our production processes.

We announced yesterday that all of our plants in Germany have been certified according to the international environmental standard ISO 14001. This gives us a leading position among the world's manufacturers of engineered wood. Furthermore, starting in the region of Western Europe, it is our goal in the medium term to have the entire Group certified according to that standard. Pergo's production plants in Sweden and our glue producer Silekol have already been successfully certified.

We are steadily working on ways of using raw materials as sparingly as possible. The measures we have taken are successful and are recognized by independent organizations. For example, our subsidiary Thermopal received an award from the German electricity supplier EnBW for its resource-conserving energy consumption in 2008. Last summer, Thermopal started to take various measures designed to increase its energy efficiency. Since then, energy savings totaling 3,590 MWh per annum have been achieved; equivalent to the electricity used in a year by 180 German households. As a result, our energy costs have been reduced by more than 250,000 euros per annum.

As this example shows, environmental aspects are not merely ends in themselves. All of our efforts in this area are also worthwhile in purely commercial terms and independent of their environmental benefits. Another example is the certification of our particleboard production in Neumarkt in 2007. As a result of the process optimization that was necessary to gain the certification, we were able to reduce material wastage and thus also expensive waste disposal.

Furthermore, for several years now, the German plants in Gütersloh and Neumarkt have voluntarily committed to reducing emissions by up to 80 percent above the legally prescribed limits. You are all invited to check their daily emissions on our website.

At Pfleiderer, it is standard practice that the entire lifecycle of raw materials is taken into consideration in our internal environmental management. We have therefore taken various measures to attain full material cycles. For example, in most of our plants, rejected wood that is not used in production for quality reasons is used instead in our own biomass cogeneration units to generate heat and electricity.

We also set high standards abroad, where environmental standards are sometimes less strict than in Germany. An innovative air purification system is in use at the Canadian sites in Sayabec and Mont-Laurier of Uniboard, a Pfleiderer subsidiary. Uniboard developed this air purification technology, which has meanwhile been patented, together with an engineering company based in Quebec. A pilot plant is now investigating the extent to which this technology can be used for other purification processes. Our environmental specialists will decide this year whether the new technology can also be applied at other Pfleiderer plants.

These are just a few examples of our environmental awareness – which is also based on sound economics. Our Annual Report contains a lot more information on our activities in this area.

Ladies and gentlemen, I am now at the end of my statements on the events of 2008. But before I conclude my speech, I would like to give you an outlook on the current year and beyond, and on Pfleiderer's strategic positioning in its markets.

The situation in our markets in 2009

We have been hit harder by the global recession than we anticipated a few months ago. And if one believes the results of market-research surveys, many consumers seem not yet to have grasped the gravity of the situation. Meanwhile, the recession has also had a severe impact on our markets in Western and Eastern Europe. While we continue to observe a sharp drop in exports to other countries of Western Europe, the recession is now also affecting domestic demand in Germany, which had previously remained stable. The resulting lower sales in 2009 will have substantial negative effects on revenues and profit margins.

As a result of the worldwide slump in demand, in most of our regional markets there will be excess capacity for most of our products, which will have to be removed from the system before a genuine upswing can occur and we can once again establish a certain price-setting power.

The severe weakening of currencies in Eastern Europe is exerting a negative impact on our revenue and earnings. On the other hand, the weaker Zloty is helping our customers in Poland to export their products to Western Europe, which in turn boosts our sales of particleboard.

An additional factor is that the Polish government is considering an increase in felling rates, which gives us reason to hope that timber prices in Poland will fall at some point.

We also have advantages in the current situation from the focus on specialized value-added products, which is one of the key elements of our strategy: Demand and prices for melamine-surfaced board and similar products are more stable than for raw particleboard or MDF.

Stable raw-material prices will help us to reduce our production costs compared with last year. However, in view of the weak market situation, we cannot rule out the possibility of a loss for this year, despite the measures we have already taken. I would like to emphasize that point once again.

Positioning and measures to be taken

After we set and surpassed a cost-cutting target of 50 million euros last year, we are now taking additional action to reduce costs. One of them concerns selling, general and administrative expenses, for which we have set a target of further savings of 20 million euros this year.

Other areas are material use, where we can achieve savings of a similar magnitude, and finally purchasing, where we can save at least double that amount.

I believe that overall, we will be able to make cost reductions this year at least equal to the total amount we saved last year, that is about 80 million euros. To achieve that, we will apply our tried-and-tested methods, which have enabled us to attain a leading position in the industry in recent years.

With the optimization and centralization of our purchasing, we created a good basis last year, which we will build upon with undiminished efforts.

As I am sure you all know, expertise in the optimization of production processes is a decisive cost-reducing factor in our industry. Pfleiderer has proven its technological leadership in this area – not least in connection with recent acquisitions – and will continue to do so.

Who knows what our engineering teams will come up with this year? In any case, I will be very interested to see the results. Our GPPS benchmarking provides them with incentives not only to strive for technological progress, but also to implement this progress as quickly as possible in commercial applications throughout the Group.

But as I have already stated, we will have to consider plant closures and other personnel adjustments in Germany. Our industry is faced with great challenges. It is true that we have already made some adjustments in North America and Europe by closing older and smaller plants in recent months. But this is still not enough – especially in Europe – to permanently eliminate the excess capacities that are becoming increasingly apparent. We will only be able to bring supply and demand back into equilibrium in the medium term by taking additional, rigorous steps. No-one in the industry, not at Pfleiderer either, is helped by operating plants for longer periods with capacity utilization of 70-80 percent. That is not the right way to protect jobs.

Pfleiderer is prepared to assume a leading role in this consolidation process, as we have already done very successfully. We have received assurances that this leading role will be supported by appropriate capital measures from investors and banks. In this context, I would like to point out once gain that the discussions about our financing with our banks are taking place in a constructive atmosphere. We are confident that we will be able to give you some more information on this during the coming months.

We are convinced that due to our market position and our cost leadership, we will cope better with economic downturns better and return to successful operations faster than most of our competitors.

I therefore see the current falling prices in our industry not only as a danger, but especially for Pfleiderer also as an opportunity: Thanks to its cost leadership within the industry, Pfleiderer has a good chance of emerging from the upcoming consolidation as a winner, particularly in Western Europe and North America.

We also see opportunities for growth. With regard to laminate flooring, we plan to further integrate our activities in North America and Europe and to expand our presence in Europe – to this end, Pergo recently opened competence centers in Paris, Barcelona and Berlin.

I also think that the figures we have presented to you today – concerning last year's cost savings as well as the management of our working capital – speak for themselves: We know how and where we can reduce costs, and we know how to protect our cash flow.

In times like this, these measures will have clear priority before nearly all of Pfleiderer's other activities, and will also have the Executive Board's full attention.

But I can promise you that we are well prepared not only for the current market situation, but also for our long-term, strategic goals, and will not lose track of them.

We will continue searching for more ways of creating added value for our target customers, we will continue expanding our regional presence, and we will continue developing our strategic advantages as a major international producer of engineered wood.

This brings me to the end of my speech. Ladies and gentlemen, thank you for your attention.