

## COMBINED MANAGEMENT REPORT OF THE PFLEIDERER GROUP AND PFLEIDERER AG

### Business and Operating Environment

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The Pfleiderer Group is focused on engineered wood products and is one of the world's top three companies in this industry. We operate production sites in Western and Eastern Europe and in North America. Thanks to our organic growth and acquisitions, we have established strong market positions in all our regions in recent years. However, demand for engineered wood products declined in all three regions in the period under review, whereupon we reacted swiftly by taking measures to reduce our costs.

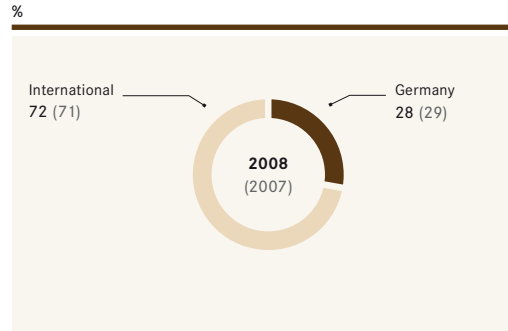
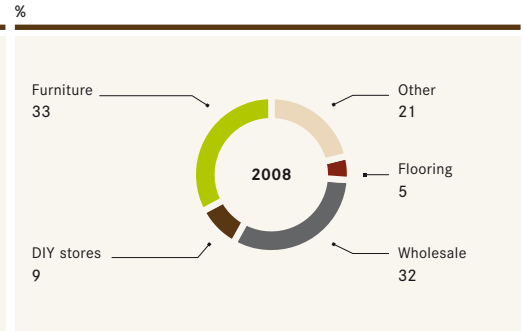
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#### **BUSINESS ACTIVITIES OF THE PFLEIDERER GROUP**

Since 2003, Pfleiderer has focused on producing and selling engineered wood products. The Group has been continually expanded in recent years by systematically setting up state-of-the-art plants in high-growth regions and by undertaking strategic acquisitions. With consolidated revenues of approximately 1.7 billion euros and some 6,000 employees, the Company is among the world's top three system suppliers of engineered wood products. Its product range includes particleboard, medium-density and high-density FIBERBOARD (MDF/HDF) including surface finishes, as well as laminate flooring products.

Pfleiderer's aim is to be one of the top three providers in each regional market in terms of market share and production capacity. Pfleiderer has already attained this position in Western Europe with production sites in Germany and Sweden, in Eastern Europe with plants in Poland and Russia, and in North America with production facilities in the USA and in Canada. The Pfleiderer Group now generates almost three quarters of its revenues outside Germany.

Today, 26 Pfleiderer plants worldwide supply customers in over 80 countries. Pfleiderer is the furniture industry's preferred partner and generates about 33% of Group revenues in that segment. The wholesale sector Pfleiderer serves is a market segment of similar size, accounting for around 32% of revenues. In addition, Pfleiderer products are sold to DIY stores, the flooring industry, retailers as well as architects, interior designers, and carpenters.

**SHARE OF REVENUES****SHARE OF REVENUES BY INDUSTRY****ORGANIZATIONAL AND MANAGEMENT STRUCTURE**

Purchasing and sales markets with a strong local character require customer proximity and flexibility on the ground. All Pfeleiderer locations are therefore assigned to regional organizational units (business centers), which are operationally independent and bear full responsibility for revenue and earnings. The Western Europe region operates ten plants at eight locations in Germany and two plants in Sweden. There are five plants in the region Eastern Europe. Nine production facilities are operated in the North America region.

Pfeleiderer Aktiengesellschaft is the parent company of the Group. The Executive Board of Pfeleiderer AG consists of four members, whose areas of responsibility are outlined in the report of the Supervisory Board published in this Annual Report.

**MANAGEMENT**

The Executive Board manages the Pfeleiderer Group and its operating units by defining strategic and operating guidelines as well as operating and financial key figures such as EBITDA and ROCE. These key figures apply throughout the Group and serve equally as planning and management tools being based on standard systems. In addition to their functional duties, three members of the Executive Board are each responsible for a business unit.

The best-practice system implemented throughout the Group is another management tool. Efficiency and productivity are continually improved by systematically transferring know-how and analyzing differences between the plants.

In addition, Pfeleiderer aims to operate a broadly based cross-functional network to utilize synergies and generate economies of scale. One example is pooling and coordinating procurement activities in the "Central Purchasing" unit.

Targets 2008	Results 2008
Revenues of approx. 2.0 billion euros	3.6% decrease in revenues to 1.74 (previous year: 1.80) billion euros due to the effects of the US real estate crisis
EBITDA margin approx. 15%	EBITDA margin approx. 12.9% Higher raw material costs can only be passed on partially. Margin in Poland impacted by strong zloty and excess capacity Russia and Western Europe post record margins.
Cost cutting approx. 50 million euros	Various cost cutting measures totaling approx. 80 million euros.

#### THE PFLEIDERER GROUP'S OBJECTIVES

The strategic objective of the Pfeleiderer Group is to continually expand its leading international market position, defend its cost leadership, generate an appropriate return on shareholder capital in the long-term and to remain an attractive employer. The focal point of these objectives can be set with consideration of external factors such as the economic cycle. In the current economic situation, generating acceptable earnings as a result of cost leadership takes priority over growth targets. We are dedicated to being the most competitive supplier of engineered wood products and to emerging from the current economic crisis as a stronger company. The strategy we are pursuing to achieve this goal is outlined on pages 24 et seqq. of this Annual Report.

#### OVERVIEW OF BUSINESS DEVELOPMENT IN 2008

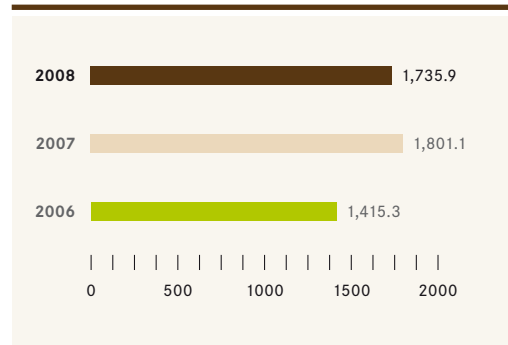
The Pfeleiderer Group was able to further enhance its position in a deteriorating market environment and to gain market shares, even though the originally set revenue and earnings targets were not achieved. In 2008, engineered wood markets shrank in all sales regions, resulting in a slide in prices for the majority of products. Our revenues fell slightly by 3.6% to 1,735.9 million euros (previous year: 1,801.1 million euros) and earnings before interest, taxes, depreciation and amortization (EBITDA) decreased to 223.7 million euros (previous year: 248.7 million euros). This reduced our EBITDA margin slightly from 13.8% to 12.9%, mainly due to Eastern Europe. In the Western Europe region, we were still able to generate record-breaking margins. Pfeleiderer may not have been able to fully escape generally soft market conditions, but it was able to gain ground on competitors or enhance its lead. We almost doubled our market share in laminate flooring in North America to about 30%. On the cost side, our continual efficiency programs contributed to ensuring that we have one of the most competitive cost positions in Western Europe. By implementing cost-reducing programs early on, we were able to compensate for part of the increase in raw material prices until the third quarter of 2008, which we could not always pass on to customers.

#### ECONOMIC ENVIRONMENT IN 2008

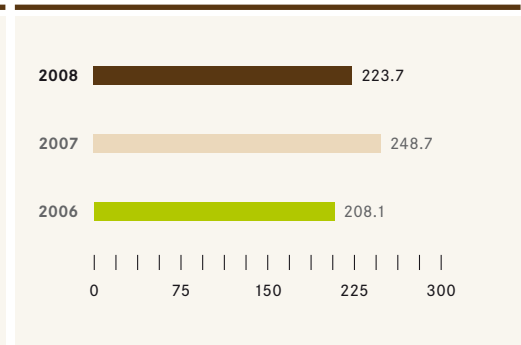
The events on financial markets in 2008 had a severe impact on the global economy. A problem, which in the summer of 2007 seemed to be restricted to the US real estate market triggered by sub-prime loans, quickly spilled over to other credit markets until ultimately major parts of the global financial system were struck to the core. The collapse of the global financial system in October 2008 was only prevented by the intervention of central banks and governments. Funding made available for that purpose exceeded anything previously seen. However, some banks were beyond salvaging or could only be saved from bankruptcy by being partly nationalized.

**REVENUES**

MILLION EUROS

**EBITDA**

MILLION EUROS



The difficulties experienced by banks resulted in a credit crunch, which increasingly affected companies outside the financial sector. Private consumption was also impacted by the financial crisis, with a spending slump in the USA caused by higher unemployment and falling house prices. In industrialized nations, private consumption dropped as a result of high inflation rates driven by a temporary hike in raw material prices. In the meantime, many industrialized countries such as the USA, Great Britain, Germany, Japan and France have slid into recession. Even boom countries such as China, India and Russia, which initially were hardly impacted by the decline, are now expecting considerably more moderate growth rates for 2009 than in previous years. Russia is additionally suffering from declining income from the sale of raw materials as well as the withdrawal of capital by foreign investors.

Around the world, central banks have cut interest rates to historic lows, but lower interest rates have failed to lead to positive results so far. Governments and central banks have had to save companies in the financial sector with capital injections or (by part) nationalization. Since the end of 2008, measures of this kind have increasingly become an issue for companies in the real economy.

The positive aspects of this economic development include a reduction in various countries' current account deficits. In addition, declining raw material prices reduced inflationary pressure in the second half of 2008. This offers relief to industries where production costs are largely dominated by raw material prices.

According to estimates by the International Monetary Fund, the global economy is on the brink of a massive downturn. While the global economy still grew by 5.2% in 2007, a growth rate of 3.4% is expected for 2008 with a probable slide to only 0.5% in 2009. In contrast to earlier cyclical recoveries, the IMF expects a considerably more moderate upturn to follow this slump, as the problems caused by the financial market crisis cannot be resolved in the short term. For 2009, the IMF expects a growth rate of minus 1.6% for the USA, - 1.2% for Canada, - 2.5% for Germany, - 0.4% for Eastern Europe and - 0.7% for Russia. Recovery could be triggered by stabilizing US real estate prices and a return of confidence to capital markets.

### **Engineered wood markets 2008**

Demand for engineered wood products fell in all three regions in which Pflleiderer operates. In North America, price declines in the real estate market continued and resulted in a considerable slump in construction work. As a result, the sales situation continued to be extremely difficult and deteriorated further at the end of 2008. According to calculations by the Composite Panel Association (CPA), demand for particleboard declined by 17% and for MDF by 10% in 2008. For 2009, experts expect a decline in sales volumes of around 8 – 9% in these two product groups in the North American market. Pflleiderer estimates that the laminate flooring market shrank by 15% in 2008. This development, however, mainly impacted importers, who were no longer able to offer products at competitive prices as a result of the sustained weak US dollar.

In the Eastern Europe region, the engineered wood markets in Poland and Russia developed very differently. Demand in Poland, especially from the local furniture industry, suffered from a significant collapse in demand from abroad. This was mainly driven by the stronger Polish zloty, which made exporting considerably more difficult and led to a drop in revenue for the Polish furniture industry of around 15% compared to the previous year. At the end of 2008, however, the zloty fell considerably against the euro again. This is likely to have a positive impact on demand in 2009. In Russia on the other hand, sales of engineered wood products continued to grow very encouragingly. This was mainly driven by robust growth in private consumption, but at the end of 2008 there were signs of slowing growth also in that market.

In Western Europe, engineered wood markets also saw declines, with the trend accelerating significantly toward the end of 2008. Weakness initially surfaced in Great Britain and Spain and then spread from France throughout Western Europe. In our most important market, Germany, revenues from engineered wood products declined by 9.3% compared with the previous year according to the Verband der Deutschen Holzwerkstoffindustrie (VHI). The project business and sales to the furniture industry still generated slight growth, especially in the kitchens and office furniture sectors. According to the Verband der Deutschen Möbelindustrie (VDM), furniture revenues (excluding seating furniture) in Germany in the first eleven months of 2008 was up 1.9% against the prior-year period. Kitchen furniture recorded growth of 3.5%, store furniture was up by 8.0% and office furniture gained 15.1%. The upholstery furniture segment, which is hardly significant for Pflleiderer, experienced a decline of 9.1%. Exports also supported the business. In contrast, standard products for the construction business recorded a decline. The market for laminate flooring was characterized by excess capacities in 2008.

### **Development of sales prices**

In view of the declining demand, it was not possible to implement the price adjustments necessitated by higher raw material costs to the full extent in Europe. Prices for particleboard and fiberboard dropped both in Western and Eastern Europe. In Germany, the average annual price decline in 2008 amounted to 2 – 3% according to the Statistisches Bundesamt (Federal Statistical Office). In North America, prices for particleboard and MDF recovered slightly in 2008 according to industry analysts from RISI, after having declined in 2007. The increase was insufficient to offset higher raw material costs, however.

## Net Assets, Financial Position and Results of Operations of the Pfeleiderer Group

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Towards the end of 2008, business deteriorated in almost all of our sales markets, resulting in a decline in revenues by 3.6% to 1,735.9 million euros. Soft demand resulted in a slight fall in prices, despite increased raw material costs. By introducing massive cost-cutting measures at an early stage, we were able to compensate for these effects in part and retain our EBITDA margin at an almost unchanged figure of 12.9%. In the Western Europe region, Pfeleiderer was once again able to even increase its EBITDA margin over the previous year. Compared to the competition, Pfeleiderer was able to continue to enhance its relative market position in 2008. Capital expenditure totaling 158.7 million euros were covered completely from the operating cash flow. Issuing a bond in the summer of 2008 secured the long-term funding of the Group.

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### REVENUES AND EARNINGS

#### Consolidated revenues decline slightly in 2008

The Pfeleiderer Group performed better than most of its competitors in a weak market environment across almost all regions. Compared to 2007, revenues merely declined by 65.2 million euros or 3.6% to 1,735.9 million euros, while 32.2 million euros of this decline can be attributed to closing the plant in La Baie, Canada. Higher revenues came due to the first-time full consolidation of Pergo, with two additional months of revenues being recorded (41.8 million euros), positive exchange rate effects (17.4 million euros) and revenues from the new US plant in Moncure (10.4 million euros).

Pfeleiderer has further expanded the share of revenues generated abroad as part of its internationalization strategy. It increased from 71.3% in 2007 to 72.2% in the year under review, which is mainly attributable to growth in Eastern Europe.

#### Gross margin negatively impacted by higher raw material costs

Gross margin declined from 27.3% in the previous year to 25.1% in 2008. This was fuelled by price pressure in the market as well as higher raw material costs – especially for glue and chemical input products – which could not be passed on to the full extent. Chemical raw materials, which depend on gas prices and are therefore affected by oil prices with a time lag, peaked in the fall of 2008. As a result, the cost of materials ratio increased to 54.3% (previous year: 53.2%). More detailed information on raw materials purchasing is included in this Annual Report from page 27 et seqq. onwards.



The Pfeleiderer Group invests in its own glue production, which meanwhile covers approximately half of its own needs. In this way, Pfeleiderer reduces its dependency on external suppliers.

#### **EBITDA margin slightly below previous year's level at 12.9 %**

EBITDA decreased from 248.7 million euros to 223.7 million euros. The EBITDA margin, however, only fell slightly compared with the previous year from 13.8% to 12.9%, as we were able to partly compensate for declining revenues and higher raw materials costs with extensive cost-cutting measures. Our selling expenses thus declined by 9.6% and administrative expenses were down by 2.9%. In 2007, selling expenses had increased to an unusually high level as a result of integrating Pergo and the associated advertising campaign, and returned to normal levels in the course of the year under review. We were also able to optimize freight costs once again. The positive balance of other operating income and expenses decreased by 7.8 million euros compared with the previous year to 12.5 million euros. It comprises a large number of income items totaling 48.1 million euros, such as income from currency gains, a badwill from the purchase price allocation of acquisitions, the sale of emissions rights and the sale of a property, as well as other operating expenses of 35.6 million euros.

Scheduled depreciation and amortization increased slightly compared with the previous year to 112.3 million euros (2007: 108.1 million euros). This was complemented by extraordinary depreciation and amortization of 13.8 million euros, mainly due to relocating the plant from La Baie to Moncure.

In the fiscal year 2008, personnel expenses amounted to 260.2 million euros, down by 2.5% compared to the previous year (266.8 million euros).

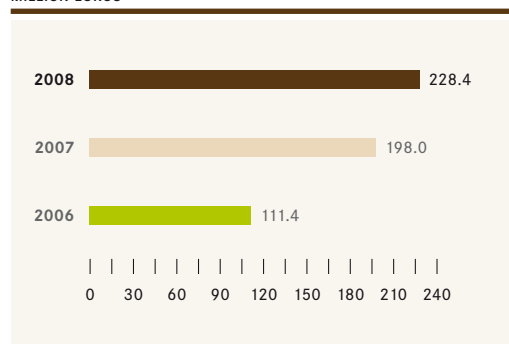
Earnings before interest and taxes (EBIT) dropped from 136.8 million euros to 97.6 million euros. This is equivalent to an operating margin of 5.6% (previous year: 7.6%).

In the year under review, financial expenses, net, deteriorated from -46.0 million euros to -80.0 million euros. This was attributable to the increased use of credit lines, which pushed up interest expense by 4.1 million euros to 57.1 million euros. In addition, expenses of 28.4 million euros were recorded in other financial income/expenses, mainly as a result of the mark-to-market valuation of currency hedges (15.5 million euros) and interest hedges (4.1 million euros), as well as the valuation of financial positions in foreign currency on the reporting date.

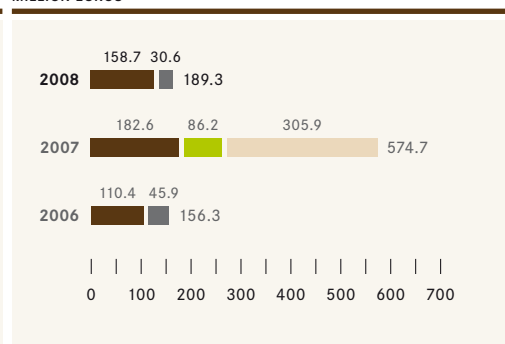
Profit from continuing operations before income taxes thus fell from 90.6 million euros to 17.6 million euros. There was tax income for the full year of 11.2 million euros, mainly attributable to capital-

**CASH FLOW FROM OPERATING ACTIVITIES**

MILLION EUROS

**CAPITAL EXPENDITURE**

MILLION EUROS



■ Various acquisitions    ■ Property, plant, and equipment  
■ Prospan    ■ Pergo

izing deferred taxes on loss carryforwards in Group companies. Profit from discontinued operations includes a tax expense of 6.1 million euros, putting profit for the period at 22.3 million euros. After profit attributable to minority interest and hybrid capital investors, profit attributable to Pfeleiderer AG shareholders amounts to 5.8 million euros. This corresponds to diluted earnings per share from continuing operations of 0.24 euros (previous year: 1.00 euro) and earnings per share from discontinued operations of minus 0.13 euros (previous year: 0.10). In June 2009, a proposal to carry over net retained profit to new account will be made to the Annual General Meeting.

**FINANCIAL POSITION****Objectives of financial management**

The main objectives of Pfeleiderer's financial management include safeguarding liquidity and financial flexibility. A broad range of financing instruments is used to meet these requirements. An additional goal is to secure a highly diversified pool of creditors and investors, especially in the currently difficult situation in the market for corporate finance. Debt financing measures are entered into with the longest possible maturities. The Company maintains a balanced ratio between debt and equity to create a solid basis to pursue Pfeleiderer's profitable growth path with healthy balance sheet ratios.

**Financing**

Current financing requirements are met through a combination of operating cash flow and the taking out of financial liabilities. Pfeleiderer uses conventional bank finance as well as other instruments such as syndicated loans, borrower's note loans, leasing, factoring in ABS transactions, and commercial papers. At the end of 2008, non-current loan liabilities at the Pfeleiderer Group had maturities of up to seven years. The average interest rate was 5.75%.

The most significant financing measure in the fiscal year 2008 was the issue of a bond with a gross volume of 165.0 million euros and in tranches of three to seven years. The bond was very successfully placed with institutional investors and primarily serves to extend the maturities of existing financial debt. Thanks to our solid balance sheet structure, we have been able to retain investment grade terms. The Group also has a sufficient amount of unused credit lines.



Uniboard, a Pfeleiderer subsidiary, transferred its MDF production from La Baie in Canada to Moncure in the United States in 2008. Uniboard also invested approximately €80 million in the US plant.

Pfleiderer uses derivative financial instruments exclusively to hedge currency and interest rate risks arising from operating activities. Currency forwards are primarily used 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 transactions that are already recognized as well as future transactions if their occurrence is sufficiently likely. More information on derivative financial instruments can be found in the notes to the consolidated financial statements.

#### **Development of cash flows in 2008**

Cash flows again developed very positively at the Pfeleiderer Group in 2008. The net cash flow from operating activities increased by 30.4 million euros to 228.4 million euros. This was mainly driven by the reduction in inventories and receivables resulting from stringent working capital management. A total of 190.6 million euros was spent on capital expenditure in property, plant and equipment as well as acquisitions, compared to 556.4 million euros in the previous year, which was mainly attributable to the Pergo acquisition. Issuing a bond as part of financing activities generated an inflow of funds amounting to 165.0 million euros. After outflows, especially for interest payments and interest on the hybrid bond as well as dividends to Pfeleiderer shareholders and minority shareholders, the balance of financing activities amounted to a net cash outflow of 9.4 million euros.

After considering all cash inflows and outflows, cash and cash equivalents amounted to 46.3 million euros at the end of 2008, compared with 17.2 million euros on the reporting date of the previous year.

#### **Capital expenditure**

In the fiscal year 2008, Pfeleiderer limited its capital expenditure due to the uncertain economic situation. Throughout the Group, 158.7 million euros were spent on property, plant, and equipment and intangible assets, compared with 182.6 million euros in the previous year. On top of that amount, 30.6 million euros was paid for acquisitions such as Moncure and decopa and the second purchase price installment for Kunz.

In North America capital expenditure amounted to 37.4 million euros (previous year: 18.8 million euros). Funds were mainly used for the relocation of the MDF plant from La Baie in Canada to Moncure. The plant in Moncure will start operations at the end of 2009.

Capital expenditure in Western Europe amounted to 58.7 million euros (previous year: 33.7 million euros). The focus there was on improving the efficiency of existing plants and implementing various rationalization measures.

In Eastern Europe, capital expenditure amounted to 60.3 million euros (previous year: 127.6 million euros). In Novgorod in Russia, a new laminating press began operations at the existing particle-board plant and work started on the construction of a new MDF plant. Total capital expenditure in Novgorod will amount to about 150 million euros.

## NET ASSETS

### Sound balance sheet structure

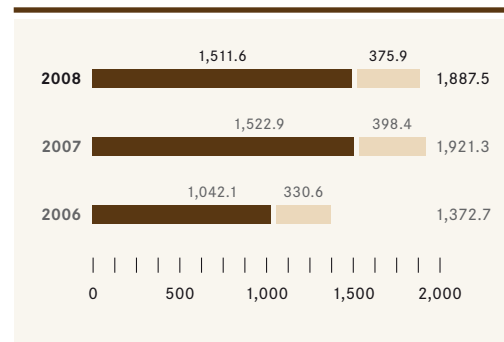
As of the balance sheet date, the Group's total assets declined by 1.8% to 1,887.5 million euros. On the assets side of the balance sheet, current assets decreased by 22.5 million euros to 375.9 million euros. A reduction in inventories of 47.6 million euros (-20.7%) contributed to this reduction in particular. This meant that the target for decreasing inventories by 15% compared with the previous year was exceeded by a considerable margin. Cash and cash equivalents increased by 29.1 million euros to 46.3 million euros. Non-current assets fell by 11.3 million euros to 1,511.6 million euros. This figure was impacted by the decline in property, plant and equipment by 39.8 million euros to 829.3 million euros and a fall in intangible assets by 23.0 million euros to 540.6 million euros. The latter was driven by currency translation, among other things. The increase in deferred taxes by 61.9 million euros to 123.2 million euros had the opposite effect, mainly because of capitalizing loss carryforwards.

On the liabilities side of the consolidated balance sheet, there was a shift toward longer-term liabilities in the financial structure. Current liabilities decreased by 8.1 million euros to 516.1 million euros. Current financial liabilities decreasing by 17.5 million euros to 153.4 million euros made a particular contribution. In contrast, non-current liabilities increased by 64.4 million euros to 660.4 million euros. This was mainly due to the restructuring of non-current financial liabilities by

### BALANCE SHEET STRUCTURE AS OF DEC. 31

#### ASSETS

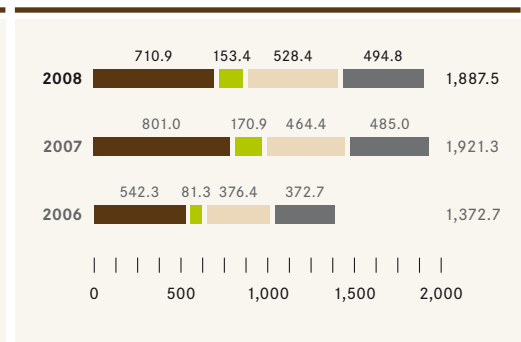
MILLION EUROS



■ Non-current assets  
■ Current assets

#### LIABILITIES AND EQUITY

MILLION EUROS



■ Equity  
■ Non-current financial liabilities  
■ Current financial liabilities  
■ Other liabilities

issuing a bond in tranches with maturities of three, five and seven years. Equity fell by 90.1 million euros to 710.9 million euros. In total, dividend payments to own shareholders, minority shareholders and hybrid capital investors resulted in an outflow of 51.5 million euros. Currency translation also had a negative impact on equity of 39.8 million euros. In addition, redeeming the 10.7 million euros hybrid bond led to a decline in equity. At the end of the year, the equity ratio thus reached 37.7% (previous year: 41.7%).

The Pfeiderer Group's net debt amounted to 635.5 million euros at the end of 2008, compared to 618.2 million euros a year earlier. The ratio of net debt to equity (gearing) increased to 0.89 (previous year: 0.77). So-called leverage, i.e. the ratio of net debt to EBITDA, increased from 2.5 to 2.8 as a result of the higher financing volume.

#### KEY FINANCIAL RATIOS

	DEFINITION		2008	2007
Net debt	Financial liabilities – financial receivables – cash and cash equivalents	million euros	635.5	618.2
Leverage	Net debt / EBITDA	factor	2.8	2.5
Equity ratio	Equity / total assets	%	37.7	41.7
Gearing	Net debt / equity	%	89.4	77.2
Capital employed	Net working capital + net non-current assets	million euros	1,357.6	1,410.5
Return on capital employed (ROCE)	EBIT / capital employed	%	7.2	9.7

#### Overall statement on the Pfeiderer Group's economic position

The Executive Board of Pfeiderer AG assesses the Company's economic development as being generally more restrained than in the previous year. Although revenues increased in Eastern Europe in 2008, business in this growth region has also become more difficult, which is highlighted by declining margins. Revenues in North America declined due to exchange rate effects and the closure of a plant. Regardless of the continually difficult economic situation, especially in the United States, we were still able to considerably improve our competitive position there and doubled our market share in laminate flooring. In Western Europe, the recession also affected our business in the second half of 2008, even though the region was able to further improve its earnings in 2008.

Based on our assessment, the net assets, financial position, and results of operations of the Pfeiderer Group are sound. These results are the basis for us to emerge from the current financial and economic crisis as a stronger company. However, the Executive Board believes that the fiscal year 2009 will be difficult given the uncertainties on financial markets and the unpredictable spillover into the real economy. The Executive Board is therefore developing strategies and measures to be well prepared for changing conditions.

## Net Assets and Results of Operations of the Parent Company, Pfleiderer AG

Pfleiderer AG is the parent company of the Pfleiderer Group and is primarily engaged in holding company activities. It is responsible for the strategic alignment and management of the Group. As of December 31, 2008, Pfleiderer AG employed 54 people, including the Executive Board, compared to 45 people on the balance sheet date of the previous year.

In addition to its holding company functions, Pfleiderer AG is responsible for central power purchasing for the production sites in Germany, thus leveraging economies of scale in procurement. The electricity costs incurred are recharged to the affiliated companies without adding a mark-up, so that they benefit directly. In 2008, cost allocations for electricity amounted to 36.0 million euros, compared with 35.7 million euros in 2007.

Pfleiderer AG reported income from investments of 54.6 million euros in 2008 compared to 74.8 million euros in the previous year. Net income from investments relates to net income from profits or losses of affiliated companies in the Region Western Europe and of the corporate center of the Group. There was an opposing effect from the increase in impairment losses on financial assets to 4.7 million euros (previous year: 1.5 million euros). Due to the increased financing activities, net financial income improved at the same time from 2.3 million euros to 5.6 million euros. Therefore, the income generated by holding company activities amounted to 55.5 million euros (previous year: 75.6 million euros). After consideration of other operating expenses and income, as well as personnel expenses and depreciation and amortization, profit from ordinary activities in 2008 amounted to 19.6 million euros, compared with 52.5 million euros in the previous year. 20.5 million euros of the decrease resulted from the lower income generated by holding company activities and from write-downs of securities classified as current assets (previous year: 10.9 million euros). After-tax profit for the year was 15.4 million euros, compared to 45.6 million euros in 2007.

Total assets of Pfleiderer AG increased by 24.3% to 902.7 million euros at the end of 2008 (previous year: 726.4 million euros). On the assets side, receivables and other assets in particular increased from 446.1 million euros to 604.5 million euros. This primarily relates to receivables from affiliated companies resulting from holding company activities as well as from the financing of subsidiaries as part of Group-internal cash pooling.

On the liabilities side, the most significant effect resulted from the increase in liabilities to banks, from 93.2 million euros to 241.6 million euros. This was primarily due to a bond loan (Schuldschein) being issued with a nominal value of 165.0 million euros. These additional funds, as well as the liabilities to affiliated companies of 242.5 million euros (previous year: 219.5 million euros) incurred within the Group, were allocated to the operating companies of the Group within the framework of Pfleiderer's cash pooling.

Equity remained almost unchanged at 386.9 million euros. Due to increased balance sheet total, the equity ratio fell to 42.9% by the end of December 2008 (previous year: 53.2%).

The proposal for the appropriation of profits is based also on operational developments and the profit generated by the Group. As the more difficult economic environment resulting from the global financial crisis also impacts the key figures, EBITDA and cash flow, the Executive Board and the Supervisory Board propose that net retained profits be carried forward onto new account.



“We demonstrate our development and pressing expertise daily with our trend forecasts and pioneering designs. We supply our customers with sophisticated decor, so that they can optimize their products and generate market success. Our development and design experience flows into new structures and decors for furniture and flooring surfaces that will set trends in the coming years and give customers a buying incentive.”

REINER SCHULZ, CHAIRMAN OF THE EXECUTIVE BOARD OF SCHATTEDECOR AG, THANSAU



ORN BIAN

BAUM TRA

MUM ZENO B

## Pfleiderer Segments

Segment reporting is broken down into the regions in which Pfleiderer operates: Western Europe, Eastern Europe and North America. In the fiscal year 2008, the Company was able to further increase its revenue in Eastern Europe. While business in Russia continued to develop excellently, the situation in Poland was difficult given that the zloty was strong for a longer period of time and as a result of excess capacities. Despite the economic slow-down in the second half of 2008, new record margins could be achieved in the region Western Europe. In North America, Pfleiderer was able to enhance its position in a market adversely affected by the recession and gained market share. By acquiring a production facility in the United States and relocating a plant from Canada to the USA, we have created a basis there to considerably improve our cost position.

### SEGMENT OVERVIEW

MILLION EUROS	WESTERN EUROPE		EASTERN EUROPE		NORTH AMERICA		GROUP*	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenues	945.8	986.7	420.3	393.3	404.9	443.0	1,735.9	1,801.1
EBIT	112.5	110.0	28.9	51.7	-20.2	-15.5	97.6	136.8
- EBIT margin in %	11.9	11.1	6.9	13.2	-5.0	-3.5	5.6	7.6
Capital expenditure	58.7	33.7	60.3	127.6	37.4	18.8	158.7	182.6
Employees	2,830	2,843	1,734	1,730	1,080	1,163	5,777	5,849

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

### WESTERN EUROPE

#### Renewed increase in market share

The Western Europe region remained the Group's most important source of revenue with a share of 53.4% (previous year: 54.1%). Despite the development of revenue being impacted by the burgeoning recession, the effects of good market positioning and the early introduction of cost-cutting measures resulted in another increase in margins. Compared to the previous year, revenue declined by 4.1% to 945.8 million euros as a result of the deteriorating economic situation toward the end of the year. This was attributable to falling prices for particleboard and HDF/MDF board, as well as lower HDF/MDF board volumes, which were impacted in particular by weak demand from the flooring segment. Business in laminate flooring remained challenging in 2008 as a result of excess capacities. The premium price segment of our Pergo brand developed slightly better. At the flooring trade fair in Belgium, we were presented with an award for the most innovative product for PergoSense. But Pergo was not able to fully insulate itself against the generally soft market. Surface-finished boards, HPL and elements, however, remained stable or even recorded slight growth. The retail and project business was also stable and generated positive gains in margins. On a regional basis, Great Britain was the weakest market, while we managed to gain market share in the likewise soft French market. In addition, we continued to grow in our business activities outside of Europe.



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



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New products that are created together with the customers secure our market leadership in Germany: Our thin but extremely robust high-density fiberboard has received top ratings, especially from the kitchen manufacturers.

According to preliminary estimates by the European Panel Forum, we continued to expand our market leadership in Germany in the year under review. This success can be attributed to offering brand products and services as well as successful innovations which are carefully tuned to the needs of individual customers. “HPL-SolidColor” is a product used in the project business and received the “Architecture + Office XXL” innovation prize. The product “Faser Kompakt,” a thin but extremely durable HDF board, was very well received by office furniture and kitchen manufacturers.

#### Record EBIT margin

EBIT in Western Europe recorded another slight increase over the previous year at 112.5 million euros (previous year: 110.0 million euros). The EBIT margin improved from 11.1% to 11.9%, yet another record figure. This growth in earnings was driven by the increasing share of high-margin products in business volume and the significant improvement in productivity due to the structural measures implemented in recent years. Stringent cost management also contributed to the higher earnings.

We are reacting to weak demand, which is also likely to last during 2009, by further enhancing our capacity to innovate and continuing our cost-management efforts.

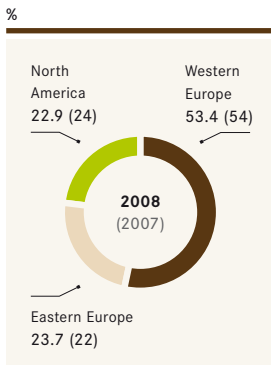
#### EASTERN EUROPE

##### Growth path continues

In the year under review, business in the Eastern Europe region developed very differently in the two markets: Russia and Poland. While the situation in terms of demand and earnings continued to be excellent in Russia, the Polish plants were operating in a difficult market environment. For an extended period of time, the strong zloty hampered our customers’ export opportunities. They operate mainly in the furniture industry and export the majority of their production to Western Europe. Demand from the Polish furniture industry for particleboard in 2008 was therefore about 15% below the level of the previous year in terms of nominal value. Excess capacities in the Polish market also depressed prices for particleboard and MDF. In contrast, our activities in Russia developed very positively. We significantly increased unit sales and were able to fully pass on higher raw material costs to our customers by raising our prices.

Despite the generally difficult market in Poland, revenue in the Eastern Europe region expanded again in the fiscal year 2008, increasing by 6.9% to 420.3 million euros. Growth came from the new MDF plant in Poland, exchange rate effects, and capacity increases in Russia, where a new surface-finishing plant in Novgorod started operations in the third quarter.

#### REVENUES BY REGION



**EBIT above Group average despite downturn**

Compared to the previous year, EBIT decreased by 22.9 million euros to 28.9 million euros. This put the EBIT margin at 6.9% after 13.2% in 2007. The decline was fuelled by higher raw material costs. On top of higher prices for energy, glue and chemical input products, prices for wood also increased in Poland, in contrast to the trend in other countries, and have now reached a level which is higher than in Germany. A further negative effect also resulted from price pressure in the MDF and particle-board segment. In an effort to counteract cost pressure and declining prices, we initiated extensive cost-cutting measures, which resulted in savings of around 27 million euros in the fiscal year 2008.

According to estimates by the IMF, Russia's economy will also slip into recession in 2009. However, we continue to expect positive structural demand in Russia in the long term.

**NORTH AMERICA****Market share gains in a difficult environment**

Business development in North America continues to be influenced by the real estate and financial market crisis. According to the calculations of the Composite Panel Association (CPA), demand for particleboard decreased by 17% in 2008, while demand for MDF dropped by 10%, thereby reaching the level of a decade ago. In this difficult environment, our sales volume almost remained the same as in the previous year, even though La Baie (32.2 million euros) was shut down due to relocation. Without the acquisition of the plant in Moncure, however, volumes would have declined by 7%. This relative success is based on new sales channels and good positioning for surface-finished boards. The market share for particleboard was expanded once again.

The market for laminate flooring also declined last year. Although the market decreased by 15%, our North American subsidiary Pergo grew by 24% (on a comparable basis in local currency) and was able to gain further market share. This market share increase was to a large extent at the expense of importers, who lost competitiveness due to the weak US dollar.

The decrease in sales revenue of 8.6% to 404.9 million euros experienced by the North American business is due to exchange rate effects and the closure of the site in La Baie, Canada. Adjusted for the purpose of comparability, sales increased by just under 2%.

**Improved earnings**

Although competitors withdrew from the market in all segments, price development suffered due to excess capacity – especially in the particleboard market. This made it almost impossible to pass on the sharp increase in raw material costs for boards to customers, which in contrast was partially possible for laminate flooring. Given the unfavorable market conditions, EBIT decreased from –15.5 million euros to –20.2 million euros. EBIT was impacted by extraordinary depreciation and amortization of 13.8 million euros resulting from the relocation of the La Baie plant as well as writing off the value of the customer base. The increase in EBIT (adjusted for this extraordinary depreciation and amortization) resulted from cost savings, better market positioning and goodwill from the purchase price allocation for the acquisition of the US site in Moncure.

Pfleiderer again improved its cost position in North America by relocating the MDF plant from the Canadian site in La Baie to Moncure, North Carolina in the United States. We will be able to establish efficient, integrated production very quickly close to our laminate plant in Raleigh for the equivalent of about 80 million euros - an investment total considerably lower than that needed for a new construction. At our new production facility, the considerably lower wood prices, the absence of the exchange rate risk and significantly lower transport costs will work in our favor. The start of production will depend on the market situation but is currently planned for the fourth quarter of 2009.

## Production

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Pfleiderer has further expanded its technology leadership. To aid the efficient production of MDF, an innovative technology was introduced and, by using know-how transfer as part of the Global Pfleiderer Production System (GPPS), production processes were optimized throughout the Group. This enabled production costs to be reduced on the one hand and quality standards to be enhanced on the other hand.

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### PRODUCTION

The issue of cutting costs is a central focus for our production. The technicians in our Operations Control department were able to further reduce material consumption by using the Global Pfleiderer Production System, or GPPS for short. This was made possible by a comprehensive production database which allows a comparison to be made between all the plants of the Pfleiderer Group. This comparison enables strengths and weaknesses to be recognized and potential to be enhanced. Operations Control carries out a targeted search for cost-reducing options along the process chain. Consumption and therefore manufacturing costs are reduced as a result of the decrease in internal material losses. Customers continue to receive their product in the usual good quality, however.

### QUALITY

At Pfleiderer, quality means reacting to market and customer needs quickly and on an individual basis, and always guaranteeing quality standards. Our quality management system is therefore organized locally and is extremely flexible. Certifications in accordance with ISO 9001 and external monitoring by recognized institutions ensure transparency and control of processes, both in daily quality control and in the new development or adaptation of products to changed general requirements, such as CARB. This is accompanied by our involvement in national and international stan-



Our products are subject to continual and strict quality controls.

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ards committees, allowing early recognition and development of new quality requirements. An internal development platform managed by the Executive Board Member for Technology and Operations/Plants guarantees the necessary exchange of information and knowledge transfer between the various local units.

## Environmental Report

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Pfleiderer AG works with the renewable resource wood and is committed to supporting the principle of sustainable forest management. The Group continuously reduces the environmental effects resulting from production processes. In 2008, we were able to have several more German plants certified in accordance with the international environmental management standard ISO 14001. Pfleiderer strives to use resources as economically as possible. The measures implemented are successful and are being widely acknowledged: In 2008, the Pfleiderer subsidiary Thermopal was recognized for its approach to energy dedicated to using resources sparingly.

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Wood, the most important raw material for the Pfleiderer Group, stores carbon dioxide (CO<sub>2</sub>) from the atmosphere during its growth phase. Young and growing trees absorb considerable amounts of CO<sub>2</sub>. As a result, wood reduces the proportion of this climate-damaging gas in the air. It is therefore vital that the number of trees being felled does not exceed the number of trees being replanted. This principle of sustainable forest management helps ensure the economical potential of forests.

Pfleiderer only uses wood from sustainable forestry or recycled untreated scrap wood for its products. Pfleiderer strictly rules out the use of tropical wood. By doing so, the Group is contributing towards forest conservation and ecological recycling. But using wood as a material also extends its carbon storage function: Because also processed wood stores CO<sub>2</sub> throughout its entire lifecycle.



<http://www.pfleiderer.com/en/company/the-environment-385.html>

Pfleiderer continues to reduce the environmental effects resulting from production processes and regards the environment as an integral part of its corporate philosophy. That is why we have defined Group-wide guidelines for these areas, committing ourselves to a proactive approach.

#### **NIDDA, GÜTERSLOH AND ARNSBERG PLANTS CERTIFIED IN ACCORDANCE WITH ENVIRONMENTAL MANAGEMENT STANDARD 14001 IN 2008**

We derive environmental targets and specific programs from the international environmental management standard ISO 14001, which defines globally recognized requirements for an environmental management system. The standard requires organizations to continually improve their environmental performance. Starting in the Western Europe region, it is Pfleiderer's medium-term goal to achieve ISO 14001 certification for the entire Group. The production facilities of the Swedish company Pergo and the glue manufacturer Silekol have already been successfully audited. In 2008, the German plants in Nidda, Gütersloh and Arnsberg were certified.

In these plants, important environmental aspects such as emissions and waste as well as energy and water consumption are monitored and managed. By comparing sites with each other, weaknesses were rectified and Group-wide internal standards were set. In 2008, Pfleiderer was already able to benefit from the 2007 certification of particleboard production in Neumarkt: For example, enhanced processes enable the proportions of scrap wood to be optimized, creating less waste. The other sites of the Group are gradually being prepared for certification.



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The Pfleiderer Group supports the principle of sustainable forestry and therefore adheres to standards such as those of the PEFC (Programs for the Endorsement of Forest Certification) or the FSC (Forest Stewardship Council). These programs ensure that companies act according to ecological, social and economic standards. Customers and society place great demands on companies when it comes to environmentally friendly operations and the use of sustainable resources. Compliance with the abovementioned standards enables the Pfleiderer Group to live up to these expectations.

#### **USING RAW MATERIALS AND ENERGY RESPONSIBLY**

Pfleiderer strives to use resources as economically as possible. Amongst other things, the Global Pfleiderer Production System, GPPS for short, has provided an overview of the Group's global consumption of resources since 2006. Comparisons are not limited to resources, but also include energy: If the GPPS shows that more energy is being used in one plant than in another, the best-practice approach is identified and introduced throughout the Group to reduce unnecessary energy consumption.

The measures carried out are a success: The Pfeleiderer subsidiary Thermopal was recognized by the German power supplier EnBW in 2008 for its dedication to using energy resources sparingly. In the summer of 2006, Thermopal began to take a number of measures for the improvement of energy efficiency. Since then, the Pfeleiderer subsidiary has saved 3,590 megawatt hours per annum – this is the amount of electricity used in 180 German households each year. As a result, Thermopal is saving more than 250,000 euros in energy costs annually.

#### TRANSPARENCY IN EMISSIONS

For many years, the German plants in Gütersloh and Neumarkt have been committed to reducing emissions by up to 80 % above what is legally required. The recorded amount is posted on the Group's website every day.

The Group's own transport company, JURA-Spedition GmbH, is also reducing its emissions: In 2008, the Pfeleiderer subsidiary was one of the first companies in Germany to change its entire truck fleet to the new Euro 5 emissions standard. In the future, the forwarder's 60 trucks will emit 378 tons of CO<sub>2</sub> and 2,700 tons of nitric oxide less per year than before. To adopt a more environmentally friendly and economic approach to driving in the future, two instructors currently show drivers from JURA-Spedition how to get more mileage out of a tank of fuel.

#### APPLYING EFFECTIVE WASTE POLICY TO CLOSE RESOURCE LIFECYCLES

Pfeleiderer is dedicated to considering the entire lifecycle of resources in its internal environmental management. The Group has therefore implemented a number of measures to create full-circle lifecycles. Poor-quality wood which is rejected during the production process is fed into the in-house biomass heating station at most plants. The energy this creates is used by Pfeleiderer in production processes.

An innovative air-treatment system is used at the Canadian sites Sayabec and Mont-Laurier of Pfeleiderer's Uniboard subsidiary. Uniboard developed the now patented air-treatment technology with an engineering company based in Quebec. The suitability of this air-treatment technology for further treatment processes is currently being tested in a pilot plant. In 2009, environmental officers will test whether this new treatment technology can be implemented meaningfully at other Pfeleiderer sites.



Emissions are reduced by the Group's own transport company, Jura Forwarding: The Pfeleiderer subsidiary is one of the first companies in Germany to have change over its entire truck fleet to the new Euro 5 norm.



In all regional units, the Pfeleiderer Group employs engineers, quality managers, chemical technicians and product designers, so that the broad product range can be continually further developed.

## Research and Development

Employees of the central Research and Development (R&D) department are developing the necessary processes and foundations for manufacturing extremely light engineered wood products without using non-renewable raw materials. These wood products are to include only lingo-cellulose-based materials and are one-third lighter than engineered wood products of the same thickness now available. These low-weight products maintain the conventional strength properties and are therefore equally of interest to do-it-yourself retail customers, the construction sector and the manufacturing industry, as they are easier to handle and transport.

The central R&D department also focuses on developing innovative surfaces. As a result, promising improvements are being made to high-gloss surfaces as well as to new scratch-proof and wear-resistant surfaces.

### **SIGNIFICANT IMPROVEMENTS IN PRODUCTION RESULTING FROM NEW TECHNOLOGY**

By using new technologies, we successfully increased our productivity in MDF manufacturing in the year under review. As part of an exclusive research cooperation, we were once again able to demonstrate our ability to achieve significant production improvements even for mature products such as particleboard and fiberboard by applying innovative technologies. After its successful launch in one of our German plants, we are now planning to gradually implement this technology in other MDF plants.

### **TOTAL PRODUCTIVE MANAGEMENT SUCCESSFULLY ROLLED OUT**

As with the new MDF production technology, Pfeleiderer also made use of expertise from other industries for the management system Total Productive Management (TPM). Employees in the plants are actively involved in the continuous improvement process for TPM. In this process, the Group's objectives are divided between employee teams, which then independently define measures for achieving these set objectives. TPM has already been successfully rolled out at the plants in Gütersloh, Nidda and Neumarkt. In 2009, we are planning its implementation in Ebersdorf and Baruth.

In fiscal year 2008, the Pfeleiderer Group spent 4.1 million euros on research and development (2007: 2.9 million euros).





“As a family-owned enterprise with more than 130 years of experience, we are today a technology leader in the field of production equipment for the engineered wood industry. We offer our customers future-oriented all-in-one solutions for competitive particleboard and fiberboard. Dieffenbacher develops, manufactures and supplies complete board plants that quickly produce a return on investment. Our customers want to grow profitably - we create the right conditions for them to do so with our system solutions.”

WOLF-GERD DIEFFENBACHER, OWNER/CHIEF EXECUTIVE OF DIEFFENBACHER GMBH & CO. KG, EPPINGEN



## Human Resources

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Growing together successfully and continuing to network the Group have been the driving forces in Pfeleiderer's human resources activities in the year under review. The Company was also able to record successes and positive developments in training, ideas management and in the areas of occupational safety and health management.

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

As of December 31, 2008, the Pfeleiderer Group (continuing operations) had 5,777 employees (previous year: 5,849), 3,208 of which worked abroad and 2,569 in Germany.

### **PFLEIDERER NEWSLETTER: GROUP-WIDE EMPLOYEE PUBLICATION**

Thanks to the acquisition of Pergo and Kunz in the past three years, many new employees in Germany and abroad have joined the Pfeleiderer Group. In the year under review, a new Group-wide employee publication was launched to ease their integration into the Pfeleiderer Group while keeping the entire workforce constantly up to date with the latest news from different regions. The PFLEIDERER newsletter is published four times a year in German, English, French, Swedish, Polish and Russian. In addition to news about the Group, its strategy, employees, plants, customers and products, the Corporate Communications department relies on the PFLEIDERER newsletter to address and expand on Group-wide issues in a bid to make them accessible to each and every employee.



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<http://www.pfleiderer.com/en/careers/guidelines-427.html>

### **CONSEQUENTLY IMPLEMENTING COMMON GUIDELINES**

The second issue of the PFLEIDERER newsletter was mainly dedicated to Pfeleiderer guidelines on management and cooperation, which since its implementation in Germany in 2004 have been part of the working spirit of managers and employees. These are company values which are applicable regardless of cultural background and can be individually implemented in all regions of the Group; gradually, they are now being rolled out at the foreign Pfeleiderer locations. Initial workshops were already conducted in the United States, Canada and Sweden in 2008 in order to develop a common understanding of management and cooperation among local staff.

### **INTERNATIONAL NETWORK**

In the year under review, the international executive conference, "MoVE" – More Value and Emotion, was staged and was dedicated to strategic issues. The fact that the Pfeleiderer Group is growing together internationally is not only visible in good networking and cooperation at management level. The annual plant manager conference in particular has helped to create a regular flow of information and know-how between the Group's specialist departments. Furthermore, Pfeleiderer's European Workers Council, founded in 2008, also fosters intensive communication between employee representatives throughout the Group.

### TRACK RECORD OF SUPERIOR QUALITY IN TRAINING

Qualified new talent is the cornerstone of a company's long-term success. In 2008, Pfeiderer was once again able to prove the superior quality of its training programs. At its German locations, the Group trained many young people in 17 different professions. As of December 31, 2008, the Company had 164 trainees, 96 of whom were employed in technical professions and 68 in commercial occupations.

### EXPANDED COOPERATION WITH UNIVERSITIES

In addition to its vocational training programs, Pfeiderer also enhanced its close cooperation with universities at home and abroad in the year under review. In March 2008, 17 students from German and Polish universities were able to take part in the first "Talents meet Pfeiderer" workshop. The objective of the event was to support young people in developing their personal and methodological skills, thus preparing them for working life. Pfeiderer also took this opportunity to successfully present itself as an attractive employer. More than half of all participants later applied for a job at Pfeiderer. One participant was hired as a graduate student while three are gaining experience of working life in Pfeiderer's Internal Junior Consulting Program. In 2008, this 18-month trainee program started into a new season with twelve university graduates.

### NATIONAL WINNER IN YOUTH RESEARCH PROGRAM "JUGEND FORSCHT"

Pfeiderer has been involved in the youth research competition "Azubi forscht" as an initiator, sponsor and host for more than 13 years. The Company gives its trainees in vocational training programs in Neumarkt the opportunity to take part in the national "Jugend forscht" competition - with great success: Employees from wodego, a Pfeiderer subsidiary, came first in the national "Jugend forscht" competition with their "Gewinde-Meister" ("Screw Thread Master") in June 2008. Thanks to this invention, it is now possible to cut threads perfectly straight even in places that are difficult to access. Other trainees had the opportunity to present their practice-oriented ideas at the iENA international trade fair for ideas, inventions and innovations in Nuremberg.

### IDEAS MANAGEMENT DELIVERING RESULTS

Even for employees whose vocational training course is a while back, it is still worth taking a close look at workflows and coming up with new ideas. Pfeiderer has introduced a Group-wide ideas management system called "KNIFF". The objective is to offer attractive rewards as an incentive to come up with innovations at all levels and to contribute to cutting costs, increasing quality and streamlining workflows by making proposals for possible changes or improvements. Since the introduction of the ideas management, over 2,000 suggestions were submitted, 60% of which were implemented.

### SAFE WORKPLACES FOR HEALTHY EMPLOYEES

Convinced that every occupational accident can be prevented, Pfeiderer launched a campaign on occupational safety in 2008. The Company reorganized occupational protection structures and committees at all locations and introduced a structured analysis of accidents at work. Clear objectives were defined and a system of benchmarking and reporting on occupational safety was implemented. By comparing all Pfeiderer plants around the world, standards can be introduced ensuring that employees can learn and benefit from best-practice approaches.



Qualified junior employees are essential: The Pfeiderer Group's 18-month management trainee program successfully entered a new phase with twelve university graduates in 2008.

Employee health has top priority at Pfeiderer. The health management measures offered in the period under review include "Stroke risk tests" at the Gütersloh site and the "Health Day" in Neumarkt, as well as regular health check-ups for managers and special medical services for Pfeiderer employees and their families at many Pfeiderer companies abroad.

#### COMMUNITY INVOLVEMENT

Pfeiderer's community involvement goes far beyond the Company's picket fences. The Company has now been the main sponsor of the "Neumarkter Stadtlauf" marathon for the sixth time. Proceeds from the event, which regularly draws around 3,000 participants, were donated to the German Bone Marrow Donor Register (DKMS). In the year under review, the Company's own "Pfeiderer Running Team" was able to send about 40 athletic employees into the race.

Community involvement is also a priority at the locations abroad. In North America for example, a Charitable Contributions Committee conducted a number of large-scale donation campaigns at several locations at once last year. Various charitable organizations were supported with money and donations in kind. In the run-up to Christmas, employees at the plant in Novgorod, Russia, collected clothes and toys for orphanages and families in need.

Ninth to eleventh grade students in the Novgorod region were able to take advantage of a job orientation program that was developed and offered for the first time in October 2008. Participants also had the opportunity to gain extensive information on Pfeiderer job entry and vocational training programs. Pfeiderer took the initiative to help train young people also in Poland. At the Grajewo site, the Company launched a foreign language competition for the first time in 2008, which included granting scholarships to children from underprivileged families.

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

### Composition of subscribed capital

As of December 31, 2008, the subscribed capital of Pfeleiderer AG totaled 136,514,816.00 euros. The share capital is composed of 53,326,100 no-par value registered shares. All shares entitle their holders to 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, 2008, Pfeleiderer AG held a total of 2,643,458 treasury shares.

### Restrictions affecting the voting rights or the transfer of shares

Employees who participate in the Company's stock option program and, as a condition for the grant of stock options, have made a personal investment in shares of Pfeleiderer AG, can only sell the shares bought as a personal investment after a lock-up period of three years. If an entitled employee sells the locked shares prematurely, the stock options expire without replacement.

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

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

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

In accordance with Section 21(1) of the German Securities Trading Act (WpHG), Patrick Aurel Pfeleiderer, Wiesbaden, PAP Beteiligungs-GmbH, Neumarkt, PAP Vermögensverwaltung GmbH & Co. KG, Neumarkt, Ernst-Herbert Pfeleiderer, 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 had exceeded the 5% and 10% thresholds and now amount to 10.58%. 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(2), Section 22(1), Sentence 1, No. 1 and Section 22(1), Sentence 1, No. 2 of the German Securities Trading Act (WpHG).

In accordance with Section 21(1) of the German Securities Trading Act (WpHG), Wood Engineering Holding B.V., Amsterdam (Netherlands), informed the Company on September 12, 2008, that it had exceeded the threshold of 25% of voting rights in the Company on September 10, 2008, and that its voting rights now amount to 26.90% (14,344,687 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) informed the Company on September 12, 2008, in accordance with Section 21(1) of the WpHG that they had exceeded the threshold of 25% of voting rights in the Company and that

their voting rights now amount to 26.90% (14,344,687 voting rights). The aforementioned companies also notified the Company that the voting rights are assigned to them in accordance with Section 22(1), Sentence 1, No. 1 of the WpHG.

#### **Shares with special control rights**

The Company has not issued any such shares with 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 conferred 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 Codetermination Act (MitbestG) govern the appointment and dismissal of members of the Executive Board. In accordance with Article 6(1) of the Company's Articles of Incorporation, the Executive Board must have at least two members. Incidentally, the Supervisory Board determines the number of Executive Board members in accordance with Article 6(2) of the 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 Articles of Incorporation, the Supervisory Board is authorized to amend the Company's Articles of Incorporation if they affect only the wording. Unless required otherwise by law, Article 21(3) of the Company's Articles of Incorporation stipulates that resolutions of the Annual General Meeting require a simple majority of the votes cast or a simple majority of the share capital represented at the time of resolution.

#### **Powers of the Executive Board to issue or repurchase shares**

##### **Authorized Capital**

The Executive Board is authorized, with the approval 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 against cash and/or noncash 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 approval of the Supervisory Board, to exclude shareholders' statutory subscription rights in certain cases.

To date, the Executive Board has not made use of this authorization. Further details are stipulated in Article 4(2) of the Articles of Incorporation.

##### **Conditional Capitals**

On June 19, 2007, the Annual General Meeting resolved to authorize the Executive Board, with the approval of the Supervisory Board, until June 18, 2012, to issue bonds with warrants and/or con-

vertible bonds on one or more occasions in a total volume of up to 200,000,000.00 euros and to grant the shareholders or creditors option and conversion rights to new shares in Pfeiderer AG with a notional interest in the share capital of up to 25,600,000.00 euros. These bonds are issued subject to shareholders' statutory subscription rights. However, the Executive Board is authorized, with the approval of the Supervisory Board, to exclude 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 25,600,000.00 euros by the issue of up to 10,000,000 new shares (Conditional Capital). Further details are governed by the authorization granted on June 19, 2007, and by Article 4(3) of the 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 subscription rights were granted under the authorization applicable until May 31, 2011, and the Pfeiderer Stock Option Plan 2006, that the holders of those subscription rights exercise their rights to subscribe for shares of the Company, and that the Company does not settle the subscription rights by issuing treasury shares or by way of cash compensation.

#### **Purchase of treasury shares**

On June 12, 2008, the Annual General Meeting authorized the Company in accordance with Section 71(1), No. 8 of the German Stock Corporation Act (AktG) to buy own shares in the period until December 11, 2009, with a notional interest in the current share capital of up to 10%, subject to legal restrictions. The shares may be bought through the stock exchange or on the basis of a public offer addressed to all shareholders. The Executive Board was authorized, with the approval of the Supervisory Board, to sell own shares acquired while precluding 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 stipulated by the authorization granted on June 12, 2008.

The Executive Board of Pfeiderer AG resolved on July 1, 2008, to acquire up to 1,000,000 own shares of the Company in the period up to July 25, 2008, through the stock exchange. The Company thus made use of the authorization granted by the Annual General Meeting on June 12, 2008, to acquire own shares and purchased a total of 589,543 shares of the Company through the stock exchange.

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

In the event of a change of control resulting from a takeover bid, loans provided under agreements with the syndicate of banks financing the Pfeiderer Group can be made immediately repayable. In the event of a change of control, the hybrid bond issued in 2007 can either be repurchased by the issuer or alternatively continue to be serviced with additional interest.

#### **Compensation arrangements agreed by the Company with members of the Executive Board or employees in the event of a takeover bid**

There are no arrangements with members of the Executive Board or employees that become effective in the event of a takeover bid.

## Events after the Balance Sheet Date

No significant events took place between the reporting date of December 31, 2008, and the finalization of this Annual Report.

## Risk Report

As a company with a global reach, Pfeleiderer is subject to a number of risks that are intrinsically linked to entrepreneurial activities. The key target of the Pfeleiderer AG's Group-wide risk management is to identify risks at an early stage and in an ongoing process, and then to limit their impact with careful management and by systematically taking countermeasures.

A risk management system that complies with legal requirements is used to early identify, assess and appropriately manage material risks or risks to the Company as a going concern. This risk management system is an integral component of the entire management and reporting process. Its framework is defined in a risk management manual which governs:

- risk identification and assessment;
- managing current risks and determining new or additional measures for risk management; and
- tracking risk development and countermeasures.

External and internal risks are systematically identified for all segments and Pfeleiderer Group subsidiaries. Risk management is continually enhanced and coordinated by a headquarters department which reports directly to the Executive Board. Particular attention is paid to the regular interchange of know-how with other companies to ensure that new approaches and ideas are incorporated in the Pfeleiderer Group's risk management system. The management of the operating areas is responsible for the early detection, full identification and management of risks. Each operating unit and headquarters department has appointed risk managers to ensure compliance with the risk management system.

The Company's risk situation is systematically re-evaluated every month. Risks are assessed according to their extent of damage and probability of occurrence. Special reports are submitted if the risk situation changes suddenly. The results are consolidated into quarterly reports and submitted to the Executive Board, the Supervisory Board Chairman and the Audit Committee.

The Internal Audit department and the auditors conduct regular checks on the current risk management system and the risk management report to establish the suitability and effectiveness of the system to recognize developments at an early stage which could pose a threat to the Company continuing its business.

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

#### MACROECONOMIC AND INDUSTRY RISKS

The global focus of the Pfeleiderer Group's business activities is increasingly influenced by changes in global conditions. The development of the fiscal year 2008 was impacted by the US subprime and financial crises and the resulting turmoil on international financial markets in the second half of the year. Considerable fluctuations in raw material prices as well as high volatility in exchange rates pose additional risks. The consequences of the global economic slump and the severity of its effects on the global economy are difficult to assess accurately at present.

Our business is characterized by extremely competitive pricing. We face strong international competitors, some of which are larger in certain business segments and therefore many have more extensive resources at their disposal. In addition to product innovation, Pfeleiderer AG counters this risk with suitable measures to reduce costs and boost productivity.

#### OPERATING RISKS

Forecasts about the development of future growth markets are complicated by the prevailing uncertainty concerning the development of the global economy. Market consolidation continues to be possible, combined with a general threat to our market position. In previous growth markets in Eastern Europe, declining demand may also result in excess capacity. The risk of customer insolvency cannot be ruled out in the markets relevant to Pfeleiderer as well. In accordance with Group guidelines, credit insurance policies have been taken out that largely cover the risk of default as a result of insolvency.

The Pfeleiderer Group operates production facilities in which machines mainly keep running in multi-shift operations. The resulting high level of organizational and technical complexity means that in the event of disruptions to the supply chain, there is a risk of production interruptions and quality issues as well as environmental and occupational safety risks. Interruptions and stoppages are countered with preventative maintenance management, which involves carefully maintaining plants and machinery as well as ensuring appropriate staff training. Fires and explosions cannot be completely ruled out, especially when wood is processed. Resulting damage to machinery and plants as well as possible losses due to downtime are covered in commercially viable insurance policies. However, any fire, explosion, or case of environmental damage may 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. Action and emergency plans have been put in place to deal with such an incident.

Business development in 2008 was driven by considerable volatility on international energy and commodity markets. As a general rule, Pfeiderer is not dependent on individual suppliers, as a wide range of different raw materials are used in its business activities and the number of available suppliers is sufficient. Supply is guaranteed based on a multi-sourcing procurement policy. Nondelivery, delays in delivery, or defects in quality could lead to production stoppages and have negative effects on earnings. Pfeiderer AG counters these risks by entering into long-term supply agreements. Its procurement organization ensures that raw materials are available on time and are of the required quality. High energy consumption levels billed at prices subject to taxes and duties, which are in part a political tool, are a risk especially for production sites in Germany. Targeted countermeasures are being introduced by optimizing processes or by operating our own COGENERATION PLANTS.

#### PERSONNEL RISKS

Pfeiderer applies modern human resources tools to counter personnel risks such as staff turnover, loss of know-how, lack of motivation and insufficient qualification. Pfeiderer competes for the best specialists and managers. Attractive remuneration systems and future-oriented professional development and training programs have been installed to promote employee loyalty to the Company. Close contacts with selected universities and a management trainee program support the recruitment of qualified new talent. Thanks to a vocational training program that is widely recognized for its quality and trains more people than the Company actually needs, the Pfeiderer Group also ensures that it has highly qualified talent at all levels, especially skilled production workers.

#### FINANCING RISKS

Pfeiderer defines financial risks as liquidity risk, currency risk and interest rate risk particularly arising from transactions in the operating business or from the Group's demand for finance. Managing all the Pfeiderer Group's risks by applying appropriate financial management tools is the responsibility of the central finance department of Pfeiderer AG. Operating segments are responsible for managing accounts receivable. Appropriate master contracts for insuring against bad debts are negotiated by the central finance department.

The syndicated loan taken out in December 2006 for an original sum of 400.0 million euros and 268.7 million Canadian dollars amounted to 328.7 million euros and 231.4 million Canadian dollars at the end of 2008 after the contractual repayments agreed for fiscal year 2008 were made. The credit agreement is valid until the end of 2011 / beginning of 2012; additional partial repayments during the term are planned. Furthermore, the syndicated loan agreement contains financial covenants in line with standard market terms, which have to be complied with during the term of the loan. The same financial covenants have to be maintained for a bond loan (Schuldschein) amounting to 165.0 million euros. The keeping of these financial covenants is monitored continuously and, if need be, measures are taken to comply with them. Our subsidiary in Poland has also to keep financial covenants. The Executive Board assumes that even if the covenants of the loans should not be met, the financing will continue to be provided by the banks involved.

Risks arising from substantial changes in interest rates can be largely ruled out during the planning period due to existing long-term credit lines and additional interest rate hedges. The central finance department uses modern tools to monitor developments on financial markets.

Currency risks are of particular significance for the Pfeleiderer Group given its international business activities. Exchange rate risks are material for the following currencies: the Polish zloty, Canadian dollar, US dollar, Swedish krona and Russian ruble. Pfeleiderer limits its currency risk by concluding transactions locally (“natural hedges”) and by installing specific currency hedging measures.

Derivative financial instruments are used to hedge interest rate and foreign currency positions with the aim of minimizing risks resulting from fluctuations in exchange rates and market interest rates. The Company’s guidelines on risk management policy and on the use of hedging measures require that these types of risks are always hedged. Only marketable interest rate derivatives and currency forwards entered into with prime-rated banks are used for this purpose. Derivative financial transactions are limited to hedging the operating business and existing financing arrangements. Derivative financial instruments are reported on the balance sheet at fair value under “Other non-current assets” and “Miscellaneous other current liabilities”. As a rule, the Company does not enter into any derivative financial transactions for speculative purposes.

The 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 forwards, the maximum risk corresponds to the change in the exchange rate of the hedged amount.

Other disclosures, especially regarding the significance of financial instruments for net assets, financial position, and results of operations, are published as part of the IFRS disclosures in the notes to the consolidated financial statements on pages 71 et seqq. of this Annual Report.

#### LEGAL RISKS

Pfeleiderer AG and its subsidiaries are not involved in legal or arbitration proceedings which according to current assessments could have a material negative impact on the financial situation of the Group. Pfeleiderer’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 lawyers are consulted if necessary. The Pfeleiderer Group has recognized appropriate provisions to cover warranty claims with which the Group will almost inevitably be confronted due to its business activities and as a result of the sale of companies in recent years.

**IT RISKS**

Significant disruptions in IT systems can lead to a loss of data and impact business and production processes despite backup measures. Potential IT risks, such as unauthorized data access or data misuse, are limited with a number of measures which are tailored to staff, organizations, applications, systems and networks. In addition, technical protection measures such as firewalls and virus scanners are reviewed annually in an internal IT security audit.

**ENVIRONMENTAL RISKS**

In the attempt to reduce potential environmental risks, environmental protection officers were trained and employed for the Group and at the business unit level in the past, and appropriate policies were installed. According to expert opinions, contamination at individual production sites can be reckoned with; Pfeiderer has formed sufficient provisions for this eventuality.

**OVERALL RISK ASSESSMENT**

As in the previous years, no risks have been identified at the Pfeiderer Group which could jeopardize the Group continuation as a going concern. All important individual risks have been consolidated to arrive at an overall assessment. However, like any other company, Pfeiderer AG and the Group are confronted with potential risks, especially uncertain global economic developments, that could materially affect its course of business and its net assets, financial position, and results of operations.



Pfleiderer gains market strength by expanding its product portfolio. For example Uniboard, a Pfleiderer subsidiary, is popular with Canadian kitchen manufacturers because of its extremely environmentally friendly particleboard, NUGreen.

## Report on Opportunities and Expected Developments

### OPPORTUNITIES FOR THE PFLEIDERER GROUP

Opportunities for the Pfleiderer Group could arise as competitors exit the market due to the current financial and economic crisis, especially in Western Europe and North America. Thanks to its efficient and favorable cost situation, Pfleiderer would most likely be one of the winners of consolidation in the industry. The resulting reduction in excess supply would have a positive effect on demand for our products and price developments. In Eastern Europe, further weakening of the Polish zloty may ease pressure on the margins of the country's furniture industry, our primary customer segment, and boost exports, one of the industry's main pillars. In addition, a further increase in logging quotas awarded by the Polish government would help reduce high wood prices and therefore reduce our purchasing costs. Pfleiderer's results of operations may also be positively impacted by relief on the cost side resulting from a fall in raw material prices, especially in the glue and chemicals segment; these prices follow the development of the oil price with a time lag.

If German kitchen manufacturers and the German office furniture industry were to continue to increase their shares of export markets, Pfleiderer could benefit from the resulting additional demand for engineered wood products. An unexpected more quickly end to the real estate crisis in the United States may cause a further rise in demand for our products.

The expansion of Pfleiderer's product portfolio also offers substantial opportunities. For example, new laminate flooring collections featuring improved functionality could result in additional demand. The same applies to innovations in the particleboard segment – in which Pfleiderer is positioning itself with the formaldehyde-free NUGreen board and antibacterial surfaces, among other products.

#### MACROECONOMIC CONDITIONS

The US economy and those of most other industrialized countries have been in recession since 2008. It is therefore likely that the majority of our markets are also being affected by a drop in demand. There is great uncertainty about how long a slump in demand is going to last and the extent it will reach. According to the International Monetary Fund (IMF), economic output in industrialized countries will decline by 2.0% in 2009, while in developing countries and emerging markets average growth of 3.3% is anticipated. This is a considerably lower rate than previously expected. Overall, the IMF expects global economic growth of 0.5% in 2009 compared to 3.4% in 2008.

The IMF predicts that US GDP will decrease by 1.6%. This would be a noticeable slowdown when compared with an increase of 1.1% in 2008.

The euro zone is also likely to be affected by economic contraction in 2009. The IMF estimates a decline of 2.0%, after an increase of 1.0% in 2008. The German economy is likely to play a large part in this, its GDP is currently expected to drop by around 2.5% (2008: + 1.3%).

The IMF also anticipates a downturn in the economic output of Eastern European countries in 2009, although by only 0.4%. Russia is likely to perform slightly worse with a decline of 0.7%.

The economic slowdown in 2009 is expected to be only temporary, and over the course of 2010 we expect the engineered wood markets to be back on the growth track. Demand is expected to rise again, especially in Eastern Europe. The furniture industry should again prove to be a growth driver. Pfeleiderer currently predicts that the Polish market will grow by around 5% and the Russian market by about 10%. In contrast, the conditions for engineered wood in North America will remain difficult for the time being. Existing risks in Europe are primarily in private residential construction, while the renovation segment is considered to be a stabilizing factor due to the high number of old buildings. Market recovery is not to be anticipated before the end of 2009 at the earliest.

#### EXPECTED DEVELOPMENT OF THE PFLEIDERER GROUP

Pfeleiderer expects difficult business development for 2009 due to the continuing financial market and economic crisis, which is also increasingly affecting the engineered wood markets. There are likely to be declines in price and quantity in virtually all markets. However, we aim to compensate for this with our good relative cost position by acquiring additional market share.

Given this operating environment, strict cost and cash flow management will have top priority in 2009. In a bid to retain our cost leadership, we will continue with the cost-reduction measures we started in 2008 and plan to save an additional 20 million euros in 2009.

The continued penetration of the Polish market by products from our new MDF plant in Grajewo, Poland, will have a beneficial effect on Pflleiderer. The same applies to the additional capacities that were secured in Novgorod, Russia, in the second half of 2008. The new construction of the MDF plant in Novgorod specifically the construction of the facilities, is to be continued in the fall of 2009 or, depending on the market situation will be postponed until a more favorable time.

Compared to 2008, we also expect reduced demand in Western Europe with lower, but still acceptable margins. We want to achieve this by continuing to increase productivity at our plants in connection with lower production costs. Due to competitors potentially closing their plants, we anticipate acquiring an increased market share in a highly-competitive market. The market for surface-finished board, in which Pflleiderer can capitalize on its strengths, is likely to show better development than that of raw particleboard or raw fiberboard. In laminate flooring, we are aiming to increasingly mesh our activities in Europe and North America and extend our presence in Europe from the high-end price segment into the mid-range price and market segment.

North America will again pose significant challenges to all market players in 2009, as the engineered wood market is likely to suffer a decline for the third year in a row caused by the real estate crisis. Contrary to the industry trend, however, Pflleiderer expects to moderately increase its business volume by gaining market share and thanks to our new plant in Moncure. In the fourth quarter of 2009, we plan to put the dismantled plant located in La Baie, Canada, back into operation at the new site in Moncure, USA, if market conditions allow for a ramp-up at this time.

Our investment planning provides for Group-wide capital expenditure of approximately 170 million euros in 2009. Approximately 40 million euros of this will be used for maintenance investments and the remaining 130 million euros will be put towards two major projects: relocating the La Baie/Moncure plant and constructing a new plant in Novgorod.

We will continue to optimize production costs at all of our locations in 2009, focusing on best-practice transfer based on our Global Pflleiderer Production System (GPPS) and a further reduction in specific material usage.

We expect to see a recovery in the global economy and consequently in our business activities in 2010. The focus will be on gaining additional market share and improving the profitability of our activities. We will expand our market presence in Eastern Europe, especially with our second plant in Novgorod, Russia. In Western Europe, we are focusing on increasing our exports from Germany.

This report contains forward-looking statements based on current assessments by Pflleiderer's management and on specific assumptions of the Company's future development. Such statements are subject to risks and uncertainties that are beyond Pflleiderer's ability to control and/or its sphere of influence and that therefore cannot be precisely assessed by Pflleiderer. These risks and uncertainties could lead to actual developments differing substantially from the assessments. Among other things, such risks and uncertainties include the state of future market and economic conditions, the behavior of other market participants, the successful integration of new acquisitions, and the realization of expected synergy effects.

**Responsibility statement in accordance with section 37y of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) in conjunction with section 37w (2) no. 3 of the 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 assets, liabilities, financial position, and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Neumarkt, Germany, February 23, 2009



Hans H. Overdiek



Heiko Graeve



Dr. Robert Hopperdietzel



Pawel Wyrzykowski