



Pfleiderer generates 25 percent of the Group's turnover in the furniture industry, and supplies kitchen manufacturers with its entire product range.

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

### Business and operating environment

Pfleiderer is focused on engineered wood products and is one of the top three companies in the world in this industry. We have operations in Western and Eastern Europe as well as in North America. We have established strong market positions in all regions in recent years due to our organic growth and acquisitions. We continued on our profitable growth path in 2007. Regional demand for engineered wood products varied extremely widely in the reporting period.

#### BUSINESS ACTIVITIES OF THE PFLEIDERER GROUP

Since 2003, the Pfleiderer Group's business activities have been concentrated on the engineered wood segment. In recent years, this segment was continually expanded by systematically setting up state-of-the-art plants in high-growth regions and by means of strategic acquisitions. With consolidated revenues of approximately 1.8 billion euros and some 6,000 employees, the Company is among the top three systems providers of engineered wood in the world. Its product

range includes particleboard, medium density and high density fiberboard (MDF/HDF) including surface finishes, as well as laminate flooring products.

The Company's laminate flooring business received a considerable boost in 2007 through the acquisition and integration of the Swedish Pergo Group. Pergo has modern production locations in the U.S.A. (North Carolina) and in southern Sweden. As the inventor of laminate flooring, Pergo also has an extensive portfolio of around 500 patents.

The Pergo Group generates over two thirds of its revenues in the U.S.A. Last year, when Pergo's activities were merged with the existing flooring activities of the Uniboard Group, which we took over in 2005, we became one of the leading providers of laminate flooring in North America. Compared with consumption on European markets, the U.S. market promises double-digit growth rates in the medium term.

Pfleiderer's aim is to be one of the top three providers in each regional product market in terms of market share and production capacity. Today, Pfleiderer has attained this position in Western Europe with production locations in Germany and Sweden, in Eastern Europe with plants in Poland and Russia, and in North America with production facilities in the U.S.A. and Canada. Over 71 percent of the Pfleiderer Group's revenues are generated outside Germany.

At present, we have 22 plants worldwide supplying customers in over 80 countries. Pfleiderer is a preferred partner of the furniture industry, to which some 25 percent of consolidated revenues are attributable. Other large market segments served by Pfleiderer include the flooring industry with a share of approximately 20 percent, and interior design suppliers, which account for just under 20 percent of revenues. In addition, Pfleiderer products are sold to wood and construction materials suppliers, home improvement stores, architects, interior designers, and joiners.

**ORGANIZATIONAL AND MANAGEMENT STRUCTURE**

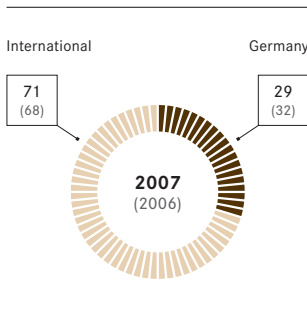
The Pfleiderer Group is characterized by a management structure – and, based on this, an organizational structure – that reflects the needs of a globally operating company, while ensuring local customer proximity and flexibility at the same time. To this end, the production and sales activities of all Pfleiderer locations were organized into independently operating regional business units that have full responsibility for revenues and earnings. The Western Europe region has eight plants in Germany and two in Sweden. There are five plants in the Eastern Europe region. Seven production facilities are operated in the North America region.

The head of each business unit has full responsibility for its revenues and earnings.

The parent company of the Group is Pfleiderer AG. Following the departure of Mr. Derrick Noe as of January 14, 2008, the Executive Board of Pfleiderer AG has consisted of three members, each of whom is responsible for specifically defined areas.

**SHARE OF REVENUES**

PERCENT



Pfleiderer production sites worldwide are shown in the front folding cover

### MANAGEMENT

The Executive Board manages the Pfeleiderer Group and its operating units by means of strategic and operational guidelines and key financial figures. These indicators, which are standard throughout the Group, are also used for the purpose of planning and financial control using uniform systems. Each member of the Executive Board is assigned a business unit in addition to his functional duties.

Another management instrument is the best practice system that is implemented throughout the Group. Ongoing long-term improvements in efficiency and productivity are achieved through the systematic transfer of know-how and comparisons based on variance analyses between the business units.

In addition, Pfeleiderer aims for as wide a cross-functional network as possible in order to leverage synergy potential and to generate economies of scale. A prime example of this is the bundling and coordination of procurement activities through the newly created Strategic Central Purchasing Coordination unit.

Targets 2007	Results 2007
Revenues of approx. 1.9 billion euros (including Pergo)	27 percent increase in revenues to 1.8 billion euros; decline of U.S. dollar and impact of U.S. real estate crisis lead to lower revenue growth
EBITDA 240 – 250 million euros	EBITDA 248.7 million euros Weak North American business offset by outstanding European business
Restructuring costs approx. 20 million euros	Restructuring and rationalization costs 21.6 million euros
MDF production in Poland	Production begins in July 2007
Introduction of a global Pfeleiderer production system	22 production locations grouped into production networks

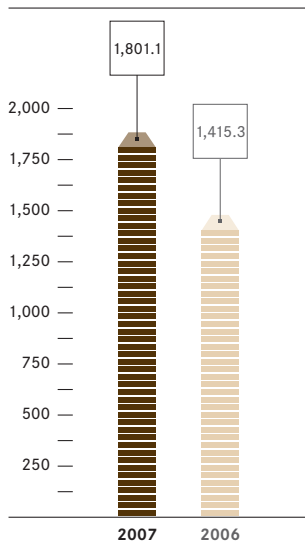
### THE PFLEIDERER GROUP'S OBJECTIVES AND STRATEGY

The Pfeleiderer Group's overarching objective is to continually extend its leading international market position and, in turn, to drive forward the further sustainable increase in its enterprise value. To achieve this, the Group pursues a clear corporate strategy whose targets and procedures are reviewed each year. This strategy is implemented by means of an annually updated five-year plan with the following overriding objectives:

- **Profitable growth by focusing on the engineered wood segment:** By concentrating on engineered wood, Pfeleiderer generates a high level of organic growth. The acquisition of Kunz and Pergo has considerably improved our market position in recent years: Pfeleiderer is now one of the top three companies in the world. Going forward, we want to continue our earnings-driven growth through organic development and acquisitions in the engineered wood sector.
- **Diversification by products and regions:** The proportion of high-margin products will be selectively increased by developing brands and services. In addition, our presence in regional markets offering above-average growth levels will be reinforced. Key criteria in the selection

**REVENUES**

MILLION EUROS



of suitable regions include demographic structures and expected consumer behavior. The Group aims to secure a leading position in each of the defined target markets. The risks associated with cyclical economic trends are mitigated by product-related and regional diversification.

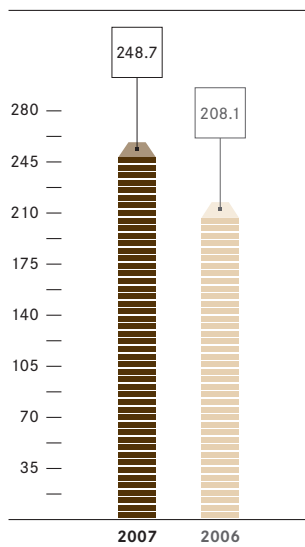
- Cost leadership:** Most engineered wood products are standardized mass products. Critical success factors include effective operational management and continual cost reduction. In this context, the size that the Pfeiderer Group has now reached is a key advantage. Cost advantages can be realized by exploiting economies of scale and synergies. Pfeiderer implements pro-active, forward-looking capacity and cost management policies.
- Tailored regional strategies:** In Western Europe and North America, we will use our leading position to seize the opportunities that emerge from the continued market consolidation. Pfeiderer is operationally and financially well positioned to acquire and integrate additional companies from the engineered wood sector. In the high-growth Eastern European markets, we will systematically extend our presence by making further acquisitions and increasing our capacity. To do so, we will generate economies of scale from megasites with excellent locational factors.

**OVERVIEW OF BUSINESS DEVELOPMENT IN 2007**

The Pfeiderer Group continued its profitable growth in fiscal year 2007. Revenues increased by 27.3 percent to 1,801.1 million euros. This figure falls short of the original target of 1.9 billion euros, firstly because the economic situation in the U.S.A. weakened in the course of the year, and secondly because the currency effects on the U.S. markets had a negative impact on euro revenues. Earnings before interest, taxes, depreciation, and amortization (EBITDA) improved by 19.5 percent to 248.7 million euros and, although revenues were lower than expected, this figure was at the top end of the target range of 240 million euros to 250 million euros. The EBITDA margin was therefore 13.8 percent, compared with 14.7 percent in 2006. As announced, profit increased at a slower rate than revenues. This was due to the integration and restructuring programs undertaken in connection with the Pergo takeover, which impacted earnings in North America by 14.5 million euros, and to the rationalization programs in Western Europe, which reduced earnings by approximately 7 million euros. The measures implemented also laid the foundations for exploiting the significant synergy potential arising from the acquisition of Pergo AB. In total, the savings from the cost measures will amount to approximately 35 million euros, thus strengthening the long-term position of Pfeiderer and Pergo in North America and Europe. In Western and Eastern Europe, too, we reinforced our market position through high revenue growth and new, state-of-the-art production capacity. Key events here were the commissioning of the MDF plant in Grajewo, Poland, and the decision to build a further MDF production facility in Novgorod, Russia. As a result, the Executive Board views overall business development in 2007 as being very positive. The difficult sales situation in North America as of mid-2007 was offset by the development of business in Europe, which was better than expected.

**EBITDA**

MILLION EUROS



### **ECONOMIC ENVIRONMENT 2007**

The global economic environment remained favorable overall in 2007, with the exception of the North American business. According to the Institut für Weltwirtschaft (IfW – Institute for World Economics), global GDP increased by approximately 4.9 percent, thereby remaining on a similar level to the strong growth recorded in 2006. Once again, high growth rates were achieved above all in developing countries and emerging markets. However, most industrialized countries also succeeded in increasing their economic output substantially thanks to a strong performance in the second six months of the year. At approximately 2.6 percent, growth in the euro zone is expected to be only marginally short of the strong prior-year figure of 2.8 percent. The German economy also continued to enjoy an encouragingly high level of growth. According to preliminary calculations by the Statistisches Bundesamt (the Federal Statistical Office), GDP increased by 2.5 percent in 2007 compared with 2.9 percent in the previous year. Once again, the main growth driver was exports. Investments in machinery and equipment also increased, while consumer spending declined again in real terms.

Eastern Europe continued its dynamic development in 2007. This applied in particular to countries in which Pfeleiderer has operating activities: For example, GDP in Poland increased by approximately 6.6 percent (previous year: 6.1 percent), according to information from the International Monetary Fund (IMF). Russia's economy also reiterated its upward trend with growth of approximately 7.0 percent following 6.7 percent in the previous year.

Conversely, economic growth slowed in the U.S.A. Although the U.S. economy remained comparatively robust with an expected 2.2 percent increase in GDP (previous year: 2.9 percent), the effects of the real estate crisis became increasingly noticeable in the second half of the year. In particular, the ensuing repercussions on the financial markets and flagging consumer confidence had a distinct dampening effect on the economic climate.

### **Engineered wood markets 2007**

Regional developments in the engineered wood sector varied widely in the reporting period. Owing to the problems on the real estate market, the sales situation in North America was extremely tight. According to estimates by industry association RISI, demand for particleboard dropped by approximately 11 percent in 2007.

By contrast, engineered wood markets in Eastern Europe continued their strong performance. In Poland, for example, there was a marked increase in demand, particularly since the Polish furniture industry – one of our most important sales markets – once again improved its sales by around 8 percent. In Russia, too, sales of engineered wood products remained very encouraging. One of the major factors for this was the sustained strong economy, from which virtually all economic sectors benefited.

Sales also increased significantly in the Western European engineered wood sector in 2007, driven primarily by the furniture manufacturers' strong showing. Once again, the main driving force behind this was an increase in exports. In Germany, the furniture industry increased its total revenues again by approximately 5 percent to over 19 billion euros, according to estimates from the Verband der Deutschen Möbelindustrie (VDM – German Furniture Industry Association). High growth rates were also recorded in the office and retail furniture sector and in the kitchen furniture sector.

Sales of laminate flooring also increased in 2007. According to estimates by the Association of European Producers of Laminate Flooring (EPLF), sales in Europe increased by some 6 percent. Particularly strong growth in demand was recorded in Eastern Europe, where just under 40 percent more laminate was sold. However, an increase of around 4 percent was probably also generated in Western Europe.

#### Development of sales prices

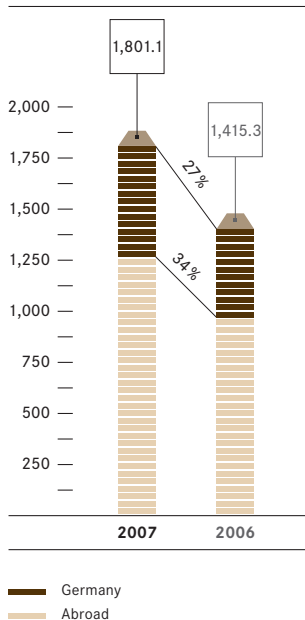
Sales prices also continued to increase in 2007 on the back of the sustained healthy demand for engineered wood products. While there was a double-digit increase in the average price for raw particleboard in Western and Eastern Europe, the average price declined in North America.

## Net assets, financial position, and results of operations

The Pfeleiderer Group set new records for revenues and EBITDA in 2007, although its North American business fell short of expectations due to the challenging economic environment there. However, this was more than offset by very favorable growth in Western and Eastern Europe. In addition, cash flow from operating activities increased significantly and the net asset position was extremely solid as of the end of December 2007.

#### ACQUISITIONS AND INTERNATIONAL REVENUES

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#### REVENUES AND EARNINGS

##### Growth in consolidated revenues continues in 2007

Overall, thanks to the healthy demand for engineered wood products in Western and Eastern Europe and to the implementation of its plans to expand capacity, the Pfeleiderer Group continued its good business development in 2007. Consolidated revenues increased by 27.3 percent to 1,801.1 million euros. Of this, around 11 percentage points were attributable to organic growth and 16 percentage points to the initial consolidation of the Swedish Pergo Group, which has been included in Pfeleiderer's consolidated financial statements since March 2007. Currency effects reduced business volume by a net amount of approximately 19 million euros, due mainly to the marked depreciation of the U.S. dollar and Canadian dollar against the euro.

Pfeleiderer expanded in particular outside Germany in 2007: Owing primarily to the Pergo acquisition, international revenue increased by 33.9 percent to 1,283.9 million euros. The international share of consolidated revenues rose from 67.8 percent to 71.3 percent. However, domestic business also achieved very good growth of 13.4 percent, for a total of 517.2 million euros.

##### Higher procurement costs

The situation on the procurement markets remained tight during the reporting period. There were substantial cost increases – in some cases in double digits – particularly in the energy sector and in the case of chemical products that are dependent on the price of oil.

The price of wood, the most important raw material for Pfeleiderer, also went up in the reporting period. On the one hand, sustained high demand pushed up prices in Eastern Europe by an average of around 8 percent. On the other hand, there was also a marked increase in procurement costs in North America, despite the fact that sales declined overall. However, the weaker demand was met by a substantial fall in supply owing to the closure of capacities. As a result, average wood prices rose by over 20 percent. In Western Europe, the average wood price also rose by a similar rate.

The Pfeleiderer Group is taking targeted measures to counter the effect of higher raw material prices, including steps to enhance efficiency and increase productivity. Recycled wood is being used more and more in production. Another positive factor in 2006 was backward integration with glue production, with Pfeleiderer once again producing its own supplies independently in a factory in Poland. In addition, sustainable savings effects were realized by further bundling technical procurement activities.

In total, the component of the Group's cost of sales in 2007 accounted for by the cost of materials increased by 31.7 percent to 958.1 million euros, while the ratio of cost of materials to sales was 53.2 percent (previous year: 51.4 percent). Thanks to our strong market position, we were able to pass on most of the cost increases to customers.

#### Significant improvement in operating profit

The expansion of our business activities, combined with our successful productivity improvements, led to a further increase in gross profit, which was further boosted by the effects of the efficiency-enhancing measures already implemented. Furthermore, despite the integration of Pergo's employees, personnel expenses increased at a lower rate than revenues, climbing 11.8 percent to 266.8 million euros. Consolidated gross profit increased at a higher rate than revenues – by 29.8 percent to 492.2 million euros – while the gross margin rose from 26.8 percent to 27.3 percent.

#### GROSS MARGIN 2006/2007 PERCENT

26.8 → 27.3

We take the environment, quality, and safety seriously. Pfeleiderer only uses recycled wood and timber from sustained forestries for its production.



Consolidated EBITDA also increased significantly by 19.5 percent to 248.7 million euros, corresponding to an EBITDA margin of 13.8 percent compared with 14.7 percent in the previous year. This increase in EBITDA was somewhat limited compared with the growth in revenues; this is mainly attributable to the one-time costs for restructuring measures in North America and Western Europe, which amounted to 21.6 million euros for the year as a whole. Income of 10.0 million euros from the sale of shares in Grajevo S.A. on the Warsaw stock exchange as well as 6.3 million euros from the sale and leaseback of machinery had an offsetting effect.

Selling expenses increased by 44.8 percent to 247.0 million euros in 2007. This was due in particular to higher marketing expenses in the U.S.A., relating mainly to Pergo. Pergo was also largely responsible for the increase in depreciation and amortization from 75.2 million euros to 111.9 million euros. Additionally, investments in new plants in Eastern Europe had a noticeable effect. Overall, consolidated earnings before interest and taxes (EBIT) rose by approximately 2.9 percent to 136.8 million euros.

As a result of the increase in net debt due to acquisition activities, net financial expenses increased to 46.0 million euros compared with 40.3 million euros in 2006. This means that profit before tax from continuing operations was 90.6 million euros (previous year: 92.4 million euros), with income taxes amounting to 10.9 million euros. This corresponded to a reduced tax rate of 12.0 percent (previous year: 27.2 percent), resulting from tax credits and accumulated losses brought forward. Thanks to the lower tax payments, the net profit from continuing operations in 2007 increased by 18.6 percent to 79.7 million euros.

#### **Loss/profit from discontinued operations**

Discontinued operations reflected in the year-end financial statements for 2007 refer in particular to the remaining activities of Interwood GmbH, Neumarkt, which was disposed of in 2006. The item also includes the sale of the remaining activities of the former Infrastructure Technology segment, which was also sold in 2006. Taken together, the two transactions resulted in pre-tax earnings of 5.7 million euros compared with 50.0 million euros in the previous year. The high figure in 2006 can be attributed to the sale of the Pfeleiderer track systems business unit, which was no longer part of the core business.

#### **Profit for the period of 84.6 million euros**

Consolidated profit for 2007 fell from 101.0 million euros to 84.6 million euros as a result of the significantly lower earnings from discontinued operations. Minority interests in profit for the period amounted to 13.8 million euros, compared with 17.1 million euros for the previous year. This decline is related to the acquisition of the remaining minority interests in the Polish subsidiary Pfeleiderer Prospan S.A., which has been wholly owned by the Pfeleiderer Group since the third quarter of 2007.

The holders of the hybrid bond placed in April 2007 were entitled to a total share of net profit for the period amounting to 13.3 million euros. As a result, profit of 57.5 million euros was attributable to shareholders of Pfeleiderer AG (previous year: 83.9 million euros). This resulted in basic earnings of 1.10 euros per share (previous year: 1.67 euros). Earnings per share from continuing operations were 1.00 euros, on a level with the previous year (1.00 euros). As a result of the capital increase in 2006, the average number of shares outstanding was 52.3 million (previous year: 50.3 million).

## FINANCIAL POSITION

### Objectives of financial management

The safeguarding of liquidity and financial flexibility are among the most important objectives of Pfeiderer AG's centrally operated financial management. A range of financing instruments is used to meet these requirements. In addition, the Company seeks to achieve maximum diversification among lenders and investors. Borrowing agreements are entered into with the longest possible maturities. The Company also has a healthy debt/equity ratio so that it can use robust balance sheet ratios as a solid basis for keeping Pfeiderer on a profitable growth path.

### Financing

Current financing requirements are met through a combination of operating cash flow and borrowings. Pfeiderer uses conventional bank finance, as well as other instruments, such as syndicated loans, leasing, factoring (ABS transactions), and commercial paper.

At the end of 2007, noncurrent loan liabilities in the Pfeiderer Group had maturities of up to eight years; the average interest rate was 5.5 percent.

The most significant financing measure in fiscal year 2007 was the issuance of a hybrid bond with a gross volume of 275 million euros and a coupon of 7.125 percent. The bond is subordinated and subject to a noncall period of seven years. Due to its structure, the bond is reported as a component of equity in accordance with International Financial Reporting Standards (IFRSs). The hybrid bond was very successfully placed with institutional investors and its proceeds were primarily used to finance the acquisition of the Swedish company Pergo AB.

## INTERNATIONAL LONG-TERM CREDIT RATING

BB → BB+

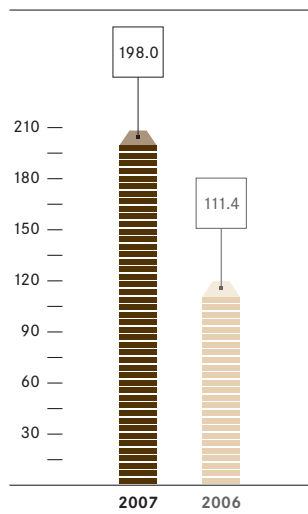
Since the hybrid bond improved our credit profile, rating agency Fitch Ratings Ltd. increased its IDR rating for Pfeiderer AG from BB to BB+. When the rating was upgraded, our Company was also commended for its business model, which is based on earnings-driven growth.

Another significant financing measure was an agreement entered into with a pool of banks for the extension of a credit line for acquisitions of 750 million euros plus an option for an additional 50 million euros.

Pfeiderer uses derivative financial instruments exclusively to hedge currency and interest rate risks arising from operating activities. Currency forwards are primarily used to hedge fluctuations in the exchange rate of the Polish złoty against the euro and of the Canadian dollar against the U.S. dollar. The Company hedges transactions that are already recognized as well as future transactions, if their occurrence is sufficiently probable. More information on derivative financial instruments can be found in the notes to the consolidated financial statements.

**OPERATING CASH FLOW**

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**Development of cash flows in 2007**

The Pfeleiderer Group's cash flow from operating activities increased sharply in 2007 from 111.4 million euros to 198.0 million euros. This significant increase was driven by the improvement in consolidated EBIT and the sharp year-on-year rise in the depreciation of property, plant, and equipment by 36.7 million euros to 111.9 million euros.

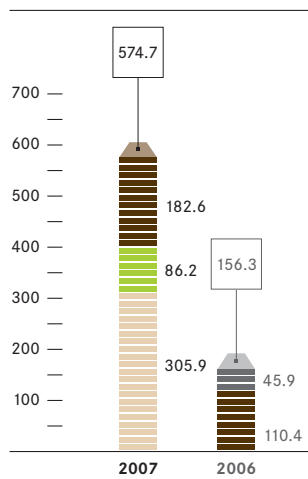
Major capital expenditures on property, plant, and equipment and the acquisitions were responsible for large cash outflows for investing activities in 2007: Cash outflows from investing activities amounted to 556.4 million euros, as against 176.4 million euros in the previous year. 178.9 million euros was spent on property, plant, and equipment, 305.9 million euros for the acquisition of Pergo, and 86.2 million euros for the shares of Polish company Prospan.

These measures were financed by the issuance of the hybrid bond, which led to a net inflow of 269.5 million euros. In addition, an amount of 114.8 million euros was raised through financial liabilities. These cash inflows were offset by payments, primarily for interest, dividends, and the purchase of own shares. The net cash flow from financing activities was 346.8 million euros, as against a net outflow of 94.1 million euros in fiscal year 2006.

After all cash inflows and outflows, cash and cash equivalents at the end of 2007 stood at 17.2 million euros, after 35.4 million euros at the prior-year reporting date.

**CAPITAL EXPENDITURE**

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

**Capital expenditure**

In order to broaden its base for future growth, Pfeleiderer again increased its capital expenditure significantly in fiscal year 2007: Throughout the Group, 182.6 million euros was spent on property, plant, and equipment, compared with 110.4 million euros in the previous year.

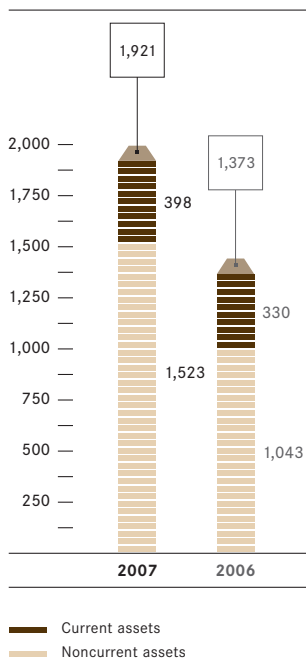
Investments focused on expanding capacity in Eastern Europe, with the most significant project being the new MDF plant in Grajewo, Poland. Investments in this region totaled 127.6 million euros, compared with 66.3 million euros in 2006.

In the two other regions, investments focused on improving the efficiency of existing plants and implementing various rationalization measures. On this, 33.7 million euros was spent in Western Europe (previous year: 26.2 million euros) and 18.8 million euros in North America (previous year: 22.3 million euros).

## BALANCE SHEET STRUCTURE AS OF DEC. 31

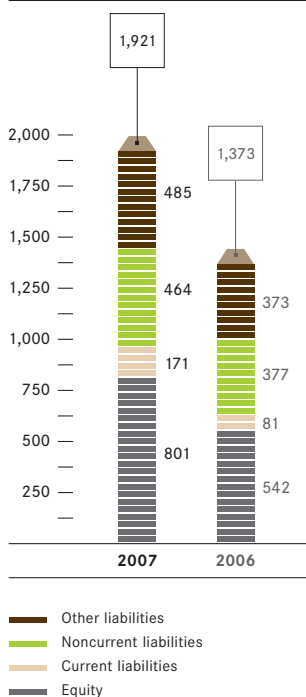
### ASSETS

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## LIABILITIES AND EQUITY

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## NET ASSETS

### Sound balance sheet structure

The Group's total assets rose by 40.0 percent year-on-year to 1,921.3 million euros. In addition to growth in our operating business, this increase is primarily due to the initial consolidation of the Pergo Group and the resulting increased financing requirements.

On the assets side, the inclusion of the new subsidiary led to a substantial increase in intangible assets to 563.6 million euros, up from 281.1 million euros at the prior-year reporting date. In addition to goodwill, which amounted to 408.4 million euros, this figure also includes the value of Pergo's portfolio of patents and registered trademarks recognized in the course of purchase price allocation. The consolidation, as well as our ambitious capital expenditure program, also pushed up property, plant, and equipment, which rose by 26.1 percent to 869.1 million euros.

The most significant change among current assets occurred in inventories, which rose from 156.7 million euros at the end of 2006 to 229.7 million euros at the end of 2007. This 46.6 percent increase is approximately equally attributable to Pergo and organic growth in our business volume. Receivables and other assets amounted to 120.6 million euros, more or less unchanged from the 124.4 million euros reported a year earlier. As of December 31, 2007, receivables with a principal amount of 83.7 million euros (previous year: 34.5 million euros) had been sold. Payments received in the amount of 21.7 million euros resulted in receivables sold of 62.0 million euros. Cash and cash equivalents amounted to 17.2 million euros at the balance sheet date (previous year: 35.4 million euros).

On the equity and liabilities side of the consolidated balance sheet, the 275 million euro hybrid bond issued at the end of April 2007 led to an increase in equity. This positive effect was partly offset by the impact of the purchase of own shares, whose value is deducted from equity. The corresponding adjustment amounted to 43.4 million euros as of December 31, 2007 (previous year: 1.2 million euros).

The minority interests reported in equity fell significantly, from 106.4 million euros to 59.1 million euros, due to the acquisition by our subsidiary Pfeleiderer Grajewo S.A. of the minority interest in Pfeleiderer Prospan S.A. held by the Polish government until the end of May 2007. Pfeleiderer has held all shares of Pfeleiderer Prospan S.A. since the third quarter of 2007.

Overall, consolidated equity increased sharply from 542.3 million euros to 801.0 million euros, not least as a result of the hybrid bond issue. This puts the equity ratio at 41.7 percent after its temporary decline to 29.1 percent at the end of March following the acquisition of Pergo. The return on capital employed (ROCE) declined to 9.7 percent in the year under review (previous year: 13.2 percent) because of the increase in capital employed for the acquisition of Pergo.

In addition, deferred tax liabilities increased by a significant 23.5 million euros to 59.0 million euros, mainly due to the initial consolidation of the Pergo Group.

The Pfeiderer Group's net debt amounted to 618.2 million euros at the end of 2007, compared with 414.6 million euros at the end of 2006. The additional borrowings served primarily to finance operational growth. Gearing, the ratio of net debt to equity, remained unchanged at 0.77. Due to the higher financing volume, leverage rose from 2.0 to 2.5.

The extremely sound balance sheet ratios that the Company was able to report in 2007 despite the sharp increase in total assets underline the strong financial base of the Pfeiderer Group.

#### KEY FINANCIAL RATIOS

	DEFINITION		2007	2006
Net debt	Financial liabilities – financial receivables – cash and cash equivalents	million euros	618.2	414.6
Leverage	Net debt / EBITDA	Factor	2.5	2.0
Equity ratio	Equity / total assets	%	41.7	39.5
Gearing	Net debt / equity	%	77.2	76.5
Capital employed	Net working capital + net noncurrent assets	million euros	1,410.5	1,010.0
Return on Capital Employed (ROCE)	EBIT / capital employed	%	9.7	13.2

Room design is a matter of individual taste.  
We create solutions for home and business  
offices.



### Summary of the Pfeiderer Group's economic position

The Executive Board of Pfeiderer AG assesses the Company's overall economic performance as positive. Revenue and earnings increased further in Western and Eastern Europe in 2007. Our competitive position in North America improved significantly as a result of the acquisition and integration of Pergo. We regard the market weakness there as merely temporary. Growth is expected to accelerate again considerably in the medium term. We regard the net assets and financial position of the Pfeiderer Group as extremely robust. They provide a solid basis for continuing on our profitable growth path.

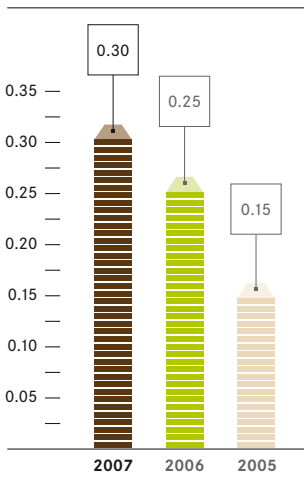
## Net assets and financial position of the parent company Pfeiderer AG

Pfeiderer AG is the parent company of the Pfeiderer Group and is primarily engaged in holding company activities. It is responsible for the strategic alignment and management of the Group. As of December 31, 2007, Pfeiderer AG employed 45 people, including the Executive Board, as against 43 people at the 2006 balance sheet date.

In addition to its holding company functions, Pfeiderer AG is responsible for central power purchasing for the production locations in Germany, thus leveraging economies of scale in procurement. The electricity costs incurred are recharged to the affiliated companies without adding a mark-up, so that they benefit directly. In 2007, cost allocations for electricity amounted to 35.7 million euros, after 30.2 million euros in 2006. This rise is a consequence of the sharp price increases in the energy sector and the greater use of renewable sources of energy.

Pfeiderer AG reported income from investments of 74.8 million euros in 2007, as against 111.9 million euros in the previous year. Net income from investments relates to net income from profits or losses of affiliated companies of the Region Western Europe and of the corporate center of the Group. In the previous year, this item also included income from the sale of the Business Unit Pfeiderer track systems. Pfeiderer AG recognized impairment losses on financial assets, especially on shares of Pfeiderer Leasing Verwaltungs-GmbH, for which a write-down of 1.5 million euros (previous year: 38.3 million euros) was charged. Since the net financial expenses improved at the same time, from net expense of 2.6 million euros to net income of 2.3 million euros, the income generated by holding company activities amounted to 75.6 million euros, up from 71.0 million euros in the previous year. After adjustments for other operating expenses and income, as well as personnel expenses and depreciation and amortization, profit before taxes in 2007 amounted to 52.5 million euros, compared with 19.9 million euros in 2006. This increase was mainly due to the absence of the costs that impacted 2006 earnings, e.g., costs of the capital increase and the provision for a comfort letter. After-tax profit for the year was 45.6 million euros, as against 15.0 million euros in 2006.

### DEVELOPMENT OF DIVIDEND EURO PER SHARE



The total assets of Pfleiderer AG increased by 18.4 percent to 726.4 million euros in 2007. On the assets side, the increase reflects primarily the purchase of own shares in the second half of the year. At the end of the year, Pfleiderer held 2.4 million treasury shares, for which 34.0 million euros (previous year: 1.2 million euros) were reported under treasury shares on the balance sheet. On the liabilities side, a reserve for treasury shares was established in the same amount. In addition, receivables and other assets, which primarily relate to receivables from affiliated companies resulting from holding company activities, rose from 365.3 million euros to 446.1 million euros. The acquisition of Pergo led to higher financing requirements at affiliated companies.

On the equity and liabilities side, the most significant effect resulted from the increase in liabilities to banks, from 21.8 million euros to 93.2 million euros. These additional funds from the drawdown of credit lines, as well as the liabilities to affiliated companies of 219.5 million euros (previous year: 199 million euros) incurred within the Group, were allocated to the operating companies of the Group under Pfleiderer's cash pooling arrangements.

Equity rose from 354.4 million euros to 386.8 million euros, taking the equity ratio to an excellent 53.2 percent at the end of December 2007 (previous year: 57.8 percent).

The proposal for profit distribution is also based on operational developments and the profit generated by the Group. The key EBITDA and cash flow performance indicators improved significantly in 2007 on the back of the Company's sustained growth. The Executive Board and Supervisory Board are proposing to let shareholders participate in this successful business development by increasing the dividend from 0.25 euros to 0.30 euros.

We provide solutions for our clients' individual ideas in interior design projects, and create a self-contained whole from individual elements.





Pfleiderer offers kitchen manufacturers solutions from a single source - with everything from worktops and fronts to cabinets. Our products create a pleasant ambience in living spaces such as this feel-good kitchen. Thanks to the variety of designs - both in HPL and in the laminate floors - there are no limits to individual tastes.





Floor design instantly creates a room ambience, as with this Pergo laminate floor in a living area. Pfeleiderer produces laminate in North America and Western Europe.

## Pfleiderer segments

Segment reporting is broken down into the regions in which Pfeleiderer operates: Western Europe, Eastern Europe, and North America. Pfeleiderer significantly increased revenues and earnings in both European regions in fiscal year 2007. At the same time, it boosted prospects for future growth by investing in productivity increases in Germany and by commissioning new production capacity in Poland. In North America, we also laid the foundations for additional business expansion by integrating Pergo and by implementing extensive restructuring measures.

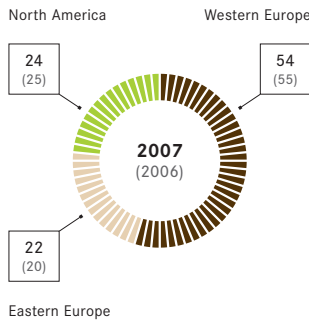
### SEGMENT OVERVIEW

MILLION EUROS	WESTERN EUROPE		EASTERN EUROPE		NORTH AMERICA		GROUP*	
	2007	2006	2007	2006	2007	2006	2007	2006
Revenues	986.7	781.5	393.3	300.3	443.0	349.6	1,801.1	1,415.3
EBITDA	160.7	103.6	77.6	56.5	16.6	52.5	248.7	208.1
- Margin in %	16.3	13.3	19.7	18.8	3.7	15.0	13.8	14.7
Capital expenditure	33.7	26.2	127.6	66.3	18.8	22.3	182.6	110.4
Employees	2,843	2,484	1,730	1,513	1,163	1,098	5,849	5,207

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

**REVENUES BY SEGMENT**

PERCENT

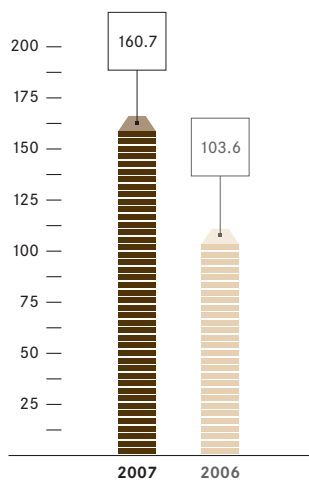
**WESTERN EUROPE****Strong growth in volume sales continues**

Pfleiderer's dynamic development continued in Western Europe in 2007. Revenues increased sharply by 26.3 percent to 986.7 million euros. The initial consolidation of the European Pergo activities contributed 108.8 million euros to this increase. Pfleiderer also benefited more than other providers from continued strong demand for engineered wood products. Moreover, the internationalization of our business made good progress, with successes reported in the Netherlands, France, and the United Kingdom. This development was supported by measures such as the repositioning of the high-quality Duropal® brand. In addition to our good market position, the systematic expansion of our product range by adding new products had a very positive impact. The tailored alignment of the multibrand strategy to relevant target groups and market segments through independent Business Units increased our market penetration. On this basis, we achieved or even exceeded the planned sales volumes in all key product groups.

Pergo Europe also performed in line with our expectations. A contributing factor was the rapid progress made with the integration of the new subsidiary into the Group. Pfleiderer's MDF/HDF plant in Baruth is now supplying all carrier materials for laminate flooring to the Swedish production locations.

**EBITDA WESTERN EUROPE**

MILLION EUROS

**Record EBITDA margin**

Earnings growth in the Western Europe segment significantly outstripped the increase in revenues in 2007: EBITDA climbed by 55.1 percent to 160.7 million euros, although one-time costs and restructuring expenses of 7.1 million euros weighed on performance. The EBITDA margin advanced from 13.3 percent to 16.3 percent, thus reaching a new record ahead of projections.

A key reason for this earnings growth was the increase in high-margin products as a proportion of business volume and the significant improvement in productivity due to the structural measures and the efficiency-enhancing programs implemented in recent years.

In addition, we passed most of the price increases for wood and chemical products on to our customers or absorbed them through strict cost management.

**"Future BC West" safeguards locations**

We are planning to further extend our strong market position in the coming years. To this end, we will further intensify our multibrand strategy and continue selective measures to expand Pfleiderer's product range. Additional investments in infrastructure and rationalization will help further improve the efficiency of our existing plants. The "Future BC West" rationalization program, which was approved in March 2007, should be viewed in this context. Under this program, special investments of around 29 million euros will be made by 2009 in order to achieve a sustained improvement in the competitiveness of the German locations. The planned capital expenditures in the expansion of our high-tech production facilities will lead to a noticeable reduction in structural and personnel expenses. This will also involve a one-time reduction in the workforce by around 200 employees, which will be cushioned by a redundancy plan and socially responsible measures.

The employee contribution necessary for the success of the “Future BC West” project has meanwhile been secured, as a reduction in the workforce has now been agreed and a supplementary collective wage agreement was accepted in October 2007. The modernization program is being implemented in particular at the Arnsberg, Gschwend, Leutkirch, and Nidda locations.

As a result of the acquisition of edge manufacturer decopa industries GmbH in February 2008, we are now able to offer our customers another improvement in the service we provide. The enlarged range now gives customers the option to buy melamine-faced particleboard and color-coordinated edges from a single source.

#### **EASTERN EUROPE**

##### **Growth path continues**

Pfleiderer also continued on its unbroken expansion drive in Eastern Europe, where we took full advantage of the sustained good health of the economy. In the Polish market, the boom in the local furniture industry was the main driver of sharp rises in sales volumes for raw particleboard and melamine-faced particleboard. The business of Polish glue manufacturer Silekol, which is a member of the Pfleiderer Group, was also extremely encouraging. In Russia, demand for melamine-faced particleboard was especially buoyant in 2007. It increased so rapidly in the course of the year that we were unable to meet the needs of all customers. For this reason, measures were implemented to further increase capacity. Overall, revenues of the Region Eastern Europe rose by 31.0 percent to 393.3 million euros in 2007.

The development and expansion of plants in Poland and Russia also had a positive impact on production volumes: Raw particleboard production grew by 26 percent in 2007, while melamine-faced particleboard production expanded by 30 percent.

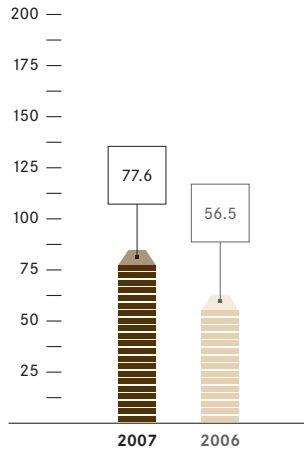
##### **Presence strengthened further**

The increases in sales volumes and revenues achieved by the BC Eastern Europe in 2007 confirm that Pfleiderer’s strategy of increasingly positioning itself in this region, which has considerable growth potential in the medium and long term. We will continue to systematically expand our production capacity in the coming years to exploit this major opportunity. In 2007, Pfleiderer took a major step forward in Grajewo in Poland, where a state-of-the-art production facility for medium-density fiberboard began shift operations in mid-2007, after a construction period of only ten months. In the first section of the new building, around 250,000 m<sup>3</sup> of thin MDF boards can be produced per year. We also aim to double the capacity at our Polish glue manufacturer Silekol in Kędzierzyn-Koźle from April 2008.

In addition, we resolved in July 2007 to construct a second plant to manufacture medium- and high-density fiberboard in Novgorod, Russia, in addition to our existing particleboard plant. The new facility is expected to go live in mid-2009 with an annual capacity of well over 400,000 m<sup>3</sup>. The Novgorod location is strategically placed, as it allows not only supplies to the Russian market, but also exports to Poland and the Baltic states.

**EBITDA EASTERN EUROPE**

MILLION EUROS



Capacity in Novgorod was expanded in 2007. Given the strong demand experienced in the past year, we took the necessary steps to increase the capacity for raw particleboard to over 500,000 m<sup>3</sup> and the volume for raw particleboard coating to 20 million m<sup>2</sup>. Although the expansion was implemented while normal operations continued, there were no significant disruptions.

**Disproportionately high growth in earnings**

In spite of the expansion costs incurred in Russia, Pfeleiderer's earnings increased considerably in Eastern Europe in 2007. EBITDA rose sharply by 37.3 percent to 77.6 million euros, lifting the EBITDA margin from 18.8 percent to 19.7 percent. An amount of 6.3 million euros of this earnings increase is attributable to the sale and subsequent leaseback of plant and machinery. This positive development is evidence of the strong profitability of our activities in Eastern Europe.

**NORTH AMERICA****Difficult market environment**

In North America, business was affected by the weakness in the real estate sector and the turbulence on the financial markets in 2007. Resulting consumer uncertainty also depressed sales of laminate flooring and fiberboard. Pfeleiderer, too, was impacted by this difficult environment. However, we held our own extremely well compared with the industry as a whole. This was especially true for sales of raw particleboard, which we increased by around 20 percent in contrast to the industry trend. Including Pergo's activities, we generated revenues of 443.0 million euros in North America, compared with 349.6 million euros in the previous year.

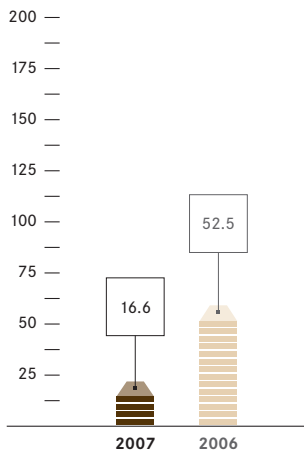
**Successful integration of Pergo**

Pfeleiderer's relatively strong position in North America is already a positive consequence of the acquisition of Pergo in March 2007. The acquisition of the Swedish manufacturer of laminate flooring, which has a strong presence in North America, has given a significant boost to our position in this strategically important region. The merger of Pergo's and Uniboard's existing activities has made Pfeleiderer one of the leading providers of both particleboard and laminate flooring.

In addition to strengthening the Company's market position, the integration of Pergo has generated considerable synergies. Most of the necessary measures were implemented in 2007 as planned. These included the establishment of a central service unit for the two product groups, panel and flooring. Significant cost savings can be achieved by pooling purchasing, sales, and logistics. In addition, we carried out a program to optimize the production structure, which involved the closure of our Canadian plant in Lac-des-Iles and the relocation of production capacity from Canada to the U.S.A. These measures, which will generate cost savings of almost 30 million euros, have put our North American business on a very competitive platform for gaining further market share.

**EBITDA NORTH AMERICA**

MILLION EUROS

**One-time costs impact earnings**

The implementation of the restructuring program led to one-time costs of 14.5 million euros in 2007. The effects of the weak market environment were also felt, reducing sales in the flooring product group in particular. In terms of profitability, the Region North America recorded EBITDA of 16.6 million euros, as against 52.5 million euros in the previous year.

We expect earnings to start improving significantly again from 2008, driven primarily by the high cost savings achieved under the integration and optimization program. In addition, we expect tangible benefits from the enhanced presence of Pfeiderer products in specialist and retail stores. These include the new exclusive Pergo collection, which will be available from all branches of U.S. home improvement chain “The Home Depot”, from the second quarter of 2008. This will lead to a significant increase in sales volumes for laminate flooring.

**Production**

The optimal interaction of numerous factors is key to Pfeiderer’s economic and strategic success. Highly-motivated and qualified employees play as much of a part in this as efficient production technologies and development activities resulting in innovative engineered wood products. Furthermore, responsible corporate management and the careful use of natural resources play an ever greater role as part of the increasingly important topic of corporate social responsibility.

**CAPACITY EXPANDED**

In fiscal year 2007, the Pfeiderer Group continued the targeted expansion of its production capacity. The start of operations at the Grajewo plant in Poland pushed the Group’s gross output volume for medium-density fiberboard to around 1.3 million m<sup>3</sup>: Our MDF capacity is 0.3 million m<sup>3</sup> in Eastern Europe, 0.6 million m<sup>3</sup> in Western Europe, and 0.4 million m<sup>3</sup> in North America. Production capacity for laminate flooring also increased considerably in 2007: The integration of Pergo extended its gross output to 51 million m<sup>2</sup>, mostly (38 million m<sup>2</sup>) in North America. Other laminate capacity is located in Western Europe. For raw particleboard, our worldwide production facilities had a gross output of 6 million m<sup>3</sup> at the end of the year: Most of this capacity is located in Western Europe (2.95 million m<sup>3</sup>), followed by Eastern Europe (1.90 million m<sup>3</sup>), and North America (1.15 million m<sup>3</sup>).

## CAPACITIES

	RP	MDF	LAMINATE FLOORING
	million m <sup>3</sup>	million m <sup>3</sup>	million m <sup>2</sup>
Western Europe	2.95	0.6	13
Eastern Europe	1.90	0.3	-
North America	1.15	0.4	38

## PRODUCTION PROCESSES FURTHER DEVELOPED

In addition to expanding production capacity, we continued to build and expand our global plant and technology network in 2007. The most important subproject was the global introduction of a standardized production system. The objective of the Global Pfeleiderer Production System (GPPS) is to continuously improve all production processes and to lower production costs.

This helped the particleboard production network, for example, to increase its productivity across all plants by 7.4 percent in 2007. At the same time, plant availability improved by an average of 2.3 percentage points.

The production launch at the new plant in Grajewo had continuous support from within the MDF production network right from the start. The associated knowledge transfer was one of the most important preconditions for successfully commissioning the new production facilities after only 10 months.

After just 10 months' construction time, production of thin MDF boards commenced on our state-of-the-art production site at Grajewo in Poland.



#### KUNZ INTEGRATED INTO QUALITY MANAGEMENT SYSTEM

The Business Unit Kunz was successfully integrated into the Pfeleiderer Group's quality management system (QMS) in fiscal year 2007. This means that all locations in Germany are now ISO 9001 certified.

## Environment

Pfleiderer AG regards quality, the environment, and safety as integral components of its corporate philosophy. That is why we have defined guidance for these areas that commits us to a proactive approach. They are significant components of our new environmental policy, which the Executive Board of Pfeleiderer AG approved in early 2008. Our acceptance, as a matter of course, of compliance with legal requirements and continuous monitoring of our products and processes, including regular information provided to the public, is ample evidence that our approach is proactive. We continuously develop new ways of achieving sustained improvements in environmental protection in our operations and of avoiding damage to the environment. We maintain our safety facilities at a permanently high level.

We derive environmental targets and specific programs from the international environmental management standard ISO 14001, which defines globally recognized requirements for an environmental management system. The standard requires organizations to have a continuous improvement process for their environmental performance. Our laminate flooring manufacturer Pergo and our glue manufacturer Silekol are already certified in accordance with ISO 14001. In 2007, Pfeleiderer AG achieved the certification of the Group's first particleboard plant, wodego GmbH in Neumarkt. Starting in the Western Europe region, it is the Company's medium-term goal to achieve ISO 14001 certification for the entire Pfeleiderer Group. After Neumarkt, Pfeleiderer is now planning to have the plants in Arnsberg and Gütersloh independently audited in 2008.

The other locations are successively being prepared for certification. Independent consultancy firms started analyzing the production facilities in Poland and Canada in 2007. These results will help us to quickly and efficiently initiate the next steps leading to further improvement in environmental performance and implement the appropriate measures.

Another certification body, which is relevant to all German and Swedish plants of the Pfeleiderer Group, is the PEFC Council (Programme for the Endorsement of Forest Certification schemes). PEFC is the world's largest independent organization that promotes and continuously improves the sustainable management of forests. Thus the program ensures that companies act according to ecological, social, and economic standards. For example, Pfeleiderer exclusively uses recycled wood and wood from sustainable forests. By doing so, we proudly meet the requirements of our customers, who apply the most stringent benchmarks in assessing a company's ecological compliance and its handling of sustainable raw materials. Among other things, the entire Region Western Europe was recertified according to PEFC in 2007. In order to reduce transport costs, we procure most of the wood we need from the immediate vicinity of our plants.



For information on emission data for our German sites, please refer to [www.pfleiderer.de/de/unternehmen/aktuelle-emissionsdaten-193.html](http://www.pfleiderer.de/de/unternehmen/aktuelle-emissionsdaten-193.html)

We have introduced environmental management systems so that we can implement the continuous improvement process required under ISO 14001, with the aim of integrating the three regions, North America, Western Europe, and Eastern Europe, into the Group-wide environmental and safety management system on a long-term basis. This task has been assigned to environmental protection officers in the plants. To allow these employees to act as efficiently as possible, the Pfeiderer Group defined their responsibilities within the organization in 2007 and, among other things, created new jobs in the area of safety and the environment – a clear sign of the extreme importance the Company attaches to this issue.

In the Western Europe region, the Company implemented both human resources and structural measures in the area of safety and the environment in 2007: A new reporting system that follows standard rules allows the detection of any weaknesses and supports prompt intervention.

The new MDF plant we opened in Grajewo in Poland in 2007 is an example of the high environmental standards we apply to production locations. The state-of-the-art plant and production technology we employ there is particularly environmentally friendly and low in emissions. A highly efficient production process ensures top quality, high productivity, and maximum flexibility.

## Research and development

In all our regional units, we assign research and development tasks to the engineers, quality managers, chemical engineers, and product designers we employ in order to continuously develop our existing product and surface offering for customers.

Major developments at the Pfeiderer Group are organized in efficient cross-regional project structures. This not only allows the development teams to arrive at results faster, but also accelerates and actively promotes knowledge transfer throughout the Group. This way of working also includes regular Group-wide meetings of research and development staff.

Wood has become scarcer and more expensive over the past few years. For this reason, development projects aimed at substituting wood or substantially reducing the use of the raw material in the production of engineered wood are becoming more important, because we want to continue to offer our customers an attractive price/performance ratio. We are researching alternative methods of manufacturing our products.

### IMPROVED PROCESSES GUARANTEE EFFICIENCY

The long-standing close cooperation with our facility suppliers already led to substantial improvements in process technology in the past. As part of an exclusive cooperative research project, we are currently developing solutions that will above all benefit the facilities for particleboard and MDF boards. The results achieved in pilot facilities to date are very promising. We are confident that we will be able to commission a prototype of this facility at one of our plants before the end of 2008.

In addition, we are accommodating the trend toward light boards, especially in furniture manufacture, by developing boards with significantly reduced density, yet a solid, homogenous structure. What is more, boards with a low own weight are easier to assemble and save shipping costs. Particular focus in this context is on selecting suitable renewable resources and relevant processing technologies.

#### **NEW HPL SURFACE DESTROYS BACTERIA**

Our Duropal microPlus set new benchmarks for surface development at Germany's leading furniture fair, "interzum". A project team from our development department spent around 15 months working on an antibacterial, long-lasting HPL surface. The integrated hygiene protection has active, effective antibacterial properties.

Duropal microPlus has been proven to reduce the formation of germs by more than 99 percent and is therefore especially well suited for use in kitchens, laboratories, hospitals, and swimming pools – in short, wherever bacteria can occur and multiply. When germs come in contact with an HPL surface treated with "Microban" technology, its protective film destroys vital functions in the microorganisms of the microbes, thus preventing the bacteria from reproducing.

Our developers are now working on a way of also using Duropal microPlus on melamine-faced particleboard. In doing so, we want to give our customers even more options for using Duropal microPlus in interior finishings, especially in the area of healthcare.

#### **PRODUCT INNOVATIONS IN LAMINATE FLOORING**

The acquisition of Pergo in 2007 also provided a considerable boost for our development expertise in laminate flooring. Since this innovative Swedish company invented laminate flooring 40 years ago, it has had a pioneering role in the further development of high-quality laminate flooring.

Laminate flooring from Pergo can withstand even extreme use, for example in shopping malls, and has high wear resistance, making it particularly suitable for use in high-traffic areas. Developers in Europe and North America are researching additional properties that would recommend our laminate flooring for public areas. For example, Pergo will be the world's first provider to launch an antibacterial coating for laminate flooring, which will be of particular interest to hospitals and laboratories. In addition, our developers will focus on improving the typical properties of our laminate flooring, such as durability and attached underlayment for noise reduction. Pergo's new SoftTech technology is once again setting new benchmarks throughout the industry. Scheduled for launch in early 2008, these new products will make the flooring more comfortable and more ergonomic to walk on than before.

In fiscal year 2007, the Pfeleiderer Group spent around 2.9 million euros (previous year: 0.9 million euros) on research and development. Most of the increase is attributable to laminate flooring.

## Personnel report

AS OF DEC. 31 (EXCLUDING TRAINEES)	Employees 2007			Employees 2006		
	GERMANY	ABROAD	TOTAL	GERMANY	ABROAD	TOTAL
Continuing operations						
AG/corporate units	45	2	47	43	–	43
Service units	58	2	60	61	2	63
Other (PEIG)	6	–	6	6	–	6
BC Western Europe	2,436	407	2,843	2,457	27	2,484
BC Eastern Europe	–	1,730	1,730	–	1,513	1,513
BC North America	–	1,163	1,163	–	1,098	1,098
<b>Total core business</b>	<b>2,545</b>	<b>3,304</b>	<b>5,849</b>	<b>2,567</b>	<b>2,640</b>	<b>5,207</b>
Discontinued operations:						
Remaining Infrastructure						
Technology activities	2		2	2		2
<b>Total</b>	<b>2,547</b>	<b>3,304</b>	<b>5,851</b>	<b>2,569</b>	<b>2,640</b>	<b>5,209</b>

Information as of the reporting date of December 31, 2007 and 2006.

As of December 31, 2007, the Pfeleiderer Group (continuing operations) had 5,849 employees (previous year: 5,207), of whom 2,545 worked in Germany and 3,304 in other countries.

### REMUNERATION OF THE EXECUTIVE BOARD

You will find more information on this topic in the Corporate Governance Report.

### INTERNATIONAL GROWTH, INTERNATIONAL LEARNING

The size of the workforce increased in the year under review, especially as a result of the acquisition of the Pergo Group. At the end of December 2007, Pergo had 610 employees, of whom 231 were in the U.S.A., 265 in Sweden, and 114 in other countries.

The Group's new employees attended several workshops where they worked out the foundations for new management structures and a shared understanding of management and cooperation, based on our guidelines for management and cooperation. The workforce also shares values and exchanges information internationally.

The importance of international cooperation has increased dramatically in the Pfeleiderer Group – particularly in the last fiscal year. For this reason, we worked not only on networking specialist knowledge, but especially also on optimizing mutual understanding among the different cultures. Our conference for executives, MoVE 2007, also focused on the differences and similarities of cultures in the Pfeleiderer Group and made a significant contribution to knitting them together.

The integration of Pergo brought us useful synergies, especially in our North American plants. We now present ourselves as the leading manufacturer of laminate flooring in North America, following the merger of the activities and plants of Pfleiderer Uniboard and Pergo, and the creation of a Shared Service Center, which combines the central functions in North America. However, the inevitable consequence is the shedding of around 160 employees in the process.

#### **RECRUITMENT FOR EXPANSION IN EASTERN EUROPE**

The “Task Force East,” an international project team supporting the expansion of our Eastern European plants, is another activity that brings together people of different nationalities. The members of the project contribute knowledge and experience from established plants in the Pfleiderer Group and use it to provide local training for specialist workers from Eastern Europe. Our aim is to build specialist and project expertise as fast as possible so that all the resources can be utilized and production can start as soon as a new plant has opened.

#### **SUPPORT FOR STUDENTS: “TALENTS MEET PFLEIDERER”**

Graduates bring a lot of technical expertise to the Company when they start their careers, but they often lack confidence and are unaware of the full extent of their strengths and weaknesses. Junior staff members at Pfleiderer AG took steps to prevent this in 2007 by preparing a multiday workshop with talented students, which will be held in March 2008. Under the banner of “Talents meet Pfleiderer,” this event will focus on extending the methodological and personal skills of each individual. The workshop is another component of Pfleiderer’s intensive dialog with students and universities. It is intended to win fresh young potential for the Group at an early stage.

The members of the team organizing this workshop also left university not so long ago. Graduates gain their first professional experience in Pfleiderer AG’s trainee program, the Internal Junior Consulting Program. 18 months of training immerse the trainees in specific practical activities and support the development of tomorrow’s high-performing specialists and managers. The trainee program will enter its next round in 2008, this time with an increased international focus.

#### **TRAINEE BRAINPOWER: RENEWED SUCCESS AT THE “JUGEND FORSCHT” YOUNG RESEARCHERS COMPETITION**

High-quality training has traditionally been one of the core commitments of the Pfleiderer Group. In addition to the provision of sound technical knowledge, personal development is one of its key elements. The “Azubi forscht” young talent competition for trainees is an important motivational tool for stimulating innovative and creative thinking. Pfleiderer launched this initiative as part of its sponsorship of the Upper Palatinate regional “Jugend forscht” competition, an involvement that goes back twelve years.

In the past few years, the trainees' practice-based ideas have repeatedly produced evidence of the creativity of trade professions. Today, project-based working is an integral component of training at Pfeleiderer. In 2007, our trainees once again delivered proof of their brain power: In the "Jugend forscht" regional competition, an energy-saving toaster that also improves safety in the home won the special award for environmental technology of the Deutsche Bundesstiftung Umwelt (German Environment Foundation).

The Pfeleiderer Group offers apprenticeships in 17 commercial and technical occupations. As of December 31, 2007, the Company had 151 trainees, 66 of whom were employed in commercial and 85 in technical occupations. In 2007, Pfeleiderer AG was able to offer permanent jobs to all its commercial and technical trainees who had completed their training.

#### **GERMAN LOCATIONS SAFEGUARDED**

In 2007, we strengthened the long-term competitiveness of our locations in Germany: We signed a supplementary bargaining agreement with the IG Metall union. Under this agreement, which came into effect on January 1, 2008 and replaces the previous arrangements, all West German locations now have a regular working week of 38 hours. Under a three-year model, which has been in force since January 2008, employees' wages and salaries increase by 0.5 percent every twelve months. The 36th through 38th hour of each week will be compensated as normal working hours, also phased over three years.

#### **ACCEPTING SOCIAL RESPONSIBILITY**

The Pfeleiderer Group is aware of its social responsibility – not only toward its employees, but also toward the state and society at large. This is why we support numerous social projects through internal and external measures. Thus, 2007 was the fifth year in succession that we were one of the main sponsors of the Neumarkt city race and encouraged members of our workforce to take part in the run.

We also acknowledge the charitable element of the event: The proceeds of the race benefit the Deutsche Knochenmarkspenderdatei (DKMS – German Bone Marrow Donor Center), allowing it to add further bone-marrow and stem-cell donors to its database. By maximizing its donor database, DKMS wants to help people suffering from leukemia and other life-threatening diseases of the hematopoietic system.

Our trainees and apprentices also volunteered their services in 2007. Our young employees spent several days working at the Neumarkt G6 youth center, a new meeting place for young and old. To enhance the center's appeal and attractiveness, they made a one-meter long wall mosaic and designed a mobile stage.

**KNIFF – PROGRESS THROUGH CREATIVE NEW IDEAS**

People who work closely with processes know best how to improve them. We launched the KNIFF initiative in 2007 to ensure that all the ideas and suggestions submitted by our employees on the shopfloor and in offices get to those who take the decisions. Our ideas management is a quick, uncomplicated system all employees can use to pass on tips or propose specific solutions.

If the Company saves costs, finds more efficient ways of working, or improves quality as a result of KNIFF, we pay a bonus to reward personal commitment. To date, we have evaluated around 1,800 ideas, of which we implemented more than 600 in 2007. The many suggestions our employees have submitted are a sign that they are highly motivated and identify strongly with Pfeleiderer AG.

**PARTIAL RETIREMENT AND ANNIVERSARIES**

92 employees are currently included in partial retirement arrangements. In the past fiscal year, 14 employees celebrated 25 years and five employees celebrated 40 years of service with the Company.

## Disclosures in accordance with sections 289(4) and 315(4) of the Handelsgesetzbuch (HGB – German Commercial Code)

**Composition of subscribed capital**

As of December 31, 2007, the subscribed capital of Pfeleiderer AG totaled 136,514,816 euros. The share capital is composed of 53,326,100 no-par value registered shares with a notional interest in the share capital of 2.56 euros each. The shares are fully paid up. All shares entitle their holders to the same rights and obligations. Each no-par value share grants one vote at the Annual General Meeting and determines the shareholders' interest in the profits of Pfeleiderer AG. This excludes treasury shares held by Pfeleiderer AG, which do not convey any rights to the Company.

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

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

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

**Interests in the share capital exceeding 10 percent of the voting rights**

As of December 31, 2007, the Pfeleiderer family held a total of around 10.6 percent of Pfeleiderer AG through various companies.

On January 22, 2008, One Equity Partners Europe GmbH informed the Company that it had acquired a package of approximately 15.02 percent of the shares of Pfeiderer AG.

**Shares with special control rights**

The Company has not issued any such shares with special rights.

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

Employees who participate in the Company's stock option plan and have made a personal investment in shares of Pfeiderer AG can exercise the control rights conveyed by these shares directly in accordance with the Articles of Association and the law.

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

Sections 84 and 85 of the Aktiengesetz (AktG – German Stock Corporation Act) and section 31 of the Mitbestimmungsgesetz (MitbestG – German Codetermination Act) govern the appointment and dismissal of members of the Executive Board. Under these rules, the Supervisory Board appoints members of the Executive Board for a maximum period of five years. In accordance with article 6(1) of the Articles of Association, the Executive Board must have at least two members. In all other respects, the Supervisory Board determines the number of Executive Board members in accordance with article 6(2) of the Articles of Association.

In accordance with section 179 of the AktG, amendments to the Articles of Association require a resolution by the Annual General Meeting. Article 16 of the Articles of Association gives the Supervisory Board the right to make amendments to the Articles of Association if they affect only the wording. In addition, the Supervisory Board is authorized by resolutions of the Annual General Meeting of June 19, 2007, and June 13, 2006, to amend the wording of the Articles of Association to reflect the implementation of the increase in share capital by utilizing the authorized capital and to reflect the volume of new shares issued and after expiry of the respective authorization period.

Laminate floors make up 20 percent of consolidated revenues and meet the highest standards for durability, noise insulation, and handling.



Unless required otherwise by law, article 21(3) of the Articles of Association stipulates that resolutions of the Annual General Meeting require a simple majority of the votes cast or a simple majority of the share capital represented at the time of resolution.

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

##### **Authorized capital**

The Executive Board is authorized, with the approval of the Supervisory Board, to increase the Company's share capital on one or more occasions in the period up to June 18, 2012, by up to 68,257,408.00 euros against cash and/or noncash contributions (authorized capital). The shareholders must generally be granted preemptive rights to the new no-par value shares. However, the Executive Board is authorized, with the approval of the Supervisory Board, to disapply shareholders' statutory preemptive rights in certain cases.

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

##### **Contingent capital**

The Annual General Meeting on June 19, 2007, resolved to authorize the Executive Board, with the approval of the Supervisory Board to issue bonds with warrants and/or convertible bonds on one or more occasions up to June 18, 2012, with a volume of up to 200,000,000.00 euros and to grant the shareholders or creditors option and conversion rights to new shares in Pfeleiderer AG with a notional interest in the share capital of up to 25,600,000.00 euros.

These bonds are issued subject to shareholders' statutory preemptive rights. However, the Executive Board is authorized, with the approval of the Supervisory Board, to disapply shareholders' statutory preemptive rights in certain cases.

To date, the Executive Board has not made use of this authorization.

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 are governed by the authorization resolved on June 19, 2007, and article 4(3) of the Articles of Association.

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

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 of up to 4,555,330 new no-par value shares will only be implemented to the extent that stock options have been granted under the

authorization granted until May 31, 2001, and the Pfeleiderer Stock Option Plan 2006, that the holders of these stock options exercise their rights to subscribe for shares of the Company, and that the Company does not settle the stock options by issuing treasury shares or by way of cash compensation.

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

The Annual General Meeting on June 19, 2007, authorized the Company in accordance with section 71(1) no. 8 of the AktG to buy own shares in the period up to December 18, 2008, with a notional interest in the current share capital of up to 10 percent, subject to legal restrictions. The shares may be brought through the stock exchange or on the basis of a public offer addressed to all shareholders.

The Executive Board was authorized, with the approval of the Supervisory Board, to sell own shares acquired while disapplying shareholders' preemptive rights in a way other than through the stock exchange or on the basis of an offer to all shareholders, if the own shares acquired are introduced at a foreign stock exchange where they are not listed or offered at a price that does not fall materially below the market price of the same class of shares of the Company at the time of sale. This disapplication of preemptive rights is restricted to a total of no more than 10 percent. The Executive Board was also authorized, while disapplying shareholders' preemptive rights, to (i) sell own shares acquired in conjunction with the purchase of companies, parts of companies, or interests in companies, (ii) use own shares to service stock options that have been or will be issued under the Pfeleiderer stock option plan, (iii) sell own shares to participants in the Pfeleiderer stock option plan to the same extent as these participants are obliged, under the plan's terms and conditions, to buy shares of the Company as a personal investment to satisfy the conditions for being granted stock options, or (iv) use own shares to settle subscription or conversion rights arising from the exercise of conversion or option rights, or as a result of compliance with conversion obligations. With the approval of the Supervisory Board, the Executive Board is additionally authorized to retire own shares acquired without any further resolution of the Annual General Meeting.

Further details are stipulated by the authorization resolved on June 19, 2007.

The Executive Board of Pfeleiderer AG resolved on August 20, 2007, to acquire up to 4,872,610 own shares of the Company in the period up to December 31, 2007. The Company thus made use of the authorization resolved by the Annual General Meeting on June 19, 2007, to acquire own shares and purchased a total of 2,415,444 shares of the Company via on-exchange Xetra trading by December 31, 2007.

#### **Material agreements of the Company that are subject to a change of control upon a takeover bid**

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

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

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

## Report on post-balance sheet date events

Pfleiderer AG reached an out-of-court settlement with Kunz Holding GmbH & Co. KG and the other sellers of Kunz-Holzwerkstoff-Gruppe (Engineered Wood Group) on January 28, 2008. This settled the parties' dispute relating to mutual claims arising from the purchase agreement dated July 15, 2005, which provided for a second purchase price installment of 23.8 million euros, among other things. This amount was reduced to 11.25 million euros.

On January 22, 2008, the private equity company, One Equity Partners Europe GmbH reported that it had acquired 15.02 percent of Pfleiderer AG's shares.

Pfleiderer AG has reached an agreement with German company decopa industries GmbH to take over the edge manufacturer's activities. This acquisition expands Pfleiderer AG's position as one of the top three leading manufacturers of engineered wood products in the world. The Group can now manufacture furniture edges and soft-forming films itself for the first time, thus expanding its existing product range. decopa industries, which generated revenues of 2.02 million euros in 2007, was acquired as of February 1, 2008, with Pfleiderer acquiring all material assets.

Whether classically ageless or young and trendy, as in this bedroom in popular light colours: wood materials are individual, can be combined in many different ways, and are extremely easy to look after.



## Risk report

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Like all companies, Pfeiderer is subject to a number of risks that are intrinsically linked to business activities. We have implemented an efficient risk management system to proactively counter such unknown factors. We minimize possible repercussions for the Pfeiderer Group with our market knowledge, systematic market analyses, and forward-looking actions. However, there are currently no foreseeable risks that could significantly impact the Company's net assets, financial position, and results of operations.

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As a globally active company, Pfeiderer is exposed to a large number of risks. The primary task of Pfeiderer AG's Group-wide risk management activities is to identify risks early and continuously, to monitor them, and to reduce them by systematically leveraging business opportunities. As part of this risk management, the Executive Board and the Supervisory Board are kept informed regularly about risks that could materially affect the operating development of the regions 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 and going concern risks. The framework for this is defined in a risk management manual.

This consists of

- specifications for risk capture and assessment,
- provisions governing the current management of risk and the new or supplementary measures for risk management, as well as
- tracking of risk development and measures taken.

External and internal risks are systematically captured for all regions and subsidiaries of the Pfeiderer Group. Risk management is coordinated by a central department and continuously enhanced. Particular attention is paid to the regular exchange of lessons learned with other companies to ensure that new approaches and ideas are incorporated in the Group's risk management system. The management of each region has operational responsibility for the early identification, completeness, and management of risks. Each region and the central functions have appointed risk managers to ensure compliance with the system by the various business units.

The Company's risk situation is systematically re-evaluated every month. Risks are assessed according to the size of the loss involved and the risk probability. Furthermore, special reports are produced if the risk situation changes suddenly. 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 determine the suitability of the system by means of regular evaluations of the appropriateness and effectiveness of the current risk management system in order to permit the early identification of developments that could threaten the Company's continued existence.

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

#### **MACROECONOMIC, POLITICAL, AND INDUSTRY RISKS**

Pfeleiderer's globally-oriented business activities are increasingly influenced by changes in overall global conditions. The Company has further increased its regional diversification with the acquisition of the Pergo Group, which has operating establishments in Sweden and the U.S.A., as well as by commissioning a new MDF plant in Poland. Economic fluctuations, especially in the U.S.A., could negatively influence business development in North America. Moreover, it cannot be ruled out that this trend will spread to markets in other regions. We are expecting this risk to diminish due to Pfeleiderer's increasing global activities.

Our business is characterized by extremely competitive pricing. We face strong international competitors, some of which are larger in certain business segments and therefore have more extensive resources available to them. Pfeleiderer counters this risk by taking appropriate measures to reduce costs and increase productivity and through product innovation, as well as by the increased establishment and expansion of production facilities in Eastern Europe in particular.

In some markets, new products and design changes must be developed and launched extremely quickly. This can lead to problems with quality. Pfeleiderer will continue to make future acquisitions and enter into strategic alliances such as joint ventures to expand further and to maintain its innovative ability and competitive strength. While this creates earnings potential, it also requires additional organizational and staffing measures.

### OPERATING RISKS

The competition is expected to increase its capacity, especially in the growth markets of Eastern Europe and Asia. This represents a general risk to Pfeleiderer's market position in these regions. The process of consolidation among both competitors and customers in some regions could also give rise to the risk of a negative change in Pfeleiderer's market position. Equally, the risk of customer insolvency cannot be ruled out in any of the markets relevant to Pfeleiderer. In accordance with Group guidelines, Pfeleiderer has taken out credit insurances that largely covers the risk of bad debts related to insolvency.

Pfeleiderer operates production facilities in which the equipment generally runs on a continuous basis in multi-shift operations. The resulting high level of organizational and technical complexity runs the risk of business interruption and quality problems, as well as environmental and occupational safety risks if the value chain breaks down. The Company counters interruptions and stoppages with proactive preventative maintenance management, which includes careful equipment maintenance and appropriate employee training. Fires and explosions cannot be completely ruled out, especially when wood is processed. Related damage to machinery and plants as well as possible losses due to downtime are covered in an economically sensible manner by appropriate insurance policies. However, any fire, explosion, or case of environmental damage may also lead to serious personal injury, which cannot be completely covered by insurance protection. To avoid such incidents, the necessary technical and organizational precautions have been put in place and action plans and emergency plans to deal with possible incidents.

Business development in 2007 was characterized by price increases on the international energy and commodities markets. Further price increases are expected for individual commodities. To the extent that these are predictable, they have been factored into the planning as much as possible. As a general rule, Pfeleiderer is not dependent on individual suppliers, as a large number of different raw materials are used in its business activities and the number of available suppliers is sufficient. Supplies are guaranteed using a multi-sourcing procurement policy. Nondelivery, delays in delivery, and defects in quality can lead to production stoppages and negative effects on earnings. Pfeleiderer counters these risks by entering into long-term supply agreements, and its procurement organization monitors the timely availability and quality of the raw materials on an ongoing basis. High energy requirements, and energy prices that are partially influenced by regulatory policy in the form of taxes and levies, are also a risk, especially for the German production facilities. Pfeleiderer is taking specific countermeasures by optimizing processes and by operating its own combined heat and power plants (CHPs), for example.

### PERSONNEL RISKS

Pfeleiderer uses modern human resources tools to limit personnel risks such as staff turnover, loss of know-how, lack of motivation, insufficient qualifications, and competition for specialists and senior executives. Attractive remuneration systems and continuing professional development programs are being implemented to promote employee loyalty to the Company. Close contacts with selected universities and an extensive trainee program support the recruitment of

qualified new talent. Pfeleiderer also ensures that it has high-quality talent at all levels, especially skilled workers, thanks to a vocational training program that is widely recognized for its quality and that goes above and beyond the Company's own needs.

#### **FINANCING RISKS**

Pfleiderer defines financial risk as liquidity risk, currency risk, and interest rate risk, arising in particular from operating business transactions and their hedging, as well as risks arising from Group financing. Pfeleiderer AG's central finance department is responsible for managing all the Pfeleiderer Group's financial risks using appropriate financial management instruments. The responsibility for managing accounts receivable lies with the operating segments, which always operate within the framework of master loan insurance agreements. The central finance department negotiates these master agreements.

The syndicated loan taken out in December 2006 for an original sum of 400.0 million euros and CAD 268.7 million amounted to 357.2 million euros and CAD 246.3 million 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 and the beginning of 2012, respectively. 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.

Risks arising from substantial changes in interest rates can be largely ruled out during the planning period due to the existing credit lines and the interest rate hedges additionally taken out. The central finance department monitors developments on the financial markets on an ongoing basis.

The Pfeleiderer Group's increasing international business activities mean that currency risk is becoming more and more important. Polish zlotys, Canadian dollars, U.S. dollars, Swedish kroners, and Russian rubles play a comparatively significant role here. Pfeleiderer limits its currency risk by purchasing raw materials and equipment from all over the world (natural hedges) as well as by taking specific currency hedging measures.

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 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. 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.

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

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

Other IFRS-related disclosures, especially regarding the significance of financial instruments for the net assets, financial position, and results of operations, are to be found in the disclosures on financial instruments in the notes to the financial statements.

#### LEGAL RISKS

Neither Pfeiderer AG nor its subsidiaries are involved in any legal or arbitration proceedings which, according to current assessments, could have a material adverse effect on the Group’s financial position. Pfeiderer’s legal department is responsible for ensuring that legally relevant matters are handled correctly in terms of both form and content, especially when drafting contracts and conducting litigation, consulting outside lawyers if necessary. The Pfeiderer Group has set up appropriate risk provisions to cover warranty claims with which the Company will inevitably be confronted due to its business activities and as a result of the sales of companies in recent years.

#### IT AND OTHER RISKS

Significant disruptions to IT systems can lead to a loss of data and impact business and production processes despite backup measures. Potential IT risks, such as unauthorized access to, or misuse of, data are limited by various measures, e. g., authorization concepts, internal IT security policies, and IT infrastructure standards, covering employees, organizations, applications, systems, and networks. In addition, technical protection measures, e. g., firewalls and virus scanners, are reviewed annually in an internal IT security audit.

Environmental managers have already been trained and deployed for the Group and in the regions and appropriate guidelines have been issued to minimize potential environmental risks. According to expert opinions, legacy contamination can be expected at individual production sites, for which Pfeiderer AG has set aside adequate provisions.

#### OVERALL RISK ASSESSMENT

As in previous years, no risks that could endanger the continued existence of the Group have currently been identified in the Pfeiderer Group. A consolidated review of all major individual risks was used to estimate the overall risk. However, like any other company, Pfeiderer AG is confronted with potential risks, especially uncertain global economic development, that could materially affect its business and its net assets, financial position, and results of operations.



Pfleiderer engineered wood products combine function and design for private and professional use in a unique and distinctive manner. Office furniture manufacturers are among our largest customers in the furniture industry.



## Report on opportunities and expected developments

### OPPORTUNITIES FOR THE PFLEIDERER GROUP

Additional opportunities for the Pfleiderer Group could arise if the consolidation of the engineered wood markets continues in Western Europe and North America. Old production locations may be closed in the event of additional mergers, which would have a beneficial effect on general price trends and in turn on Pfleiderer's results of operations.

If German kitchen manufacturers or the German office furniture industry were to increase their share of export markets further, Pfleiderer could profit from the resulting additional demand for engineered wood products.

In Poland, any depreciation of the recently strong zloty could boost exports. In addition, any unplanned increase in logging quotas awarded by the Polish government would help reduce consistently high wood prices and therefore lower acquisition costs.

The expansion of Pfleiderer's product portfolio also offers substantial opportunities. For example, new laminate flooring collections featuring improved functionality could result in additional demand. The same applies to innovations in the particleboard segment – in which Pfleiderer is positioning itself with the formaldehyde-free NUGreen board, among other products. Significant potential is also offered by the systematic evaluation of Pergo AB's extensive license portfolio, which has barely been exploited to date.

The sales tax rebate on Chinese imports to the U.S.A. was reduced substantially by the Chinese government in the middle of 2007. This measure, along with the weak U.S. dollar, is impacting imports of laminate products from China to the U.S.A. As Pfleiderer produces laminate flooring in North America and is the region's largest integrated manufacturer, this situation will create opportunities for the Company.

### MACROECONOMIC CONDITIONS

Global economic growth is expected to ease off in 2008. There is significant uncertainty about how the turbulence on the financial markets will impact companies and consumers. According to the International Monetary Fund (IMF), growth rates will decline, especially in industrialized countries, while the effects in the developing and emerging market countries are likely to be more limited. Overall, the IMF is expecting global economic growth of 4.1 percent for 2008, compared with almost 5 percent in 2007.

The majority of market observers forecast that growth by industrialized countries will continue in 2008 despite the expected economic slowdown. The IMF predicts that U.S. GDP will increase 1.5 percent. However, this would be a noticeable slowdown when compared with the 2007 figure of 2.2 percent.

The euro zone is expected to expand further in 2008 – the consensus estimate is 1.8 percent. The German economy should play a large part in this as GDP there is currently expected to increase by around 1.8 percent. Exports, investments in machinery and equipment and a moderate rise in private consumption will be the probable drivers for this.

Growth in the two Eastern European countries of Poland and Russia is expected to be significantly higher in 2008. Market analysts currently predict that Polish GDP will rise over 5 percent while GDP in Russia is set to increase more than 6 percent.

These favorable overall macroeconomic conditions should also boost the engineered wood markets in 2008. Demand is expected to rise again sharply, especially in Eastern Europe. The furniture industry should prove to be a growth driver once again. Pfeleiderer currently predicts that the Polish market will grow around 5 percent and the Russian market about 10 percent. In contrast, the conditions for engineered wood in North America will remain difficult for the time being. The risks are primarily in private residential construction, while the renovation segment is considered to be a stabilizing factor due to the high number of old buildings. A market recovery is not to be expected before the end of 2008 at the earliest.

#### EXPECTED DEVELOPMENT OF THE PFLEIDERER GROUP

Pfleiderer expects its strong business performance to continue on the back of the continued strength of the engineered wood markets in Europe. We expect that revenues in Eastern Europe will increase again. In particular, a positive factor for Pfeleiderer is that its new MDF plant in Grajewo will be available for a full year for the first time, thus allowing us to benefit from the healthy demand to an even greater extent. The same applies to the additional capacities in Novgorod. Moreover, we are planning to put an additional laminating press into service at our Russian location in 2008. Economies of scale will mean that the increasing output volumes in Eastern Europe will also be reflected in a significant improvement in earnings.

We are also expecting revenue and earnings growth in Western Europe, reflecting the Company's investments in enhancing productivity at its Arnsberg, Leutkirch, and Nidda plants in particular. In addition to increased output volumes, this also means lower production costs. The consolidation of Pergo will have an additional positive effect: in fiscal year 2007, the Pergo Group contributed only ten months to revenues and earnings.

North America will again pose significant challenges to all market players in 2008. Contrary to the industry trend, however, Pfeleiderer is expecting to moderately increase its business volume by gaining market share. The Company is well positioned to do this following the successful integration of Pergo and the implementation of its extensive restructuring program. Earnings in the BC North America will improve substantially in the current fiscal year both because we have also significantly optimized our cost structure and because we will not incur any further one-time costs. One of our first successes is the new master agreement with U.S. home improvement chain The Home Depot, which doubles our retail space in its American stores from the second quarter of 2008.

Based on its performance in the regions, the Pfeleiderer Group is forecasting revenues in the order of 2 billion euros in fiscal year 2008. Earnings will also improve for the above-mentioned reasons. Overall, Pfeleiderer is expecting its EBITDA margin to increase to around 15 percent.

Our investment planning provides for Group-wide investments of approximately 200 million euros in 2008, the majority of which will be used to construct the new MDF plant in Novgorod. An additional key project is doubling production glue resin capacity at Silekol in Poland.

We will continue to optimize production costs at all of our locations in 2008, focusing on best practice transfer using our Global Pfeleiderer Production System (GPPS).

We therefore expect continued positive business development in 2009 as well. We want to gain additional market share in North America and improve the profitability of our North American activities. We will expand our market presence in Eastern Europe, especially with our second plant in Novgorod, Russia. In Western Europe, we are focusing on expanding exports from Germany.

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

**Responsibility statement in accordance with section 37y of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) in conjunction with section 37w(2) no. 3 of the WpHG**

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

Neumarkt, Germany, February 26, 2008



Hans H. Overdiek

Michael Ernst

Dr. Robert Hopperdietzel