

## CONSOLIDATED FINANCIAL STATEMENTS OF PFLEIDERER AG

## Consolidated Balance Sheet (IFRSs) as of December 31, 2008

**ASSETS**

'000 EUROS	NOTES	Dec. 31, 2008	Dec. 31, 2007
Cash and cash equivalents	IV.1	46,288	17,197
Receivables and other assets	IV.2/3	125,835	120,608
Inventories, net	IV.4	182,078	229,693
Income tax receivables	-	5,652	4,672
Other assets	-	5,747	11,371
Assets from discontinued operations	IV.5	10,280	14,814
<b>Current assets</b>		<b>375,880</b>	<b>398,355</b>
Property, plant, and equipment, net	IV.6	829,305	869,078
Intangible assets, net	IV.7	540,636	563,616
Financial assets	IV.8	4,665	4,511
Deferred tax assets	IV.9	123,171	61,227
Other non-current assets	IV.10	13,845	24,497
<b>Non-current assets</b>		<b>1,511,622</b>	<b>1,522,929</b>
<b>Total assets</b>		<b>1,887,502</b>	<b>1,921,284</b>

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

## LIABILITIES AND EQUITY

'000 EUROS	NOTES	Dec. 31, 2008	Dec. 31, 2007
Liabilities and other debt	IV.11	278,956	267,088
Financial liabilities	IV.12	153,408	170,925
Other provisions	IV.13	52,155	61,347
Income tax payables	-	12,556	6,731
Miscellaneous liabilities	-	1,019	2,018
Liabilities from discontinued operations	IV.5	18,032	16,129
<b>Current liabilities</b>		<b>516,126</b>	<b>524,238</b>
Financial liabilities	IV.15	528,362	464,453
Pension provisions	IV.16	14,983	17,843
Deferred tax liabilities	IV.9	86,167	58,954
Other liabilities	IV.17	11,306	25,796
Other provisions	IV.18	19,620	28,961
<b>Non-current liabilities</b>		<b>660,438</b>	<b>596,007</b>
Contributions and subscribed capital	IV.19	136,515	136,515
Group reserves including retained earnings brought forward and consolidated profit	IV.19	369,070	379,875
Treasury shares	IV.19	- 43,073	- 43,432
Other comprehensive income	IV.19	- 45,523	- 1,891
Hybrid capital	IV.19	260,204	270,915
Minority interests	-	33,745	59,057
<b>Equity</b>		<b>710,938</b>	<b>801,039</b>
<b>Total liabilities and equity</b>		<b>1,887,502</b>	<b>1,921,284</b>

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

## Consolidated Income Statement (IFRSs) for the Fiscal Year 2008

'000 EUROS	NOTES	2008	2007
Revenues	V.1	1,735,900	1,801,129
Cost of sales	V.2	- 1,301,028	- 1,308,920
<b>Gross profit</b>		<b>434,872</b>	<b>492,209</b>
Selling expenses	V.3	- 223,334	- 246,977
Administrative expenses	V.4	- 122,388	- 126,065
Research and development costs	V.5	- 4,081	- 2,898
Other operating income and expenses	V.6	12,550	20,317
<b>Profit from operations</b>		<b>97,619</b>	<b>136,586</b>
Interest income	V.7	5,417	6,485
Interest expense	V.7	- 57,061	- 52,944
Net income from investments	V.7	0	242
Other financial income, net	V.7	- 28,360	251
<b>Financial expenses, net</b>	<b>V.7</b>	<b>- 80,004</b>	<b>- 45,966</b>
<b>Profit from continuing operations before income taxes</b>		<b>17,615</b>	<b>90,620</b>
Income taxes	V.8	11,173	- 10,917
<b>Profit from continuing operations</b>		<b>28,788</b>	<b>79,703</b>
Loss/profit from discontinued operations	IV.5	- 325	5,689
Income taxes on discontinued operations	IV.5	- 6,116	- 781
<b>Profit for the period</b>		<b>22,347</b>	<b>84,611</b>
of which attributable to minority interests		- 2,445	13,812
of which attributable to hybrid capital investors		18,973	13,313
<b>of which attributable to shareholders of Pfeleiderer AG</b>		<b>5,819</b>	<b>57,486</b>
Earnings per share (basic)	VI.4	0.11	1.10
Earnings per share (diluted)	VI.4	0.11	1.09
Earnings per share from continuing operations after minority interests	VI.4	0.24	1.00
Earnings per share from discontinued operations	VI.4	- 0.13	0.10
Average number of shares outstanding (basic)	VI.4	50,781,022	52,326,757

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

## Consolidated Cash Flow Statement (IFRSs) for the Fiscal Year 2008

'000 EUROS	NOTES	2008	2007
<b>Cash flow statement</b>	<b>VI.6</b>		
Earnings before interest and taxes (EBIT)		97,619	136,819
Gain on the sale of shares of consolidated companies		0	- 10,009
Net income taxes paid		- 20,481	- 14,118
Depreciation and amortization of fixed assets		126,122	111,866
Gain/loss on the disposal of fixed assets		- 2,299	- 8,286
Change in pension provisions		- 221	255
<b>Cash flow</b>		<b>200,740</b>	<b>216,527</b>
Change in current assets		86,257	- 35,130
Change in other non-current assets		4,293	- 15,973
Change in current liabilities excluding financial liabilities		- 36,993	- 1,214
Change in non-current liabilities excluding financial liabilities		- 17,815	32,388
Other noncash income and expense		- 8,061	1,395
<b>Cash flow from operating activities</b>		<b>228,421</b>	<b>197,993</b>
Purchase of intangible assets		- 4,061	- 3,694
Purchase of property, plant and equipment		- 162,852	- 178,851
Purchase of financial assets		0	- 394
Purchase of and proceeds from the acquisition and sale of companies and shares of consolidated companies		- 30,624	- 392,493
Proceeds from sale of intangible assets		777	443
Proceeds from sale of property, plant and equipment		6,147	17,139
Proceeds from sale of financial assets		0	1,409
<b>Cash flow from investing activities</b>		<b>- 190,613</b>	<b>- 556,441</b>
<b>Cash flow from operating activities after investing activities</b>		<b>37,808</b>	<b>- 358,448</b>
Change in financial liabilities		- 76,712	185,113
Issue of bond loan		165,000	0
Dividend payments to minority shareholders		- 16,825	- 5,799
Dividend payments to hybrid capital investors		- 19,407	- 5,851
Dividend payment to shareholders of Pfeleiderer AG		- 15,290	- 13,217
Proceeds from hybrid capital		0	269,517
Purchase of treasury shares		- 4,994	- 44,733
Sale of treasury shares		3,188	0
Interest paid		- 49,095	- 44,978
Interest received		5,150	6,485
Other financing activities		- 440	262
<b>Cash flow from financing activities</b>		<b>- 9,425</b>	<b>346,799</b>
<b>Net change in cash and cash equivalents</b>		<b>28,383</b>	<b>- 11,649</b>
Effect of exchange rate fluctuations on cash and cash equivalents		689	- 58
Change in cash and cash equivalents of discontinued operations relating to	VI.6	- 4	- 16,685
operating activities		- 4	- 1,430
investing activities		0	- 15,255
financing activities		0	0
Effect of first-time consolidation on cash and cash equivalents		23	10,184
Cash and cash equivalents at January 1	VI.6	17,197	35,405
Cash and cash equivalents at December 31	VI.6	46,288	17,197

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

## Consolidated Statement of Changes in Equity (IFRSs) for the Fiscal Year 2008

'000 EUROS	NOTES	Share capital	Group reserves including retained earnings brought forward and con- solidated profit
<b>Balance at January 1, 2008</b>	<b>IV.19</b>	<b>136,515</b>	<b>379,875</b>
Treasury shares			- 2,165
Change in adjustment item from foreign currency translation			
Measurement of financial derivatives			
Profit for the period or consolidated profit			5,819
Issuance/redemption of hybrid capital			
Profit attributable to hybrid capital investors			
Deferred dividend payments to hybrid capital investors			
Dividends paid			- 15,290
Change in scope of consolidation			- 46
Effect of stock option programs			877
<b>Balance at December 31, 2008</b>	<b>IV.19</b>	<b>136,515</b>	<b>369,070</b>

'000 EUROS	NOTES	Share capital	Group reserves including retained earnings brought forward and con- solidated profit
<b>Balance at January 1, 2007</b>	<b>IV.19</b>	<b>136,515</b>	<b>302,309</b>
Treasury shares			- 1,496
Change in adjustment item from foreign currency translation			
Measurement of financial derivatives			
Profit for the period or consolidated profit			57,486
Issuance/redemption of hybrid capital			
Profit attributable to hybrid capital investors			
Deferred dividend payments to hybrid capital investors			
Dividends paid			- 13,217
Change in scope of consolidation			34,690
Effect of stock option programs			103
<b>Balance at December 31, 2007</b>	<b>IV.19</b>	<b>136,515</b>	<b>379,875</b>

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

## OTHER COMPREHENSIVE INCOME

Treasury shares	Foreign currency translation	Measurement of financial derivatives	Hybrid capital	Minority interests	Total
-43,432	-1,891	0	270,915	59,057	801,039
359					-1,806
	-39,829			-6,042	-45,871
		-3,793			-3,793
				-2,445	3,374
			-10,711		-10,711
			18,973		18,973
			434		434
			-19,407	-16,825	-51,522
	-10				-56
					877
-43,073	-41,730	-3,793	260,204	33,745	710,938

## OTHER COMPREHENSIVE INCOME

Treasury shares	Foreign currency translation	Measurement of financial derivatives	Hybrid capital	Minority interests	Total
-1,222	-1,737	0	0	106,443	542,308
-42,210					-43,706
	-154			120	-34
					0
				13,812	71,298
			270,915		270,915
			13,313		13,313
			-7,462		-7,462
			-5,851	-5,799	-24,867
				-55,519	-20,829
					103
-43,432	-1,891	0	270,915	59,057	801,039

## Consolidated Segment Report (IFRSs) for the Fiscal Year 2008

### FISCAL YEAR 2008

'000 EUROS	Region Western Europe	Region Eastern Europe	Region North America	Other/ Consolidation	Pfleiderer Group
External revenues	933,818	396,579	404,945	558	1,735,900
Intragroup revenues	12,005	23,702	0	- 35,707	0
Segment result (EBIT)	112,548	28,945	- 20,217	- 23,657	97,619
Segment assets	769,636	496,325	419,247	202,294	1,887,502
Segment liabilities	195,920	91,685	94,326	794,633	1,176,564
Capital expenditure	58,681	60,310	37,437	2,272	158,700
Scheduled depreciation and amortization	50,932	32,596	28,453	368	112,349
Noncash expenses	9,747	2,933	20,739	13,182	46,601

## FISCAL YEAR 2007

'000 EUROS	Region Western Europe	Region Eastern Europe	Region North America	Other/ Consolidation	Pfleiderer Group
External revenues	977,655	378,231	442,997	2,246	1,801,129
Intragroup revenues	9,039	15,031	0	-24,070	0
Segment result (EBIT)	110,037	51,745	-15,538	-9,425	136,819
Segment assets	536,018	574,570	458,135	232,546	1,801,269
Segment liabilities	151,355	92,996	107,494	40,868	392,713
Capital expenditure	33,739	127,631	18,839	2,419	182,628
Scheduled depreciation and amortization	50,432	25,835	31,168	619	108,054
Noncash expenses	7,903	6,731	11,627	10,050	36,311

## NOTES TO THE 2008 CONSOLIDATED FINANCIAL STATEMENTS

### I. Business areas and description of the Company

Pfleiderer Aktiengesellschaft (hereinafter also referred to as “Pfleiderer AG” or the “Company”) is a listed corporation domiciled in Neumarkt, Germany. The accompanying consolidated financial statements of Pfleiderer AG and its subsidiaries (referred to collectively as the “Group”) for fiscal year 2008 were approved for publication by way of a resolution of the Executive Board dated February 23, 2009.

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

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

A list of the Company’s shareholdings is accessible in the electronic German Federal Gazette.

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

The companies that have made use of the exemption are identified in the notes to the consolidated financial statements under VI. “Other disclosures” represented under point 14 “Exemption provision in accordance with Section 264b of the German Commercial Code”.

### III. Summary of significant accounting policies

#### 1. Basis of reporting

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

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

**Standards and interpretations as well as amendments to standards and interpretations adopted for the first time in the fiscal year 2008****IAS 39/IFRS 7, Financial instruments: Disclosures – Reclassification of Financial Instruments**

As a result of the new regulations, it is possible to reclassify non-derivative financial instruments from the category “Financial assets at fair value through profit or loss” if they were not originally assigned to this category by exercise of the fair value option, and from the category “Available-for-sale financial assets”. The first date on which this was required to be applied was July 1, 2008. This standard did not lead to any accounting changes at Pfeleiderer AG.

**IFRIC 11, IFRS 2 – Group and Treasury Share Transactions**

In the case of a share-based payment transaction in which the parent grants its own equity instruments to the employees of a subsidiary, IFRIC 11 requires these equity instruments to be accounted for in accordance with IFRS 2.10 et seqq., although the service is provided to the subsidiary. In this case, equity instruments are issued. However, if the subsidiary grants its employees shares of the parent, these must be accounted for in accordance with IFRS 2.30 et seqq. In this case, the subsidiary must acquire the shares, and therefore the employees are granted assets (shares of the parent) rather than equity instruments. The adoption of this interpretation did not lead to any significant changes in the presentation of the Pfeleiderer Group’s financial statements.

**IFRIC 14, IAS 19 – Limit on a Defined Benefit Asset and their Interaction**

IFRIC 14 contains general guidelines governing the calculation of a pension fund’s surplus that can be recognized as an asset corresponding to an asset ceiling in accordance with IAS 19, Employee Benefits. IFRIC 14 also includes explanations on the possible effects of statutory or contractual minimum funding requirements on plan assets and liabilities. The interpretation is effective for fiscal years beginning on or after January 1, 2008. Implementation of this interpretation may lead to a correction of other assets from excess cover of plan assets at Pfeleiderer.

**Newly issued accounting standards not adopted prior to their effective date**

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

**IAS 1, Presentation of the Financial Statements (revised)**

In September 2007, the IASB published IAS 1 (revised). IAS 1 replaces the old IAS 1, in the 2005 version. The revision is intended to improve possibilities for analysis and the comparability of annual financial statements for users. IAS 1 regulates the principles for the presentation and structure of financial statements. It also contains minimum requirements for the content of annual financial statements. The new standard is to be applied to fiscal years beginning on or after January 1, 2009, and can be applied earlier.

**IFRS 2, Share-based Payment**

In January 2008, the IASB passed IFRS 2. This addition outlines clearly that vesting conditions only include service conditions and performance conditions. Other elements of a share-based payment are not vesting conditions. This addition also specifies that cancellations by parties other than the company should be represented in the balance sheet in the same way as cancellations by the company. The IFRS 2 addition must be applied to fiscal years beginning on or after January 1, 2009. The amended IFRS 2 is not expected to lead to any significant changes when it is used for the first time by Pfeleiderer in the fiscal year 2009.

**IFRS 3, Business Combinations**

IFRS 3 gives revised specifications for application of the purchase method for business combinations. There are significant changes to the measurement of minority interests, reporting step acquisitions and treatment of conditional purchase price components and incidental costs of acquisition. According to the new regulation, minority interests can be measured either at fair value (full goodwill method) or at the fair value of the proportionate identifiable net assets. For step acquisitions there is to be a remeasurement at fair value in profit or loss of the shares already held when control is transferred. In future, an adjustment of conditional purchase price components classified as liabilities at the time of the acquisition are to be recognized in profit or loss. Incidental costs of acquisition are recorded as expenses when they are incurred. The revised IFRS 3 must be applied to business combinations for which the date of acquisition is in fiscal years beginning on or after July 1, 2009.

**IFRS 8, Operating Segments**

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

**IAS 23, Borrowing Costs**

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

**IAS 27, Consolidated and Separate Financial Statements in line with IFRSs**

Material changes to IAS 27 affect the accounting of transactions in which a company retains control and transactions in which control is transferred. Transactions that do not lead to a loss of control should be recognized directly in equity as an equity transaction. The remaining shares should be measured at fair value from the date of loss of control. For minority interests, negative balances may be reported, i.e. future losses will be attributed indefinitely according to the proportionate interest. The revised IAS 27 must be applied to fiscal years beginning on or after July 1, 2009.

**IFRIC 12, Service Concession Arrangements**

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

**IFRIC 13, Customer Loyalty Programs**

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

**IFRIC 15, Agreements for the Construction of Real Estate**

IFRIC 15 deals with accounting for companies that develop land and sell units of this property, such as apartments or houses, before they are finished. IFRIC 15 defines criteria for accounting either in line with IAS 11, Construction contracts, or IAS 18, Revenue. IFRS 15 should be applied to fiscal years beginning on or after January 1, 2009. It is not expected that IFRIC 15 will affect future consolidated financial statements of Pfeleiderer AG.

**IFRIC 16, Hedges of a Net Investment in a Foreign Operation**

IFRIC 16 deals with currency hedges of net investments in a foreign operation. The interpretation clarifies that hedge accounting is only possible between the functional currency of the foreign operation and the parent company's functional currency. The amount of the net assets of the foreign operation recognized in the consolidated financial statements can be hedged. The hedging instrument can then be held by any entity or entities within the group (with the exception of those whose exchange rate risks are hedged). In the case of disposal of the foreign operation from the consolidated group, the amount recognized directly in equity from changes in the value of the hedging instrument and the exchange rate gains or losses of the foreign operation recognized in the foreign currency reserve should be reclassified in current profit or loss. The amount of the cumulative exchange rate gains or losses arising from the departure of the foreign operation from the consolidated group

can be calculated according to the step-by-step method of consolidation or the direct consolidation method. IFRIC 16 should be applied to fiscal years beginning on or after October 1, 2008. An earlier application is recommended. It is not expected that IFRIC 16 will affect future consolidated financial statements of Pfeleiderer AG.

#### **IFRIC 17, Distributions of Non-cash Assets to Owners**

IFRIC 17 clarifies the following: A dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. An entity should measure the dividend payable at the fair value of the net assets to be distributed. An entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. An entity is also required to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions. IFRIC 17 should be applied to fiscal years beginning on or after July 01, 2009. An earlier application is recommended. It is not expected that IFRIC 17 will affect future consolidated financial statements of Pfeleiderer AG.

#### **Foreign currency translation**

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

#### **Scope of consolidation**

The consolidated financial statements as of December 31, 2008 include the financial statements of Pfeleiderer AG and its majority-owned and controlled subsidiaries. All significant subsidiaries that are controlled directly or indirectly by the Company are included in the consolidated financial statements. In addition to Pfeleiderer AG, 31 (previous year: 30) German and 49 (previous year: 50) foreign subsidiaries were consolidated. In the fiscal year, one subsidiary – Pfeleiderer Accessories and Service GmbH, Leutkirch (previously MSG Musterservice GmbH) – was consolidated for the first time and one company was deconsolidated due to liquidation (Pergo Argentina SA).

Number of fully consolidated companies

	2008	2007
Germany	31	30
Outside Germany	49	50
<b>Total</b>	<b>80</b>	<b>80</b>

All fully consolidated companies are attributable to continuing operations.

**Consolidation methods**

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

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

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

**Acquisitions and sales as well as discontinued operations**

On February 4, 2008, Pfeleiderer AG reached an agreement with decopa industries GmbH, a German manufacturer of edging, to take over that company's business operations. decopa industries GmbH, which generated revenues of 2.0 million euros in 2007, was acquired as of February 1, 2008, with Pfeleiderer acquiring all material assets.

The purchase price including transaction costs amounted to 2.0 million euros. The allocation of the purchase price resulted in a negative goodwill amount ("bad will") of 2.7 million euros, which was immediately recognized as a gain in the income statement in accordance with IFRS 3.56. The negative goodwill amount was reported under other operating income.

The assets and liabilities were remeasured at the acquisition date. The following table gives an overview of the purchase price allocation in respect of the individual assets and liabilities as of February 1, 2008 of decopa industries GmbH.

'000 EUROS	Carrying amounts	Step Up	Fair Value
Inventories	402	50	452
<b>Current assets</b>	<b>402</b>	<b>50</b>	<b>452</b>
Property, plant, and equipment	758	0	758
Intangible assets	0	4,664	4,664
Deferred tax assets	0	10	10
<b>Non-current assets</b>	<b>758</b>	<b>4,674</b>	<b>5,432</b>
<b>Total assets</b>	<b>1,160</b>	<b>4,724</b>	<b>5,884</b>

'000 EUROS	Carrying amounts	Step Up	Fair Value
Deferred tax liabilities	0	1,089	1,089
<b>Non-current liabilities</b>	<b>0</b>	<b>1,089</b>	<b>1,089</b>
<b>Total liabilities and equity</b>	<b>0</b>	<b>1,089</b>	<b>1,089</b>

As a result of the complete integration of the activities of decopa industries GmbH into the operations of Pfeleiderer Accessoires and Services GmbH without separate accounting systems, the specifications in accordance with IFRS 3.67 (i) and IFRS 3.70 – revenues and earnings for the period from acquired activities – cannot be separated.

On July 31, 2008, Uniboard USA LLC, Delaware (USA), a 100% subsidiary of Pfeleiderer AG, acquired the material operations of the plant in Moncure, North Carolina (USA) of ATC Panels Inc. in the context of an asset deal taking effect as of August 1, 2008. The plant reported revenues of USD 39.7 million in the previous year.

The purchase price including transaction costs amounted to 26.7 million USD. The allocation of the final purchase price resulted in a negative goodwill amount (“bad will”) of 9.0 million euros (at the average exchange rate for 2008), which was immediately recognized as a gain in the income statement in accordance with IFRS 3.56. The negative goodwill amount was reported under other operating income.

The assets and liabilities were remeasured at the acquisition date. The following table gives an overview of the purchase price allocation in respect of the individual assets and liabilities of the plant in Moncure as of August 1, 2008 (exchange rate as of July 31, 2008).

'000 EUROS	Carrying amounts	Step Up	Fair Value
Inventories	3,803	0	3,803
<b>Current assets</b>	<b>3,803</b>	<b>0</b>	<b>3,803</b>
Property, plant, and equipment	13,946	4,908	18,854
Intangible assets	0	8,280	8,280
<b>Non-current assets</b>	<b>13,946</b>	<b>13,188</b>	<b>27,134</b>
<b>Total assets</b>	<b>17,749</b>	<b>13,188</b>	<b>30,937</b>

'000 EUROS	Carrying amounts	Step Up	Fair Value
Deferred tax liabilities	0	4,891	4,891
<b>Non-current liabilities</b>	<b>0</b>	<b>4,891</b>	<b>4,891</b>
<b>Total liabilities and equity</b>	<b>0</b>	<b>4,891</b>	<b>4,891</b>

The plant in Moncure contributed revenues of 10,427 thousand euros and a loss for the year of 2,450 thousand euros (without deferred income) to consolidated profit. Assuming in accordance with IFRS 3.70 that the acquisition date had been at the beginning of the reporting period, the plant in Moncure would have contributed revenues of 32,771 thousand euros to consolidated revenues. For the plant in Moncure, to the date of acquisition, only a product-related income statement not taking into account interest and taxes was prepared, rather than complete income statement. As a result, no statements can be made on the net income/loss for the period that would have been consolidated had the acquisition taken place at the start of the reporting period.

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

There were no further changes in the scope of consolidation compared with the 2007 consolidated financial statements.

#### **Use of estimates**

Preparation of the consolidated financial statements requires management to apply certain assumptions and estimates that affect the reported amounts of assets, liabilities, income, expenses, and contingent liabilities for the reporting period. Such assumptions and estimates relate primarily to the assessment of the impairment of intangible assets, the uniform Group definition of useful lives for items of property, plant, and equipment, the recoverability of receivables, and the recognition and measurement of provisions. The assumptions and estimates are based on presumptions that are dependent on the current information available at the time. In particular, the assumptions applied to the expected future development of business were based on the circumstances prevailing at the time of preparation of the consolidated financial statements and on an assessment of the future development of the industry environment that is presumed to be realistic. Developments in this environment that depart from the assumptions made and that are beyond management’s control may lead to the actual results varying from the original estimates. If actual developments depart from expected developments, the presumptions and, if necessary, the carrying amounts of the assets and liabilities affected will be adjusted accordingly. The estimates and assumptions that entail a significant risk in the form of a material adjustment of the carrying amounts of assets and liabilities during the next fiscal year are explained below.

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

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

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

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

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

#### Foreign currency translation

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

The Group's major foreign currencies are as follows:

	AVERAGE RATES (1 EURO =)		RATES AT BALANCE SHEET DATE (1 EURO =)	
	2008	2007	Dec. 31, 2008	Dec. 31, 2007
United Kingdom (GBP)	0.7968	0.6846	0.9525	0.7346
Canada (CAD)	1.5595	1.4689	1.6998	1.4440
Poland (PLN)	3.1590	3.7831	4.1535	3.5928
Romania (RON)	3.6840	3.3379	4.0225	3.6118
Russia (RUB)	36.4233	35.0203	41.2830	35.9950
Sweden (SEK)	9.6193	9.2521	10.8700	9.4350
Switzerland (CHF)	1.5868	1.6427	1.4850	1.6557
Czech Republic (CZK)	24.9607	27.7583	28.8750	26.5750
Hungary (HUF)	251.7319	251.3233	266.7000	252.3250
U.S.A. (USD)	1.4711	1.3706	1.3917	1.4716
Ukraine (UAH)	7.7416	7.0913	10.8148	7.4292

#### Revenue recognition

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

There were no revenues from construction contracts.

**Income taxes**

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

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and their tax base, and for tax loss carryforwards whose utilization will probably result in tax benefits in future periods. The tax laws that have been enacted or substantively enacted as of the balance sheet date are used to measure deferred taxes. Current and deferred taxes were recognized on the basis of an aggregate tax rate of 28.29% (previous year: 37.5% for current taxes and 28.29% for deferred taxes). This was computed on the assumption of a corporate income tax rate (including the solidarity surcharge) for the German companies of 15.83% (previous year: current taxes 26.4%, deferred taxes 15.83%) and an average trade tax rate of 12.46% (previous year: current taxes 11.1%, deferred taxes 12.46%). The local country-specific tax rates are used for foreign companies.

**Research and development costs**

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

**Inventories**

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

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

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

**Property, plant, and equipment**

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

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

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

Scheduled depreciation is based on the following useful lives:

	Years
Buildings	14 – 25
Technical plant and machinery	8 – 21
Operating and office equipment	3 – 11

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

**Government grants**

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

In the year under review, 8,442 thousand euros of recognized government grants related to emission rights, 17,204 thousand euros to investment subsidies, and 222 thousand euros to grants for research and development costs. 1,648 thousand euros was recognized in the income statement in the fiscal year 2008.

In 2007, Pfeleiderer MDF Sp. z o.o. was granted tax relief on investments in a Polish special economic zone in the form of an exemption from the obligation to pay income taxes. The exemption from future tax payments, which was granted until September 1, 2016, is accounted for in accordance with IAS 20, Accounting for Government Grants and Disclosure of Government Assistance. 77,488 thousand PLN were accrued in the amount of the expected future tax savings in 2007, and the same amount is deferred directly in equity representing future tax benefits. The amount accrued is amortized based on the future theoretical tax expenses that would have arisen if the exemption had not been granted. The deferred amount is also amortized, but on a straight-line basis depending on the average useful life of the subsidized investments. By contrast, the accrued amount is amortized as a hypothetical annual tax expense depending on the taxable income calculated for these purposes. In the reporting year, deferrals recognized in equity were adjusted to the declining corporate planning and amounted to 32,553 thousand PLN.

#### **Leases**

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

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

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

#### **Intangible assets**

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

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

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

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

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

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

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

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

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

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

**Goodwill**

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

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

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

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

#### **Hybrid capital**

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

#### **Provisions for pensions and other similar obligations**

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

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

#### **Other provisions**

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

#### **2. Financial instruments**

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

## 2.1 Classes of financial instruments

Pfleiderer uses the following classes of financial instruments:

- cash and cash equivalents
- financial instruments classified using the measurement categories specified in IAS 39
- derivatives that are designated as hedging instruments and
- leasing liabilities.

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

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

Pfleiderer AG did not exercise the option to designate financial assets as at fair value through profit or loss on initial recognition. There are no financial instruments of the category 'held to maturity'.

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

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

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

On the liabilities side, a distinction is made between the measurement categories:

- other financial liabilities measured at amortized cost
- financial liabilities held for trading and
- derivatives that are designated as hedging instruments.

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

**Financial liabilities measured at amortized cost** comprise loans and other securitized liabilities, trade payables, liabilities to banks, and bond loans (Schuldschein).

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

The category “derivatives that are designated as hedging instruments” are derivative financial instruments in the form of interest hedging instruments that are in an effective hedging relationship with the underlying according to IAS 39.

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

## 2.2 Measurement of financial instruments

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

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

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

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

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

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

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

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

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

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

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

Depending on the nature of the hedged item, a distinction is made between a fair value hedge, a cash flow hedge, and a hedge of a net investment in a foreign operation. In fiscal year 2008, from October 1, hedge accounting was used for the first time for hedging cash flows related to hedges. An effective hedging relationship has been designated for interest hedging instruments that meet the requirements for hedge accounting. This means that changes in value resulting from measurement of the hedges on the balance sheet date are recognized directly in equity (other comprehensive income).

### 3. Share-based payment

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

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

### 4. Treasury shares

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

The shares were repurchased also for the purpose of using the acquired treasury shares to settle the options on the Company's shares issued in conjunction with the Pfeiderer 2004, 2006, 2007 and 2008 stock option programs. The shares were acquired on-exchange in Xetra trading.

### 5. Earnings per share

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

### 6. Segment reporting

Segment reporting is presented in compliance with IAS 14, Segment Reporting. In the Pfeiderer Group, segment reporting is defined by business centers, which are classified by the regions in which the goods and services are provided. The geographical segments therefore represent the reporting format for the segment reporting. No further breakdown of the operating segments is given due to the similarity of the Company's products. Segment results are presented as earnings before interest and taxes (EBIT). Earnings from discontinued operations of -325 thousand euros are attributable in full to the Western Europe segment.

#### IV. Explanatory notes to the consolidated balance sheet

##### 1. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of 46,288 thousand euros were reported as of December 31, 2008 (previous year: 17,197 thousand euros). They comprise cash at banks, cash on hand, as well as sight deposits with banks with original maturities of up to three months. Cash and cash equivalents are not exposed to credit risk as defined by IFRS 7.

##### 2. RECEIVABLES AND OTHER ASSETS

'000 EUROS	Dec. 31, 2008	Dec. 31, 2007
Trade receivables, net	72,941	76,162
Tax refund claims excluding income taxes	11,665	14,965
Receivables from affiliated companies	32	2,659
Other assets	11,338	26,239
Receivables from minority shareholders	0	370
Prepayments	29,859	213
<b>Receivables and other assets</b>	<b>125,835</b>	<b>120,608</b>

The tax refund claims relate primarily to VAT credits of 10,370 thousand euros (previous year: 14,161 thousand euros). Other assets comprise positive fair values for financial instruments of 1,053 thousand euros (previous year: 6,977 thousand euros).

The increase in prepayments results from the new plant in Novgorod, Russia. Unlike the previous year, prepayments made for fixed assets are no longer reported under property, plant and equipment, but under other current assets. In the previous year, prepayments made for fixed assets totaled 9,210 thousand euros.

##### 3. TRADE RECEIVABLES

'000 EUROS	Dec. 31, 2008	Dec. 31, 2007
Trade receivables	99,808	106,502
Less specific valuation allowances	- 6,617	- 7,772
Less collective valuation allowances	- 380	- 170
Less deductions for price reductions, sales bonuses, and cash discounts	- 19,870	- 22,398
<b>Trade receivables, net</b>	<b>72,941</b>	<b>76,162</b>

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

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

'000 EUROS	Specific valuation allowances	Collective valuation allowances
<b>January 1, 2008</b>	<b>7,772</b>	<b>170</b>
Change in scope of consolidation/exchange differences	- 511	0
<b>Brought forward</b>	<b>7,261</b>	<b>170</b>
Additions	1,068	246
Utilization	610	26
Reversals	1,102	10
<b>December 31, 2008</b>	<b>6,617</b>	<b>380</b>

Receivables with a principal amount of 60,249 thousand euros were sold as of December 31, 2008 (previous year: 83,747 thousand euros). The decrease is primarily due to lower revenues year on year in December and the weaker exchange rate of the Polish zloty against the euro. Payments and purchase price retentions in the amount of 44,163 thousand euros resulted in net receivables sold of 16,086 thousand euros. Under this arrangement, the Group retains insignificant risks and obligations ("pass-through arrangement"); these relate in particular to the rendering of settlement services. The Group only sells receivables that are covered by credit insurance. Expenses of 4,659 thousand euros (previous year: 2,603 thousand euros) were incurred in connection with the sale of receivables. These expenses relate primarily to interest and the cost of assuming the default risk reported in the income statement under "Financial expenses, net."

	TRADE RECEIVABLES		RECEIVABLES FROM AFFILIATED COMPANIES		LOANS	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Receivables not past due and not impaired	83,946	106,502	32	2,659	4,649	4,469
of which low default risk	15,647	103,388	32	2,659	4,649	4,469
of which on watch list	6	3,114	0	0	0	0
<b>Carrying amount of receivables not past due and not impaired</b>	<b>83,946</b>	<b>106,502</b>	<b>32</b>	<b>2,659</b>	<b>4,649</b>	<b>4,469</b>
Age analysis of delinquency status (past due but not impaired)						
30 - 60 days	4,496	4,381	0	0	0	0
61 - 90 days	1,527	1,675	0	0	0	0
91 - 180 days	1,627	2,488	0	0	0	0
Older than 180 days	7,414	5,126	0	0	0	0
<b>Carrying amount of past due receivables</b>	<b>15,064</b>	<b>13,670</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

The default risk of the trade receivables varies from region to region. Approximately 98% of the receivables in the Business Center Western Europe are covered by credit insurance. At Pergo Europe, credit insurance has been taken out for approximately 60% to 65% of receivables. In the Business Center Eastern Europe, around 93% of receivables are insured. In the USA, approximately 10% of

receivables are covered by credit insurance, whilst no trade receivables have credit insurance in Canada. The maximum credit risk in the Group corresponds to the gross carrying amount of the trade receivables less valuation allowances and the gross carrying amount of the loans less recognized amortization.

#### 4. INVENTORIES

Inventories comprise the following items:

'000 EUROS	Dec. 31, 2008	Dec. 31, 2007
Raw materials, consumables, and supplies	94,821	114,497
Work in progress	9,972	10,031
Finished goods and merchandise	77,285	105,165
<b>Inventories, net</b>	<b>182,078</b>	<b>229,693</b>

The decrease in inventories is primarily due to targeted efforts relating to the optimization of working capital.

In fiscal year 2008, writedowns of 16,127 thousand euros (previous year: 26,215 thousand euros) were recognized in profit or loss, and reversals of writedowns on inventories recognized in prior periods were performed in the amount of 220 thousand euros (previous year: 4,828 thousand euros). The reversals are the result of market price adjustments and better sales opportunities.

The inventory expense reported under the cost of sales item in the income statement for the 2008 fiscal year amounted to 948,767 thousand euros (previous year: 928,821 thousand euros).

#### 5. DISCONTINUED OPERATIONS

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

The operating business of the discontinued operations developed as follows:

'000 EUROS	2008	2007
Other income and expenses	- 325	5,689
EBIT	- 325	5,689
EBT	- 325	5,689
Income taxes	- 6,116	- 781
<b>Profit/loss after income taxes</b>	<b>- 6,441</b>	<b>4,908</b>

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

Assets held for sale:

'000 EUROS	Dec. 31, 2008	Dec. 31, 2007
Property, plant, and equipment, net	8,571	13,569
Deferred tax assets	1,709	1,245
<b>Non-current assets</b>	<b>10,280</b>	<b>14,814</b>
<b>Assets classified as held for sale</b>	<b>10,280</b>	<b>14,814</b>

Liabilities directly associated with assets classified as held for sale:

'000 EUROS	Dec. 31, 2008	Dec. 31, 2007
Liabilities and other debt	2	3,904
Other provisions	10,330	12,225
Income tax payables	7,700	0
<b>Current liabilities</b>	<b>18,032</b>	<b>16,129</b>
<b>Liabilities directly associated with assets classified as held for sale</b>	<b>18,032</b>	<b>16,129</b>

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

The other provisions mainly relate to the winding-up of the Wind segment and the track systems business unit.

## 6. PROPERTY, PLANT AND EQUIPMENT

'000 EUROS	Land, land rights, and buildings including buildings on third-party land	Technical plant and machinery	Other equipment, operating and office equipment	Assets under construction	Total property, plant, and equipment
<b>Cost as of Dec. 31, 2006</b>	<b>339,703</b>	<b>897,479</b>	<b>61,060</b>	<b>73,571</b>	<b>1,371,813</b>
Foreign currency translation	3,189	11,529	- 80	3,634	18,272
Acquisitions	34,965	60,532	13,144	2,623	111,264
Changes in accordance with IFRS 5	-15,300	0	0	0	-15,300
Other changes	0	0	0	0	0
Additions	801	16,540	4,002	157,587	178,930
Disposals	- 8,407	- 34,758	- 5,387	- 1,457	- 50,009
Reclassifications	37,730	119,150	4,559	-162,625	- 1,186
<b>Cost as of Dec. 31, 2007</b>	<b>392,681</b>	<b>1,070,472</b>	<b>77,298</b>	<b>73,333</b>	<b>1,613,784</b>
Foreign currency translation	- 24,558	- 65,971	- 3,389	- 7,702	-101,620
Acquisitions	3,123	16,805	317	0	20,245
Changes in accordance with IFRS 5	0	0	0	0	0
Other changes	0	0	0	0	0
Additions	3,575	32,125	10,923	82,668	129,291
Disposals	- 30,115	- 9,262	- 5,811	-10,072	- 55,260
Reclassifications	22,949	27,510	2,222	- 57,632	- 4,951
<b>Cost as of Dec. 31, 2008</b>	<b>367,655</b>	<b>1,071,679</b>	<b>81,560</b>	<b>80,595</b>	<b>1,601,489</b>
<b>Cumulative depreciation as of Dec. 31, 2006</b>	<b>-126,448</b>	<b>- 513,650</b>	<b>- 42,377</b>	<b>0</b>	<b>- 682,475</b>
Foreign currency translation	- 2,049	- 9,512	- 286	0	-11,847
Acquisitions	0	0	0	0	0
Changes in accordance with IFRS 5	8,236	0	0	0	8,236
Other changes	0	0	0	0	0
Additions	-15,842	- 71,669	-11,753	0	- 99,264
Disposals	6,789	29,151	4,704	0	40,644
Reclassifications	0	0	0	0	0
<b>Cumulative depreciation as of Dec. 31, 2007</b>	<b>-129,314</b>	<b>- 565,680</b>	<b>- 49,712</b>	<b>0</b>	<b>- 744,706</b>
Foreign currency translation	6,890	28,804	1,873	0	37,567
Acquisitions	0	- 84	-112	0	-196
Changes in accordance with IFRS 5	0	0	0	0	0
Other changes	0	0	0	0	0
Additions	- 22,644	- 75,715	-11,908	0	-110,267
Disposals	30,050	9,039	5,453	0	44,542
Reclassifications	-12,507	12,711	672	0	876
<b>Cumulative depreciation as of Dec. 31, 2008</b>	<b>-127,525</b>	<b>- 590,925</b>	<b>- 53,734</b>	<b>0</b>	<b>- 772,184</b>
<b>Carrying amount as of Dec. 31, 2007</b>	<b>263,367</b>	<b>504,792</b>	<b>27,586</b>	<b>73,333</b>	<b>869,078</b>
<b>Carrying amount as of Dec. 31, 2008</b>	<b>240,130</b>	<b>480,754</b>	<b>27,826</b>	<b>80,595</b>	<b>829,305</b>

The acquisitions include the material operations of decopa industries GmbH acquired by way of an asset deal and the plant in Moncure acquired by way of an asset deal, as well as the first-time consolidation of Pfeleiderer Accessories and Service GmbH.

Following the addition of the plant assets acquired in Moncure as part of the asset deal, the main additions to property, plant, and equipment in the 2008 fiscal year resulted from the capital expenditure of 12,598 thousand euros for the establishment of the MDF/HDF plant at the same location. In addition, capital expenditure for the MDF plant being built in Russia, Pfeleiderer MDF OOO, account for 13,862 thousand euros of these additions. In 2008, expansion investment of 10,426 thousand euros was made to increase capacities in glue production. Borrowing costs of 2,773 thousand euros (previous year: 1,875 thousand euros) were capitalized. The underlying interest rate on borrowings was between 6.1% and 8.2%.

Of depreciation, 11,153 thousand euros relates to impairment losses caused almost exclusively by the closure of the La Baie site. These impairment losses are mainly reported under other operating expenses. The increase in current depreciation compared to the previous year is principally due to above impairment loss.

Items of property, plant, and equipment were recognized for finance leases in the amount of 251 thousand euros (previous year: 804 thousand euros).

As part of the project financing for the Podberezje particleboard plant and the Grajewo MDF plant, the material assets of these companies were pledged. Apart from this, no collateral was assigned and no other preferential rights in rem were created over individual fixed assets in the past fiscal year.

## 7. INTANGIBLE ASSETS

'000 EUROS	Concessions, industrial and similar rights and assets, and licenses in such rights and assets	Goodwill	Development costs and prepayments	Total intangible assets
<b>Cost as of Dec. 31, 2006</b>	<b>39,270</b>	<b>332,426</b>	<b>124</b>	<b>371,820</b>
Foreign currency translation	-4,333	20	1	-4,312
Acquisitions	155,622	144,961	0	300,583
Changes in accordance with IFRS 5	0	0	0	0
Other changes	0	0	0	0
Additions	2,130	0	2,048	4,178
Disposals	-4,412	-5,429	0	-9,841
Reclassifications	1,301	0	-115	1,186
<b>Cost as of Dec. 31, 2007</b>	<b>189,578</b>	<b>471,978</b>	<b>2,058</b>	<b>663,614</b>
Foreign currency translation	-16,302	-15,564	-5	-31,871
Acquisitions	13,018	0	0	13,018
Changes in accordance with IFRS 5	0	-1,023	0	-1,023
Other changes	0	0	0	0
Additions	7,229	0	3,436	10,665
Disposals	-6,782	0	-54	-6,836
Reclassifications	6,715	0	-1,764	4,951
<b>Cost as of Dec. 31, 2008</b>	<b>193,456</b>	<b>455,391</b>	<b>3,671</b>	<b>652,518</b>
<b>Cumulative depreciation as of Dec. 31, 2006</b>	<b>-27,093</b>	<b>-63,599</b>	<b>0</b>	<b>-90,692</b>
Foreign currency translation	97	0	0	97
Acquisitions	0	0	0	0
Changes in accordance with IFRS 5	0	0	0	0
Other changes	0	0	0	0
Additions	-12,601	0	0	-12,601
Disposals	3,198	0	0	3,198
Reclassifications	0	0	0	0
<b>Cumulative depreciation as of Dec. 31, 2007</b>	<b>-36,399</b>	<b>-63,599</b>	<b>0</b>	<b>-99,998</b>
Foreign currency translation	1,280	0	0	1,280
Acquisitions	-31	0	0	-31
Changes in accordance with IFRS 5	0	1,023	0	1,023
Other changes	0	0	0	0
Additions	-15,855	0	0	-15,855
Disposals	2,575	0	0	2,575
Reclassifications	-876	0	0	-876
<b>Cumulative depreciation as of Dec. 31, 2008</b>	<b>-49,306</b>	<b>-62,576</b>	<b>0</b>	<b>-111,882</b>
<b>Carrying amount as of Dec. 31, 2007</b>	<b>153,179</b>	<b>408,379</b>	<b>2,058</b>	<b>563,616</b>
<b>Carrying amount as of Dec. 31, 2008</b>	<b>144,150</b>	<b>392,815</b>	<b>3,671</b>	<b>540,636</b>

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

Development costs (own work capitalized) of 551 thousand euros (previous year: 446 thousand euros) were capitalized in fiscal years 2008 and 2007.

Of the goodwill reported, 169,736 thousand euros (previous year: 174,541 thousand euros) was attributable to the Business Center Western Europe, 109,282 thousand euros (previous year: 109,282 thousand euros) to the Business Center Eastern Europe, and 113,797 thousand euros (previous year: 124,556 thousand euros) to the Business Center North America.

Amortization of intangible assets totaled 15,855 thousand euros in the 2008 fiscal year (previous year: 12,601 thousand euros) and is mainly reported under the cost of sales item. The increase in amortization of intangible assets is primarily attributable to an impairment loss on customer portfolios totaling 2,610 thousand euros which are reported under other operating expenses.

In 2008, the Company tested the goodwill reported in the consolidated financial statements for impairment. The impairment tests performed in 2008 did not give rise to a need to recognize impairment losses in the Group. For the impairment test, the carrying amount was compared with the value in use at the level of the cash-generating units. The fair value less costs to sell was determined on the basis of comparable transactions. Value in use is determined on the basis of the five-year planning approved by the management of Pfeiderer AG, from which the future cash flows after taxes were derived. Cash flows beyond the five-year period were determined in accordance with a perpetual annuity. No growth rate for extrapolating the perpetual annuity was factored in. The weighted average cost of capital used in discounting includes an individual beta factor derived from the peer group, an individual tax rate, and an individual capital structure. Capitalization rates of between 6.96% and 11.21% were taken as the basis for the impairment tests. The calculations performed did not result in the need to recognize an impairment loss.

## 8. FINANCIAL ASSETS

'000 EUROS	Shares in affiliated companies	Equity interests	Other loans	Total financial assets
<b>Cost as of Dec. 31, 2006</b>	<b>112</b>	<b>19</b>	<b>5,458</b>	<b>5,589</b>
Foreign currency translation	2	0	-66	-64
Acquisitions	0	0	81	81
Changes in accordance with IFRS 5	0	0	0	0
Other changes	0	0	0	0
Additions	0	0	394	394
Disposals	-74	-10	-1,399	-1,483
Reclassifications	0	0	0	0
<b>Cost as of Dec. 31, 2007</b>	<b>40</b>	<b>9</b>	<b>4,468</b>	<b>4,517</b>
Foreign currency translation	-2	0	-12	-14
Acquisitions	0	0	0	0
Changes in accordance with IFRS 5	0	0	0	0
Other changes	0	0	0	0
Additions	0	0	269	269
Disposals	-25	0	-76	-101
Reclassifications	0	0	0	0
<b>Cost as of Dec. 31, 2008</b>	<b>13</b>	<b>9</b>	<b>4,649</b>	<b>4,671</b>
<b>Cumulative depreciation as of Dec. 31, 2006</b>	<b>0</b>	<b>-6</b>	<b>0</b>	<b>-6</b>
Foreign currency translation	0	0	0	0
Changes in accordance with IFRS 5	0	0	0	0
Other changes	0	0	0	0
Additions	0	0	0	0
Disposals	0	0	0	0
Reclassifications	0	0	0	0
<b>Cumulative depreciation as of Dec. 31, 2007</b>	<b>0</b>	<b>-6</b>	<b>0</b>	<b>-6</b>
Foreign currency translation	0	0	0	0
Changes in accordance with IFRS 5	0	0	0	0
Other changes	0	0	0	0
Additions	0	0	0	0
Disposals	0	0	0	0
Reclassifications	0	0	0	0
<b>Cumulative depreciation as of Dec. 31, 2008</b>	<b>0</b>	<b>-6</b>	<b>0</b>	<b>-6</b>
<b>Carrying amount as of Dec. 31, 2007</b>	<b>40</b>	<b>3</b>	<b>4,468</b>	<b>4,511</b>
<b>Carrying amount as of Dec. 31, 2008</b>	<b>13</b>	<b>3</b>	<b>4,649</b>	<b>4,665</b>

The other loans include a loan of 4,603 thousand euros (previous year: 4,341 thousand euros) to the shareholder of a property leasing company included in the basis of consolidation.

**9. DEFERRED  
TAXES**

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

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

'000 EUROS	Dec. 31, 2008	Dec. 31, 2007
Receivables and other assets	18,254	2,854
Inventories, net	8,883	542
Property, plant, and equipment, net	26,007	17,731
Intangible assets, net	1,563	5
Financial assets	2,158	2
Pension provisions	4,653	3,466
Other current and non-current liabilities	4,003	8,242
Other current and non-current provisions	10,770	12,450
	<b>76,291</b>	<b>45,292</b>
Tax loss carryforwards	118,564	122,351
	<b>194,855</b>	<b>167,643</b>
Valuation allowances/non-recognition in accordance with IAS 12.34	-37,742	-61,117
	<b>157,113</b>	<b>106,526</b>
Netting	-33,942	-45,299
<b>Deferred tax assets (after netting)</b>	<b>123,171</b>	<b>61,227</b>
Receivables and other assets	9,357	4,475
Inventories, net	168	174
Property, plant, and equipment, net	65,466	51,155
Intangible assets, net	40,847	45,906
Financial assets	1,462	11
Other current and non-current liabilities	2,502	736
Other current and non-current provisions	307	1,796
	<b>120,109</b>	<b>104,253</b>
Netting	-33,942	-45,299
<b>Deferred tax liabilities (after netting)</b>	<b>86,167</b>	<b>58,954</b>
<b>Net amount of deferred tax assets</b>	<b>37,004</b>	<b>2,273</b>

The increase in deferred tax assets is largely due to the decrease in valuation allowances on tax loss carryforwards and the increase in deferred tax assets on foreign currency effects not recognized in profit or loss.

The deferred tax assets attributable to items that were not recognized in profit or loss in the 2008 fiscal year total 8,989 thousand euros (previous year: 1,398 thousand euros); this amount relates to the effects from foreign currency loans recognized directly in equity. No deferred taxes were recognized in profit or loss on the currency translation differences resulting from the consolidation of foreign subsidiaries. Deferred taxes of 0 thousand euros (previous year: 0 thousand euros) were recognized for changes resulting from financial derivatives recognized in profit or loss

#### 10. OTHER NON-CURRENT ASSETS

Other non-current assets include the deferred tax benefit from future income tax savings of 12,908 thousand euros (previous year: 21,568 thousand euros). In 2007, Pfeleiderer MDF z o.o. was granted tax relief on investments in a Polish special economic zone in the form of an income tax exemption until September 1, 2016. This tax relief is accounted for in accordance with IAS 20. The recognition in profit or loss of the tax benefit in the amount of the future tax savings is matched by an amount of 11,239 thousand euros (previous year: 21,445 thousand euros) reported under other non-current liabilities.

#### 11. CURRENT LIABILITIES AND OTHER DEBT

'000 EUROS	Dec. 31, 2008	Dec. 31, 2007
Payments received on account of orders	483	1,270
Trade payables	160,387	139,000
Liabilities to affiliated companies	0	14
Other current debt	118,086	126,804
<b>Current liabilities and other debt</b>	<b>278,956</b>	<b>267,088</b>

Other current debt comprises the following items:

'000 EUROS	Dec. 31, 2008	Dec. 31, 2007
Other employee liabilities	25,570	27,893
Collection liabilities for factoring	44,199	21,708
2nd purchase price instalment from the acquisition of Kunz incl. interest	0	11,250
Other taxes	5,470	15,677
Liabilities from wages and salaries	6,555	7,626
Liabilities from hybrid interest	7,028	7,462
Social security contributions retained	2,470	2,626
Other	26,794	32,562
<b>Other current debt</b>	<b>118,086</b>	<b>126,804</b>

#### 12. CURRENT FINANCIAL LIABILITIES

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

'000 EUROS	Dec. 31, 2008	Dec. 31, 2007
Other current liabilities and current portion of longer-term loans	153,408	137,256
Commercial paper	0	33,500
Finance leases	0	169
<b>Current financial liabilities</b>	<b>153,408</b>	<b>170,925</b>

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

**13. OTHER CURRENT PROVISIONS**

'000 EUROS	Jan. 1.2008	Additions	Utilization	Reversals	Change in scope of consolidation	Currency differences	Dec. 31, 2008
Production	7,010	996	774	1,308	0	-2,193	3,731
Sales and marketing	2,901	86	249	1,469	0	-758	511
Other provisions	51,436	25,577	16,219	8,374	85	-4,592	47,913
<b>Other current provisions</b>	<b>61,347</b>	<b>26,659</b>	<b>17,242</b>	<b>11,151</b>	<b>85</b>	<b>-7,543</b>	<b>52,155</b>

Other provisions are recognized mainly for provisions for possible violations of license and patent rights agreements, for litigation risk, and for the relocation of a production site. The other current provisions are expected to be utilized in 2009.

**14. FINANCE LEASES**

A lease exists for an energy conversion plant in Garner, South Carolina, USA, which was reported under finance leases on account of its form.

Future minimum lease payments from finance leases as of December 31, 2008, total 350 thousand euros (previous year: 585 thousand euros) and have bullet maturities of between one and five years. The present value of minimum lease installments is 308 thousand euros (previous year: 534 thousand euros).

The net carrying amounts of assets capitalized as part of finance leases total 251 thousand euros (previous year: 804 thousand euros).

**15. NON-CURRENT  
FINANCIAL  
LIABILITIES**

The Company mainly uses long-term loans to finance itself. These loans generally bear interest rates based on variable EURIBOR, LIBOR, or WIBOR rates (plus an interest rate margin). The average interest rate for these loans was approximately 5.75% p.a. in the fiscal year 2008.

'000 EUROS	Dec. 31, 2008		
	TOTAL	CURRENT PORTION (< 1 YEAR)	NON-CURRENT PORTION (> 1 YEAR)
Liabilities to banks	681,462	153,408	528,054
Finance leases	308	0	308
<b>Financial liabilities</b>	<b>681,770</b>	<b>153,408</b>	<b>528,362</b>

The syndicated loan taken out in December 2006 for an original sum of 400.0 million euros and 268.7 million CAD (158.1 million euros) amounted to 328.7 million euros and 231.4 million CAD (approximately 136.1 million euros) at the end of the year after the contractual repayments agreed for the fiscal year 2008 were made. The credit agreement is valid until the end of 2011/the beginning of 2012. Additional partial repayments are provided for during the term. Furthermore, the syndicated loan agreement contains financial covenants in line with standard market terms, which must be complied with during the term of the loan.

In March 2008, the financing adopted in 2007 with the acquisition of the financing of the Pergo companies (Club Deal) was replaced. The new framework agreement has a volume of 500 million SEK (approximately 46.0 million euros) and a term of five years; one financial covenant must be complied with.

In June 2008, Pfeleiderer AG, in conjunction with HSBC Trinkaus & Burkhardt AG and WestLB AG as arrangers, issued a bond loan (Schuldschein) with a volume of 165.0 million euros and durations of three, five and seven years. Here too, standard financial covenants are to be complied with during the term.

Credit facility agreements for a total of 1,216.6 million PLN (292.9 million euros), 130.0 million RUB (3.1 million euros) and 52.4 million euros have been entered into for Pfeleiderer's Eastern European Group companies Pfeleiderer Grajewo S.A., Pfeleiderer Prospan S.A., Pfeleiderer MDF Sp. z o.o., Silekol Sp. z o.o., and Pfeleiderer OOO. Financial covenants in line with standard market terms were also agreed under these loans.

As part of the project financing for the Podberezje particleboard plant and the Grajewo MDF plant, material assets of these companies were pledged.

The Group companies have also entered into various leases.

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

In July 2003, Pfeleiderer Grajewo S.A. entered into a similar agreement to issue such commercial papers with a current principal amount of up to 400.0 million PLN (96.3 million euros) with the bank PEKAO S.A. Here too, the individual bonds have a maximum term of one year starting from the value date; the program currently expires in June 2009. As of December 31, 2008, the principal amount of issued commercial papers was 400.0 million PLN (96.3 million euros); the investors are Pfeleiderer Prospan S.A. and Silekol Sp z o.o.

## **16. PENSIONS AND SIMILAR OBLIGATIONS**

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

Pension provisions for the fiscal years ended December 31, 2008, and December 31, 2007, are composed of the following items:

'000 EUROS	Dec. 31, 2008	Dec. 31, 2007
Pensions and similar obligations	14,983	17,843
Similar obligations	- 1,644	- 1,559
<b>Pension obligations</b>	<b>13,339</b>	<b>16,284</b>

The present value of the defined benefit obligations as of the balance sheet date was 96,276 thousand euros in the year under review (previous year: 114,009 thousand euros); this is partially attributable to defined benefit obligations funded by plan assets.

The benefits under defined benefit pension plans primarily depend on the employee's length of service, age, and salary. The costs and obligations arising from defined benefit pension plans are calculated on the basis of actuarial opinions using the projected unit credit method. This method sets the employee's past service in relation to the measurement date, and also includes estimates with regard to future salary and pension trends. The following assumptions were made in the opinions prepared as of the measurement date of December 31, 2008:

%	GERMANY		CANADA	
	2008	2007	2008	2007
Discount factor	6.00	5.31	6.50	5.50
Salary increase rate	2.50	2.50	3.00	3.50
Return on plan assets	7.00	7.00	6.75	6.25
Staff turnover rate	1.50	1.50	2.00	2.40
Pension adjustments	1.80	1.80	2.50	2.90

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

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

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

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

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

Pension expenses for the fiscal years ended December 31, 2008 and 2007, are composed of the following items:

'000 EUROS	2008	2007
Current service cost	3,208	3,785
Interest expense	5,683	5,591
Plan return on plan assets	- 6,443	- 6,523
Amortization of actuarial gains (losses)	- 120	168
Past service cost	42	0
<b>Pension expenses</b>	<b>2,370</b>	<b>3,021</b>

The following tables show the changes in the defined benefit obligations and plan assets, as well as the funding status of the defined benefit pension obligations for Germany and Canada as reported in the consolidated financial statements as of December 31, 2008 and 2007:

'000 EUROS	GERMANY			
	Defined Benefit Obligation Dec. 31, 2008	of which not covered by plan assets Dec. 31, 2008	of which covered by plan assets Dec. 31, 2008	Plan assets Dec. 31, 2008
<b>Defined benefit obligation</b>				
<b>at beginning of year</b>	<b>64,444</b>	<b>61</b>	<b>64,383</b>	<b>- 63,827</b>
Current service cost	666	0	666	
Interest expense	3,286	4	3,282	
Expected return on plan assets	0	0	0	- 4,439
Contributions by plan participants	0	0	0	
Pensions paid	- 4,053	0	- 4,053	4,029
Actuarial gains/losses	- 4,802	- 10	- 4,792	31,388
Retrospective plan amendments	252	0	252	
Past service cost	- 206	0	- 206	
Disposals and transfers	195	0	195	
<b>Defined benefit obligation at end of year</b>	<b>59,782</b>	<b>55</b>	<b>59,727</b>	<b>- 32,849</b>
Unrecognized actuarial gain (loss)	3,704	7	3,697	- 33,264
Unrecognized past service cost	- 46	0	- 46	
Plan assets	0	0	0	
<b>Balance at December 31</b>	<b>63,440</b>	<b>62</b>	<b>63,378</b>	<b>- 66,113</b>
<b>Carrying amount at December 31</b>				<b>- 2,735</b>
Pension provision (+)/asset (-)				

	CANADA			
'000 EUROS	Defined Benefit Obligation Dec. 31, 2008	of which not covered by plan assets Dec. 31, 2008	of which covered by plan assets Dec. 31, 2008	Plan assets Dec. 31, 2008
<b>Defined benefit obligation</b>				
<b>at beginning of year</b>	<b>41,815</b>	<b>0</b>	<b>41,815</b>	<b>- 28,438</b>
Current service cost	2,257	0	2,257	0
Interest expense	2,397	0	2,397	0
Expected return on plan assets	0	0	0	- 2,000
Contributions by plan participants	962	0	962	- 4,338
Pensions paid	- 1,500	0	- 1,500	1,500
Actuarial gains/losses	- 9,339	0	- 9,339	5,540
Retrospective plan amendments	- 98	0	- 98	284
Past service cost	0	0	0	0
Disposals and transfers	0	0	0	0
<b>Defined benefit obligation at end of year</b>	<b>36,494</b>	<b>0</b>	<b>36,494</b>	<b>- 27,452</b>
Unrecognized actuarial gain (loss)	0	0	0	4,235
Unrecognized past service cost	0	0	0	0
Plan assets	0	0	0	0
<b>Balance at December 31</b>	<b>36,494</b>	<b>0</b>	<b>36,494</b>	<b>- 23,217</b>
<b>Carrying amount at December 31</b>				<b>13,277</b>
Pension provision (+)/asset (-)				

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

'000 EUROS	DEFINED BENEFIT OBLIGATION	
	2008	2007
<b>Defined benefit obligation at beginning of year</b>	<b>106,259</b>	<b>118,232</b>
Current service cost	2,923	3,785
Interest expense	5,683	5,591
Contributions by plan participants	962	1,170
Pensions paid	- 5,553	- 6,452
Actuarial gains/losses	- 14,141	- 9,597
Retrospective plan amendments	154	159
Past service cost	- 206	484
Disposals and transfers	195	637
<b>Defined benefit obligation at end of year</b>	<b>96,276</b>	<b>114,009</b>
Unrecognized actuarial gain (loss)	3,704	- 723
Unrecognized actuarial past service cost	- 46	- 39
Plan assets	0	0
<b>Balance at December 31</b>	<b>99,934</b>	<b>113,247</b>
<b>Carrying amount at December 31</b>	<b>13,339</b>	<b>16,284</b>

The change in the defined benefit obligation of 7,751 thousand euros from the end of 2007 to the beginning of 2008 is largely due to using the exchange rate valid as at December 31, 2008, between the euro and the Canadian dollar for the opening balances.

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

'000 EUROS	
<b>Defined benefit obligation</b>	
2008	96,276
2007	114,009
2006	114,925
2005	97,929
2004	67,150

The expected return on plan assets of 6,443 thousand euros was calculated using an interest rate of 6.75% for Canada and 7.0% for Germany, and is netted against the pension expense. The actual return and expenses from plan assets was 2,097 thousand euros and non-realized losses from the valuation of plan assets totaled - 35,361 thousand euros.

The portfolio structure of the plan assets is as follows:

%	GERMANY		CANADA	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Equities	11.9	54.0	53.5	48.0
Fixed-interest securities	88.1	45.0	46.2	50.0
Other	0.0	1.0	0.3	2.0
	100.0	100.0	100.0	100.0

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

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

'000 EUROS	
<b>Statutory pension insurance contributions</b>	
2007	10,705
2008	15,077
<b>Pension benefits paid</b>	
2007	6,452
2008	5,553
<b>Expected pension benefits</b>	
2009	5,831
2010	5,980
2011	6,031
2012	6,083
2013	6,186
2009 - 2013	30,111

#### 17. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities include the deferral of the tax benefit from future income tax savings of 11,239 thousand euros (previous year: 21,445 thousand euros). In 2007, Pfeleiderer MDF z o.o. was granted tax relief on investments in a Polish special economic zone in the form of an income tax exemption until September 1, 2016. This tax relief is accounted for in accordance with IAS 20. The future tax savings are deferred, while 12,908 thousand euros (previous year: 21,568 thousand euros) is reported under other non-current assets.

**18. OTHER NON-CURRENT  
PROVISIONS**

'000 EUROS	Jan. 1, 2008	Additions	Utilization	Reversals	Currency differences	Dec. 31, 2008
Restructuring measures	7,488	12	5,852	571	- 241	836
Environmental risks	6,706	454	400	0	- 623	6,137
Jubilee payments	4,778	54	770	14	- 260	3,788
Partial retirement	8,768	271	771	0	0	8,268
Other	1,221	0	630	0	0	591
<b>Other non-current provisions</b>	<b>28,961</b>	<b>791</b>	<b>8,423</b>	<b>585</b>	<b>- 1,124</b>	<b>19,620</b>

Provisions for restructuring measures are recognized if there is a constructive obligation for restructuring, i. e. if a detailed formal restructuring plan has been prepared and the employees concerned expect the restructuring measures to be implemented. Utilization of restructuring provisions occurred primarily in the Western Europe region.

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

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

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

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

The interest effect of discounting non-current provisions results from an average rate of 5.75%.

**19. EQUITY**

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

**Share capital**

Pfleiderer AG's subscribed capital amounted to 136,514,816 euros as of December 31, 2008. The share capital is composed of 53,326,100 registered no-par value shares with a notional value of 2.56 euros per share. The shares are fully paid up. All 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 Pfleiderer AG. This excludes treasury shares held by Pfleiderer AG, which do not confer any rights to the Company. There were no changes to the subscribed capital in fiscal year 2008.

**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 pre-emptive 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 pre-emptive 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.

**Conditional 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 pre-emptive rights. However, the Executive Board is authorized, with the approval of the Supervisory Board, to disapply shareholders' statutory pre-emptive rights in certain cases. To date, the Executive Board has not made use of this authorization. To this end, the share capital has been conditionally increased by up to 25,600,000.00 euros by the issue of up to 10,000,000 new shares (conditional capital). Further details are governed by the authorization resolved on June 19, 2007, and Article 4(3) of the Articles of Association.

In addition, the Company's share capital has been conditionally increased by up to 11,661,644.80 euros (conditional capital). The conditional capital increase of up to 4,555,330 new no-par value shares will only be implemented to the extent that stock options 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.

**Group reserves including retained earnings brought forward and consolidated profit**

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

'000 EUROS	2008	2007
<b>January 1</b>	<b>379,875</b>	<b>302,309</b>
Measurement of/change in stock option plans	877	103
Measurement of treasury shares	- 2,165	- 1,496
Change in scope of consolidation	- 46	34,690
Consolidated profit	5,819	57,486
Dividend	- 15,290	- 13,217
<b>December 31</b>	<b>369,070</b>	<b>379,875</b>

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

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

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

#### **Hybrid capital**

Pfleiderer AG placed a HYBRID BOND of 275.0 million euros on April 27, 2007. Transaction costs totaling 5.4 million euros and deferred tax assets of 1.4 million euros were incurred. The bond is structured as a perpetual bond and carries a fixed coupon of 7.125% in the first seven years. The hybrid bond is accounted for as an equity component in accordance with IAS 32 due to its perpetual structure and the fact that its interest rate is tied to Pfleiderer AG's dividend distributions. For this reason, the tax-deductible interest payments are not included in interest expense, but accounted for in the same way as dividend obligations to shareholders. Part of this own hybrid bond was acquired during the reporting year, so that the hybrid capital decreased to 260,204 thousand euros.

#### **Treasury shares**

Since 2007, Pfleiderer AG has acquired own shares on the basis of resolutions adopted by the Executive Board in 2007 and 2008. In doing so, Pfleiderer AG exercised the authorization by the Annual General Meeting on June 19, 2007, and June 12, 2008, to acquire own shares in accordance with Section 71(1) Number 8 of the German Stock Corporation Act (AktG).

The total amount for treasury shares deducted from equity was 43,073 thousand euros (previous year: 43,432 thousand euros).

#### **Changes in other comprehensive income recognized directly in equity**

Foreign currency translation items totaling -39,829 thousand euros (previous year: -154 thousand euros) were recognized directly in equity in other comprehensive income in the fiscal year 2008. The figures relate to after-tax amounts in each case. In addition, the change (after taxes) in the effective part of hedging instruments in other comprehensive income was recognized to the value of -3,793 thousand euros (previous year: 0 thousand euros).

#### **Capital management**

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



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

		Dec. 31, 2008	Dec. 31, 2007
Balance sheet equity	million euros	710.9	801.0
Financial liabilities	million euros	681.8	635.4
Cash and cash equivalents	million euros	46.3	17.2
Net debt	million euros	635.5	618.2
<b>Gearing</b>	<b>%</b>	<b>89.4</b>	<b>77.2</b>

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

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

## V. Explanatory notes to the consolidated income statement

### 1. REVENUES

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

### 2. COST OF SALES

The cost of sales of 1,301,028 thousand euros (previous year: 1,308,920 thousand euros) primarily comprises the cost of materials amounting to 943,298 thousand euros (previous year: 958,068 thousand euros) and employee benefits of 158,697 thousand euros (previous year: 162,465 thousand euros).

### 3. SELLING EXPENSES

The selling expenses of 223,334 thousand euros (previous year: 246,977 thousand euros) primarily comprises outward freight costs of 107,016 thousand euros (previous year: 120,362 thousand euros) and employee benefits of 44,355 thousand euros (previous year: 44,361 thousand euros).

### 4. ADMINISTRATIVE EXPENSES

Administrative expenses of 122.388 thousand euros (previous year: 126.065 thousand euros) principally relate to employee benefits of 54,363 thousand euros (previous year: 58,293 thousand euros) as well as legal and consulting costs of 23,628 thousand euros (previous year: 23,677 thousand euros).

In 2008, the following fees were reported as expenses for services rendered by the Group auditors KPMG AG Wirtschaftsprüfungsgesellschaft and its associated companies (KPMG Europe LLP):

'000 EUROS	Group parent	Subsidiaries	Total
Audit fees	76	574	650
Audit-related fees	66	22	88
Tax advisory costs	0	0	0
Other fees	250	20	270
<b>Total</b>	<b>392</b>	<b>616</b>	<b>1,008</b>

#### 5. RESEARCH AND DEVELOPMENT COSTS

Research and development costs amounted to 4,081 thousand euros in 2008 (previous year: 2,898 thousand euros). They mainly comprise employee benefits in the amount of 2,759 thousand euros (previous year: 1,664 thousand euros).

#### 6. OTHER OPERATING INCOME/OTHER OPERATING EXPENSES

'000 EUROS	2008	2007
Other operating income	48,118	63,341
Other operating expenses	35,568	43,024
<b>Balance</b>	<b>12,550</b>	<b>20,317</b>

Other operating income comprises income from the reversal of provisions of 11,736 thousand euros (previous year: 8,621 thousand euros) and reversals of impairment losses of 3,346 thousand euros (previous year: 3,809 thousand euros). Income from currency translation differences of 6,817 thousand euros (previous year: 4,244 thousand euros) and from insurance compensation of 3,444 thousand euros (previous year: 1,560 thousand euros) are also reported under this item. Negative goodwill amounts totaling 11,787 thousand euros resulted from purchase price allocations from the acquisition of the activities of decopa industries GmbH and the plant in Moncure, North Carolina.

Other operating expenses comprise expenses including valuation allowances and bad debts of 4,211 thousand euros (previous year: 3,714 thousand euros) as well as expenses resulting from exchange rate losses of 1,966 thousand euros (previous year: 1,576 thousand euros). In addition, as a result of the closure of the MDF plant La Baie Inc., Canada, a valuation allowance of 10,927 thousand euros was recognized. Valuation allowances totaling 2,610 thousand euros were also charged on capitalized customer portfolios.

#### 7. FINANCIAL EXPENSES, NET

'000 EUROS	2008	2007
Interest income	5,417	6,485
Interest expense	-57,061	-52,944
<b>Net interest income</b>	<b>-51,644</b>	<b>-46,459</b>
Net income from investments	0	242
Other financial income, net	-28,360	251
<b>Financial expenses, net</b>	<b>-80,004</b>	<b>-45,966</b>

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

Interest income mainly includes income from interest rate swaps resulting from the difference between the variable and fixed interest payment obligations. In 2008, this income amounted to 4,817 thousand euros (previous year: 4,450 thousand euros).

Other financial income largely comprises the net measurement of foreign currency hedges on the balance sheet date (15,508 thousand euros), of interest rate hedging instruments (4,093 thousand euros), and from currency translation of foreign currency financial positions (5,618 thousand euros).

Of the net financial expenses, the following income and expenses result from financial instruments of the measurement categories in IAS 39:

'000 EUROS	2008	2007
Loans and receivables	262	262
Financial assets held for trading	1,053	0
Financial liabilities held for trading	-20,412	-277
Available-for-sale financial liabilities	0	242
Financial liabilities carried at amortized cost	-57,061	-52,944
<b>Total</b>	<b>-76,158</b>	<b>-52,717</b>

The interest income from the fixed-interest loans is reported under income from loans and receivables. Changes in the fair value of interest rate and currency hedges, as well as the part of changes in the fair value related to the non-effective part of derivatives that is designated as a hedging instrument, are recognized under expenses for financial assets and liabilities held for trading.

## 8. INCOME TAXES

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

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

'000 EUROS	2008	2007
<b>Current taxes</b>		
Germany	-15,475	-12,911
Outside Germany	-1,711	-10,622
<b>Deferred taxes</b>		
Germany	10,048	8,887
Outside Germany	18,311	3,729
<b>Total (Tax expenses (-), tax income (+))</b>	<b>11,173</b>	<b>-10,917</b>

Deferred tax income mainly comprises the recognition of additional deferred tax assets from the remeasurement of tax loss carryforwards which are regarded as considerably more likely to be recoverable due to expected future taxable profit. This was partially offset by the partial loss of tax-loss carryforwards for German companies due to the regulations of Section 8c of the German Corporation Tax Act (KStG).

Income tax expense of -6,116 thousand euros (previous year: -781 thousand euros) is attributable to the loss from discontinued operations before taxes of -325 thousand euros (previous year: +5,689 thousand euros).

Deferred and current taxes were recognized on the basis of an aggregate tax rate of 28.29% (previous year: 37.5% for current taxes and 28.29% for deferred taxes). This was computed on the assumption of a corporate income tax rate (including the solidarity surcharge) for the German companies of 15.83% (previous year: current taxes 26.4%, deferred taxes 15.83%) and an average trade tax rate of 12.46% (previous year: current taxes 11.1%, deferred taxes 26.4%). The local country-specific tax rates are used for foreign companies.

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

'000 EUROS	2008	2007
Profit before taxes from continuing operations	17,615	90,620
<b>Expected tax expense based on a tax rate of 28.29% (previous year: 37.5%)</b>	<b>-4,983</b>	<b>-33,982</b>
Increase/decrease in tax expense resulting from:		
Differences in tax rates	-3,542	9,378
Prior-period taxes	2,226	-1,247
Changes in the tax rate	-	-6,891
Non-deductible business expenses/permanent differences (incl. domestic trade tax add-backs)	-1,299	-2,169
Tax-free income	8,981	11,452
Valuation allowance on deferred taxes	9,752	14,129
Extraordinary factors from the deferral of continuing and discontinued operations	92	-1,354
Extraordinary factor at consolidation level	-227	-188
Other	173	-45
<b>Actual tax expense (-), tax income (+)</b>	<b>11,173</b>	<b>-10,917</b>

As of December 31, 2008, the Group had domestic corporate income tax loss carryforwards of 162,914 thousand euros (previous year: 267,972 thousand euros) and domestic trade tax loss carryforwards of 174,413 thousand euros (previous year: 207,510 thousand euros), as well as foreign loss carryforwards of 318,385 thousand euros (previous year: 243,635 thousand euros). In accordance with the legal regulations in force at the balance sheet date, domestic losses can be carried forward indefinitely and in unlimited amounts. The foreign loss carryforwards have the following expiration periods:

'000 EUROS	2008	2007
Expiring within		
1 year	500	2,617
2 years	1	578
3 years	-	1
4 years	-	-
5 to 9 years	104,474	115,456
10 years and more	135,125	68,049
Indefinite	78,285	56,934
<b>Total international</b>	<b>318,385</b>	<b>243,635</b>

Valuation allowances on deferred tax assets were recorded and deferred tax assets were not recognized in the total amount of 37,742 thousand euros (previous year: 61,117 thousand euros), if their realization within a foreseeable period of time is uncertain based on the circumstances, the legal situation, and the information available. The decrease in written down and unrecognized deferred tax assets results from the remeasurement of tax-loss carryforwards, which led to a substantial appreciation of deferred tax assets on loss carryforwards. The current estimate of the recoverability of deferred tax assets may change depending on the results of operations in future years and may necessitate higher or lower valuation allowances. The provisions of German tax law on the utilization of loss carry forwards (minimum taxation) have been taken into account in the estimate of the probability of the future realization of deferred tax assets on loss carryforwards.

## VI. Other disclosures

### I. CONTINGENT LIABILITIES

The following contingent liabilities are recognized at their nominal amounts:

MILLION EUROS	Dec. 31, 2008	Dec. 31, 2007
Guarantees and letters of comfort	80.2	69.2
Warranty obligations	3.3	4.4

Furthermore, credit institutions have issued guarantees in favor of the Group's customers, suppliers, and other contracting partners totaling 29.5 million euros (previous year: 30.7 million euros); corresponding guarantee lines are available. These primarily comprise performance guarantees and guarantees under warranties and guarantees in connection with contingent liabilities resulting from divestments.

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

Under an ABS program for financing trade receivables in the amount of 29.6 million euros (previous year: 52.1 million euros), Pfeiderer AG is liable for the recoverability of the receivables sold. The receivables sold are covered in full by credit insurance so that no claim under this is expected.

Pfeiderer AG has assumed payment guarantees and warranties for subsidiaries totaling 69.9 million euros, which are reduced in line with the partial payments made.

The Group provides warranties for certain products. The size of potential warranty claims is calculated on the basis of sales of these products and records of past claims for similar warranties. The provisions for warranty obligations changed in the reporting period and the prior period as follows:

'000 EUROS	2008	2007
<b>Opening balance at January 1</b>	<b>522</b>	<b>542</b>
Warranties issued during the reporting period	2,083	522
Claims during the fiscal year	- 522	- 542
<b>Balance at December 31</b>	<b>2,083</b>	<b>522</b>

## 2. OTHER FINANCIAL COMMITMENTS

The Group leases items of property, plant, and equipment under rental and leasing agreements that do not qualify as finance leases under IFRSs, but as operating leases. Additionally, the Group has entered into contracts for the maintenance of property, plant, and equipment, and for various services. Expenses relating to rental and leasing agreements reported in the income statement amounted to 20,014 thousand euros (previous year: 18,574 thousand euros).

The minimum amount of undiscounted future rental and lease payments under operating leases amounted to 120,900 thousand euros (previous year: 74,697 thousand euros). The corresponding payment obligations are due as follows:

'000 EUROS	2008	2007
Within 1 year	21,091	13,691
1 to 5 years	69,723	40,882
After 5 years	30,086	20,124
<b>Total payment obligations</b>	<b>120,900</b>	<b>74,697</b>

The increase in other financial commitments is primarily due to the conclusion of long-term service contracts with IBM totaling 39,411 thousand euros.

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

The future minimum lease payments inflows under subleases relating to operating leases (all between one and five years) amount to 306 thousand euros (previous year: 657 thousand euros).

As of December 31, 2008, purchase commitments amounted to 170,970 thousand euros (previous year: 49,394 thousand euros). The increase in purchase commitments in the past financial year is largely due to the production relocation of the MDF plant from LaBaie to Moncure, totaling 43,926 thousand euros, and the building of the new MDF plant in Velikii Novgorod, Russia, totaling 63,606 thousand euros.

### 3. LITIGATION

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

### 4. EARNINGS PER SHARE

		2008	2007
Earnings after minority interests	'000 euros	5,819	57,486
Average number of shares outstanding (basic)	units	50,781,022	52,326,757
Dilutive stock options	units	136,483	264,516
Average number of shares outstanding (diluted)	units	50,917,505	52,591,273
Earnings per share (basic)	euros	0.11	1.10
Earnings per share (diluted)	euros	0.11	1.09
Earnings per share from continuing operations after minority interests (basic)	euros	0.24	1.00
Earnings per share from continuing operations after minority interests (diluted)	euros	0.24	1.00
Earnings per share from discontinued operations (basic)	euros	-0.13	0.10
Earnings per share from discontinued operations (diluted)	euros	-0.13	0.09

Of the stock options granted to members of the Executive Board and employees under the 2004, 2006, 2007, and 2008 stock option programs, 136,483 shares (previous year: 264,516 shares) have a dilutive effect. The dilutive effect is taken into account in calculating earnings per share.

### 5. DIVIDENDS

Pfeleiderer AG will not pay a dividend for fiscal 2008, subject to the approval of the Annual General Meeting. In the corresponding prior-year period, Pfeleiderer AG paid a dividend of 0.30 euros per no-par value share carrying dividend rights.

### 6. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

In 2008, cash flow allocated to discontinued activities resulted exclusively from operating activities and amounted to –4 thousand euros (previous year: –1,430 thousand euros). In the previous year, cash flow from discontinued activities from investing activities totaling –15,255 thousand euros was also reported.

## 7. SEGMENT REPORTING

### 7.1. Structure of segment reporting

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

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

### 7.2. Segment amounts by geographical region

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

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

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

Noncash segment expenses mainly comprise additions to provisions, impairment losses and valuation allowances.

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

Segment assets fixed non-current assets (excluding financial assets) and non-interest-bearing current assets (excluding income tax receivables, deferred taxes, and cash and cash equivalents) that have contributed to financial expenses, net.

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

## 8. DISCLOSURES ON FINANCIAL INSTRUMENTS AND RISK INFORMATION

### Derivative financial instruments

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

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

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

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

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

'000 EUROS	Dec. 31, 2008		Dec. 31, 2007	
	NOMINAL VOLUME	FAIR VALUE	NOMINAL VOLUME	FAIR VALUE
Interest rate derivatives	259,166	-7,936	276,544	2,101
Currency derivatives	146,210	-8,742	110,558	4,831
Other derivatives	242	242	0	0
<b>Total</b>	<b>405,618</b>	<b>-16,436</b>	<b>387,102</b>	<b>6,932</b>

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

Those financial derivatives are recognized in profit or loss at the balance sheet date for which hedge accounting is not applied. If hedge accounting applies, the measurement approaches are posted directly in equity without affecting profit or loss. This affects existing CAD interest rate derivatives.

Group risk from derivative financial instruments is primarily limited to counterparty risk. The maximum default risk for the Group corresponds to the amount of the positive fair values of the derivatives. The maximum risk for currency forwards are the exchange rate changes in the hedged amounts.

## Disclosures on the carrying amounts and fair values of financial instruments at December 31, 2008

## ASSETS

'000 EUROS	NOTIONAL	AMORTIZED COST				FAIR VALUE	
		LOANS AND RECEIVABLES		AVAILABLE-FOR-SALE FINANCIAL ASSETS		FINANCIAL ASSETS HELD FOR TRADING	
		Carrying amounts	Fair values	Carrying amounts	Fair values	Carrying amounts	Fair values
Cash and cash equivalents	46,288						
Receivables and other assets		77,667	77,667				
Derivatives without hedging relationship						1,053	1,053
<b>Current assets</b>	<b>46,288</b>	<b>77,667</b>	<b>77,667</b>	<b>0</b>	<b>0</b>	<b>1,053</b>	<b>1,053</b>
Financial assets				4,667	4,667		
Other assets		937	937				
<b>Non-current assets</b>	<b>0</b>	<b>937</b>	<b>937</b>	<b>4,667</b>	<b>4,667</b>	<b>0</b>	<b>0</b>
<b>Carrying amounts by measurement category</b>		<b>78,604</b>		<b>4,667</b>		<b>1,053</b>	
<b>Fair values per class</b>	<b>46,288</b>		<b>78,604</b>		<b>4,667</b>		<b>1,053</b>

## EQUITY AND LIABILITIES

'000 EUROS	AMORTIZED COST		FAIR VALUE				FINANCE LEASE LIABILITIES	
	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST		FINANCIAL LIABILITIES HELD FOR TRADING		DERIVATIVES THAT SERVE AS HEDGING INSTRUMENTS		Carrying amounts	Fair values
	Carrying amounts	Fair values	Carrying amounts	Fair values	Carrying amounts	Fair values		
Liabilities and other debt	204,586	204,586						
Financial liabilities	153,408	153,408						
Derivatives without hedging relationship			9,865	9,865				
Derivatives with hedging relationship					7,624	7,624		
<b>Current liabilities</b>	<b>357,994</b>	<b>357,994</b>	<b>9,865</b>	<b>9,865</b>	<b>7,624</b>	<b>7,624</b>	<b>0</b>	<b>0</b>
Financial liabilities	528,054	528,054					308	308
<b>Non-current liabilities</b>	<b>528,054</b>	<b>528,054</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>308</b>	<b>308</b>
<b>Carrying amounts by measurement category</b>	<b>886,048</b>		<b>9,865</b>		<b>7,624</b>		<b>308</b>	
<b>Fair values per class</b>		<b>886,048</b>		<b>9,865</b>		<b>7,624</b>		<b>308</b>

The fair value of financial assets and financial liabilities usually corresponds to their carrying amounts. The effective interest rate of variable-rate liabilities to banks is largely comparable with the market interest rate. The fair value is therefore equal to the carrying amount of the liabilities. If the fair values cannot be reliably determined – such as in the case of the Group's equity interests and shares

in affiliated companies – these items are carried at amortized cost. The carrying amounts of recognized derivatives correspond to their fair value.

Cash and cash equivalents are accounted for at amortized cost.

Trade receivables and other current receivables are initially carried at fair value and subsequently measured at amortized cost less valuation allowances and impairment losses (bonuses, cash discounts, and other sales deductions).

Financial assets are accounted for at amortized cost due to the absence of an active market, which means that their fair value cannot be reliably determined. Other non-current assets are measured at amortized cost.

Derivatives with positive or negative fair values are measured at fair value by discounting the future expected cash flows (they are measured by the respective counterparties, which are usually banks). Measurement is based on the market rates of interest applicable for the residual term of the contracts. If derivatives are in an effective hedging relationship with the underlying, changes in value are recognized directly in equity under other comprehensive income.

Liabilities and other debt as well as financial liabilities (both current and non-current) are initially recognized at fair value. Trade payables and other primary financial liabilities are subsequently measured at amortized cost.

#### Presentation of net gains and losses by measurement category in fiscal year 2008

'000 EUROS	Net gains	Net losses
Loans and receivables	28,368	20,562
Financial assets held for trading	1,053	0
Financial liabilities held for trading	0	20,412
Financial liabilities measured at amortized cost	1,973	11,411
<b>Total payment obligations</b>	<b>31,394</b>	<b>52,385</b>

Net gains or losses result from impairment losses and reversals of impairment losses on receivables through profit or loss, as well as from exchange rate gains or losses on the measurement of financial instruments denominated in foreign currencies, from book gains or losses on the sale of financial instruments, and from the fair value measurement of derivative financial instruments that are not part of an effective hedging relationship, and finally from the fair value measurement of derivative financial instruments recognized in profit or loss that are part of an effective hedging relationship according to IAS 39.

#### Risk information

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

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

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

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

#### **Credit risk/default risk**

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

#### **Liquidity risk**

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

The undiscounted contractual repayments for financial liabilities over the next five years and thereafter were as follows as of December 31, 2008:

'000 EUROS	Gross outflows	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
<b>Non-derivative financial liabilities</b>								
<b>Liabilities</b>								
Trade payables	160,387	160,387	0	0	0	0	0	0
Liabilities to banks	777,813	102,200	98,496	119,295	245,353	37,815	131,950	42,704
Finance lease liabilities	350	0	0	0	350	0	0	0
Miscellaneous/other debt	44,199	44,199	0	0	0	0	0	0
<b>Total</b>	<b>982,749</b>	<b>306,786</b>	<b>98,496</b>	<b>119,295</b>	<b>245,703</b>	<b>37,815</b>	<b>131,950</b>	<b>42,704</b>
<b>Derivative financial liabilities</b>								
Derivatives classified as financial liabilities held for trading	9,865	9,865	0	0	0	0	0	0
Derivatives for which a hedging relationship has been designated	7,624	7,624	0	0	0	0	0	0
<b>Total</b>	<b>17,489</b>	<b>17,489</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

#### Market risk

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

#### Foreign currency risk

'000 EUROS	USD	CAD	SEK	RUB
Cash and cash equivalents	2,961	0	9	0
Trade receivables	2,804	86	0	0
Receivables from affiliated companies	174,716	11,231	240,094	31,585
Other financial receivables	0	0	0	28,839
<b>Total assets</b>	<b>180,481</b>	<b>11,317</b>	<b>240,103</b>	<b>60,424</b>
<b>Liabilities</b>				
Trade payables	- 5,564	0	0	0
Liabilities to affiliated companies	0	- 1,330	- 35,140	0
<b>Total liabilities</b>	<b>- 5,564</b>	<b>- 1,330</b>	<b>- 35,140</b>	<b>0</b>
<b>Total assets and liabilities, net</b>	<b>174,917</b>	<b>9,987</b>	<b>204,963</b>	<b>60,424</b>
<b>Positions economically hedged by derivatives</b>				
	69,148	2,372	10,047	10,266
<b>Net exposure</b>	<b>105,769</b>	<b>7,615</b>	<b>194,916</b>	<b>50,158</b>

If the euro had appreciated by 10% against the USD, CAD, SEK, and the RUB as of December 31, 2008, equity and the profit for the period would have changed as follows:

'000 EUROS	Equity Dec. 31, 2008	Gain/loss 2008
USD	-7,857	-1,758
CAD	0	-692
SEK	-21,155	3,436
RUB	-1,454	-3,106

### Interest rate risk

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

As part of the calculation of the fair value sensitivity of financial instruments, the change in the fair value – defined as the present value – is simulated using a parallel shift in the yield curve by 100 basis points. The calculations are based on the generally recognized and published yield curves at the balance sheet date. Such risks usually result from the hedging of financial liabilities issued on a variable-rate basis; Pfleiderer converts its variable-rate payment obligations into fixed-rate payment obligations by using interest rate swaps. The risk of an assumed increase in the relevant interest rates of 100 basis points amounted to 3,273 thousand euros as of December 31, 2008 (previous year: 2,860 thousand euros).

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

'000 EUROS	TOTAL		CURRENT		NON-CURRENT	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
<b>Fixed-rate financial instruments</b>						
Loans	4,649	4,469	0	0	4,649	4,469
Cash and cash equivalents	46,288	17,197	46,288	17,197	0	0
Financial liabilities	-354,454	-349,426	-104,529	-49,581	-249,925	-299,845
<b>Net exposure of fixed-interest financial instruments</b>	<b>-303,517</b>	<b>-327,760</b>	<b>-58,241</b>	<b>-32,384</b>	<b>-245,276</b>	<b>-295,376</b>
<b>Variable-rate financial instruments</b>						
Loans	0	0	0	0	0	0
Cash and cash equivalents	0	0	0	0	0	0
Financial liabilities	-327,316	-252,452	-48,879	-87,844	-278,437	-164,608
Commercial paper	0	-33,500	0	-33,500	0	0
<b>Net exposure of variable financial instruments</b>	<b>-327,316</b>	<b>-285,952</b>	<b>-48,879</b>	<b>-121,344</b>	<b>-278,437</b>	<b>-164,608</b>

## 9. RELATED PARTY DISCLOSURES

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

### Transactions with related party entities

As a result of the stake in Pfeiderer AG which it holds (26.9%), One Equity Partners Europe GmbH, Frankfurt, (OEP) can exercise significant influence on the Company. OEP is therefore considered a related party.

There are no trade relationships with OEP. As the largest shareholder, OEP appoints two Supervisory Board members. As part of these Supervisory Board duties, the Supervisory Board members receive the usual benefits and reimbursement of expenses. There are no other additional relationships.

### Transactions with related party individuals

In accordance with IAS 24, Pfeiderer AG also reports on transactions between Pfeiderer AG and related party individuals or close members of their families. Related party individuals are defined as members of the Executive Board and the Supervisory Board and their families. In addition to their compensation (cf. point VI.10., "Remuneration and shareholdings of executive bodies"), members of the Executive Board are also granted other benefits. These primarily comprise the use of company cars, the reimbursement of traveling expenses, and the reimbursement of telephone costs.

## 10. REMUNERATION AND SHAREHOLDINGS OF EXECUTIVE BODIES

In 2008, the remuneration of the individual members of the Executive Board was as follows:

'000 EUROS	Fixed salary including non-cash compensation	Severance payments	Performance-based	Total
Hans H. Overdiek (CEO)	742	0	806	1,548
Michael Ernst	383	0	344	727
Dr. Robert Hopperdietzel	581	0	484	1,065
Heiko Graeve (since June 1, 2008)	259	0	233	492
Derrick G. Noe (until January 14, 2008)	16	686	0	702
<b>Total</b>	<b>1,981</b>	<b>686</b>	<b>1,867</b>	<b>4,534</b>

Total remuneration of the members of the Executive Board amounted to 4,534 thousand euros in the 2008 fiscal year (previous year: 4,267 thousand euros). Additions to pension provisions for the active members of the Executive Board amounted to 561 thousand euros for the 2008 fiscal year (previous year: 310 thousand euros).

Pension obligations to former Executive Board members and their surviving dependants amount to 4,034 thousand euros (previous year: 4,338 thousand euros). Compensation of 214 thousand euros was paid to former members of the Executive Board (previous year: 87 thousand euros) in 2008.

In the 2008 fiscal year, the members of the Executive Board were granted 491,176 new options (previous year: 214,740) to subscribe for shares in return for the contribution of a personal investment as part of Pfeiderer AG's Stock Option Plan 2008.

Members of the Supervisory Board received remuneration totaling 645 thousand euros for their activities in the 2008 fiscal year (previous year: 624 thousand euros).

At the balance sheet date, members of the Executive Board held a total of 675,448 shares (previous year: 201,051), while members of the Supervisory Board held a total of 105,533 shares (previous year: 25,533).

## II. SHARE-BASED PAYMENT

The Company decides each year at its own discretion whether to establish a stock option program, who is eligible to participate in it, and how many stock options each eligible participant will receive. The stock options are granted to eligible participants on the condition that they make a personal investment. The stock options have a six-year term. They may be exercised no sooner than three years after they have been granted. The number of stock options granted to eligible participants is calculated based on the amount of the personal investment divided by the strike price and multiplied by a factor of 12 for executives and a factor of 18 for members of the Executive Board. The strike price for the 2001 and 2002 stock option programs is calculated based on the average of the closing prices of the Company's shares on the Frankfurt Stock Exchange between September and November 2001 and September and November 2002 respectively, the strike price for the 2004 and 2006 and 2007 stock option programs is calculated based on the average of the closing prices of the Company's shares on the Frankfurt Stock Exchange between June and August 2004 and June and August 2006 respectively, and the strike price for the Stock Option Program 2008 is calculated based on the average of the closing prices of the Company's shares on the Frankfurt Stock Exchange between July and September. Stock options may be exercised at a subscription price of between 110% and 125% of the strike price. Each stock option entitles the holder either to purchase one Pfeleiderer share at a fixed subscription price or to cash compensation, to the extent that the Company makes use of its right of substitution.

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

### **Stock Option Program 2002**

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

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

**Stock Option Program 2004**

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

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

**Stock Option Program 2006**

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

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

**Stock Option Program 2007**

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

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

**Stock Option Program 2008**

On the basis of the Stock Option Plan resolved in 2006 (Stock Option Plan 2006), the Stock Option Program 2008 (SOP 2008) was resolved by the Executive Board on June 18, 2008, and by the Working Committee of the Supervisory Board on June 23, 2008. A total of 68 Executive Board members and executives participated in SOP 2008 with 1,387,744 options. The strike price was 8.96 euros. The exercise prices were between 9.86 euros and 11.20 euros, with a weighted average exercise price of 10.52 euros.

Options from the Stock Option Program 2008 will be exercisable for the first time on October 1, 2011, and will be exercisable for the last time on September 30, 2014.

The development of the number of options is as follows:

<b>2007</b>	SOP 2001 '000 Options	SOP 2002 '000 Options	SOP 2004 '000 Options	SOP 2006 '000 Options	SOP 2007 '000 Options	SOP 2008 '000 Options
Outstanding at beginning of year	91	94	456	482	0	0
Granted					793	
Exercised	- 91	- 82	- 27			
Expired				- 17		
Outstanding at year end	0	12	429	465	793	0
Exercisable at year end	0	12	429	0	0	0

  

<b>2008</b>	SOP 2001 '000 Options	SOP 2002 '000 Options	SOP 2004 '000 Options	SOP 2006 '000 Options	SOP 2007 '000 Options	SOP 2008 '000 Options
Outstanding at beginning of year	0	12	429	465	793	0
Granted						1,388
Exercised		- 12	- 35			
Expired				- 182	- 370	
Outstanding at year end	0	0	394	283	423	1,388
Exercisable at year end	0	0	394	0	0	0

The fair value of the subscription rights from the 2001, 2002, 2004, 2006, 2007 and 2008 stock option programs was estimated using the Black-Scholes method for valuing subscription rights using weighted averages. SOP 2008 was estimated on the basis of the following assumptions as to the valuation of subscription rights using weighted averages:

		<b>2008</b>
Fair value at the balance sheet date	Euro	2.84
Average price	Euro	16.66
Strike price	Euro	8.61
Expected volatility	%	50.6
Term of the option	Years	6
Expected dividend yield	%	3.5
Risk-free interest rate	%	3.18

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

The share-based compensation models resulted in personnel expenses of 928 thousand euros (previous year: 1,479 thousand euros) for the Pfeleiderer Group in the reporting year. A provision of 0 thousand euros (previous year: 0 thousand euros) was recognized in the consolidated financial statements for obligations under share-based compensation models.

## 12. CORPORATE GOVERNANCE

The Executive Board and the Supervisory Board have issued the declaration of conformity for 2008 in accordance with Section 161 of the German Stock Corporation Act (AktG) on the recommendations of the Government Commission of the German Corporate Governance Code and published it on the Company's website. Pfeiderer AG has reported in detail on corporate governance in the section of this Annual Report entitled "Corporate Governance Report of Pfeiderer Aktiengesellschaft".

## 13. PERSONNEL EXPENSES

Personnel expenses totaled 260,174 thousand euros in the fiscal year (previous year: 266,783 thousand euros).

The breakdown of the Company's workforce as of December 31, 2008, was as follows:

	2008	2007
Executive bodies	40	35
Employees	2,108	2,048
Hourly paid workers	3,629	3,766
<b>Total</b>	<b>5,777</b>	<b>5,849</b>

## 14. EXEMPTION PROVISION IN ACCORDANCE WITH SECTION 264B OF THE GERMAN COMMERCIAL CODE (HGB)

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

- Pfeiderer dritte Erwerbengesellschaft mbH & Co. Grundstücksverwaltungs KG
- Pfeiderer Holzwerkstoffe GmbH & Co. KG
- Pfeiderer Holzwerkstoffe Nidda GmbH & Co. KG
- Pfeiderer Leasing GmbH & Co.
- Pfeiderer Infrastrukturtechnik GmbH & Co. KG.

**15. EVENTS AFTER THE  
BALANCE SHEET DATE**

The following significant events occurred in the period up to February 23, 2009 (date of approval of the financial statements for publication by the Executive Board):

On December 15, 2008, the Polish government approved a law with effect from December 30, 2008, to expand tax relief for investments in a Polish special economic zone ("Suwalska special economic zone", SEZ) in the form of an income tax exemption until December 31, 2020. On the basis of current law, it is not reasonably certain that approvals to invest in this special economic zone will automatically extend until December 31, 2020. The extension of this tax relief would be accounted for in accordance with IAS 20. The recognition of the additional tax benefit in the amount of the future tax savings (10,461 thousand euros) would then be matched by a corresponding amount (10,461 thousand euros) reported under other non-current liabilities.

Details on the Management Board and Supervisory Board (committees, additional mandates of Management Board or Supervisory Board members) can be found in the appendix to the notes.

Neumarkt, February 23, 2009



Hans H. Overdiek



Heiko Graeve



Dr. Robert Hopperdietzel



Pawel Wyrzykowski

## Consolidated Companies as of December 31, 2008

### PFLEIDERER AG

#### REGION WESTERN EUROPE

BHT Bau- und Holztechnik Thüringen GmbH  
 Declam Holding AB  
 Duropal GmbH  
 FH Frischholz GmbH  
 FOLS Sp. z o.o.  
 Heller Forstservice GmbH  
 Heller Holz GmbH  
 Jasmin Grundstücksverwaltungsgesellschaft mbH  
 JURA-Spedition GmbH  
 Kunz Faserplattenwerk Baruth GmbH  
 Kunz Informatik GmbH  
 Pergo AB  
 Pergo AS  
 Pergo A/S  
 Pergo Asia Co. Ltd.  
 Pergo Asia-Pacific Pte. Ltd.  
 Pergo B.V.  
 Pergo (Europe) AB  
 Pergo (France) S.A.S.  
 Pergo GmbH  
 Pergo GmbH  
 Pergo Golv AB  
 Pergo Holding B.V.  
 Pergo Iberia SL  
 Pergo India Pvt. Ltd.  
 Pergo Ltd.  
 Pergo NV/SA  
 Pergo OY  
 Pergo Trading Co. Ltd.  
 Pfeleiderer Accessoires and Services GmbH  
 Pfeleiderer Benelux B.V.  
 Pfeleiderer dritte Erwerbengesellschaft mbH  
 Pfeleiderer dritte Erwerbengesellschaft mbH & Co.  
 Grundstücksverwaltungs KG  
 Pfeleiderer Europe GmbH  
 Pfeleiderer France S.A.S.  
 Pfeleiderer Holzwerkstoffe Gschwend GmbH  
 Pfeleiderer Holzwerkstoffe GmbH & Co. KG  
 Pfeleiderer Holzwerkstoffe Nidda GmbH & Co. KG  
 Pfeleiderer Holzwerkstoffe Nidda Verwaltungs-GmbH  
 Pfeleiderer Holzwerkstoffe Verwaltungs-GmbH  
 Pfeleiderer Industrie GmbH

### NEUMARKT

Saalburg-Ebersdorf 100.00 %  
 Trelleborg (SE) 100.00 %  
 Neumarkt 100.00 %  
 Neumarkt 100.00 %  
 Grajewo (PL) 100.00 %  
 Neumarkt 100.00 %  
 Neumarkt 100.00 %  
 Stuttgart 0.00 %  
 Neumarkt 100.00 %  
 Baruth 100.00 %  
 Neumarkt 100.00 %  
 Trelleborg (SE) 100.00 %  
 Hovik (NO) 100.00 %  
 Copenhagen (DK) 100.00 %  
 Bangkok (TH) 100.00 %  
 Singapore (SG) 100.00 %  
 Zoetermeer (NL) 100.00 %  
 Trelleborg (SE) 100.00 %  
 Rueil Malmaison (FR) 100.00 %  
 Cham (CH) 100.00 %  
 Neumarkt 100.00 %  
 Trelleborg (SE) 100.00 %  
 Zoetermeer (NL) 100.00 %  
 Madrid (ES) 100.00 %  
 New Delhi (IN) 50.00 %  
 Tamworth (GB) 100.00 %  
 Antwerpen (BE) 100.00 %  
 Esbo (FI) 100.00 %  
 Guangzhou (CN) 100.00 %  
 Leutkirch 100.00 %  
 Deventer (NL) 100.00 %  
 Neumarkt 100.00 %  
 Neumarkt 100.00 %  
 Neumarkt 100.00 %  
 Reims (FR) 100.00 %  
 Neumarkt 100.00 %  
 Neumarkt 100.00 %  
 Neumarkt 100.00 %  
 Neumarkt 100.00 %  
 Neumarkt 100.00 %  
 Neumarkt 100.00 %

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

## Auditors' Report

We audited the consolidated financial statements – comprising the balance sheet, income statement, statement of changes in equity, cash flow statement, and the notes – and the Group management report prepared by Pfeleiderer Aktiengesellschaft, Neumarkt, for the fiscal year from January 1 to December 31, 2008. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under Section 315a(1) of the German Commercial Code is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

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

Our audit has not led to any reservations.

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

Nuremberg, February 27, 2009

KPMG AG  
Wirtschaftsprüfungsgesellschaft  
(formerly  
KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft)



Zehnder  
Auditor



Rupprecht  
Auditor