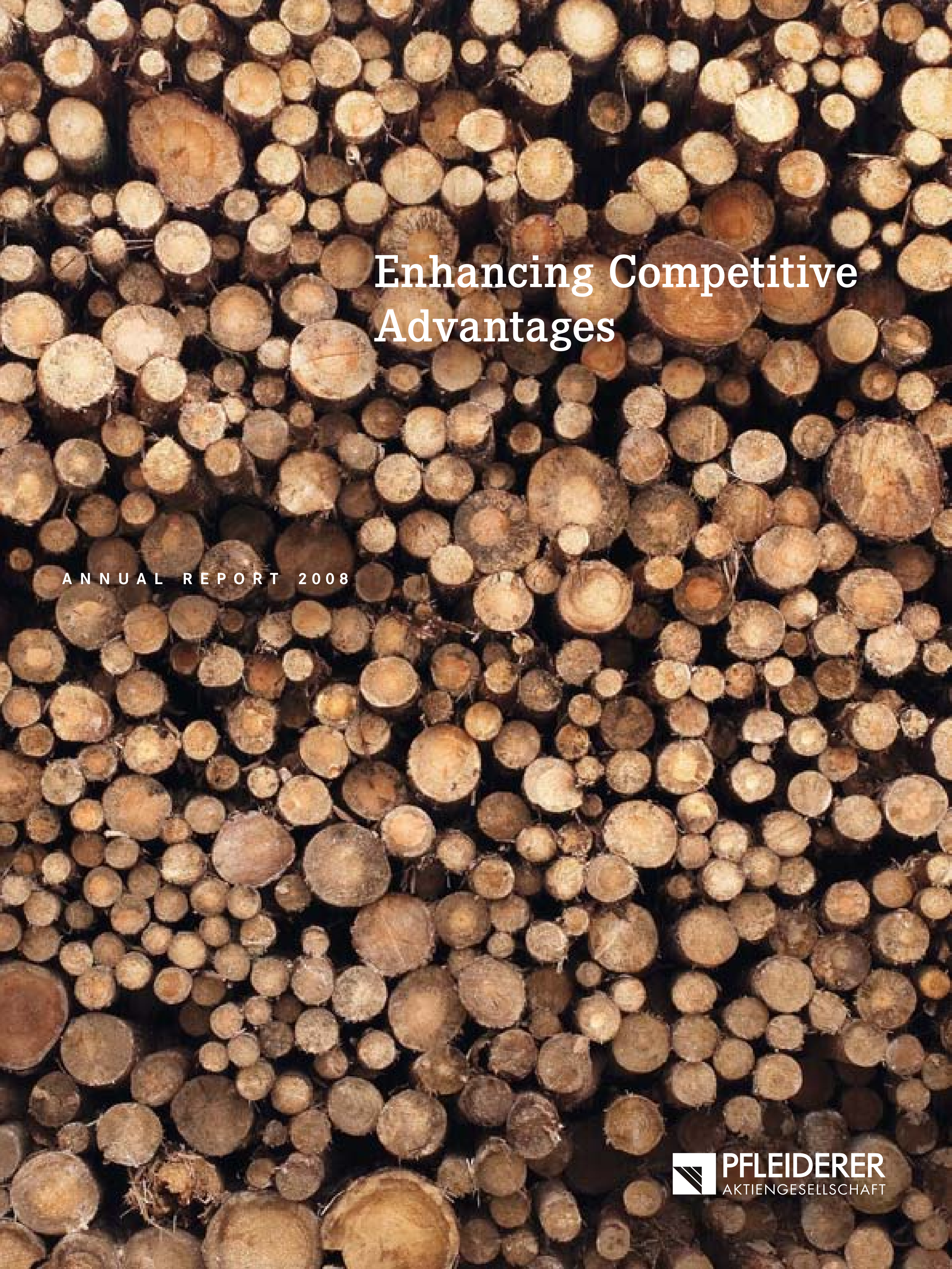
Enhancing Competitive Advantages

ANNUAL REPORT 2008



PFLEIDERER
AKTIENGESELLSCHAFT

Key Figures of Pfleiderer Group

		Jan. 1 – Dec. 31, 2008	Jan. 1 – Dec. 31, 2007	Jan. 1 – Dec. 31, 2006
Revenues	million euros	1,735.9	1,801.1	1,415.3
Foreign share	%	72.2	71.3	67.8
EBITDA	million euros	223.7	248.7	208.1
EBIT	million euros	97.6	136.8	133.0
EBT	million euros	17.3	96.3	142.4
EBT from continuing operations	million euros	17.6	90.6	92.4
EBT from discontinued operations	million euros	– 0.3	5.7	50.0
Net profit for the Group	million euros	5.8	57.5	83.9
Cash flow from operating activities	million euros	228.4	198.0	111.4
Cash flow from operating activities after investment activity	million euros	37.8	– 358.4	– 65.0
Cash and cash equivalents	million euros	46.3	17.2	35.4
Capital expenditure	million euros	158.7	182.6	110.4
Financial liabilities	million euros	681.8	635.4	457.7
Net corporate debt	million euros	635.5	618.2	414.6
Equity	million euros	710.9	801.0	542.3
Equity ratio	%	37.7	41.7	39.5
ROE = Net profit for the Group / equity	%	0.8	7.2	15.5
Capital employed	million euros	1,357.6	1,410.5	1,010.0
ROCE = EBIT / Capital employed	%	7.2	9.7	13.2
ROS = EBT from continuing operations / revenues	%	1.0	5.0	6.5
Revenues per employee	'000 euros	300	308	272
Employees	at close	5,777	5,849	5,207
in Germany	at close	2,569	2,545	2,567
outside Germany	at close	3,208	3,304	2,640
Earnings per share from continuing operations (basic)	euros	0.24	1.00	1.00
Average number of shares outstanding (basic)	units	50,781,022	52,326,757	50,262,634
Dividend per share	euros	0.00	0.30	0.25

* Annual average number of employees

http://www.pfleiderer.com/en/investor-relations/group-key-figures-391.html

Pfleiderer Production Sites Worldwide

REGION NORTH AMERICA

Canada

LAVAL FL | FIN SURF

MONT-LAURIER MDF/HDF | RESIN

SAYABEC I PB | FIN SURF

SAYABEC II PB | FIN SURF

VAL-D'OR (UNIBOARD) PB

VAL-D'OR (UNIRES) RESIN

USA

FOSTORIA FIN SURF

RALEIGH FL | FIN SURF

MONCURE I PB | FIN SURF

MONCURE II[1] MDF/HDF

[1] 2009

REGION WESTERN EUROPE

Germany

ARNSBERG HPL | RESIN | IMP

BARUTH MDF/HDF

EBERSDORF PB

GSCHWEND PB

GÜTERSLOH II PB

GÜTERSLOH III FIN SURF | IMP

LEUTKIRCH PB | HPL | FIN SURF | IMP

NEUMARKT II PB | FIN SURF

NEUMARKT III PB

NIDDA MDF/HDF | FIN SURF

Sweden

PERSTORP IMP

TRELLEBORG HPL | FL

REGION EASTERN EUROPE

Poland

GRAJEWO I PB | FIN SURF | IMP

GRAJEWO II MDF/HDF

KĘDZIERZYN-KOŹLE (SILEKOL) RESIN

WIERUSZÓW PB | FIN SURF | IMP

Russia

NOVGOROD I PB | FIN SURF

NOVGOROD II[2] MDF/HDF

[2] 2010

PB PARTICLE BOARD **HPL** HIGH PRESSURE LAMINATE **MDF/HDF** MEDIUM/H IGH DENSITY FIBERBOARD **FL** LAMINATE
FIN SURF FINISHED SURFACE **RESIN** **IMP** IMPREGNATION

ENHANCING COMPETITIVE ADVANTAGES

The Pfleiderer Group is one of the world's three biggest producers of engineered wood. We are a sought-after partner for companies in the furniture industry and the interior fitting sector – in more than 80 countries around the globe. People come into contact with our particleboard and fiberboard everyday and nearly everywhere: at home, at work, on the move and in public places. But our products don't steal the limelight. We convince with inner qualities and normally leave the center stage to customers who use our products. Because we know this fascinating raw material – wood – inside out, we can make use of competitive advantages based on that knowledge – starting with purchasing and by no means ending when the Pfleiderer semitrailer trucks leave our plants.

"Although we have to react flexibly to changes in the market, the fundamentals of our strategy remain unchanged. They consist, as before, of cost management, growth, distinguishing ourselves from the competition, and risk control. The competitive advantages with which we were able to achieve our leading position will allow us to continue our growth in the future."

HANS H. OVERDIEK, CHIEF EXECUTIVE OFFICER

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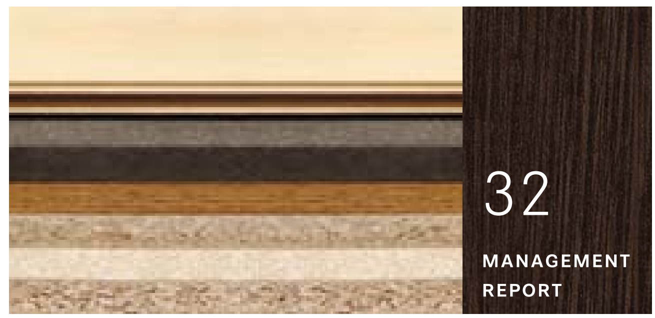

GENERAL INFORMATION

This section includes a summary of the values that guide our actions and of corporate governance at the Pfleiderer Group. The Pfleiderer Executive Board provides information on business developments. The Supervisory Board reports on its review of the financial statements in accordance with Section 171 of the German Stock Corporation Act (AktG). We also provide an overview of the development of Pfleiderer's share price and present our corporate strategy.

COMBINED MANAGEMENT REPORT OF THE PFLEIDERER GROUP AND PFLEIDERER AG

In this section, the Executive Board reports on the economic situation as well as the net assets, financial position and results of operations and the opportunities and risks of the Pfleiderer Group and Pfleiderer AG. The Group Management Report has been prepared in accordance with German Accounting Standard DRS 15 and audited by the external auditors.

CONSOLIDATED FINANCIAL STATEMENTS 2008

This section contains the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRSs) effective at the balance sheet date and certified by the external auditors, as well as extracts from the audited financial statements of Pfleiderer AG, prepared in accordance with the German Commercial Code (HGB).

AT A GLANCE

This section includes lists of the members of the Supervisory Board and the Executive Board, a glossary of the most commonly used technical terms, and an index. The folding covers include a map of the world showing our production sites and a brief description of the major events for Pfleiderer in the year 2008.

Internet link

a-z Glossary

DR. ROBERT HOPPERDIETZEL
Member of the Executive Board, Technology and Operations/Plants

HANS H. OVERDIEK
Chief Executive Officer

PAWEL WYRZYKOWSKI
Member of the Executive Board Sales, Marketing and Product Strategy (since January 1, 2009)

HEIKO GRAEVE
Chief Financial Officer Financing, Taxes, Controlling, Accounting (since June 1, 2008)

Ladies and Gentlemen, Dear Shareholders,

2008 was a challenging year for almost all companies, and Pfleiderer AG was no exception. While we successfully expanded our strategic and operational strengths worldwide in 2006 and 2007, we also had to face up to the intensifying global financial and economic crisis, and realign our short-term objectives accordingly. We did this systematically and in good time, so we are already in a position to report some key successes.

In this context, let us have a quick glance at our key figures for the fiscal year 2008. We fell only slightly short of the revenue level for 2007 of 1.74 million euros. We believe this represents a solid result when considered in the context of sharply falling volumes in all our sales regions. Our profitability situation tells a similar story: with an EBITDA margin of 12.9 %, we nearly matched the 2007 figure of 13.8 %. In our opinion, these results underline our competitiveness and flexibility in an environment of rising raw material costs and adverse currency developments. We are especially proud of the following result, as it demonstrates our specific strategic strengths: at the start of 2008, we set ourselves the target of cutting costs by 50 million euros during the course of the year. All our employees accepted this challenge and even managed to exceed substantially this ambitious aim, despite the pressure of the general economic situation. All in all, we achieved cost reductions of around 80 million euros. We also consider the increase of our cash flow by 15.4 % to 228.4 million euros as a particular success that secures future growth.

This success not only underlines our ability as a company to control costs effectively. It also quite clearly demonstrates at a practical level how, by working together as a team – not only management, but also employees at production facilities, development offices and other functions – we can overcome even difficult challenges. It is this close teamwork that has made Pfleiderer so successful in the past and it is this close teamwork that will ensure our competitive leadership in the future. This teamwork has once again impressed the Executive Board, and we would like to say how proud and grateful we are to all our employees.

Cost leadership is, in the current market environment, the most important of our four strategic goals. That is why we want to explain in this financial report what Pfleiderer's largest cost item – cost of materials – consists of. As these costs are largely linked to our purchasing, we will first give some of our most important suppliers of wood, paper, chemicals and machines a chance to express their views. However, we have also consistently worked towards our other three aims – growth, setting ourselves apart from the competition and risk control, despite the extremely difficult market situation.

Efficient risk management is another important aspect of our strategy where we have made solid progress. Here is just one example: Before the financial crisis intensified, we were able to issue a bond. This allowed us to build a solid long-term financial foundation for our Group at very favorable terms.

Differentiation is the third pillar of our strategy: in the past few years, we have introduced a host of product innovations with the aim of setting our product portfolio apart from the competition in terms of both scope and quality. 2008 was no exception: we received the “Architektur und Office XXL” innovation award for one of our new products – HPL-SolidColor. Moreover, our “Faser Kompakt” innovation – a thin but very robust HDF board – was well received by furniture manufacturers, particularly in our largest sales region, Germany.

Although our fourth strategic goal – growth – is without doubt the most difficult to achieve in the current operating environment, we can report positive developments also in this respect: Our Pergo subsidiary was able almost to double its market share for laminate flooring in North America despite an extremely challenging market environment. We also constantly, if less spectacularly, expanded our market position in other product areas and regions. This is particularly true for our core market, Germany, as the European Panel Forum once again confirmed: its preliminary estimates confirm our market leadership in our home market. We are also encouraged by our ability to outperform our competitors also in times of economic weakness. This, in turn, improves our chances of benefiting from the upturn, which will undoubtedly materialize, sooner and to a greater extent than our competitors.

Both of our continuing major projects, in Moncure and Novgorod, should be viewed in the context of our long-term flexible growth strategy. By relocating our MDF plant from La Baie in Canada to Moncure in North Carolina, USA, we are using the economic downturn in North America to move production capacities from what has become an unattractive location to a significantly more attractive location. We plan to bring the plant on line by the end of 2009. Many economists also anticipate an economic upturn in the USA beginning around that time, which would allow us to serve the market at full capacity when demand picks up again. In contrast, the downturn in Russia began only towards the end of 2008, and will last for some time if forecasts are to be believed. As a result, we took advantage of several delays in construction in Novgorod to adjust the project’s completion timeframe, and therefore capital expenditure.

Even if we currently have to cope with difficult times, we do not see this as a reason for our company to lose confidence and momentum. On the contrary: Thanks to our cost leadership, we are able to expand our market position compared to our competitors especially during economically weaker periods. Our strategic focus on risk monitoring led us to adopt a more tactically defensive position at an early stage, once again ahead of the competition. In addition, our product range combined with our global presence make us an attractive partner for customers around the world. Last but not least, periods of economic weakness provide courageous and dynamic companies with enormous growth opportunities for the future. We have to and will use these opportunities to the fullest.

However, in the year ahead cost and risk management will take priority. In addition, we aim to strengthen further our ability to innovate, allowing us to continue to offer our customers the products that the market demands. Despite our cautious tactical focus we do not want to miss the strategic opportunities offered by the current situation. Although we have revised our growth objectives for the short term, our long-term objectives remain unchanged. We are maintaining our revenue target of four billion euros by 2011, as well as the objective of making our products available in all important engineered wood markets worldwide by 2020.

As always, a lot of work lies ahead of us, work which requires the support of our shareholders. We are very aware that the difficult situation in our product markets and the critical condition financial markets are in have tested investors in shares to the limit. The Executive Board would therefore like to extend its gratitude especially to Pfleiderer shareholders for their continued support. At the same time, we would like to assure you that we will continue to operate with commitment and responsibility. As in the past, we will do everything in our power to repay your trust.

Neumarkt, February 23, 2009

Hans H. Overdiek   Heiko Graeve   Dr. Robert Hopperdietzel   Pawel Wyrzykowski

ERNST-HERBERT PFLEIDERER

Chairman of the Supervisory Board
of Pfleiderer AG

Dear Shareholders,
Friends and Partners of Pfleiderer AG,

The Supervisory Board of Pfleiderer AG diligently performed its duties and responsibilities in accordance with the law and the Company's Articles of Association and bylaws in fiscal year 2008. The Supervisory Board dealt with the Company's situation in detail in the year under review. It advised and supervised the Executive Board. The Supervisory Board was involved in good time in all decisions of fundamental importance to the Company and was continuously and comprehensively informed of the Company's business and strategic development. The Executive Board provided the Supervisory Board with detailed information on all relevant aspects of strategy and management, the financial situation as well as on business development. The information was provided in a timely manner, both verbally and in writing. Deviations in business development from plans were explained to the Supervisory Board in detail, especially given the impact of the financial crisis on various markets. In addition to the meetings of the Supervisory Board and its committees, the members of the Supervisory Board were in regular contact with the Executive Board and received information about the development of business. The Chairman of the Supervisory Board was in close contact with the Chairman of the Executive Board and the entire Executive Board.

In the past fiscal year, there were four regular meetings of the Supervisory Board and one extraordinary meeting. The regular meetings were held in March, June, September and December 2008, while the extraordinary meeting was convened in February 2008. All members attended at least four of the five meetings. The Executive Board prepared the Supervisory Board meetings in separate meetings of the employee and shareholder representatives.

The extraordinary meeting dealt with changes in the composition of the Executive Board and in the shareholder structure.

In the meeting on March 19, 2008, the 2007 financial statements of Pfleiderer AG were approved after extensive deliberations and on the recommendation of the Audit Committee, as were the consolidated financial statements and the combined management report. In addition, the future Executive Board structure and expansion were discussed and Dr. Robert Hopperdietzel's appointment to the Executive Board was extended by five years. Further issues included the dividend proposal to be made to the Annual General Meeting, the agenda of the Annual General Meeting and the new composition of the Supervisory Board effective from the day of the Annual General Meeting. A revised version of the rules of procedure for the Supervisory Board was also approved.

The meeting on June 12, 2008, dealt with appointing members from the Supervisory Board to the Working Committee, the Audit Committee, the Nomination Committee and the Mediation Committee. In addition, new rules of procedure were approved for the Audit Committee.

The Supervisory Board meeting on September 30, 2008, dealt with the current business situation.

In the meeting on December 11, 2008, the budget for 2009 was discussed in detail and approved. The declaration of compliance by the Supervisory Board and the Executive Board of Pfleiderer AG with the recommendations and suggestions of the "Government Commission German Corporate Governance Code" was approved in accordance with Section 161 of the German Stock Corporation Act (AktG). A decision was also taken on adjusting the corporate governance policies of Pfleiderer AG to comply with the amendments to the German Corporate Governance Code which took effect in 2008.

In 2008, the Supervisory Board also passed a resolution in a written procedure to dismiss Mr. Derrik G. Noe from the Executive Board and from his post as the CFO and to appoint Mr. Heiko Graeve to the post of CFO and Mr. Pawel Wyrzykowski to the Executive Board with responsibility for Sales, Marketing and Product Strategy.

For the full performance of its duties, four committees are available to the Supervisory Board: the Working Committee – which also acts as the Human Resources Committee – the Audit Committee, the Nomination Committee and the Mediation Committee.

COMMITTEE MEMBERS

	Working & HR Committee	Audit Committee	Nomination Committee	Mediation Committee
E.-H. Pfleiderer	C	M	M	M
Dr. H. Burmester [2]		M		
H. Fiedler	M		M	M
W. Haupt		C	M	
Ch. von Hugo [2]	M		M	
F. Bergmann [1,2]		M		
A. Dennenmoser [1]	M			M [3]
W. Rhode [1]	DC	M		M
M. Schmidt [1,3]				M

[1] Employee representative, [2] new member since June 12, 2008 , [3] until June 12, 2008

C = Chairman, DC = Deputy Chairman, M = Member

In the year under review, the Working Committee convened seven times, on three occasions by telephone (in February, twice in March, in April, twice in June and in December 2008). The focus of the meetings of the Working Committee included the issue of a promissory note (“Schuldschein”) in an amount of 165 million euros, the stock option plan for 2008, the investment decision to move the La Baie, Canada site and acquisition of the Moncure, USA site. In addition, contractual and remuneration issues for the Executive Board were discussed and approved.

The Audit Committee convened four times, on one occasion by telephone. The meetings were held in March, August, September, and November 2008. The Audit Committee dealt with the 2007 annual financial statements, the audit focus for the 2008 annual financial statements, the financial statements for the first three, six and nine months of 2008, internal auditing and compliance. In 2008, there was no reason to convene the Conciliation Committee, which has been formed in accordance with Section 27, Subsection 3 of the German Co-Determination Act (MitbestG).

The annual financial statements of Pfleiderer Aktiengesellschaft and of the Pfleiderer Group as of December 31, 2008, and the combined management report of the single entity and of the Group were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin/Frankfurt, formerly KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, and issued with an unqualified auditors’ opinion in each case. The Audit Committee met on March 17, 2009, in the presence of the auditors and the Executive Board. The auditors reported to the Committee on the key findings of their audit.

In its meeting on March 18, 2009, the Supervisory Board also reviewed the 2008 annual financial statements of Pfleiderer AG and the consolidated financial statements, as well as the combined company management report and Group management report, as submitted by the Executive Board. The auditors’ report was made available to the Supervisory Board in good time. The detailed audit did not result in any objections and the Supervisory Board concurs with the results of the audit. The Supervisory Board approves the consolidated financial statements and the company financial statements for fiscal year 2008. The annual financial statements of Pfleiderer AG are thereby adopted in accordance with Section 172 of the German Stock Corporation Act (AktG). The Supervisory Board concurs with the Executive Board’s proposal for the appropriation of the net retained profit and concurs with the Executive Board’s proposal that the net retained profit be carried forward.

The Executive Board and the Supervisory Board report separately on the standards of good corporate management in the Corporate Governance section of this Annual Report.

The composition of the Supervisory Board changed in the course of 2008 after One Equity Partners Europe GmbH acquired a stake in Pfleiderer AG of just over 20 % before the Annual General Meeting 2008 (by year-end 2008: 26.9 %). On June 12, 2008, Mr. Klaus M. Bukenberger and Mr. Robert J. Koehler retired from their positions as members of the Supervisory Board of Pfleiderer AG representing the shareholders. Mr. Christopher von Hugo, Managing Director and Partner of One Equity Partners Europe GmbH, and Dr. Helmut Burmester, Partner of One Equity Partners Europe GmbH, were elected as their successors. The Annual General Meeting confirmed Mr. Hans Theodor Pfleiderer and Mr. Michael L. Martell as deputy members.

AS OF FEBRUARY 1, 2009, THE FOLLOWING NEW RESPONSIBILITIES APPLY IN THE EXECUTIVE BOARD.

Name	Regional responsibility	Functional responsibility
Hans H. Overdiek Chairman of the Executive Board	North America	■ Strategy and Development ■ Communications, Investor Relations ■ Internal Auditing, Human Resources ■ Risk Management, Compliance
Dr. Robert Hopperdietzel Deputy Chairman of the Executive Board	Western Europe	■ Technology, Benchmarking ■ Investment Management ■ Research and Development ■ Information Technology ■ Strategic Central Purchasing ■ Environmental Protection, Occupational Safety
Heiko Graeve	–	■ Finance, Controlling, Accounting ■ Legal and Insurance ■ Intellectual Property
Pawel Wyrzykowski	Eastern Europe	■ Sales, Marketing, Product Strategy

Mr. Derrick G. Noe departed from the Company's Executive Board as of January 14, 2008. The Supervisory Board appointed Mr. Heiko Graeve as the new CFO effective June 1, 2008. Mr. Graeve has long-standing experience in the position of CFO at a number of companies. As announced in March 2008, Mr. Michael Ernst retired from the Executive Board effective January 31, 2009, upon reaching retirement age. The Supervisory Board thanks Mr. Ernst for his nearly nine years of committed and successful work as a member of the Executive Board. Mr. Pawel Wyrzykowski was appointed to the Executive Board of Pfleiderer AG effective January 1, 2009. He has been working for Pfleiderer Group in Eastern Europe since 1998. Since 2003, he has been Chairman of the Executive Board of Pfleiderer Grajewo S.A., Poland.

On behalf of the entire Supervisory Board, I would like to thank the members who have stepped down from the Supervisory Board, the Executive Board, the employee representatives and all the employees of the Pfleiderer Group for their commitment and successful work in the past fiscal year. They have made a significant contribution to the Group's continuing development.

Neumarkt, March 2009

Ernst-Herbert Pfleiderer
Chairman of the Supervisory Board

Corporate Governance Report of Pfleiderer Aktiengesellschaft

The principles of transparent, sustainable, value-adding corporate governance are of great importance to the Executive Board and the Supervisory Board of Pfleiderer Aktiengesellschaft. These goals are pursued continually by the Executive Board and all Pfleiderer employees. The amendments to the German Corporate Governance Code made by the Government Commission on June 6, 2008, led to changes to the corporate governance principles of Pfleiderer being approved by the Supervisory Board at its meeting on December 11, 2008.

http://www.pfleiderer.com/en/investor-relations/corporate-governance-242.html

DECLARATION OF CONFORMITY 2008

In 2008, Pfleiderer Aktiengesellschaft complied with the mandatory recommendations of the Government Commission on the German Corporate Governance Code and will in the future comply with these recommendations as amended on June 6, 2008, with the following exceptions:

Code Clauses 4.2.2 and 4.2.3: The remuneration system for the Executive Board including the significant contractual elements is to be decided upon by the Working Committee of the Supervisory Board and reviewed regularly. The Supervisory Board is informed in a timely manner about the results of these consultations and decisions.

Pfleiderer Aktiengesellschaft's stock option plan was approved at the Annual General Meeting in 2006 and does not stipulate a cap. No subsequent amendment to the plan currently in place is intended.

No arrangements have been made for a severance compensation cap in the Executive Board members' contracts.

Code Clause 5.1.2: Upon their initial appointment, Mr. Graeve and Mr. Wyrzykowski were appointed to the Executive Board for the maximum period of five years.

http://www.pfleiderer.com/en/investor-relations/declaration-of-compliance-243.html

COMPLIANCE

Our definition of compliance includes the tools, guidelines, and measures applied in our Company to ensure adherence to the law. We introduced mandatory business conduct guidelines for all employees throughout the Group in the year under review. These business conduct guidelines form the basis of our compliance system and include mandatory rules for ethical and legal conduct in day-to-day operations. The rules primarily pertain to compliance with statutory provisions, interacting with business partners in terms of adhering to competition and antitrust law, placing orders, receiving and giving gifts, avoiding conflicts of interest such as the prohibition of competition, dealing with information, the environment, and technical safety, to name just the most important aspects. The Executive Board ensures the monitoring of and compliance with these regulations and reports regularly to the Audit Committee of the Supervisory Board on this topic.

MANAGEMENT AND CONTROL STRUCTURE

In accordance with German corporate law, Pfleiderer AG has a dual management and control structure consisting of an Executive Board with four members and a Supervisory Board with twelve members. The Supervisory Board includes an equal number of shareholder and employee representatives, of whom two members are from the trade union IG Metall. The rules of procedure of the Supervisory Board stipulate the formation of committees. There is currently an Audit Committee with five members, a Working Committee also with five members, a Nomination Committee with four members and a Mediation Committee with four members.

DISCLOSURE OF DIRECTORS' DEALINGS PURSUANT TO SECTION 15A OF THE GERMAN SECURITIES TRADING ACT (WPHG)

According to Section 15 of the German Securities Trading Act, members of the Executive Board and Supervisory Board of Pfleiderer AG must disclose purchases and sales of Pfleiderer AG shares and related financial instruments. The notifications we have received have been published without delay on our website at www.pfleiderer.com and disclosed in accordance with Section 10 of the German Securities Trading Act.

http://www.pfleiderer.com/en/investor-relations/directors-dealings-245.html

REMUNERATION REPORT

Performance-related remuneration of the Executive Board

The structure of the remuneration system for the Executive Board is reviewed regularly. The Working Committee of the Supervisory Board, which performs the duties usually assigned to a Human Resources Committee, is responsible for determining the remuneration of the Executive Board.

The remuneration received by Executive Board members is composed of fixed and performance-related (variable) components. The fixed components comprise a fixed salary and non-cash benefits. The performance-related components are based directly on the Company's performance and include additional long-term incentive components. These comprise rights to subscribe for shares in accordance with the Company's "LONG-TERM INCENTIVE PROGRAM". Moreover, pension commitments have been made to members of the Executive Board and former members of the Executive Board.

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The main criteria for determining the appropriateness of this remuneration are the duties of the respective Executive Board members and their personal performance as determined within the discretion permitted by corporate law and in consideration of standard market practices.

The fixed salary is paid monthly as basic, non-performance-related remuneration. A review of the fixed salaries of the Executive Board members Hans H. Overdiek and Dr. Robert Hopperdietzel as of January 1, 2008, led to an adjustment of their fixed remuneration.

Executive Board members additionally receive non-cash benefits, particularly compensation for maintaining two households and a company car. These benefits are generally available to all Executive Board members equally, but the value varies depending on each member's personal situation.

The variable components are based on earnings before interest, taxes, depreciation, and amortization (EBITDA), the return on capital employed (ROCE), the achievement of personal targets, and the performance of the individual Executive Board members. This remuneration system also applies to Mr. Pawel Wyrzykowski, who was appointed to the Executive Board effective January 1, 2009.

In 2008, variable components accounted for around 48.5 % of total income.

The structure of the remuneration system complies with the recommendations of the German Corporate Governance Code.

Components in 2008	**Hans H. Overdiek**	**Michael Ernst**	**Dr. Robert Hopperdietzel**	**Heiko Graeve**
Fixed salary	■	■	■	■
Variable remuneration:				
Consolidated EBITDA	■	■	■	■
Consolidated ROCE	■	■	■	■
Personal target achievement	■	■	■	■

Executive Board remuneration in 2008

The total remuneration paid to the Executive Board (fixed salary + non-cash benefits + bonuses) totaled 3,848 thousand euros in fiscal 2008 (previous year: 4,267 thousand euros). This remuneration for the fiscal year includes a fixed component including non-cash benefits of 1,981 thousand euros (previous year 2,058 thousand euros).

Provisions for pensions for Executive Board members, former Executive Board members and their surviving dependents amounted to 6,123 thousand euros (previous year 5,362 thousand euros). In fiscal 2008, 214 thousand euros in remuneration and pensions were paid to former members of the Executive Board (previous year 273 thousand euros).

Members of the Executive Board held a total of 159,780 shares as of December 31, 2008 (previous year: 201,051). An additional 515,668 shares are held indirectly via the below mentioned limited partnership.

The following table provides an overview of the ratio of fixed to performance-related (variable) remuneration components broken down by individual Executive Board member:

EUROS	Fixed salary including non-cash benefits	Performance-related	**Total**
Hans H. Overdiek	742,102	805,560	1,547,662
Michael Ernst	382,741	344,180	726,921
Dr. Robert Hopperdietzel	580,821	484,060	1,064,881
Heiko Graeve (from June 1, 2008)	259,314	233,333	492,647
Derrick Noe (until January 14, 2008)	15,636	0	15,636
Total	**1,980,613**	**1,867,133**	**3,847,746**

Due to his premature departure from the Company, Mr. Derrick Noe also received lump-sum compensation of 686 thousand euros as part of a settlement for material contractual claims up to the expiry date of the original contract period.

STOCK OPTION PLAN

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At the Annual General Meeting on June 13, 2006, the shareholders of Pfleiderer Aktiengesellschaft approved a STOCK OPTION PLAN (SOP) for no more than 4,555,330 no-par value shares, under which options will be issued as part of the Pfleiderer stock option plans. The Company decides each year at its own discretion whether to establish a stock option plan, who is eligible to participate in it, and how many shares 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 18 for members of the Executive Board. The strike price is derived from the Company's average share price during the three months preceding the relevant stock option grant date. A quarter of the stock options may be exercised at a subscription price of at least 110 %, 115 %, 120 %, and 125 % of the strike price respectively.

As part of Pfleiderer Aktiengesellschaft's Long-Term Incentive Program, members of the Executive Board are granted stock options in exchange for a personal investment. As of the balance sheet date of December 31, 2008, the members of the Executive Board were entitled to a total of 321,884 options under Stock Option Plan 2004, 139,896 options under SOP 2006, a total of 119,300 options under SOP 2007 and 491,176 options under SOP 2008. The following table provides a detailed overview broken down by individual Executive Board member:

Overview of the Stock Option Plan for members of the Executive Board

	SOP 2004 12-31-2008 options	SOP 2006 12-31-2008 options	SOP 2007 12-31-2008 options	SOP 2008 12-31-2008 options	Total 12-31-2007 options	**Total 12-31-2008 options**	**Option value 12-31-2008[3] euros**
Hans H. Overdiek	257,508	93,264	95,440	200,892	446,212	647,104	2,246,913
Michael Ernst	64,376	46,632	23,860	100,444	134,868	235,312	839,586
Dr. Robert Hopperdietzel	–	–	–	100,444	–	100,444	285,261
Heiko Graeve[1]	–	–	–	89,396	–	89,396	253,885
Derrick Noe[2]	–	–	–	–	–	–	–
Total	**321,884**	**139,896**	**119,300**	**491,176**	**581,080**	**1,072,256**	**3,625,645**

[1] since June 1, 2008
[2] from March 15, 2006, to January 14, 2008
[3] The option value is calculated from the fair value of the individual SOPs at the grant date.

The Supervisory Board decided to allow the Pfleiderer management a share in the Company's success through an additional long-term investment plan. The management founded a limited partnership as an investment instrument for this purpose. The aim of the limited partnership is to acquire shares of Pfleiderer AG up to a total volume of around 5.2 million euros and to hold them over the long term. This corresponds to approximately a 1.6 % stake in Pfleiderer AG. The shares have been acquired either via the market or off-market.

One Equity Partners (OEP), which holds around a 26.9 % stake in Pfleiderer AG via its subsidiary Wood Engineering Holding B.V., has provided that company with a loan amounting to approximately 3.7 million euros. The remaining 1.5 million euros was put forward by the Pfleiderer AG management in cash or as non-cash contributions. The bylaws of the limited partnership stipulate a holding period of four years and ensure that no control is exerted by OEP.

SUPERVISORY BOARD REMUNERATION

Supervisory Board remuneration comprises a fixed component, an attendance fee, and a performance-related (variable) component. Furthermore, members of the Supervisory Board are reimbursed for any expenses incurred when performing their duties.

Each member of the Supervisory Board receives annual fixed remuneration of 33,600.00 euros, payable following the end of the fiscal year. An attendance fee of 1,500.00 euros is paid per meeting of the Supervisory Board or one of its committees attended. Attendance at meetings of the Mediation Committee formed in accordance with Section 27 (3) of the German Codetermination Act (MitbestG) is not counted. Furthermore, annual performance-related remuneration of 150.00 euros for every euro cent by which the dividend per share specified in the resolution on the appropriation of profits by the Annual General Meeting exceeds 11 euro cents, but no more than the amount of the fixed remuneration paid to each Supervisory Board member, is payable after the resolution on the appropriation of profits has been adopted.

The Chairman of the Supervisory Board receives double the fixed remuneration and performance-related remuneration. Each Deputy Chairman and all chairmen of committees formed by the Supervisory Board receive 1.5 times this amount, and those members of the Supervisory Board elected to committees receive 1.25 times the amount stated above. No remuneration is to be paid for membership in the Mediation Committee formed in accordance with Section 27 (3) of the Codetermination Act. If members of the Supervisory Board perform several of the aforementioned functions simultaneously, their fees shall be based solely on that function for which the highest remuneration is paid.

The total remuneration paid to Supervisory Board members amounted to 645 thousand euros (previous year 624 thousand euros).This remuneration for the fiscal year does not include a variable component, as the dividend amount was below the required threshold value of 11 euro cents per share. The following table provides a detailed overview broken down by individual Supervisory Board member:

EUROS	Fixed remuneration including attendance fee	Variable component	Total
Ernst-Herbert Pfleiderer	88,200	0	88,200
Frank Bergmann*	50,244	0	50,244
Klaus M. Bukenberger (until June 12, 2008)	16,620	0	16,620
Dr. Helmut Burmester (from June 12, 2008)	32,217	0	32,217
Alfred Dennenmoser*	50,244	0	50,244
Hanno C. Fiedler	62,400	0	62,400
Reinhard Hahn*	41,100	0	41,100
Wolfgang Haupt	63,900	0	63,900
Christopher von Hugo (from June 12, 2008)	32,217	0	32,217
Robert J. Koehler (until June 12, 2008)	16,620	0	16,620
Friedhelm Päfgen	39,600	0	39,600
Wolfgang Rhode*	71,400	0	71,400
Manfred Schmidt*	41,100	0	41,100
Dr. Melanie Tuchbreiter*	39,600	0	39,600
Total	**645,462**	**0**	**645,462**

* Employee representatives

PURCHASE OF TREASURY SHARES

At the Annual General Meeting on June 19, 2007, Pfleiderer AG was authorized to purchase treasury shares of up to 10 % of the Company's share capital. This authorization was renewed at the Annual General Meeting on June 12, 2008 and applies until December 11, 2009. As a result of this authorization, the Company purchased 2,947,749 shares and sold 300,000 shares, and on the balance sheet date as of December 31, 2008, held a total of 2,643,458 treasury shares. In the context of exercising stock options, 34,534 shares were issued.

Pfleiderer Shares

2008 was one of the worst years for the stock market in the postwar period. The financial crisis pulled the global economy into a recession and sent the stock market tumbling. The Pfleiderer share price also followed this trend. In spite of decreasing market capitalization and reduced free float, our stock defended its position in the MDAX. This was mainly driven by a forward-looking financing policy. Pfleiderer AG issued a bond already in mid-2008 with attractive terms and consequently covered its demand for capital in good time.

KEY FIGURES

		2008	2007
Share price			
Low	euros	5.30	12.77
High	euros	16.91	25.61
Closing price (year)	euros	6.60	14.24
No. of shares as of Dec. 31	shares	53,326,100	53,326,100
Market capitalization as of Dec. 31	million euros	352	752
Earnings per share (continuing operations)	euros	0.24	1.00
Dividend per share	euros	0.00	0.30
Price-earnings ratio[1]		26.4	14.2
Average daily trading volume[2]	shares	392,500	532,700

[1] Closing price (year) / earnings per share (continuing operations)
[2] Per day on Xetra

http://www.pfleiderer.com/en/investor-relations/stock-249.html

SHARE PERFORMANCE REFLECTS ECONOMIC EXPECTATIONS

The mortgage and financial crisis had an increasing impact on virtually all economic sectors in every region throughout the world. Subsequently, investors particularly avoided stocks which they believed to be cyclical and which feature rather limited market capitalization. As a result of the general uncertainty about economic developments, investment fund managers reduced the proportion of stocks held in their portfolios. Transaction volumes on the stock market dropped and share price volatility increased significantly. The outperformance delivered by the Pfleiderer share in the past few years was not continued in 2008. On December 31, 2008, our shares closed at 6.60 euros and in doing so came in at 53.7 % below the previous year's closing price. During the same period, the MDAX plummeted by 43.2 % and the DAX fell by 40.4 %.

PFLEIDERER SHARE PRICE MOVEMENT COMPARED TO THE MDAX INDEX

January 1, 2008 – February 26, 2009

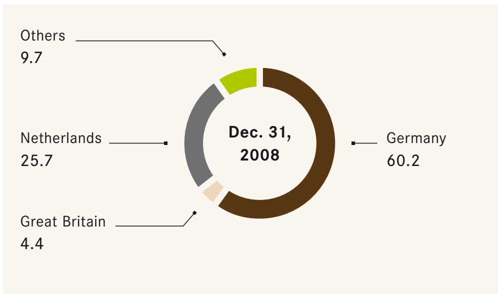
SHARE DATA

GERMAN SECURITIES IDENTIFICATION NUMBER (WKN) 676474	**STOCK EXCHANGES** Xetra, Frankfurt am Main, regional stock exchanges
ISIN DE0006764749	**FREE FLOAT AS OF MARCH 2009** 66.4 %
REUTERS SYMBOL PFDGn.DE	**MDAX WEIGHTING AT DEC. 31, 2008** 0.54 %
BLOOMBERG SYMBOL PFD4 GY	**STOCK EXCHANGE SEGMENT** Prime Standard

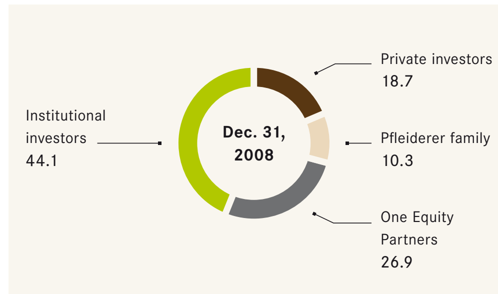
PFLEIDERER SHARES IN THE MDAX

As the MDAX sustained similar losses to the Pfleiderer share price, Pfleiderer maintained its position in the German stock exchange index ranking for MDAX companies to the greatest extend. In terms of market capitalization, Pfleiderer's share ranking for December 2008 was number 52 after ranking number 51 in the previous year. Our shares held this position despite the free float declining from 81.8 % to 66.4 % in the same period.

SHAREHOLDER STRUCTURE BY REGION
%



SHAREHOLDER STRUCTURE BY GROUP
%



Number of shareholders: 19,500

Pfleiderer shares' liquidity ranking, however, deteriorated to number 42 in December 2008 from number 29 in December 2007. An average of around 392,500 shares was traded daily during the past year compared to approximately 532,700 in the previous year. The transaction volume decreased significantly towards the end of the year and amounted to only around 180,000 shares per day in the fourth quarter due to the general caution prevailing in the market.

FINANCING SECURED IN GOOD TIME

In June 2008, we issued a bond with a volume of 165.0 million euros and maturities of three, five and seven years, and subsequently once again expanded our financial scope. With the placement of the bond, the Company was able to optimize its financial liability structure by extending the maturities.

The cash inflows from the bond issue served primarily to improve liquidity and led to enhanced financial flexibility, which assists Pfleiderer's growth strategy. The newly available funds are to be used for financing investments. Additionally, Pfleiderer AG used some of the funds for reducing other liabilities from current credit lines.

SHARE BUYBACK PROGRAM

In fiscal 2008, Pfleiderer AG acquired a total of 589,543 own shares at an average price of 8.46 euros on the capital market, and sold 300,000 own shares at a price of 9.70 euros under the authorizations issued by the Annual General Meeting. At the end of 2008, Pfleiderer AG held 2,643,458 own shares, corresponding to 4.96% of the share capital. The primary purpose of the share buyback was to use the own shares acquired to settle the rights to Company shares arising from stock options issued in conjunction with Pfleiderer stock option plans or to be issued under future plans. The shares were also purchased with the aim of using the own shares acquired in conjunction with the purchase of companies, parts of companies, or interests in companies.

SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2008

Over the course of 2008, the private equity fund One Equity Partners Europe GmbH (OEP) increased its stake in Pfleiderer AG to 26.9 % via its subsidiary Wood Engineering Holding B.V. based in the Netherlands. In contrast, private and other institutional investors reduced their stakes. Due to the decline in private investors, the number of shareholders dropped compared to the previous year from 22,300 to around 19,500.

During 2008, the shareholder structure shifted in favor of foreign shareholders. Their interest rose from 33 % to just under 40 %, mainly due to the increase in the interest of OEP, which acquired the shares through its subsidiary in the Netherlands.

The following companies have notified us that they hold Pfleiderer AG shares:

Name	Interest in %	Notification date
OEP	26.90	Sept. 12, 2008
Pfleiderer family	10.27	Oct. 24, 2007
Surteco SE	3.02	Jan. 7, 2008

Transactions by executives of Pfleiderer AG subject to mandatory disclosure are published on our Company's website at www.pfleiderer.com in compliance with the German Securities Trading Act (WpHG).

"Bavarian State Forests no longer focus on the administration of their forests, but on the entrepreneurial management of those forests. Strictly oriented towards the principle of sustainability. It means on the one hand that we do not harvest more than grows back. But also on the other hand that the forest has to yield returns to be able to maintain it for people and animals in the long term. To this end, we cooperate with companies that combine profitability and sustainability in the same way as we do."

DR. RUDOLF FREIDHAGER, CHAIRMAN OF THE EXECUTIVE BOARD OF BAVARIAN STATE FORESTS, REGENSBURG

Our Strategy

Pfleiderer aims to reach 4 billion euros in sales by 2011 and to serve with its engineered wood products all geographical markets by 2020. Its strategy rests on cost control, growth, differentiation from competitors and risk control. The core strength on which Pfleiderer builds its successes are an advanced technology that enables it to control its costs, a focus on customers to differentiate from competitors and growth on the back of its competitive advantages.

http://www.pfleiderer.com/en/company/objectives-and-strategy-384.html

Ophthalmologists talk about '2020 Vision' to describe perfect eyesight. At Pfleiderer, we do not claim perfection but what we can claim is a very clear view of what the Company will look like in the future, our own '2020 Vision.'

We have already established ourselves as one of the world's leading manufacturers of engineered wood and we have a precise plan for the next phase of our drive to consolidate this leadership. Ten years are a long planning horizon, and our plans will certainly have to be flexible to cope with changing market circumstances. However, the foundations of our long-term strategy will remain unchanged, and will continue to be cost control, growth, differentiation from competitors and risk control. The core strengths that enabled us to build these foundations are the same strengths that will allow us to prosper in the future. Therefor, it is vital that all our stakeholders understand what these strengths are and how they can be used over the next decade to achieve our '2020 Vision.'

OUR CORE STRENGTHS

First and foremost, we are experts when it comes to cost control. This is what allows us to price competitively and still generate best-in-class margins. Second, we have developed and deployed some of the most advanced technologies in our industry, which enables us to manufacture a large range of high-quality products, both standardised and customised, while maintaining low production costs. Third, our focus on high-end and booming customers has allowed us to develop high-quality products and ancillary services that differentiate us from competitors and make us a supplier of first choice. Fourth, our resolute growth strategy has made us one of the few global players in our industry: we are capable of servicing our customers in a wide range of markets almost anywhere in the world, thus taking advantage of many growth opportunities and balance regional cyclical risks. Our size and close internal coordination also help us to identify cost efficiencies and implement them quickly across all our facilities.

These strengths have put us in a position to claim market leadership. Our leadership position brings various responsibilities: we feel responsible for continuing to produce and deliver reliably, in an environmentally sustainable fashion, competitively priced high-quality products and services to our customers. We are also responsible for the welfare of our employees and the protection of the natural environment. To our shareholders too we owe a responsibility to deliver value. But importantly, our strengths also bring opportunity: over recent years, we have built an excellent corporate platform; efficient enough to compete with our peers, sophisticated enough to meet our customers' needs and strong enough to grow on the back of our competitive advantages.

OUTSTANDING COST CONTROL

Much of our offering is highly standardised, many products are commoditised, our markets are cyclical and competition is fierce. Each of these characteristics on its own would dictate an imperative to control cost; in our market, all of them come together. This places stringent demands on the way we conduct our business: more than 50% of our costs derive from purchases of raw materials and services, so being large and still becoming larger enhance our bargaining power Large plants and higher output do reduce our production cost. Our megasites in Grajewo/Poland, Novgorod/Russia or Moncure/US are examples of how we have already responded to this challenge. Furthermore, our plants do compete with each other for the most efficient production processes, and we established a system that standardises these processes across all plants and enables us to implement best practice everywhere quickly. This has greatly reduced our costs and capex requirements, and we shall develop it further. Vertical integration enables us to fine-tune all quality and cost elements of the production process, from raw wood to the finished product. This holistic approach also helps us to decide what degree of customisation we can sensibly offer to our customers. Hence further vertical integration is firmly on our agenda.

DIFFERENTIATING VIA ADVANCED PRODUCTION TECHNOLOGIES

A precondition for cost competitiveness is technological leadership: only if our manufacturing technology is best in class can we beat our competitors on price and profitability. The machinery we use in our production processes is not only extremely complex and expensive, it is also a long-term investment as especially panel production lines can be used for up to 35 years. Therefore, they have to be extremely durable but at the same time sufficiently flexible to accommodate a variety of production modes and frequent technical modernisation.

ADDING VALUE TO OUR CLIENTS

Although we manufacture many largely commoditised products, our offering is about more than price: our customers expect us to handle their orders with a high degree of flexibility, to produce quality that differentiates them from their peers, and to deliver reliably and within very narrow time windows. We have made great strides over the past few years in enhancing these ancillary services, and we aim to improve them further. We also apply the principle of risk mitigation to the way we look at our customer base: our top 10 customers should not account for more than 20% of our Group revenues. Apart from mitigating counterparty risk, this policy helps us to maintain independence and bargaining power. At the same time, we give priority to customers who purchase a wide range of products from us.

GROWTH ON A GLOBAL SCALE

We are already among the top three players worldwide in engineered wood, and undisputed market leader in large parts of Eastern and Western Europe as well as North America. However, we intend to grow further: in addition to extending our existing footprint by growing market share, we will expand into new markets where they offer an attractive mix of growth and margin potential. We will pursue this growth organically where warranted, but we will not shy away from making acquisitions. We have shown in the past that we are capable of buying the right assets, and of integrating these assets into our existing corporate structure. Again, our rationale is simple: by extending the footprint in our existing markets, we gain scale and pricing power; by diversifying into new geographical areas, we reduce the cyclicality which is inherent in our markets.

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However, scale and geographical diversification are not our only objectives. By acquiring Pergo in 2007, we have already diversified our product range. Pergo complements our existing engineered wood segment by adding LAMINATE flooring. We are still only beginning to exploit the opportunities this enhanced range of products offers us, but we can already see the benefits: there are substantial synergies in technology, procurement, safety of operations, market penetration and logistics. Importantly, the two product markets also have different cyclical dynamics. We are confident that this product diversification will help us to reduce cyclicality and enhance resilience at Group level, and we intend to widen both product ranges in order to substantiate the benefits this diversification gives us.

OUR TEAM AND OUR ENVIRONMENT

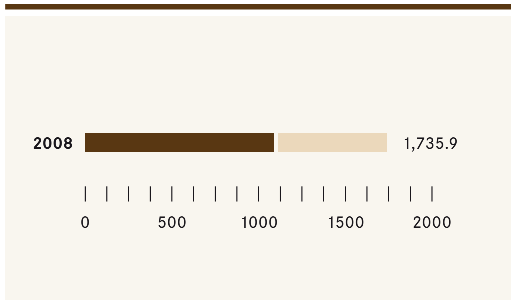
Our '2020 Vision', our core strengths, whatever plans we have for the future, are nothing without the people to make it all happen. None of our long-term objectives can be accomplished without the skill, discipline and professional commitment of our employees. We therefore recognise the imperative to train our people to the highest possible standards, to offer them a safe and comfortable working environment as well as attractive career prospects, and to reward them adequately and in line with the overall success of our Company.

Finally, none of our long-term objectives makes sense if they do not take into account the sustainability of natural resources, and if we do not respect and protect our environment. We are fully committed to our environmental obligations, and aware of our special responsibilities as large-scale users of timber and other natural materials.

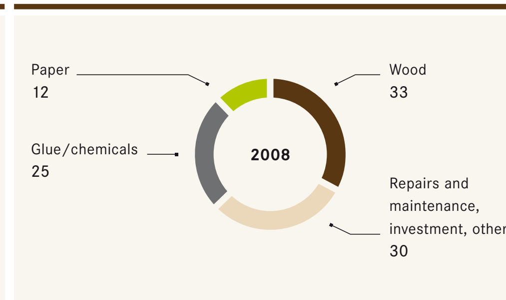
Purchasing as a Strategic Profit Center

Pfleiderer recorded a purchasing volume of around one billion euros for the fiscal year 2008. This means that more than half of total costs are externally influenced. Given the high volume of related goods and services required for manufacturing engineered wood products, purchasing is vital to the value chain of our products – and to the success of Pfleiderer.

REVENUES 2008
MILLION EUROS



PURCHASING VOLUME BY PRODUCT GROUP
PROZENT



Purchased goods and services Internal value added

Effective purchasing constitutes a substantial competitive advantage. Pfleiderer AG optimized its purchasing structures and processes once again last year, and in doing so, made use of strategic expertise from other industries. Pfleiderer attains favorable prices worldwide thanks to economies of scale, and puts a great amount of effort into the selection of strategic suppliers. One dedicated specialist is in charge of each material group.

Pfleiderer took several steps to optimize global purchasing management in 2008: Product group expertise in purchasing was expanded, close cooperation between purchasing and departments was intensified, and the efficiency of internal supply management was increased. The systematic management of material costs and suppliers is centralized and takes place at the highest level of aggregation.

Because purchasing is a primary driver of the Company's profitability, Pfleiderer places high demands on the experts working in this field: They are not only extremely well informed about how the goods they purchase are processed within the Company, but they are also equipped with detailed knowledge about the manufacturing process for the ordered goods and have a thorough insight into the market. In addition, experts are skilled negotiators and highly versed in maintaining good business relationships.

During the period under review, the purchasing volume of about 1 billion euros was divided among the following product groups: approximately 33 % wood, 25 % glue/chemicals, 12 % paper and 30 % repairs and maintenance, investments and others.

WOOD – THE NATURAL AND RENEWABLE RESOURCE

As a renewable and sustainable resource, wood is readily available in the regions in which Pfleiderer operates production. According to figures published by the wood information service, approximately 3.3 billion cubic meters (about 2 billion tons) of wood is harvested each year. Experience shows that local use should be added to this figure, as it is typically not included in statistics. The volume of wood used remains practically stabile year for year, but an increasing volume of wood is being burned rather than used as a raw material (2000: 55:45 %; 1990: 52:48 %). Pfleiderer uses about 10 million cubic meters (4.8 million tons) of this worldwide wood harvest each year – equal to about 1,600 truck loads per working day.

For our industry, precious trunk wood from the annual harvest is of no significance as it is too valuable for being processed into sawdust and wood fibers. The relevant kinds of wood for our purposes are saw mill residue, wood retrieved from forest thinning, as well as windfall lumber and increasingly also recycling wood. By making continuous improvements in the production process, we have achieved a great deal of flexibility when it comes to the wood mix we can use. This enables us to react flexibly to the market situation.

Saw mill residue is very heavy because it is very moist. As a result, transport costs play a considerable role in the purchase of this resource, and suppliers are mostly sought within a radius of approximately 200 kilometers from a plant. Supplier structures vary from country to country.

Contracts with strategic wood suppliers are generally made on a very long-term basis. However, price adjustments remain possible during the fiscal year with the use of cost structures. In addition, storms significantly impact wood prices. They cause extensive damage to forests, creating a considerable increase in the availability of storm-damaged timber.

Wood prices are not only determined by cost structures, but are equally driven by demand structure. In the acquisition of the appropriate wood for our purposes, our primary competitors in Germany are the pellet industry and biomass power plants. The pellet industry also uses scrap wood, especially the sawdust that we also prefer to use. Since pellets compete with fossil fuels, their prices are influenced by fluctuations in the oil and gas price and consequently affect the price of sawdust. We estimate that approximately 10 % of scrap wood in Germany is processed by the pellet industry.

In these markets, which are shaped by regional and seasonal peculiarities, purchasing determines the secure supply of this strategically important raw material at the lowest possible cost. Wood prices in Germany mainly remained stable in 2008. In Poland, prices showed a very strong increase at the beginning of 2008 and since then have remained at a high level, above the levels seen in Germany. Wood prices in North America, particularly Canada, increased in 2008, as they had in 2007. This was largely due to reduced logging quotas in Canada and the lower quantity of scrap materials in the sawmill industry owing to the recession.

GLUES/CHEMICALS/COMPONENTS

Due to their high level of standardization, glues and their chemical components are product groups that are extremely well suited to centralized purchasing management. Glues and impregnating resins with urea, methanol, melamine, and phenol basis represent the main product groups. The main components of these items are urea and methanol, which are traded worldwide. Urea is the binding agent in many types of glue and together with methanol is the most important starting material for glue production.

Glue supply is determined by local vendors. The price of urea depends mainly on developments in gas prices, which also means a dependence on oil prices with a 6-month time lag. Duties on exports from China are also a determining factor in this market. On the demand side, the urea market is largely influenced by the use of agricultural fertilizer, which represents approximately 90 % of total consumption worldwide. After a steep increase, urea reached peak prices in the summer of 2008, with methanol following with a slight delay in the autumn of that year.

In order to reduce dependence on external suppliers and to better adapt the glue supply to our production processes, we have invested in our own glue manufacturing in Canada and Poland, covering approximately half of our glue supply needs. The other half is acquired from regional production. However, in addition to price, product quality plays a vital role, since the optimized glue composition reduces material consumption in board production, which in turn improves our relative cost position compared to the competitors. Our own expertise when it comes to glue production allows us to work together with suppliers to ensure continuous progress in quality standards and specifications.

PAPER

Paper is yet another important commodity group which is well suited for centralized purchasing management because of its global supply structure. The most important paper categories used at Pfleiderer are technical paper, printed décor paper and single-colored papers.

The supply structure of the paper market is oligopolistic, with relatively few manufacturers active worldwide. Currently the industry is suffering from excess capacity.

TECHNICAL SERVICES

Technical services include the maintenance of machines as well as the purchasing of factories, production lines and standardized spare parts. While factories and standardized spare parts are ordered centrally and called locally on demand, the procurement of custom parts and maintenance and repair services are sourced regionally. Especially in the area of plant construction, the supply structure is characterized by a limited number of large manufacturers. We also cooperate closely with these companies in the continued development of our plants. Favorable terms and conditions are achieved by pooling the orders placed by our 26 plants worldwide. In addition, we maintain research and development cooperations with mechanical engineering companies, in which both sides contribute their expertise– Pfleiderer in operations, and plant construction companies in development. The most recent example is the development of a new technology for the efficient production of MDF boards.

The purchasing organization at Pfleiderer is well prepared to efficiently manage the important cost factor – procurement costs – thanks to its centrally managed matrix organization and close collaboration between purchasing and technology departments. As a result, we have been able to achieve a clear competitive advantage in the industry.

"For more than 80 years now, BASF has been the premier supplier of glue and impregnating resin for the engineered wood industry. Our name stands for reliability and quality, tradition und innovation. We place top priority on expertise and customer dialogue, allowing us to develop new products quickly and successfully together with and for our partners. In this way, we enhance their competitiveness and help them to make use of new market opportunities, so that they remain successful in the future."

STEFANO PIGOZZI, HEAD OF THE INORGANICS UNIT, BASF SE, LUDWIGSHAFEN


BASF
BASF

COMBINED MANAGEMENT REPORT OF THE PFLEIDERER GROUP AND PFLEIDERER AG

Business and Operating Environment

The Pfleiderer Group is focused on engineered wood products and is one of the world's top three companies in this industry. We operate production sites in Western and Eastern Europe and in North America. Thanks to our organic growth and acquisitions, we have established strong market positions in all our regions in recent years. However, demand for engineered wood products declined in all three regions in the period under review, whereupon we reacted swiftly by taking measures to reduce our costs.

BUSINESS ACTIVITIES OF THE PFLEIDERER GROUP

Since 2003, Pfleiderer has focused on producing and selling engineered wood products. The Group has been continually expanded in recent years by systematically setting up state-of-the-art plants in high-growth regions and by undertaking strategic acquisitions. With consolidated revenues of approximately 1.7 billion euros and some 6,000 employees, the Company is among the world's top three system suppliers of engineered wood products. Its product range includes particleboard, medium-density and high-density FIBERBOARD (MDF/HDF) including surface finishes, as well as laminate flooring products.

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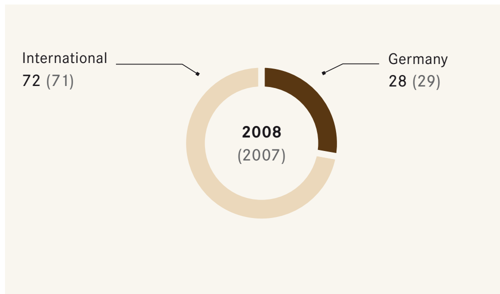
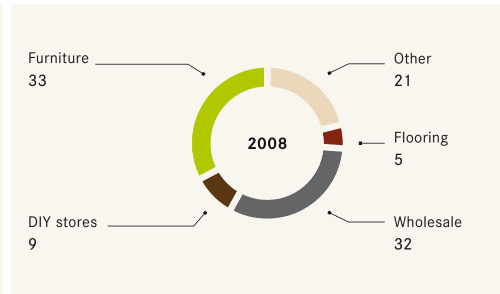
Pfleiderer's aim is to be one of the top three providers in each regional market in terms of market share and production capacity. Pfleiderer has already attained this position in Western Europe with production sites in Germany and Sweden, in Eastern Europe with plants in Poland and Russia, and in North America with production facilities in the USA and in Canada. The Pfleiderer Group now generates almost three quarters of its revenues outside Germany.

Today, 26 Pfleiderer plants worldwide supply customers in over 80 countries. Pfleiderer is the furniture industry's preferred partner and generates about 33% of Group revenues in that segment. The wholesale sector Pfleiderer serves is a market segment of similar size, accounting for around 32% of revenues. In addition, Pfleiderer products are sold to DIY stores, the flooring industry, retailers as well as architects, interior designers, and carpenters.

SHARE OF REVENUES
%



SHARE OF REVENUES BY INDUSTRY
%



ORGANIZATIONAL AND MANAGEMENT STRUCTURE

Purchasing and sales markets with a strong local character require customer proximity and flexibility on the ground. All Pfleiderer locations are therefore assigned to regional organizational units (business centers), which are operationally independent and bear full responsibility for revenue and earnings. The Western Europe region operates ten plants at eight locations in Germany and two plants in Sweden. There are five plants in the region Eastern Europe. Nine production facilities are operated in the North America region.

Pfleiderer Aktiengesellschaft is the parent company of the Group. The Executive Board of Pfleiderer AG consists of four members, whose areas of responsibility are outlined in the report of the Supervisory Board published in this Annual Report.

MANAGEMENT

The Executive Board manages the Pfleiderer Group and its operating units by defining strategic and operating guidelines as well as operating and financial key figures such as EBITDA and ROCE. These key figures apply throughout the Group and serve equally as planning and management tools being based on standard systems. In addition to their functional duties, three members of the Executive Board are each responsible for a business unit.

The best-practice system implemented throughout the Group is another management tool. Efficiency and productivity are continually improved by systematically transferring know-how and analyzing differences between the plants.

In addition, Pfleiderer aims to operate a broadly based cross-functional network to utilize synergies and generate economies of scale. One example is pooling and coordinating procurement activities in the “Central Purchasing” unit.

Targets 2008	Results 2008
Revenues of approx. 2.0 billion euros	3.6 % decrease in revenues to 1.74 (previous year: 1.80) billion euros due to the effects of the US real estate crisis
EBITDA margin approx. 15 %	EBITDA margin approx. 12.9 % Higher raw material costs can only be passed on partially. Margin in Poland impacted by strong zloty and excess capacity Russia and Western Europe post record margins.
Cost cutting approx. 50 million euros	Various cost cutting measures totaling approx. 80 million euros.

THE PFLEIDERER GROUP'S OBJECTIVES

The strategic objective of the Pfleiderer Group is to continually expand its leading international market position, defend its cost leadership, generate an appropriate return on shareholder capital in the long-term and to remain an attractive employer. The focal point of these objectives can be set with consideration of external factors such as the economic cycle. In the current economic situation, generating acceptable earnings as a result of cost leadership takes priority over growth targets. We are dedicated to being the most competitive supplier of engineered wood products and to emerging from the current economic crisis as a stronger company. The strategy we are pursuing to achieve this goal is outlined on pages 24 et seqq. of this Annual Report.

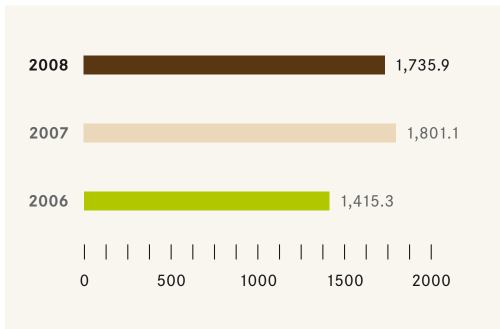
OVERVIEW OF BUSINESS DEVELOPMENT IN 2008

The Pfleiderer Group was able to further enhance its position in a deteriorating market environment and to gain market shares, even though the originally set revenue and earnings targets were not achieved. In 2008, engineered wood markets shrank in all sales regions, resulting in a slide in prices for the majority of products. Our revenues fell slightly by 3.6 % to 1,735.9 million euros (previous year: 1,801.1 million euros) and earnings before interest, taxes, depreciation and amortization (EBITDA) decreased to 223.7 million euros (previous year: 248.7 million euros). This reduced our EBITDA margin slightly from 13.8 % to 12.9 %, mainly due to Eastern Europe. In the Western Europe region, we were still able to generate record-breaking margins. Pfleiderer may not have been able to fully escape generally soft market conditions, but it was able to gain ground on competitors or enhance its lead. We almost doubled our market share in laminate flooring in North America to about 30 %. On the cost side, our continual efficiency programs contributed to ensuring that we have one of the most competitive cost positions in Western Europe. By implementing cost-reducing programs early on, we were able to compensate for part of the increase in raw material prices until the third quarter of 2008, which we could not always pass on to customers.

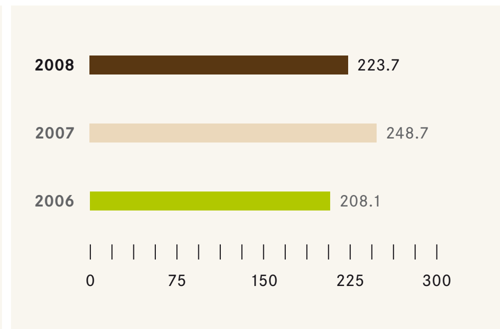
ECONOMIC ENVIRONMENT IN 2008

The events on financial markets in 2008 had a severe impact on the global economy. A problem, which in the summer of 2007 seemed to be restricted to the US real estate market triggered by subprime loans, quickly spilled over to other credit markets until ultimately major parts of the global financial system were struck to the core. The collapse of the global financial system in October 2008 was only prevented by the intervention of central banks and governments. Funding made available for that purpose exceeded anything previously seen. However, some banks were beyond salvaging or could only be saved from bankruptcy by being partly nationalized.

REVENUES
MILLION EUROS



EBITDA
MILLION EUROS



The difficulties experienced by banks resulted in a credit crunch, which increasingly affected companies outside the financial sector. Private consumption was also impacted by the financial crisis, with a spending slump in the USA caused by higher unemployment and falling house prices. In industrialized nations, private consumption dropped as a result of high inflation rates driven by a temporary hike in raw material prices. In the meantime, many industrialized countries such as the USA, Great Britain, Germany, Japan and France have slid into recession. Even boom countries such as China, India and Russia, which initially were hardly impacted by the decline, are now expecting considerably more moderate growth rates for 2009 than in previous years. Russia is additionally suffering from declining income from the sale of raw materials as well as the withdrawal of capital by foreign investors.

Around the world, central banks have cut interest rates to historic lows, but lower interest rates have failed to lead to positive results so far. Governments and central banks have had to save companies in the financial sector with capital injections or (by part) nationalization. Since the end of 2008, measures of this kind have increasingly become an issue for companies in the real economy.

The positive aspects of this economic development include a reduction in various countries' current account deficits. In addition, declining raw material prices reduced inflationary pressure in the second half of 2008. This offers relief to industries where production costs are largely dominated by raw material prices.

According to estimates by the International Monetary Fund, the global economy is on the brink of a massive downturn. While the global economy still grew by 5.2 % in 2007, a growth rate of 3.4 % is expected for 2008 with a probable slide to only 0.5 % in 2009. In contrast to earlier cyclical recoveries, the IMF expects a considerably more moderate upturn to follow this slump, as the problems caused by the financial market crisis cannot be resolved in the short term. For 2009, the IMF expects a growth rate of minus 1.6 % for the USA, – 1.2 % for Canada, – 2.5 % for Germany, – 0.4 % for Eastern Europe and – 0.7 % for Russia. Recovery could be triggered by stabilizing US real estate prices and a return of confidence to capital markets.

Engineered wood markets 2008

Demand for engineered wood products fell in all three regions in which Pfleiderer operates. In North America, price declines in the real estate market continued and resulted in a considerable slump in construction work. As a result, the sales situation continued to be extremely difficult and deteriorated further at the end of 2008. According to calculations by the Composite Panel Association (CPA), demand for particleboard declined by 17 % and for MDF by 10 % in 2008. For 2009, experts expect a decline in sales volumes of around 8 – 9 % in these two product groups in the North American market. Pfleiderer estimates that the laminate flooring market shrank by 15 % in 2008. This development, however, mainly impacted importers, who were no longer able to offer products at competitive prices as a result of the sustained weak US dollar.

In the Eastern Europe region, the engineered wood markets in Poland and Russia developed very differently. Demand in Poland, especially from the local furniture industry, suffered from a significant collapse in demand from abroad. This was mainly driven by the stronger Polish zloty, which made exporting considerably more difficult and led to a drop in revenue for the Polish furniture industry of around 15 % compared to the previous year. At the end of 2008, however, the zloty fell considerably against the euro again. This is likely to have a positive impact on demand in 2009. In Russia on the other hand, sales of engineered wood products continued to grow very encouragingly. This was mainly driven by robust growth in private consumption, but at the end of 2008 there were signs of slowing growth also in that market.

In Western Europe, engineered wood markets also saw declines, with the trend accelerating significantly toward the end of 2008. Weakness initially surfaced in Great Britain and Spain and then spread from France throughout Western Europe. In our most important market, Germany, revenues from engineered wood products declined by 9.3 % compared with the previous year according to the Verband der Deutschen Holzwerkstoffindustrie (VHI). The project business and sales to the furniture industry still generated slight growth, especially in the kitchens and office furniture sectors. According to the Verband der Deutschen Möbelindustrie (VDM), furniture revenues (excluding seating furniture) in Germany in the first eleven months of 2008 was up 1.9 % against the prior-year period. Kitchen furniture recorded growth of 3.5 %, store furniture was up by 8.0 % and office furniture gained 15.1 %. The upholstery furniture segment, which is hardly significant for Pfleiderer, experienced a decline of 9.1 %. Exports also supported the business. In contrast, standard products for the construction business recorded a decline. The market for laminate flooring was characterized by excess capacities in 2008.

Development of sales prices

In view of the declining demand, it was not possible to implement the price adjustments necessitated by higher raw material costs to the full extent in Europe. Prices for particleboard and fiberboard dropped both in Western and Eastern Europe. In Germany, the average annual price decline in 2008 amounted to 2 – 3 % according to the Statistisches Bundesamt (Federal Statistical Office). In North America, prices for particleboard and MDF recovered slightly in 2008 according to industry analysts from RISI, after having declined in 2007. The increase was insufficient to offset higher raw material costs, however.

Net Assets, Financial Position and Results of Operations of the Pfleiderer Group

Towards the end of 2008, business deteriorated in almost all of our sales markets, resulting in a decline in revenues by 3.6% to 1,735.9 million euros. Soft demand resulted in a slight fall in prices, despite increased raw material costs. By introducing massive cost-cutting measures at an early stage, we were able to compensate for these effects in part and retain our EBITDA margin at an almost unchanged figure of 12.9%. In the Western Europe region, Pfleiderer was once again able to even increase its EBITDA margin over the previous year. Compared to the competition, Pfleiderer was able to continue to enhance its relative market position in 2008. Capital expenditure totaling 158.7 million euros were covered completely from the operating cash flow. Issuing a bond in the summer of 2008 secured the long-term funding of the Group.

REVENUES AND EARNINGS

Consolidated revenues decline slightly in 2008

The Pfleiderer Group performed better than most of its competitors in a weak market environment across almost all regions. Compared to 2007, revenues merely declined by 65.2 million euros or 3.6% to 1,735.9 million euros, while 32.2 million euros of this decline can be attributed to closing the plant in La Baie, Canada. Higher revenues came due to the first-time full consolidation of Pergo, with two additional months of revenues being recorded (41.8 million euros), positive exchange rate effects (17.4 million euros) and revenues from the new US plant in Moncure (10.4 million euros).

Pfleiderer has further expanded the share of revenues generated abroad as part of its internationalization strategy. It increased from 71.3% in 2007 to 72.2% in the year under review, which is mainly attributable to growth in Eastern Europe.

Gross margin negatively impacted by higher raw material costs

Gross margin declined from 27.3% in the previous year to 25.1% in 2008. This was fuelled by price pressure in the market as well as higher raw material costs – especially for glue and chemical input products – which could not be passed on to the full extent. Chemical raw materials, which depend on gas prices and are therefore affected by oil prices with a time lag, peaked in the fall of 2008. As a result, the cost of materials ratio increased to 54.3% (previous year: 53.2%). More detailed information on raw materials purchasing is included in this Annual Report from page 27 et seqq. onwards.

The Pfleiderer Group invests in its own glue production, which meanwhile covers approximately half of its own needs. In this way, Pfleiderer reduces its dependency on external suppliers.

EBITDA margin slightly below previous year's level at 12.9 %

EBITDA decreased from 248.7 million euros to 223.7 million euros. The EBITDA margin, however, only fell slightly compared with the previous year from 13.8 % to 12.9 %, as we were able to partly compensate for declining revenues and higher raw materials costs with extensive cost-cutting measures. Our selling expenses thus declined by 9.6 % and administrative expenses were down by 2.9 %. In 2007, selling expenses had increased to an unusually high level as a result of integrating Pergo and the associated advertising campaign, and returned to normal levels in the course of the year under review. We were also able to optimize freight costs once again. The positive balance of other operating income and expenses decreased by 7.8 million euros compared with the previous year to 12.5 million euros. It comprises a large number of income items totaling 48.1 million euros, such as income from currency gains, a badwill from the purchase price allocation of acquisitions, the sale of emissions rights and the sale of a property, as well as other operating expenses of 35.6 million euros.

Scheduled depreciation and amortization increased slightly compared with the previous year to 112.3 million euros (2007: 108.1 million euros). This was complemented by extraordinary depreciation and amortization of 13.8 million euros, mainly due to relocating the plant from La Baie to Moncure.

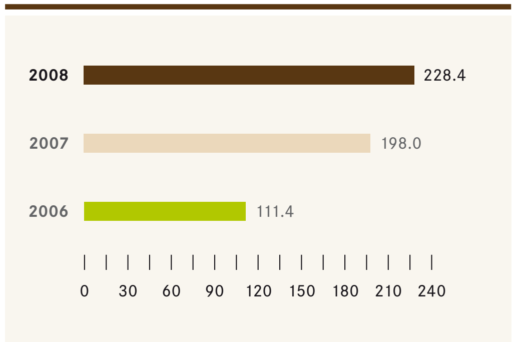
In the fiscal year 2008, personnel expenses amounted to 260.2 million euros, down by 2.5 % compared to the previous year (266.8 million euros).

Earnings before interest and taxes (EBIT) dropped from 136.8 million euros to 97.6 million euros. This is equivalent to an operating margin of 5.6 % (previous year: 7.6 %).

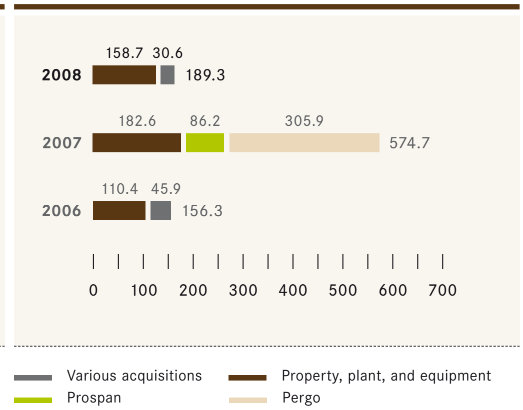
In the year under review, financial expenses, net, deteriorated from – 46.0 million euros to – 80.0 million euros. This was attributable to the increased use of credit lines, which pushed up interest expense by 4.1 million euros to 57.1 million euros. In addition, expenses of 28.4 million euros were recorded in other financial income/expenses, mainly as a result of the mark-to-market valuation of currency hedges (15.5 million euros) and interest hedges (4.1 million euros), as well as the valuation of financial positions in foreign currency on the reporting date.

Profit from continuing operations before income taxes thus fell from 90.6 million euros to 17.6 million euros. There was tax income for the full year of 11.2 million euros, mainly attributable to capital-

CASH FLOW FROM OPERATING ACTIVITIES
MILLION EUROS



CAPITAL EXPENDITURE
MILLION EUROS



izing deferred taxes on loss carryforwards in Group companies. Profit from discontinued operations includes a tax expense of 6.1 million euros, putting profit for the period at 22.3 million euros. After profit attributable to minority interest and hybrid capital investors, profit attributable to Pfleiderer AG shareholders amounts to 5.8 million euros. This corresponds to diluted earnings per share from continuing operations of 0.24 euros (previous year: 1.00 euro) and earnings per share from discontinued operations of minus 0.13 euros (previous year: 0.10). In June 2009, a proposal to carry over net retained profit to new account will be made to the Annual General Meeting.

FINANCIAL POSITION

Objectives of financial management

The main objectives of Pfleiderer's financial management include safeguarding liquidity and financial flexibility. A broad range of financing instruments is used to meet these requirements. An additional goal is to secure a highly diversified pool of creditors and investors, especially in the currently difficult situation in the market for corporate finance. Debt financing measures are entered into with the longest possible maturities. The Company maintains a balanced ratio between debt and equity to create a solid basis to pursue Pfleiderer's profitable growth path with healthy balance sheet ratios.

Financing

Current financing requirements are met through a combination of operating cash flow and the taking out of financial liabilities. Pfleiderer uses conventional bank finance as well as other instruments such as syndicated loans, borrower's note loans, leasing, factoring in ABS transactions, and commercial papers. At the end of 2008, non-current loan liabilities at the Pfleiderer Group had maturities of up to seven years. The average interest rate was 5.75 %.

The most significant financing measure in the fiscal year 2008 was the issue of a bond with a gross volume of 165.0 million euros and in tranches of three to seven years. The bond was very successfully placed with institutional investors and primarily serves to extend the maturities of existing financial debt. Thanks to our solid balance sheet structure, we have been able to retain investment grade terms. The Group also has a sufficient amount of unused credit lines.

Uniboard, a Pfleiderer subsidiary, transferred its MDF production from La Baie in Canada to Moncure in the United States in 2008. Uniboard also invested approximately €80 million in the US plant.

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

Development of cash flows in 2008

Cash flows again developed very positively at the Pfleiderer Group in 2008. The net cash flow from operating activities increased by 30.4 million euros to 228.4 million euros. This was mainly driven by the reduction in inventories and receivables resulting from stringent working capital management. A total of 190.6 million euros was spent on capital expenditure in property, plant and equipment as well as acquisitions, compared to 556.4 million euros in the previous year, which was mainly attributable to the Pergo acquisition. Issuing a bond as part of financing activities generated an inflow of funds amounting to 165.0 million euros. After outflows, especially for interest payments and interest on the hybrid bond as well as dividends to Pfleiderer shareholders and minority shareholders, the balance of financing activities amounted to a net cash outflow of 9.4 million euros.

After considering all cash inflows and outflows, cash and cash equivalents amounted to 46.3 million euros at the end of 2008, compared with 17.2 million euros on the reporting date of the previous year.

Capital expenditure

In the fiscal year 2008, Pfleiderer limited its capital expenditure due to the uncertain economic situation. Throughout the Group, 158.7 million euros were spent on property, plant, and equipment and intangible assets, compared with 182.6 million euros in the previous year. On top of that amount, 30.6 million euros was paid for acquisitions such as Moncure and decopa and the second purchase price installment for Kunz.

In North America capital expenditure amounted to 37.4 million euros (previous year: 18.8 million euros). Funds were mainly used for the relocation of the MDF plant from La Baie in Canada to Moncure. The plant in Moncure will start operations at the end of 2009.

Capital expenditure in Western Europe amounted to 58.7 million euros (previous year: 33.7 million euros). The focus there was on improving the efficiency of existing plants and implementing various rationalization measures.

In Eastern Europe, capital expenditure amounted to 60.3 million euros (previous year: 127.6 million euros). In Novgorod in Russia, a new laminating press began operations at the existing particle-board plant and work started on the construction of a new MDF plant. Total capital expenditure in Novgorod will amount to about 150 million euros.

NET ASSETS

Sound balance sheet structure

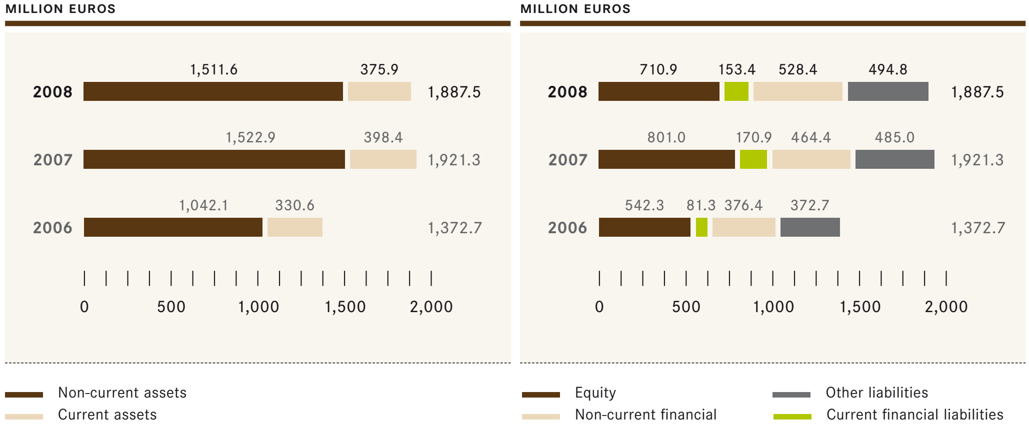
As of the balance sheet date, the Group's total assets declined by 1.8 % to 1,887.5 million euros. On the assets side of the balance sheet, current assets decreased by 22.5 million euros to 375.9 million euros. A reduction in inventories of 47.6 million euros (– 20.7 %) contributed to this reduction in particular. This meant that the target for decreasing inventories by 15 % compared with the previous year was exceeded by a considerable margin. Cash and cash equivalents increased by 29.1 million euros to 46.3 million euros. Non-current assets fell by 11.3 million euros to 1,511.6 million euros. This figure was impacted by the decline in property, plant and equipment by 39.8 million euros to 829.3 million euros and a fall in intangible assets by 23.0 million euros to 540.6 million euros. The latter was driven by currency translation, among other things. The increase in deferred taxes by 61.9 million euros to 123.2 million euros had the opposite effect, mainly because of capitalizing loss carryforwards.

On the liabilities side of the consolidated balance sheet, there was a shift toward longer-term liabilities in the financial structure. Current liabilities decreased by 8.1 million euros to 516.1 million euros. Current financial liabilities decreasing by 17.5 million euros to 153.4 million euros made a particular contribution. In contrast, non-current liabilities increased by 64.4 million euros to 660.4 million euros. This was mainly due to the restructuring of non-current financial liabilities by

BALANCE SHEET STRUCTURE AS OF DEC. 31

ASSETS
MILLION EUROS

LIABILITIES AND EQUITY
MILLION EUROS



issuing a bond in tranches with maturities of three, five and seven years. Equity fell by 90.1 million euros to 710.9 million euros. In total, dividend payments to own shareholders, minority shareholders and hybrid capital investors resulted in an outflow of 51.5 million euros. Currency translation also had a negative impact on equity of 39.8 million euros. In addition, redeeming the 10.7 million euros hybrid bond led to a decline in equity. At the end of the year, the equity ratio thus reached 37.7 % (previous year: 41.7 %).

The Pfleiderer Group's net debt amounted to 635.5 million euros at the end of 2008, compared to 618.2 million euros a year earlier. The ratio of net debt to equity (gearing) increased to 0.89 (previous year: 0.77). So-called leverage, i.e. the ratio of net debt to EBITDA, increased from 2.5 to 2.8 as a result of the higher financing volume.

KEY FINANCIAL RATIOS

	DEFINITION		**2008**	2007
Net debt	Financial liabilities – financial receivables – cash and cash equivalents	million euros	635.5	618.2
Leverage	Net debt / EBITDA	factor	2.8	2.5
Equity ratio	Equity / total assets	%	37.7	41.7
Gearing	Net debt / equity	%	89.4	77.2
Capital employed	Net working capital + net non-current assets	million euros	1,357.6	1,410.5
Return on capital employed (ROCE)	EBIT / capital employed	%	7.2	9.7

Overall statement on the Pfleiderer Group's economic position

The Executive Board of Pfleiderer AG assesses the Company's economic development as being generally more restrained than in the previous year. Although revenues increased in Eastern Europe in 2008, business in this growth region has also become more difficult, which is highlighted by declining margins. Revenues in North America declined due to exchange rate effects and the closure of a plant. Regardless of the continually difficult economic situation, especially in the United States, we were still able to considerably improve our competitive position there and doubled our market share in laminate flooring. In Western Europe, the recession also affected our business in the second half of 2008, even though the region was able to further improve its earnings in 2008.

Based on our assessment, the net assets, financial position, and results of operations of the Pfleiderer Group are sound. These results are the basis for us to emerge from the current financial and economic crisis as a stronger company. However, the Executive Board believes that the fiscal year 2009 will be difficult given the uncertainties on financial markets and the unpredictable spillover into the real economy. The Executive Board is therefore developing strategies and measures to be well prepared for changing conditions.

Net Assets and Results of Operations of the Parent Company, Pfleiderer AG

Pfleiderer AG is the parent company of the Pfleiderer Group and is primarily engaged in holding company activities. It is responsible for the strategic alignment and management of the Group. As of December 31, 2008, Pfleiderer AG employed 54 people, including the Executive Board, compared to 45 people on the balance sheet date of the previous year.

In addition to its holding company functions, Pfleiderer AG is responsible for central power purchasing for the production sites in Germany, thus leveraging economies of scale in procurement. The electricity costs incurred are recharged to the affiliated companies without adding a mark-up, so that they benefit directly. In 2008, cost allocations for electricity amounted to 36.0 million euros, compared with 35.7 million euros in 2007.

Pfleiderer AG reported income from investments of 54.6 million euros in 2008 compared to 74.8 million euros in the previous year. Net income from investments relates to net income from profits or losses of affiliated companies in the Region Western Europe and of the corporate center of the Group. There was an opposing effect from the increase in impairment losses on financial assets to 4.7 million euros (previous year: 1.5 million euros). Due to the increased financing activities, net financial income improved at the same time from 2.3 million euros to 5.6 million euros. Therefore, the income generated by holding company activities amounted to 55.5 million euros (previous year: 75.6 million euros). After consideration of other operating expenses and income, as well as personnel expenses and depreciation and amortization, profit from ordinary activities in 2008 amounted to 19.6 million euros, compared with 52.5 million euros in the previous year. 20.5 million euros of the decrease resulted from the lower income generated by holding company activities and from write-downs of securities classified as current assets (previous year: 10.9 million euros). After-tax profit for the year was 15.4 million euros, compared to 45.6 million euros in 2007.

Total assets of Pfleiderer AG increased by 24.3% to 902.7 million euros at the end of 2008 (previous year: 726.4 million euros). On the assets side, receivables and other assets in particular increased from 446.1 million euros to 604.5 million euros. This primarily relates to receivables from affiliated companies resulting from holding company activities as well as from the financing of subsidiaries as part of Group-internal cash pooling.

On the liabilities side, the most significant effect resulted from the increase in liabilities to banks, from 93.2 million euros to 241.6 million euros. This was primarily due to a bond loan (Schuldschein) being issued with a nominal value of 165.0 million euros. These additional funds, as well as the liabilities to affiliated companies of 242.5 million euros (previous year: 219.5 million euros) incurred within the Group, were allocated to the operating companies of the Group within the framework of Pfleiderer's cash pooling.

Equity remained almost unchanged at 386.9 million euros. Due to increased balance sheet total, the equity ratio fell to 42.9% by the end of December 2008 (previous year: 53.2%).

The proposal for the appropriation of profits is based also on operational developments and the profit generated by the Group. As the more difficult economic environment resulting from the global financial crisis also impacts the key figures, EBITDA and cash flow, the Executive Board and the Supervisory Board propose that net retained profits be carried forward onto new account.

“We demonstrate our development and pressing expertise daily with our trend forecasts and pioneering designs. We supply our customers with sophisticated decor, so that they can optimize their products and generate market success. Our development and design experience flows into new structures and decors for furniture and flooring surfaces that will set trends in the coming years and give customers a buying incentive.”

REINER SCHULZ, CHAIRMAN OF THE EXECUTIVE BOARD OF SCHATTDECOR AG, THANSAU

Pfleiderer Segments

Segment reporting is broken down into the regions in which Pfleiderer operates: Western Europe, Eastern Europe and North America. In the fiscal year 2008, the Company was able to further increase its revenue in Eastern Europe. While business in Russia continued to develop excellently, the situation in Poland was difficult given that the złoty was strong for a longer period of time and as a result of excess capacities. Despite the economic slowdown in the second half of 2008, new record margins could be achieved in the region Western Europe. In North America, Pfleiderer was able to enhance its position in a market adversely affected by the recession and gained market share. By acquiring a production facility in the United States and relocating a plant from Canada to the USA, we have created a basis there to considerably improve our cost position.

SEGMENT OVERVIEW

	WESTERN EUROPE		EASTERN EUROPE		NORTH AMERICA		GROUP*	
MILLION EUROS	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Revenues	945.8	986.7	420.3	393.3	404.9	443.0	1,735.9	1,801.1
EBIT	112.5	110.0	28.9	51.7	– 20.2	– 15.5	97.6	136.8
– EBIT margin in %	11.9	11.1	6.9	13.2	– 5.0	– 3.5	5.6	7.6
Capital expenditure	58.7	33.7	60.3	127.6	37.4	18.8	158.7	182.6
Employees	2,830	2,843	1,734	1,730	1,080	1,163	5,777	5,849

* Figures for the Group differ from the total for the regions due to consolidation adjustments.

http://www.pfleiderer.com/en/company/company-structure-237.html

a-z Glossary – p. 152

WESTERN EUROPE

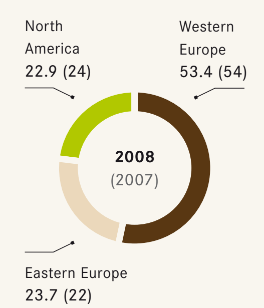
Renewed increase in market share

The Western Europe region remained the Group's most important source of revenue with a share of 53.4 % (previous year: 54.1 %). Despite the development of revenue being impacted by the burgeoning recession, the effects of good market positioning and the early introduction of cost-cutting measures resulted in another increase in margins. Compared to the previous year, revenue declined by 4.1 % to 945.8 million euros as a result of the deteriorating economic situation toward the end of the year. This was attributable to falling prices for particleboard and HDF/MDF board, as well as lower HDF/MDF board volumes, which were impacted in particular by weak demand from the flooring segment. Business in laminate flooring remained challenging in 2008 as a result of excess capacities. The premium price segment of our Pergo brand developed slightly better. At the flooring trade fair in Belgium, we were presented with an award for the most innovative product for PergoSense. But Pergo was not able to fully insulate itself against the generally soft market. Surface-finished boards, HPL and elements, however, remained stable or even recorded slight growth. The retail and project business was also stable and generated positive gains in margins. On a regional basis, Great Britain was the weakest market, while we managed to gain market share in the likewise soft French market. In addition, we continued to grow in our business activities outside of Europe.

New products that are created together with the customers secure our market leadership in Germany: Our thin but extremely robust high-density fiberboard has received top ratings, especially from the kitchen manufacturers.

According to preliminary estimates by the European Panel Forum, we continued to expand our market leadership in Germany in the year under review. This success can be attributed to offering brand products and services as well as successful innovations which are carefully tuned to the needs of individual customers. “HPL-SolidColor” is a product used in the project business and received the “Architecture + Office XXL” innovation prize. The product “Faser Kompakt,” a thin but extremely durable HDF board, was very well received by office furniture and kitchen manufacturers.

REVENUES BY REGION
%



Record EBIT margin

EBIT in Western Europe recorded another slight increase over the previous year at 112.5 million euros (previous year: 110.0 million euros). The EBIT margin improved from 11.1 % to 11.9 %, yet another record figure. This growth in earnings was driven by the increasing share of high-margin products in business volume and the significant improvement in productivity due to the structural measures implemented in recent years. Stringent cost management also contributed to the higher earnings.

We are reacting to weak demand, which is also likely to last during 2009, by further enhancing our capacity to innovate and continuing our cost-management efforts.

EASTERN EUROPE

Growth path continues

In the year under review, business in the Eastern Europe region developed very differently in the two markets: Russia and Poland. While the situation in terms of demand and earnings continued to be excellent in Russia, the Polish plants were operating in a difficult market environment. For an extended period of time, the strong złoty hampered our customers’ export opportunities. They operate mainly in the furniture industry and export the majority of their production to Western Europe. Demand from the Polish furniture industry for particleboard in 2008 was therefore about 15 % below the level of the previous year in terms of nominal value. Excess capacities in the Polish market also depressed prices for particleboard and MDF. In contrast, our activities in Russia developed very positively. We significantly increased unit sales and were able to fully pass on higher raw material costs to our customers by raising our prices.

Despite the generally difficult market in Poland, revenue in the Eastern Europe region expanded again in the fiscal year 2008, increasing by 6.9 % to 420.3 million euros. Growth came from the new MDF plant in Poland, exchange rate effects, and capacity increases in Russia, where a new surface-finishing plant in Novgorod started operations in the third quarter.

EBIT above Group average despite downturn

Compared to the previous year, EBIT decreased by 22.9 million euros to 28.9 million euros. This put the EBIT margin at 6.9 % after 13.2 % in 2007. The decline was fuelled by higher raw material costs. On top of higher prices for energy, glue and chemical input products, prices for wood also increased in Poland, in contrast to the trend in other countries, and have now reached a level which is higher than in Germany. A further negative effect also resulted from price pressure in the MDF and particleboard segment. In an effort to counteract cost pressure and declining prices, we initiated extensive cost-cutting measures, which resulted in savings of around 27 million euros in the fiscal year 2008.

According to estimates by the IMF, Russia's economy will also slip into recession in 2009. However, we continue to expect positive structural demand in Russia in the long term.

NORTH AMERICA

Market share gains in a difficult environment

Business development in North America continues to be influenced by the real estate and financial market crisis. According to the calculations of the Composite Panel Association (CPA), demand for particleboard decreased by 17 % in 2008, while demand for MDF dropped by 10 %, thereby reaching the level of a decade ago. In this difficult environment, our sales volume almost remained the same as in the previous year, even though La Baie (32.2 million euros) was shut down due to relocation. Without the acquisition of the plant in Moncure, however, volumes would have declined by 7 %. This relative success is based on new sales channels and good positioning for suface-finished boards. The market share for particleboard was expanded once again.

The market for laminate flooring also declined last year. Although the market decreased by 15 %, our North American subsidiary Pergo grew by 24 % (on a comparable basis in local currency) and was able to gain further market share. This market share increase was to a large extent at the expense of importers, who lost competitiveness due to the weak US dollar.

The decrease in sales revenue of 8.6 % to 404.9 million euros experienced by the North American business is due to exchange rate effects and the closure of the site in La Baie, Canada. Adjusted for the purpose of comparability, sales increased by just under 2 %.

Improved earnings

Although competitors withdrew from the market in all segments, price development suffered due to excess capacity – especially in the particleboard market. This made it almost impossible to pass on the sharp increase in raw material costs for boards to customers, which in contrast was partially possible for laminate flooring. Given the unfavorable market conditions, EBIT decreased from –15.5 million euros to –20.2 million euros. EBIT was impacted by extraordinary depreciation and amortization of 13.8 million euros resulting from the relocation of the La Baie plant as well as writing off the value of the customer base. The increase in EBIT (adjusted for this extraordinary depreciation and amortization) resulted from cost savings, better market positioning and badwill from the purchase price allocation for the acquisition of the US site in Moncure.

Pfleiderer again improved its cost position in North America by relocating the MDF plant from the Canadian site in La Baie to Moncure, North Carolina in the United States. We will be able to establish efficient, integrated production very quickly close to our laminate plant in Raleigh for the equivalent of about 80 million euros - an investment total considerably lower than that needed for a new constructions. At our new production facility, the considerably lower wood prices, the absence of the exchange rate risk and significantly lower transport costs will work in our favor. The start of production will depend on the market situation but is currently planned for the fourth quarter of 2009.

Production

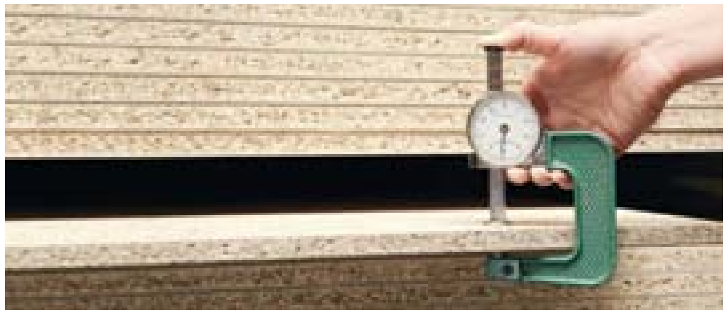
Pfleiderer has further expanded its technology leadership. To aid the efficient production of MDF, an innovative technology was introduced and, by using know-how transfer as part of the Global Pfleiderer Production System (GPPS), production processes were optimized throughout the Group. This enabled production costs to be reduced on the one hand and quality standards to be enhanced on the other hand.

PRODUCTION

The issue of cutting costs is a central focus for our production. The technicians in our Operations Control department were able to further reduce material consumption by using the Global Pfleiderer Production System, or GPPS for short. This was made possible by a comprehensive production database which allows a comparison to be made between all the plants of the Pfleiderer Group. This comparison enables strengths and weaknesses to be recognized and potential to be enhanced. Operations Control carries out a targeted search for cost-reducing options along the process chain. Consumption and therefore manufacturing costs are reduced as a result of the decrease in internal material losses. Customers continue to receive their product in the usual good quality, however.

QUALITY

At Pfleiderer, quality means reacting to market and customer needs quickly and on an individual basis, and always guaranteeing quality standards. Our quality management system is therefore organized locally and is extremely flexible. Certifications in accordance with ISO 9001 and external monitoring by recognized institutions ensure transparency and control of processes, both in daily quality control and in the new development or adaptation of products to changed general requirements, such as CARB. This is accompanied by our involvement in national and international stan-



Our products are subject to continual and strict quality controls.

dards committees, allowing early recognition and development of new quality requirements. An internal development platform managed by the Executive Board Member for Technology and Operations/Plants guarantees the necessary exchange of information and knowledge transfer between the various local units.

Environmental Report

Pfleiderer AG works with the renewable resource wood and is committed to supporting the principle of sustainable forest management. The Group continuously reduces the environmental effects resulting from production processes. In 2008, we were able to have several more German plants certified in accordance with the international environmental management standard ISO 14001. Pfleiderer strives to use resources as economically as possible. The measures implemented are successful and are being widely acknowledged: In 2008, the Pfleiderer subsidiary Thermopal was recognized for its approach to energy dedicated to using resources sparingly.

Wood, the most important raw material for the Pfleiderer Group, stores carbon dioxide (CO_2) from the atmosphere during its growth phase. Young and growing trees absorb considerable amounts of CO_2. As a result, wood reduces the proportion of this climate-damaging gas in the air. It is therefore vital that the number of trees being felled does not exceed the number of trees being replanted. This principle of sustainable forest management helps ensure the economical potential of forests.

Pfleiderer only uses wood from sustainable forestry or recycled untreated scrap wood for its products. Pfleiderer strictly rules out the use of tropical wood. By doing so, the Group is contributing towards forest conservation and ecological recycling. But using wood as a material also extends its carbon storage function: Because also processed wood stores CO_2 throughout its entire lifecycle.

http://www.pfleiderer.com/en/company/the-environment-385.html

Pfleiderer continues to reduce the environmental effects resulting from production processes and regards the environment as an integral part of its corporate philosophy. That is why we have defined Group-wide guidelines for these areas, committing ourselves to a proactive approach.

NIDDA, GÜTERSLOH AND ARNSBERG PLANTS CERTIFIED IN ACCORDANCE WITH ENVIRONMENTAL MANAGEMENT STANDARD 14001 IN 2008

We derive environmental targets and specific programs from the international environmental management standard ISO 14001, which defines globally recognized requirements for an environmental management system. The standard requires organizations to continually improve their environmental performance. Starting in the Western Europe region, it is Pfleiderer's medium-term goal to achieve ISO 14001 certification for the entire Group. The production facilities of the Swedish company Pergo and the glue manufacturer Silekol have already been successfully audited. In 2008, the German plants in Nidda, Gütersloh and Arnsberg were certified.

In these plants, important environmental aspects such as emissions and waste as well as energy and water consumption are monitored and managed. By comparing sites with each other, weaknesses were rectified and Group-wide internal standards were set. In 2008, Pfleiderer was already able to benefit from the 2007 certification of particleboard production in Neumarkt: For example, enhanced processes enable the proportions of scrap wood to be optimized, creating less waste. The other sites of the Group are gradually being prepared for certification.

a-z Glossary – p. 152

The Pfleiderer Group supports the principle of sustainable forestry and therefore adheres to standards such as those of the PEFC (Programs for the Endorsement of Forest Certification) or the FSC (Forest Stewardship Council). These programs ensure that companies act according to ecological, social and economic standards. Customers and society place great demands on companies when it comes to environmentally friendly operations and the use of sustainable resources. Compliance with the abovementioned standards enables the Pfleiderer Group to live up to these expectations.

USING RAW MATERIALS AND ENERGY RESPONSIBLY

Pfleiderer strives to use resources as economically as possible. Amongst other things, the Global Pfleiderer Production System, GPPS for short, has provided an overview of the Group's global consumption of resources since 2006. Comparisons are not limited to resources, but also include energy: If the GPPS shows that more energy is being used in one plant than in another, the best-practice approach is identified and introduced throughout the Group to reduce unnecessary energy consumption.

The measures carried out are a success: The Pfleiderer subsidiary Thermopal was recognized by the German power supplier EnBW in 2008 for its dedication to using energy resources sparingly. In the summer of 2006, Thermopal began to take a number of measures for the improvement of energy efficiency. Since then, the Pfleiderer subsidiary has saved 3,590 megawatt hours per annum – this is the amount of electricity used in 180 German households each year. As a result, Thermopal is saving more than 250,000 euros in energy costs annually.

TRANSPARENCY IN EMISSIONS

For many years, the German plants in Gütersloh and Neumarkt have been committed to reducing emissions by up to 80 % above what is legally required. The recorded amount is posted on the Group's website every day.

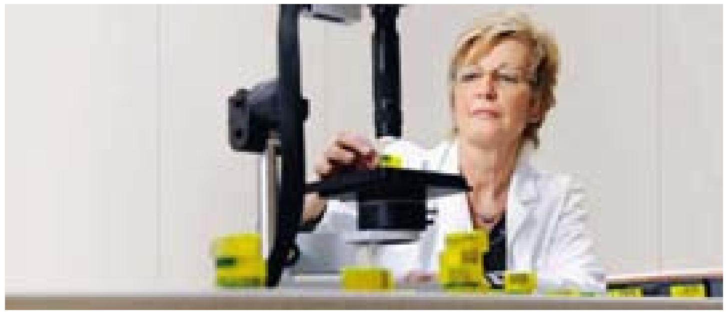
The Group's own transport company, JURA-Spedition GmbH, is also reducing its emissions: In 2008, the Pfleiderer subsidiary was one of the first companies in Germany to change its entire truck fleet to the new Euro 5 emissions standard. In the future, the forwarder's 60 trucks will emit 378 tons of CO_2 and 2,700 tons of nitric oxide less per year than before. To adopt a more environmentally friendly and economic approach to driving in the future, two instructors currently show drivers from JURA-Spedition how to get more mileage out of a tank of fuel.

APPLYING EFFECTIVE WASTE POLICY TO CLOSE RESOURCE LIFECYCLES

Pfleiderer is dedicated to considering the entire lifecycle of resources in its internal environmental management. The Group has therefore implemented a number of measures to create full-circle lifecycles. Poor-quality wood which is rejected during the production process is fed into the in-house biomass heating station at most plants. The energy this creates is used by Pfleiderer in production processes.

An innovative air-treatment system is used at the Canadian sites Sayabec and Mont-Laurier of Pfleiderer's Uniboard subsidiary. Uniboard developed the now patented air-treatment technology with an engineering company based in Quebec. The suitability of this air-treatment technology for further treatment processes is currently being tested in a pilot plant. In 2009, environmental officers will test whether this new treatment technology can be implemented meaningfully at other Pfleiderer sites.

Emissions are reduced by the Group's own transport company, Jura Forwarding: The Pfleiderer subsidiary is one of the first companies in Germany to have change over its entire truck fleet to the new Euro 5 norm.



In all regional units, the Pfleiderer Group employs engineers, quality managers, chemical technicians and product designers, so that the broad product range can be continually further developed.

Research and Development

Employees of the central Research and Development (R&D) department are developing the necessary processes and foundations for manufacturing extremely light engineered wood products without using non-renewable raw materials. These wood products are to include only lingo-cellulose-based materials and are one-third lighter than engineered wood products of the same thickness now available. These low-weight products maintain the conventional strength properties and are therefore equally of interest to do-it-yourself retail customers, the construction sector and the manufacturing industry, as they are easier to handle and transport.

The central R&D department also focuses on developing innovative surfaces. As a result, promising improvements are being made to high-gloss surfaces as well as to new scratch-proof and wear-resistant surfaces.

SIGNIFICANT IMPROVEMENTS IN PRODUCTION RESULTING FROM NEW TECHNOLOGY

By using new technologies, we successfully increased our productivity in MDF manufacturing in the year under review. As part of an exclusive research cooperation, we were once again able to demonstrate our ability to achieve significant production improvements even for mature products such as particleboard and fiberboard by applying innovative technologies. After its successful launch in one of our German plants, we are now planning to gradually implement this technology in other MDF plants.

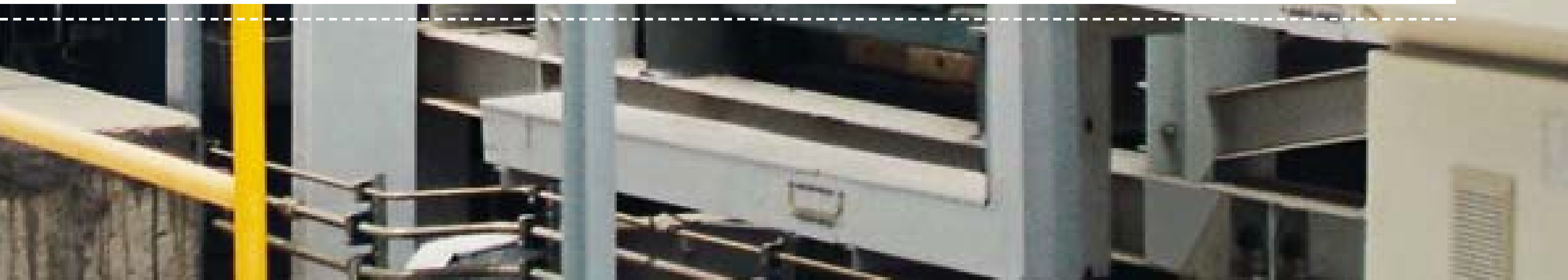
TOTAL PRODUCTIVE MANAGEMENT SUCCESSFULLY ROLLED OUT

As with the new MDF production technology, Pfleiderer also made use of expertise from other industries for the management system Total Productive Management (TPM). Employees in the plants are actively involved in the continuous improvement process for TPM. In this process, the Group's objectives are divided between employee teams, which then independently define measures for achieving these set objectives. TPM has already been successfully rolled out at the plants in Gütersloh, Nidda and Neumarkt. In 2009, we are planning its implementation in Ebersdorf and Baruth.

In fiscal year 2008, the Pfleiderer Group spent 4.1 million euros on research and development (2007: 2.9 million euros).

"As a family-owned enterprise with more than 130 years of experience, we are today a technology leader in the field of production equipment for the engineered wood industry. We offer our customers future-oriented all-in-one solutions for competitive particleboard and fiberboard. Dieffenbacher develops, manufactures and supplies complete board plants that quickly produce a return on investment. Our customers want to grow profitably – we create the right conditions for them to do so with our system solutions."

WOLF-GERD DIEFFENBACHER, OWNER/CHIEF EXECUTIVE OF DIEFFENBACHER GMBH & CO. KG, EPPINGEN



Human Resources

Growing together successfully and continuing to network the Group have been the driving forces in Pfleiderer's human resources activities in the year under review. The Company was also able to record successes and positive developments in training, ideas management and in the areas of occupational safety and health management.

http://www.pfleiderer.com/en/careers

As of December 31, 2008, the Pfleiderer Group (continuing operations) had 5,777 employees (previous year: 5,849), 3,208 of which worked abroad and 2,569 in Germany.

PFLEIDERER NEWSLETTER: GROUP-WIDE EMPLOYEE PUBLICATION

Thanks to the acquisition of Pergo and Kunz in the past three years, many new employees in Germany and abroad have joined the Pfleiderer Group. In the year under review, a new Group-wide employee publication was launched to ease their integration into the Pfleiderer Group while keeping the entire workforce constantly up to date with the latest news from different regions. The PFLEIDERER newsletter is published four times a year in German, English, French, Swedish, Polish and Russian. In addition to news about the Group, its strategy, employees, plants, customers and products, the Corporate Communications department relies on the PFLEIDERER newsletter to address and expand on Group-wide issues in a bid to make them accessible to each and every employee.

http://www.pfleiderer.com/en/careers/guidelines-427.html

CONSEQUENTLY IMPLEMENTING COMMON GUIDELINES

The second issue of the PFLEIDERER newsletter was mainly dedicated to Pfleiderer guidelines on management and cooperation, which since its implementation in Germany in 2004 have been part of the working spirit of managers and employees. These are company values which are applicable regardless of cultural background and can be individually implemented in all regions of the Group; gradually, they are now being rolled out at the foreign Pfleiderer locations. Initial workshops were already conducted in the United States, Canada and Sweden in 2008 in order to develop a common understanding of management and cooperation among local staff.

INTERNATIONAL NETWORK

In the year under review, the international executive conference, "MoVE" – More Value and Emotion, was staged and was dedicated to strategic issues. The fact that the Pfleiderer Group is growing together internationally is not only visible in good networking and cooperation at management level. The annual plant manager conference in particular has helped to create a regular flow of information and know-how between the Group's specialist departments. Furthermore, Pfleiderer's European Workers Council, founded in 2008, also fosters intensive communication between employee representatives throughout the Group.

TRACK RECORD OF SUPERIOR QUALITY IN TRAINING

Qualified new talent is the cornerstone of a company's long-term success. In 2008, Pfleiderer was once again able to prove the superior quality of its training programs. At its German locations, the Group trained many young people in 17 different professions. As of December 31, 2008, the Company had 164 trainees, 96 of whom were employed in technical professions and 68 in commercial occupations.

EXPANDED COOPERATION WITH UNIVERSITIES

In addition to its vocational training programs, Pfleiderer also enhanced its close cooperation with universities at home and abroad in the year under review. In March 2008, 17 students from German and Polish universities were able to take part in the first "Talents meet Pfleiderer" workshop. The objective of the event was to support young people in developing their personal and methodological skills, thus preparing them for working life. Pfleiderer also took this opportunity to successfully present itself as an attractive employer. More than half of all participants later applied for a job at Pfleiderer. One participant was hired as a graduate student while three are gaining experience of working life in Pfleiderer's Internal Junior Consulting Program. In 2008, this 18-month trainee program started into a new season with twelve university graduates.

NATIONAL WINNER IN YOUTH RESEARCH PROGRAM "JUGEND FORSCHT"

Pfleiderer has been involved in the youth research competition "Azubi forscht" as an initiator, sponsor and host for more than 13 years. The Company gives its trainees in vocational training programs in Neumarkt the opportunity to take part in the national "Jugend forscht" competition – with great success: Employees from wodego, a Pfleiderer subsidiary, came first in the national "Jugend forscht" competition with their "Gewinde-Meister" ("Screw Thread Master") in June 2008. Thanks to this invention, it is now possible to cut threads perfectly straight even in places that are difficult to access. Other trainees had the opportunity to present their practice-oriented ideas at the iENA international trade fair for ideas, inventions and innovations in Nuremberg.

IDEAS MANAGEMENT DELIVERING RESULTS

Even for employees whose vocational training course is a while back, it is still worth taking a close look at workflows and coming up with new ideas. Pfleiderer has introduced a Group-wide ideas management system called "KNIFF". The objective is to offer attractive rewards as an incentive to come up with innovations at all levels and to contribute to cutting costs, increasing quality and streamlining workflows by making proposals for possible changes or improvements. Since the introduction of the ideas management, over 2,000 suggestions were submitted, 60 % of which were implemented.

SAFE WORKPLACES FOR HEALTHY EMPLOYEES

Convinced that every occupational accident can be prevented, Pfleiderer launched a campaign on occupational safety in 2008. The Company reorganized occupational protection structures and committees at all locations and introduced a structured analysis of accidents at work. Clear objectives were defined and a system of benchmarking and reporting on occupational safety was implemented. By comparing all Pfleiderer plants around the world, standards can be introduced ensuring that employees can learn and benefit from best-practice approaches.

Qualified junior employees are essential: The Pfleiderer Group's 18-month management trainee program successfully entered a new phase with twelve university graduates in 2008.

Employee health has top priority at Pfleiderer. The health management measures offered in the period under review include "Stroke risk tests" at the Gütersloh site and the "Health Day" in Neumarkt, as well as regular health check-ups for managers and special medical services for Pfleiderer employees and their families at many Pfleiderer companies abroad.

COMMUNITY INVOLVEMENT

Pfleiderer's community involvement goes far beyond the Company's picket fences. The Company has now been the main sponsor of the "Neumarkter Stadtlauf" marathon for the sixth time. Proceeds from the event, which regularly draws around 3,000 participants, were donated to the German Bone Marrow Donor Register (DKMS). In the year under review, the Company's own "Pfleiderer Running Team" was able to send about 40 athletic employees into the race.

Community involvement is also a priority at the locations abroad. In North America for example, a Charitable Contributions Committee conducted a number of large-scale donation campaigns at several locations at once last year. Various charitable organizations were supported with money and donations in kind. In the run-up to Christmas, employees at the plant in Novgorod, Russia, collected clothes and toys for orphanages and families in need.

Ninth to eleventh grade students in the Novgorod region were able to take advantage of a job orientation program that was developed and offered for the first time in October 2008. Participants also had the opportunity to gain extensive information on Pfleiderer job entry and vocational training programs. Pfleiderer took the initiative to help train young people also in Poland. At the Grajewo site, the Company launched a foreign language competition for the first time in 2008, which included granting scholarships to children from underprivileged families.

Disclosures in Accordance with Sections 289(4) and 315(4) of the German Commercial Code (HGB)

Composition of subscribed capital

As of December 31, 2008, the subscribed capital of Pfleiderer AG totaled 136,514,816.00 euros. The share capital is composed of 53,326,100 no-par value registered shares. All shares entitle their holders to the same rights and obligations, with the exception of treasury shares held by Pfleiderer AG, which do not confer any rights on the Company. As of December 31, 2008, Pfleiderer AG held a total of 2,643,458 treasury shares.

Restrictions affecting the voting rights or the transfer of shares

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

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

Interests in the share capital exceeding 10 % of the voting rights

The Executive Board of Pfleiderer AG is aware of the following interests in the Company´s share capital which exceed 10 % of the voting rights:

In accordance with Section 21(1) of the German Securities Trading Act (WpHG), Patrick Aurel Pfleiderer, Wiesbaden, PAP Beteiligungs-GmbH, Neumarkt, PAP Vermögensverwaltung GmbH & Co. KG, Neumarkt, Ernst-Herbert Pfleiderer, Neumarkt, EHP Beteiligungs-GmbH, Neumarkt, EHP Vermögensverwaltung GmbH & Co. KG, Neumarkt, Christian Alexander Pfleiderer, Frankfurt am Main, CAP Beteiligungs-GmbH, Neumarkt, CAP Vermögensverwaltung GmbH & Co. KG, Neumarkt, Hans Theodor Pfleiderer, Bad Großpertholz (Austria), HTP Beteiligungs-GmbH, Neumarkt, and HTP Unternehmensverwaltung GmbH & Co. KG, Neumarkt, informed the Company in writing on April 26 and 27, 2006, that their voting rights in the Company had exceeded the 5 % and 10 % thresholds and now amount to 10.58 %. The aforementioned persons and companies also informed the Company that their voting rights are fully or partially assigned to them in accordance with Section 22(2), Section 22(1), Sentence 1, No. 1 and Section 22(1), Sentence 1, No. 2 of the German Securities Trading Act (WpHG).

In accordance with Section 21(1) of the German Securities Trading Act (WpHG), Wood Engineering Holding B.V., Amsterdam (Netherlands), informed the Company on September 12, 2008, that it had exceeded the threshold of 25 % of voting rights in the Company on September 10, 2008, and that its voting rights now amount to 26.90 % (14,344,687 voting rights). In addition, Wood Coöperatief U.A., Amsterdam (Netherlands), Wood Engineering, L.P., Grand Cayman (Cayman Islands), Wood Engineering GP Ltd., Grand Cayman (Cayman Islands), One Equity Partners II, L.P., New York (USA), OEP Holding Corporation, New York (USA), Bank One Investment Corporation, Chicago (USA), JPMorgan Capital Corporation, Chicago (USA), Banc One Financial LLC, Chicago (USA) and JPMorgan Chase & Co., New York (USA) informed the Company on September 12, 2008, in accordance with Section 21(1) of the WpHG that they had exceeded the threshold of 25 % of voting rights in the Company and that their voting rights now amount to 26.90 % (14,344,687 voting rights). The aforementioned companies also notified the Company that the voting rights are assigned to them in accordance with Section 22(1), Sentence 1, No. 1 of the WpHG.

Shares with special control rights

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

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

Employees who participate in the Company's stock option program and have made a personal investment in shares of Pfleiderer AG can exercise the control rights conferred by these shares directly in accordance with the Articles of Incorporation and applicable law. Shares issued by the Company to employees as part of the stock option program are transferred directly. Employees can also exercise the control rights conferred by these shares directly in accordance with the Articles of Incorporation and applicable law.

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

Sections 84 and 85 of the German Stock Corporation Act (AktG) and Section 31 of the German Codetermination Act (MitbestG) govern the appointment and dismissal of members of the Executive Board. In accordance with Article 6(1) of the Company's Articles of Incorporation, the Executive Board must have at least two members. Incidentally, the Supervisory Board determines the number of Executive Board members in accordance with Article 6(2) of the Articles of Incorporation.

Statutory provisions concerning amendments to the Articles of Incorporation are included in Sections 133 and 179 of the German Stock Corporation Act (AktG). In accordance with Article 16 of the Articles of Incorporation, the Supervisory Board is authorized to amend the Company's Articles of Incorporation if they affect only the wording. Unless required otherwise by law, Article 21(3) of the Company's Articles of Incorporation stipulates that resolutions of the Annual General Meeting require a simple majority of the votes cast or a simple majority of the share capital represented at the time of resolution.

Powers of the Executive Board to issue or repurchase shares

Authorized Capital

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

Conditional Capitals

On June 19, 2007, the Annual General Meeting resolved to authorize the Executive Board, with the approval of the Supervisory Board, until June 18, 2012, to issue bonds with warrants and/or convertible bonds on one or more occasions in a total volume of up to 200,000,000.00 euros and to grant the shareholders or creditors option and conversion rights to new shares in Pfleiderer 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 subscription rights. However, the Executive Board is authorized, with the approval of the Supervisory Board, to execlude shareholders' statutory subscription rights in certain cases. To date, the Executive Board has not made use of this authorization. For this purpose, 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 granted on June 19, 2007, and by Article 4(3) of the Articles of Incorporation.

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 subscription rights were granted under the authorization applicable until May 31, 2011, and the Pfleiderer Stock Option Plan 2006, that the holders of those subscription rights exercise their rights to subscribe for shares of the Company, and that the Company does not settle the subscription rights by issuing treasury shares or by way of cash compensation.

Purchase of treasury shares

On June 12, 2008, the Annual General Meeting authorized the Company in accordance with Section 71(1), No. 8 of the German Stock Corporation Act (AktG) to buy own shares in the period until December 11, 2009, with a notional interest in the current share capital of up to 10%, subject to legal restrictions. The shares may be bought through the stock exchange or on the basis of a public offer addressed to all shareholders. The Executive Board was authorized, with the approval of the Supervisory Board, to sell own shares acquired while precluding shareholders' subscriotion rights in a way other than through the stock exchange or on the basis of an offer to all shareholders. Further details are stipulated by the authorization granted on June 12, 2008.

The Executive Board of Pfleiderer AG resolved on July 1, 2008, to acquire up to 1,000,000 own shares of the Company in the period up to July 25, 2008, through the stock exchange. The Company thus made use of the authorization granted by the Annual General Meeting on June 12, 2008, to acquire own shares and purchased a total of 589,543 shares of the Company through the stock exchange.

Material agreements agreed by the Company which are subject to a change of control resulting from a takeover bid

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

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

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

Events after the Balance Sheet Date

No significant events took place between the reporting date of December 31, 2008, and the finalization of this Annual Report.

Risk Report

As a company with a global reach, Pfleiderer is subject to a number of risks that are intrinsically linked to entrepreneurial activities. The key target of the Pfleiderer AG’s Group-wide risk management is to identify risks at an early stage and in an ongoing process, and then to limit their impact with careful management and by systematically taking countermeasures.

A risk management system that complies with legal requirements is used to early identify, assess and appropriately manage material risks or risks to the Company as a going concern. This risk management system is an integral component of the entire management and reporting process. Its framework is defined in a risk management manual which governs:

- risk identification and assessment;
- managing current risks and determining new or additional measures for risk management; and
- tracking risk development and countermeasures.

External and internal risks are systematically identified for all segments and Pfleiderer Group subsidiaries. Risk management is continually enhanced and coordinated by a headquarters department which reports directly to the Executive Board. Particular attention is paid to the regular interchange of know-how with other companies to ensure that new approaches and ideas are incorporated in the Pfleiderer Group’s risk management system. The management of the operating areas is responsible for the early detection, full identification and management of risks. Each operating unit and headquarters department has appointed risk managers to ensure compliance with the risk management system.

The Company’s risk situation is systematically re-evaluated every month. Risks are assessed according to their extent of damage and probability of occurrence. Special reports are submitted if the risk situation changes suddenly. The results are consolidated into quarterly reports and submitted to the Executive Board, the Supervisory Board Chairman and the Audit Committee.

The Internal Audit department and the auditors conduct regular checks on the current risk management system and the risk management report to establish the suitability and effectiveness of the system to recognize developments at an early stage which could pose a threat to the Company continuing its business.

In addition to its own measures for minimizing risk, Pfleiderer always takes the necessary precautions to arrange insurance cover for foreseeable material risks, using insurance policies with the appropriate deductibles in line with standard market conditions. However, it cannot be ruled out that insurance cover may not be adequate in individual cases or that adequate insurance coverage for certain risks may not be available on the market, or may not be available at commercially justifiable terms. Pfleiderer regularly audits its existing insurance coverage and optimizes its insurance policies annually in cooperation with external insurance brokers and risk experts.

MACROECONOMIC AND INDUSTRY RISKS

The global focus of the Pfleiderer Group's business activities is increasingly influenced by changes in global conditions. The development of the fiscal year 2008 was impacted by the US subprime and financial crises and the resulting turmoil on international financial markets in the second half of the year. Considerable fluctuations in raw material prices as well as high volatility in exchange rates pose additional risks. The consequences of the global economic slump and the severity of its effects on the global economy are difficult to assess accurately at present.

Our business is characterized by extremely competitive pricing. We face strong international competitors, some of which are larger in certain business segments and therefore many have more extensive resources at their disposal. In addition to product innovation, Pfleiderer AG counters this risk with suitable measures to reduce costs and boost productivity.

OPERATING RISKS

Forecasts about the development of future growth markets are complicated by the prevailing uncertainty concerning the development of the global economy. Market consolidation continues to be possible, combined with a general threat to our market position. In previous growth markets in Eastern Europe, declining demand may also result in excess capacity. The risk of customer insolvency cannot be ruled out in the markets relevant to Pfleiderer as well. In accordance with Group guidelines, credit insurance policies have been taken out that largely cover the risk of default as a result of insolvency.

The Pfleiderer Group operates production facilities in which machines mainly keep running in multi-shift operations. The resulting high level of organizational and technical complexity means that in the event of disruptions to the supply chain, there is a risk of production interruptions and quality issues as well as environmental and occupational safety risks. Interruptions and stoppages are countered with preventative maintenance management, which involves carefully maintaining plants and machinery as well as ensuring appropriate staff training. Fires and explosions cannot be completely ruled out, especially when wood is processed. Resulting damage to machinery and plants as well as possible losses due to downtime are covered in commercially viable insurance policies. However, any fire, explosion, or case of environmental damage may also lead to serious personal injury, which cannot be completely covered by insurance policies. The required technical and organizational precautions have been taken to prevent such incidents. Action and emergency plans have been put in place to deal with such an incident.

Business development in 2008 was driven by considerable volatility on international energy and commodity markets. As a general rule, Pfleiderer is not dependent on individual suppliers, as a wide range of different raw materials are used in its business activities and the number of available suppliers is sufficient. Supply is guaranteed based on a multi-sourcing procurement policy. Nondelivery, delays in delivery, or defects in quality could lead to production stoppages and have negative effects on earnings. Pfleiderer AG counters these risks by entering into long-term supply agreements. Its procurement organization ensures that raw materials are available on time and are of the required quality. High energy consumption levels billed at prices subject to taxes and duties, which are in part a political tool, are a risk especially for production sites in Germany. Targeted countermeasures are being introduced by optimizing processes or by operating our own COGENERATION PLANTS.

a-z Glossary – p. 152

PERSONNEL RISKS

Pfleiderer applies modern human resources tools to counter personnel risks such as staff turnover, loss of know-how, lack of motivation and insufficient qualification. Pfleiderer competes for the best specialists and managers. Attractive remuneration systems and future-oriented professional development and training programs have been installed to promote employee loyalty to the Company. Close contacts with selected universities and a management trainee program support the recruitment of qualified new talent. Thanks to a vocational training program that is widely recognized for its quality and trains more people than the Company actually needs, the Pfleiderer Group also ensures that it has highly qualified talent at all levels, especially skilled production workers.

FINANCING RISKS

Pfleiderer defines financial risks as liquidity risk, currency risk and interest rate risk particularly arising from transactions in the operating business or from the Group's demand for finance. Managing all the Pfleiderer Group's risks by applying appropriate financial management tools is the responsibility of the central finance department of Pfleiderer AG. Operating segments are responsible for managing accounts receivable. Appropriate master contracts for insuring against bad debts are negotiated by the central finance department.

The syndicated loan taken out in December 2006 for an original sum of 400.0 million euros and 268.7 million Canadian dollars amounted to 328.7 million euros and 231.4 million Canadian dollars at the end of 2008 after the contractual repayments agreed for fiscal year 2008 were made. The credit agreement is valid until the end of 2011 / beginning of 2012; additional partial repayments during the term are planned. Furthermore, the syndicated loan agreement contains financial covenants in line with standard market terms, which have to be complied with during the term of the loan. The same financial covenants have to be maintained for a bond loan (Schuldschein) amounting to 165.0 million euros. The keeping of these financial covenants is monitored continuously and, if need be, measures are taken to comply with them. Our subsidiary in Poland has also to keep financial covenants. The Executive Board assumes that even if the covenants of the loans should not be met, the financing will continue to be provided by the banks involved.

Risks arising from substantial changes in interest rates can be largely ruled out during the planning period due to existing long-term credit lines and additional interest rate hedges. The central finance department uses modern tools to monitor developments on financial markets.

Currency risks are of particular significance for the Pfleiderer Group given its international business activities. Exchange rate risks are material for the following currencies: the Polish zloty, Canadian dollar, US dollar, Swedish krona and Russian ruble. Pfleiderer limits its currency risk by concluding transactions locally ("natural hedges") and by installing specific currency hedging measures.

Derivative financial instruments are used to hedge interest rate and foreign currency positions with the aim of minimizing risks resulting from fluctuations in exchange rates and market interest rates. The Company's guidelines on risk management policy and on the use of hedging measures require that these types of risks are always hedged. Only marketable interest rate derivatives and currency forwards entered into with prime-rated banks are used for this purpose. Derivative financial transactions are limited to hedging the operating business and existing financing arrangements. Derivative financial instruments are reported on the balance sheet at fair value under "Other non-current assets" and "Miscellaneous other current liabilities". As a rule, the Company does not enter into any derivative financial transactions for speculative purposes.

The Group's risks from derivative financial instruments are mainly limited to defaults by counterparties ("counterparty risk"). The Group's maximum default risk is the positive fair value of the derivatives. In the case of currency forwards, the maximum risk corresponds to the change in the exchange rate of the hedged amount.

Other disclosures, especially regarding the significance of financial instruments for net assets, financial position, and results of operations, are published as part of the IFRS disclosures in the notes to the consolidated financial statements on pages 71 et seqq. of this Annual Report.

LEGAL RISKS

Pfleiderer AG and its subsidiaries are not involved in legal or arbitration proceedings which according to current assessments could have a material negative impact on the financial situation of the Group. Pfleiderer's legal department is responsible for ensuring that legally relevant matters are dealt with correctly in terms of both form and content, especially when drafting contracts and conducting litigation; external lawyers are consulted if necessary. The Pfleiderer Group has recognized appropriate provisions to cover warranty claims with which the Group will almost inevitably be confronted due to its business activities and as a result of the sale of companies in recent years.

IT RISKS

Significant disruptions in IT systems can lead to a loss of data and impact business and production processes despite backup measures. Potential IT risks, such as unauthorized data access or data misuse, are limited with a number of measures which are tailored to staff, organizations, applications, systems and networks. In addition, technical protection measures such as firewalls and virus scanners are reviewed annually in an internal IT security audit.

ENVIRONMENTAL RISKS

In the attempt to reduce potential environmental risks, environmental protection officers were trained and employed for the Group and at the business unit level in the past, and appropriate policies were installed. According to expert opinions, contamination at individual production sites can be reckoned with; Pfleiderer has formed sufficient provisions for this eventuality.

OVERALL RISK ASSESSMENT

As in the previous years, no risks have been identified at the Pfleiderer Group which could jeopardize the Group continuation as a going concern. All important individual risks have been consolidated to arrive at an overall assessment. However, like any other company, Pfleiderer AG and the Group are confronted with potential risks, especially uncertain global economic developments, that could materially affect its course of business and its net assets, financial position, and results of operations.

Pfleiderer gains market strength by expanding its product portfolio. For example Uniboard, a Pfleiderer subsidiary, is popular with Canadian kitchen manufacturers because of its extremely environmentally friendly particleboard, NUGreen.

Report on Opportunities and Expected Developments

OPPORTUNITIES FOR THE PFLEIDERER GROUP

Opportunities for the Pfleiderer Group could arise as competitors exit the market due to the current financial and economic crisis, especially in Western Europe and North America. Thanks to its efficient and favorable cost situation, Pfleiderer would most likely be one of the winners of consolidation in the industry. The resulting reduction in excess supply would have a positive effect on demand for our products and price developments. In Eastern Europe, further weakening of the Polish złoty may ease pressure on the margins of the country's furniture industry, our primary customer segment, and boost exports, one of the industry's main pillars. In addition, a further increase in logging quotas awarded by the Polish government would help reduce high wood prices and therefore reduce our purchasing costs. Pfleiderer's results of operations may also be positively impacted by relief on the cost side resulting from a fall in raw material prices, especially in the glue and chemicals segment; these prices follow the development of the oil price with a time lag.

If German kitchen manufacturers and the German office furniture industry were to continue to increase their shares of export markets, Pfleiderer could benefit from the resulting additional demand for engineered wood products. An unexpected more quickly end to the real estate crisis in the United States may cause a further rise in demand for our products.

The expansion of Pfleiderer's product portfolio also offers substantial opportunities. For example, new laminate flooring collections featuring improved functionality could result in additional demand. The same applies to innovations in the particleboard segment – in which Pfleiderer is positioning itself with the formaldehyde-free NUGreen board and antibacterial surfaces, among other products.

MACROECONOMIC CONDITIONS

The US economy and those of most other industrialized countries have been in recession since 2008. It is therefore likely that the majority of our markets are also being affected by a drop in demand. There is great uncertainty about how long a slump in demand is going to last and the extent it will reach. According to the International Monetary Fund (IMF), economic output in industrialized countries will decline by 2.0 % in 2009, while in developing countries and emerging markets average growth of 3.3 % is anticipated. This is a considerably lower rate than previously expected. Overall, the IMF expects global economic growth of 0.5 % in 2009 compared to 3.4 % in 2008.

The IMF predicts that US GDP will decrease by 1.6 %. This would be a noticeable slowdown when compared with an increase of 1.1 % in 2008.

The euro zone is also likely to be affected by economic contraction in 2009. The IMF estimates a decline of 2.0 %, after an increase of 1.0 % in 2008. The German economy is likely to play a large part in this, its GDP is currently expected to drop by around 2.5 % (2008: + 1.3 %).

The IMF also anticipates a downturn in the economic output of Eastern European countries in 2009, although by only 0.4 %. Russia is likely to perform slightly worse with a decline of 0.7 %.

The economic slowdown in 2009 is expected to be only temporary, and over the course of 2010 we expect the engineered wood markets to be back on the growth track. Demand is expected to rise again, especially in Eastern Europe. The furniture industry should again prove to be a growth driver. Pfleiderer currently predicts that the Polish market will grow by around 5 % and the Russian market by about 10 %. In contrast, the conditions for engineered wood in North America will remain difficult for the time being. Existing risks in Europe are primarily in private residential construction, while the renovation segment is considered to be a stabilizing factor due to the high number of old buildings. Market recovery is not to be anticipated before the end of 2009 at the earliest.

EXPECTED DEVELOPMENT OF THE PFLEIDERER GROUP

Pfleiderer expects difficult business development for 2009 due to the continuing financial market and economic crisis, which is also increasingly affecting the engineered wood markets. There are likely to be declines in price and quantity in virtually all markets. However, we aim to compensate for this with our good relative cost position by acquiring additional market share.

Given this operating environment, strict cost and cash flow management will have top priority in 2009. In a bid to retain our cost leadership, we will continue with the cost-reduction measures we started in 2008 and plan to save an additional 20 million euros in 2009.

The continued penetration of the Polish market by products from our new MDF plant in Grajewo, Poland, will have a beneficial effect on Pfleiderer. The same applies to the additional capacities that were secured in Novgorod, Russia, in the second half of 2008. The new construction of the MDF plant in Novgorod specifically the construction of the facilities, is to be continued in the fall of 2009 or, depending on the market situation will be postponed until a more favorable time.

Compared to 2008, we also expect reduced demand in Western Europe with lower, but still acceptable margins. We want to achieve this by continuing to increase productivity at our plants in connection with lower production costs. Due to competitors potentially closing their plants, we anticipate acquiring an increased market share in a highly-competitive market. The market for surface-finished board, in which Pfleiderer can capitalize on its strengths, is likely to show better development than that of raw particleboard or raw fiberboard. In laminate flooring, we are aiming to increasingly mesh our activities in Europe and North America and extend our presence in Europe from the high-end price segment into the mid-range price and market segment.

North America will again pose significant challenges to all market players in 2009, as the engineered wood market is likely to suffer a decline for the third year in a row caused by the real estate crisis. Contrary to the industry trend, however, Pfleiderer expects to moderately increase its business volume by gaining market share and thanks to our new plant in Moncure. In the fourth quarter of 2009, we plan to put the dismantled plant located in La Baie, Canada, back into operation at the new site in Moncure, USA, if market conditions allow for a ramp-up at this time.

Our investment planning provides for Group-wide capital expenditure of approximately 170 million euros in 2009. Approximately 40 million euros of this will be used for maintenance investments and the remaining 130 million euros will be put towards two major projects: relocating the La Baie/Moncure plant and constructing a new plant in Novgorod.

We will continue to optimize production costs at all of our locations in 2009, focusing on best-practice transfer based on our Global Pfleiderer Production System (GPPS) and a further reduction in specific material usage.

We expect to see a recovery in the global economy and consequently in our business activities in 2010. The focus will be on gaining additional market share and improving the profitability of our activities. We will expand our market presence in Eastern Europe, especially with our second plant in Novgorod, Russia. In Western Europe, we are focusing on increasing our exports from Germany.

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

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

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

Neumarkt, Germany, February 23, 2009

Hans H. Overdiek   Heiko Graeve   Dr. Robert Hopperdietzel   Pawel Wyrzykowski

Consolidated Financial Statements 2008

CONSOLIDATED FINANCIAL STATEMENTS OF PFLEIDERER AG

PFLEIDERER AG ANNUAL FINANCIAL STATEMENTS (CONDENSED)

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
Current assets		**375,880**	**398,355**
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
Non-current assets		**1,511,622**	**1,522,929**
Total assets		**1,887,502**	**1,921,284**

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
Current liabilities		**516,126**	**524,238**
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
Non-current liabilities		**660,438**	**596,007**
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
Equity		**710,938**	**801,039**
Total liabilities and equity		**1,887,502**	**1,921,284**

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
Gross profit		**434,872**	**492,209**
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
Profit from operations		**97,619**	**136,586**
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
Financial expenses, net	**V.7**	**– 80,004**	**– 45,966**
Profit from continuing operations before income taxes		**17,615**	**90,620**
Income taxes	V.8	11,173	– 10,917
Profit from continuing operations		**28,788**	**79,703**
Loss/profit from discontinued operations	IV.5	– 325	5,689
Income taxes on discontinued operations	IV.5	– 6,116	– 781
Profit for the period		**22,347**	**84,611**
of which attributable to minority interests		– 2,445	13,812
of which attributable to hybrid capital investors		18,973	13,313
of which attributable to shareholders of Pfleiderer AG		**5,819**	**57,486**
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
Cash flow statement	**VI.6**		
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
Cash flow		**200,740**	**216,527**
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
Cash flow from operating activities		**228,421**	**197,993**
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
Cash flow from investing activities		**– 190,613**	**– 556,441**
Cash flow from operating activities after investing activities		**37,808**	**– 358,448**
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 Pfleiderer 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
Cash flow from financing activities		**– 9,425**	**346,799**
Net change in cash and cash equivalents		28,383	– 11,649
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 consolidated profit
Balance at January 1, 2008	**IV.19**	**136,515**	**379,875**
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
Balance at December 31, 2008	**IV.19**	**136,515**	**369,070**

'000 EUROS	NOTES	Share capital	Group reserves including retained earnings brought forward and consolidated profit
Balance at January 1, 2007	**IV.19**	**136,515**	**302,309**
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
Balance at December 31, 2007	**IV.19**	**136,515**	**379,875**

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

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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 Pfleiderer 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 Pfleiderer 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 Pfleiderer.

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 Pfleiderer Group; however, they are not yet required to be applied and will not be adopted prior to their effective date by Pfleiderer 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 Pfleiderer 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 Pfleiderer 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 Pfleiderer 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 Pfleiderer 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 Pfleiderer 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 Pfleiderer 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 Pfleiderer AG.

Foreign currency translation

The consolidated financial statements are prepared in euro, which is the functional and presentation currency of the Pfleiderer group. Each Group company determines its own functional currency. The assets and liabilities of Pfleiderer 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 Pfleiderer 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 Pfleiderer AG, 31 (previous year: 30) German and 49 (previous year: 50) foreign subsidiaries were consolidated. In the fiscal year, one subsidiary – Pfleiderer 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
Total	**80**	**80**

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, Pfleiderer 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 Pfleiderer 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
Current assets	**402**	**50**	**452**
Property, plant, and equipment	758	0	758
Intangible assets	0	4,664	4,664
Deferred tax assets	0	10	10
Non-current assets	**758**	**4,674**	**5,432**
Total assets	**1,160**	**4,724**	**5,884**

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

As a result of the complete integration of the activities of decopa industries GmbH into the operations of Pfleiderer 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 Pfleiderer 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
Current assets	**3,803**	**0**	**3,803**
Property, plant, and equipment	13,946	4,908	18,854
Intangible assets	0	8,280	8,280
Non-current assets	**13,946**	**13,188**	**27,134**
Total assets	**17,749**	**13,188**	**30,937**

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

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 Pfleiderer 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, Pfleiderer 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 Pfleiderer 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 Pfleiderer transfers all risks and rewards and therefore also transfers control of the receivables.

Pfleiderer 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 Pfleiderer, 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.

Pfleiderer 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, Pfleiderer 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 Pfleiderer Group.

The stock options allow Pfleiderer 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 Pfleiderer 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 Pfleiderer 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 Pfleiderer 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
Receivables and other assets	**125,835**	**120,608**

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
Trade receivables, net	**72,941**	**76,162**

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

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

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

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
Carrying amount of receivables not past due and not impaired	**83,946**	**106,502**	**32**	**2,659**	**4,649**	**4,469**
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
Carrying amount of past due receivables	**15,064**	**13,670**	**0**	**0**	**0**	**0**

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
Inventories, net	**182,078**	**229,693**

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
Profit/loss after income taxes	**– 6,441**	**4,908**

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
Non-current assets	**10,280**	**14,814**
Assets classified as held for sale	**10,280**	**14,814**

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
Current liabilities	**18,032**	**16,129**
Liabilities directly associated with assets classified as held for sale	**18,032**	**16,129**

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
Cost as of Dec. 31, 2006	**339,703**	**897,479**	**61,060**	**73,571**	**1,371,813**
Foreign currency translation	3,189	11,529	–80	3,634	18,272
Acquisitions	34,965	60,532	13,144	2,623	111,264
Changes in accordance with IFRS 5	–15,300	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
Cost as of Dec. 31, 2007	**392,681**	**1,070,472**	**77,298**	**73,333**	**1,613,784**
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
Cost as of Dec. 31, 2008	**367,655**	**1,071,679**	**81,560**	**80,595**	**1,601,489**
Cumulative depreciation as of Dec. 31, 2006	**–126,448**	**–513,650**	**–42,377**	**0**	**–682,475**
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
Cumulative depreciation as of Dec. 31, 2007	**–129,314**	**–565,680**	**–49,712**	**0**	**–744,706**
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
Cumulative depreciation as of Dec. 31, 2008	**–127,525**	**–590,925**	**–53,734**	**0**	**–772,184**
Carrying amount as of Dec. 31, 2007	**263,367**	**504,792**	**27,586**	**73,333**	**869,078**
Carrying amount as of Dec. 31, 2008	**240,130**	**480,754**	**27,826**	**80,595**	**829,305**

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 Pfleiderer 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, Pfleiderer 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
Cost as of Dec. 31, 2006	**39,270**	**332,426**	**124**	**371,820**
Foreign currency translation	– 4,333	20	1	– 4,312
Acquisitions	155,622	144,961	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
Cost as of Dec. 31, 2007	**189,578**	**471,978**	**2,058**	**663,614**
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
Cost as of Dec. 31, 2008	**193,456**	**455,391**	**3,671**	**652,518**
Cumulative depreciation as of Dec. 31, 2006	**– 27,093**	**– 63,599**	**0**	**– 90,692**
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
Cumulative depreciation as of Dec. 31, 2007	**– 36,399**	**– 63,599**	**0**	**– 99,998**
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
Cumulative depreciation as of Dec. 31, 2008	**– 49,306**	**– 62,576**	**0**	**–111,882**
Carrying amount as of Dec. 31, 2007	**153,179**	**408,379**	**2,058**	**563,616**
Carrying amount as of Dec. 31, 2008	**144,150**	**392,815**	**3,671**	**540,636**

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 Pfleiderer 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
Cost as of Dec. 31, 2006	**112**	**19**	**5,458**	**5,589**
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
Cost as of Dec. 31, 2007	**40**	**9**	**4,468**	**4,517**
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
Cost as of Dec. 31, 2008	**13**	**9**	**4,649**	**4,671**
Cumulative depreciation as of Dec. 31, 2006	**0**	**– 6**	**0**	**– 6**
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
Cumulative depreciation as of Dec. 31, 2007	**0**	**– 6**	**0**	**– 6**
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
Cumulative depreciation as of Dec. 31, 2008	**0**	**– 6**	**0**	**– 6**
Carrying amount as of Dec. 31, 2007	**40**	**3**	**4,468**	**4,511**
Carrying amount as of Dec. 31, 2008	**13**	**3**	**4,649**	**4,665**

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
	76,291	**45,292**
Tax loss carryforwards	118,564	122,351
	194,855	**167,643**
Valuation allowances/non-recognition in accordance with IAS 12.34	– 37,742	– 61,117
	157,113	**106,526**
Netting	– 33,942	– 45,299
Deferred tax assets (after netting)	**123,171**	**61,227**
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
	120,109	**104,253**
Netting	– 33,942	– 45,299
Deferred tax liabilities (after netting)	**86,167**	**58,954**
Net amount of deferred tax assets	**37,004**	**2,273**

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, Pfleiderer 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
Current liabilities and other debt	**278,956**	**267,088**

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
Other current debt	**118,086**	**126,804**

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
Current financial liabilities	**153,408**	**170,925**

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

13. OTHER CURRENT PROVISIONS

'000 EUROS	Jan.1.2008	Additions	Untilization	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
Other current provisions	**61,347**	**26,659**	**17,242**	**11,151**	**85**	**– 7,543**	**52,155**

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.

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

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, Pfleiderer 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 Pfleiderer's Eastern European Group companies Pfleiderer Grajewo S.A., Pfleiderer Prospan S.A., Pfleiderer MDF Sp. z o.o., Silekol Sp. z o.o., and Pfleiderer 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.

Pfleiderer AG and Pfleiderer Grajewo S.A. have each entered into commercial paper programs. In December 2002, Pfleiderer 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, Pfleiderer 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 Pfleiderer Prospan S.A. and Silekol Sp z o.o.

16. PENSIONS AND SIMILAR OBLIGATIONS

Pfleiderer 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
Pension obligations	**13,339**	**16,284**

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.

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At the end of 2006, business assets were transferred to an asset trustee, HSBC Trinkaus & Burkhardt AG, and a downstream collateral trustee, HSBC Trinkaus Sicherungstreuhänder 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 – Pfleiderer Treuhandverein e.V.

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

Pension expenses for the fiscal years ended December 31, 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
Pension expenses	**2,370**	**3,021**

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:

	GERMANY			
'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
Defined benefit obligation at beginning of year	**64,444**	**61**	**64,383**	**– 63,827**
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	
Defined benefit obligation at end of year	**59,782**	**55**	**59,727**	**– 32,849**
Unrecognized actuarial gain (loss)	3,704	7	3,697	– 33,264
Unrecognized past service cost	– 46	0	– 46	
Plan assets	0	0	0	
Balance at December 31	**63,440**	**62**	**63,378**	**– 66,113**
Carrying amount at December 31				**– 2,735**
Pension provision (+)/asset (–)				

'000 EUROS	CANADA 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
Defined benefit obligation at beginning of year	**41,815**	**0**	**41,815**	**– 28,438**
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
Defined benefit obligation at end of year	**36,494**	**0**	**36,494**	**– 27,452**
Unrecognized actuarial gain (loss)	0	0	0	4,235
Unrecognized past service cost	0	0	0	0
Plan assets	0	0	0	0
Balance at December 31	**36,494**	**0**	**36,494**	**– 23,217**
Carrying amount at December 31				**13,277**
Pension provision (+)/asset (–)				

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

'000 EUROS	DEFINED BENEFIT OBLIGATION 2008	2007
Defined benefit obligation at beginning of year	**106,259**	**118,232**
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
Defined benefit obligation at end of year	**96,276**	**114,009**
Unrecognized actuarial gain (loss)	3,704	– 723
Unrecognized actuarial past service cost	– 46	– 39
Plan assets	0	0
Balance at December 31	**99,934**	**113,247**
Carrying amount at December 31	**13,339**	**16,284**

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	
Defined benefit obligation	
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 Dec. 31, 2008	Germany Dec. 31, 2007	Canada Dec. 31, 2008	Canada 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	
Statutory pension insurance contributions	
2007	10,705
2008	15,077
Pension benefits paid	
2007	6,452
2008	5,553
Expected pension benefits	
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, Pfleiderer 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	Untilization	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
Other non-current provisions	**28,961**	**791**	**8,423**	**585**	**– 1,124**	**19,620**

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 Pfleiderer 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 Pfleiderer 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
January 1	**379,875**	**302,309**
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
December 31	**369,070**	**379,875**

The capital reserve forms part of the above-mentioned Group reserves and corresponds to the amount of Pfleiderer 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.

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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
Gearing	%	**89.4**	**77.2**

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

Neither Pfleiderer 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
Total	**392**	**616**	**1,008**

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
Balance	**12,550**	**20,317**

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
Net interest income	**–51,644**	**–46,459**
Net income from investments	0	242
Other financial income, net	–28,360	251
Financial expenses, net	**–80,004**	**–45,966**

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
Total	**–76,158**	**–52,717**

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
Current taxes		
Germany	–15,475	–12,911
Outside Germany	–1,711	–10,622
Deferred taxes		
Germany	10,048	8,887
Outside Germany	18,311	3,729
Total (Tax expenses (–), tax income (+))	**11,173**	**–10,917**

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
Expected tax expense based on a tax rate of 28.29 % (previous year: 37.5 %)	**– 4,983**	**– 33,982**
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
Nondeductible 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
Actual tax expense (–), tax income (+)	**11,173**	**– 10,917**

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
Total international	**318,385**	**243,635**

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 Pfleiderer 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), Pfleiderer 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.

Pfleiderer 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
Opening balance at January 1	**522**	**542**
Warranties issued during the reporting period	2,083	522
Claims during the fiscal year	– 522	– 542
Balance at December 31	**2,083**	**522**

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
Total payment obligations	**120,900**	**74,697**

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 Pfleiderer 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

Pfleiderer AG will not pay a dividend for fiscal 2008, subject to the approval of the Annual General Meeting. In the corresponding prior-year period, Pfleiderer 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 REPORTNG

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:

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

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

	NOTIONAL	AMORTIZED COST				FAIR VALUE	
		LOANS AND RECEIVABLES		AVAILABLE-FOR-SALE FINANCIAL ASSETS		FINANCIAL ASSETS HELD FOR TRADING	
‘000 EUROS		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
Current assets	**46,288**	**77,667**	**77,667**	**0**	**0**	**1,053**	**1,053**
Financial assets				4,667	4,667		
Other assets		937	937				
Non-current assets	**0**	**937**	**937**	**4,667**	**4,667**	**0**	**0**
Carrying amounts by measurement category		**78,604**		**4,667**		**1,053**	
Fair values per class	**46,288**		**78,604**		**4,667**		**1,053**

EQUITY AND LIABILITIES

	AMORTIZED COST		FAIR VALUE				FINANCE LEASE LIABILITIES	
	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST		FINANCIAL LIABILITIES HELD FOR TRADING		DERIVATIVES THAT SERVE AS HEDGING INSTRUMENTS			
‘000 EUROS	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		
Current liabilities	**357,994**	**357,994**	**9,865**	**9,865**	**7,624**	**7,624**	**0**	**0**
Financial liabilities	528,054	528,054					308	308
Non-current liabilities	**528,054**	**528,054**	**0**	**0**	**0**	**0**	**308**	**308**
Carrying amounts by measurement category	**886,048**		**9,865**		**7,624**		**308**	
Fair values per class		**886,048**		**9,865**		**7,624**		**308**

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
Total payment obligations	**31,394**	**52,385**

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 Pfleiderer 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 Pfleiderer 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.

Pfleiderer 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. Pfleiderer AG's central finance department is responsible for managing all the Pfleiderer 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 Pfleiderer 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
Non-derivative financial liabilities								
Liabilities								
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
Total	**982,749**	**306,786**	**98,496**	**119,295**	**245,703**	**37,815**	**131,950**	**42,704**
Derivative financial liabilities								
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
Total	**17,489**	**17,489**	**0**	**0**	**0**	**0**	**0**	**0**

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 Pfleiderer 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
Total assets	**180,481**	**11,317**	**240,103**	**60,424**
Liabilities				
Trade payables	– 5,564	0	0	0
Liabilities to affiliated companies	0	– 1,330	– 35,140	0
Total liabilities	**– 5,564**	**– 1,330**	**– 35,140**	**0**
Total assets and liabilities, net	**174,917**	**9,987**	**204,963**	**60,424**
Positions economically hedged by derivatives	**69,148**	**2,372**	**10,047**	**10,266**
Net exposure	**105,769**	**7,615**	**194,916**	**50,158**

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:

	TOTAL		CURRENT		NON-CURRENT	
'000 EUROS	**Dec. 31, 2008**	Dec. 31, 2007	**Dec. 31, 2008**	Dec. 31, 2007	**Dec. 31, 2008**	Dec. 31, 2007
Fixed-rate financial instruments						
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
Net exposure of fixed-interest financial instruments	**– 303,517**	**– 327,760**	**– 58,241**	**– 32,384**	**– 245,276**	**– 295,376**
Variable-rate financial instruments						
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
Net exposure of variable financial instruments	**– 327,316**	**– 285,952**	**– 48,879**	**– 121,344**	**– 278,437**	**– 164,608**

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 Pfleiderer 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, Pfleiderer AG also reports on transactions between Pfleiderer 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
Total	**1,981**	**686**	**1,867**	**4,534**

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 Pfleiderer 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 Pfleiderer 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:

2007	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**

2008	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:

		2008
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 Pfleiderer 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. Pfleiderer AG has reported in detail on corporate governance in the section of this Annual Report entitled “Corporate Governance Report of Pfleiderer 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
Total	**5,777**	**5,849**

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):

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

Pfleiderer Industrie Ltd.	Macclesfield (GB)	100.00 %
Pfleiderer Sweden AB	Trelleborg (SE)	100.00 %
P.Lease GmbH & Co. KG	Mannheim	0.00 %
Thermopal-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 %
REGION EASTERN EUROPE		
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 %
REGION NORTH AMERICA		
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 %
OTHERS		
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 Pfleiderer 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	Rupprecht
Auditor	Auditor

PFLEIDERER AG ANNUAL FINANCIAL STATEMENTS (CONDENSED)

A summary of Pfleiderer AG's single-entity financial statements prepared and audited in accordance with the provisions of the German Commercial Code is presented below. This does not represent publication in the legal form prescribed by Section 328(2) of the German Commercial Code. A copy of the complete financial statements can be obtained from Pfleiderer AG, Investor Relations, Ingolstädter Strasse 51, 92318 Neumarkt, Germany.

Balance Sheet (German Commercial Code) as of December 31, 2008

ASSETS

'000 EUROS	Dec. 31, 2008	Dec. 31, 2007
Fixed assets		
Intangible fixed assets	77	56
Property, plant, and equipment	70	87
Financial assets	225,344	212,835
	225,491	**212,978**
Current assets		
Receivables and other assets	604,500	446,083
Securities	23,847	34,012
Cash-in-hand, bank balances	46,537	30,811
	674,884	**510,906**
Prepaid expenses	**2,358**	**2,553**
Total assets	**902,733**	**726,437**

EQUITY AND LIABILITIES

'000 EUROS	Dec. 31, 2008	Dec. 31, 2007
Equity		
Subscribed capital	136,515	136,515
Capital reserve	189,158	189,158
Revenue reserves	34,012	34,012
Net retained profits	27,191	27,101
	386,876	**386,786**
Provisions		
Provisions for pensions and similar obligations	8,143	7,602
Provisions for taxes	1,915	2,487
Other provisions	15,087	14,924
	25,145	**25,013**
Liabilities		
Liabilities to banks	241,561	93,196
Trade payables	6,054	911
Liabilities to affiliated companies	242,456	219,540
Other liabilities	641	991
of which taxes	(551)	(949)
of which relating to social security and similar obligations	(9)	(9)
	490,712	**314,638**
Total equity and liabilities	**902,733**	**726,437**

Income Statement (German Commercial Code) for Fiscal Year 2008

'000 EUROS	2008	2007
Income from investments	54,615	74,791
Write-downs of long-term financial assets	– 4,734	– 1,488
	49,881	**73,303**
Income from long-term loans	1	2
Other interest and similar income	30,332	18,845
Interest and similar expenses	– 24,730	– 16,572
	5,603	**2,275**
Income generated by holding company activities	**55,484**	**75,578**
Other operating income	55,639	61,760
Wages and salaries	– 8,632	– 8,349
Social security, post-employment and other employee benefit costs	– 1,513	– 1,704
Amortization and write-downs of intangible fixed assets, depreciation and write-downs of tangible fixed assets	– 55	– 47
Other operating expenses	– 60,839	– 63,851
Write-downs of securities classified as current assets	– 20,518	– 10,916
Result from ordinary activities	**19,566**	**52,471**
Taxes on income	– 3,827	– 6,730
Other taxes	– 359	– 135
Net income for the fiscal year	**15,380**	**45,606**
Retained profits brought forward	11,811	1,796
Appropriations to revenue reserves	–	– 20,301
Net retained profits	**27,191**	**27,101**

Statement of Changes in Fixed Assets of Pfleiderer Aktiengesellschaft January 1 to December 31, 2008

	COST				
'000 EUROS	Jan. 1, 2008	Additions	Disposals	Reclassifications	Dec. 31, 2008
I. Intangible fixed assets					
1. Concessions, industrial and similar rights and assets, and licenses in such rights and assets	54	23	2	–	75
2. Prepayments	7	20	–	–	27
	61	**43**	**2**	**–**	**102**
II. Property, plant, and equipment					
Other equipment, operating and office equipment	221	19	19	–	221
	221	**19**	**19**	**–**	**221**
III. Financial assets					
1. Shares in affiliated companies	327,849	17,248	–	–	345,097
2. Other loans	4,239	–	4,205	–	34
	332,088	**17,248**	**4,205**	**–**	**345,131**
	332,370	**17,310**	**4,226**	**–**	**345,454**

CUMULATIVE DEPRECIATION, AMORIZATION AND WRITE-DOWNS					CARRYING AMOUNT	
Jan. 1, 2008	Additions	Disposals	Reclassifications	Dec. 31, 2008	Dec. 31, 2008	Dec. 31, 2007
5	22	2	–	25	50	49
–	–	–	–	–	27	7
5	**22**	**2**	**–**	**25**	**77**	**56**
134	33	16	–	151	70	87
134	**33**	**16**	**–**	**151**	**70**	**87**
115,053	4,734	–	–	119,787	225,310	212,796
4,200	–	4,200	–	–	34	39
119,253	**4,734**	**4,200**	**–**	**119,787**	**225,344**	**212,835**
119,392	**4,789**	**4,218**	**–**	**119,963**	**225,491**	**212,978**

AT A GLANCE

Supervisory Board and Executive Board of Pfleiderer AG

COMMITTEES OF THE SUPERVISORY BOARD

Working Committee

Ernst-Herbert Pfleiderer (Chairman)
Wolfgang Rhode (Deputy Chairman)
Alfred Dennenmoser (since June 12, 2008)
Hanno C. Fiedler
Christopher von Hugo (since June 12, 2008)

Audit Committee

Wolfgang Haupt (Chairman)
Frank Bergmann (since June 12, 2008)
Dr. Helmut Burmester (since June 12, 2008)
Ernst-Herbert Pfleiderer
Wolfgang Rhode

Mediation Committee

Alfred Dennenmoser (until June 12, 2008)
Hanno C. Fiedler
Wolfgang Rhode
Ernst-Herbert Pfleiderer
Manfred Schmidt (since June 12, 2008)

Nomination Committee

Hanno C. Fiedler (since June 12, 2008)
Wolfgang Haupt (since June 12, 2008)
Christopher von Hugo (since June 12, 2008)
Ernst-Herbert Pfleiderer (since June 12, 2008)

ADDITIONAL OFFICES HELD BY MEMBERS OF THE SUPERVISORY BOARD

Ernst-Herbert Pfleiderer

Chairman of the Supervisory Board of Pfleiderer AG

- General Manager of Pfleiderer Unternehmensverwaltung GmbH & Co. KG, Neumarkt
- General Manager of Waldgut Pfleiderer KEG, Karlstift, Austria
- General Manager of EHP Vermögensverwaltung GmbH & Co. KG, Neumarkt
- General Manager of CAP Vermögensverwaltung GmbH & Co. KG, Neumarkt
- General Manager of PAP Vermögensverwaltung GmbH & Co. KG, Neumarkt
- Director of PF Metal Traders LP, London, UK

Member of domestic supervision bodies which are similar to German supervisory boards:

- Deutsche Bank, Munich (Advisory Board)

Wolfgang Rhode*)

First Deputy Chairman of the Supervisory Board of Pfleidrer AG

- Executive Member of the Managing Board of IG Metall, Frankfurt am Main

Hanno C. Fiedler

Second Deputy Chairman of the Supervisory Board of Pfleiderer AG

Member of the following statutory supervisory boards:

- Ball Packaging Europe GmbH, Ratingen (Chairman)
- ThyssenKrupp Steel AG, Duisburg
- MAN Roland Druckmaschinen AG, Offenbach (Chairman)

Member of foreign supervisory bodies which are similar to German supervisory boards:

- Ball Corporation, Broomfield, USA. (Board of Directors)

Member of domestic supervisory bodies which are similar to German supervisory boards:

- Dresdner Bank AG, Düsseldorf (Advisory Board)
- DPG Deutsche Pfandsystem GmbH, Berlin (Advisory Board, until December 31, 2008)
- LIC Langmatz GmbH, Garmisch-Partenkirchen (Advisory Board)

Frank Bergmann*)

- Chemical Laboratory Technician, Arnsberg
- Chairman of the Group's Works Council of Pfleiderer AG, Neumarkt
- Deputy Chairman of the General Works Council of Pfleiderer Holzwerkstoffe GmbH & Co. KG, Neumarkt
- Chairman of the European Works Council of Pfleiderer AG

Klaus M. Bukenberger (until June 12, 2008)
- Management Consultant, Stuttgart

Member of the following statutory supervisory boards:
- Sick AG, Waldkirch (Chairman)
- Homag Group AG, Schopfloch

Member of domestic supervisory bodies which are similar to German supervisory boards:
- Leitz Holding GmbH & Co. KG, Oberkochen (Chairman of the Advisory Board)
- Carl Mahr Holding GmbH, Göttingen (Advisory Board)
- Deutsche Bank AG, Stuttgart (Advisory Board)
- Rutronik GmbH, Ispringen (Advisory Board)

Dr. Helmut Burmester (since June 12, 2008)
- Partner of One Equity Partners Europe GmbH, Frankfurt am Main

Member of the following statutory supervisory boards:
- ThyssenKrupp Marine Systems AG, Hamburg (until January 12, 2009)

Member of foreign supervisory bodies which are similar to German supervisory boards:
- VAC Luxembourg S.a.r.l, Luxembourg (member of the Administrative Board)
- Schmolz + Bickenbach AG, Emmenbrücke, Switzerland (member of the Administrative Board)

Alfred Dennenmoser*)
- Chairman of the General Works Council of Pfleiderer Holzwerkstoffe GmbH & Co. KG, Neumarkt
- Chairman of the General Works Council of Thermopal GmbH, Leutkirch

Reinhard Hahn*)

Trade Union Secretary of the Managing Board of IG Metall, Frankfurt am Main

Wolfgang Haupt
- Businessman, Düsseldorf

Member of the following statutory supervisory boards:
- HSBC Trinkaus & Burkhardt AG, Düsseldorf
- Trinkaus Private Equity Pool I GmbH & Co. KGaA, Düsseldorf (Chairman)
- Trinkaus Secondary GmbH & Co. KGaA, Düsseldorf (Chairman)
- HSBC Trinkaus Real Estate GmbH, Düsseldorf (Chairman)
- Trinkaus Private Equity M 3 GmbH & Co. KGaA, Düsseldorf (Chairman)

Member of domestic supervisory body which are similar to German supervisory boards:
- Shareholders' Committee of Karl Otto Braun GmbH & Co. KG, Wolfstein (Deputy Chairman)

Robert J. Koehler (until June 12, 2008)
- Chairman of the Board of Management of SGL Carbon AG, Wiesbaden

Member of the following statutory supervisory boards:
- Benteler AG, Paderborn (Chairman)
- Demag Cranes AG, Düsseldorf
- Heidelberger Druck AG, Heidelberg
- Lanxess AG, Leverkusen

Friedhelm Päfgen

Chairman of the Board of Management of SURTECO SE, Buttenwiesen-Pfaffenhofen

Member of the following statutory supervisory board:
- Döllken-Kunststoffverarbeitung GmbH, Gladbeck (Deputy Chairman)

Manfred Schmidt*)
- Chairman of the Works Council of wodego GmbH and of Pfleiderer Holzwerkstoffe GmbH & Co. KG, Neumarkt

Dr. Melanie Tuchbreiter*)
- Senior Vice President & General Counsel Corporate Unit Legal Affairs, Pfleiderer AG, Neumarkt

Christopher von Hugo (since June 12, 2008)
- Managing Director and Partner of One Equity Partners Europe GmbH, Frankfurt am Main

Member of the following statutory supervisory boards:
- ThyssenKrupp Marine Systems AG, Hamburg (until January 12, 2009)
- Süd-Chemie AG, Munich (since May 30, 2008)

*) Employees' representative

OFFICES HELD BY MEMBERS OF THE EXECUTIVE BOARD

Hans H. Overdiek

Chairman of the Executive Board
Group Strategy and Development, Corporate Communications, Investor Relations, Human Resources, Risk Management, Compliance, BC North America

Managing Limited Partner since December 22, 2008 of Blitz F08-neun-acht-fünf GmbH & Co. KG, later Woodstock Management Beteiligungs GmbH & Co. KG

Member of domestic supervisory bodies which are similar to German supervisory boards:

- Regional Advisory Board Bavaria of Dresdner Bank AG and Allianz Deutschland AG
- nobilia-Werke J. Stickling GmbH & Co. KG

Member of foreign supervisory bodies which are similar to German supervisory boards:

- Pfleiderer Finance B.V., Deventer, The Netherlands (since January 16, 2008)
- Pfleiderer Grajewo S.A., Grajewo, Poland
- Uniboard Canada Inc., Laval, Canada (Chairman of the Board)
- Pfleiderer B.V., Deventer, The Netherlands (Supervisory Board)
- Pfleiderer Industrie Ltd., Macclesfield, Cheshire, Great Britain (Director)
- Pfleiderer Schweiz AG: Member of the Executive Committee (since January 28, 2009)
- Pfleiderer Sweden AB, Trelleborg, Sweden (Chairman of the Board)
- Pergo AB, Trelleborg, Sweden (Chairman of the Board since January 16, 2008)
- Pergo LLC, Wilmington, State of Delaware, USA (Chairman of the Board since September 15, 2008)

Michael Ernst (until January 31, 2009)

Member of the Executive Board
Human Resources, Legal Affairs, Risk Management, Insurance, Organization, IT

Member of the following statutory supervisory boards:

- Incon AG, Taunusstein (until December 12, 2008 Deputy Chairman, since December 12, 2008 Chairman)

Member of foreign supervisory bodies which are similar to German supervisory boards:

- Pfleiderer Finance B.V., Deventer, The Netherlands (until December 31, 2008)
- Pfleiderer Grajewo S.A., Grajewo, Poland (until January 5, 2009)
- Pfleiderer Schweiz AG, Zug, Switzerland (since February 11 to December 31, 2008 member of the Administrative Board)
- Pfleiderer Treuhand e.V., Neumarkt (Chairman of the Executive Board since April 1, 2008)
- Pfleiderer Sweden AB, Trellenborg, Sweden (until September 15, 2008)
- Pergo AB, Trelleborg, Sweden (Director and Managing Director until September 15, 2008, Member of the Board of Directors since October 23 to December 9, 2008)
- Pergo (Europe) AB, Trelleborg, Sweden (Chairman until September 15, 2008)
- Pergo LLC, Wilmington, State of Delaware, USA (Board of Directors until September 15, 2008)

Dr. Robert Hopperdietzel

Member of the Executive Board
Deputy Chairman of the Executive Board (since March 2008)
Technology, Benchmarking, Investment Management, Research and Development, IT, Strategic Central Purchasing, Environmental Protection, Occupational Safety, BC Western Europe

Member of foreign supervisory bodies which are similar to German supervisory boards:

- Pfleiderer Grajewo S.A., Grajewo, Poland (Member of the Supervisory Board)
- Pfleiderer Schweiz AG, Zug, Switzerland (President and Delegate of the Administrative Board since February 11, 2008, previously ordinary member of the Administrative Board)
- Pfleiderer Sweden AB, Trelleborg, Sweden (Board of Directors since January 15, 2008)
- Pergo AB, Trelleborg, Sweden (Board of Directors since April 14, 2008)

*) Employees' representative

Heiko Graeve (since June 1, 2008)

Member of the Executive Board
Finance, Taxes, Controlling,
Accounting Legal and Insurances, IP

Managing Limited Partner since December 22, 2008 of Blitz F08-neun-acht-fünf GmbH & Co. KG, later Woodstock Management Beteiligungs GmbH & Co. KG

Member of the following statutory supervisory board:

- IGB Beteiligungsgesellschaft Sachsen-Anhalt mbH

Member of foreign supervisory bodies which are similar to German supervisory boards:

- Pfleiderer Finance B.V.: Member of the Supervisory Board (since January 1, 2009)
- Pfleiderer Schweiz AG: Member of the Executive Committee (since January 28, 2009)

Pawel Wyrzykowski (since January 1, 2009)

Member of the Executive Board
Sales, Marketing, Product Strategy,
BC Eastern Europe

Member of foreign supervisory bodies which are similar to German supervisory boards:

- Pfleiderer Grajewo S.A.: Chairman of the supervisory board (since February 20, 2009)
- Pfleiderer Prospan S.A.: Chairman of the supervisory board (since February 20, 2009)
- Rockwool Polska Sp.z. o.o
- Pfleiderer OOO (Russia): Chairman of the Board of Directors

Derrick G. Noe (until January 14, 2008)

Member of the Executive Board
Finance, Controlling, Accounting,
BC Western Europe

- General Manager of Pfleiderer Leasing Verwaltungs-GmbH, Neumarkt

Member of foreign supervisory bodies which are similar to German supervisory boards:

- Pfleiderer Finance B.V., Deventer, The Netherlands (until January 14, 2008)
- Pfleiderer Grajewo S.A., Grajewo, Poland (until January 14, 2008)
- Pfleiderer Sweden AB, Trelleborg, Sweden (until January 14, 2008)
- Pergo AB, Trelleborg, Sweden (until January 14, 2008 Board Member)
- Pfleiderer Schweiz AG, Zug, Switzerland (until February 11, 2008 President of the Administrative Board)
- Pfleiderer Treuhand e.V. (until April 1, 2008)
- Pergo LLC, Wilmington, State of Delaware, USA (until January 14, 2008)
- Uniboard Canada Inc., Laval, Canada (until January 14, 2008 Board of Directors)

Glossary

TECHNICAL GLOSSARY

Carriers

Engineered wood which serves as the base for decorative surface facings (HPL, melamine-faced chipboard).

Cogeneration Plant

A decentralized plant for generating energy, supplying Pfleiderer with electricity and production heat, particularly used in the production of engineered wood. Pfleiderer uses carbon neutral biomass as fuel.

Decorative Panels

Decorative panels are produced by compressing impregnated paper with a base panel such as particleboard or MDF. They are primarily used in furniture construction but can also be used in interior design.

Floor Panels

Particleboard with tongue and groove joints are ideal for use in interior design and attic conversion (e.g. as a base).

FSC

A certification system and quality mark for wood products from forestry companies that are certified according to the criteria of the Forest Stewardship Council (FSC). The aim of this non-governmental and non-profit organization is to contribute to improving forest management worldwide.

HDF – High-density Fiberboard

Engineered wood board consisting of wood fibers soaked in glue which are then pressed together under heat at particularly high compression. Preferred carrier material where high-load-bearing properties and thin material thickness are required (e.g. laminate flooring).

HPL – High-pressure Laminate

High-pressure laminate consists of several layers of core paper and decorative paper. The paper layers are impregnated with phenol and melamine resins and then compressed under heat. This surface material is extremely durable and is ideal for furniture and interior surfaces subject to heavy wear (e.g. kitchen worktops).

Laminate Flooring

Flooring made of several different layers. The carrier board comprises pressure-resistant engineered wood – HDF board. The top surface is coated with melamine resin, protecting the decorative layer comprising a printed paper film with a wood or stone reproduction.

MDF – Medium-density Fiberboard

Wood-based panel comprising wood fibers impregnated with glue and compressed under heat. This material has a homogenous structure and a very smooth surface. It is particularly used for three-dimensional furniture fronts, as well as for varnished or high-gloss surfaces.

MFC – Melamine-faced Chipboard

Particleboard with a finished surface faced with melamine (decorative paper soaked in melamine resin). Using heat and pressure, the melamine film is compressed in short cycles onto the carrier board to produce a durable decorative top surface.

MFP – Multi-function Panel

Engineered wood board with facing and middle layers made of slender random-direction stands. MFP has high cross and longitudinal tensile strength, making it particularly suitable as a construction material for trade fair stands or interior fixings.

Overlay

Transparent melamine film used in laminates to give added protection to the decorative layer from damage and wear.

Particleboard/Chipboard

Particleboard is produced by combining wood chips or other wood-type material (flax, hemp) with resin-based glue. The chips and particles are then hot pressed into board.

PEFC

Programme for the Endorsement of Forest Certification Schemes (PEFC): The world's largest forest certification system for promoting and continually improving the sustainable management of forests while adhering to ecological, social and economic standards.

Postforming Elements

Particleboard or MDF board fully coated with a layer of HPL. The seamless facing is milled around the edges of the carrier board at a pre-defined radius. This is done by heating the HPL laminate and then molding it mechanically.

ECONOMIC GLOSSARY

Capital Employed
The entire capital employed in the company, i.e. non-current assets plus current assets, less provisions (excluding provisions for pensions), and liabilities (excluding financial liabilities).

Cash Flow
A key figure used when analyzing balance sheets, companies and shares in order to assess a company's financial strength and profitability. Cash flow (funds from operations) describes the inflow of cash funds to a company from revenues and other sources within a given period.

Contractual Trust Arrangement (CTA)
In order to outsource the financing of pension commitments, assets are outsourced to an asset trust through a contractual trust agreement (CTA). CTAs are modeled on Anglo-American pension trusts, taking employment law and taxation rules into account.

Derivative Financial Instruments
Derivative financial instruments are used to hedge against and minimize risks arising when transactions are exposed to potential changes in currency exchange rates or market interest rates. Hedging is performed using swaps, options or futures.

Discontinued Operations
According to IFRS, business segments which are to be disposed of or spun off are disclosed separately under "discontinued operations" in the income statement and on the balance sheet.

EBIT
Earnings before interest and taxes.

EBITDA
Earnings before interest, taxes, depreciations and amortization. EBITDA is a key figure when assessing a company's profitability.

EBT
Earnings before income taxes.

EPS
Earnings per share. Consolidated earnings divided by the average number of shares outstanding.

Gearing
The ratio of (net) financial liabilities to equity.

Hybrid Bond
A hybrid bond is an equity-equivalent subordinated perpetual corporate bond that can be terminated by the issuer at an agreed future date. Under certain conditions, the agreed coupon payments can also be suspended or deferred. The investor receives an interest risk premium to compensate for the increased risk compared with conventional corporate bonds.

IFRS – International Financial Reporting Standards
International Financial Reporting Standards have been developed to ensure that corporate financial reporting and disclosure standards are comparable worldwide. Since 2005, all publicly traded companies listed on a regulated stock market within the EU are obliged to draw up their consolidated financial statements in accordance with IFRS rules. Pfleiderer AG prepared its financial statements for 2003 and 2004 under U.S. GAAP (Generally Accepted Accounting Principles in the United States). Since the 2005 financial statements, it has been reporting under IFRS.

Impairment Test
A test for determining the recoverability of intangible assets based on future assumed cash flows.

Long-term Incentive Program
A motivational tool geared to the long term to encourage staff loyalty, comprising among others models to allow employees to participate in the Company's success.

ROCE
Return on capital employed.

Stock Option Plan
Form of remuneration entailing the issue of stock options to members of management and to employees, giving them the right to acquire shares in their own company, provided fixed targets are achieved under certain conditions.

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Financial Calendar 2009

MARCH 31, 2009
Press conference for fiscal year 2008, Munich

MARCH 31, 2009
Analysts' conference for fiscal year 2008, Munich

MAY 20, 2009
Publication of Three Months Report 2009
Conference call for analysts/investors and journalists

JUNE 23, 2009
Annual General Meeting 2009, Munich

AUGUST 24, 2009
Publication of Six Months Report 2009
Conference call for analysts/investors and journalists

NOVEMBER 24, 2009
Publication of Nine Months Report 2009
Conference call for analysts/investors and journalists

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2008 in Review

The Pfleiderer Group once again maintained its position compared to its competitors in a difficult operating environment during the fiscal year 2008. With consolidated revenues of 1.7 billion euros and some 6,000 employees, the Company is among the world's top three manufacturers of engineered wood. Pfleiderer systematically developed this position in 2008: New technologies in production, more intensive sales activities as well as a stable and strategy-oriented financial investor coming on board are just some examples which demonstrate that we were once again able to strengthen our competitive position.

JANUARY

ONE EQUITY PARTNERS' INVESTMENT

One Equity Partners Europe GmbH (OEP) acquires approximately 15 % of the shares of Pfleiderer AG (at the end of 2008 it was in excess of 26 %). The private equity company, founded in 2001, manages an investment portfolio for the US investment bank JP Morgan Chase & Co. totaling 8 billion US dollars. Pfleiderer Group welcomes the investment of a strategy- and long-term-oriented financial investor.

APRIL/MAY

CHANGES TO THE EXECUTIVE BOARD

Pawel Wyrzykowski (left), previously Managing Director of the Polish subsidiary Pfleiderer Grajewo S.A., is appointed to the Executive Board of Pfleiderer AG. He takes over responsibility for Sales, Marketing and Product Strategy as well as the region Eastern Europe effective January 1, 2009. Following the departure of Derrick G. Noe, the Supervisory Board appoints Heiko Graeve (right) as Pfleiderer AG's CFO as of June 1, 2008. In this position, Graeve is responsible for Finance, Taxes, Controlling and Accounting throughout the Group. Executive Board member Michael Ernst left the Company at the end of January 2009 on reaching retirement age.

JUNE

ANNUAL GENERAL MEETING

Over 50 % of the share capital is represented at the Annual General Meeting on June 12, 2008, - a very high presence. The shareholders approve all agenda items with a majority of over 99 %. Changes are made to the Supervisory Board: Robert J. Koehler and Klaus M. Bukenberger stepped down from office; OEP partners Christopher von Hugo and Dr. Helmut Burmester are elected as new members.

AUGUST

NEW SITE IN THE USA

The Pfleiderer subsidiary Uniboard relocates its HDF production from La Baie, Canada to Moncure in North Carolina, USA, where Uniboard acquired a particleboard plant from competitor ATC Panel. With the closure of the unprofitable plant in Canada and capital expenditure of approximately 80 million euros at the US site, Pfleiderer creates the prerequisites to become the cost leader for the production of laminate flooring in North America.

SEPTEMBER

SAVING WITH IMPROVED PRODUCTION

The Pfleiderer Group demonstrates that state-of-the-art methods make significant production improvements possible even with technically mature products like particleboard and fiberboard. This new technology can help the Company cut production costs for MDF by one-tenth. After being successfully launched at a German plant, the plan is now to gradually roll out this technology at other MDF plants.

OCTOBER

PERGO ENTERS COOPERATION WITH DIY STORE GIANT

The Pfleiderer subsidiary Pergo continues to expand its business relationship with US retail partner “The Home Depot.” In cooperation with the largest do-it-yourself store chain in the world, with more than 2,000 outlets in North America, Pergo is increasingly using TV and radio in their marketing in the future. Alread in 2007, the Pfleiderer Group rolled out a wide-ranging marketing campaign for the Pergo brand in North America, targeting consumers and retail partners. The new sales cooperation allows Pergo to further extend its position as market leader in laminate flooring in North America.

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