

PFLEIDERER GROUP CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet (IFRSs) as of December 31, 2007

ASSETS

'000 EUROS	NOTE	Dec. 31, 2007	Dec. 31, 2006
Cash and cash equivalents	IV.1	17,197	35,405
Receivables and other assets	IV.2/3	120,608	124,394
Inventories, net	IV.4	229,693	156,675
Income tax receivables	-	4,672	4,290
Other current assets	-	11,371	6,493
Noncurrent assets held for sale	IV.5	14,814	3,366
Current assets		398,355	330,623
Property, plant, and equipment, net	IV.6	869,078	689,338
Intangible assets, net	IV.7	563,616	281,128
Financial assets	IV.8	4,511	5,583
Deferred tax assets	IV.9	61,227	58,031
Other noncurrent assets	IV.10	24,497	8,021
Noncurrent assets		1,522,929	1,042,101
Total assets		1,921,284	1,372,724

The accompanying notes are an integral part of the consolidated financial statements.

LIABILITIES AND EQUITY

'000 EUROS	NOTE	Dec. 31, 2007	Dec. 31, 2006
Current liabilities and other debt	IV.11	267,088	212,771
Current financial liabilities	IV.12	170,925	81,257
Other current provisions	IV.13	61,347	44,329
Income tax payables	-	6,731	275
Miscellaneous other current liabilities	-	2,018	1,025
Liabilities directly associated with noncurrent assets held for sale	IV.5	16,129	40,776
Current liabilities		524,238	380,433
Noncurrent financial liabilities	IV.15	464,453	376,425
Pension provisions	IV.16	17,843	16,459
Deferred tax liabilities	IV.9	58,954	35,413
Other noncurrent liabilities	IV.17	25,796	1,906
Other noncurrent provisions	IV.18	28,961	19,780
Noncurrent liabilities		596,007	449,983
Contributions and subscribed capital	IV.19	136,515	136,515
Group reserves including retained earnings brought forward and consolidated profit	IV.19	379,875	302,309
Treasury shares	IV.19	-43,432	-1,222
Other comprehensive income	IV.19	-1,891	-1,737
Hybrid capital	IV.19	270,915	-
Minority interests	-	59,057	106,443
Equity		801,039	542,308
Total liabilities and equity		1,921,284	1,372,724

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Income Statement (IFRSs) for Fiscal Year 2007

'000 EUROS	NOTE	Jan. 1 – Dec. 31, 2007	Jan. 1 – Dec. 31, 2006
Revenues	V.1	1,801,129	1,415,266
Cost of sales	V.2	- 1,308,920	- 1,035,995
Gross profit		492,209	379,271
Selling expenses	V.3	- 246,977	- 170,528
Administrative expenses	V.4	- 126,065	- 103,801
Research and development costs	V.5	- 2,898	- 899
Other operating income and expenses	V.6	20,317	28,604
Profit from operations		136,586	132,647
Interest income	V.7	6,485	5,532
Interest expense	V.7	- 52,944	- 46,257
Net income from investments	V.7	242	348
Other financial income, net	V.7	251	116
Financial expenses, net	V.7	- 45,966	- 40,261
Profit from continuing operations before income taxes		90,620	92,386
Income taxes	V.8	- 10,917	- 25,158
Profit from continuing operations		79,703	67,228
Profit from discontinued operations	IV.5	5,689	50,045
Income taxes on discontinued operations	IV.5	- 781	- 16,278
Profit for the period		84,611	100,995
of which attributable to minority interests		13,812	17,100
of which attributable to hybrid capital investors		13,313	-
of which attributable to shareholders of Pfeiderer AG		57,486	83,895
Earnings per share (basic)	VI.4	1.10	1.67
Earnings per share (diluted)	VI.4	1.09	1.66
Earnings per share from continuing operations after minority interests	VI.4	1.00	1.00
Earnings per share from discontinued operations	VI.4	0.10	0.67
Average number of shares outstanding (basic)	VI.4	52,326,757	50,262,634

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Cash Flow Statement (IFRSs) for Fiscal Year 2007

'000 EUROS	NOTE	2007	2006
Cash flow statement	VI.6		
Earnings before interest and taxes (EBIT)		136,819	132,951
Gain on the sale of shares of consolidated companies		- 10,009	-
Change in measurement of CTA		-	- 26,886
Net income taxes paid		- 14,118	- 11,785
Depreciation and amortization of noncurrent assets		111,866	75,167
Gain/loss on disposal of noncurrent assets		- 8,286	521
Change in pension provisions		255	247
Change in current assets		- 35,130	- 17,479
Change in other noncurrent assets		- 15,973	- 5,802
Change in current liabilities excluding financial liabilities		- 1,214	- 16,243
Change in noncurrent liabilities excluding financial liabilities		32,388	- 6,916
Other noncash income and expense		1,395	- 12,385
Cash flow from operating activities		197,993	111,390
Purchase of intangible assets		- 3,694	- 1,068
Purchase of property, plant, and equipment		- 178,851	- 110,050
Purchase of noncurrent financial assets		- 394	- 361
Purchase of and proceeds from the sale of companies and shares of consolidated companies		- 392,493	- 45,896
Proceeds from sale of intangible assets		443	3,407
Proceeds from sale of property, plant, and equipment		17,139	6,775
Proceeds from sale of noncurrent financial assets		1,409	790
Payments into CTA		-	- 30,000
Cash flow from investing activities		- 556,441	- 176,403
Cash flow from operating activities after investing activities		- 358,448	- 65,013
Change in financial liabilities		114,820	- 240,756
Change in externally factored receivables		70,293	- 4,478
Dividend payments to minority shareholders		- 5,799	- 6,223
Dividend payments to hybrid capital investors		- 5,851	-
Dividend payments to shareholders of Pfeleiderer AG		- 13,217	- 7,981
Capital increase		-	191,961
Proceeds from hybrid capital		269,517	-
Purchase of own shares		- 44,733	-
Interest paid		- 44,978	- 30,613
Interest received		6,485	3,657
Other financing activities		262	290
Cash flow from financing activities		346,799	- 94,143
Net change in cash and cash equivalents		- 11,649	- 159,156
Effect of exchange rate fluctuations on cash and cash equivalents		- 58	983
Effect on cash and cash equivalents of discontinued operations relating to	VI.6	- 16,685	118,312
operating activities		- 1,430	- 9,639
investing activities		- 15,255	130,504
financing activities		-	- 2,553
Effect of changes in reporting entity structure on cash and cash equivalents		10,184	976
Cash and cash equivalents at January 1	VI.6	35,405	74,290
Cash and cash equivalents at December 31	VI.6	17,197	35,405

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity (IFRSs) for Fiscal Year 2007

FISCAL YEAR 2007

'000 EUROS	NOTE	Subscribed capital	Group reserves including retained earnings brought forward and con- solidated profit
Balance at Jan. 1, 2007	IV.19	136,515	302,309
Treasury shares			- 1,496
Change in foreign currency translation adjustment item			
Profit for the period or consolidated profit			57,486
Profit attributable to hybrid capital investors			
Issuance of hybrid capital			
Deferred dividend payments to hybrid capital investors			
Dividends paid			- 13,217
Change in basis of consolidation			34,690
Effect of stock option plans			103
Balance at Dec. 31, 2007	IV.19	136,515	379,875

FISCAL YEAR 2006

'000 EUROS	NOTE	Subscribed capital	Group reserves including retained earnings brought forward and con- solidated profit
Balance at Jan. 1, 2006	IV.19	109,274	61,948
Treasury shares			- 346
Change in foreign currency translation adjustment item			
Profit for the period or consolidated profit			83,895
Dividend payments			- 7,981
Capital increase		27,241	169,697
Change in basis of consolidation			
Effect of stock option plans			- 4,904
Balance at Dec. 31, 2006	IV.19	136,515	302,309

The accompanying notes are an integral part of the consolidated financial statements.

Treasury shares	Foreign currency translation	Hybrid capital	Minority interests	Total
- 1,222	- 1,737	-	106,443	542,308
- 42,210				- 43,706
	- 154		120	- 34
			13,812	71,298
		13,313		13,313
		270,915		270,915
		- 7,462		- 7,462
		- 5,851	- 5,799	- 24,867
			- 55,519	- 20,829
				103
- 43,432	- 1,891	270,915	59,057	801,039

Treasury shares	Foreign currency translation	Hybrid capital	Minority interests	Total
- 2,399	6,264	-	100,054	275,141
1,177				831
	- 8,001		456	- 7,545
			17,100	100,995
			- 6,223	- 14,204
				196,938
			- 4,944	- 4,944
				- 4,904
- 1,222	- 1,737	-	106,443	542,308

Consolidated Segment Reporting (IFRSs) for Fiscal Year 2007

	WESTERN EUROPE	
'000 EUROS	2007	2006
External revenues	977,655	773,984
Intragroup revenues	9,039	7,498
Total revenues	986,694	781,482
of which domestic	517,322	454,001
of which international	469,372	327,481
International share in %	47.6	41.9
Cost of sales	-682,438	-566,224
as % of revenues	-69.2	-72.5
Gross profit	304,256	215,258
as % of revenues	30.8	27.5
Selling expenses	-146,602	-114,507
as % of revenues	-14.9	-14.7
Administrative expenses	-47,967	-40,277
as % of revenues	-4.9	-5.2
Research and development costs	-3,036	-896
as % of revenues	-0.3	-0.1
Other operating income and expenses	3,145	4,216
Profit from operations	109,796	63,794
Net interest income	-35,447	-22,045
of which interest expense	-45,610	-23,141
of which interest income	10,163	1,096
Net income from investments	242	342
Other financial income/expenses, net	256	133
Financial income/expenses, net	-34,950	-21,570
Profit from continuing operations before income taxes	74,846	42,224
Income taxes	-4,897	-6,001
Profit from continuing operations after income taxes	69,949	36,223
EBIT/segment result	110,037	64,136
as % of revenues	11.2	8.2
Depreciation and amortization	50,432	39,158
Impairment losses	208	295
EBITDA	160,678	103,589
as % of revenues	16.3	13.3
Significant noncash items	7,903	4,589
Capital expenditure	33,739	26,154
Segment assets in million euros	536.0	576.4
Segment liabilities in million euros	151.4	138.0
Employees as of Dec. 31 excluding trainees	2,843	2,484

EASTERN EUROPE		NORTH AMERICA		CONSOLIDATION/OTHER		PFLEIDERER GROUP	
2007	2006	2007	2006	2007	2006	2007	2006
378,231	285,841	442,997	349,630	2,245	5,811	1,801,129	1,415,266
15,031	14,506	-	-	-24,069	-22,004	-	-
393,262	300,347	442,997	349,630	-21,824	-16,193	1,801,129	1,415,266
15,840	14,835	-	-	-15,913	-12,551	517,248	456,285
377,422	285,512	442,997	349,630	-5,910	-3,642	1,283,882	958,981
96.0	95.1	100.0	100.0	-	-	71.3	67.8
-292,327	-220,678	-361,996	-265,317	27,841	16,224	-1,308,920	-1,035,995
-74.3	-73.5	-81.7	-75.9	-	-	-72.7	-73.2
100,935	79,669	81,001	84,313	6,017	31	492,209	379,271
25.7	26.5	18.3	24.1	-	-	27.3	26.8
-23,434	-12,774	-77,152	-43,356	211	109	-246,977	-170,528
-6.0	-4.3	-17.4	-12.4	-	-	-13.7	-12.0
-29,061	-25,244	-24,763	-18,641	-24,273	-19,639	-126,065	-103,801
-7.4	-8.4	-5.6	-5.3	-	-	-7.0	-7.3
-	-	-805	-	943	-3	-2,898	-899
-	-	-0.2	-	-	-	-0.2	-0.1
3,312	-770	6,185	11,360	7,677	13,798	20,316	28,604
51,752	40,881	-15,534	33,676	-9,424	-5,704	136,586	132,647
-8,334	-1,154	-15,110	-13,529	12,432	-3,997	-46,459	-40,725
-8,568	-1,523	-16,911	-14,151	18,145	-7,442	-52,944	-46,257
234	369	1,801	622	-5,713	3,445	6,485	5,532
-	-	-	-	-	6	242	348
-6	25	-	-44	2	2	251	116
-8,340	-1,129	-15,110	-13,573	12,434	-3,989	-45,966	-40,261
43,412	39,752	-30,648	20,103	3,009	-9,693	90,619	92,386
-9,146	-9,297	3,009	-4,609	118	-5,251	-10,917	-25,158
34,266	30,455	-27,639	15,494	3,126	-14,944	79,702	67,228
51,745	40,881	-15,538	33,632	-9,425	-5,698	136,819	132,951
13.2	13.6	-3.5	9.6	-	-	7.6	9.4
25,835	15,631	31,168	18,783	618	1,256	108,054	74,828
7	-	976	44	2,628	-	3,819	339
77,587	56,512	16,606	52,459	-6,179	-4,442	248,692	208,118
19.7	18.8	3.7	15.0	-	-	13.8	14.7
6,731	268	11,627	129	10,049	-3,605	36,311	1,381
127,631	66,327	18,839	22,263	2,419	-4,297	182,628	110,447
574.6	363.1	458.1	299.3	232.6	8.4	1,801.3	1,247.2
93.0	49.4	107.5	80.1	40.9	19.8	392.7	287.3
1,730	1,513	1,163	1,098	113	112	5,849	5,207

NOTES TO THE 2007 CONSOLIDATED FINANCIAL STATEMENTS

I. Business areas and description of the Company

Pfleiderer Aktiengesellschaft (hereinafter referred to as “Pfleiderer AG” or the “Company”) is a listed corporation domiciled in Neumarkt, Germany. The accompanying consolidated financial statements of Pfleiderer AG and its subsidiaries (referred to collectively as the “Group”) for fiscal year 2007 were approved for publication by way of a resolution of the Executive Board dated February 26, 2008.

The Company focuses on the engineered wood segment and divides its activities into the Western Europe, Eastern Europe, and North America regions.

The assets, liabilities, and profit or loss remaining after the disposal of discontinued operations are reported separately in the balance sheet and income statement.

A list of the Company’s shareholdings is filed with the commercial register of the Nuremberg Local Court.

II. Exemption in accordance with section 264b of the German Commercial Code (HGB)

The companies that have made use of the exemptions are identified in the list of consolidated companies.

III. Summary of significant accounting policies

1. Basis of accounting

The accompanying consolidated financial statements have been prepared in accordance with section 315a of the HGB (“Consolidated Financial Statements in Accordance with International Accounting Standards”) in compliance with International Financial Reporting Standards (IFRSs) and the related interpretations of the International Accounting Standards Board (IASB), as adopted by the EU in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards.

The requirements of the standards applied have been complied with in full and result in the presentation of a true and fair view of the net assets, financial position, and results of operations of Pfeleiderer AG.

Standards and interpretations as well as amendments to standards and interpretations adopted for the first time in fiscal year 2007

Pfleiderer AG adopted the following standards and interpretations for the first time in 2007:

- Amendment to IAS 1 “Presentation of Financial Statements – Capital Disclosures”
- IFRS 7 “Financial Instruments: Disclosures”
- IFRIC 8 “Scope of IFRS 2”
- IFRIC 9 “Reassessment of Embedded Derivatives”

The first-time adoption of these pronouncements did not lead to any significant effects on Pfeleiderer AG’s net assets, financial position, results of operations, or cash flows. The amendment to IAS 1 resulted merely in capital management disclosures for the first time. The first-time adoption of IFRS 7 entails extensive disclosures on the significance of financial instruments for the Company’s net assets and results of operations, as well as both qualitative and quantitative disclosures on the type and extent of the risks related to the financial instruments.

Newly issued accounting requirements not adopted prior to their effective date

The International Accounting Standards Board (IASB) has issued the following standards, interpretations, and amendments to existing standards that may be relevant to the Pfeleiderer Group; however, they are not yet required to be applied and will not be adopted prior to their effective date by Pfeleiderer AG:

IFRS 8, Operating Segments

IFRS 8 replaces segment reporting using the risk and reward approach in accordance with IAS 14 by the management approach to segment identification. This is determined by the information regularly provided to the chief operating decision maker for decision-making purposes. At the same time, measurement of the segments using the financial accounting approach in accordance with IAS 14 is replaced by the management approach. IFRS 8 is required to be applied to fiscal years beginning on or after January 1, 2009. The first-time adoption of IFRS 8 by Pfeleiderer in fiscal year 2009 is not expected to lead to any significant changes in segmentation.

IAS 23, Borrowing Costs

The amendment to IAS 23 removes the option to recognize borrowing costs immediately as an expense using the benchmark method and requires borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset to be capitalized as part of the cost of this asset. The amendment to IAS 23 is required to be applied to fiscal years beginning on or after January 1, 2009. The implementation of the amendments to IAS 23 is not expected to lead to any significant changes in the Company’s financial reporting.

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions

In the case of a share-based payment transaction in which the parent grants its own equity instruments to the employees of a subsidiary, IFRIC 11 requires these equity instruments to be accounted for in accordance with IFRS 2.10 et seq., although the service is provided to the subsidiary. In this case, equity instruments are issued. However, if the subsidiary grants its employees shares of the parent, these must be accounted for in accordance with IFRS 2.30 et seq. because the subsidiary must acquire the shares, and therefore the employees are granted assets (shares of the parent) rather than equity instruments. IFRIC 11 is effective for fiscal years beginning on or after March 1, 2007. The future adoption of this interpretation will not lead to any significant changes in the presentation of the Pfeleiderer Group's financial statements.

IFRIC 12, Service Concession Arrangements

IFRIC 12 governs the recognition of service concession arrangements between the government and private-sector operators under public-private partnership agreements – e. g., for infrastructure projects – by the private-sector operators as the contractor for a public-service entity. IFRIC 12 is required to be applied to fiscal years beginning on or after January 1, 2008. This will not lead to any effects on the Pfeleiderer Group's financial statements.

IFRIC 13, IAS 18 – Customer Loyalty Programmes

IFRIC 13 governs the recognition of award credits under customer loyalty programs operated by manufacturers or service providers themselves or by third parties from the perspective of the company granting the award credits; it therefore standardizes the recognition of revenues attributable to the award credit transaction as multicomponent transactions under IAS 18.13. IFRIC 13 is required to be applied to fiscal years beginning on or after July 1, 2008. The future adoption of this interpretation will not lead to any effects on the Pfeleiderer Group's financial statements.

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 contains general guidelines governing the calculation of a pension fund's surplus that can be recognized as an asset corresponding to an asset ceiling in accordance with IAS 19, Employee Benefits. IFRIC 14 also includes explanations on the possible effects of statutory or contractual minimum funding requirements on plan assets and liabilities. It is required to be applied to fiscal years beginning on or after January 1, 2008.

Foreign currency translation

The consolidated financial statements are prepared in euros, which is the Group's functional and presentation currency. Each Group company determines its own functional currency. The assets and liabilities of Pfeiderer AG's foreign subsidiaries are translated into the Group's reporting currency (euros) at the closing rate at the balance sheet date.

Basis of consolidation

The consolidated financial statements as of December 31, 2007, include the financial statements of Pfeiderer AG and its majority-owned and controlled subsidiaries. All significant subsidiaries that are controlled directly or indirectly by the Company are included in the consolidated financial statements. In addition to Pfeiderer AG, 31 (previous year: 31) German and 49 (previous year: 25) foreign subsidiaries were consolidated. 28 (previous year: 11) subsidiaries were consolidated for the first time during the fiscal year, while 4 (previous year: 12) subsidiaries were deconsolidated.

Number of consolidated companies

	2007	2006
Germany	31	31
Abroad	49	25
Total	80	56

All fully consolidated companies are attributable to continuing operations.

Initially consolidated subsidiaries:

Newly formed companies:

- | | |
|---|--------|
| ▪ Pfeleiderer MDF OOO, Velikii Novgorod, Russia | 80.14% |
|---|--------|

Acquisitions:

- | | |
|---|---------|
| ▪ Declam Holding AB, Trelleborg, Sweden | 100.00% |
| ▪ Pergo (Europe) AB, Trelleborg, Sweden | 100.00% |
| ▪ Pergo (France) S.A.S., Rueil Malmaison, France | 100.00% |
| ▪ Pergo AS, Hovik, Norway | 100.00% |
| ▪ Pergo AB, Trelleborg, Sweden | 100.00% |
| ▪ Pergo A/S, Copenhagen, Denmark | 100.00% |
| ▪ Pergo Asia Co. Ltd., Bangkok, Thailand | 100.00% |
| ▪ Pergo Asia-Pacific Pte. Ltd., Singapore, Singapore | 100.00% |
| ▪ Pergo B.V., Zoetermeer, Netherlands | 100.00% |
| ▪ Pergo GmbH, Düsseldorf, Germany | 100.00% |
| ▪ Pergo GmbH, Cham, Switzerland | 100.00% |
| ▪ Pergo Golv AB, Trelleborg, Sweden | 100.00% |
| ▪ Pergo Holding B.V., Zoetermeer, Netherlands | 100.00% |
| ▪ Pergo Iberia SL, Madrid, Spain | 100.00% |
| ▪ Pergo India Pvt. Ltd., New Delhi, India | 50.00% |
| ▪ Pergo Ltd., Tamworth, United Kingdom | 100.00% |
| ▪ Pergo NV/SA, Antwerp, Belgium | 100.00% |
| ▪ Pergo OY, Esbo, Finland | 100.00% |
| ▪ Pergo Thailand Co. Ltd., Bangkok, Thailand | 100.00% |
| ▪ Pergo Trading Co. Ltd., Guangzhou, China | 100.00% |
| ▪ Pergo Argentina SA, Buenos Aires, Argentina | 100.00% |
| ▪ Pergo Canada Inc., Toronto, Canada | 100.00% |
| ▪ Pergo do Brasil, Ltda., São Paulo, Brazil | 100.00% |
| ▪ Pergo LLC (formerly Pergo Inc.), Wilmington, U.S.A. | 100.00% |
| ▪ SimpleSolutions USA LLC, Wilmington, U.S.A. | 100.00% |

Others:

- | | |
|--|---------|
| ▪ Pfeleiderer Schweiz AG, Zug, Switzerland | 100.00% |
| ▪ Pfeleiderer Sweden AB, Stockholm, Sweden | 100.00% |

The companies reported under “Others” were already established in previous years, but were not previously consolidated for reasons of materiality.

The additions accounted for a loss for the year of 26,130 thousand euros, which is reflected in consolidated profit.

Consolidation methods

Acquisition accounting uses the purchase method, under which the cost of the interests acquired is eliminated against the parent's share of the subsidiary's equity at the acquisition date. Any difference is allocated to the assets and liabilities of the subsidiary up to the amount of the parent's share of their fair values. Any remaining excess of acquisition cost over the fair value of identified net assets acquired is recognized as goodwill and tested regularly for impairment in accordance with IAS 36, Impairment of Assets.

All receivables and liabilities, revenues, expenses, and income, as well as intercompany profits or losses between the entities included in the consolidated financial statements, are eliminated in the course of consolidation.

Minority interests are identified on the basis of the equity as of each balance sheet date and are presented within equity in the consolidated balance sheet, together with the attributable shares of profit and loss.

Acquisitions and sales as well as discontinued operations

On January 15, 2007, Pfeiderer Sweden AB (Pfeiderer Sweden) announced a public takeover bid to the shareholders of Pergo AB (Pergo) for the acquisition of all of Pergo's shares for cash, and published the related offer documents on January 23, 2007. Pergo's shares were traded in the Mid Cap Industrials Sector of the Nordic Stock Exchange under 'PERG'. Our wholly-owned subsidiary Pfeiderer Sweden AB has now acquired 100 percent of the share capital and voting rights of Pergo AB. Pergo was delisted from the Swedish Stock Exchange on March 30, 2007. The squeeze-out process for the remaining shareholders has been completed. The purchase price amounted to around 308 million euros including transaction costs. Goodwill totaled 79,814 thousand euros. The acquired goodwill related to entry into the European laminate flooring market. Additional components are the acquisition of U.S. market share and the rapid expansion of production capacity.

The acquisition of Pergo was materially refinanced by the issue of a hybrid bond in April 2007 that is classified as equity in accordance with IAS 32.

The assets and liabilities of the acquired companies were remeasured at the acquisition date. The following table gives an overview of the purchase price allocation in respect of the individual assets and liabilities as of March 1, 2007.

ASSETS

'000 EUROS	Carrying amounts of the Pergo Group before the acquisition date as of Mar. 1, 2007	Step up Pergo	Carrying amounts of the acquired Pergo Group as of Mar. 1, 2007
Cash and cash equivalents	10,184	-	10,184
Receivables and other assets	48,481	-	48,481
Inventories, net	41,702	-122	41,580
Income tax receivables	973	-	973
Other current assets	4,850	-	4,850
Current assets	106,190	-122	106,068
Property, plant, and equipment, net	82,248	22,489	104,737
Intangible assets, net	23	222,312	222,335
Noncurrent financial assets	80	-	80
Deferred tax assets	20,539	68	20,607
Other noncurrent assets	44	-	44
Noncurrent assets	102,934	244,869	347,803
Total assets	209,124	244,747	453,871

LIABILITIES AND EQUITY

'000 EUROS	Carrying amounts of the Pergo Group before the acquisition date as of Mar. 1, 2007	Step up Pergo	Carrying amounts of the acquired Pergo Group as of Mar. 1, 2007
Current liabilities and other debt	50,266	-	50,266
Current financial liabilities	5,836	-	5,836
Other current provisions	2,583	-	2,583
Income tax payables	219	-	219
Current liabilities	58,904	-	58,904
Noncurrent financial liabilities	36,705	-	36,705
Pension provisions	139	-	139
Deferred tax liabilities	-	49,856	49,856
Other noncurrent liabilities	257	-	257
Noncurrent liabilities	37,101	49,856	86,957
Equity	113,119	194,891	308,010
Total liabilities and equity	209,124	244,747	453,871

The Pergo Group contributed revenues of 235,089 thousand euros and a loss for the year of 26,130 thousand euros to consolidated profit. Assuming in accordance with IFRS 3.70 that the acquisition date had been at the beginning of the reporting period, the Pergo Group would have contributed revenues of 274,648 thousand euros and a loss for the year of 41,829 thousand euros to consolidated profit.

Pfleiderer AG, via its subsidiary Pfleiderer Grajewo S.A., Grajewo (Poland), reached agreement on May 16, 2007 with the Polish finance ministry on the purchase price for the 43.21 percent interest in Pfleiderer Prospan S.A., domiciled in Wieruszów, Poland, previously held by the Polish government. The purchase price, including transaction costs, thus amounts to a total of 86.2 million euros. As part of purchase price allocation, 61,697 thousand euros were allocated to intangible assets (including goodwill) and 4,967 thousand euros to property, plant, and equipment. Purchase price allocation also led to deferred tax liabilities of 3,161 thousand euros. The goodwill of 50,030 thousand euros is largely a result of the expected strategic earnings potential of the company. Pfleiderer Grajewo S.A. acquired the remaining minority interests in the third quarter of 2007 and therefore holds 100.00 percent of the shares of Pfleiderer Prospan S.A.

On November 30, 2007, Pfleiderer AG acquired 1.5 million shares of Pfleiderer Grajewo S.A., Grajewo (Poland) on the Warsaw stock exchange via its subsidiary Pfleiderer Service GmbH. The purchase price for the shares was PLN 48.25 per share; the purchase price including transaction costs therefore amounted to 20.1 million euros. As part of purchase price allocation, 15,792 thousand euros were allocated to intangible assets (including goodwill) and 1,232 thousand euros to property, plant, and equipment. Purchase price allocation also led to deferred tax liabilities of 330 thousand euros. The company's strategic earnings potential was the primary reason for goodwill of 15,301 thousand euros.

Pfleiderer AG has reached an agreement with German company decopa industries GmbH to take over the edge manufacturer's activities for a purchase price of 1.9 million euros. decopa industries GmbH, which generated revenues of 2.02 million euros in 2007, was acquired as of February 1, 2008. Pfleiderer acquired all material assets. Purchase price allocation has not yet been fully completed due to the late acquisition of the edge manufacturer's activities, so that the explanatory notes according to IFRS 3.67 are not yet feasible.

The "noncurrent assets held for sale" and "discontinued operations" items in the balance sheet and the income statement comprise the remaining activities relating to the sale of the operating units of the Infrastructure Technology segment in fiscal year 2006, and to the sale of Interwood GmbH, Neumarkt, also in fiscal year 2006.

There were no further changes in the basis of consolidation compared with the 2006 consolidated financial statements.

Use of estimates

Preparation of the consolidated financial statements requires management to apply certain assumptions and estimates that affect the reported amounts of assets, liabilities, income, expenses, and contingent liabilities for the reporting period. Such assumptions and estimates relate primarily to the assessment of the impairment of intangible assets, the uniform Group definition of useful lives for items of property, plant, and equipment, the recoverability of receivables, and the recognition and measurement of provisions. The assumptions and estimates are based on presumptions that are dependent on the current information available at the time. In particular, the assumptions applied to the expected future development of business were based on the circumstances prevailing at the time of preparation of the consolidated financial statements and on an assessment of the future development of the industry environment that is presumed to be

realistic. Developments in this environment that depart from the assumptions made and that are beyond management's control may lead to the actual results varying from the original estimates. If actual developments depart from expected developments, the presumptions and, if necessary, the carrying amounts of the assets and liabilities affected will be adjusted accordingly. The estimates and assumptions that entail a significant risk in the form of a material adjustment of the carrying amounts of assets and liabilities during the next fiscal year are explained in the following.

The purchase price allocations for the acquisitions made during the fiscal year were based on estimates and assumptions with regard to the measurement of the assets and liabilities acquired. If the underlying estimates change negatively in the future, this could lead to the adjustment of the carrying amounts of the assets and liabilities acquired.

No goodwill impairment was identified on the basis of the impairment tests that were conducted using projections and in accordance with the discounted cash flow method. Any future adverse change in these estimates could lead to the impairment of goodwill.

The useful lives of noncurrent assets are estimated on the basis of the expected economic utility of the assets.

Provisions are accounted for on the basis of estimates that utilization of the provisions is more likely than not.

At the time of preparation of the consolidated financial statements, the underlying assumptions and estimates were not affected by any special circumstances so that, as things stand today, it is assumed that no significant adjustments will be required in the coming fiscal year to the assets and liabilities reported in the consolidated balance sheet.

Foreign currency translation

The annual financial statements of the subsidiaries of Pfeleiderer AG have been prepared in their functional currencies, which are generally their local currencies. With the exception of equity, which is translated at the exchange rate prevailing at the transaction dates, all balance sheet accounts are translated into the reporting currency (euros) at the closing rates. Income and expense accounts are translated at the average rates for the fiscal year. Any differences resulting from foreign currency translation are recorded in a separate account in equity ("Other comprehensive income/foreign currency translation") until the Group company is sold or otherwise liquidated.

The Group's major foreign currencies are as follows:

	AVERAGE RATES (1 EURO =)		MID RATES AT THE REPORTING DATE (1 EURO =)	
	2007	2006	Dec. 31, 2007	Dec. 31, 2006
United Kingdom (GBP)	0.6846	0.6818	0.7346	0.6714
Canada (CAD)	1.4689	1.4242	1.4440	1.5294
Poland (PLN)	3.7831	3.8951	3.5928	3.8413
Romania (RON)	3.3379	3.5244	3.6118	3.3750
Russia (RUB)	35.0203	34.1124	35.9950	34.2400
Sweden (SEK)	9.2521	-	9.4350	-
Switzerland (CHF)	1.6427	1.5731	1.6557	1.6080
Slovenia (SIT)	-	239.5964	-	239.4575
Czech Republic (CZK)	27.7583	28.3383	26.5750	27.4350
Hungary (HUF)	251.3233	264.1325	252.3250	251.6750
U.S.A. (USD)	1.3706	1.2557	1.4716	1.3181
Ukraine (UAH)	7.0913	6.5614	7.4292	6.6348

Revenue recognition

Revenues are generated mainly from the supply of products and, to a minor extent, from services. These revenues are recognized net of VAT and sales deductions, such as bonuses, cash discounts, or rebates, at the date at which they are deemed by IFRSs to be realized. This is generally the case if the significant risks and rewards of ownership of the goods sold pass to the buyer, the entity retains neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold, persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, the price is fixed or clearly determinable, and actual payment can be reasonably assured and the costs incurred or to be incurred by the sale are reliably determinable.

Revenues from construction contracts are considered to be realized once the total revenues, total costs, and stage of completion can be determined with sufficient reliability. No revenues were generated in the past fiscal year that were accounted for using the percentage of completion method.

Income taxes

Income tax expense comprises both current income taxes payable and deferred taxes. Deferred taxes on items included in other comprehensive income are recognized directly in equity. Income taxes attributable to discontinued operations are reported as income taxes on discontinued operations.

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and their tax base, and for tax loss carryforwards whose utilization will probably result in tax benefits in future periods. The tax laws that have been enacted or substantively enacted as of the balance sheet date are used to measure deferred taxes. Until the end of the second quarter of 2007, deferred and current taxes were recognized on the basis of an aggregate tax rate of 37.5 percent (previous year: 37.5 percent). This was computed on the assumption of a corporate income tax rate (including the solidarity surcharge) of 26.4 percent (previous year: 26.4 percent) and an average trade tax rate for the German companies of 11.1 percent (previous year: 11.1 percent). The 2008 German business tax reform was substantively enacted during the course of the third quarter of 2007, with the result that the new tax rates and the future nondeductibility of trade tax starting in 2008 already had to be reflected in the measurement of deferred taxes as of September 30, 2007. This resulted in a reduced corporate income tax rate (including the solidarity surcharge) of 15.83 percent for deferred taxes and an average trade tax rate – reflecting the nondeductibility of trade tax – of 12.46 percent, and consequently in an aggregate tax rate of 28.29 percent for measuring deferred taxes. In the third quarter of 2007, the reduction in tax rates described above led to a one-time expense for the Group's German companies resulting from the write-down of deferred tax assets and liabilities amounting to a total of 6,145 thousand euros.

Current taxes for German Group companies continued to be calculated at an aggregate tax rate of 37.5 percent in the period up to December 31, 2007. The local country-specific tax rates are used for foreign companies.

Research and development costs

Research costs are generally recognized as expenses when they are incurred. Exceptions are those development costs that meet the criteria defined in IAS 38, Intangible Assets, and are required to be capitalized. Capitalized development costs are amortized over their expected useful lives.

Inventories

Inventories are measured at the lower of cost and net realizable value on the basis of individual values or by applying the weighted average method. FIFO is also used in justified individual cases. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

Costs of conversion comprise direct material and production costs and an appropriate share of the material and production overheads resulting from the production process.

All foreseeable risks in the inventories resulting from reduced salability or obsolescence are reflected by appropriate value adjustments. Write-downs are charged for slow-moving items.

Property, plant, and equipment

The amounts recognized for property, plant, and equipment represent cost less accumulated depreciation. Depreciation is charged on a straight-line basis over the standard useful lives of the assets concerned. In addition to direct materials and labor costs, the production costs of internally produced assets include an appropriate share of attributable indirect materials and labor costs and, if construction takes place over a longer period of time, borrowing costs during the construction period. Administrative expenses are only capitalized if they are directly related to the construction process. Repair and maintenance expenditures are recognized as expenses unless they are capitalized when applying the component approach.

Assets with a finite life are depreciated ratably using the straight-line method. If an item of property, plant, and equipment has several components with differing useful lives, the individual components are depreciated separately over their individual useful lives. The component approach is therefore applied when determining the depreciation period.

The carrying amount of a noncurrent asset is derecognized when it is sold or scrapped, and the resulting gains or losses are recognized in profit or loss.

Depreciation is based on the following useful lives:

	Years
Buildings	14 – 25
Technical plant and machinery	8 – 21
Other equipment, operating and office equipment	3 – 11

Leasehold improvements and leased items of property, plant, and equipment are depreciated over the shorter of the standard useful lives of the assets concerned and the rental or lease period.

Government grants

Government assistance and grants are deducted on receipt from the recognized cost of the subsidized assets, provided that the corresponding investment conditions will be fulfilled.

In the year under review, 480 thousand euros of recognized government grants related to emission rights, 8,960 thousand euros to investment subsidies, and 89 thousand euros to grants for research and development costs. 1,209 thousand euros were recognized in the income statement in fiscal year 2007.

In 2007, Pfeleiderer MDF Sp. z o.o. was granted tax relief on investments in a Polish special economic zone in the form of an exemption from the obligation to pay income taxes. The exemption from future tax payments, which was granted until September 1, 2016, is accounted for in accordance with IAS 20, Accounting for Government Grants and Disclosure of Government Assistance. PLN 77,488 thousand are accrued in the amount of the expected future tax savings, and the same amount is deferred directly in equity representing future tax benefits. The amount

accrued is amortized based on the future theoretical tax expenses that would have arisen if the exemption had not been granted. The deferred amount is also amortized, but on a straight-line basis depending on the average useful life of the subsidized investments. By contrast, the accrued amount is amortized as a hypothetical annual tax expense depending on the taxable income calculated for these purposes.

Leases

Leasing transactions are classified either as finance leases or as operating leases. Beneficial ownership of the leased item is assigned to the contracting partner that has substantially all the rewards and risks incidental to ownership of the leased item.

If the lessor has substantially all the rewards and risks (operating lease), the leased item is recognized as an asset by the lessor. The lease payments billed are recognized as income. The lessee in an operating lease recognizes the lease payments made during the term of the lease as expense.

If the lessee has substantially all the rewards and risks incidental to ownership of the leased item (finance lease), the lessee recognizes the leased item as an asset. The leased item is measured at its fair value at inception of the lease or at the lower present value of the minimum lease payments, and depreciated or amortized over the shorter of its estimated useful life and the term of the lease. The lessee recognizes a leasing liability in the same amount at inception of the lease. The leasing liability is amortized in subsequent periods using the effective interest method.

Intangible assets

Purchased intangible assets are recognized at cost and amortized over their useful lives using the straight-line method. In addition to goodwill, the Company has other indefinite-lived intangible assets in the form of brand rights (72,217 thousand euros).

Expenses incurred in connection with the purchase and internal development of internal use computer software, including the costs incurred to bring the software to its working condition, are capitalized and amortized over the expected useful life of the software using the straight-line method. The expected useful life of software, patents, licenses, and similar rights is generally three to five years. Other useful lives may arise on the initial consolidation of intangible assets that are acquired as part of a business combination.

Capitalized development costs include the costs of materials and services and the costs of employee benefits incurred in the development of the assets, as well as other directly attributable costs. They are amortized over their expected useful lives. Research costs are reported as expenses in the period in which they are incurred.

In the absence of specific IFRS guidance, emission rights are generally accounted for in accordance with the accounting provisions of German commercial law (IDW RS HFA 15). The rights are presented in intangible assets. Purchased emission rights and those issued free of charge are carried at cost. For rights issued free of charge, a liability is recognized in the amount of the capitalized fair value of the emission right. Gains or losses on the sale of emission rights are recognized in profit or loss. In 2007, the Pfeleiderer Group generated gains totaling 882 thousand euros (previous year: 3,000 thousand euros) on the sale of emission rights.

Impairment of property, plant, and equipment and intangible assets (excluding goodwill)

An assessment is made at each balance sheet date as to whether there are indications that an asset might be impaired. If there are indications that an item of property, plant, and equipment or an intangible asset is impaired, the carrying amount of that asset is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing, and independent parties, less the costs of disposal.

Value in use is the present value of the future cash flows expected to be derived from an asset.

If the carrying amount exceeds the higher of the two amounts (fair value less costs to sell or value in use), an impairment loss is recognized and the carrying amount of the asset is reduced to the recoverable amount.

If the reason for an impairment loss recognized on property, plant, and equipment and intangible assets (excluding goodwill) in prior periods no longer applies, the impairment loss is reversed up to the amount of the asset's amortized cost.

Goodwill

Purchased goodwill is capitalized and, in accordance with IAS 36, tested for impairment at least once a year or whenever there are indications that the unit could be impaired. The recoverability of goodwill is tested in a single-step procedure at the level of the cash-generating unit to which it is allocated. In accordance with the definition of a cash-generating unit, the strategic business units of the Pfeleiderer Group are generally deemed to be cash-generating units. They represent the reporting level below the reportable segments.

The impairment test compares the carrying amount of the cash-generating unit with its recoverable amount. If the carrying amount exceeds the recoverable amount, the carrying amount is impaired and it must be written down to the recoverable amount.

The recoverable amount of a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Goodwill impairment losses recognized in previous periods may not be subsequently reversed if the reasons for impairment no longer apply.

Hybrid capital

Pfleiderer AG placed a hybrid bond on April 27, 2007. This bond is accounted for as an equity component in accordance with IAS 32 because it is a perpetual bond and its interest rate is tied to Pfleiderer AG's dividend distributions. For this reason, the tax-deductible interest payments are not included in interest expense, but accounted for in the same way as dividend obligations to shareholders.

Provisions for pensions and other post-employment benefits

Provisions for pensions and other post-employment benefits are measured using the projected unit credit method, which reflects both the pensions and acquired benefits known at the balance sheet date and expected future increases in salaries and pensions. Differences between the projected pension obligation and the actual defined benefit obligation (actuarial gains and losses) are only recognized in profit or loss at the balance sheet date if they lie outside a corridor of plus or minus 10 percent of the total obligation. In this case, they are allocated on a straight-line basis over the average remaining service lives of entitled employees, starting in the following year. The net pension costs including interest expenses are recorded as personnel expenses. Effects from adjustments to the discount rate are also recognized as personnel expenses.

In accordance with IAS 19, Employee Benefits, the fair value of any plan assets used to fund and secure pension payments is offset against pension obligations in the consolidated balance sheet. The pension obligations and plan assets continue to be reported in full and are not offset in the single-entity financial statements prepared in accordance with German commercial law.

Other provisions

Provisions, including provisions for environmental protection obligations, that represent obligations to third parties arising due to legal claims, official requirements, or for other reasons, are recognized once it is probable that they have been incurred and their amount can be reliably determined, i. e., there is a legal or constructive obligation. The settlement amount is determined on a best estimate basis. In the case of provisions involving a large population of items, this is the expected value. Where the effect of the time value of money is material, provisions with a remaining term of more than one year are discounted applying market interest rates that reflect matching risks and maturities. The related expense is recorded under the corresponding expense caption.

2. Financial instruments

Financial instruments are contractual arrangements that give rise to financial assets of one entity and financial liabilities or equity instruments of another entity. Financial liabilities usually lead to a put right in the form of cash or another financial asset.

2.1 Classes of financial instrument

Pfleiderer uses the following classes of financial instrument:

- cash and cash equivalents;
- financial instruments classified using the measurement categories specified in IAS 39; and
- leasing liabilities.

At Pfleiderer, the measurement categories on the assets side comprise:

- loans and receivables;
- financial assets held for trading; and
- available-for-sale financial assets.

Pfleiderer AG did not exercise the option to designate financial assets as at fair value through profit or loss or as held to maturity on initial recognition.

Loans and receivables consist of trade receivables and other originated loans and receivables as well as loans.

Financial assets held for trading exclusively comprise derivative financial instruments that are not part of an effective hedging relationship in accordance with IAS 39 and that therefore must be reported in this category.

Available-for-sale financial assets are equity interests and shares in affiliated companies.

On the liabilities side, a distinction is made between:

- other financial liabilities measured at amortized cost; and
- financial liabilities held for trading.

The Group did not exercise the option to designate financial liabilities as at fair value through profit or loss on initial recognition.

Financial liabilities measured at amortized cost comprise loans and other securitized liabilities, trade payables, liabilities to banks, and borrowers' note loans.

Financial liabilities held for trading consist of derivative financial liabilities that are not part of an effective hedging relationship in accordance with IAS 39. Examples of derivative financial instruments are options and swaps.

Regular way purchases or sales of financial instruments are recognized at the settlement date, which is the date that the asset is delivered.

2.2 Measurement of financial instruments

Cash and cash equivalents comprise cash on hand and at banks, as well as sight deposits with banks with original maturities of up to three months, and are measured at amortized cost.

Trade receivables and other current receivables are initially carried at fair value and subsequently measured at amortized cost less valuation allowances and impairment losses (bonuses, cash discounts, and other sales deductions). Valuation allowances are calculated on the basis of objective evidence, such as the expected or actual insolvency of a debtor. Valuation allowances are recognized if receivables become entirely or partly uncollectible, or if it is probable that they will not be collectible, and the amount of the valuation allowance can be determined sufficiently accurately. The basis for calculating valuation allowances is a regular analysis of customer relationships. In contrast to loans, valuation allowances on trade receivables are recorded in separate allowance accounts. Loans are directly written down.

Adequate deductions are recognized directly on the assets side of the balance sheet for bonuses and cash discounts.

Sales of receivables are accounted for within the Group in accordance with IAS 39, Financial Instruments: Recognition and Measurement. In accordance with this standard, financial assets must be derecognized if the contractual rights to the cash flows from the financial asset expire or if the financial asset is transferred. The receivables sold are derecognized because Pfeleiderer transfers all risks and rewards and therefore also transfers control of the receivables.

Pfeleiderer AG has participated in a factoring program since July 2004, under which the factor purchases the receivables from the Group up to an individual or aggregate limit and assumes the risk for the debtors' insolvency (non-recourse factoring). This is accounted for as described above.

Other noncurrent financial assets are measured at amortized cost. Equity interests and shares in affiliated companies are accounted for at cost due to the absence of an active market, which means that their fair value cannot be reliably determined.

Financial assets held for trading are measured at fair value. At Pfeleiderer, this category exclusively comprises derivative financial instruments that are not part of an effective hedging relationship in accordance with IAS 39 and therefore must be reported in this category. Gains and losses from subsequent measurement are recognized in the income statement.

Financial liabilities are initially recognized at fair value. Derivative financial liabilities that are not involved in an effective hedging relationship in accordance with IAS 39 must be classified as financial liabilities held for trading and are reported in the income statement. Trade payables and other primary financial liabilities are subsequently measured at amortized cost using the effective interest method.

Pfeleiderer uses **derivative financial instruments** to reduce various forms of market risk, such as interest rate risk and foreign currency risk. Interest rate risk results from changes in the market interest rates of financial assets and financial liabilities. By using interest rate derivatives, such as interest rate swaps, Pfeleiderer AG's aim is to limit interest rate risk. Foreign currency risk applies to transactions settled in a foreign currency. Cash flows are hedged centrally by entering into currency forwards.

In accordance with IAS 39, derivative financial instruments that have been entered into are carried at their fair value at the balance sheet date, in the same way as the hedged items. Regular way purchases or sales of financial instruments are recognized at the settlement date, which is the date that the asset is delivered.

The fair value of a financial instrument is the price at which one party would assume the rights and/or the obligations under this financial instrument from another party. The Company engages the counterparties to the transactions, which are generally credit institutions, to measure the financial instruments. Interest rate swaps are measured at fair value by discounting the future expected cash flows, based on the market rates of interest applicable for the residual term of the contracts. Interest rate options are measured in a similar way to currency options using option pricing models. Cross-currency swaps are measured at fair value by discounting the future cash flows resulting from the contracts in a similar manner to the determination of the fair value of interest rate swaps. In addition to the relevant market interest rates applicable at the balance sheet date, measurement is based on the exchange rates for the relevant foreign currencies in which the cash flows will arise.

Depending on the nature of the hedged item, a distinction is made between a fair value hedge, a cash flow hedge, and a hedge of a net investment in a foreign operation. As in 2006, none of the above-mentioned hedging relationships was designated in the Pfeleiderer Group in fiscal year 2007.

3. Share-based payment

The Group has established a share-based payment model, under which stock options have been offered to members of the Executive Board and top executives of the Pfeleiderer Group.

The stock options allow Pfeleiderer shares to be purchased at a certain predetermined exercise price following a three-year vesting period. The purchase of stock options is linked to a personal investment. Stock options (equity-settled share-based payment transactions) are measured at fair value at the grant date. The fair value is recognized in profit or loss as personnel expenses over the period until exercise of the stock options. Fair value is determined using internationally acknowledged valuation techniques (Black-Scholes method). Each stock option entitles the holder either to purchase one Pfeleiderer share at a fixed subscription price or to cash compensation. The proportionate fair value is recognized in profit or loss. The Company is entitled to determine at its discretion whether shares of the Company or cash compensation will be granted to the beneficiaries for all or for a proportion of the stock options granted.

4. Treasury shares

Treasury shares are carried at their moving average price. The total amount of the shares acquired has been deducted from equity. The option under SIC-16.10 that was still available at the time to deduct the total cost of the treasury shares as a one-time adjustment of equity was applied.

The shares were repurchased for the purpose of using the acquired treasury shares to settle the options on the Company's shares issued in conjunction with the Pfeleiderer 2002, 2004, 2006, and 2007 stock option plans. The shares were acquired on-exchange in Xetra trading.

5. Earnings per share

Earnings per share have been calculated in accordance with IAS 33, Earnings per Share. This standard requires the presentation of earnings per share for all companies that have issued ordinary shares. Basic earnings per share represent the profit or loss from continuing operations for the period attributable to the parent less minority interests, divided by the weighted average number of ordinary shares outstanding during the fiscal year. Equity-equivalent securities used for payment in stock options may result in dilution. If a dilutive effect occurs, diluted earnings per share must also be presented.

6. Segment reporting

Segment reporting is presented in compliance with IAS 14, Segment Reporting. In the Pfeleiderer Group, segment reporting is defined by business centers, which are classified by the regions in which the goods and services are provided. The geographical segments therefore represent the reporting format for the segment reporting. No further breakdown of the operating segments is given due to the similarity of the Company's products. Segment results are presented as earnings before interest, income taxes, depreciation, and amortization (EBITDA) and earnings before interest and taxes (EBIT). The profit from discontinued operations of 5,689 thousand euros is attributable in full to the Western Europe segment.

IV. Explanatory notes to the consolidated balance sheet

1. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of 17,197 thousand euros were reported as of December 31, 2007 (previous year: 35,405 thousand euros). They comprise cash at banks, cash on hand, as well as sight deposits with banks with original maturities of up to three months. Cash and cash equivalents are not exposed to credit risk as defined by IFRS 7.

2. RECEIVABLES AND OTHER ASSETS

'000 EUROS	Dec. 31, 2007	Dec. 31, 2006
Trade receivables, net	76,162	84,723
Tax refund claims excluding income taxes	14,965	17,341
Receivables from affiliated companies	2,659	2,092
Other assets	26,239	20,238
Receivables from minority shareholders	370	-
Prepayments	213	-
Receivables and other assets	120,608	124,394

The tax refund claims relate primarily to VAT credits of 14,161 thousand euros (previous year: 16,205 thousand euros). Other assets comprise positive fair values for currency forwards of 4,876 thousand euros and for interest rate swaps of 2,101 thousand euros.

3. TRADE RECEIVABLES

'000 EUROS	Dec. 31, 2007	Dec. 31, 2006
Trade receivables	106,502	106,403
Less specific valuation allowances	-7,772	-7,364
Less collective valuation allowances	-170	-285
Less deductions for price reductions, sales bonuses, and cash discounts	-22,398	-14,031
Trade receivables, net	76,162	84,723

All receivables are due in less than one year. Adequate valuation allowances are recognized for bonuses and cash discounts.

The following table shows the development of the two allowance accounts:

'000 EUROS	Specific valuation allowances	Collective valuation allowances
January 1, 2007	7,364	285
Change in basis of consolidation	2,221	9
Brought forward	9,585	294
Additions	3,539	175
Utilization	1,553	289
Reversals	3,799	10
December 31, 2007	7,772	170

Receivables with a principal amount of 83,747 thousand euros were sold as of December 31, 2007 (previous year: 34,476 thousand euros). This increase is mainly due to the expansion of factoring sales to five more companies. Under this arrangement, the Group retains insignificant risks and obligations (“pass-through arrangement”); these relate in particular to the provision of settlement services. The Group only sells receivables that are covered by credit insurance. Expenses of 2,603 thousand euros (previous year: 1,660 thousand euros) were incurred in connection with the sale of receivables. These expenses relate primarily to interest and the cost of assuming the default risk reported in the income statement under “Financial expenses, net.”

A number of Group companies in Germany have concluded agreements on the sale of receivables. These agreements have a basic term of five years (up to August 2012); the associated back-up facility can be extended by one year in each case. The agreed limit for the program was 80 million euros at the balance sheet date (previous year: 50 million euros). Receivables with a principal amount of 56,843 thousand euros had been sold as of December 31, 2007. This sale is presented as an off-balance-sheet transaction in accordance with IFRSs. Payments received in the amount of 13,521 thousand euros resulted in net receivables sold of 43,322 thousand euros.

In Eastern Europe, Pfeleiderer Grajewo S.A. and Pfeleiderer Prospan S.A. entered into an agreement with a factoring company on the sale of receivables with a maximum total volume (for both companies) of PLN 150.0 million (41.8 million euros). Receivables with a principal amount of 26,904 thousand euros had been sold as of December 31, 2007. 90 percent of this volume were reported off balance sheet. Payments of 8,186 thousand euros received for receivables sold resulted in net receivables sold of 18,718 thousand euros.

'000 EUROS	RECEIVABLES FROM AFFILIATED COMPANIES					
	TRADE RECEIVABLES		COMPANIES		LOANS	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Receivables not past due and not impaired	106,502	106,403	2,659	2,092	4,469	5,458
of which low default risk	103,388	104,863	2,659	2,092	4,469	5,458
of which on watch list	3,114	1,540	-	-	-	-
Carrying amount of receivables not past due and not impaired	106,502	106,403	2,659	2,092	4,469	5,458
Age analysis of delinquency status (past due but not impaired)						
30 – 60 days	4,381	6,522	-	-	-	1
61 – 90 days	1,675	2,145	-	-	-	-
91 – 180 days	2,488	1,280	-	-	-	1
Older than 180 days	5,126	10,195	-	-	-	17
Carrying amount of past due receivables	13,670	20,142	-	-	-	19

The default risk of the trade receivables varies from region to region. Between 96 percent and 97 percent of the receivables in the Business Center Western Europe are covered by credit insurance. At Pergo Europe, credit insurance has been taken out for approximately 70 percent to 75 percent of receivables. In the Business Center Eastern Europe, around 93 percent of receivables are insured, while in North America, credit insurance has only been taken out for around 6 percent of receivables. The maximum credit risk in the Group corresponds to the gross carrying amount of the trade receivables less valuation allowances and the gross carrying amount of the loans less recognized amortization.

4. INVENTORIES

Inventories comprise the following items:

'000 EUROS	Dec. 31, 2007	Dec. 31, 2006
Raw materials, consumables, and supplies	114,497	83,070
Work in progress	10,031	8,579
Finished goods and merchandise	105,165	65,026
Inventories, net	229,693	156,675

The increase in raw materials, consumables, and supplies and in finished goods and merchandise is due mainly to the acquisition of the Pergo Group, whose raw materials, consumables, and supplies and finished goods and merchandise at year-end amounted to 9,523 thousand euros and 25,125 thousand euros respectively, as well as to the increase in production costs.

In fiscal year 2007, writedowns of 26,215 thousand euros (previous year: 14,562 thousand euros) were recognized in profit or loss, and reversals of impairment losses on inventories recognized in prior periods were performed in the amount of 4,828 thousand euros (previous year: 5,677 thousand euros). The reversals are the result of market price adjustments and better sales opportunities.

The inventory expense reported under the cost of sales item in the income statement for the 2007 fiscal year amounted to 928,821 thousand euros (previous year: 727,441 thousand euros).

5. DISCONTINUED OPERATIONS

Pfleiderer sold its track systems Business Unit and Interwood GmbH in the 2006 fiscal year. Significant amounts of the assets and liabilities reported in the consolidated balance sheet under discontinued operations are due to these sales.

The operating business of the discontinued operations developed as follows.

'000 EUROS	2007	2006
Revenues	-	27,430
Other income and expenses	5,689	22,723
Effect of discontinuation of depreciation	-	355
EBIT	5,689	50,508
Net interest income/expense	-	- 463
EBT	5,689	50,045
Income taxes	- 781	- 16,145
Taxes on discontinuation of depreciation	-	- 133
Profit after income taxes	4,908	33,767

No significant extraordinary factors from operations or subsequent expenses after income taxes were reported for discontinued operations in 2007.

The following table shows the balance sheet items reported under noncurrent assets held for sale and liabilities directly associated with noncurrent assets held for sale:

'000 EUROS	Dec. 31, 2007	Dec. 31, 2006
Cash and cash equivalents and securities	-	-
Receivables and other assets	-	-
Inventories, net	-	-
Other current assets	-	-
Current assets	-	-
Property, plant, and equipment, net	13,569	1,730
Intangible assets, net	-	-
Noncurrent financial assets	-	-
Deferred tax assets	1,245	1,636
Other noncurrent assets	-	-
Noncurrent assets	14,814	3,366
Noncurrent assets held for sale	14,814	3,366
Current liabilities and other debt	3,904	-
Current financial liabilities	-	-
Other provisions	12,225	28,223
Current tax payables	-	8,287
Miscellaneous other current liabilities	-	967
Current liabilities	16,129	37,477
Noncurrent financial liabilities	-	-
Pension provisions	-	-
Deferred tax liabilities	-	3,299
Other noncurrent liabilities	-	-
Other provisions	-	-
Noncurrent liabilities	-	3,299
Liabilities directly associated with noncurrent assets held for sale	16,129	40,776

Property, plant, and equipment principally comprises land as well as a production facility held for sale.

The other provisions mainly relate to the winding-up of the Wind segment and the track systems Business Unit. Miscellaneous other current liabilities primarily include employee liabilities.

6. PROPERTY, PLANT, AND EQUIPMENT

'000 EUROS	Land, land rights, and buildings in- cluding buildings on third-party land	Technical plant and machinery	Other equipment, operating and office equipment	Prepayments and assets under construction	Total property, plant, and equipment
Cost as of Dec. 31, 2005	282,993	847,305	63,103	97,885	1,291,286
Foreign currency translation	-3,765	-7,490	-267	-2,148	-13,670
Acquisitions	6,020	7,673	56	401	14,150
Changes in accordance with IFRS 5	25,168	-	-	-	25,168
Other changes	6	17	37	374	434
Additions	3,178	17,263	3,131	85,806	109,378
Disposals	-5,172	-37,606	-8,874	-249	-51,901
Reclassifications	31,275	70,317	3,874	-108,498	-3,032
Cost as of Dec. 31, 2006	339,703	897,479	61,060	73,571	1,371,813
Foreign currency translation	3,189	11,529	-80	3,634	18,272
Acquisitions	34,965	60,532	13,144	2,623	111,264
Changes in accordance with IFRS 5	-15,300	-	-	-	-15,300
Other changes	-	-	-	-	-
Additions	801	16,540	4,002	157,587	178,930
Disposals	-8,407	-34,758	-5,387	-1,457	-50,009
Reclassifications	37,730	119,150	4,559	-162,625	-1,186
Cost as of Dec. 31, 2007	392,681	1,070,472	77,298	73,333	1,613,784
Cumulative depreciation as of Dec. 31, 2005	-104,328	-494,767	-44,123	-	-643,218
Foreign currency translation	-83	180	32	-	129
Changes in accordance with IFRS 5	-15,742	-	-	-	-15,742
Other changes	-3	-5	-24	-	-32
Additions	-9,555	-53,322	-5,271	-	-68,148
Disposals	3,430	34,154	6,998	-	44,582
Reclassifications	-167	110	11	-	-46
Cumulative depreciation as of Dec. 31, 2006	-126,448	-513,650	-42,377	-	-682,475
Foreign currency translation	-2,049	-9,512	-286	-	-11,847
Changes in accordance with IFRS 5	8,236	-	-	-	8,236
Other changes	-	-	-	-	-
Additions	-15,842	-71,669	-11,753	-	-99,264
Disposals	6,789	29,151	4,704	-	40,644
Reclassifications	-	-	-	-	-
Cumulative depreciation as of Dec. 31, 2007	-129,314	-565,680	-49,712	-	-744,706
Carrying amount as of Dec. 31, 2006	213,255	383,829	18,683	73,571	689,338
Carrying amount as of Dec. 31, 2007	263,367	504,792	27,586	73,333	869,078

Acquisitions include the first-time consolidation of the Pergo Group in the amount of 104,737 thousand euros. This item also includes the property, plant, and equipment purchased as part of the acquisition of the minority interest in Pfeleiderer Prospan S.A. and as part of the acquisition of the shares of Pfeleiderer Grajewo S.A.

The main additions to property, plant, and equipment in the 2007 fiscal year result from the establishment of the Polish MDF plant, Pfeleiderer MDF Sp. z o.o., and amount to 79,001 thousand euros. Investments for the MDF plant being built in Russia, Pfeleiderer MDF OOO, account for 12,377 thousand euros. Borrowing costs of 1,875 thousand euros (previous year: 1,300 thousand euros) were capitalized. The underlying interest rate was between 5.65 percent and 6.00 percent.

Depreciation on property, plant, and equipment totaled 99,264 thousand euros in the 2007 fiscal year (previous year: 68,148 thousand euros). This includes impairment losses of 3,819 thousand euros in the current fiscal year (previous year: 295 thousand euros) that are mainly reported under other operating expenses. The increase in current depreciation is principally due to the acquisition of Pergo effective February 28, 2007.

Items of property, plant, and equipment were recognized for finance leases in the amount of 804 thousand euros (previous year: 850 thousand euros).

All of Pfeleiderer OOO's assets were pledged under the project financing for the Podberezje particleboard plant. Apart from this, no collateral was assigned and no other preferential rights in rem were created over individual noncurrent assets in the past fiscal year.

7. INTANGIBLE ASSETS

'000 EUROS	Concessions, industrial and similar rights and assets, and licenses in such rights and assets	Goodwill	Development costs and prepayments	Total intangible assets
Cost as of Dec. 31, 2005	38,415	323,952	1,881	364,248
Foreign currency translation	- 497	- 10,316	-	- 10,813
Acquisitions	204	- 10,154	-	- 9,950
Changes in accordance with IFRS 5	-	-	-	-
Other changes	6	-	-	6
Additions	7,386	29,666	124	37,176
Disposals	- 11,157	- 722	-	- 11,879
Reclassifications	4,913	-	- 1,881	3,032
Cost as of Dec. 31, 2006	39,270	332,426	124	371,820
Foreign currency translation	- 4,333	20	1	- 4,312
Acquisitions	155,622	144,961	-	300,583
Changes in accordance with IFRS 5	-	-	-	-
Other changes	-	-	-	-
Additions	2,130	-	2,048	4,178
Disposals	- 4,412	- 5,429	-	- 9,841
Reclassifications	1,301	-	- 115	1,186
Cost as of Dec. 31, 2007	189,578	471,978	2,058	663,614
Cumulative amortization as of Dec. 31, 2005	- 24,536	- 63,599	-	- 88,135
Foreign currency translation	128	-	-	128
Changes in accordance with IFRS 5	-	-	-	-
Other changes	- 5	-	-	- 5
Additions	- 7,013	-	-	- 7,013
Disposals	4,287	-	-	4,287
Reclassifications	46	-	-	46
Cumulative amortization as of Dec. 31, 2006	- 27,093	- 63,599	-	- 90,692
Foreign currency translation	97	-	-	97
Changes in accordance with IFRS 5	-	-	-	-
Other changes	-	-	-	-
Additions	- 12,601	-	-	- 12,601
Disposals	3,198	-	-	3,198
Reclassifications	-	-	-	-
Cumulative amortization as of Dec. 31, 2007	- 36,399	- 63,599	-	- 99,998
Carrying amount as of Dec. 31, 2006	12,177	268,827	124	281,128
Carrying amount as of Dec. 31, 2007	153,179	408,379	2,058	563,616

The main intangible assets reported under concessions, industrial and similar rights and assets, and licenses in such rights and assets are trademark rights, patents, and licenses, as well as SAP licenses and emission rights.

Acquisitions include the first-time consolidation of the Pergo Group in the amount of 142,705 thousand euros comprising trademark rights, customer relationships, and technology. This item also includes the increase of 12,917 thousand euros in intangible assets attributable to the realization of hidden reserves on customer relationships and the order backlog, which resulted from the acquisition of the remaining minority interest in Pfeiderer Prospan S.A. held by the Polish government and the acquisition of 1.5 million shares in Pfeiderer Grajewo S.A.

Development costs (own work capitalized) of 446 thousand euros (previous year: 0 thousand euros) were capitalized in fiscal years 2006 and 2007.

Of the goodwill reported, 174,541 thousand euros (previous year: 136,918 thousand euros) were attributable to the Business Center Western Europe, 109,282 thousand euros (previous year: 48,913 thousand euros) to the Business Center Eastern Europe, and 124,545 thousand euros (previous year: 82,996 thousand euros) to the Business Center North America.

The acquisition of the Pergo Group increased goodwill by a total of 79,814 thousand euros, of which 38,311 thousand euros were allocated during initial consolidation to the European division of the Pergo Group and 41,503 thousand euros to the North American division of the Pergo Group.

50,030 thousand euros of the increase in goodwill in the Business Center Eastern Europe are attributable to the purchase of the equity interest of 43.21 percent in Pfeiderer Prospan S.A. held by the Polish government. The acquisition of 1.5 million shares in Pfeiderer Grajewo S.A. contributed a further 15,301 thousand euros to the increase in goodwill at the Business Center Eastern Europe. The sale of shares of Pfeiderer Grajewo S.A. reduced goodwill by 4,962 thousand euros.

Amortization of intangible assets totaled 12,601 thousand euros in the 2007 fiscal year (previous year: 7,013 thousand euros) and is mainly reported under the cost of sales item. The increase in amortization of intangible assets is primarily attributable to the addition of the Pergo Group and the resulting purchase price allocation.

In 2007, the Company tested the goodwill reported in the consolidated financial statements for impairment. The impairment tests performed in 2007 did not give rise to a need to recognize impairment losses in the Group. For the impairment test, the carrying amount was compared with the value in use at the level of the cash-generating units. The fair value less costs to sell was determined on the basis of comparable transactions. Value in use is determined on the basis of the five-year planning approved by the management of Pfeiderer AG, from which the future cash flows after taxes were derived. Cash flows beyond the five-year period were determined in accordance with a perpetual annuity. No growth rate for extrapolating the perpetual annuity was factored in. The weighted average cost of capital used in discounting includes an individual

beta factor derived from the peer group, an individual tax rate, and an individual capital structure. Capitalization rates of between 7.67 percent and 10.37 percent were taken as the basis for the impairment tests. The calculations performed did not result in the need to recognize an impairment loss.

8. NONCURRENT FINANCIAL ASSETS

'000 EUROS	Shares in affiliated companies	Equity interests	Other loans	Total financial assets
Cost as of Dec. 31, 2005	150	76	15,235	15,461
Foreign currency translation	-	-	- 15	- 15
Acquisitions	-	-	-	-
Changes in accordance with IFRS 5	-	10	-	10
Other changes	-	-	-	-
Additions	87	8	268	363
Disposals	- 125	- 75	- 10,030	- 10,230
Reclassifications	-	-	-	-
Cost as of Dec. 31, 2006	112	19	5,458	5,589
Foreign currency translation	2	-	- 66	- 64
Acquisitions	-	-	81	81
Changes in accordance with IFRS 5	-	-	-	-
Other changes	-	-	-	-
Additions	-	-	394	394
Disposals	- 74	- 10	- 1,399	- 1,483
Reclassifications	-	-	-	-
Cost as of Dec. 31, 2007	40	9	4,468	4,517
Cumulative impairment losses as of Dec. 31, 2005	-	-	- 6,140	- 6,140
Foreign currency translation	-	-	-	-
Changes in accordance with IFRS 5	-	-	-	-
Other changes	-	-	-	-
Additions	-	- 6	-	- 6
Disposals	-	-	6,140	6,140
Reclassifications	-	-	-	-
Cumulative impairment losses as of Dec. 31, 2006	-	- 6	-	- 6
Foreign currency translation	-	-	-	-
Changes in accordance with IFRS 5	-	-	-	-
Other changes	-	-	-	-
Additions	-	-	-	-
Disposals	-	-	-	-
Reclassifications	-	-	-	-
Cumulative impairment losses as of Dec. 31, 2007	-	- 6	-	- 6
Carrying amount as of Dec. 31, 2006	112	13	5,458	5,583
Carrying amount as of Dec. 31, 2007	40	3	4,468	4,511

The other loans include a loan of 4,341 thousand euros (previous year: 4,079 thousand euros) to the shareholder of a property leasing company included in the basis of consolidation.

9. DEFERRED TAXES

Deferred tax assets and liabilities are carried in accordance with IAS 12 "Income Taxes" if future tax effects can be expected from temporary differences between the carrying amounts of existing assets and liabilities and their taxes bases on the one hand and loss carryforwards on the other.

Deferred tax assets and liabilities arising from measurement differences on balance sheet items can be broken down as follows:

'000 EUROS	Dec. 31, 2007	Dec. 31, 2006
Receivables and other assets	2,854	3,264
Inventories, net	542	459
Property, plant, and equipment, net	17,731	15,015
Intangible assets, net	5	226
Noncurrent financial assets	2	591
Pension provisions	3,466	7,786
Other current and noncurrent liabilities	8,242	7,851
Other current and noncurrent provisions	12,450	7,463
	45,292	42,655
Tax loss carryforwards	122,351	128,718
	167,643	171,373
Valuation allowances/non-recognition in accordance with IAS 12.34	- 61,117	- 84,929
	106,526	86,444
Netting	- 45,299	- 28,413
Deferred tax assets (after netting)	61,227	58,031
Receivables and other assets	4,475	5,543
Inventories, net	174	122
Property, plant, and equipment, net	51,155	53,420
Intangible assets, net	45,906	1,583
Noncurrent financial assets	11	15
Other current and noncurrent liabilities	736	1,313
Other current and noncurrent provisions	1,796	1,830
	104,253	63,826
Netting	- 45,299	- 28,413
Deferred tax liabilities (after netting)	58,954	35,413
Net amount of deferred tax assets	2,273	22,618

The increase in deferred tax liabilities is due for the most part to the acquisition of the Pergo Group and the related purchase price allocation. This gave rise to significant deferred tax liabilities on intangible assets.

The decrease in written down and unrecognized deferred tax assets results from the lower income tax rates resolved in Germany and from positive profit expectations, which led to a substantial increase in deferred tax assets on loss carryforwards.

The deferred tax assets attributable to items that were recognized directly in equity in the 2007 fiscal year total 1,398 thousand euros (previous year: 0 thousand euros); this amount relates to the hybrid bond placed on April 27, 2007. No deferred taxes were recognized on the currency translation differences resulting from the consolidation of foreign subsidiaries that were taken to equity. Deferred taxes of 0 thousand euros (previous year: 0 thousand euros) were recognized for changes resulting from financial derivatives recognized directly in equity.

IO. OTHER NONCURRENT ASSETS

Other noncurrent assets include the deferred tax benefit from future income tax savings of 21,568 thousand euros (previous year: 0 thousand euros). In 2007, Pfeleiderer MDF z o.o. was granted tax relief on investments in a Polish special economic zone in the form of an income tax exemption until September 1, 2016. This tax relief is accounted for in accordance with IAS 20. The recognition of the tax benefit in the amount of the future tax savings under other noncurrent assets is matched by an amount of 21,445 thousand euros (previous year: 0 thousand euros) reported under other noncurrent liabilities.

II. CURRENT LIABILITIES AND OTHER DEBT

'000 EUROS	Dec. 31, 2007	Dec. 31, 2006
Payments received on account of orders	1,270	977
Trade payables	139,000	126,056
Liabilities to affiliated companies	14	98
Other current debt	126,804	85,640
Current liabilities and other debt	267,088	212,771

Other current debt comprises the following items:

'000 EUROS	Dec. 31, 2007	Dec. 31, 2006
Other employee liabilities	27,893	25,143
Collection liability for factoring	21,708	3,973
2 nd purchase price installment from the acquisition of Kunz incl. interest	11,250	23,358
Other taxes	10,340	8,950
Liabilities from wages and salaries	7,626	5,969
Liability from hybrid interest	7,462	-
Liabilities from other taxes	5,337	5,069
Social security contributions retained	2,626	1,943
Other	32,562	11,235
Other current debt	126,804	85,640

The increase in miscellaneous other liabilities is mainly due in the amount of 7,085 thousand euros to the addition of the Pergo Group in 2007.

12. CURRENT FINANCIAL LIABILITIES

The Company's current financial liabilities comprise the following items:

'000 EUROS	Dec. 31, 2007	Dec. 31, 2006
Other current liabilities and current portion of longer-term loans	137,256	80,938
Commercial paper	33,500	-
Finance leases	169	319
Current financial liabilities	170,925	81,257

Please refer to IV.15 for details on financial liabilities.

13. OTHER CURRENT PROVISIONS

'000 EUROS	Jan. 1, 2007	Additions	Utilization	Reversals	Change in basis of consolidation	Exchange differences	Dec. 31, 2007
Production	3,691	14,971	12,642	458	1,351	97	7,010
Sales and marketing	756	13,709	11,580	68	42	42	2,901
Other	39,882	44,138	26,552	8,011	508	1,471	51,436
Other current provisions	44,329	72,818	50,774	8,537	1,901	1,610	61,347

Other provisions are recognized mainly for provisions for possible violations of license and patent rights agreements, for litigation risk, and for the relocation of a production site. The other current provisions are expected to be utilized in 2008.

14. FINANCE LEASES

Leases exist for stackers at three German sites and for the production building in Garner, South Carolina, USA; these are reported as finance leases on account of their form.

Future minimum lease payments from finance leases as of December 31, 2007 are as follows:

'000 EUROS	Dec. 31, 2007	Dec. 31, 2006
Up to 1 year	319	319
1 to 5 years	266	331
More than 5 years	-	-
Total minimum lease installments	585	650
Less notional interest	- 51	- 65
Present value of minimum lease installments	534	585
Less current portion	169	319
Noncurrent portion of lease obligations	365	266

The net carrying amounts of assets capitalized as part of finance leases are broken down as of December 31, 2007, as follows:

'000 EUROS	Dec. 31, 2007	Dec. 31, 2006
Land and buildings	290	-
Other equipment, operating and office equipment	514	850
Total	804	850

15. NONCURRENT FINANCIAL LIABILITIES

The Company mainly uses long-term loans to finance itself. These loans generally bear interest rates based on variable EURIBOR, LIBOR, or WIBOR rates (plus an interest rate margin). The average interest rate for these loans was approximately 5.5 percent p.a. in fiscal year 2007.

'000 EUROS	Dec. 31, 2007		
	TOTAL	CURRENT PORTION (< 1 YEAR)	NONCURRENT PORTION (> 1 YEAR)
Liabilities to banks	601,344	137,256	464,088
Finance leases	534	169	365
Noncurrent financial liabilities	601,878	137,425	464,453

The syndicated loan taken out in December 2006 for an original sum of 400.0 million euros and CAD 268.7 million (175.7 million euros) amounted to 357.2 million euros and CAD 246.3 million (approx. 170.6 million euros) at the end of the year after the contractual repayments agreed for fiscal year 2007 were made. The credit agreement is valid until the end of 2011/the beginning of 2012. Additional partial repayments are provided for during the term. Furthermore, the syndicated loan agreement contains financial covenants in line with standard market terms, which must be complied with during the term of the loan.

Credit facility agreements for a total of around PLN 1,333.0 million (372.1 million euros) have been entered into for Pfeiderer's Eastern European Group companies Pfeiderer Grajewo S.A., Pfeiderer Prospan S.A., Pfeiderer MDF Sp. z o.o., Silekol Sp. z o.o., and Pfeiderer OOO and for around 54.0 million euros for project financing, in relation to the particleboard plant in Podberezje. Financial covenants in line with standard market terms were also agreed under these loans. All the covenants were complied with.

All of Pfeiderer OOO's assets were pledged under the project financing for the Podberezje particleboard plant. The shares of Pergo AB in Pergo Holding B.V., all accounts receivable, inventories, and technical equipment and machinery of Pergo LLC (formerly Pergo Inc.), and receivables of Pergo AB amounting to SEK 300 million were pledged to cover the outstanding loans of the Pergo Group, which Pfeiderer acquired in 2007.

The Group companies have also entered into various leases.

Pfeiderer AG and Pfeiderer Grajewo S.A. have each entered into commercial paper programs. In December 2002, Pfeiderer AG entered into a placement agreement on the issuance of short-term bonds with a total principal amount of up to 200.0 million euros (commercial paper program) with Bayerische Hypo- und Vereinsbank Aktiengesellschaft as the arranger and various other banks as dealers. The bonds have a maximum term of one year starting from the value date. The program has no time limit.

In July 2003, Pfeiderer Grajewo S.A. entered into a similar agreement to issue such commercial papers with a current principal amount of up to PLN 400.0 million (111.3 million euros) with Bank PEKAO (formerly Bank Przemyslowo Handlowy PBK S.A.). Here, too, the individual bonds have a maximum term of one year starting from the value date; the program currently expires in June 2009. As of December 31, 2007, the principal amount of issued commercial papers was PLN 318.2 million (88.6 million euros); the investors are Pfeiderer Prospan S.A. and Silekol Sp z o.o.

16. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

Pfeiderer grants its employees defined benefit pensions on a case-by-case basis. In addition, legacy commitments still exist under various pension plans whose benefits comprise old age, disability, and surviving dependents' pensions. The pension plans were closed for new entrants at the latest as of May 31, 1986. Individual foreign companies have other post-employment benefit obligations involving claims for lump-sum payments that are also reported under pension provisions.

Pension provisions for the fiscal years ended December 31, 2007 and December 31, 2006 are composed of the following items:

'000 EUROS	2007	2006
Pensions and other post-employment benefits	17,843	16,459
Other post-employment benefits	- 1,559	- 868
Pension obligations	16,284	15,591

The present value of the defined benefit obligation as of the balance sheet date was 114,009 thousand euros in the year under review (previous year: 114,925 thousand euros); this is partially attributable to defined benefit obligations funded by plan assets.

The benefits under defined benefit pension plans primarily depend on the employee's length of service, age, and salary. The costs and obligations arising from defined benefit pension plans are calculated on the basis of actuarial opinions using the projected unit credit method. This method sets the employee's past service in relation to the measurement date, and also includes estimates with regard to future salary and pension trends. The following assumptions were made in the opinions prepared as of the measurement date of December 31, 2007:

	GERMANY		CANADA	
	2007	2006	2007	2006
%				
Discount factor	5.31	4.33	5.50	5.25
Salary increase rate	2.50	2.00	3.50	3.50
Return on plan assets	7.00	-	6.25	6.25
Staff turnover rate	1.50	1.50	2.40	2.40
Pension adjustments	1.80	1.80	2.90	2.90

Pension provisions are generally measured using the 10 percent corridor rule. Actuarial gains or losses are not recognized in profit or loss if they do not exceed 10 percent of the higher of the benefit obligation and the fair value of plan assets. The amount exceeding the corridor is recognized in profit or loss and spread over the average remaining working lives of the active employees using the straight-line method.

The discount factor applied roughly corresponds to the interest rate achievable on the market for prime-ranking corporate bonds with the same maturity as of the measurement date of the benefit obligation. The annual salary increase rate is used to calculate pension entitlements.

The Company's obligation under defined benefit plans is to fulfill its benefit commitments to active and former employees; a distinction is made here between provisions-based systems and externally funded pension systems.

At the end of 2006, business assets were transferred to a trustee, HSBC Trinkaus & Burkhardt AG, and a downstream collateral trustee, HSBC Trinkaus Sicherungstreuhand e.V. under a two-tier contractual trust arrangement (CTA) in order to externally fund the Company's pension obligations in Germany. CTAs are modeled on Anglo-American pension trusts, taking into account the tax and labor law framework in Germany. In December 2007, the plan assets were transferred to a trustee set up by the Company – Pfleiderer Treuhandverein e.V.

As the fair value of plan assets in Germany of 66,212 thousand euros exceeds the pension provisions of 63,489 thousand euros by 2,723 thousand euros, an asset was recognized in this amount in accordance with IAS 19.

The Company also has externally funded pension plans in Canada. This means that the majority of Pfleiderer Group pensions are externally funded.

Pension expenses for the fiscal years ended December 31, 2007 and December 31, 2006 are composed of the following items:

'000 EUROS	2007	2006
Current service cost	3,785	3,743
Interest cost	5,591	4,908
Amortization of actuarial gains (losses)	168	191
Past service cost	-	-
Pension expenses	9,544	8,842

The following tables show the changes in the defined benefit obligations and plan assets, as well as the funding status of the defined benefit pension obligations, for Germany and Canada as reported in the consolidated financial statements as of December 31, 2007 and December 31, 2006:

GERMANY				
'000 EUROS	Defined benefit obligation Dec. 31, 2007	of which not covered by plan assets Dec. 31, 2007	of which covered by plan assets Dec. 31, 2007	Plan assets Dec. 31, 2007
Defined benefit obligation at beginning of year	70,326	86	70,240	64,988
Current service cost	651	14	637	-
Interest cost	2,957	4	2,953	-
Expected return on plan assets	-	-	-	4,549
Contributions by plan participants	-	-	-	-
Pensions paid	-3,829	-	-3,829	-3,829
Actuarial gains/losses	-7,345	-47	-7,298	-2,385
Retrospective plan amendments	-	-	-	-
Business combinations	-	-	-	-
Past service cost	484	4	480	-
Disposals and transfers	1,200	-	1,200	504
Defined benefit obligation at end of year	64,444	61	64,383	63,827
Unrecognized actuarial gain (loss)	-853	2	-855	2,385
Unrecognized past service cost	-39	-	-39	-
Plan assets	-	-	-	-
Balance at December 31	63,552	63	63,489	66,212
Carrying amount at December 31				-2,723
Pension provision (+)/asset (-)				

CANADA

'000 EUROS	Defined benefit obligation Dec. 31, 2007	of which not covered by plan assets Dec. 31, 2007	of which covered by plan assets Dec. 31, 2007	Plan assets Dec. 31, 2007
Defined benefit obligation				
at beginning of year	47,906	-	47,906	30,341
Current service cost	3,134	-	3,134	-
Interest cost	2,634	-	2,634	-
Expected return on plan assets	-	-	-	1,974
Contributions by plan participants	1,170	-	1,170	5,739
Pensions paid	-2,623	-	-2,623	-2,623
Actuarial gains/losses	-2,252	-	-2,252	-1,684
Retrospective plan amendments	159	-	159	-309
Business combinations	-	-	-	-
Past service cost	-	-	-	-
Disposals and transfers	-563	-	-563	36
Defined benefit obligation				
at end of year	49,565	-	49,565	33,474
Unrecognized actuarial gain (loss)	130	-	130	-
Unrecognized past service cost	-	-	-	-
Plan assets	-	-	-	-
Balance at December 31	49,695	-	49,695	33,474
Carrying amount at December 31				16,221
Pension provision (+)/asset (-)				

The defined benefit obligation changed as follows year-on-year:

DEFINED BENEFIT OBLIGATION		
'000 EUROS	Dec. 31, 2007	Dec. 31, 2006
Defined benefit obligation at beginning of year	118,232	110,900
Current service cost	3,785	3,743
Interest cost	5,591	4,908
Expected return on plan assets	-	-
Contributions by plan participants	1,170	1,229
Pensions paid	-6,452	-6,537
Actuarial gains/losses	-9,597	186
Retrospective plan amendments	159	173
Business combinations	-	-
Past service cost	484	-
Disposals and transfers	637	323
Defined benefit obligation at end of year	114,009	114,925
Unrecognized actuarial gain (loss)	-723	-8,869
Unrecognized past service cost	-39	-
Plan assets	-	-
Balance at December 31	113,247	106,056
Carrying amount at December 31	16,284	15,591
Pension provision (+)/asset (-)		

The change in the defined benefit obligation of 3,307 thousand euros from the end of 2006 to the beginning of 2007 is due mainly to currency effects relating to the Canadian pensions.

The present value of the defined benefit obligation (DBO) changed as follows in the year under review and in the previous fiscal years as from the beginning of the transition to IAS/IFRS accounting in 2005:

'000 EUROS	
Defined benefit obligation	
2007	114,009
2006	114,925
2005	97,929
2004	67,150

The expected return on plan assets of 6,523 thousand euros was calculated using an interest rate of 6.25 percent for Canada and 7.0 percent for Germany, and is reported in financial expenses, net. The actual return on plan assets was 2,454 thousand euros.

The portfolio structure of the plan assets is as follows:

%	GERMANY		CANADA	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Equities	54.0	54.0	48.0	50.0
Fixed-income securities	45.0	46.0	50.0	49.0
Other	1.0	0.0	2.0	1.0
	100.0	100.0	100.0	100.0

No contributions or grants to the plan assets are expected in the coming fiscal year. The plan assets accrue interest and appreciate in value on an ongoing basis.

The following table shows the pensions paid and the statutory pension insurance contributions in the previous year, the year under review, and future years:

'000 EUROS	
Statutory pension insurance contributions	
2006	10,269
2007	10,705
Pension benefits paid	
2006	6,698
2007	6,452
Expected pension benefits	
2008	6,651
2009	6,982
2010	7,066
2011	7,252
2012	7,340
2008 – 2012	35,291

17. OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities include the deferral of the tax benefit from future income tax savings of 21,445 thousand euros (previous year: 0 thousand euros). In 2007, Pfeleiderer MDF z o.o. was granted tax relief on investments in a Polish special economic zone in the form of an income tax exemption until September 1, 2016. This tax relief is accounted for in accordance with IAS 20. The future tax savings are deferred, while 21,568 thousand euros is reported under other non-current assets.

18. OTHER NONCURRENT PROVISIONS

'000 EUROS	Jan. 1, 2007	Additions	Utilization	Reversals	Currency translation differences	Dec. 31, 2007
Restructuring measures	228	7,479	228	-	9	7,488
Environmental risks	6,834	277	627	-	222	6,706
Jubilee payments	4,643	763	728	28	128	4,778
Partial retirement	8,075	1,961	1,212	56	-	8,768
Other	-	1,221	-	-	-	1,221
Total	19,780	11,701	2,795	84	359	28,961

Provisions for restructuring measures are recognized if there is a constructive obligation for restructuring, i. e., if a detailed formal restructuring plan has been prepared and the employees concerned expect the restructuring measures to be implemented. The bulk of the additions to restructuring provisions related to the Business Center Western Europe.

Provisions for environmental risks relate mainly to potential environmental restoration liabilities and the cost of environmental remediation.

Jubilee payments are calculated using actuarial principles in accordance with the relevant company agreements and are recognized as provisions.

Provisions for partial retirement are recognized on the basis of individual agreements with employees, taking into account possible beneficiaries under collective bargaining agreements. Partial reimbursements may be made by the Arbeitsamt (employment office) under certain circumstances. The amount received in the event of reimbursement is insignificant. Provisions for partial retirement are expected to be utilized in the coming five years.

Payments under the other recognized noncurrent provisions will be made over the coming years; however, a precise allocation would involve an unreasonably high degree of effort.

The interest effect of discounting noncurrent provisions results from an average rate of 5.0 – 5.5 percent.

19. EQUITY

The changes in equity are presented in the consolidated statement of changes in equity, which precedes the notes.

Subscribed capital

Pfleiderer AG's subscribed capital amounted to 136,514,816 euros as of December 31, 2007. The share capital is composed of 53,326,100 registered no-par value shares with a notional value of 2.56 euros per share. The shares are fully paid up. All the shares convey the same rights and obligations. Each no-par value share entitles the holder to one vote at the Annual General Meeting and is the determining factor for the share of Pfleiderer AG's profit attributable to shareholders. The exceptions to this are treasury shares held by Pfleiderer AG, which do not grant the Company any rights. There were no changes to the subscribed capital in fiscal year 2007.

Authorized capital

The Executive Board is authorized, with the approval of the Supervisory Board, to increase the Company's share capital by up to 68,257,408.00 euros against cash and/or noncash contributions on one or more occasions in the period up to June 18, 2012 (authorized capital). The shareholders must be offered the right to subscribe for the new no-par value shares as a matter of principle. However, the Executive Board is authorized, with the approval of the Supervisory Board, to disapply shareholders' statutory pre-emptive rights in certain instances. The Executive Board has not utilized this authorization to date. Further details can be found in Article 4(2) of the Articles of Association.

Contingent capital

By way of a resolution adopted by the Annual General Meeting on June 19, 2007, the Executive Board was authorized, with the approval of the Supervisory Board, to issue bonds with warrants and/or convertible bonds with an aggregate principal amount of up to 200,000,000.00 euros on one or more occasions up to June 18, 2012, and to grant bondholders options or conversion rights to new shares of Pfeiderer AG with a notional value of up to 25,600,000.00 euros. The shareholders have statutory pre-emptive rights when bonds are issued. However, the Executive Board is authorized, with the approval of the Supervisory Board, to disapply shareholders' statutory pre-emptive rights in certain instances. The Executive Board has not utilized this authorization to date. To this end, the share capital has been contingently increased by up to 25,600,000.00 euros by the issue of up to 10,000,000 new shares (contingent capital). Further details can be found in the authorizing resolution dated June 19, 2007 and in Article 4(3) of the Articles of Association.

The Company's share capital has also been contingently increased by up to 1,989,836.80 euros (contingent capital). The contingent capital increase by way of the issue of up to 777,280 new no-par value shares of the Company will only be implemented to the extent that pre-emptive rights were granted under the authorization issued until June 30, 2006 and the Pfeiderer 2001 Stock Option Plan, that the holders of these rights exercise such rights to subscribe for shares of the Company, and that the Company does not satisfy such claims by issuing treasury stock or by way of cash compensation.

In addition, the Company's share capital has been contingently increased by up to 11,661,644.80 euros (contingent capital). The contingent capital increase by way of the issue of up to 4,555,330 new no-par value shares of the Company will only be implemented to the extent that pre-emptive rights are granted under the authorization issued until May 31, 2011 and the Pfeiderer Stock Option Plan 2006, that the holders of these rights exercise such rights to subscribe for shares of the Company, and that the Company does not satisfy such claims by issuing treasury stock or by way of cash compensation.

Group reserves including retained earnings and consolidated profit

The following overview shows the changes in Group reserves, including the retained earnings and the consolidated profit:

'000 EUROS	2007	2006
January 1	302,309	61,948
Measurement of/change in stock option plans	103	-4,904
Measurement of treasury shares	-1,496	-346
Change in basis of consolidation	34,690	-
Consolidated profit	57,486	83,895
Dividend	-13,217	-7,981
Capital increase	-	169,697
December 31	379,875	302,309

The capital reserve forms part of the above-mentioned Group reserves and correspond to the amount of Pfeiderer AG's capital reserve.

Retained earnings also form part of the above-mentioned Group reserves. They comprise the profits generated in the past by consolidated companies, insofar as they have not been distributed or carried forward to new account.

Consolidated net retained profits comprise the profits generated in the past by consolidated companies that were carried forward to new account.

Hybrid capital

Pfeiderer AG placed a hybrid bond in the amount of 275 million euros on April 27, 2007, resulting in transaction costs of 5.4 million euros and deferred tax assets of 1.4 million euros. The bond is structured as a perpetual bond and carries a fixed coupon of 7.125 percent in the first seven years. The hybrid bond is accounted for as an equity component in accordance with IAS 32 due to its perpetual structure and the fact that its interest rate is tied to Pfeiderer AG's dividend distributions. For this reason, the tax-deductible interest payments are not included in interest expense, but accounted for in the same way as dividend obligations to shareholders.

Treasury shares

Pfeiderer AG acquired a total of 2,415,444 own shares in fiscal year 2007 on the basis of resolutions adopted by the Executive Board in 2007. In doing so, Pfeiderer AG exercised the authorization by the Annual General Meeting on June 19, 2007 to acquire own shares in accordance with section 71(1) number 8 of the Aktiengesetz (AktG – German Stock Corporation Act).

The total amount deducted from equity for treasury shares was 43,432 thousand euros (previous year: 1,222 thousand euros).

Changes in other comprehensive income recognized directly in equity

Foreign currency translation items totaling – 154 thousand euros (previous year: – 8,001 thousand euros) were recognized directly in equity in other comprehensive income in fiscal year 2007. The figures relate to after-tax amounts in each case.

Capital management

The goal of the Executive Board's capital management strategy is to ensure the Company's continued existence and to maintain and further strengthen the confidence of Pfeleiderer's investors, markets, business partners, and employees by ensuring a strong capital base, as well as to safeguard the Company's development and growth in a sustainable manner. Capital management is based on the ratio of net debt to equity (gearing).

The numerator represents net debt, which is calculated as total financial liabilities less cash and cash equivalents. The denominator comprises the capital, that corresponds to the balance sheet equity; this also includes the hybrid bond on the one hand and minority interests on the other. Please see the statement of changes in equity for a detailed calculation of the capital that forms the basis for capital management.

		Dec. 31, 2007	Dec. 31, 2006
Balance sheet equity	million euros	801,039	542,308
Financial liabilities	million euros	635,378	450,005
Cash and cash equivalents	million euros	– 17,197	– 35,405
Net debt	million euros	618,181	414,600
Gearing	%	77.2	76.5

The strategy with regard to the goals of the Company's capital management has not changed compared with the previous year.

Neither Pfeleiderer AG nor any of its subsidiaries are subject to external minimum capital requirements.

V. Explanatory notes to the consolidated income statement**I. REVENUES**

Revenues almost exclusively comprise income from the sale of goods. Income from the rendering of services plays an insignificant role.

2. COST OF SALES

The cost of sales of 1,308,920 thousand euros (previous year: 1,035,995 thousand euros) primarily comprises the cost of materials amounting to 958,068 thousand euros (previous year: 727,441 thousand euros), depreciation and amortization of 88,558 thousand euros (previous year: 67,287 thousand euros), and employee benefits of 162,465 thousand euros (previous year: 146,877 thousand euros). This item also includes non-recurring expenses for restructuring costs of 3,884 thousand euros (previous year: 0 thousand euros), mainly relating to valuation allowances on inventories.

3. SELLING EXPENSES

Selling expenses of 246,977 thousand euros (previous year: 170,528 thousand euros) chiefly comprise outward freight costs of 120,362 thousand euros (previous year: 96,959 thousand euros) as well as employee benefits of 44,361 thousand euros (previous year: 34,093 thousand euros) and advertising and marketing costs of 23,923 thousand euros (previous year: 7,120 thousand euros).

4. ADMINISTRATIVE EXPENSES

Administrative expenses principally relate to employee benefits of 58,293 thousand euros (previous year: 52,540 thousand euros) as well as legal and consulting costs of 23,677 thousand euros (previous year: 13,829 thousand euros).

The following fees were reported by the domestic companies as expenses for services rendered by the Group auditors KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft in 2007:

	2007		
'000 EURO	GROUP PARENT	SUBSIDIARIES	TOTAL
Audit fees	75	1,156	1,231
Other assurance fees	66	596	662
Tax advisory fees	19	218	237
Other fees	388	264	652
Total	548	2,234	2,782

5. RESEARCH AND DEVELOPMENT COSTS

Research and development costs amounted to 2,898 thousand euros in 2007 (previous year: 899 thousand euros). They mainly comprise employee benefits in the amount of 1,664 thousand euros (previous year: 672 thousand euros).

6. OTHER OPERATING INCOME/OTHER OPERATING EXPENSES

'000 EUROS	2007	2006
Other operating income	63,341	76,473
Other operating expenses	-43,024	-47,869
Total	20,317	28,604

Other operating income includes income of 3,809 thousand euros (previous year: 5,150 thousand euros) from the reversal of impairment losses. Income of 4,244 thousand euros (previous year: 2,504 thousand euros) from currency translation differences is also reported under this item.

Other operating income includes income of 10,009 thousand euros (previous year: 0 thousand euros) from the sale of shares of Pfleiderer Grajewo S.A. on the Warsaw Stock Exchange. In the previous year, income of 26,885 thousand euros from the sale of shares of Pfleiderer Grajewo S.A. in connection with the CTA (contractual trust agreement) was reported under this item.

Other operating income also includes income of 6,341 thousand euros (previous year: 0 thousand euros) from a sale and leaseback transaction.

Miscellaneous other operating income comprises a large number of income items with insignificant individual carrying amounts.

Other operating expenses comprise expenses of 3,714 thousand euros (previous year: 3,030 thousand euros) from valuation allowances and bad debts as well as expenses of 1,576 thousand euros (previous year: 3,059 thousand euros) resulting from exchange rate differences. The miscellaneous other operating expenses item comprises a large number of expense items with insignificant individual carrying amounts.

Other operating expenses include restructuring costs of 14,569 thousand euros (previous year: 0 thousand euros). The restructuring costs mainly comprise severance payments and redundancy plan payments totaling 8,812 thousand euros. Other operating expenses include employee benefits of 5,955 thousand euros (previous year: 149 thousand euros) as well as depreciation and amortization on noncurrent assets in the amount of 3,014 thousand euros (previous year: 168 thousand euros).

7. FINANCIAL EXPENSES, NET

'000 EUROS	2007	2006
Interest income	6,485	5,532
Interest expense	-52,944	-46,257
Net interest expense	-46,459	-40,725
Net income from investments	242	348
Other financial income, net	251	116
Financial expenses, net	-45,966	-40,261

Interest expense principally comprises interest costs on the syndicated loans and deferred transaction costs on these loans.

Interest income mainly includes income from interest rate swaps resulting from the difference between the variable and fixed interest payment obligations. This income amounted to 4,450 thousand euros in 2007.

In addition, financial instruments from the measurement categories in IAS 39 contribute the following amounts to net financial expenses:

'000 EUROS	2007	2006
Loans and receivables	262	262
Financial assets held for trading	-277	1,875
Available-for-sale financial assets	242	348
Financial liabilities held for trading	-	-
Financial liabilities carried at amortized cost	-52,944	-46,257
Total	-52,717	-43,772

The interest income from the fixed-rate loans is reported under income from loans and receivables.

8. INCOME TAXES

Income tax expense comprises both current income taxes payable and deferred taxes.

The Group's income taxes on continuing operations are broken down as follows:

'000 EUROS	2007	2006
Current taxes		
Germany	- 12,911	- 4,012
Abroad	- 10,622	- 9,215
Deferred taxes		
Germany	8,887	- 6,507
Abroad	3,729	- 5,424
Total	- 10,917	- 25,158

Deferred tax income mainly comprises the recognition of additional deferred tax assets from the remeasurement of tax loss carryforwards which are regarded as more likely to be recoverable due to positive projections of future taxable profit.

In this context, the changeover to lower income tax rates for the German Group companies in the third quarter of 2007 had an offsetting effect. The tax laws that have been enacted or substantively enacted as of the balance sheet date are used to measure deferred taxes. Until the end of the second quarter of 2007, deferred taxes were recognized on the basis of an aggregate tax rate of 37.5 percent (previous year: 37.5 percent). This was computed on the assumption of a corporate income tax rate (including the solidarity surcharge) of 26.4 percent (previous year: 26.4 percent) and an average trade tax rate for the German companies of 11.1 percent (previous year: 11.1 percent). The 2008 business tax reform was substantively enacted in Germany during the course of the third quarter of 2007, with the result that the new tax rates and the future nondeductibility of trade tax starting in 2008 already had to be reflected in the measurement of deferred taxes as of September 30, 2007. This resulted in a reduced corporate income tax rate (including the solidarity surcharge) of 15.83 percent and an average trade tax rate – reflecting the nondeductibility of trade tax – of 12.46 percent, and consequently in an aggregate tax rate of 28.29 percent for measuring deferred taxes. In the third quarter of 2007, the reduction in tax rates described above led to a one-time expense for the Group's German companies resulting from the write-down of deferred tax assets and liabilities amounting to a total of 6,145 thousand euros.

Current taxes for German Group companies continued to be calculated at an aggregate tax rate of 37.5 percent in the period up to December 31, 2007. The local country-specific tax rates are used for foreign companies.

Income tax expense of 781 thousand euros (previous year: 16,278 thousand euros) is attributable to the profit from discontinued operations before taxes of 5,689 thousand euros (previous year: 50,045 thousand euros).

The following table reconciles expected and reported tax expense. To calculate the expected tax expense, the consolidated profit before taxes is multiplied by the aggregate tax rate applicable for the fiscal year:

'000 EUROS	2007	2006
Profit before taxes from continuing operations	90,619	92,386
Expected tax expense for a tax rate of 37.5% (previous year: 37.5%)	- 33,982	- 34,645
Increase/decrease in tax expense resulting from:		
Differences in tax rates	9,378	9,449
Prior-period taxes	- 1,247	- 3,652
Changes in the tax rate	- 6,891	-
Nondeductible business expenses/permanent differences	- 417	2,730
Tax-free income	11,452	13,295
Add-backs/deductions for federal/trade tax	- 1,752	- 4,276
Valuation allowance on deferred taxes	14,129	- 558
Extraordinary factors from the deferral of continuing and discontinued operations	- 1,354	- 5,112
Extraordinary factor due to the capital increase at Pfeleiderer AG	-	- 608
Extraordinary factor at consolidation level	- 188	- 1,623
Other	- 45	- 158
Actual tax expense	- 10,917	- 25,158

As of December 31, 2007, the Group had domestic corporate income tax loss carryforwards of 267,972 thousand euros (previous year: 303,996 thousand euros) and domestic trade tax loss carryforwards of 207,510 thousand euros (previous year: 234,473 thousand euros), as well as foreign loss carryforwards of 243,635 thousand euros (previous year: 140,676 thousand euros). In accordance with the legal regulations in force at the balance sheet date, domestic losses can be carried forward indefinitely and in unlimited amounts. The foreign loss carryforwards have the following expiration periods:

'000 EUROS	2007	2006
Expiring within		
1 year	2,617	497
2 years	578	-
3 years	1	4,266
4 years	-	2,447
5 to 9 years	115,456	124,374
10 years or more	68,049	9,088
Indefinite	56,934	4
Total	243,635	140,676

The significant increase in foreign loss carryforwards is principally due to the acquisition of the Pergo companies as well as to the earnings situation on the U.S. market during the fiscal year.

Valuation allowances on deferred tax assets were recorded and deferred tax assets were not recognized in the total amount of 61,117 thousand euros (previous year: 84,929 thousand euros), primarily for tax loss carryforwards, if their realization within a foreseeable period of time is uncertain based on the circumstances, the legal situation, and the information available. The decrease in the total amount of deferred tax assets on which valuation allowances were charged and unrecognized deferred tax assets is due to the reduction in income tax rates resolved in Germany as well as to the positive earnings forecast; the latter led to a substantial increase in deferred tax assets on loss carryforwards. The current estimate of the recoverability of deferred tax assets may change depending on the results of operations in future years and may necessitate higher or lower valuation allowances. The provisions of German tax law on the utilization of loss carryforwards (minimum taxation) have been taken into account in the estimate of the probability of the future realization of deferred tax assets on loss carryforwards.

VI. Other disclosures

I. CONTINGENT LIABILITIES

The following contingent liabilities are recognized at their nominal amounts:

MILLION EUROS	Dec. 31, 2007	Dec. 31, 2006
Guarantees and letters of comfort	69.2	13.8
Warranty obligations	4.4	4.9

In connection with the disposals of various businesses, the Group has provided the purchasers with guarantees on a customary scale. The Company does not currently expect any significant claims under these guarantees.

Furthermore, credit institutions have issued guarantees in favor of the Group's customers, suppliers, and other contracting partners totaling 30.7 million euros (previous year: 38.2 million euros); corresponding guarantee lines are available. These primarily comprise guarantees under warranties and guarantees in connection with contingent liabilities resulting from divestments.

No provisions have been recognized for the above-mentioned contingent liabilities because the probability that the risk will materialize is deemed to be low.

In addition, business risks exist for Pfeiderer AG that have not been disclosed in accordance with IAS 37.91 because it is not practicable to do so, as a reliable estimate is not possible on account of their nature and the improbability that they will occur.

Under an ABS program for financing trade receivables in the amount of 52.1 million euros (previous year: 38.9 million euros), Pfeleiderer AG is liable for the recoverability of the receivables sold. The receivables sold are covered in full by credit insurance so that no claim under this is expected.

The Group provides warranties for certain products. The size of potential warranty claims is calculated on the basis of sales of these products and records of past claims for similar warranties.

The provisions for warranty obligations changed in the reporting period and the prior period as follows:

'000 EUROS	2007	2006
Opening balance as of January 1	542	1,761
Warranties issued during the reporting period	522	9
Claims during the fiscal year	- 542	- 1,228
Balance as of December 31	522	542

2. OTHER FINANCIAL COMMITMENTS

The Group leases items of property, plant, and equipment under rental and leasing agreements that do not qualify as finance leases under IFRSs, but as operating leases. Additionally, the Group has entered into contracts for the maintenance of property, plant, and equipment, and for various services. Expenses relating to rental and leasing agreements reported in the income statement amounted to 18,574 thousand euros (previous year: 16,602 thousand euros).

The minimum amount of undiscounted future rental and lease payments under operating leases amounted to 74,697 thousand euros (previous year: 54,457 thousand euros).

The corresponding payment obligations are due as follows:

'000 EUROS	Dec. 31, 2007	Dec. 31, 2006
Within 1 year	13,691	12,628
1 to 5 years	40,882	24,861
After 5 years	20,124	16,968
Total	74,697	54,457

No extension or purchase options and price adjustment clauses with a significant impact on the consolidated financial statements exist on a scale that is unusual for the business. No restrictions for Pfeleiderer AG result from operating leases.

The future minimum lease payments under subleases relating to operating leases (all between one and five years) amount to 657 thousand euros (previous year: 1,279 thousand euros).

Purchase commitments as of December 31, 2007 amounted to 49,394 thousand euros (previous year: 108,020 thousand euros). The decrease in purchase commitments is mainly due to the absence in 2007 of the open purchase commitments relating to new production facilities that existed in 2006.

3. LITIGATION

The Company is engaged in litigation from time to time. The Company is not aware of any legal proceedings that could have a material effect on its net assets, financial position, and results of operations.

4. EARNINGS PER SHARE

		2007	2006
Earnings after minority interests	'000 euros	57,486	83,895
Average number of shares outstanding	units	52,326,757	50,262,634
Dilutive stock options	units	264,516	389,145
Average number of shares outstanding (diluted)	units	52,591,273	50,651,779
Earnings per share (basic)	euros	1.10	1.67
Earnings per share (diluted)	euros	1.09	1.66
Earnings per share from continuing operations (basic)	euros	1.00	1.00
Earnings per share from continuing operations (diluted)	euros	1.00	0.99
Earnings per share from discontinued operations (basic)	euros	0.10	0.67
Earnings per share from discontinued operations (diluted)	euros	0.09	0.67

Of the stock options granted to members of the Executive Board and employees under the 2002, 2004, 2006, and 2007 stock option plans, 264,516 shares (previous year: 389,145 shares) have a dilutive effect. The dilutive effect is taken into account in calculating earnings per share.

5. DIVIDENDS

Pfleiderer AG will pay a dividend for fiscal 2007. Subject to the approval of the Annual General Meeting, the dividend will amount to 0.30 euros per no-par value share carrying dividend rights. In the corresponding prior-year period, Pfleiderer AG paid a dividend of 0.25 euros per no-par value share carrying dividend rights.

6. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Cash and cash equivalents analyzed in the consolidated cash flow statement correspond to the aggregate balance sheet item "cash and cash equivalents".

The cash flows attributable to discontinued operations are as follows: Cash flow from operating activities amounts to -1,430 thousand euros (previous year: -9,639 thousand euros), cash flow from investing activities amounts to -15,255 thousand euros (previous year: 130,504 thousand euros), and cash flow from financing activities amounts to 0 thousand euros (previous year: -2,553 thousand euros).

7. SEGMENT REPORTING

7.1. Structure of segment reporting

In the Group's segment reporting, its activities are classified by geographical region in accordance with IAS 14 "Segment Reporting". The reporting format is based on the structure of internal reporting in the Pfeleiderer Group.

The segment information is generally based on the same accounting policies as those used for the consolidated financial statements.

7.2. Segment amounts by geographical region

External revenues are the revenues of the regional segments with non-group entities.

Intragroup revenues between the segments are transacted on an arm's length basis.

Depreciation and amortization relate to the segment assets allocated to the individual regional segments.

Noncash segment expenses mainly comprise changes in provisions and impairment losses.

Segment investments relate to additions to intangible assets and property, plant, and equipment.

Segment assets comprise noncurrent assets (excluding noncurrent financial assets) and non-interest-bearing current assets (excluding income tax receivables, deferred taxes, and cash and cash equivalents) that have contributed to profit from operations.

Segment liabilities do not include any financial liabilities and other interest-bearing liabilities (excluding income tax liabilities and deferred taxes).

Net segment assets and capital employed are derived from the net noncurrent assets and the net working capital. Net working capital also reflects certain medium-term liabilities (deferred taxes and income tax liabilities).

8. DISCLOSURES ON FINANCIAL INSTRUMENTS AND RISK INFORMATION

Derivative financial instruments

Derivative financial instruments are used as economic hedges for interest rate and foreign currency positions with the aim of minimizing the risks resulting from fluctuations in exchange rates and market interest rates. The Company's guidelines on risk management policy and the use of hedging measures require that these types of risks always be hedged. Only marketable interest rate derivatives and currency forwards entered into with prime-rated institutions are used for this purpose. Derivative financial transactions are limited to hedging operating business and related financing. The Company does not enter into any derivative financial transactions for speculative purposes.

Interest rate swaps are used to hedge interest rate risk. These instruments serve to hedge variable-interest liabilities.

Currency forwards are primarily used as economic hedges for exchange rate fluctuations in the following currency pairs: USD/CAD, USD/SEK, EUR/SEK, EUR/RUB, EUR/PLN, SEK/SGD, and SEK/GBP.

Regular way purchases or sales of financial instruments are recognized at the settlement date, which is the date that the asset is delivered. Interest rate derivatives are measured by counterparties on the basis of the discounted cash flow that arises from the difference to the market interest rate (mark-to-market measurement). The measurement of currency forwards corresponds to the income or expenses that would result from the settlement of these transactions at the balance sheet date.

Overall, the Company held the following positions in derivative financial transactions at the balance sheet date:

'000 EUROS	Dec. 31, 2007		Dec. 31, 2006	
	NOTIONAL VOLUME	FAIR VALUE	NOTIONAL VOLUME	FAIR VALUE
Interest rate derivatives	276,544	2,101	271,191	1,837
Currency forwards	110,558	4,831	58,326	-354
Total	387,102	6,932	329,517	1,483

Derivative financial instruments are reported in the balance sheet at fair value under "Other noncurrent assets" and "Miscellaneous other current liabilities".

All financial derivatives were recognized in profit or loss at the balance sheet date because hedge accounting is not applied.

Group risk from derivative instruments is limited to the risk that the counterparty will not fulfill its obligations. The Group's maximum default risk is the positive fair value of the derivatives. The maximum risk for currency forwards are the exchange rate changes of the hedged amounts.

Disclosures on the carrying amounts and fair values of financial instruments at Dec. 31, 2007

ASSETS

'000 EUROS	NOTIONAL VALUE	LOANS AND RECEIVABLES		AVAILABLE-FOR-SALE FINANCIAL ASSETS		FINANCIAL ASSETS HELD FOR TRADING	
		Carrying amounts	Fair values	Carrying amounts	Fair values	Carrying amounts	Fair values
Cash and cash equivalents	17,197	-	-	-	-	-	-
Receivables and other assets	-	83,630	83,630	-	-	-	-
Derivatives with positive fair values	-	-	-	-	-	6,932	6,932
Current assets	17,197	83,630	83,630	-	-	6,932	6,932
Noncurrent financial assets	-	-	-	4,511	4,511	-	-
Other noncurrent assets	-	2,929	2,929	-	-	-	-
Noncurrent assets	-	2,929	2,929	4,511	4,511	-	-
Carrying amounts by measurement category	-	86,559	-	4,511	-	6,932	-
Fair values per class	17,197	-	86,559	-	4,511	-	6,932

LIABILITIES AND EQUITY

'000 EUROS	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST		FINANCIAL LIABILITIES HELD FOR TRADING		FINANCE LEASE LIABILITIES	
	Carrying amounts	Fair values	Carrying amounts	Fair values	Carrying amounts	Fair values
Current liabilities and other debt	171,958	171,958	-	-	-	-
Current financial liabilities	170,756	170,756	-	-	-	-
Miscellaneous other current liabilities	1,973	1,973	-	-	169	169
Derivatives with negative fair values	-	-	45	45	-	-
Current liabilities	344,687	344,687	45	45	169	169
Noncurrent financial liabilities	464,088	464,088	-	-	-	-
Other noncurrent liabilities	80	80	-	-	365	365
Noncurrent liabilities	464,168	464,168	-	-	365	365
Carrying amounts by measurement category	808,855	-	45	-	534	-
Fair values per class	-	808,855	-	45	-	534

The fair value of financial assets and financial liabilities usually corresponds to their carrying amounts. The effective interest rate of variable-rate liabilities to banks is largely comparable with the market interest rate. The fair value is therefore equal to the carrying amount of the liabilities. If the fair values cannot be reliably determined – such as in the case of the Group's equity interests and shares in affiliated companies – these items are carried at amortized cost. The carrying amounts of recognized derivatives correspond to their fair value.

Cash and cash equivalents are accounted for at amortized cost. Trade receivables and other current receivables are initially carried at fair value and subsequently measured at amortized cost less valuation allowances and writedowns (bonuses, cash discounts, and other sales deductions).

Noncurrent financial assets are accounted for at amortized cost due to the absence of an active market, which means that their fair value cannot be reliably determined. Other noncurrent assets are measured at amortized cost. Derivatives with positive or negative fair values are measured at fair value by discounting the future expected cash flows (they are measured by the respective counterparties, which are usually banks). Measurement is based on the market rates of interest applicable for the residual term of the contracts. Current liabilities and other liabilities as well as financial liabilities (both current and noncurrent) are initially recognized at fair value. Trade payables and other primary financial liabilities are subsequently measured at amortized cost.

Presentation of net gains and losses by measurement category in fiscal year 2007

'000 EUROS	Net gains	Net losses
Loans and receivables	13,504	20,393
Financial assets held for trading	-	277
Available-for-sale financial assets	-	-
Financial liabilities held for trading	-	-
Financial liabilities measured at amortized cost	1,026	10,173

Net gains or losses result from impairment losses and reversals of impairment losses on receivables through profit or loss, as well as from exchange rate gains or losses on the measurement of financial instruments denominated in foreign currencies, from book gains or losses on the sale of financial instruments, and from the fair value measurement of derivative financial instruments that are not part of an effective hedging relationship.

Risk information

The primary task of Pfeleiderer AG's Group-wide risk management is to identify risks early and continuously, to monitor them, and to reduce them by systematically leveraging business opportunities. The Executive Board and the Supervisory Board are kept informed regularly about risks that could materially affect the operating development of the operating business segments and the Group as a whole.

A risk management system that complies with the legal requirements, and that forms an integral component of the overall management and reporting process, is used for the early identification, analysis, and appropriate management of material risks and risks to the company as a going concern.

Risk management is coordinated by a central department and continuously enhanced. In addition to the risk management department, each operating business segment and the central functions have risk managers to ensure compliance with the system by the various business units. Additionally, all Pfeiderer Group executives are called upon to promote a greater understanding of risk identification and prevention by each individual employee. In addition to immediately reporting any sudden changes in the risk situation, risk managers review existing risks on a monthly basis and identify other potential risks. The results are consolidated into quarterly reports and submitted to the Executive Board as well as the Chairman of the Supervisory Board and the Audit Committee. The Internal Audit department and the auditors regularly review the appropriateness and effectiveness of the current risk management system.

Pfeiderer defines financial risks as liquidity risk, default risk, and market risk arising in particular from operating business transactions and their hedging, as well as from Group financing. Pfeiderer AG's central finance department is responsible for managing all the Pfeiderer Group's financial risks using appropriate financial management instruments.

Credit risk/default risk

The Group sells a wide range of products to a large number of industrial and commercial customers in Germany and abroad. Outside Germany, the Pfeiderer Group is mainly active in Europe and North America. Credit risk concentrations with regard to trade receivables are limited due to the Group's large customer base. Moreover, a substantial proportion of the receivables are covered by credit insurance. No single customer accounted for a significant proportion of total revenues in the year under review. Further information can be found under "Trade receivables" in section IV 3 and "Derivative financial instruments" in section VI, 8. The Company invests cash reserves in current bank balances and other high-quality investments that can be liquidated at short notice. The Company monitors its credit risk by regularly reviewing the credit ratings of its investments.

Liquidity risk

Liquidity risk in the narrower sense is the risk that the Company will not have sufficient funds to meet its payment obligations. Payment obligations result from interest and principal repayments. Liquidity risk also includes the risk that the Company cannot obtain sufficient liquidity at the expected conditions when required, or that transactions can only be unwound or settled by incurring losses.

The undiscounted contractual repayments for financial liabilities over the next five years and thereafter were as follows as of December 31, 2007:

'000 EUROS	Gross outflows	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Nonderivative financial liabilities								
Liabilities								
Trade payables	139,000	139,000	-	-	-	-	-	-
Liabilities to banks	643,585	127,069	80,318	74,403	109,434	32,194	157,508	62,659
Liabilities to affiliated companies	14	14	-	-	-	-	-	-
Finance lease liabilities	534	42	127	169	169	27	-	-
Miscellaneous/other debt	35,011	35,011	-	-	-	-	-	-
Total	818,144	301,136	80,445	74,572	109,603	32,221	157,508	62,659
Derivative financial liabilities								
Derivatives classified as financial liabilities held for trading ¹⁾								
	45	45	-	-	-	-	-	-
Total	45	45	-	-	-	-	-	-

¹⁾ The fair value of the derivative financial instruments that do not form part of an effective hedging relationship in accordance with IAS 39 is given for these financial liabilities.

Market risk

Market risk denotes the possible change in risk factors that leads to a decline in the fair value of the transactions underlying these risk factors. Interest rate risk and currency risk in particular are the key groups of general risk factors affecting the Pfeleiderer Group. The following table shows the Group's quantitative disclosures on market risk:

Foreign currency risk

'000 EUROS	USD	CAD	SEK	RUB
Cash and cash equivalents	61	63	5	-
Trade receivables	470	-	-	-
Other financial receivables	80,470	-	284,074	-
Derivatives with positive fair values	-	2,054	1,658	-
Loans	-	-	-	1,250
Total assets	81,001	2,117	285,737	1,250
Liabilities				
Trade payables	-75	-	-15	-
Liabilities to affiliated companies	-	-	-	-
Liabilities to banks	-	-	-	-
Finance lease liabilities	-	-	-	-
Derivatives with negative fair values	-	-38	-7	-
Financial liabilities measured at amortized cost	-40,560	-8,958	-5,707	-
Total liabilities	-40,635	-8,996	-5,729	-
Total assets and liabilities, net	40,366	-6,879	280,008	1,250
Positions economically hedged by derivatives				
	-	2,054	1,658	-
Net exposure	40,366	-8,933	278,350	1,250

If the euro had appreciated by 10 percent against the USD, CAD, SEK, and the RUB as of December 31, 2007, equity and the profit for the period would have changed as follows:

'000 EUROS	Equity Dec. 31, 2007	Gain/loss 2007
USD	-	-3,670
CAD	-	625
SEK	-	-25,455
RUB	-	-114

Interest rate risk

At the Pfeiderer Group, interest rate risk results primarily from financial liabilities and loans. The Group's finance department manages the Group's interest rate risk with the goal of optimizing interest income and expense and minimizing interest rate risk. Interest rate risk is measured on the basis of a cash flow sensitivity analysis.

As part of the calculation of the fair value sensitivity of financial instruments, the change in the fair value – defined as the present value – is simulated using a parallel shift in the yield curve by 100 basis points. The calculations are based on the generally recognized and published yield curves at the balance sheet date. Such risks usually result from the hedging of financial liabilities issued on a variable-rate basis; Pfeleiderer converts its variable-rate payment obligations into fixed-rate payment obligations by using interest rate swaps. The risk of an assumed increase in the relevant interest rates of 100 basis points amounted to 2,860 thousand euros as of December 31, 2007 (previous year: 1,090 thousand euros).

The net exposure relating to fixed- and variable-rate financial instruments is as follows:

'000 EUROS	TOTAL		CURRENT		NONCURRENT	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Fixed-rate financial instruments						
Loans	4,469	5,458	-	-	4,469	5,458
Cash and cash equivalents	17,197	35,405	17,197	35,405	-	-
Liabilities to banks	-349,426	-348,721	-49,581	-24,009	-299,845	-324,712
Commercial paper	-	-	-	-	-	-
Net exposure	-327,760	-307,858	-32,384	11,396	-295,376	-319,254
Variable-rate financial instruments						
Loans	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-
Liabilities to banks	-252,452	-108,961	-87,844	-57,248	-164,608	-51,713
Commercial paper	-33,500	-	-33,500	-	-	-
Net exposure	-285,952	-108,961	-121,344	-57,248	-164,608	-51,713

9. RELATED PARTY DISCLOSURES

All deliveries of goods and services during the normal course of business are conducted on an arm's length basis.

Transactions with related party entities

Pfeleiderer Unternehmensverwaltung GmbH & Co. KG held a significant interest in Pfeleiderer AG (subsidiary) until March 22, 2004. The existing business relationships continued in 2007.

Pfeleiderer Unternehmensverwaltung GmbH & Co. KG announced in a letter dated April 26, 2006, that its holding had been reduced to 0 percent as of April 20, 2006, in the course of the transfer of voting rights to various family-owned companies. The Pfeleiderer family held a total of 10.6 percent of the voting rights of Pfeleiderer Aktiengesellschaft at the reporting date via various investment and asset management companies.

The business transactions in 2007 were as follows:

'000 EUROS	2007	2006
Income from cost allocations	133	731
Expenses from cost allocations	-	1,699
Rental expense	923	1,520
Income from investments	-	266

Various leases have been concluded between Group companies and Pfeleiderer Unternehmensverwaltung GmbH & Co. KG and/or its subsidiary, Pfeleiderer Rent & Lease GmbH & Co. KG.

Transactions with related party individuals

In accordance with IAS 24, Pfeleiderer AG also reports on transactions between Pfeleiderer AG and related party individuals or close members of their families. Related party individuals are defined as members of the Executive and Supervisory Boards and their families. In addition to their compensation, members of the Executive Board are also granted other benefits. These primarily comprise the use of company cars, the reimbursement of traveling expenses, and the reimbursement of telephone costs. The Executive Board was granted new stock options in 2007 in connection with the stock option plan.

10. COMPENSATION AND SHAREHOLDINGS OF EXECUTIVE BODIES

In 2007, the compensation of the individual members of the Executive Board was as follows:

'000 EUROS	Fixed salary incl. noncash benefits	Bonus	Annual income
Hans H. Overdiek (CEO)	699	900	1,599
Michael Ernst	379	434	813
Dr. Robert Hopperdietzel	554	581	1,135
Derrick Noe	426	294	720
Total	2,058	2,209	4,267

Total compensation of the members of the Executive Board amounted to 4,267 thousand euros in the 2007 fiscal year (previous year: 3,993 thousand euros). Additions to pension provisions for the active members of the Executive Board amounted to 310 thousand euros for the 2007 fiscal year (previous year: 185 thousand euros).

Pension obligations to former Executive Board members and their surviving dependants amount to 4,338 thousand euros (previous year: 4,850 thousand euros). Compensation of 87 thousand euros was paid to former members of the Executive Board in 2007 (previous year: 424 thousand euros).

In the 2007 fiscal year, the members of the Executive Board were granted 214,740 new options (previous year: 233,160) to subscribe for shares in return for the contribution of a personal investment as part of Pfeleiderer AG's Stock Option Plan 2007.

Members of the Supervisory Board received compensation totaling 624 thousand euros for their activities in the 2007 fiscal year (previous year: 378 thousand euros).

At the balance sheet date, members of the Executive Board held a total of 201,051 shares (previous year: 284,100), while members of the Supervisory Board held a total of 25,533 shares (previous year: 10,533).

II. SHARE-BASED PAYMENT

The Company decides each year at its own discretion whether to establish a stock option plan, who is eligible to participate in it, and how many stock options each eligible participant will receive. The stock options are granted to eligible participants on the condition that they make a personal investment. The stock options have a six-year term. They may be exercised no sooner than three years after they have been granted. The number of stock options granted to eligible participants is calculated based on the amount of the personal investment divided by the strike price and multiplied by a factor of 12 for executives and a factor of 18 for members of the Executive Board. The strike price for the 2001 and 2002 stock option plans is calculated based on the average of the closing prices of the Company's shares on the Frankfurt Stock Exchange between September and November 2001 and September and November 2002 respectively, the strike price for the 2004 and 2006 stock option plans is calculated based on the average of the closing prices of the Company's shares on the Frankfurt Stock Exchange between June and August 2004 and June and August 2006 respectively, and the strike price for the Stock Option Plan 2007 is calculated based on the average of the closing prices of the Company's shares on the Frankfurt Stock Exchange between July and September 2007. Stock options may be exercised at a subscription price of between 110 percent and 125 percent of the strike price. Each stock option entitles the holder either to purchase one Pfeleiderer share at a fixed subscription price or to cash compensation, to the extent that the Company makes use of its right of substitution.

In order to implement a stock option plan, the Annual General Meeting on July 10, 2001, authorized the Supervisory Board and/or the Executive Board to grant eligible participants up to a total of 4,286,500 non-transferable options to shares of the Company by June 30, 2006 (Stock Option Plan 2001).

Stock Option Program 2001 (SOP 2001)

The Stock Option Program 2001 (SOP 2001) was resolved by the Executive Board on June 19, 2001, and by the Working Committee of the Supervisory Board on October 25, 2001, on the basis of the resolved Stock Option Plan 2001. Of the 116 eligible participants at the time, 65 Executive Board members and executives participated in SOP 2001 with 1,257,456 options. The strike price was 7.45 euros. The exercise prices were between 8.20 euros and 9.31 euros, with a weighted average exercise price of 8.76 euros.

	2007	2006
'000	STOCK OPTIONS	STOCK OPTIONS
Outstanding at beginning of year	91	181
Granted	-	-
Forfeited	-	-
Exercised	- 91	- 90
Expired	-	-
Outstanding at year end	-	91
Exercisable at year end	-	91

Options from the Stock Option Program 2001 were exercisable for the last time as of November 30, 2007.

Stock Option Program 2002 (continuation of SOP 2001)

The Stock Option Program 2002 (SOP 2002) was resolved by the Executive Board on September 10, 2002, and by the Working Committee of the Supervisory Board on September 20, 2002, on the basis of the stock option plan resolved in 2001. A total of 40 Executive Board members and executives participated in SOP 2002 with 983,544 options. The strike price is 4.67 euros. The exercise prices are between 5.14 euros and 5.84 euros, with a weighted average exercise price of 5.49 euros.

	2007	2006
'000	STOCK OPTIONS	STOCK OPTIONS
Outstanding at beginning of year	94	582
Granted	-	-
Forfeited	-	-
Exercised	- 82	- 488
Expired	-	-
Outstanding at year end	12	94
Exercisable at year end	12	94

Options from the Stock Option Program 2002 will be exercisable for the last time as of November 30, 2008.

Stock Option Program 2004 (continuation of SOP 2001)

The Stock Option Program 2004 (SOP 2004) was resolved by the Executive Board on August 10, 2004, and by the Working Committee of the Supervisory Board on August 23, 2004, on the basis of the stock option plan resolved in 2001. A total of 24 Executive Board members and executives participated in SOP 2004 with 563,016 options. The strike price is 6.99 euros. The exercise prices are between 7.69 euros and 8.74 euros, with a weighted average exercise price of 8.22 euros.

	2007	2006
'000	STOCK OPTIONS	STOCK OPTIONS
Outstanding at beginning of year	456	563
Granted	-	-
Forfeited	-	-
Exercised	-27	-
Expired	-	-107
Outstanding at year end	429	456
Exercisable at year end	429	-

Options from the Stock Option Program 2004 were exercisable for the first time on September 1, 2007, and will be exercisable for the last time on August 31, 2010.

Stock Option Program 2006 (continuation of SOP 2001)

In continuation of the Stock Option Plan 2001, the Annual General Meeting on June 13, 2006, authorized the Supervisory Board and/or the Executive Board to grant eligible participants up to a further 4,555,330 non-transferable options to shares of the Company by May 31, 2011, (Stock Option Plan 2006). The Stock Option Program 2006 (SOP 2006) was resolved by the Executive Board on August 8, 2006, and by the Working Committee of the Supervisory Board on August 31, 2006, on the basis of the stock option plan resolved in 2006 (Stock Option Program 2006). A total of 40 Executive Board members and executives participated in SOP 2006 with 482,096 options. The strike price is 19.30 euros. The exercise prices are between 21.23 euros and 24.12 euros, with a weighted average exercise price of 22.68 euros.

	2007	2006
'000	STOCK OPTIONS	STOCK OPTIONS
Outstanding at beginning of year	482	-
Granted	-	503
Forfeited	-	-
Exercised	-	-
Expired	-17	-21
Outstanding at year end	465	482
Exercisable at year end	-	-

Options from the Stock Option Program 2006 will be exercisable for the first time on September 1, 2009, and for the last time on August 31, 2012.

Stock Option Program 2007 (continuation of SOP 2001)

The Stock Option Program 2007 (SOP 2007) was resolved by the Executive Board on March 13, 2007, and by the Working Committee of the Supervisory Board on March 21, 2007, on the basis of the stock option plan resolved in 2006 (Stock Option Plan 2006). A total of 78 Executive Board members and executives participated in SOP 2007 with 793,300 options. The strike price is 18.86 euros. The exercise prices are between 20.75 euros and 23.58 euros, with a weighted average exercise price of 22.16 euros.

'000	2007	2006
	STOCK OPTIONS	STOCK OPTIONS
Outstanding at beginning of year	-	-
Granted	793	-
Forfeited	-	-
Exercised	-	-
Expired	-	-
Outstanding at year end	793	-
Exercisable at year end	-	-

Options from the Stock Option Program 2007 will be exercisable for the first time on October 1, 2010, and for the last time on September 30, 2013.

The fair value of the subscription rights from the 2001, 2002, 2004, 2006, and 2007 stock option programs was estimated using the Black-Scholes method for valuing subscription rights using weighted averages. SOP 2007 was estimated on the basis of the following assumptions as to the valuation of subscription rights using weighted averages:

		2007
Fair value at the balance sheet date	euros	4.72
Average price	euros	22.16
Strike price	euros	18.86
Expected volatility	%	37.50
Term of the option	years	6
Expected dividend yield	%	1.00
Risk-free interest rate	%	4.13

The expected volatility was determined on the basis of the historical volatility. Apart from the assumptions listed, no further features were included when determining the fair value.

The share-based compensation models resulted in personnel expenses of 1,479 thousand euros (previous year: 4,517 thousand euros) for the Pfeleiderer Group in the reporting year. A provision of 0 thousand euros (previous year: 0 thousand euros) was recognized in the consolidated financial statements for obligations under share-based compensation models.

12. CORPORATE GOVERNANCE

The Executive Board and the Supervisory Board have issued the declaration of conformity for 2007 in accordance with section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) on the recommendations of the Government Commission of the German Corporate Governance Code and published it on the Company's website. Pfeleiderer AG has reported in detail on corporate governance in the section of this Annual Report entitled "Corporate Governance Report of Pfeleiderer Aktiengesellschaft".

13. PERSONNEL EXPENSES

Personnel expenses totaled 266,783 thousand euros in the fiscal year (previous year: 238,555 thousand euros).

The breakdown of the Company's workforce as of December 31, 2007, was as follows:

	2007	2006
Executive bodies	35	37
Employees	2,048	1,673
Hourly paid workers	3,766	3,497
Total	5,849	5,207

14. EXEMPTION PROVISION IN ACCORDANCE WITH SECTION 264B OF THE GERMAN COMMERCIAL CODE

The following companies made use of the exemption provision in accordance with section 264b of the Handelsgesetzbuch (HGB – German Commercial Code):

- Pfeleiderer dritte Erwerbengesellschaft mbH & Co. Grundstücksverwaltungs KG
- Pfeleiderer Holzwerkstoffe GmbH & Co. KG
- Pfeleiderer Holzwerkstoffe Nidda GmbH & Co. KG
- Pfeleiderer Dämmstofftechnik International GmbH & Co. KG
- Pfeleiderer Leasing GmbH & Co.
- Pfeleiderer Infrastrukturtechnik GmbH & Co. KG.

15. EVENTS AFTER THE BALANCE SHEET DATE

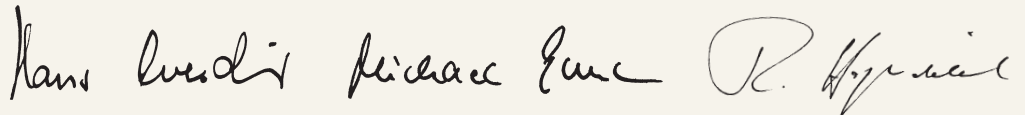
The following significant events occurred in the period up to February 26, 2008, (date of approval of the financial statements for publication by the Executive Board):

One Equity Partners Europe GmbH notified Pfeleiderer AG on January 22, 2008 that it had acquired a 15.02 percent block of shares in Pfeleiderer AG and that it does not intend to submit a voluntary takeover bid. One Equity Partners Europe GmbH stated that its aim is to become a core investor in Pfeleiderer AG.

On January 28, 2008, Pfeiderer AG reached an out-of-court settlement with Kunz Holding GmbH & Co. KG and the other sellers of Kunz Holzwerkstoff-Gruppe settling the dispute relating to mutual claims arising from the purchase agreement dated July 15, 2005. The purchase agreement provided for a second purchase price installment of 23.8 million euros. A reduced payment by Pfeiderer AG to Kunz Holding GmbH & Co. KG of 11.25 million euros was agreed in a settlement.

On February 4, 2008, Pfeiderer AG reached an agreement with German company decopa industries GmbH to take over the edge manufacturer's activities. The acquisition of decopa industries GmbH, which generated revenues of 2.02 million euros in 2007, took effect on February 1, 2008. Pfeiderer acquired all material assets in the process.

Neumarkt, February 26, 2008



Hans H. Overdiek

Michael Ernst

Dr. Robert Hopperdietzel

Consolidated Companies as of December 31, 2007

PFLEIDERER AG

NEUMARKT

WESTERN EUROPE REGION

BHT Bau- und Holztechnik Thüringen GmbH	Saalburg-Ebersdorf	100.00 %
Declam Holding AB	Trelleborg (SE)	100.00 %
Duropal GmbH	Neumarkt	100.00 %
FH Frischholz GmbH	Neumarkt	100.00 %
FOLS Sp. z o.o.	Grajewo (PL)	100.00 %
Heller Forstservice GmbH	Neumarkt	100.00 %
Heller Holz GmbH	Neumarkt	100.00 %
Jasmin Grundstücksverwaltungsgesellschaft mbH	Stuttgart	0.00 %
JURA-Spedition GmbH	Neumarkt	100.00 %
Kunz Faserplattenwerk Baruth GmbH	Baruth	100.00 %
Kunz Informatik GmbH	Unterensingen	100.00 %
Pergo (Europe) AB	Trelleborg (SE)	100.00 %
Pergo (France) S.A.S.	Rueil Malmaison (FR)	100.00 %
Pergo AS	Hovik (NO)	100.00 %
Pergo AB	Trelleborg (SE)	100.00 %
Pergo A/S	Copenhagen (DK)	100.00 %
Pergo Asia Co. Ltd.	Bangkok (TH)	100.00 %
Pergo Asia-Pacific Pte. Ltd.	Singapore (SG)	100.00 %
Pergo B.V.	Zoetermeer (NL)	100.00 %
Pergo GmbH	Düsseldorf	100.00 %
Pergo GmbH	Cham (CH)	100.00 %
Pergo Golv AB	Trelleborg (SE)	100.00 %
Pergo Holding B.V.	Zoetermeer (NL)	100.00 %
Pergo Iberia SL	Madrid (ES)	100.00 %
Pergo India Pvt. Ltd.	New Delhi (IN)	50.00 %
Pergo Ltd.	Tamworth (GB)	100.00 %
Pergo NV/SA	Antwerp (BE)	100.00 %
Pergo OY	Esbo (FI)	100.00 %
Pergo Trading Co. Ltd.	Guangzhou (CN)	100.00 %
Pfleiderer B.V.	Deventer (NL)	100.00 %
Pfleiderer dritte Erwerbengesellschaft mbH	Neumarkt	100.00 %
Pfleiderer dritte Erwerbengesellschaft mbH & Co.		
Grundstücksverwaltungs KG	Neumarkt	100.00 %
Pfleiderer Europe GmbH	Neumarkt	100.00 %
Pfleiderer France S.A.S.	Reims (FR)	100.00 %
Pfleiderer Holzwerkstoffe Gschwend GmbH	Neumarkt	100.00 %
Pfleiderer Holzwerkstoffe GmbH & Co. KG	Neumarkt	100.00 %
Pfleiderer Holzwerkstoffe Nidda GmbH & Co. KG	Neumarkt	100.00 %
Pfleiderer Holzwerkstoffe Nidda Verwaltungs-GmbH	Neumarkt	100.00 %
Pfleiderer Holzwerkstoffe Verwaltungs-GmbH	Neumarkt	100.00 %
Pfleiderer Industrie GmbH	Neumarkt	100.00 %
Pfleiderer Industrie Ltd.	Macclesfield (GB)	100.00 %
Pfleiderer Sweden AB	Trelleborg (SE)	100.00 %

P.Lease GmbH & Co. KG	Mannheim	0.00%
Thermopal GmbH	Leutkirch	100.00%
Thermopal-Fiderrspan AG	St. Gallen (CH)	100.00%
Unitherm Baruth GmbH	Baruth	100.00%
wodego AG	St. Gallen (CH)	100.00%
wodego GmbH	Neumarkt	100.00%
Unconsolidated companies:		
MSG Musterservice GmbH	Leutkirch	100.00%
EASTERN EUROPE REGION		
Jura Polska Sp. z o.o.	Grajewo (PL)	60.27%
Pfleiderer MDF Sp. z o.o.	Grajewo (PL)	80.14%
Pfleiderer Grajewo S.A.	Grajewo (PL)	60.27%
Pfleiderer OOO	Velikii Novgorod (RU)	60.27%
Pfleiderer Prospan S.A.	Wieruszów (PL)	60.27%
Silekol Sp. z o.o.	Kędzierzyn-Koźle (PL)	60.27%
Unifloor Sp. z o.o.	Wieruszów (PL)	60.27%
Pfleiderer MDF OOO	Velikii Novgorod (RU)	80.14%
Unconsolidated companies:		
Pfleiderer Service Sp. z o.o.	Grajewo (PL)	60.27%
NORTH AMERICA REGION		
MDF La Baie Inc.	La Baie (CA)	100.00%
Pergo Argentina SA	Buenos Aires (AR)	100.00%
Pergo Canada Inc.	Toronto (CA)	100.00%
Pergo do Brazil Ltd.	São Paulo (BR)	100.00%
Pergo LLC	Wilmington (U.S.)	100.00%
Pfleiderer Canada Inc.	Fredericton (CA)	100.00%
Pfleiderer Canada General Partnership	Laval (CA)	100.00%
Pfleiderer Canada Holding Inc.	Laval (CA)	100.00%
Uniboard Canada Inc.	Laval (CA)	100.00%
SimpleSolutions USA LLC	Wilmington (U.S.)	100.00%
Uniboard Fostoria Inc.	Baltimore (U.S.)	100.00%
Uniboard Inc.	Wilmington (U.S.)	100.00%
Uniboard USA LLC	Wilmington (U.S.)	100.00%
433297-1 Canada Inc.	Laval (CA)	100.00%
OTHERS		
Pfleiderer Dämmstofftechnik Verwaltungs-GmbH	Neumarkt	100.00%
Pfleiderer Engineering International GmbH	Neumarkt	100.00%
Pfleiderer erste Erwerbengesellschaft mbH	Neumarkt	100.00%
Pfleiderer Finance B.V.	Deventer (NL)	100.00%
Pfleiderer Infrastrukturtechnik GmbH & Co. KG	Neumarkt	100.00%
Pfleiderer Infrastrukturtechnik Verwaltungs-GmbH	Neumarkt	100.00%
Pfleiderer Leasing GmbH & Co.	Neumarkt	100.00%
Pfleiderer Leasing Verwaltungs-GmbH	Neumarkt	100.00%
Pfleiderer Schweiz AG	Zug (CH)	100.00%
Pfleiderer Service GmbH	Neumarkt	100.00%

Auditors' Report

We have audited the consolidated financial statements – comprising the balance sheet, income statement, statement of changes in equity, cash flow statement, and the notes – and the Group management report prepared by Pfeleiderer Aktiengesellschaft, Neumarkt, for the fiscal year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code) is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with the applicable financial reporting standards and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the determination of the companies to be included in the consolidated financial statements, the accounting and consolidation principles used, and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a(1) of the HGB and give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, as a whole provides a suitable understanding of the Group's position, and suitably presents the opportunities and risks of future development.

Nuremberg, February 29, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Zehnder
Wirtschaftsprüfer



Rupprecht
Wirtschaftsprüfer