

Annual Shareholders' Meeting of Pfleiderer AG

Thursday, June 12, 2008

Speech / Statement by the CEO

- Check against delivery -

Good morning ladies and gentlemen,

May I bid you a warm welcome to today's Annual Shareholders' Meeting, also on behalf of my Executive Board colleagues. I am delighted to be able to report to you personally again today. A year ago, it was unfortunately not possible due to my serious accident. So I am particularly pleased to stand before you once again this year.

My pleasure is even greater because I am able to report to you on an extremely successful financial year. There were many highlights in 2007; the most important of them certainly include ...

- ... the acquisition of the Swedish laminate flooring producer Pergo in March 2007. By acquiring Pergo, we substantially improved our competitive position in this high-potential market segment, despite all the expenses of integration and the current weakness of the US market.
- In order to finance the acquisition of Pergo, Pfleiderer AG issued a hybrid bond in the amount of 275 million euros in April 2007. The hybrid bond, which was successfully placed

with first-class institutional investors, is classified as equity under IFRS.

- The biggest international trade fair for the furniture supply industry, Interzum, was held in May 2007. All of Pfleiderer's Western European business units were present – including Pergo Europe – under one roof for the first time.
- To utilize the great growth opportunities in Russia even more effectively, we decided in July of last year on a further expansion of our new particleboard plant in Novgorod by putting another laminating press into service. We also took the decision to build a new plant for MDF boards on our Novgorod site.
- We also took another step forward in Poland: In September 2007, we officially opened a state-of-the-art production plant for thin MDF boards in Grajewo.

All of this is reflected by a further improvement in our key figures. In financial terms, the year 2007 was very positive:

- The Group's revenue grew by a good 27 percent to reach 1.8 billion euros. We therefore did not meet our revenue target of 1.9 billion euros, but we achieved an increase of 386 million euros nonetheless. And this was only partially due to the acquisition of Pergo. We also had strong organic growth: 11 percentage points of the increase was achieved internally.
- We achieved another significant improvement in profitability, although we had one-time expenses of nearly 22 million

euros. With EBITDA increasing by 20 percent to approximately 249 million euros, we posted earnings at the upper end of the bandwidth we had projected.

- The EBITDA margin amounted to 13.8 percent, despite the burden of one-time expenses.
- Pfleiderer substantially improved its international market position in 2007: in North America by integrating the Pergo activities and in Eastern Europe by putting the new MDF plant into operation in Poland.
- In the Western Europe segment, we significantly improved our productivity, as reflected by a new record EBITDA margin of 16.3 percent.

With this good performance, we have written another successful chapter of the Pfleiderer growth story of recent years: As you can see from this chart, growth in consolidated revenue in the past four years averaged 33 percent. In terms of EBITDA, we actually achieved an annual average of 48 percent. These remarkable increases would have been even stronger without the high one-time costs for the integration of Pergo.

At this point, I would like to thank our employees in the plants and offices in Germany, Poland, Russia, Sweden, the USA and Canada, as well as our sales staff in all of those other countries of the world that are too numerous to mention now. The success of last year is due to the efforts and commitment of all those employees, the managers at the Group, and not least my colleagues on the Executive Board.

The impressive figures we have achieved are also an indication of our great expertise with the integration of companies into the Group. When we reported to you at the last Annual Shareholders' Meeting in 2007, we had taken over Kunz just eighteen months previously and were in the middle of the process of integrating Pergo. Today, we can say that the merger of the engineered-wood activities of Pergo and Pfleiderer AG has taken place successfully in North America and Europe and has now been completed, with the exception of implementing a new SAP system. Following the highly successful integration of Kunz, Pergo is the second major acquisition project that we have carried out within a very short time.

After this overview of our operations, I would like to have a look with you at the financial results of the Pfleiderer Group for the year 2007. However, I will restrict my comments today to what we regard as the key aspects, because the year-end financial statements were disclosed a while ago and have already been sufficiently discussed in public. For detailed figures, I therefore refer to the Pfleiderer Annual Report 2007, which can be accessed on our website and which we have sent to you upon request. The Group's full consolidated financial statements and the company financial statements of Pfleiderer AG are also available here in the auditorium.

I would like to start with the income statement.

As I mentioned previously, consolidated revenue increased by more than 27 percent to 1.8 billion euros in 2007, whereby currency effects and the difficult market conditions in the USA had a dampening impact on our revenue growth.

Pfleiderer expanded in particular outside Germany in 2007:

International revenue increased – partially due to the integration of Pergo – by approximately 34 percent to nearly 1.3 billion euros. Its share of the Group's total revenue therefore amounted to 71.3 percent, compared with 67.8 percent in the prior year. The other key aspects of the income statement are:

- The gross margin increased from 26.8 percent to 27.3 percent although we were subject to extreme price pressure in the USA and sharp rises in energy and raw-material costs led to higher procurement expenses. This was possible because measures we had already implemented or initiated to improve our efficiency had a strong positive impact on profitability.
- Due to the merger of our flooring activities in North America and a higher proportion of our total workforce in Eastern Europe, the ratio of personnel expenses to revenue fell from 16.9 percent to 14.8 percent at the Pfleiderer Group.
- Ultimately, it was these two factors that allowed us to absorb the substantial restructuring costs of 22 million euros and to increase our EBITDA by 20 percent to 249 million euros.
- Another factor worth mentioning is our falling effective tax rate, which has now decreased to 12 percent. This is primarily the result of changes in deferred tax items as well as a significant amount of deferred tax income. In this context, we benefited from tax-loss carryovers in Germany and North America.

I will now turn to the consolidated balance sheet, which depicts the Group's remarkably stable financial health at the end of December 2007, although the balance sheet total increased compared with year-end 2006 by 40 percent to 1.9 billion euros. Key factors behind this sharp increase were the initial consolidation of the Pergo Group and the growth of our operating business.

We took several measures to ensure we had no problems in covering the increased financing requirement caused by the higher balance sheet total. The most important of them was certainly the issue of the hybrid bond in an amount of 275 million euros. Due to its structure, the hybrid bond is regarded as equity. This was also the main reason that the equity ratio improved from 39.5 percent to 41.7 percent despite the massive increase in the balance sheet total.

Net financial liabilities increased as a result of the Pergo acquisition from 415 million euros to 618 million euros. The ratio of net debt to equity, often referred to as gearing, remained almost unchanged at 77.2 percent compared with 76.5 percent a year earlier. The leverage factor, defined as the ratio of net debt to EBITDA, amounted to 2.5, compared with 2.0 in the prior year.

The Group's solid balance sheet clearly demonstrates our strong internal and external financing power. The high degree of trust placed in Pfleiderer by investors is apparent for example in the banks' willingness to provide – in addition to our existing credit – further credit lines of 500 million euros, which we are not currently utilizing. This means we have good financial scope also for further growth actions in the future. We have just returned an additional

acquisition line of 800 million euros, which the banks provided to us in 2007, because we do not require such a volume at present.

We intend to gain additional scope from a German private placement (Schuldscheindarlehen) in a planned volume of at least 150 million euros in tranches with terms of 3, 5 and 7 years. Since the end of May, we have been speaking with potential investors about the placement; the subscription period will probably end on June 19, 2008. The project should be completed before the end of June.

The funds resulting from the German private placement are to be primarily applied to improve our liquidity and financial flexibility. At the same time, we will optimize the term structure of our financial liabilities. To be exact, we will apply some of the cash to reduce our liabilities from the syndicated credit.

We were also able to impressively demonstrate our internal financing strength in 2007. We increased our cash in-flow from operating activities by a strong 78 percent to nearly 200 million euros. This resulted not only from the improved profitability, but also from the sharp increase in depreciation from 75 million euros to 112 million euros.

The cash outflow for investing activities amounted to 556 million euros last year. Most of that total – 306 million euros – was applied for the acquisition of Pergo AB. 183 million euros was spent on property, plant and equipment. 86 million euros was invested in the acquisition of a minority stake in Pfleiderer Prospan S.A. which had been held by the Polish state until the end of May 2007. Pfleiderer

has now held 100% of the shares in Prospan since the third quarter of 2007.

Ladies and gentlemen, in order to round off the picture I have just sketched of the Group's development in 2007, at this point I would like to say something about the development of business in the individual segments. Let me begin with North America. On this chart, you can see where our seven Pfleiderer sites are in that region and what is produced by each plant.

Business operations in 2007 were more difficult than originally expected. We anticipated a significantly better development of the US market when we acquired Pergo AB in March 2007. The market downturn was sharper than we had expected, especially in the second half of the year, and had a significant impact on sales of laminate flooring and fiberboard. Demand for particleboard for example fell by about 11 percent in 2007, with a negative effect on prices. The difficult market conditions have resulted in Pfleiderer's competitors permanently closing three plants in the past six months.

Pfleiderer was not able to avoid the weak market trend. But we believe we performed well compared with the rest of the sector. This applies in particular to our unit sales of particleboard, which we increased by 10 percent last year although the overall market contracted. Including Pergo's activities, we generated revenue of 443 million euros in North America in 2007, compared with 350 million euros in the prior year.

Our profitability was affected by the integration of Pergo and by our restructuring program. These measures required one-time

expenditure of 14.5 million euros in North America. We also incurred high marketing costs to develop our presence at specialized outlets for flooring. Furthermore – like our competitors – we had to cope with increased raw-material prices. The bottom line for the North America business center was a disappointing EBITDA of around 17 million euros, far less than the 52 million euros achieved in 2006.

The fact that developments did not meet our expectations in this region last year is certainly not very pleasing, but does not change our assessment that the North American market will develop very positively in the long term. This applies not only to particleboard, but above all to laminate flooring. Because this material is not very widespread, North America is a growth region with projected growth rates of 8 to 10 percent per annum after the current crisis is overcome. Through the integration of Pergo and the merger with our existing Uniboard activities, we have increased our share of this attractive market during the past six months from about 15 percent to well over 20 percent. We benefited from the fact that we have local production facilities and our production costs are denominated in dollars. This means we have been unaffected by the weak US dollar, unlike our European and Asian competitors, who have so far exported to the United States.

It is also pleasing that despite the ongoing economic uncertainty in North America, there are signs that the worst could now be behind us, even though there is still some anxiety about recession. The development of demand in the first months of 2008 raises hopes that we will have significant positive effects on earnings in 2009 at the latest. Pfleiderer is currently producing both flooring and particleboard at the limits of its capacity. The drop in prices also

seems to have stopped. Furthermore, we will be able to achieve all of the planned savings and will improve our cost basis by 30 million euros. But sharp increases in timber prices in Canada and in glue costs give us cause for concern. We will have to raise our own prices further in order to offset these increases in material costs.

One negative aspect is currently the plant in La Baie, Canada, whose performance is not up to scratch. Due to limited timber supplies preventing full-scale operation, and the unfavorable development of the Canadian dollar against the US dollar, which has drastically reduced exports, the plant only operated for a good two weeks during the first quarter. But we are searching intensively for possible solutions and aim to transfer the plant to the south of the USA. We expect to reach a decision on this next week.

This now brings me to the Eastern Europe segment, where we meanwhile have four sites.

2007 was an exceptionally strong year for Pfleiderer in this region: With market growth of around 8 percent, we succeeded in raising our revenue by 31 percent to 393 million euros. EBITDA improved by 37 percent to nearly 78 million euros, equivalent to an impressive margin of 19.7 percent.

The good development of business is affirmation of our strategy of strengthening Pfleiderer's positioning in Eastern Europe, that is, in a region that offers strong growth opportunities in both the medium and the long term. We will therefore continue expanding our production capacities there in the coming years. We took a great step forward in Grajewo, Poland, where a new, ultramodern plant for

medium-density fiberboard went into operation in the middle of last year. In its initial stage of construction, this plant will be able to produce approximately 250,000 cubic meters of thin MDF each year.

In addition, we made the decision last year to build a second plant for the production of medium and high-density fiberboard in Novgorod, Russia, in addition to the further expansion of the existing particleboard plant. This new plant with a nominal annual capacity of more than 400,000 cubic meters will probably go into operation in the middle of 2009.

I can also report positively on Western Europe. Following the integration of Pergo, we now have ten sites in this region: eight located in Germany and two in Sweden.

We seamlessly continued along our growth path also in this region in 2007: Revenue increased by more than 26 percent from 782 million euros to 987 million euros. Nearly half of this growth was organic. Pfleiderer profited to an above-average degree from last year's high demand for engineered wood, which was mainly driven by the furniture industry. We were helped by our very good market position: In Germany we are the unchallenged Number 1 with a market share of more than 30 percent. The addition to our product range of numerous innovative products also had a positive impact on unit sales. An additional factor was the successful positioning of our high-value product brands.

Segment earnings in Western Europe improved at a much higher rate than revenue: EBITDA increased by 55 percent to the new record level of nearly 161 million euros – the margin rose from 13.3

percent to 16.3 percent. The excellent earnings trend is also a result of the rising share of high-margin products in our total sales. It is also due to the significantly improved productivity of all our production plants – a consequence of the structural measures taken in recent years.

Ladies and gentlemen, due to the strong growth of recent years, Pfleiderer is now one of the three biggest companies in the world in its sector. The remarkable speed of expansion was primarily facilitated by Pfleiderer's effective focus on engineered wood and the clear orientation of investment on this business.

With our present position as Number 3 in the industry, we have gained significant competitive advantages: in the areas of production, procurement and pricing for example. This already had a positive impact on our financial results last year, and will further strengthen our profitability in the coming years.

Another factor is our significantly reduced dependence on the development of individual sales markets or customer groups, because our growth has given us a strong regional diversification and a broad customer base. Our ten biggest customers account for only about 19 percent of consolidated revenue. And we regard the Group's present risk profile as a lot better than a few years ago – both regionally and in product-related terms.

Against the backdrop of Pfleiderer's positive development, it is fair to ask why this was not reflected by our share price in 2007 and the first few months of 2008. As well as the temporary uncertainty about the Group's management triggered by my accident, we definitely have a North America disadvantage.

This negates the opportunities for the future promised by our well-developed market position. Shares of companies with a large portion of their business in the USA are generally downgraded. In addition, investors tend to allow dividend stocks a lower price-earnings ratio in economically uncertain times than in boom times, especially as we are still regarded as being in a construction-related business.

Our improved risk profile and the situation of further improved earnings in Western Europe in the first quarter, which partly compensated for the weakness in Poland, have not been recognized. We will therefore work to achieve a generally better perception of Pfleiderer among investors this year.

We regard the development of Pfleiderer's share price as unjustified. Because we believe in our company – and in Pfleiderer's stock – we already made use of the low share price in 2007 and acquired the company's own shares. We purchased a total of 2,415,444 shares, representing 4.5% of our capital stock, at an average price of 17 euros and 67 cents. Of that total, 117,445 shares were used to serve stock options in 2007. The rest are being held as treasury shares.

The present authorization to acquire own shares is limited by applicable law to a maximum of eighteen months and thus expires on December 18, 2008. To enable us to actively acquire the

company's own shares again in the future, and to use them for example as acquisition currency as part of our long-term growth strategy, we request that you today approve the extension of the authorization to acquire own shares by another eighteen months. The exact wording of this and the other proposed resolutions can be seen in the agenda, which was sent to you, but is also available here in the auditorium.

Ladies and gentlemen, we want to continue along our profit-oriented growth path in the future, and are convinced that this will have a positive effect on our share price in the medium term. At present, however, and in view of more volatile and difficult markets, we intend to do this rather cautiously.

Before I come to the course of our business in 2008, let me first say a few words about the turbulence at the beginning of the year in connection with the departure of the CFO, Mr. Noe, and the entry of our new major shareholder, One Equity Partners (OEP).

There has been a lot of speculation about these events in the media. Power games, intrigue and loss of power are just some of the buzzwords that have been used in reports in recent months. I would like to say that all of this is sheer nonsense. We as the Executive Board, and I as the CEO, found out at the beginning of the year that Mr. Noe had been holding talks with financial investors without informing the Supervisory Board or the Executive Board, although these issues were the subject of regularly discussion at that time. We also found out about indiscretions. All in all therefore, the basis of confidence that is essential for working together no longer existed. This led to the separation.

I welcome the entry of OEP. Although I did not invite them, in the close to five months of their participation, they have given us the impression of stable, long-term and entrepreneurial investors. Today, I am pleased to have a solid new major investor as a stabilizing factor at Pfleiderer AG, just like I welcomed Fidelity, Henderson and Capital in 2004, who believed in the long-term development of the company and regarded the share price as tempting.

So back now to our current business: We anticipate further growth also in 2008, although conditions have generally become more difficult. This is clear from the development of the first quarter, and the impact will also be felt in the second quarter.

- The Group's first-quarter revenue increased by more than 9 percent to 468 million euros.
- EBITDA improved despite the burden of currency effects by 7 percent to 60 million euros.
- Although the first quarter is always the weakest of the year for seasonal reasons, our EBITDA margin remained at a satisfactory level of 12.9 percent.

Let me make a few comments on this. The increase in consolidated revenue of a good 9 percent was primarily achieved organically. There was also a positive effect from the integration of Pergo, which we acquired in March 2007. This means that Pergo only contributed to the Group's revenue for one month in the prior-year quarter, but of course for a full three months in 2008. Despite the lasting weakness of the US dollar, currency effects were not significant at Group level because translation losses on the dollar were offset by gains on other currencies.

Most of the growth was achieved outside Germany. The international share of revenue therefore increased from 68.1 percent to 72.2 percent.

Profitability was affected by further price increases for energy and transport services which could not be fully offset, especially in Eastern Europe. There were also negative effects from higher administrative costs and additional expenses in the area of laminate flooring for the expansion of business with The Home Depot, a US home improvement chain, where we have doubled the space available for our products as of the second quarter. Despite these negative factors, EBITDA increased by more than 7 percent. The EBITDA margin amounted to 12.9 percent compared with 13.2 percent in the first quarter of last year.

The first quarter is always the weakest of the year for us for seasonal reasons. So the figures just released cannot simply be extrapolated for the full year. One must also consider the fact that the first quarter had fewer working days than in 2007 due to the

earlier Easter holiday. This alone cost us earnings of 3 to 4 million euros, so profit figures are better when adjusted for this factor.

Financial income was also affected by a special item: There was an exceptional charge of 5.7 million euros relating to the valuation of interest-rate hedges and forward-exchange transactions. As there had been a positive effect of 1.6 million euros in the first quarter of last year, the total difference reflected in earnings was 7.3 million euros. In view of the currently fairly stable level of interest rates and the fact that the US dollar seems to have stopped falling, we assume that there will be no similar negative effects in the coming quarters.

The currency effect I have just described was also the main reason why net profit for the first quarter decreased from 18 million euros to 11 million euros. After considering the share of profit for the period attributable to minority interests and the interest due to the holders of the hybrid bond, basic earnings per share amount to 10 euro cents, compared with 24 euro cents in Q1 2007.

Despite more difficult market conditions, we achieved solid revenue growth in all regions in the first quarter of 2008. The development of Western Europe was particularly positive, with significant increases in revenue and earnings.

In Eastern Europe, we grew faster than the market once again, but profitability was unsatisfactory. Whereas business in Russia is growing unabated and margins are improving, the Polish market lost considerable impetus, especially in March. Pressure on prices also increased in Poland, with a corresponding impact on earnings.

In North America, we defended our position very well despite the ongoing weak economy, and gained market share with laminate flooring and particleboard. This success and the restructuring measures we implemented in the prior year led to an improvement in operating profit. However, the overall result of operations in North America was impacted by special items relating to interest-rate hedges and forward-exchange transactions.

In summary, it can be said that we generally stayed on course in the first quarter of 2008, but did not meet our expectations in terms of earnings. Whether our forecasts for the full year can be maintained will primarily depend on the economic situation in the United States, which is affected by anxiety about recession, and on the oil price, which has a major impact on the prices of our raw materials. Recent developments give us cause for concern. Admittedly, maintaining our forecasts is looking increasingly ambitious, especially for earnings, but Pfleiderer AG has proven in the past that it can achieve sustained profitable growth under very demanding conditions.

So why are we so confident for the current year nevertheless?

Firstly, because we have achieved the turnaround in the important region of North America and we believe the economic low point has been reached; secondly, because our production capacities are well utilized.

In Poland, the difficult economic situation will continue, with consequences for the sales prices we can achieve in that market. But we assume that there will be certain reductions also in some of our purchasing prices. A further offset in Eastern Europe will be

provided by Russia, where strong growth is to be expected from today's perspective. As of the middle of this year, we will increasingly be able to utilize the opportunities offered us by the enormous Russian market, after another laminate press goes into operation in Novgorod. Due to the unsatisfactory situation in Poland, we have initiated a cost-reduction program there, which should lead to savings of approximately 20 million euros already this year. We anticipate generally adequate segment earnings for the full year, partially as a result of that program. However, from today's perspective, the EBITDA margin will not match the record level of last year.

Western Europe will once again be the Group's main source of earnings in 2008. We expect a continuation of Pfleiderer's good performance in this region. Current indications are for ongoing good developments in engineered wood markets, although we foresee downturns in the Spanish and British markets. The anticipated increases in production volumes will have a disproportionately high positive effect on earnings in combination with the measures we have taken to improve productivity. We look forward to positive stimulus above all from the investments at our German plants in Arnsberg, Leutkirch and Nidda.

For these reasons, we assume that by the end of this year, the Pfleiderer Group will be able to largely compensate for the shortfall in the first quarter – provided that there is no further worsening of the market situation. We therefore see realistic chances of meeting our targets in the full year.

But let me emphasize one thing: We will be confronted with further price increases in the coming months. This applies to energy, glue, resin and the entire area of chemicals, but we also anticipate further rises in costs for timber in Europe in the second half of the year. We also have drastic increases in transport costs. The success of our business and our earnings will directly depend on how we can compensate for these costs with better sales prices, as we did last year. Today's price level is insufficient, and we have announced price increases in all of our markets. Implementing this, sometimes where demand is actually falling, is difficult, but not impossible. Our competitors are affected just the same as we are. The coming months will be decisive for our full-year earnings.

Ladies and gentlemen, I think that my statements have shown you that Pfleiderer AG is well positioned and has created all the right conditions for the continuation of its growth story in the medium term. We are also strong enough to effectively defend our position in a difficult environment like the present one.

Thank you for your attention.