

**2010 Annual Shareholders' Meeting of Pfleiderer AG**  
**Wednesday, June 23, 2010**  
**Speech / Report by the Executive Board**  
**Hans H. Overdiek, CEO of Pfleiderer AG**

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- Check against delivery -

**Welcome**

Ladies and gentlemen, on behalf of the entire Executive Board, I would like to cordially welcome you to our Annual Shareholders' Meeting.

On this date last year, we also came together here in Munich to have a close look at the events of the year 2008. I spoke in my introduction about "unprecedented challenges for the world economy" and the "affects of the global sales crisis."

Nonetheless, the title of my presentation last year was a cautiously optimistic "Enhancing Competitive Advantages." At the peak of the financial markets crisis and at the beginning of the worldwide economic crisis, to some this title seemed a little premature: In view of the severity of the economic crisis, shouldn't the CEO of a cyclical company first concentrate on sheer survival instead of thinking about long-term strategic goals?

From today's perspective, I can say to you that our approach was right: Although the crisis was worse than we all expected, we made use of it to further improve our competitive position. We significantly surpassed the cost-saving targets we announced at that time. One could say that we urgently pursued the goal of "survival" without losing track of our strategic objectives.

Today, we are well prepared for the economic recovery that we expect to accelerate in the second half of this year; this is why the title of our new presentation is "Preparing for the Upswing."

In the next hour, I will explain to you how my cautious confidence was justified last June: 2009 was one of the most difficult years in our company's history. But the light at the end of the tunnel first became visible in the second half of 2009. And I can assure you that the constant improvement in our business climate is continuing in 2010.

But ladies and gentlemen, let me first give you a brief overview of what I would like to discuss with you today.

I will start by justifying my claim that we utilized the crisis to improve our positioning with some facts. After that, I would like to give you an overview of the most important key figures for the Pfleiderer Group's business operations, followed by details of our revenue and cost developments. Of course, I will also talk about our cash flows and balance sheet, the latter with a particular focus on equity and liabilities, which have changed considerably as a result of our financing negotiations in the second half of last year.

Towards the end of my speech, I will explain some of the financing decisions that we made during 2009 and at the beginning of 2010. Naturally, I will also consider the impact on our business model of the crises of the past two years, and we will have a look at our share-price development, with which we certainly cannot be satisfied. I will finish my speech with an analysis of our business segments, a look at the first quarter of this year, and some comments on our strategy and the remaining months of 2010.

But first, let's look at the environment in which we were operating last year.

**Slide 1 – Crisis year 2009**

With the exception of Poland, all of the countries in which we operate were in deep recession in 2009. And this recession was significantly worse than most forecasters had anticipated in late 2008. The engineered-wood sector proved to be far more cyclical than the overall economy in all of our regions and contracted by much higher rates – especially in North America and Russia. In general, however, due to our good positioning, our unit sales actually declined less than our competitors' and less than the average market declines in many other segments. But we, too, were affected by price reductions of 30 percent and more!

And during 2009, especially in Western Europe and North America, we observed a significant, structural and sustained lack of capacity utilization.

## **Slide 2 – Competitive position**

Those of you who have attended our shareholders' meetings in the past have heard me talk increasingly about strategic competitive advantages recently. And I have also mentioned them today. Pfeleiderer has invested a lot of time and money in improving its production technologies and reducing costs while continuing to supply its customers with first-class quality. Meanwhile, we are among the technology leaders in our industry. And that's not all: we are increasingly supplying non-standardized, high-quality products in more and more regions of the world.

We are now harvesting the fruits of this forward-looking investment, ladies and gentlemen. We have had to idle less production capacity than others, allowing us to pass them.

Whereas production capacity of approximately 1.5 million cubic meters was idled in Western Europe in 2009, Pfeleiderer was able to advance from third to second place worldwide in terms of installed and producing capacity in the areas of particleboard and fiberboard.

But we did not come through all of this untouched. In our smallest and least efficient plant in Gschwend, production has been suspended with the help of short-time working arrangements. The decision as to what will happen to this plant depends on the ongoing market development and will be made before the end of this year.

At all our other sites, we are operating at full strength. At last, one has to say, because the new MDF plant in Moncure should actually have started production in the fourth quarter of 2009. Due to construction delays, it did not start up until February 2010. This was just in time, because demand for MDF/HDF in the USA is now increasing.

The delay in shifting the plant from LaBaie and installing it in Moncure is also the subject of an internal investigation at Pfeleiderer – and the reason for the postponement of ratification of Dr. Hopperdietzel's actions, who departed from the Executive Board during the reporting period. As soon as the results of the investigation are available, we will proceed and make the required decision.

Since the middle of 2009, we have been occupied with the new financing of Pfeleiderer AG. As I am sure you all know, this became necessary after we breached an important financial covenant in our credit agreements. We planned to complete the negotiations before the end of the year. This was then altered to January 2010; I would prefer not to go into the reasons why at this point. But the package has now been approved and secures our financing for four years until the end of 2013.

And now to our key figures for the year 2009.

## **Slide 3 – Key figures – year-on-year comparison**

We are anything but proud of the figures that I am presenting to you today; let me make that quite clear. The numbers are not good. We have rather better news for our ongoing development, as I will show you later, although the year 2010 will still be subject to many uncertainties.

The Pfeleiderer Group's revenue in 2009 amounted to 1.4 billion euros, which is about 20 percent lower than in 2008. But our unit sales suffered much less: A decrease of 10 percent is more robust than one might have feared, considering the severity of the crisis. The factors that made our business difficult are firstly the falling prices in all our markets, and secondly the fall of the Eastern European currencies in which we invoice: the zloty and the ruble, that is.

As you know, a high proportion of fixed costs is typical of our business. These costs are also incurred when we have low utilization of capacity. So our earnings fell at a much higher rate than our revenue – despite the success of our efforts to reduce our cost base once again.

Our EBITDA before restructuring costs amounted to 118 million euros, which is 47 percent lower than in the prior year. After restructuring costs of nearly 18 million euros, our EBITDA was just over 100 million euros.

The following profit-and-loss figures were similarly disappointing: EBIT of minus 16 million euros, which also includes impairments, and a net loss per share of 1 euro and 42 cents. This result unfortunately means that we cannot recommend to you today that a dividend should be paid out for the year 2009.

Let me put these figures into an overall context.

#### **Slide 4 – Key figures – now on the upturn**

Ladies and gentlemen, this slide shows our development per quarter since the beginning of 2008. As you can see at top left for revenue, we already had the sharpest drop in revenue in the fourth quarter of 2008. After that, the quarter-on-quarter decreases became smaller and then stabilized – at a low level – as of the second quarter of 2009.

Partially due to lower raw-material prices, we still had a respectable EBITDA margin of nearly 15 percent in the first quarter of 2009. But our profitability deteriorated as the year progressed: In the first half of 2009, the oil price doubled from approximately 40 US dollars per barrel to about 80 US dollars per barrel, and then remained around that level for the rest of the year. Wood prices remained fairly constant in the first six months of the year but then rose sharply in the fourth quarter. And for glue, the usual price correlation with oil was maintained: With the usual six-month time lag after the price of oil, glue prices fell until the middle of the year and then rose again significantly.

At the same time, due to weak demand and structural excess capacity, we were unable to pass on this cost pressure to our customers in the form of price increases. At this point, please allow me to digress briefly, although this is not intended as an excuse for our disappointing results.

Subsidies such as a state car-scrapping allowance are a nice thing for the recipient, and car buyers were certainly pleased about this support. But we see this as a clear market distortion, because for political reasons, purchasing decisions are redirected into the automotive industry. This means that less money was available for new kitchens and furniture.

This is not the only market distortion we had to contend with. With our raw material wood, we are competing with the pellet industry and biomass power plants. These industries have a competitive advantage for political reasons because governments subsidize them for supposed ecological reasons. This makes wood – our raw material – a lot more expensive, especially in Germany.

And that brings me back to our figures. The result of the unfavorable situation I have briefly described can be seen in our EBITDA for the fourth quarter of 2009: Despite fairly stable revenue, it more than halved compared to the previous quarters. This is not very surprising when one considers that raw materials account for 50 to 60 percent of our total costs. I will return to that later.

This negative development affects the rest of our income statement and is made worse by restructuring expenses of 17.5 million euros and impairments of 6.8 million euros for buildings and machinery.

In total, we made a net loss of 69.8 million euros for the year 2009, or 1 euro and 42 cents per share.

#### **Slide 5 – Revenue development – defining factors**

Slide 5 shows the development of our sales volumes and sales revenue from the product perspective.

As you can see, unit sales suffered in particular for raw particleboard and surface-finished particleboard. The biggest declines were in the first half of the year; there has been a slight recovery since the middle of 2009.

For laminate flooring, we recorded constant sales volumes compared to the prior year, and unit sales of MDF and HDF increased slightly.

When one looks at end users' demand for our products in Germany, this development is not surprising: The German furniture industry contracted by 11.5 percent in 2009. Sales of kitchen furniture fell by 9.2 percent, of other home furniture by 11.0 percent, and of office furniture by 15.6 percent.

But there are signs that our situation is improving: According to the *ifo* institute, business expectations in the furniture industry brightened in the second half of 2009 and the number of construction permits granted also increased again. In the first quarter of 2010, it was about 10 percent higher than in the same period of 2009. The business climate and expectations in the wood industry are therefore more positive than a few months ago.

On the right of this slide, you can also see a revenue bridge showing how volumes, prices and currency effects reduced our total revenue from just over 1.7 billion euros in 2008 to just under 1.4 billion euros in 2009.

### **Slide 6 – Revenue development – composition**

At this point, I briefly want to present to you the composition of our revenue, which has had a regional shift. In particular, North America increased its proportion of revenue at the expense of Eastern Europe, which suffered not only from weak demand, but also from weaker currencies during 2009.

On the customer side, the furniture industry and the project business continued to play an important role. Home-improvement stores gained importance, not least due to our success in North America.

We generate nearly three quarters of our revenue with value-added products, that is, with surface-finished particleboard and fiberboard and with laminate flooring. These product groups enjoy above-average margins; we therefore want to expand them and to increase their share of revenue.

Let me now turn to the cost side, in particular to the development of our material costs.

### **Slide 7 – Pressure on margins**

At this point, I have to make a short preliminary remark.

In our financial reporting, we always perform a delicate balancing act: As one of the few listed companies in our sector – the engineered wood industry – on the one hand, we have a duty to provide transparent and detailed information to our investors. We are pleased to fulfill this duty. On the other hand, we have to protect commercially sensitive data in order to maintain our competitiveness. And in doing so we are also acting in the interests of our shareholders.

I believe therefore, that despite the abstracted depiction on the current slide, we can show you the influence on our results of rising material costs.

This makes it clear how our material costs have increased in relation to revenue over the past five quarters: In the first quarter of 2009, this ratio was still 51.3 percent. It then increased during the year and had already reached 55.3 percent in the fourth quarter of 2009. In the first quarter of 2010, our material costs were actually 58.1 percent.

There are two explanations for this significant increase: Firstly wood prices, which have increased by 10 to 30 percent year on year, depending on location and type of wood. And secondly prices of chemical products, which were more than 10 percent higher than in the prior year.

Our gross margin was significantly impacted by the strong increases in raw-material prices in particular in the second half of the year.

### **Slide 8 – Income statement**

Since I have already explained the most important factors affecting the income statement, I would now like to just say a bit more about some of those points.

First of all, exchange-rate effects: We invoice in the foreign currencies Polish zloty, Canadian dollar, US dollar, Swedish krona and Russian ruble. All currencies fluctuated against the euro during the year euros and fell on an annual average, apart from the US dollar. The zloty and the ruble fell by more than 20 percent. Such a development does not make our lives easier, even though we try to minimize currency risks.

We hedge our foreign-exchange risks as far as possible with the use of so-called natural hedges, that is, by purchasing raw materials and machinery locally. In addition, we apply financial-market hedges, which are explained in the notes to our consolidated financial statements in the annual report.

But in total, currency effects reduced revenue by more than 60 million euros and EBITDA by 7.4 million euros. This primarily reflects the extreme weakness of the Eastern European currencies last year.

As I mentioned previously, we surpassed our original cost-saving target of 80 million euros and achieved savings of more than 100 million euros. Unfortunately, that was still not enough to offset the negative price, currency and unit-sales effects.

As a reaction to the market development, we reduced our productive capacities. Gschwend was completely idled with the help of short-time work; capacities were adjusted at other plants by reducing overtime and applying short-time working arrangements. We adjusted our capacities to market demand also in structural terms by reducing the numbers of temporary workers and permanent staff.

I must say to you quite clearly that these structural adjustments are not yet completed and that we still have some difficult decisions ahead of us. Although on the whole we can be satisfied with the rates of capacity utilization we have now achieved. But the coming summer months will show whether or not we now have a structural equilibrium between supply and sustainable demand in our markets. The goal of satisfactory productivity is still some distance away; although our material costs have risen, our average prices are still 20 percent lower than in 2007.

With regard to our net interest result, I would like to point out that we benefited on the one hand from a generally lower level of interest rates. On the other hand, currency effects made a small positive contribution. The sharp decrease compared with the prior year is based on the fact that 2008 was negatively affected by losses from currency hedges and interest-rate hedges.

The amount of 18 million euros that you see as the second-last commented item relates to interest payments for our hybrid bond, which we suspended in 2009. The interest amount shown here has not been paid, but is entered in our balance sheet under liabilities and other debts.

### **Slide 9 – Investments and cash flows**

We invested a total of nearly 160 million euros in 2009, almost exactly equal to the level of the prior year and significantly more than our depreciation and amortization. A large portion of that amount was invested in our megasites in Russia and the United States: just over 100 million euros in North America, most of it related to our move to Moncure in North Carolina and the development of the plant there.

The second-largest amount of nearly 38 million euros was invested in Eastern Europe. Most of the investment in this region was for the expansion of the MDF plant in Novgorod. We have suspended this activity until further notice because we want to wait and see how the market develops. We anticipate a further investment requirement of 50 to 60 million euros for completion of that plant. In the second half of 2010, we will recalculate the investment for the plant and decided whether or not to continue on the basis of current market data.

Many of you will remember that we took legal action against the property developer due to construction delays and mistakes. We reached an out-of-court settlement with the company in the first quarter of 2010.

Apart from possible optimization measures in Moncure and the completion of construction in Novgorod, we will restrict our investment this year to maintenance and rationalization expenditure, which we estimate to be a maximum of 80 million euros. The intensive investment activity of recent years now allows us to fully utilize growth opportunities on the basis of the new plants.

A brief look at our cash flows shows how well Pfeiderer was able to convert its business activities into positive cash flows in the past. It is true that we did not manage to do so in 2009 and had to accept a small cash outflow from operating activities. But we are confident that 2009 will remain the exception.

### **Slide 10 – Balance sheet at December 31, 2009**

I believe only one aspect of the balance sheet, shown on Slide 10, is in need of explanation.

As you all know, we reached an agreement with our banks on January 11 this year on the continuation of financing at new conditions until the end of 2013. New negotiations had become necessary because we breached a financial covenant of the old credit agreements in the second quarter of 2009.

If we had been able to sign the credit agreements just two weeks earlier, the liabilities side of our balance sheet at the end of the year would look quite different. Due to the breach of covenant last year, the related financial liabilities were formally called due and were thus shown as current liabilities until the conclusion of the new credit agreements. This relates to liabilities of 426 million euros. Partially reflecting that amount, but also as a result of increased utilization of credit lines, current liabilities increased to 1.1 billion euros at the end of 2009.

### **Slide 11 – Balance sheet at March 31, 2010**

Those financial liabilities that had to be shown as current at the end of 2009 were returned to non-current with the conclusion of the negotiations with our banks in January. As a result, the liabilities side of our balance sheet has “normalized” again, so to speak.

We have added our balance sheet at March 31, 2010 to this presentation to show you this effect. The relevant figures are entered in red.

### **Slide 12 – Key figures**

On this slide, we have summarized the most important key figures of our financing and credit agreements.

The new financing package with a total volume of 800 million euros covers the continuation of the existing syndicated credit and the Schuldschein, supplemented by a loan of 140 million euros from KfW, a state-owned promotional bank. This secures our financing for the next four years – although at higher costs than previously. Interest expenses will be higher this year than in 2009 by a small eight-digit figure.

Allow me to make a comment in this context ,ladies and gentlemen: In November 2009, the Bundesbank calculated in a special publication that the average equity ratio of companies in Germany was 24.8 percent in 2007, that is, before the crisis started. So we compare very well with our equity ratio of 32 percent **in** the crisis – despite our debt!

Independently of Pfeiderer AG, our subsidiary Pfeiderer Grajewo is also holding discussions with its banks concerning financing of 300 million euros. In March, Pfeiderer Grajewo was able to announce the conclusion of these negotiations with an agreement on a financing package also running until the end of 2013.

The reduction of our debt is one of our most important goals for the coming years. We have already taken the first steps in this direction with the sale of treasury shares in January 2010 and the 10 percent capital increase shortly afterwards.

The target of our debt reduction is to reduce our total debt by 350 million euros. This is to be achieved from our cash flow from operating activities as well as from the sale of non-essential activities, which should yield between 50 and 100 million euros.

For the sake of completion, the following slide shows the financing activities that took place after the end of the reporting period, that is, the credit agreements and the details of the share transactions.

### **Slide 13 – Financing activities**

On January 19, 2010, we placed all of our nearly 2.65 million treasury shares on the market. This constituted 4.96 percent of our share capital at that time. The placement yielded proceeds of approximately 18.5 million euros (equivalent to approximately 7 euros per share).

On February 4, 2010, we then carried out a capital increase of 10 percent of the then share capital and placed just over 5.3 million shares. This transaction resulted in proceeds of 34.7 million euros. The placement took place on a day when the market fell by more than 2 percent at 6.50 euros per share, which

was just above the market price. The shares were sold within two hours, mainly to investors in London and Zürich.

Another financing decision has already been made for this year: Due to the ongoing difficult economic situation, we will have to suspend the interest payment on our hybrid bond, which is due in August. This is very unfortunate, but will save us a cash outflow of 18.5 million euros in the short term.

These actions will protect our liquidity, which is so important in these times: In total, we will have secured nearly 72 million euros.

#### **Slide 14 – Segment overview**

Ladies and gentlemen, now I would like to have a look at our individual regions with the respective business centers.

Reading the table from right to left, you can see that our revenue in North America was more or less the same as in 2008, although the North American market as a whole shrank significantly.

In total, we stabilized our business and have now achieved a small operating profit following a significant loss – despite the additional burden of restructuring costs and impairments of more than 3 million euros.

Elsewhere, we do not have as much positive news. In Eastern Europe, we recorded the biggest revenue decline of all regions compared to the prior year. Of that decline, 60.4 million euros or 14.4 percentage points was accounted for by the exchange-rate effects I have already talked about; the rest resulted mainly from falling product prices. Unit sales in Poland remained comparatively good.

In Western Europe, we had to accept significant falls in unit sales and prices, which bore roughly equal responsibility for a revenue decline of 22 percent.

But since the middle of last year, we have had positive signs in this region again, with regard to both unit sales and prices.

#### **Slide 15 – Key figures for Q1**

Ladies and gentlemen, after talking in detail about the year 2009, I would now like to say a few words about the first quarter of 2010.

Revenue of 356 million euros in the first quarter of 2010 was at the level of Q1 2009, and thus higher than in the other three quarters of last year.

The stabilization of unit sales that we have observed since the middle of 2009 has continued, and has actually gained dynamism and breadth: For the first time, we were able to increase our unit sales compared to the prior-year quarter, and for the first time, we have recorded growth in all of our segments. And the duration of this recovery indicates that it is not merely a matter of restocking depleted inventories, but a normalization of the situation in our industry against the backdrop of the general economic recovery.

In addition, we have also been helped by currency effects. Both the Polish zloty and the Canadian dollar climbed against the euro in the first quarter of 2010.

Unfortunately, the development of our product prices is lagging behind, although we have to say that January and February reduced the average price for the quarter. Because in March, we were able to achieve price increases of about 15 percent compared to the end of 2009, a trend that has continued in the second quarter.

Regrettably, we were not able to convert the positive revenue trend into profits. This was due not only to comparatively low average prices, but also to sharp increases in material costs, which I have already talked about and which we were only partially able to offset through higher sale prices.

The severe winter also had an impact: On the one hand, construction activity in Europe was interrupted for several weeks, with a corresponding impact on sawmill activity. On the other hand, tree felling and wood-cutting were also reduced. Due to the long and hard winter, there was also stronger demand from the pellet

industry to provide fuel for private households. This all led to a significant increase in wood prices, in some cases by up to 30 percent.

At the same time, this winter meant that we had to accept productivity losses. Because cold winters mean that we need more energy to dry the wood we use as a raw material.

Overall therefore, we achieved unsatisfactory EBITDA of 22 million euros and negatives EBIT of minus 6 million euros. This represents a loss per share of 35 euro cents.

### **Slide 16 – Development of unit sales in Q1 2010**

As I have already mentioned, we achieved further growth in unit sales of 2 percent in the first quarter of 2010, this time in all segments. Let me now briefly describe how our individual product groups contributed to this growth.

Compared to the first quarter of last year, we increased our unit sales of raw particleboard by 5.7 percent and of raw fiberboard by 5.5 percent. Unit sales of surface-finished board developed the best, with an increase of 8.2 percent. Unit sales of laminate were the only negative aspect, with a decline of 14.7 percent. This was due to an unfavorable product mix and the postponement of a major order. We therefore anticipate an improvement in our unit sales as the year progresses, which was already visible in North America at the beginning of Q2.

One aspect has to be pointed out when considering the development of unit sales by region: Our goal is to sell as high a proportion of our products as possible as so-called value-added products, that is, as surface-finished particleboard and fiberboard – because significantly higher margins can be achieved with those products. If you look at the graph on the right of this slide, you will see that we have achieved volume growth exactly in this product group in all regions. This is a very positive development.

On the next slide, I would now like to show you an example of the development of our product prices. Let's have a look at the prices of raw particleboard in Germany.

### **Slide 17 – Prices of raw particleboard in Germany**

You can see here how these prices peaked in the middle of 2007 and then fell by about 30 percent by the middle of 2009. Fortunately, this negative trend has reversed since then. By the end of the first quarter of 2010, prices of raw particleboard in Germany recovered again, a trend that continued in the second quarter – at least that's what our current figures indicate.

The Federal Office of Statistics only publishes average values. In reality, it looks quite different, depending on the individual product category and customer. Nonetheless, I believe the graph shows the general price trend quite clearly, which is also quite similar for the other regions.

Rising prices are partially due to improved demand: Our customers are ordering again with greater confidence. We can therefore estimate our order situation again for a period of approximately two months.

But on the other hand, after the capacity adjustments in the industry of the past 18 months, we are experiencing also a concentrated supply situation. We assume that these capacity adjustments have not been completed and that the industry will continue its consolidation.

That is all I want to say about the key figures of Pfeleiderer AG in the year 2009 and the first quarter of 2010. Before I conclude my speech with some comments on our strategy, I would like to have a look at the development of our share price during that period.

### **Slide 18 – Share price**

As you see, the downward trend that still corresponded with the rest of the market and our sector in the fourth quarter of 2008 accelerated in the first quarter of 2009. Pfeleiderer's share price lost considerable ground in this phase compared to the market and the sector. The stock market is represented by the MDAX and the SDAX, by the way.

Our share price reached a low for the year of 2 euros and 44 cents at the beginning of March 2009. Our sales markets had become increasingly difficult during the year 2008 due to the global economic crisis and at the beginning of 2009 we could hardly foresee what the coming weeks would bring. To that extent, I believe that although the weakness of our share price is very disappointing, it is thoroughly comprehensible against the backdrop of the fear of a collapse in Eastern Europe that prevailed at that time.

The upward movement came rather suddenly and to the degree that investors had anticipated economic recovery with growing confidence. If you look at the second and third quarters of 2009 in isolation, you will see that Pfeiderer's share price significantly outperformed both the market and the European industrial sector: While the latter rose by 60 percent during that period, our share price more than tripled to a peak of 8 euros and 50 cents on September 22.

Unfortunately, the fourth quarter was dominated by our long-drawn-out new financing negotiations. And this was not offset by the more positive operating environment. Our share price therefore fell again, while the rest of the market entered a sideways trend. Overall, Pfeiderer's shares closed the year at a price of 6 euros and 14 cents, and thus approximately 8.5 percent lower than at the start of the year. Since the beginning of 2010, our share price has developed weaker than the market due to our level of debt and the ongoing market consolidation. For a sustained turnaround of this trend, we have to prove that the market recovery is lasting and that we can convert that into better earnings. Most analysts are convinced that we will succeed and have predominantly given our shares a "buy" assessment.

This underperformance of our stock has the consequence that we no longer fulfill the criteria to remain in the MDAX. For two days now, our shares have been listed in the SDAX. Our declared goal is to return to the MDAX on the basis of good results and the resumption of dividend payments – like we have previously done so in the past.

## **Slide 19 – Products**

Now ladies and gentlemen, after the naked numbers, something more tangible from the daily practice of the Pfeiderer team!

A year ago, I talked to you about the design and construction prizes we had won. I could now do the same for 2009, and the list of awards would be even longer than in 2008: We won more prizes last year than ever before.

Instead, I would like to present to you some of the projects we worked on last year.

For example, Pfeiderer products were selected for the restaurant of the world's biggest cruise ship, the "Oasis of the Seas." We were chosen because we were able to produce the top-quality reproductions of exotic woods that the interior designers required for their art-deco restaurant design.

In addition, the luxury liner AIDAAluna was launched in Palma de Mallorca in April 2009. This cruise ship is already the third in a fleet of six ships whose nearly 1500 cabins which are fitted out with products from the Pfeiderer subsidiaries wodego and Duropal.

We announced an even more far-reaching cooperation involving Pfeiderer companies in May 2009. Three of our subsidiaries – Duropal, wodego and Pergo – supplied the companies responsible for the refitting of the VW car showrooms all over the world. Duropal supplied a new, hardwearing and dyed-through high-pressure laminate, matching the decorative panels supplied by wodego. And Pergo supplied superior flooring laminate.

A similar high-pressure laminate, this time with a 3-D effect, will soon be used to upgrade the flagship stores of the ESPRIT fashion chain. The panels have already been used in Hong Kong and Sydney with more shops to follow in Europe.

Finally, we supplied our LIVINGBoard panels, a product that is sustainable in many ways – from the raw materials to transportation to room climate. This is why the new buildings being constructed for IKEA by Bien-Zenker will also include our panels, and why the refurbishment of two tower blocks of a renowned German bank is also being implemented with our products.

As you see, we do not only make commodity products. We are also manufacturers – to an increasing extent, I may say – of highly specialized, top-quality, sophisticated products. Many of these products are unrivalled and therefore allow us to achieve respectable prices and to generate good profit margins.

## **Slide 20 – Consequences of the financial market crisis**

I now come to the last part of my speech and the question of which lessons we have learnt from the financial market crisis and the recession, and what impact they have on our outlook and our future strategy.

The most important point, once again, is that an executive board must not rely on too much on forecasts. Very few economists foresaw the financial crisis. And I do not have the impression that there is agreement among experts today on how we can emerge from the resulting debt crisis and develop our economies. In the same way, very few analysts and other market observers issued warnings in good time about the effects on industrial companies' capitalization and operating business. Accordingly, nearly all companies reacted late, and we in the Executive Board of Pfeleiderer AG were no exception. Caution and risk avoidance are therefore the top priorities for us and our business activities.

The debt crisis has made access to capital more difficult for companies. This is true of all companies and of all kinds of capital. It is particularly difficult for companies whose business model is based on relatively high financial liabilities. And this includes Pfeleiderer due to our cost structure, the competitive situation in our industry and the resulting margin potential. We also had to learn this lesson in the context of the extremely tough financing negotiations last year. The key element of our future strategy is therefore to maintain our liquidity and to significantly reduce our debt.

We already knew before the crisis that technology leadership and an efficient cost structure in an extremely competitive industry are essential for success. We have been working for years on both of these factors – intensively and very successfully. This lesson is an encouraging experience for us, because we have improved our competitive position through the crisis exactly because of our advanced technology and our cost leadership. This is why, in my opinion, we have earned our progress from Number 3 to Number 2 in our industry worldwide.

And the last lesson is not new to us either: Our industry needs further consolidation in order to return to reasonable margins. Progress has been made, but it is still not enough. We played a constructive role in the past, and we intend to do so also in the future.

## **Slide 21 – Strategy**

And now to our strategy and the outlook for the year 2010.

In many areas, the economic crisis has not changed our strategic goals. We want to differentiate ourselves from the competition and to contribute towards the consolidation of our industry through our position, cost leadership and advanced technology. At the same time, we want to generate long-term added value for our shareholders and to remain an attractive employer for staff.

Naturally, we have adjusted our tactical focus to the difficult market situation. Since the second half of 2008, we have placed particular emphasis on cost controls, cash management and strengthening our balance sheet.

In this light, the capital measures are to be seen that we took in January and February 2010. Together with the improved profitability we anticipate for the second half of the year, this should help us to significantly reduce our debt in the medium term.

Until then, we intend to continue reducing our costs. In this context, the Executive Board has placed a particular focus on fixed costs.

As I said, the consolidation of our industry and the consequential capacity adjustments are just as essential for a return to solid margins. Of course, this also includes attaining higher sale prices to compensate for the increased raw-material prices I have already described.

Another possibility to improve profitability is to shift our revenue mix towards more products with higher margins. This is why we have intensified our sales activities in the area of laminate flooring. This policy will be continued in the coming year.

We will certainly focus even more on the issue of “green” products and sustainability. Going far beyond statutory requirements, all of our German plants and some of our plants abroad are already certified according to the environmental standard ISO 14001. Nearly all (22 of our 26 wood-processing plants) have successfully passed through the certification process for the globally recognized seals of approval for sustainable forestry and timber management: FSC and PEFC. And our products themselves fulfill all the usual environmental requirements, including the “Blue Angel” and the “Nordic Swan.”

Furthermore, we are one of the few wood processors that support the green-building methods in North America and Western Europe. By providing environmentally relevant information on our products, we enable property developers and construction companies to obtain the highest possible scores in the LEED certification (Leadership in Energy and Environmental Design of the US Green Building Council).

Ladies and gentlemen, if you will allow me to digress, at present the term “sustainability” seems to be fashionable not only in Germany. Each company, each municipality and also many private individuals are committed to this code of conduct. Through their own behavior, ensure that resources are used carefully, that the earth is passed on to future generations in reasonable condition, and that our basis for economic success is maintained – to mention just a few of the definitions of the term. Many experts therefore talk about an “elastic concept.”

For us – and I would like to emphasize this point – sustainability is more than a fashion. Our raw material – wood – is a renewable resource.

For our business activities, this means that we purchase our raw materials only from sustainably managed forests, whether under state, municipal or private ownership. Our definition of sustainability is rather simple and clear: Sustainable forestry means above all that only the amount of timber is taken from the forest that is regenerated. It's that easy. And to assess the fulfillment of this criterion, we make use of the internationally recognized certifications I have just mentioned.

But for us, sustainability does not stop with our raw material, wood. Everywhere possible, we operate material loops and conserve our other raw materials. We do not just talk about the concept of sustainability; we live in accordance with it. Why? Because using less material reduces our costs and because reduced electricity consumption opens up scope for investment. In brief, because ecological requirements are derived from economic constraints. Yes, we want to be the cost leader, and we want to be the technology leader. Not as an end in itself, but to maintain and improve Pfeiderer's competitiveness. And that is also a matter of sustainability – although a few years ago one would have described it as shareholder value.

And now burning fresh wood is regarded as sustainable. As I briefly mentioned before, this is a problem for us as one of the biggest customers for wood. Because politicians often prefer easy answers, and it is easy to legislate that burning wood – a valuable raw material – should be promoted as CO<sub>2</sub>-neutral through lower value-added tax, grants and subsidies. So for political reasons, the competition for a raw material available in limited quantities is made even tougher. And as you know, ladies and gentlemen, increased demand leads to higher prices, which are directly reflected in our income statement.

But there are solutions for this! We are politically active ourselves and through our industrial associations and demand that the use of wood as a material should have priority over thermal use. It is more sustainable to lock CO<sub>2</sub> into a product for a long time in the form of wood than to release the CO<sub>2</sub> stored in wood by burning it. We are not against burning wood in principle – but only at the end of its lifecycle. To meet demand for wood as a fuel, we recommend establishing fast-growing plantations for energy wood. If political support is provided, that could be implemented quickly and easily.

I do hope that the responsible politicians realize that burning wood is not really the best solution for our energy needs. Why? Because also with biodiesel, politicians have understood that subsidies do not lead to the desired result. And I also hope that in our specific case, it will not take as long to reach this realization as with biodiesel.

Nonetheless, we have naturally adjusted to this competition. In the past, when prices for our products were higher, we were able to pay more for wood, our main raw material. So of course we are not idle observers in this situation.

Within the Pfeleiderer Group, some companies are successful in the marketing of alternative carrier materials, with a particular focus on lightweight construction. We are already able to supply customers with panels with honeycomb structures made of paper, aluminum or plastics. However, in processing for example, they have the disadvantage that other connectors and fittings have to be used. A normal screw cannot be used in such a structure.

This is why our development work is focused on another area – on replacing wood with another renewable raw material. We are working hard on innovations in this area. Take hemp shives as an example. Shives obtained as a byproduct of hemp processing are significantly lighter than wood fibers, but not less tear resistant. As hemp is an annually renewable raw material, this carrier material fulfills the highest demands in terms of sustainability.

As well as the environment and agriculture, the customers also benefit from this innovation. Such panels are worthwhile above all in the production of furniture for fitting out caravans and mobile homes as well as ships and yachts – in fact everywhere that especially light materials are needed. And unlike panels with honeycomb structures, these panels can be processed just as easily – that is, with the same tools and fittings as conventional engineered wood.

At this point, I must not reveal too much, because we have very observant competitors. But you can assume that our innovations will go further than panels made of this raw material. We expect to present another innovation in the field of alternative carrier materials next year – again on the basis of renewable raw materials. In any case, our tests have been very promising.

We also want to be the innovation leader with our surfaces. Because raw particleboard has smaller margins than bonded surfaces or products with high-pressure laminate. We are on the right track here with our surface specialist, Duropal, whose products not only win prizes, but also sell very well. In addition, within the Pfeleiderer Group we are setting up a special department with the task of recognizing new directions and trends for surface-finished products in our various markets more quickly, so that they can be implemented in marketable products more quickly and effectively.

We have also succeeded in producing high quality in digital print that would otherwise only be possible with gravure printing. What are the advantages? Well, we are now able to produce small and very small production runs of surfaces. This gives our customers an enormous competitive advantage as their creativity now knows no bounds. And in the medium term, it also helps us to reduce our inventories quite significantly.

So you see Pfeleiderer is active in a market with fairly mature products. But genuine innovations can still be developed and marketed. We will certainly be even more active in this area in the future.

## **Slide 22 – Outlook**

Ladies and gentlemen, before I now turn to the last two slides of our presentation and to the outlook for 2010, allow me first to say a few words about the anti-trust investigations of companies in the engineered-wood industry.

You might remember that investigators from the German antitrust authority confiscated documents in our offices and offices of our competitors in March 2009. We immediately lodged a complaint about this matter. And at the beginning of April, we then received notification of a hearing from the antitrust authorities, about which we also informed you.

Like last year, we do not know the ongoing timeframe of these investigations. And also like last year, we cannot make a statement on the content of the investigations as they are still pending. I hope you understand our position.

Now to the outlook for 2010. Against the backdrop of a slight recovery in the economic situation, we anticipate a little revenue growth compared to the year 2009. This applies to for 2010, but in particular to 2011. Profitability will remain unsatisfactory in 2010 and will not recover until 2011. Our investment will fall significantly this year and will rise only slightly in 2011. We have done our homework in this respect and look forward to our improved productivity being boosted by an improved demand situation.

So where will the revenue recovery come from? Mainly from two directions: Firstly, we want to build on the return to comparatively solid demand in Eastern Europe. Growth in Poland and Russia should have a positive impact. Secondly, we place great hope in our new plant in Moncure and in the signs of increasing new construction in North America.

Markets in Western Europe have so far developed better than we expected six months ago. The level of demand is still low, but in German residential construction, there are signs of further recovery to come in the second half of the year.

### **Slide 23 – Well prepared**

Ladies and gentlemen, in my view, 2009 was the most difficult year that I personally have experienced since I joined Pfeleiderer.

But the more difficult the times, the more important it is to remember one's strengths and not to lose sight of one's goals.

Any we have many strengths. We are at the technological peak; we have a global reach and can therefore supply our customers all over the world. These attributes have enabled us to gain market share despite the crisis and to further develop our leading position.

Although our cost structure was highly efficient compared to the rest of the industry already before the crisis, we have been able to further reduce our costs and will continue to do so in the future. In this context, we are also questioning a lot of tradition and conventional wisdom in order to meet the challenges of the future.

With the investments in our megasites that we have made in recent years, we are well prepared to grow again with the economic upswing. And this will be possible along with significantly reduced investment expenditure.

Solid wood is increasingly being replaced by particleboard: firstly, for price reasons; but secondly also because of its more versatile processing possibilities and greater robustness. We intend to use this trend to benefit from additional growth potential.

As the incipient market consolidation continues, demand is concentrated on fewer suppliers, and we all can attain reasonable prices once again, these strengths will become visible again and will help us to return to profitability and positive free cash flows. Those of you who have known us a long time will know that such a turnaround can take place very quickly as soon as the markets return to normality.

But the way there is not easy, ladies and gentlemen. The structural adjustments that we still have to carry out will require the full commitment of all our staff: from the Executive Board to the apprentices, from our colleagues in Canada to those in Russia.

And that's all the more reason for me to express my thanks to our loyal, highly qualified and committed workforce. My Executive Board colleagues and I are impressed and grateful for their efforts, their perseverance and their flexibility in this crisis. These attributes have made a crucial contribution allowing us to perform better than many of our competitors. And this is shown by our progress to become the world's second-largest supplier in our industry.

I would also like to thank our departing Supervisory Board Chairman, Mr. Ernst-Herbert Pfeleiderer. Mr. Pfeleiderer has been closely connected with this company since his birth. Not only that, but over the years he has demonstrated in an exemplary manner how the founder family is still committed and assuming responsibility after many generations.

40 years at the company, 37 years in leading positions, nearly 20 years as Chairman of the Supervisory Board – ladies and gentlemen, this is a track record that has not often been seen in the history of German industry. And during that entire time, he made his contribution to the success of the Pfeleiderer Group with competence, prudence and expertise – and whenever necessary also with rigor. He steps down from the Supervisory Board today of his own accord as part of his personal long-term planning. I will miss him personally and would like to express my respect and thanks for his decades of commitment to Pfeleiderer. We wish him all the very best for the future.

Thank you for your attention, also on behalf of my Executive Board colleagues.