Delivering Added Value

ANNUAL REPORT 2009

PFLEIDERER
AKTIENGESELLSCHAFT

Key Figures of Pfleiderer Group

		2009	2008	2007	2006	2005	2004
Revenues, Earnings, Cash Flow							
Revenues	€ m	1,381.5	1,735.9	1,801.1	1,415.3	829.3	766.9
Foreign share	%	72.2	72.2	71.3	67.8	59.8	56.0
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	€ m	100.4	223.7	248.7	208.1	104.1	76.7
Operating earnings (EBIT)	€ m	– 16.1	97.6	136.8	133.0	55.4	37.9
Earnings before taxes (EBT)	€ m	– 64.9	17.3	96.3	142.4	43.8	58.6
EBT from continuing operations	€ m	– 64.8	17.6	90.6	92.4	31.9	18.7
EBT from discontinued operations	€ m	– 0.1	– 0.3	5.7	50.0	11.9	39.9
Net profit for the Group	€ m	– 69.8	5.8	57.5	83.9	28.8	33.4
Cash flow from operating activities	€ m	– 13.7	228.4	198.0	111.4	103.7	89.5
Cash flow from operating activities after investing activities	€ m	– 150.0	37.8	– 358.4	– 65.0	– 161.2	102.4
Capital expenditure	€ m	157.7	158.7	182.6	110.4	84.5	45.4
Depreciation	€ m	109.2	112.3	108.1	74.8	40.6	35.6
Balance Sheet							
Total assets	€ m	1,971.2	1,887.5	1,921.3	1,372.7	1,442.3	784.9
Equity	€ m	631.7	710.9	801.0	542.3	275.1	230.4
Equity ratio	%	32.0	37.7	41.7	39.5	19.1	29.4
Net debt	€ m	854.2	635.5	618.2	414.6	627.5	177.0
Capital employed	€ m	1,476.6	1,357.6	1,410.5	1,010.0	927.2	480.0
Employees							
Employees as of Dec. 31		5,592	5,777	5,849	5,207	4,931	3,568
in Germany	number	2,438	2,569	2,545	2,567	2,604	2,583
outside Germany	number	3,154	3,208	3,304	2,640	2,327	985
Personnel expenses	€ m	256.6	260.2	266.8	238.6	160.6	159.1
Key Figures							
Earnings per share from continuing operations (basic)	€	– 1.42	0.24	1.00	1.00	0.51	– 0.14
Dividend per share	€	0.00	0.00	0.30	0.25	0.15	0.00
EBITDA margin	%	7.3	12.9	13.8	14.7	12.6	10.0
EBIT margin	%	– 1.2	5.6	7.6	9.4	6.7	4.9
Return on revenues (ROS) = EBT from continuing operations / revenues	%	– 4.7	1.0	5.0	6.5	3.8	2.4
Return on capital employed (ROCE) = EBIT / Capitel employed	%	– 1.1	7.2	9.7	13.2	10.0	8.9
Return on equity after taxes	%	– 11.0	0.8	7.2	15.5	10.5	14.5
Book value per share	€	11.85	13.33	15.02	10.17	6.45	5.40
Gross cash flow per share	€	– 0.27	4.50	3.78	2.22	2.44	2.10
Share							
Closing price as of Dec. 31	Xetra, €	6.14	6.60	14.24	20.49	16.18	8.49
Market capitalization as of Dec. 31	€ m	327.4	352.0	759.4	1,092.7	690.6	362.4
Enterprise value as of Dec. 31	€ m	1,181.6	1,247.7	1,648.5	1,507.3	1,318.1	539.4
Total number of shares as of Dec. 31	units	53,326,100	53,326,100	53,326,100	53,326,100	42,685,000	42,685,000
Average number of shares outstanding	units	50,682,642	50,781,022	52,326,757	50,262,634	42,542,200	42,685,000

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 MDF/HDF

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[1] MDF/HDF

[1] under construction

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

DELIVERING ADDED VALUE

Pfleiderer AG is one of the world's two largest producers of particleboard and fiberboard. We are a sought-after partner for companies in the furniture and kitchen industries, for major project contractors, for interior fitters and producers of wooden houses – in more than 80 countries around the world. People come into contact with our engineered wood every day and nearly everywhere: at home, at work, on the move and in public buildings. 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 deliver value added to our customers – from individual production specifications via contemporary decorative surfaces through to customized solutions for cutting to the required dimensions.

"As with many other companies world-wide, also for Pfleiderer the year 2009 was one of the most difficult in our history. The fact that we mastered these difficulties is primarily due to our excellent position in the market for engineered wood. A position we have achieved thanks to our size as a result of internal and external growth. And thanks to the value added we deliver to our customers every single day."

HANS H. OVERDIEK, CHAIRMAN OF THE EXECUTIVE BOARD

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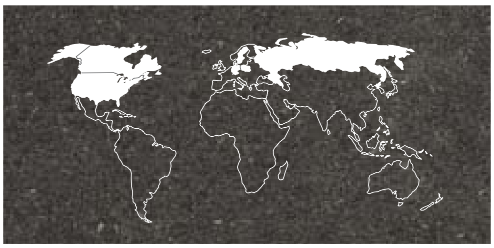
GENERAL INFORMATION

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 the development of business. 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 process of internal added value.

COMBINED MANAGEMENT REPORT OF THE PFLEIDERER GROUP AND PFLEIDERER AG

In this section, the Executive Board reports on the economic situation, the net assets, financial position, and results of operations, as well as on 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 has been audited by the external auditors.



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CONSOLIDATED FINANCIAL STATEMENTS 2009

This section contains the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRSs) effective at the balance sheet date, together with the report of 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 terms, and an index. The world map illustrates in which countries our plants are located and the folding cover contains a brief description of some major events for Pfleiderer in the year 2009.

Page reference Internet link a-z Glossary

HEIKO GRAEVE
Chief Financial Officer
Financing, Taxes, Controlling, Accounting

HANS H. OVERDIEK
Chief Executive Officer

PAWEL WYRZYKOWSKI
Member of the Executive Board
Sales, Marketing and Product Strategy

Ladies and Gentlemen, Dear Shareholders,

The year 2009 was marked by the most severe economic slump since the Second World War. Pfleiderer was unable to avoid the resulting negative impact, and the crisis hit us hard. In some countries, private households had lived well beyond their means in recent years in order to realize their dream of an own home. As the weight of debt became too oppressive due to rising interest rates and falling house prices, the burden was passed on to the financing banks, which were unable to cope with the massive mortgage defaults. Another factor was the complex and highly risky credit securitization, which had been placed on the capital markets as supposedly secure investments and consequentially plunged the world's entire finance system into a systemic crisis. The core meltdown of the global economic system was only prevented by bold and massive intervention by governments in the form of supportive measures for banks and economic stimulus programs. Since the summer of 2009, the biggest economic slump of recent decades seems to be over in most countries – in fact some economies are showing signs of an upturn. But this has come at the expense of shifting private debt into the state sector. The resulting increase in public sector debt constitutes a heavy burden for future economic developments, because the urgently needed debt reduction is almost sure to have a negative effect on economic growth.

The economic crisis had a direct impact on us and our customers. During the first few months of 2009, the crisis caused our customers to reduce their inventories to very low levels in something approaching panic, thus intensifying the decline in demand that was already occurring, especially from abroad. In Eastern Europe, some countries were on the verge of insolvency, which put pressure on nearly all Eastern European currencies. The two currencies that are most important to us, the Polish złoty and the Russian ruble, lost 23% and 21% respectively, thus contributing significantly to our revenue decline in this region.

In addition to lower unit sales, the under utilization of production capacity in our industry as a result of weak demand led to substantial falls in prices. Basic standard products such as raw particleboard suffered the worst price reductions. In the second half of the year, our order situation began to improve again. A revival of business was apparent primarily in the Eastern Europe and Western Europe regions. Our customers in the German furniture industry recorded increasing demand again after the expiry of the program of scrappage incentives for old cars. These programs seem to have shifted demand for furniture and other products relevant for Pfleiderer into the automotive industry, distorting usual consumer behavior in favor of the industry with a stronger lobby. But the design-oriented project business such as shopfitting also recorded increasing demand, after a stop on investment that had lasted for several quarters.

In Eastern Europe, after a substantial revenue slump in the first half of 2009, we posted our most significant growth as the year progressed, at a higher rate than the market as a whole due to our gains in market share. In North America, our markets contracted again significantly, although we were able to maintain our revenues in the region at close to the prior-year level thanks to significant gains in market share.

There are increasing signs that the situation in the US real-estate market is stabilizing, but the recovery is making only slow progress. In this environment, our total revenues fell by a good 20% compared to 2008 to 1,382 million euros. Lower sales were responsible for 10% of the decrease, falling prices for 7% and exchange rate effects for a good 3%. Since the fourth quarter of 2009, we have been able to slightly raise the prices of some products again.

Although we adjusted to the difficult environment by taking appropriate measures at an early stage, the reduction in revenues and thus also in earnings that we were faced with was only partially compensated for by cost reductions. As a result, EBITDA before restructuring expenses fell to 118 million euros, which ultimately led to a loss for the Pfleiderer shareholders of 70 million euros or –1.42 euros per share. This unsatisfactory profitability necessitated additional cost savings.

As I stated above, we have been supported by a certain revival of demand for some months now, but it remains to be seen how sustained and strong this recovery will be. In any case, we do not want hopes of a sustained earnings recovery for Pfleiderer to rely solely on a more favorable environment, but we are pursuing actively cash management in terms of both our business operations and our balance sheet, as well as cost management and capacity management.

In a cyclical industry like ours, it is crucial to have the comparatively lowest variable costs in order to remain competitive and gain market shares also in times of falling prices due to recession. We deliberately made use of the good years before this recession to improve our cost situation to such an extent that we are among the cost leaders in the industry also during the recession. But despite the success we have achieved in this respect, we will not reduce our efforts and will further optimize our processes. Our next goal is the reduction of fixed costs, so that in the next upswing we become profitable again as quickly as possible also on a full-cost basis. To this ends, we will make our organizational structures more streamlined, reduce the number of management levels and become more efficient in administration and sales especially in Europe. In this context, the Executive Board has been reduced from four members to three: Dr. Robert Hopperdietzel, who held Executive Board responsibility for Technology/Operations, left Pfleiderer on November 15, 2009.

Capacity management is not only a decisive factor in relation to the high burden of fixed costs with capital-intensive production processes. Under utilization of capacity in the entire industry leads to falling prices, placing an additional burden on margins in addition to lower unit sales. For this reason, market equilibrium between supply and demand plays a decisive role for the recovery of profit margins. This can be achieved among others if suppliers close their production facilities with the weakest cost position. In recent quarters, total production capacity of more than one million cubic meters has already been closed in our core market of Central Europe. This represents about half of the excess capacity in this market. We have also made a contribution to the industry's recovery by reducing the output of our smallest and least efficient plant (Gschwend) with the help of short-time work. All the Group's other facilities are operating with satisfactory capacity utilization of well over 80%; some of them are actually approaching their capacity limits.

In the second half of 2009, we dealt intensively with the rescheduling of the Group's financing. This had become necessary after we breached a financial covenant of credit agreements in the second quarter. The discussions with the lending banks on the rescheduling of large portions of our financing were successfully completed in the first quarter of 2010. The new agreements provide a continuation of the existing syndicated loan and the promissory note loan, supplemented by a loan from the KfW bank. We have thus secured our financing for the next four years, but at higher costs than hitherto. Reducing our level of debt will therefore be one of our most important goals in the coming years. We successfully took the first steps in this direction with the sale of treasury shares in January 2010 and with the 10% capital increase carried out shortly afterwards.

In our planning for the year 2010, we anticipate only hesitant market recovery at the earliest in the second half of the year 2010. The reductions in public debt required in many parts of the western world as well as the reduction of companies' debts and the ongoing need for the recapitalization of the banking sector mean that only moderate growth rates can be expected in the foreseeable future. Our growth will be driven by the new production capacities have created in recent years, which could not contribute to the growth during the last upswing and which had to be financed in the recession due to the long planning periods. This includes the two plants in Moncure, the MDF plant in Grajewo, the two new laminating plants in Novgorod and Val d'Or, and – at a later date – the MDF plant in Novgorod. For these, no further major investment will be required.

For this year, ladies and gentlemen, we have to request a little patience and understanding for the currently difficult situation, as we anticipate another loss in 2010 before we should be able to report a profit again in 2011.

Neumarkt, March 17, 2010

Hans H. Overdiek | Heiko Graeve | 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 Incorporation and Rules of Procedure in fiscal year 2009. We dealt with the Company's situation in detail in the year under review and 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 of business development from plans were explained to the Supervisory Board in detail, especially given the impact of the financial and economic crisis on various markets and on the Group's financial position. The Chairman of the Supervisory Board and the Audit Committee were fully informed about the findings reached in the audit of the internal control system and those findings were dealt with by that Committee with the goal of making continuous improvements to the systems. In all meetings of the Supervisory Board and its committees, the rescheduling of the Pfleiderer Group's financing was continually discussed in detail. 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 and of the Group's financing situation. The Chairman of the Supervisory Board in particular was in close contact with the Chairman of the Executive Board and the entire Executive Board.

In the past financial 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 2009, and the extraordinary meeting in November 2009. With the exception of one excused absence, all members attended all of the meetings. The Executive Board prepared the Supervisory Board meetings in separate meetings with the employees' and shareholders' representatives.

The extraordinary meeting held on November 9, 2009, dealt, inter alia, with the change in the composition of the Executive Board, the new financing, and the restructuring measures necessitated by the recession.

In the meeting on March 18, 2009, the 2008 financial statements of Pfleiderer AG were approved after prior extensive consultation and upon the recommendation of the Audit Committee, as were the consolidated financial statements and the combined management report. In addition, the Agenda of the 2009 Annual Shareholders' Meeting was approved and the dividend proposal to be made at the Annual Shareholders' Meeting was discussed. In addition, a resolution was passed which had been prepared in the Working Committee concerning the contract of service of the Chief Executive Officer, Mr. Hans H. Overdiek. Finally, the results of the self evaluation of the work of the Supervisory Board were presented. With regard to Item 7 of the Agenda of the Annual Shareholders' Meeting (convertible bond/changes to the Articles of Incorporation), a resolution was passed giving it a more concrete form in April 2009.

The meeting on June 23, 2009, dealt with the business situation. In addition, a declaration of compliance by the Supervisory Board and the Executive Board of Pfleiderer AG with regard to 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). Finally, a report on the preliminary investigations by the Federal Cartel Office was dealt with.

The Supervisory Board meeting on September 30, 2009, dealt with the current business situation. Furthermore, the effects of the Act on the Appropriateness of Management Board Remuneration (VorstAG) on the Supervisory Board activity were explained and the resulting need for action was defined. In this context, the Rules of Procedure of the Supervisory Board were adapted in the effect that the remuneration of the members of the Executive Board will in future only preparatory be dealt with by the Working Committee, the decision-making, however, has to take place in the Supervisory Board plenum. Finally, the introduction of a deductible for members of the Executive Board and the Supervisory Board within the D&O insurance policy was discussed.

On November 9, 2009, the Supervisory Board approved the cancellation of the contract of service of Dr. Robert Hopperdietzel and the acceptance of his resignation.

In the meeting on December 10, 2009, the budget for 2010 was discussed in detail and the declaration of compliance by the Supervisory Board and the Executive Board of Pfleiderer AG with regard to 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). In addition, the modification of the corporate governance principles of Pfleiderer AG was approved to reflect the amendments to the German Corporate Governance Code that came into effect in 2009. Finally, diverse restructuring measures were presented with the aim of reducing costs.

In the meetings of November 9, and December 10, 2009, the Supervisory Board accepted the waiver by the Executive Board of 10% of its basic remuneration and itself waived 15% of its fixed remuneration. These measures are to be seen against the background of the restructuring and cost-reducing project decided upon by the Working Committee on October 7, 2009.

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.

In the year under review, the Working Committee convened ten times: in February, March, April, June, September, October (three times), November and December 2009; four of the meetings were held in the form of a telephone conference. The focus of the meetings of the Working Committee included rescheduling the Pfleiderer Group's financing, the stock option plan for the year 2009, the transfer of the plant in La Baie (Canada) to Moncure (USA), the investment project in Novgorod (Russia) and the investigations of the Federal Cartel Office. Furthermore, discussions were held and decisions were taken on contractual and remuneration issues of the Executive Board, in particular the agreement with Dr. Hopperdietzel to terminate his contract, and on the distribution of responsibilities in the Executive Board following the departure of Dr. Hopperdietzel. Finally, a project for the reorganization and standardization of the Pfleiderer Group's IT structure and various restructuring measures for the reduction of costs were presented. In October, a restructuring and cost-reducing program was decided upon and initiated.

COMMITTEE MEMBERS

	Working and Human Resources Committee	Audit Committee	Nomination Committee	Mediation Committee
E.-H. Pfleiderer	C	M	M	M
Dr. H. Burmester		M		
H. Fiedler	M		M	M
W. Haupt		C	M	
Ch. von Hugo	M		M	
F. Bergmann[1]		M		
A. Dennenmoser[1]	M			
W. Rhode[1]	DC	M		M
M. Schmidt[1]				M

[1] Employee representative

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

The Audit Committee held six meetings, two of which were by telephone. The meetings took place in March, April, May, August, September and November 2009 and were attended by the Executive Board. The Audit Committee dealt with the 2008 annual financial statements, the audit focus for the 2009 annual financial statements or well as with the financial statements for the first three, six and nine months of 2008, the investigations of the Federal Cartel Office, internal auditing, risk management and with compliance.

In 2009, there was no reason to convene the Mediation Committee, which was formed in accordance with Section 27 Paragraph 3 of the German Co-Determination Act (MitbestG). Neither did the Nomination Committee convene last year.

The annual financial statements of Pfleiderer Aktiengesellschaft and of the Pfleiderer Group as of December 31, 2009, and the combined management report of the single entity and of the Group were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin/Frankfurt/M., formerly KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, and issued with an unqualified auditors' opinion in each case. The Audit Committee met on March 17, 2010, 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, 2010, the Supervisory Board also reviewed the 2009 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 financial year 2009. 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 unappropriated retained earnings and concurs with the Executive Board's proposal that the loss 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 did not change in the course of 2009.

Following the departure of Dr. Robert Hopperdietzel, responsibilities are distributed within the Executive Board as follows:

Name	Regional responsibility	Functional responsibility	
Hans H. Overdiek	Western Europe	■ Strategy ■ Internal Auditing ■ Human Resources	■ IR/Communications ■ IT Strategy ■ Group Technology
Heiko Graeve	–	■ Finance ■ Taxes ■ Legal Affairs ■ Compliance	■ Accounting ■ Controlling ■ Risk Management ■ Data Protection
Pawel Wyrzykowski	Eastern Europe, North America	■ Strategic Purchasing ■ Marketing ■ Product Strategy	■ Sales ■ Production ■ Research & Development

On behalf of the entire Supervisory Board, I would like to thank the Executive Board, the employees and the employee representatives of all Group companies for their commitment and work in the past year. They successfully supported our company also in difficult times.

Neumarkt, February 2010

Ernst-Herbert Pfleiderer
Chairman of the Supervisory Board

Corporate Governance Report

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 18, 2009, led to changes to the corporate governance principles of Pfleiderer, which were decided upon by the Supervisory Board at its meeting on December 10, 2009.

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

DECLARATION OF CONFORMITY 2009

The Executive Board and the Supervisory Board of Pfleiderer Aktiengesellschaft declare, pursuant to Section 161 of the German Stock Corporation Act, that since making its last declaration of conformity in June 23, 2009, Pfleiderer Aktiengesellschaft has complied with the recommendations of the Government Commission German Corporate Governance Code as published by the Federal Ministry of Justice with the following exceptions and that Pfleiderer Aktiengesellschaft will continue to comply with the recommendations of the Code with the following exceptions in the future.

For the period of June 23, 2009, to August 4, 2009, the declaration of conformity refers to the Code as amended on June 6, 2008. For the period since August 5, 2009, the declaration of conformity refers to the Code as amended on June 18, 2009, which was published in the electronic version of the German Federal Gazette (Bundesanzeiger) on August 5, 2009.

Code Item 4.2.2 Paragraph 1

The remuneration system for the Executive Board including significant contractual elements has hitherto been decided upon by the Working Committee of the Supervisory Board and reviewed regularly. The Supervisory Board plenum has been informed in a timely manner about the results of these consultations and decisions. The Company therefore did not comply with the recommendation of Item 4.2.2 Paragraph 1 of the Code as amended on June 6, 2008, according to which, upon the proposal of the committee dealing with Executive Board contracts, the Supervisory Board plenum determines and regularly reviews the remuneration system for the Executive Board including significant contractual elements. The Company did not follow this recommendation because having the matter dealt with by the Working Committee has proven to be efficient.

Code Item 4.2.3 Paragraph 3 Sentence 4

The stock option plan of Pfleiderer 2006 Aktiengesellschaft as decided upon by the Annual Shareholders' Meeting in 2006 does not provide for a cap for extraordinary, non-foreseeable developments. The Company therefore did not comply with the recommendation of Item 4.2.3 Paragraph 3 Sentence 4 of the Code as amended on June 6, 2008, according to which the Supervisory Board is to arrange a cap for extraordinary, non-foreseeable developments in connection with stock option plans and similar programs. Pfleiderer Aktiengesellschaft did not follow this recommendation in the relevant resolution in 2006 because the Supervisory Board was of the opinion that there was no need for a cap due to the lack of share price volatility and that the criteria for the existence of extraordinary, non-foreseeable developments were difficult to determine.

Code Item 4.2.3 Paragraph 4 Sentence 1

No arrangements have been made for a severance compensation cap in the Executive Board members' contracts of service. The Company therefore did not comply with the former suggestion and current recommendation of Item 4.2.3 Paragraph 4 Sentence 1 of the Code, according to which care is to be taken when concluding Executive Board members' contracts of service that payments made to a member on premature termination of his contract without serious cause, including fringe benefits, do not exceed the value of two years' remuneration (severance compensation cap) and do not remunerate more than the remaining term of the contract. The former suggestion of the Code was replaced with a recommendation of the Code as amended on June 6, 2008, which came into effect upon being published in the electronic version of the Federal Gazette (Bundesanzeiger) on August 8, 2008. The Executive Board members' contracts of service were concluded before this Code amendment came into effect. Pfleiderer Aktiengesellschaft did not follow the former suggestion, because the agreement of such severance compensation caps and the subsequent amendment of Executive Board members' contracts of service are legally problematic. In addition, the Supervisory Board was of the opinion that the limitation of severance compensation to less than the agreed period of office would not be appropriate to the aim of retaining Executive Board members for the full contractual period. The Executive Board and the Supervisory Board declare, however, that the Company will follow this recommendation of the Code as far as possible when Executive Board members' contracts of service are concluded in the future.

Code Item 5.1.2 Paragraph 2 Sentence 3

The Company has not set any age limits for members of the Executive Board. The Company therefore does not follow the recommendation of Item 5.1.2 Paragraph 2 Sentence 3 of the Code, according to which an age limit is to be set for members of the Executive Board. Neither will the Company follow this recommendation in the future, because the Company is of the opinion that an age limit would constitute an unreasonable limitation of its possibilities when selecting suitable candidates. Furthermore, the age of Executive Board members is not necessarily related to their individual competence and ability to perform their duties.

Code Item 6.6

According to Item 6.6 of the Code, the ownership of shares of the Company or related financial instruments by Executive Board and Supervisory Board members is to be reported in the corporate governance report if those shareholdings directly or indirectly exceed 1% of the shares issued by the Company. If the total shareholdings of all the Executive Board and Supervisory Board members exceed 1% of the shares issued by the Company, they are to be reported for the Executive Board and the Supervisory Board separately. The Company has so far not followed this recommendation. The Executive Board and the Supervisory Board declare, however, that the Company will follow this recommendation of the Code in the future.

Code Item 7.1.2 Sentence 4

In fiscal year 2009, the interim reports were published later than within 45 days of the end of the respective reporting period for organizational reasons. The Company therefore did not follow the recommendation of Item 7.1.2 Sentence 4 of the Code as amended on June 6, 2008, according to which the interim reports are to be publicly accessible within 45 days of the end of the respective reporting period. Also for organizational reasons, the Company will not follow the recommendation with regard to the six-month interim report for the period ended June 30, 2010.

http://www.pfleiderer.com/en/responsibility/compliance-503.html

COMPLIANCE

Our understanding of compliance includes the tools, guidelines, and measures applied in our Company to ensure adherence to applicable law. Compliance reflects our corporate values and is at the same time part of an active corporate and management culture.

In fiscal year 2009, our existing activities in the field of compliance management were made more systematic and intensified, and were placed under the central responsibility of a compliance manager.

In collaboration between the parent company and the operating units, a number of measures were developed and determined with the aim of securing efficient participation in the compliance program throughout the Group. This program includes comprehensive measures to be taken and is intended to ensure that our present and future business activities comply with applicable German law, applicable local law in the relevant markets, and our internal guidelines.

These measures are divided into three groups:

1. Prevention – enhancing awareness of compliance issues
2. Identification and reduction of existing risks for processes and compliance
3. Setting incentives

http://www.pfleiderer.com/en/investor-relations/business-conduct-456.html

On 1:

The Pfleiderer Group's Business Conduct Guidelines constitute the foundation of our compliance system, providing binding rules for ethical and legal behavior in everyday working situations, and are posted on the Internet. The rules primarily relate to adherence to applicable law, dealings with business partners in terms of adhering to competition and antitrust law, placing orders, accepting and making gifts, avoiding conflicts of interest such as restraints on competition, dealing with information, the environment and technical safety. The Executive Board ensures that those regulations are monitored and observed, and reports regularly on the subject to the Audit Committee of the Supervisory Board.

In the reporting year, a central Compliance Advisory Office was established, to which all employees and executives can address relevant questions.

Furthermore, a number of training courses were held last year. The need for compliance-relevant training to be carried out in 2010 will be identified and decided upon in the first quarter of 2010.

On 2:

In order to further improve the standards of internal control, a Group-wide catalogue internal control standards was developed. These standards facilitate the introduction of more effective and more efficient countermeasures with regard to potential process and compliance risks, and thus the further development of the existing risk management system.

On 3:

Finally, the existing Group-wide management program was further developed with a focus on compliance, and an incentive program was created on this basis.

MANAGEMENT AND CONTROL STRUCTURE

In accordance with German stock corporation law, Pfleiderer AG has a dual management and control structure. The Executive Board has three members and the Supervisory Board has twelve members. The Supervisory Board is composed of equal numbers of shareholder and employee representatives; the latter include two members of 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. Details of the members of the committees and a description of their activities are provided in the Report of the Supervisory Board of this Group Annual Report.

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

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

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

REMUNERATION REPORT

Performance-related remuneration of the Executive Board

The structure of the remuneration system for the Executive Board is regularly reviewed. In accordance with the provisions of the German Act on the Appropriateness of Management Board Remuneration (VorStAG), in 2009, the Supervisory Board consulted and decided upon Executive Board remuneration for 2009 and 2010. Accordingly, responsibility for this was transferred from the Working Committee, which now prepares the relevant decisions, to the Supervisory Board plenum.

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, measured by EBITDA and ROCE, and include additional long-term incentive components. They 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. This remuneration structure largely fulfills the objectives of the provisions of the law. Irrespective of that and of the fact that all the Executive Board members' contracts of service still provide for a relatively long period of office, the Supervisory Board will deal in 2010 with the details of future remuneration systems.

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

The fixed salary is paid monthly as basic, non-performance-related remuneration. Until further notice, the members of the Executive Board have waived 10% of their fixed salaries. The Supervisory Board approved this waiver in its meeting on December 9, 2009.

Executive Board members additionally receive non-cash benefits, in particular 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), return on capital employed (ROCE) as well as the achievement of personal targets and the performance of the individual Executive Board members.

In 2009, variable components accounted for approximately 42.7% of total income.

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

This remuneration system also applies to Mr. Pawel Wyrzykowski, who was appointed to the Executive Board effective January 1, 2009.

Dr. Robert Hopperdietzel stepped down from the Company's Executive Board of his own accord with effect as of November 15, 2009. Mr. Michael Ernst also stepped down from the Executive Board of his own accord effective at the end of his contractual period of office on January 31, 2009.

Components of remuneration in 2009	Hans H. Overdiek	Michael Ernst	Dr. Robert Hopperdietzel	Heiko Graeve	Pawel Wyrzykowski
Fixed salary	■	■	■	■	■
Variable remuneration					
Consolidated EBITDA	■	■	■	■	■
Consolidated ROCE	■	■	■	■	■
Personal target achievement	■	■	■	■	■

Executive Board remuneration in 2009

The total remuneration paid to the Executive Board (fixed salary plus non-cash benefits plus bonuses) totaled 3,713 thousand euros in 2009 (2008: 3,848 thousand euros). This remuneration for 2009 includes a fixed component including non-cash benefits of 1,995 thousand euros (2008: 1,981 thousand euros). A remuneration review resulted in an adjustment of the target management bonus of Mr. Overdiek as of January 1, 2009. It also took into consideration the contractually fixed commitment of a guaranteed performance-related component for Mr. Graeve and Mr. Wyrzykowski. This guarantee applies only to the first full fiscal year of their current contracts of service.

Provisions for pensions for Executive Board members, former Executive Board members and their surviving dependents amounted to 6,968 thousand euros (2008: 6,123 thousand euros). In 2009, remuneration and pensions were paid to former members of the Executive Board in a total amount of 240 thousand euros (2008: 214 thousand euros).

The following table shows the fixed and performance-related (variable) remuneration components of each individual Executive Board member:

EUROS	Fixed salary including non-cash benefits	Performance-related remuneration	**Total remuneration**
Hans H. Overdiek	788,303	595,776	1,384,079
Michael Ernst (until January 31, 2009)	125,414	28,682	154,096
Dr. Robert Hopperdietzel (until November 15, 2009)	586,540	358,000	944,540
Heiko Graeve	460,181	400,000	860,181
Pawel Wyrzykowski	438,642	336,000	774,642
Total	**2,399,080**	**1,718,458**	**4,117,538**

In connection with his premature departure from the Company and under the agreement terminating his contract of service, Dr. Robert Hopperdietzel also received an amount of 2.75 million euros as one-time compensation for his material contractual claims until the expiry of his original contract period.

An arrangement was made with the Chairman of the Executive Board for the eventuality of a change of control, allowing him the extraordinary right of termination. Beyond the contractual obligations connected with the continuation of the contract, the arrangement does not provide for any additional severance compensation. Furthermore, a stay-on bonus was agreed with the Chairman of the Executive Board with the objective of retaining him at the Company until the expiry of his contract of service.

STOCK OPTION PLAN

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At the Annual Shareholders' 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 are 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 and may be exercised no sooner than three years after being granted. Since SOP 2009, a term of seven years applies to the Executive Board members, whereby the stock options of SOP 2009 may be exercised no sooner than four years after being granted, in line with the German Act on the Appropriateness of Management Board Remuneration. 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.

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As part of Pfleiderer'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, 2009, the members of the Executive Board were entitled to 257,508 options under Stock Option Plan (SOP) 2004, a total of 105,696 options under SOP 2006, a total of 138,388 options under SOP 2007, a total of 531,352 options under SOP 2008, and a total of 101,560 options under SOP 2009.

The following table provides a detailed overview for the individual Executive Board members:

OVERVIEW OF STOCK OPTION PLANS FOR MEMBERS OF THE EXECUTIVE BOARD AT YEAR END 2009

	Number of options SOP 2004	Number of options SOP 2006	Number of options SOP 2007	Number of options SOP 2008	Number of options SOP 2009	**Total number of options**	**Value of options[5] at Dec. 31, 2009 in euros**
Hans H. Overdiek	257,508	93,264	95,440	200,892	50,780	697,884	2,502,844
Michael Ernst[1]	–	–	23,860	100,444	–	124,304	397,880
Heiko Graeve[2]	–	–	–	89,396	–	89,396	253,885
Dr. Robert Hopperdietzel[3]	–	–	–	100,444	–	100,444	285,261
Pawel Wyrzykowski[4]	–	12,432	19,088	40,176	50,780	122,476	532,232
Total	**257,508**	**105,696**	**138,388**	**531,352**	**101,560**	**1,134,504**	**3,972,102**
Lockup period	Sept. 1, 2004 – Aug. 31, 2007	Sept. 1, 2006 – Aug. 31, 2009	Oct. 1, 2007 – Sept. 30, 2010	Oct. 1, 2008 – Sept. 30, 2011	Oct. 1, 2009 – Sept. 30, 2013		
Exercise period	Sept. 1, 2007 – Aug. 31, 2010	Sept. 1, 2009 – Aug. 31, 2012	Oct. 1, 2010 – Sept. 30, 2013	Oct. 1, 2011 – Sept. 30, 2014	Oct. 1, 2013 – Sept. 30, 2016		
Strike price in euros	6.99	19.30	18.86	8.96	6.38		

[1] Left the Company as of January 31, 2009. For SOPs 2007 and 2008, exercise is possible given termination of Executive Board membership with due notice until three months after expiry of the lockup period.
[2] Joined the Company on June 1, 2008; first participation in SOP 2008
[3] Joined the Pfleiderer Group on October 1, 2006; first participation in SOP 2006; left the Company as of November 15, 2009
[4] Appointed to the Executive Board as of January 1, 2009; the options under SOPs 2006, 2007 and 2008 were acquired as an eligible executive of Grajewo S.A.
[5] The value of the options is calculated from the fair values of the individual SOPs when granted.

In 2008, the Supervisory Board approved the Pfleiderer management's participation 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 a longer term. This represents an equity interest in Pfleiderer AG of approximately 1.6%. The shares were acquired either through the stock exchange or off-market. One Equity Partners (OEP), which holds an equity interest in Pfleiderer AG of approximately 23.3% through its subsidiary Wood Engineering Holding B.V., provided the limited partnership with a loan amounting to approximately 3.7 million euros. The remaining 1.5 million euros was provided by the management of Pfleiderer AG as cash or non-cash contribution. The bylaws of the limited partnership stipulate a holding period of four years and ensure that no control is exerted by OEP.

At the balance sheet date of December 31, 2009, the members of the Executive Board held a total of 552,794 shares of Pfleiderer AG and the members of the Supervisory Board held a total of 1,877,468 shares of Pfleiderer AG.

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 in performing their duties. Each member of the Supervisory Board receives annual fixed remuneration of 33,600 euros, payable following the end of the fiscal year. An attendance fee of 1,500 euros is paid per meeting of the Supervisory Board or of one of its committees attended, except for the meetings of the Mediation Committee formed in accordance with Section 27 Item 3 of the German Codetermination Act (MitbestG). Furthermore, annual performance-related remuneration of 150 euros for every euro cent by which the dividend per share specified in the resolution on the appropriation of profits by the Annual Shareholders' 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 those amounts, and those members of the Supervisory Board elected to committees receive 1.25 times those amounts. No remuneration is to be paid for membership in the Mediation Committee formed pursuant to Section 27 Item 3 of the Codetermination Act. If a member of the Supervisory Board performs several of the aforementioned functions simultaneously, his fee shall be based solely on that function for which the highest remuneration is paid.

The total remuneration paid to Supervisory Board members amounted to 678 thousand euros (previous year: 645 thousand euros). Remuneration for 2009 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 for the individual Supervisory Board members:

EUROS	Fixed remuneration including attendance fees	Variable remuneration	Total
Ernst-Herbert Pfleiderer	92,160	0	92,160
Frank Bergmann*	53,850	0	53,850
Dr. Helmut Burmester	53,850	0	53,850
Alfred Dennenmoser*	61,350	0	61,350
Hanno C. Fiedler	67,620	0	67,620
Reinhard Hahn*	38,580	0	38,580
Wolfgang Haupt	63,120	0	63,120
Christopher von Hugo	59,850	0	59,850
Friedhelm Päfgen	38,580	0	38,580
Wolfgang Rhode*	72,120	0	72,120
Manfred Schmidt*	38,580	0	38,580
Dr. Melanie Tuchbreiter*	38,580	0	38,580
Total	**678,240**	**0**	**678,240**

* Employee representative

Pfleiderer Shares

In 2009, stock markets were very much affected by the financial market crisis and share prices were highly volatile. As a meltdown of the global finance system could no longer be ruled out, shares were sold on stock exchanges almost in a state of panic during the first quarter of the year. As, with political support, the financial world began to stabilize, share prices commenced an unexpected and steep recovery in the following months.

KEY FIGURES

		2009	2008
Share price			
Low	euros	2.44	5.30
High	euros	8.26	16.91
Closing price (year end)	euros	6.14	6.60
Number of shares at December 31	shares	53,326,100	53,326,100
Market capitalization at December 31	million euros	327	352
Earnings per share (continuing activities)	euros	– 1.42	0.24
Dividend per share	euros	0.00	0.00
Average number of shares traded daily [1]	shares	182,760	392,500

[1] Per day on Xetra

SHARE DATA

GERMAN SIN 676474	**STOCK EXCHANGES** Xetra, Frankfurt am Main, regional stock exchanges
ISIN DE0006764749	**FREE FLOAT AT DECEMBER 31, 2009** 63%
XETRA SYMBOL PFD4	**MDAX WEIGHTING AT DECEMBER 31, 2009** 0.3469%
	STOCK EXCHANGE SEGMENT Regulated market, Prime Standard

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

SIGNIFICANT SHARE PRICE RECOVERY FOLLOWING COLLAPSE DUE TO FINANCIAL MARKET CRISIS

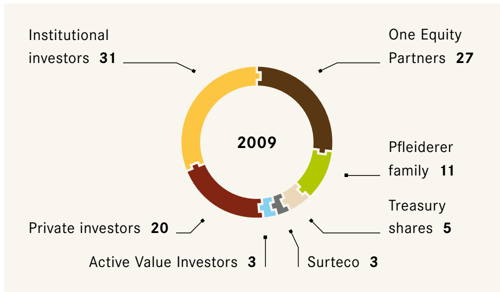
Stock markets featured high volatility of share prices and share indices in 2009, but the year ended much more positively than a lot of market players had expected when it started. As a result of the financial market crisis, most share prices and share indices reached their lowest levels for several years during the first quarter. Due to this overreaction by the market, Pfleiderer's share price too had fallen by about 63% in March 2009 compared to the beginning of the year. The reason was that market players were afraid of disproportionately negative effects of the financial market crisis especially on Eastern Europe, and therefore punished companies with activities in that region much more than others. As fears of a collapse of the global financial system increasingly dissipated, stock markets recovered and Pfleiderer's share price rose again significantly. During the last quarter of the year, a sideways price movement predominated on the stock exchanges. Pfleiderer's share price came under pressure, however, because the negotiations on the Group's refinancing lasted longer than had been expected and the end of the negotiations was not announced until January 11, 2010. Overall, the Pfleiderer share price closed the year with a small decrease of 7%, while the MDAX rose by 34% and the DAX climbed by nearly 24%.

In the MDAX, Germany's mid-cap index, Pfleiderer's ranking in terms of market capitalization fell from 52nd at the end of 2008 to 61st at the end of December 2009. This fall was partially due to the 3% reduction in the free float compared to the end of the prior year. Ranked by liquidity, our position deteriorated from rank 42 to 50. This reflects the significantly lower trading volume of our shares, which almost halved compared to 2008 to just below 183,000 shares per day on Xetra.

PFLEIDERER SHARES AND MDAX INDEXED
January 1, 2009 - January 18, 2010

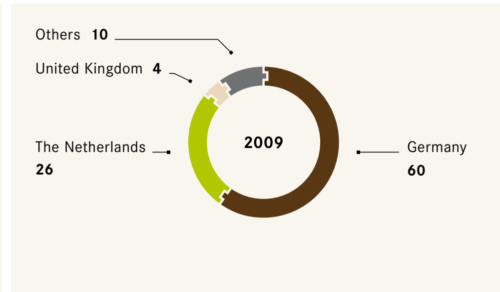
SHARE PRICE IN EUROS

SHAREHOLDER STRUCTURE BY TYPE
IN %



as of December 2009

SHAREHOLDER STRUCTURE BY REGION
IN %



as of December 2009

SHAREHOLDER STRUCTURE AT DECEMBER 31, 2009, STABLE COMPARED TO PRIOR YEAR

The shareholder structure by type of shareholder changed only slightly during 2009. The proportion of shares held by private investors increased by one percentage point to 20%, while the proportion held by institutional investors decreased slightly. There was also hardly any change in regional terms: 60% of the shareholders listed in the share register are domiciled in Germany, just over one quarter in the Netherlands and 4% in the United Kingdom. The number of shareholders also remained unchanged compared to a year earlier at 19,500.

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

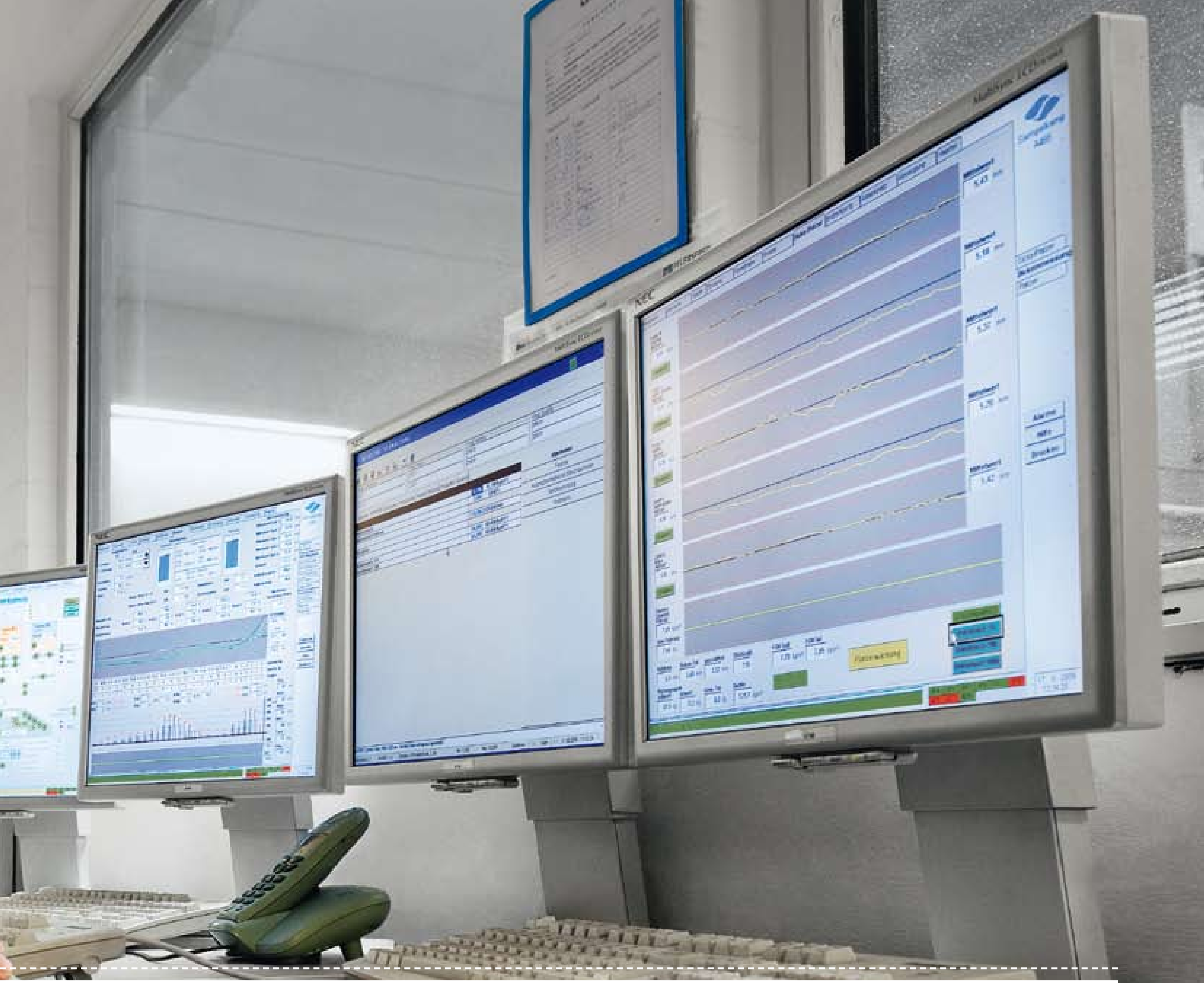
Name	Equity interest in %	Notification date
One Equity Partners	26.90	Sept. 12, 2008
Pfleiderer family	10.27	Oct. 24, 2007
Surteco SE	3.02	Jan. 7, 2008
Active Value Investors	3.07	Dec. 4, 2009

CONTINUING STRONG COVERAGE OF PFLEIDERER SHARES

http://www.pfleiderer.com/en/investor-relations/analysts-opinions-251.html

Despite banks' cost-cutting measures, the number of banks whose analysts regularly follow Pfleiderer shares has not changed and remains at the total of 12. Those analysts' assessments and recommendations can be seen on our website.

In compliance with the German Securities Trading Act, transactions carried out by executives of Pfleiderer AG that are subject to mandatory disclosure are published on our website.



Although they are seemingly simple products, particleboard and fiberboard require a high degree of capital input – and a lot of know-how. From the control room, we regulate such parameters important for the Conti Roll production process as pressure, speed, temperature and resource input. Only the optimal combination of these and other complex metrics allows the production of engineered wood that meets our high demands and fulfills our customers' expectations.

Delivering Added Value – Conquering the Market

Pfleiderer is one of the world's leading producers of engineered wood. We produce a material that has uniform features, good working properties, a favorable stiffness-to-weight ratio, and which offers nearly unbeatable value for money. In addition, there is hardly any other material that has such a positive energy balance and that is produced from renewable raw materials. Due to these advantageous characteristics, engineered wood is used to produce all kinds of furniture as well as in the construction industry.

Engineered wood is an indispensible element of our daily lives. However, a lot of know-how, qualified personnel, high engineering skills and experienced teams are required at each link of the internal value chain in order to successfully meet the daily challenges connected with transforming wood chippings into glossy panels.

The technological development of particleboard started at the beginning of the last century. After the beginning of industrial production in Germany in the nineteen-forties, particleboard started its triumph in this country in the fifties due to its stability and attractive pricing. The fiberboard we know as medium-density or high-density has a rather shorter history. It originated in the United States, where the first fiberboard rolled off the production lines in New York State in 1966. In Europe, fiberboard was first produced in the former German Democratic Republic (East Germany) in 1973.

The basic principles of industrial production of both particleboard and fiberboard have not changed significantly since then. However, there have been several technological quantum leaps, which might not have turned our world upside-down, but which can be described as groundbreaking nonetheless: Because either this fairly mature product gains new features, or the production process is accelerated, or resources can be saved. At times like that, it becomes clear that although particleboard and fiberboard seem to be simple products, a lot of engineering skills go into their production.

GLUES FOR A VARIETY OF SPECIFICATIONS

The properties that engineered wood will later have are already determined by the choice of glue. The development of engineered wood is closely linked with the development of synthetic-resin glues using amino-aldehyde condensation products. The use of this formaldehyde resin on a large scale only became possible with urea synthesis from ammonia and carbon-dioxide. Urea resins are produced by vaporizing watery solutions of urea and formaldehyde.

Formaldehyde is a chemical compound contained in natural wood and which plays an important role as a bonding agent in many industries. The emission of formaldehyde is regulated by statutory limits, which are continually monitored by independent technical institutions, and which are of course adhered to also by Pfleiderer. In Germany, the E1 standard (derived from DIN EN 13986) applies to all kinds of board, limiting formaldehyde emissions by law to a maximum of 0.1ppm (parts per million). If desired by our customers, we can supply board with even lower levels or even fully emission-free board.

Above all due to its excellent properties – but also because of the low price – urea-formaldehyde-resin glues play a predominant role in the production of engineered wood. In Europe, approximately 90% of all board is produced with this type of glue. In its hardened state, it gives particleboard excellent stiffness. But since this bonding is water soluble, urea-formaldehyde-resin glues are not suitable for use where the board is exposed to moisture.

In contrast, melamine-formaldehyde-resin glues are substantially more expensive to produce, but offer good water-resistance. The use of phenol-resins as a bonding agent also leads to a boil-proof bonding of the engineered wood. Their hardening properties are somewhat different, however. Urea resins transfer to their final condition spontaneously at high temperatures, while phenol resins harden over a longer period.

So-called PMDI glues (polymeric-diphenylmethane-diisocyanate) are a relatively recent development. They are free of formaldehyde and can therefore be used in the production of board for the construction industry, fulfilling its high requirements in terms of room climate. PMDI glues consist of highly reactive monomers, which allow particle bonding with good water resistance and stiffness. The high reactivity means that lower quantities of glue are needed and allows shorter press times.

In general, it applies that there is a suitable type of glue with each desired characteristic. As a result, however, the required production conditions are becoming increasingly specific, i.e., the production process has to be adapted to the glue used. Pfleiderer is in a position to produce the types of glue it needs for the production of engineered wood itself. For this purpose, Pfleiderer has a glue factory in Poland and another in North America. On the one hand, this ensures that we have exactly the right quality that we need. On the other hand, as a market player, we have a good overview of current developments – in terms both of prices and of the latest developments.

CHIPPING AND GRINDING – OUR DAILY BUSINESS

Large, small, thick, thin: A lot of the wood used by the Pfleiderer Group for the production of particleboard consists of off-cuts and sawdust from sawmills. This means that we are actually a large recycling company. The wood material arrives at our plants in various thicknesses and lengths. In the chipping process, the wood or the chips are reduced in size. In the milling process, the disc chipper reduces the chips further to the desired size. Even after this process, the woodchips still have various sizes.

Sawdust, whose particles generally have a diameter of less than 0.1mm, is usually assigned to thermal application. Because for the surface layer of particleboard, particles are needed with a diameter of 0.1mm to 1.5mm. In the core layer, coarser chips can be used with a diameter of 1.5mm to 4mm. Any coarser material is fed back into the chipping process.

The production of medium-density and high-density fiberboard is very similar to the production of particleboard – with one crucial difference: Wood is not pulverized into chips and then processed, but ground into fibers. To do so, the wood chips are first put into a kind of oversized pressure cooker in which the wood is softened. In the next stage of the production process, the refiner can then easily separate the wood chips into separate fibers.

We use our wealth of expertise to develop the right mixture of raw materials for each application. In the production process, these “recipes” lead to first-class particleboard and fiberboard – in accordance with the usual standards or with customers’ own requirements.

For the next stage, the fibers have to be dry. All of the moisture is therefore extracted in a rotary dryer. The sifting stage comes next: Coarse and fine fibers are separated and in cleaned to remove any sand or metal particles in a sifter. In particular with the use of recycling wood, there are various cleaning stages between the various processing stages in order to remove unwanted materials.

THE RIGHT RECIPE FOR EVERY APPLICATION

What now follows has genuinely earned the name of “recipe.” Because in the production of engineered wood, every supplier has its own formula, usually based on many years of experience and taking special customer requests into account. The production process begins by checking the weight of the chips or fibers on a belt weigher. Based on the weight, the appropriate specification of bonding components is now sprayed into the mixer. If required, other substances such as fire-inhibiting materials are added, serving to achieve exactly defined and desired characteristics.

The material is subsequently sprayed onto a conveyor belt so that the chips or fibers are distributed over the length and breadth in the desired thickness. For the production of particleboard, the surface layers and core layers are sprayed separately. The cake that has been sprayed out is now baked in the press. Nowadays, so-called continuous presses are mainly used, in which the cake is compressed by two upper and lower steel bands. The height of the upper steel band is variably adjustable. The pressing process thus takes place with various parameters that have a material influence on the product’s characteristics: pressure, temperature and speed.

Density, thickness swelling and tolerance, tensile strength and stiffness, screw-thread tear resistance, shrinkage and swelling properties (dimensional stability), surface absorption and formaldehyde content: These are just a few of the parameters for which there are European standards and which we can define at any time for a given type of engineered wood. For a large proportion of our production, German, European and international standards have to be observed. But we would not be a leading producer of engineered wood if we did not have more to offer. Multifunction panels are a specialty of Pfleiderer. The name gives it away: These are all-rounders in the field of wood construction. The panels consist entirely of long and thin pressed chips, which are random sprayed and glued with high quality melamine-urea resins. Due to their longitudinal and lateral stiffness properties and their high resistance to moisture, these panels are extremely stable and capable of bearing high loads. They are therefore particularly suitable as construction materials for exhibition stands and interior fittings.

Of course, we can also produce our boards so that they are flame resistant. Or antistatic for example, or antifungal, and, and, and so on. But we do not only rely on our old recipes. For many of our major customers, we develop engineered wood with special characteristics that go far beyond any standards. To the benefit of our customers, who can pass on this added value to their own customers. Our cutting service also far exceeds any standards. Because, after our boards have cooled, matured and been sanded to the nearest tenth of a millimeter, we also cut them to customers' specifications, saving them the expense of own sawmills – helping them to save time and money.

DECORATIVE FINISHES FOR EVERY PURPOSE

We generally speak of value-added products when our particleboard or fiberboard leaves the plant surface-finished. Here again, the planned application determines the type of surface finishing: a direct coating for surfaces subject to less wear and tear, and high-pressure laminates for surfaces under more stress.

Particleboard can also be colored: If particleboard is coated with decorative paper that was previously soaked in melamine resin, we speak of melamine-coated particleboard. Under pressure and heat, melamine film bonds directly to the board in a short-cycle press, forming a tough synthetic surface. The furniture industry uses melamine-coated particleboard wherever the surface is not subject to extreme wear – such as kitchen-cabinet fronts and shelves.

High-pressure laminates (HPL) are extremely hardwearing surfaces for the furniture industry and interior fitting. They are used everywhere where surfaces are subject to high levels of wear and tear, kitchen work surfaces for example. With a wide range of decors available, HPL also offers many possibilities for individually designed living rooms.

Pfleiderer produces various high-pressure laminates within the Group itself. Only the printed paper, the so-called decor paper, is purchased from specialist producers. The main carrier material for HPL is usually brown underlay paper, while the decor paper determines the design of the final HPL product. That can be imitation wood or stone for example, but also a fantasy pattern. In an endless process, the decor paper is fed through a resin bath into the drying channel and then cut into separate sheets.

Depending on the desired layer thickness, the required number of impregnated underlay sheets are placed one upon another. Then the decor paper and a transparent and impregnated sheet of overlay paper are applied as protection. The impregnating material for the underlay paper and decor paper are fed into the press, where a laminate sheet is created through the effects of pressure and temperature. Finally, a metal structure sheet is part of the press procedure to create the desired texture and appearance of the HPL surface – from high-gloss to matt. HPL is now a finished product and is either processed further or sold.

In the case of further processing, the laminate sheets are glued onto particleboard and conveyed into the press, where the glue quickly hardens under pressure and at a high temperature. The overlapping laminate is heated to bend it around the profiled edge of the particleboard (postforming) and then glued. A special hot-melt adhesive seals the butt joint between decor and laminate. The HPL element is now waterproof and ready for use. In addition to the aforementioned kitchen counters, window sills or front and combination elements are other possible applications of our HPL panels.

LAMINATE FLOORING FROM ITS INVENTOR

The laminate flooring produced by Pergo also offers a high level of added value. Pergo has been part of the Pfleiderer Group since 2007 and is regarded as the inventor of laminate flooring. A laminate floor has to put up with some punishment during its lifetime. To make sure it stays in shape and does not become scratched or stained, great care has to be taken in production and the state-of-the-art technology has to be applied.

Every layer in laminate flooring has a job to do. The decorative layer, which consists of several paper sheets soaked in resin, gives the floor its own individual decorative appearance. The top layer, the overlay, provides stability and the required protection. As this surface has to be extremely hardwearing, it is coated with wear-resistant melamine resin. The carrier material in the middle of the melamine sandwich consists of pressure-resistant engineered wood – usually high-density fiberboard, which Pfleiderer produces itself. The bottom layer serves as insulation. In a large press, all of these layers are fused together under high pressure and at a very high temperature.

There are two different methods of pressing: DPL (direct pressure laminate) and HPL (high pressure laminate). With the DPL variant, all layers are fused together at the same time. With HPL, first the decorative paper and overlay – the top two layers, that is, are pressed together with a special core paper. After that, this combined layer is fused to the carrier material in the press in the same way as the HPL coating for particleboard.

After being pressed, the laminate is cut into planks ready to be laid. The latest technology allows maximum precision. The more precisely the machine works, the more exactly and easily the planks can alter be laid – which avoids unsightly gaps. The planks are now packed and stacked on palettes ready for delivery. Depending on design, taste and intensity of use, our laminate flooring is used in shops, public buildings and homes.

MORE THAN MARKETING – OUR BRAND-RELATED SERVICE

With our unique technologies and innovative approaches to customers' needs, we deliver genuine value added. This sets us apart from the competition. However, we also know that mature production processes and first-class products are not sufficient to guarantee market success. This is why we have deployed marketing experts at our various locations. Because it is only possible to develop an instinct for customers' needs and desires, and which unusual requirements they might have, by maintaining a local presence.

This is why Pfleiderer operates in the markets of Western Europe with several different brands. Because a large furniture manufacturer places different requirements on its suppliers than a local joiner, for example. And an interior designer needs different advice than a builder of prefabricated houses. But the most important factors are quality, reliability of supply, partnership and dependability: We see these factors as integral components of our internal value creation. And this is another way in which we differentiate ourselves from our competitors.

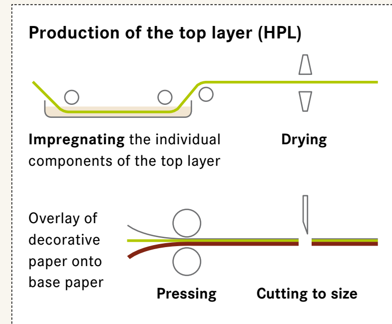
DIAGRAMMATICAL DEPICTION OF LAMINATE PRODUCTION

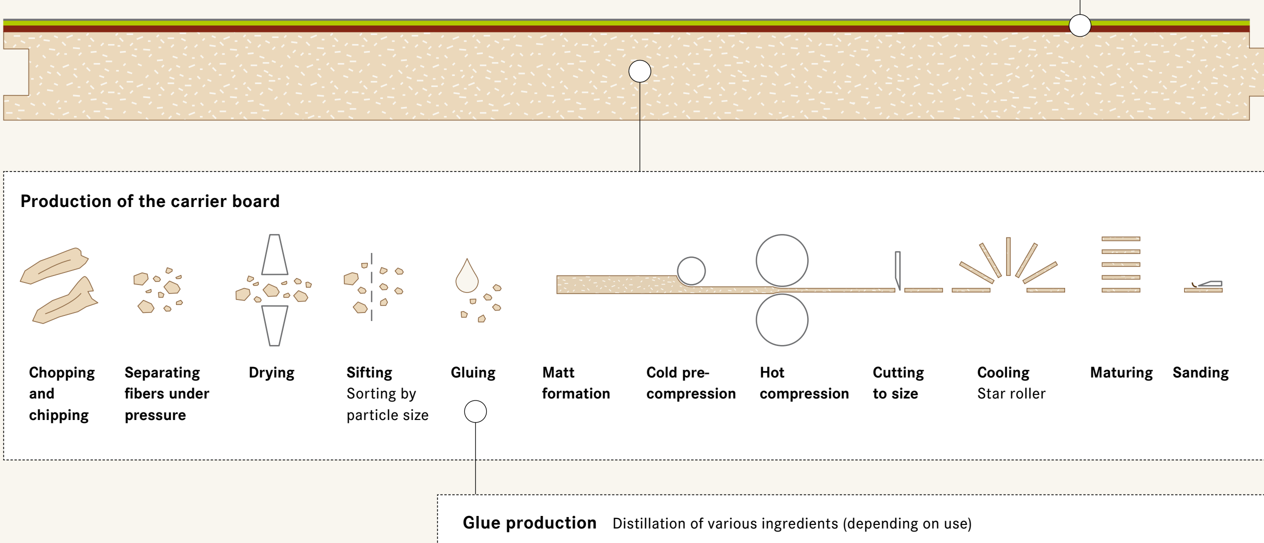
Panels for laminate flooring represent the maximum depth of added value at Pfleiderer – at this, we cover all of the processes necessary for production. This diagram serves to provide a rough overview of the various stages of those production processes.

1. Compression
The top layer and the carrier board are bonded with each other under great pressure and at tremendous temperature.

2. Routing
The latest technology allows the utmost precision in routing the ready-to-lay panel dimensions.

3. Packing
The planks are now packed and stacked on palettes – they are ready for delivery.





From high-gloss to matt – our surfaces fulfill the highest demands. Because we produce them ourselves, we can react very flexibly to our customers' requirements. Not only in terms of designs, but also of short-term and extremely urgent orders. But despite this speed, we do not allow ourselves any shortcuts on quality; because it is difficult to win back a customer who has been disappointed. This is why we emphasize reliability and take the utmost care with all of our products.

COMBINED MANAGEMENT REPORT OF THE PFLEIDERER GROUP AND PFLEIDERER AG

Economists and most companies were surprised by the severity of the financial market crisis and its effects on business activity. At Pfleiderer, strategies were reviewed and measures were initiated. Pfleiderer's long-term strategy was not questioned, but the focus shifted to cost and cash management, the balance sheet and financing, as well as capacity management. We reacted at an early stage and started programs to reduce costs, because in our industry low variable costs are the crucial factor for competitiveness. Compared to its competitors, Pfleiderer made progress and moved up to position number 2 worldwide in terms of utilized production capacity. Demand for our products reached its lowest point in summer 2009, but has recovered again slightly since then. The 20% revenue decline experienced in 2009 to 1,382 million euros is not the consequence of structural changes in our business model, but a substantial cyclical market exaggeration, which was intensified by exchangerate distortions and sharp falls in prices. EBITDA before restructuring costs nearly halved to 118 million euros compared to the prior year. For a return to comfortable margins, we need not only additional cost adjustments, but also an ongoing revival of demand with capacity adjustments in the industry, in which significant capacity shut-downs have already taken place. However, this is not yet sufficient in all regions to bring supply and demand back into equilibrium. Competitors are currently discussing further plant closures.

Business and Operating Environment

GROUP STRUCTURE AND BUSINESS ACTIVITIES

The Pfleiderer Group has specialized in the production and marketing of engineered wood since 2003, and has consistently expanded in recent years by systematically establishing ultra-modern plants in growth regions as well as by making targeted acquisitions. With consolidated revenues of 1.4 billion euros and approximately 5,600 employees, Pfleiderer is one of the world's two leading system suppliers of engineered wood. The product range encompasses PARTICLEBOARD and medium- and high-density FIBERBOARD (MDF/HDF), also with surface finishes, as well as laminate flooring.

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Pfleiderer aims to be one of the top three suppliers in each of its regional markets in terms of market share and production capacity. Pfleiderer has already attained this position in Western Europe with production facilities in Germany and Sweden, in Eastern Europe with plants in Poland and Russia, and in North America with production sites in the United States and in Canada. The Pfleiderer Group now generates approximately 72% of its revenues outside Germany.

Today, 26 Pfleiderer plants supply customers in more than 80 countries. Pfleiderer is a preferred partner to the furniture industry, which accounts for about 33% of Group revenues. Pfleiderer also serves the wholesale market segment, which has a similar share of revenues at roughly 32%. In addition, Pfleiderer products are sold to home-improvement stores, the flooring industry, retailers as well as architects and interior designers.

The Group's legal structure

Pfleiderer is managed as a strategic holding company with independent business centers, which in turn are divided into business units. The business centers correspond with the regions Western Europe, Eastern Europe and North America. A list of main subsidiaries is included in the notes to the consolidated financial statements.

Divisions and organizational structure

Purchasing and sales markets with a strong local character require customer proximity and flexibility on the spot. All Pfleiderer locations are therefore assigned to the aforementioned business centers as regional organizational units, which are operationally independent and bear full responsibility for revenues and earnings. The Western Europe region operates ten plants at eight sites in Germany as well as two plants in Sweden. There are five plants in the Eastern Europe region and Pfleiderer operates nine production plants in the North America region, the tenth started operation in the first quarter of 2010. An overview of the plants' locations can be found in the folding cover of this Annual Report, as well as on the Internet.

Areas of application for engineered wood

The engineered wood produced by Pfleiderer can be divided into three main categories: particleboard, medium- and high-density fiberboard (MDF/HDF) and laminate flooring.

Raw particleboard is highly versatile as a carrier material and construction material and therefor is used in the furniture industry as well as in interior fittings such as wall and ceiling cladding. Particleboard is easy to work with and upon request can also be supplied in special formats and thicknesses. If raw particleboard is coated with decorative paper that was previously soaked in melamine resin, one speaks of melamine-coated particleboard. Under high pressure and temperature, the melamine film is bonded directly with the board in a short-cycle press and in this way forms a hardwearing synthetic surface. The furniture industry applies melamine-coated particleboard everywhere that it is not subject to strong abrasion, such as kitchen-cabinet doors or shelves.

High pressure laminate (HPL) is an extremely hardwearing surface for the furniture industry and interior fittings. It is used everywhere that surfaces are subject to particularly intensive use. One example for the application of HPL is kitchen work surfaces. A wide selection of decorative finishes with HPL opens up many possibilities to design living space individually.

Tongued and grooved raw particleboard is frequently used as the base surface for carpets and other types of floor covering. When the tongued and grooved connections are glued, the surface is virtually joint-free, which is ideal for laying the floor covering. This type of particleboard is also suitable for cladding or strengthening walls, ceilings and roof surfaces.

Multi-function panels (MFP) are variously used in wooden construction. The panels consist of long and thin pressed chips, which are spread randomly and glued with high quality melamine-reinforced urea resins. Due to their high longitudinal and lateral stiffness and their good moisture resistance, these panels are extremely stable and capable of bearing high loads. They are therefore particularly suitable as construction materials for trade-fair stands and interior fittings.

Pyroex panels are hardly inflammable engineered wood and combine all the advantages of particleboard such as high stiffness and versatility for decorative coatings with additional safety in the case of fire. Primary areas of application include interior cladding of public buildings as well as rooms with a high fire danger such as laboratories, filling station sales areas and television studios.

Medium-density fiberboard (MDF) is the ideal material for creative interior designers: Its finer surface texture is suitable for many design possibilities and makes MDF the main type of board when appearance is important. The coating on MDF is even, of high quality and makes the decorative effect even more expressive. Instead of wood chippings as with particleboard, wood fibers are used to make MDF. This gives the board a homogeneous, uniform structure and a very smooth surface. More over, MDF is heavier than particleboard as it has a higher density. Due to these material properties, MDF is highly suitable for three-dimensional furniture fronts as well as for painted or high-gloss surfaces.

Laminate flooring is a floor covering consisting of several layers. The surface of laminate flooring is produced with the help of multi-layer technology at high temperatures and under high pressure, resulting in a hardwearing, stable surface. The specially developed, moisture-resistant HDF carrier material forms the core layer. The third layer is an insulating base layer, which is directly bonded to the underside of the panel on which the laminate is fixed. Apart from bathrooms and rooms with a floor drain, laminate flooring can be laid quickly and easily in all types of rooms and also on stairs. Due to the integrated insulating layer and the panels' glue-free click locking, do-it-yourself enthusiasts can lay laminate flooring with no trouble. And due to the strong and precise connections, dirt cannot penetrate the joints, making the floor very easy to clean.

Strong competitive position in three key markets

In order to reduce dependence on the economic cycles of individual regions, Pfleiderer has spread its business activities over three regions. Due to very different developments in these regions, however, the regional weighting shifted compared to the prior year. The most important sales region by far is Western Europe with 52.0% of Group revenues, although the region lost some of its relative importance (2008: 53.4%). In particular, the revenues generated in Eastern Europe declined significantly due to disadvantageous exchange rate developments and accounted for only 19.9% of Group revenues, compared with 23.7% in 2008. The development of revenues in the North America region was relatively stable, with the result that its share of the total increased from 22.9% to 28.1%.

In each of the three markets it serves, Pfleiderer aims for a position among the top three suppliers. In our core market, Germany, we are the undisputed leader for particleboard and the fourth-largest supplier for MDF, but hardly smaller than the market leader. In Poland, depending on the product, Pfleiderer is in either first or second position, and we are also the market leader in our market in the northwest of Russia. In the North East American market, we see Pfleiderer as the third-largest supplier of particleboard and the second-largest of MDF. With laminate flooring, we have gained significant market share in North America in the past two years through the acquisition of Pergo, and are now the market leader by a significant margin.

Special features of the engineered wood industry

Engineered wood may seem to be a simple product, but its production process certainly is not. The complexity of the production process is described in the chapter of this Annual Report entitled "Delivering value added". The engineered wood industry features a very high level of capital intensity, reflected by investment costs of 150 million euros and more for a production plant. This is why the degree of capacity utilization and a balanced supply and demand structure play such an important role for profitability. Due to the complexity of the production plants, the planning process and the establishment of a new plant take approximately three years. Although the products are standardized to a great extent, wide-ranging production expertise is required to achieve a competitive cost position. By means of process controls which optimize the use of materials and throughput times, it is possible to achieve overall production costs lower than the competitors. Economies of scale are another factor for success, i.e., the size of the production facilities: Large plants are more efficient than small ones and a production network of large plants allows further savings in terms of distribution and purchasing, for example. And this applies not only to raw materials, but also to production equipment, spare parts and maintenance. Raw materials play a very important role, accounting for 50 to 60% of total costs. As we mainly process scrap wood (see environmental report), whose value is low in relation to transport costs, the plants must be located close to suppliers of raw materials such as sawmills and forests. Wood is generally sourced within a radius of 200 kilometers around a plant. The radius of sales operations is generally limited to a few hundred kilometers; the product-specific transport costs would otherwise reduce our margins unacceptably. This means that sales markets are also largely characterized by local competitive factors. Only a few products such as HPL or laminate flooring can be sold worldwide from one plant.

The market for engineered wood is dominated by a small number of large operators. Pfleiderer is today number 2 in terms of utilized production capacity.

MANAGEMENT AND CONTROL

The Executive Board of Pfleiderer AG was composed of four members until November 15, 2009. Upon the departure of Dr. Robert Hopperdietzel, responsibilities were redistributed within the Executive Board, which has consisted of three members since then. In addition to their functional duties, some members of the Europe have been assigned responsibility for one or two regional corporate units. The responsibilities of the members of the Executive Board are described in this Annual Report in the report of the Supervisory Board.

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

In the statement of corporate management and the corporate governance report, which is also part of this Annual Report and can be accessed on the Internet, the system of remuneration of the Executive Board and the stock option plan is described, and the declaration of compliance is presented in its full form.

Management, Goals, Strategy

INTERNAL MANAGEMENT SYSTEM

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 EBIT, EBITDA and ROCE. These key figures apply throughout the Group, serving equally as planning and management tools with the application of standard systems.

The best-practice system implemented throughout the Group is another management tool. Efficiency and productivity are continually improved by systematically transferring know-how and comparing and analyzing the differences between the plants. In addition, Pfleiderer aims to operate the broadest possible cross-functional network to utilize synergies and generate economies of scale.

Goals for 2009	Goal accomplishment in 2009
Improve relative competitive position	From third to second place in terms of installed production capacity
Reduce costs by 80 million euros	Costs reduced by more than 100 million euros
Put new plant in Moncure, NC, USA, into operation in Q4 2009	Went into operation later in Q1 2010

Expectations and planning for the coming year are based on indicators for the construction industry such as number of building permits, which are usually granted about a year before a building is completed. Home completions correlate to a high degree with furniture sales, one of our most important markets. The development of private consumption also plays a decisive role in determining the demand for our products. House refurbishment activity is generally a good indicator of demand for laminate flooring. For our mid-term planning, we make use of trend growth in our markets and forecasts for the development of populations and disposable incomes. Market analyses and studies of the engineered wood industry also support the planning process.

STRATEGY

The strategic goal of the Pfleiderer Groups is to continually expand its leading international market position, defend its cost leadership, generate an appropriate return on shareholders’ capital over the long term, and to remain an attractive employer. We want to be the most competitive supplier of engineered wood and to emerge strengthened from the cyclical low. The focus of tactical targets can be set with consideration of external factors such as economic cycles. Thus, in the current economic situation, cost and cash flow management and strengthening our financial position take priority over growth targets.

Our corporate strategy is based on cost controls, differentiating ourselves from the competition, risk controls and growth. Key criteria for Pfleiderer’s success are advanced technology, customer focus to set us apart from the competition, and growth based on our competitive advantage.

Cost leadership is a key competitive advantage given the relatively standardized products. It allows us to sell our products at competitive prices while achieving the best possible margins. Our size and internal benchmark processes help us to identify possibilities for improving cost efficiency and to implement them quickly throughout the Group. Large plants and higher output reduce our production costs per unit. Our biggest plants ("mega sites") in Grajewo (Poland), Novgorod (Russia) and Moncure (North Carolina, USA) are exemplary responses to this challenge.

Although we mainly produce commodities i.e., standardized products, we do not sell them solely in terms of the price: Our customers expect us to process their orders with a high degree of flexibility, that our quality is superior to that of our competitors, and that we always deliver reliably and often within very ambitious deadlines. In order to **differentiate ourselves from our competitors**, we adapt our products to specific customer requirements and also provide additional services such as just-in-time concepts, advice on decorative surfaces, cutting to size, or other individual customer specifications. We have developed and applied some of the most advanced production methods in our industry. This allows us to produce a wide range of high quality products – both standardized and customer-specific solutions. At the same time, we are able to keep production costs at low levels. Furthermore, our focus on high-end and high-growth customers allows us to develop high quality products and additional services that set us apart from the competition and make us a preferred supplier.

As a result of our **regional diversification strategy**, we are one of the few companies in the industry with a global reach. We are able to serve our customers in very different markets and nearly all over the world. In this way, we can compensate for cyclical fluctuations and avoid dependency on individual markets.

We make use of **growth opportunities** on the one hand by increasingly investing in regions where the population has growing disposable income (Eastern Europe), where the population is growing (North America) or where our engineered wood has great potential to replace other, more expensive materials such as solid wood or plywood (North America, Eastern Europe). In addition to the afore-mentioned goals, we utilize growth and cost opportunities by increasing the value-added depth of our production process. Through the acquisition of Pergo in 2007, we expanded our product range and added laminate flooring to our existing engineered wood offering. This increased the value-added depth of our MDF/HDF products and made good use of synergies.

However, the utilization of production capacities is also important for profitable growth in our industry. This is why Pfleiderer decided in spring 2009 to suspend production at its smallest and least efficient particleboard plant in Gschwend, Germany, with the help of short-time work. If one adds the plant closures by competitors, more than half of the unused capacity in Central Europe has already been taken out of the market. Most of these plants are already in the stage of final disassembly and will not return to production. We assume that more of our competitors' inefficient plants will be finally closed down during the year 2010, thus bringing supply and demand closer to equilibrium in Central Europe. In Eastern Europe, the problem of excess capacity has been relatively small and according to current estimates will be eliminated by natural market growth during 2010. The North American panel market features many small and often inefficient producers. We anticipate further consolidation also in this market. The driver of this market consolidation is the cost position of the various plants. During the crisis, when product prices tend to fall to the level of the variable costs of the most efficient supplier, the plants with high levels of costs are the first to come under pressure. According to a survey carried out in summer 2009, most Pfleiderer plants are among the most efficient plants within their regional sales areas and can therefore profit from this cutthroat competition.

Overview of Business Development

ECONOMIC SITUATION

In 2009, nearly all our sales markets experienced the worst recession of the postwar period. With a probably reduction of GDP of 5.0% compared to the prior year, the German economy had its worst year since the great depression of the nineteen-thirties. This slump was primarily caused by the sharp contraction of world trade, which had a particular impact on the German economy with its high dependence on exports. According to initial estimates, economic output in the United States shrank by 2.4% last year, in Canada by 2.6% and in Russia by 8.6%. Russia suffered in particular from the fall in raw material prices. Within Europe, only Poland was able to buck this trend, with positive economic growth of probably 1.7%. In Eastern Europe, however, currencies depreciated substantially. The Polish złoty, an important currency for Pfleiderer, fell by 23% and the ruble by 21% against the euro.

Due to the meltdown of banks' equity capital base, the banking sector has restricted its lending policy, significantly raising interest rates on loans to companies, and the financial market crisis has had an impact on the other sectors of the economy. Companies intensified the crisis by reducing inventories to an unprecedented extent in the first half of the year and through their very hesitant investment policy. As a result of state support action for the banking sector and deficit-financed spending programs, the freefall of economic output was halted and there were already the first sings of recovery in some markets in the summer of 2009. In the United States, the real-estate market, which triggered the crisis in the first place, stabilized again and numbers of residential building permits are increasing again. However, the need for reductions in government deficits and corporate debt in many parts of the western world and the ongoing need for the recapitalization of the banking sector mean that only moderate growth rates can be expected for the foreseeable future.

DEVELOPMENT OF THE INDUSTRY

Compared to the prior-year period, the German engineered wood industry recorded a 17.5% drop in revenues in 2009, which is unusually severe in historic terms. This decrease was intensified to a certain extent by the government's car scrappage scheme. The state incentive program shifted private households' consumption patterns in favor of the automotive industry with its strong lobby, and thus intensified the revenue decline in the furniture industry. Whereas sales of furniture remained almost unchanged in Germany during the recession of 2003, in 2009 they fell by 11.5%. The revenues generated by the kitchen sector, which is also important to Pfleiderer, fell by 9.2%, while office furniture sales were down by 15.6% and home furniture sales fell by 11.1%. The resulting lack of capacity utilization in the engineered wood industry led to significant excess capacity and sharp price falls. During the year, production capacity of more than one million cubic meters was finally closed down. According to IFO, a German economic research institute, the furniture industry's business expectations improved significantly during the second half of 2009. Another positive aspect is that the numbers of building permits have been rising again since June 2009, which usually leads to an increase in demand for furniture with a time lag of about one year. Business expectations in the wood sector also improved noticeably in the second half of 2009, and have been positive gain since January 2010.

The North America market for engineered wood 2009 was again in a difficult environment in 2009, when the anticipated recovery failed to materialize. According to RISI, an information service that specializes in the North American engineered wood industry, new construction work was nearly 40% lower than in 2008 and only about a quarter of the peak level reached in 2006. Furniture production also decreased again compared to the prior year by approximately 20%. As a result, demand for particleboard in North America declined by approximately 24% and demand for MDF by 16%. In the southeast of the United States, particleboard prices fell by about 11% and MDF prices by about 6%. For 2010, RISI anticipates an increase in house building again with corresponding positive effects on the furniture industry and on sales of particleboard and MDF.

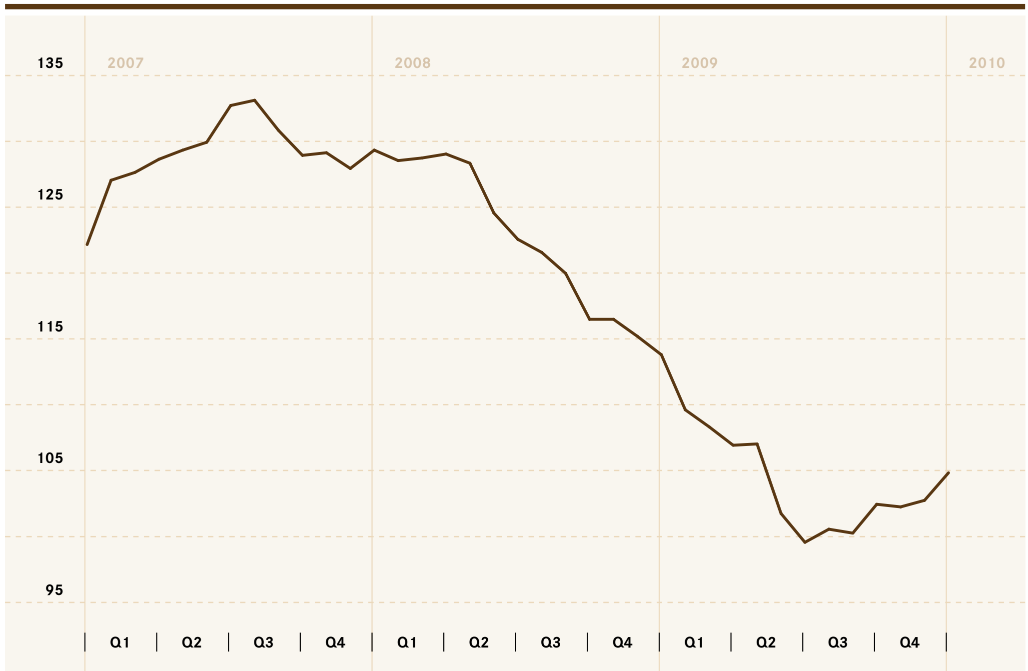
The Eastern European engineered wood markets held up better in terms of volumes than our other two sales regions. In Poland, sales of raw particleboard, surface-finished particleboard and laminated HDF decreased by approximately 4% in 2009 compared to 2008. Sales of kitchen work surfaces and raw HDF each fell by 5%. In some Eastern European export markets which play a significantly less important role for us than Poland, demand fell by 20 to 40%. Raw particleboard prices in Poland were down by 12% compared to the prior year, while prices of surface-finished particleboard fell by 10% and laminated HDF by 15%. Prices of kitchen work surfaces and HDF were much more stable, with little movement compared to the prior year. In Russia, the sharp drop in demand at the end of 2008 and beginning of 2009 led to particleboard prices falling by 20 to 25%.

RAW MATERIAL PRICES AND SELLING PRICES

Raw materials play a crucial role, accounting for 50 to 60% of total costs. The cost of wood is the biggest factor, accounting for approximately 40% of raw material costs, followed by glue at approximately 25%. Wood prices remained fairly constant during the first half of 2009, but increased significantly in the second half of the year. This was a result of the hard winter, lower felling activity and the sharp rise in the use of wood as a fuel to generate heat and power. Glue prices, however, continued to fall into the summer and then also rose in autumn. Glue prices tend to follow the oil price with a time lag of about six months.

Selling prices for particleboard in Germany declined until the summer, falling for a while for individual orders to the level of the variable costs of the most efficient producers. Since then, they have increased again slightly, but still not sufficiently to cover costs for all plants operating in our industry. Prices for MDF decreased continuously for most of 2009, and then stabilized at the end of the year.

RAW PARTICLEBOARD GERMANY
Price index 2005=100



Source: Federal Statistical Office

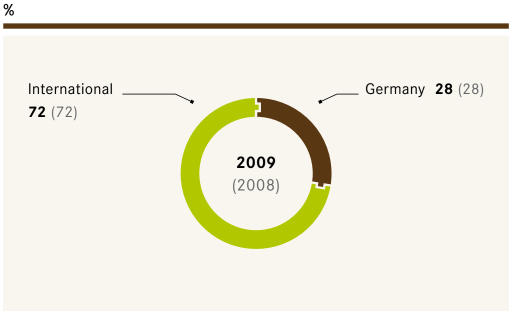
Revenues and Earnings

The financial crisis that started in 2008 continued in 2009 and also had an impact on demand for engineered wood. Our worldwide revenues decreased compared to the prior year by 20.4% to 1,381.5 million euros. Of this revenue decrease, a good 3% is due to exchange rate movements and about 7% was caused by price falls. Prices fell the most sharply for raw particleboard, while prices of surface-finished panels remained more stable. In the last quarter of 2009, there was an upturn of prices of raw particleboard in Europe, however. This was partially due to advancing capacity adjustments in Europe as well as rising demand. Unit sales of all types of board fell by a good 11% in 2009, whereas unit sales of laminate flooring remained fairly flat. Raw particleboard was hit the hardest, with a drop of nearly 16% by volume; surface-finished board performed a little better at minus 11%, while unit sales of MDF/HDF even increased slightly. Demand from individual customer sectors varied only slightly. The fall in demand was most pronounced from the flooring industry, while demand from home-improvement stores remained fairly stable. The proportion of revenues generated outside Germany was the same as the prior-year level at 72.2%.

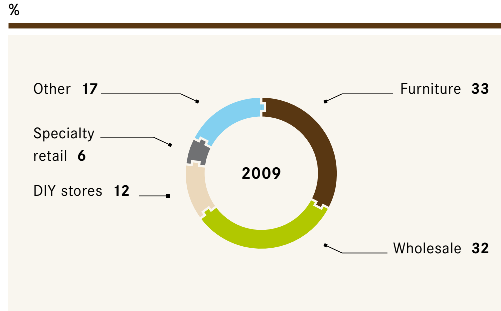
The **gross margin** of 24.2% was close to the prior-year level of 25.1%. Gross profit of 334.7 million euros was affected by one-time charges of 2.9 million euros and by the release of provisions for patent risks of 10.0 million euros. Lower sales volumes and reduced prices were partially offset by actions taken to cut costs. As a result of various measures, cost savings of more than 100 million euros were achieved last year. The biggest contribution came from the Purchasing department; in addition to the generally lower raw material costs – in particular for glue, glue input materials and additives – Purchasing also achieved structural and thus permanent cost reductions. Prices of chemicals and glue, which are affected by oil prices after a certain time lag, were approximately halved in summer 2009 compared to the peaks of the year 2008. During the last quarter of 2009, however, an upturn in both glue and wood prices was apparent. The hard winter made felling work more difficult and low levels of construction limited sawmills' activities. Furthermore, as a result of the frosty temperatures, energy consumption increased, in particular for wood drying.

Falling unit sales led to a significant reduction in plants' utilization of capacity, which has improved again significantly since September, however. We counteracted the insufficient capacity utilization by

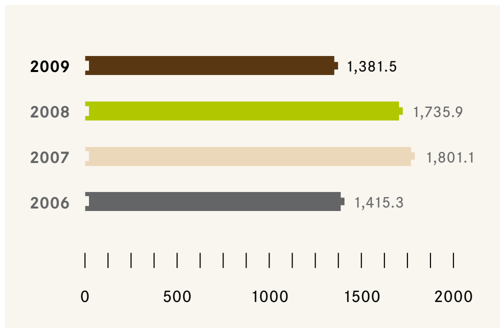
SHARE OF REVENUES
%



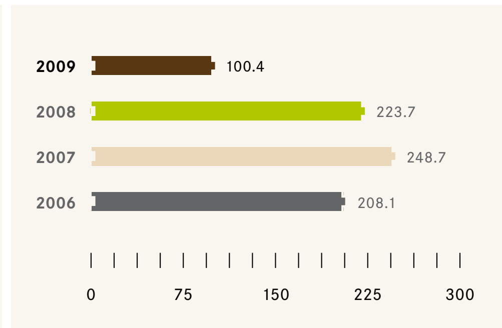
SHARE OF REVENUES BY INDUSTRY
%



REVENUES
MILLION EUROS



EBITDA
MILLION EUROS



reducing overtime and the deployment of temporary workers as well as by the selective introduction, depending on the order situation, of temporary short-time working in some plants. At the end of the year, only the Gschwend plant was still affected by short-time working.

As a result of the lower unit sales, selling expenses fell compared to the prior year by 10.5% to 200.0 million euros. Administrative expenses of 121.3 million euros remained close to the prior-year level of 122.4 million euros. The balance of other operating income and expense was a net expense of 26.8 million euros, which included restructuring costs of 17.5 million euros, unplanned depreciation and impairments of land and buildings of 6.7 million euros and provisions for legal disputes.

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EBITDA before restructuring expenses fell to 117.9 million euros from 223.7 million euros in 2008. As a result, the unadjusted EBITDA margin was 8.5% (2008: 12.9%). Exchange rate effects reduced EBITDA by 7.4 million euros. After restructuring expenses, EBITDA amounted to 100.4 million euros. The restructuring measures primarily related to staff reductions in the Western Europe region as well as other programs for optimizing fixed costs.

Personnel expenses of 256.6 million euros were 1.4% lower than in 2008 (260.2 million euros).

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EBIT includes restructuring expenses and one-time charges of 24.3 million euros, and fell to minus 16.1 million euros, compared to plus 97.6 million euros in 2008. Depreciation and amortization totaled 116.5 million euros. This includes unplanned impairments of land and buildings of 6.7 million euros in connection with the aforementioned restructuring measures.

The net financial expense of 48.8 million euros was significantly lower than the prior-year net expense of 80.0 million euros, and reflects the reduction of 2.7 million euros in the net interest expense due to the generally lower level of market interest rates and exchange rate effects, as well as breakeven on other financial income/expense. In 2008, other financial expense amounted to 28.4 million euros.

The result of continuing operations before income taxes was thus a loss of 64.9 million euros, compared to a profit of 17.6 million euros in 2008. The balance of tax payments and tax income recorded as a result of recognizing tax-loss carryforwards at our subsidiary Pergo was tax income of 8.2 million euros. The **loss for the period** (including discontinued operations) amounted to 56.7 million euros, compared with a profit for the period of 28.8 million euros in 2008.

After deducting the loss attributable to minority interests and hybrid capital investors, the loss attributable to the shareholders of Pfleiderer AG amounts to 69.8 million euros, compared to a profit of 5.8 million euros in 2008. Although the Company has decided to utilize the option of omitting the payment of interest due on the hybrid bond on August 14, 2009, profit attributable to the hybrid capital investors is still recognized in the income statement because those investors continue to be entitled to the subsequent payment of the interest under the terms and conditions stated in the prospectus. A liability in that amount has been recognized in the balance sheet. By deferring the interest payment, the Company is avoiding a cash outflow in the currently difficult market situation.

Basic and diluted **loss per share** from continuing operations amounted to 1 euro and 42 cents, compared with earnings per share of 24 euro cents in 2008.

Financial position

The most important objectives of financial management at Pfleiderer AG include safeguarding liquidity and financial flexibility. A broad range of financing instruments is applied to meet these requirements. An additional goal is to secure a diversified pool of creditors and investors, particularly in the currently difficult environment for corporate finance. Borrowings are undertaken with the longest possible maturities. The Company maintains a balanced ratio between equity and borrowed capital. Pfleiderer is with 32.0% well above the average equity ratio of German companies, as calculated at 24.8% by the Bundesbank in a special publication in November 2009, and this balance sheet ratio gives Pfleiderer a sound basis for its course of profit-oriented growth.

Current financing requirements are covered by a combination of cash flow from operating activities and borrowing. In addition to conventional bank credit, Pfleiderer also makes use of instruments such as syndicated loans, corporate bonds, leasing, the sale of receivables in the framework of ABS transactions, and commercial papers. The average interest rate was approximately 5.0%.

In the second quarter of 2009, Pfleiderer breached certain financial covenants that had been agreed with banks for certain loans. As a result, the conditions for the Group's financing had to be renegotiated. These negotiations were completed at the beginning of 2010 and now secure Group financing of approximately 800 million euros for Western Europe and North America (including a new credit from Germany's KfW bank of approximately 140 million euros) and 300 million euros for Eastern Europe. This financing is available to the Group until the end of 2013 and is linked to the fulfillment of the usual financial covenants such as interest cover and gearing. The so-called net leverage covenant – the ratio of net debt to EBITDA – has been suspended for the year 2010. An additional factor is that the interest expense can increase if the covenants are not fulfilled. For the coming years, the interest margin on top of the applicable market interest rate will depend on the level of the net leverage covenants. However, the costs of financing in 2010 are likely to be higher than in 2009 by a low double-digit million euros amount. We therefore intend to take various measures to reduce the Company's level of debt in the coming years. This includes the sale of treasury shares which already took place in January 2010, the capital increase we carried out in February 2010, the planned sale of activities not essential for our core business operations, and above all the cash flow from operating activities anticipated as of 2011.

Pfleiderer uses derivative financial instruments exclusively to hedge currency and interest-rate risks from operating activities. Currency futures are primarily applied 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 exposures that are already recognized as well as future exposures if their occurrence is sufficiently likely. More information on derivative financial instruments is provided in the notes to the consolidated financial statements.

KEY FINANCIALS

	DEFINITIONS		2009	2008
Net debt	Financial liabilities – Financial receivables – Cash and cash equivalents	million euros	854,2	635,5
Leverage	Net debt: EBITDA	factor	8.5	2.8
Equity ratio	Equity: total assets	%	32.0	37.7
Gearing	Net debt: Equity	%	135.2	89.4
Capital employed	Net working capital + Net assets	million euros	1,476.6	1,357.6
Return on capital employed (ROCE)	EBIT: Capital employed	%	– 1.1	7.2

CASH FLOWS

Operating activities resulted in a net cash outflow of 13.7 million euros in 2009, compared to a net cash inflow of 228.4 million euros in 2008. This was primarily due to the 113.7 million euros reduction in EBIT and the decrease in current liabilities (excluding financial debt) of 77.8 million euros. The latter mainly reflects the reduction in trade payables of 54.9 million euros.

CAPITAL EXPENDITURE

Capital expenditure including advance payments made decreased in 2009 compared to the prior year by 0.6% to 157.7 million euros, and was thus still significantly higher than depreciation and amortization. 16.6 million euros of the total was invested in the Western Europe region. 101.1 million euros was invested in North America, most of which was for the development of the MDF plant in Moncure, North Carolina, USA. Due to difficult ground conditions and new safety regulations, completion was delayed here and costs were increased. In Eastern Europe, investment of 37.7 million euros mainly reflects expenditure for the development of the MDF plant in Novgorod, Russia. The completion of the plant in Novgorod has been interrupted until the demand situation in the Russian market stabilizes again. A settlement has been reached with the property developer as a result of the delay.

Net assets

Compared to the end of 2008, total assets increased by 4.4% to 1,971.2 million euros. The increase was nearly solely due to current assets, which rose sharply by 12.4% to 422.6 million euros. This increase was on the one hand caused by growth of cash and cash equivalents of 28.1% to 59.3 million euros and on the other hand of receivables and other assets of 40.7% to 177.0 million euros.

Significant changes occurred on the liabilities side of the balance sheet. As credit agreements are linked to financial covenants, which were breached as of December 31, 2009, these financial liabilities are presented as current until the signing of the new credit agreement on January 11, 2010. Partially due to this effect, current liabilities increased compared to the end of 2008 by 589.2 million euros to 1,105.3 million euros. However, current financial liabilities also increased due to the intensified utilization of credit lines. Increased utilization of credit lines resulted on the one hand in higher levels of liquidity, and on the other hand were the result of the negative CASH FLOW from operating activities.

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Equity fell by 11.1% to 631.7 million euros, mainly due to the Group's net loss. As a result, the equity ratio decreased to 32.0%.

The Pfleiderer Group's net debt increased from 635.5 million euros at the end of 2008 to 854.2 million euros at the end of last year, whereby gearing rose to 135.2%. In order to improve this balance sheet ratio, we will focus on reducing net debt and raising profitability again. This purpose has been served by injection of equity capital from the sale of treasury shares and the capital increase in the first quarter of 2010.

The combination of expertise on carrier material and surface finishings creates genuine advantages. Not only do we produce both of these products individually; under pressure and high temperature in the short-cycle press we also create a lasting bond between the two. In this way, we can produce nearly all decorative panels with the most varying features, such as fire-retarding, water-resistant, antibacterial and antistatic. And of course we can also supply combinations of those features.

Segment Report

Segment reporting is based on the regions of Western Europe, Eastern Europe and North America, where Pfleiderer operates with independent subsidiaries. Business developed very differently from region to region, resulting in a shift in regional weighting. Eastern Europe became less important – due not least to massive exchange rate distortions – and North America gained importance due to increases in market share. In Europe, especially the first half of 2009 featured falling volumes and prices, but this development began to turn around in the second half of the year. In Western Europe, and hesitantly also in North America, capacity adjustments took place as the year progressed, and will probably continue in 2010. Pfleiderer was able to maintain or improve its market position in all markets.

SEGMENT OVERVIEW

	WESTERN EUROPE		EASTERN EUROPE		NORTH AMERICA		GROUP*	
MILLION EUROS	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Revenues	741.9	945.8	285.0	420.3	401.8	404.9	1,381.5	1,735.9
EBIT	1.3	112.5	2.6	28.9	4.3	– 20.2	– 16.1	97.6
– margin in %	0.2	11.9	0.9	6.9	1.1	– 5.0	– 1.2	5.6
Capital expenditure	16.6	58.7	37.7	60.3	101.1	37.4	157.7	158.7
Employees (year end)	2,663	2,830	1,584	1,734	1,212	1,080	5,592	5,777

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

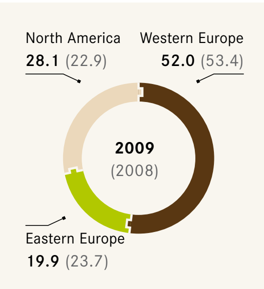
http://www.pfleiderer.com/en/company/company-structure-237.html

WESTERN EUROPE

The revenues generated in the Western Europe region decreased compared to the prior year by 21.6% to 741.9 million euros. About 9% of that decrease are due to falling prices and 13% are caused by lower unit sales. The fall in prices of standard products continued into the summer, but prices have recovered slightly since then. All sales sectors and regions were affected – export markets more than domestic markets, however. Demand for furniture probably suffered in the first half of 2009 from the state car scrappage incentive programs, as for political reasons purchasing power was diverted into the automotive industry. Sales of office furniture suffered in particular in this downswing. Production of kitchen furniture held up quite well, not least due to strong exports. Towards the end of the third quarter, demand increased once again, especially in the area of interior fittings and shop refurbishment. Unit sales dropped the most sharply for raw particleboard, whereas sales of MDF nearly equaled the prior-year level. Market share was gained for surface-finished particleboard as well as for HPL and elements.

Unit sales of flooring decreased in Europe and insufficient utilization of capacity affected prices in the lower and middle market segment. With its products in the upper market segment, Pergo was able to avoid this price pressure to a large extent. We opened flooring competence centers in Berlin, Paris, Zurich and Barcelona, allowing the local markets to be processed more effectively. Pergo established the Folddown standard for laying laminate flooring, a click locking without using glue. We anticipate revenue growth as a result of further new products and marketing activities in the future.

REVENUES BY SEGMENT
%



EBIT in the Western Europe region fell from 112.5 million euros to 1.3 million euros, including restructuring costs and impairment charges of 13.7 million euros. Strict cost management and substantial savings to be achieved in 2009 were already decided upon and initiated in January 2009. The derived structural methods are intended to adjust the cost position to the lower level of demand. The main reactions to the market situation were capacity reductions through short-time working, savings of 30 million euros due for example to productivity improvements, a workforce reduction of 160 persons, and customer incentive innovations. In the first half of the year, short-time working arrangements were applied at most of the plants at various intervals, especially in the production of raw particleboard. The plant in Gschwend has been operating with 100% short-time work since the summer of 2009 and will continue to do so in the coming months of 2010. For the further optimization of our processes and to reduce costs, the merger of Business Unit Industry and Business Unit Kunz was prepared for January 1, 2010. As a result, those units' accounting, IT and sales activities were centralized.

In the area of new products, Pfleiderer received more awards than ever before in 2009. Details are provided in the research and development report. Since September 2009, the economic situation of our industry has been improving. The mood within the furniture industry and in the wood trade has improved from month to month and numbers of new building permits also indicate a revival. Despite these signs of recovery, the focus will remain on cost optimization in 2010.

EASTERN EUROPE

In Eastern Europe, we recorded a decrease in revenues of 32.3% to 285.0 million euros. 60.4 million euros or 14.4% of the decrease was due to exchange rate effects, most of the rest was caused by falling prices. For example, prices of raw particleboard in Poland fell by 12% and prices of surface-finished board were down by 10%. The furniture industry, our most important customer sector in Eastern Europe, had to cope with substantial revenue losses as a result of the financial crisis. Nonetheless, we were able to increase our unit sales of some products: by 10% for raw MDF, and by 29% for laminated HDF. Unit sales of surface-finished particleboard fell by 12%, primarily due to falling exports to the Baltic countries. Unit sales of kitchen work surfaces decreased by 4%. Due to significant cost-reducing actions, including a out of headcount workforce of 12%, we were able to further strengthen our competitiveness and market position in Poland.

In Russia, the demand situation was very difficult in the first half of the year; unit sales fell by about 30%. However, capacity utilization improved again from the third quarter due to competitors being forced out of the market. Nonetheless, particleboard prices are still a good 20% lower than in the prior year. As long as the situation in Russia remains so difficult, we will continue to wait with the completion of the MDF plant in Novgorod. We will continue construction there when the market situation improves again.

Overall, the demand situation in Eastern Europe, particularly in Poland, has proven to be very stable. The revenue decline is mainly the result of exchange rate effects and falling prices. But the weak złoty improved the competitiveness of the Polish furniture industry, especially in the first half of the year.

Earnings came under pressure primarily due to the low level of prices for our products. EBIT amounted to only 2.6 million euros, compared with 28.9 million euros in 2008. Demand should improve again in 2010, thus at least stabilizing prices and allowing revenue to increase again.

NORTH AMERICA

In our North American markets, we generated revenues of 401.8 million euros, nearly matching the prior-year level of 404.9 million euros, although the flooring market and the panel market shrank considerably. Exchange rate effects boosted revenues by 8.9 million euros. Contrary to the general market trend, our unit sales of flooring increased by about 5%, so we increased our share of a shrinking market to over 30%. One of the reasons for this success is our strong position in DIY stores, which have gained market share in this crisis at the expense of specialist retailes.

Our unit sales of raw particleboard decreased by 11%; however, this was significantly better than the overall market contraction of 25%. Our unit sales of melamine-faced boards increased by about 1% and of MDF/HDF by 9%. Towards the end of the year, the furniture industry revived perceptibly. A new short-cycle press went into operation at our Val d'Or plant in Canada. This strengthens our leading position in the North American market for directly finished board. Furthermore, our Uniboard subsidiary has now also entered into a first cooperative venture with Kustom Material Laminators (KML), one of the leading producers of melamine-faced boards in the western states of the USA. This cooperation will allow customers to access the entire design portfolio for melamine-faced panels from Uniboard in the United States. The ramp-up of the new MDF plant in Moncure, USA, was postponed by a quarter due to more complicated foundation work and additional fire prevention regulations, and took place in the first quarter of 2010. We will supply among others our plant for laminate flooring in Raleigh from Moncure, thus benefiting from a significant cost advantage.

EBIT for 2009 amounted to 4.3 million euros, compared to a loss of 20.2 million euros in 2008. Earnings were reduced by restructuring costs and impairments totaling 3.3 million euros.

In general, the competitive situation in North America is still suffering from significant excess capacity and a fragmented supplier market. We anticipate further market consolidation. In addition, in the second half of 2010, demand should start to increase again due to the expected slight recovery of the real-estate market.

Net assets and results of operations of the Parent Company, Pfleiderer AG

Pfleiderer AG is the parent company of the Pfleiderer Group and primarily performs the holding company functions. It is responsible for the strategic alignment and management of the Group. At December 31, 2009, Pfleiderer AG employed 55 people, including the Executive Board, compared to 54 one year earlier.

In addition to its holding company functions, Pfleiderer AG is also responsible for centralized power purchasing for the production sites in Germany. The electricity costs incurred are charged to the subsidiaries without adding a mark-up, so that they directly benefit from this arrangement. In 2009, electricity charges totaled 40.0 million euros, compared to 36.0 million euros in the prior year.

The parent company incurred charges from the transfer of losses from the Western Europe region of 35.9 million euros in 2009. In the prior year, income on investments of 54.6 million euros and impairments of financial assets of 4.7 million euros were recorded. Net financial income improved slightly from 5.6 million euros to 6.8 million euros. The income generated by holding company activities therefore decreased to – 29.2 million euros (2008: 55.5 million euros). After consideration of other operating expense and income, personnel expenses, and depreciation and amortization, the parent company posted a loss on ordinary activities of 57.1 million euros, compared to a profit of 19.6 million euros in 2008. After consideration of taxation, the loss for the year was 57.0 million euros. In 2008, Pfleiderer AG had posted a profit for the year of 15.4 million euros.

The total assets of Pfleiderer AG increased in 2009 by 1.4% to 915.5 million euros. On the assets side, the main increase was of receivables and other assets from 604.5 million euros to 620.4 million euros. This item primarily comprises receivables from subsidiaries, which result from holding activities as well as from the financing of subsidiaries in the context of the Pfleiderer Group's cash pooling.

On the liabilities side, the most significant effect resulted from the increase in liabilities to banks from 241.6 million euros to 378.9 million euros. This change resulted primarily from the higher utilization of short-term credit lines. These funds, as well as the liabilities to subsidiaries incurred within the Group of 177.5 million euros (2008: 242.5 million euros), were allocated to the operating companies of the Group as part of Pfleiderer's cash pooling.

Equity decreased from 386.9 million euros to 329.8 million euros. The equity ratio at the end of December 2009 fell accordingly to 36.0% (2008: 42.9%).

At the Annual General Meeting, a proposal will be made that no dividend be distributed for the year 2009.

Production

Measured in terms of installed production capacity, Pfleiderer has moved up internationally from third to second place in the area of particleboard and fiberboard. We are thus among the industry's undisputed global leaders. The fact that we have achieved this position has a lot to do with our high levels of capital expenditure in the past. The Pfleiderer Group now benefits from that, because we are able to maintain our excellent position in the market with no need for any substantial cash outflows. Capital expenditure in production facilities in 2009 was therefore mainly limited to maintenance investment and our new plant in Moncure, USA.

22 sites with 26 plants in the regions Western Europe, Eastern Europe and North America; production facilities in the countries Canada, the United States, Germany, Sweden, Poland and Russia – we produce engineered wood where we see markets with potential for the future and with strong customers. With our installed production capacities at those sites, we are able to supply not only the countries where they are located, but a total of more than 80 countries worldwide.

The geographical distribution of our sites reflects our strategy of risk distribution, because crises do not usually occur in all regions at the same time. This did in fact occur for the first time last year, but we can already state that North America – where the crisis started – is also very likely to be the first region to return to a normal growth path.

PRODUCTION CAPACITIES

MIO. M^3	Particleboard	MDF/HDF
North America	1.30	0.54
Western Europe	2.72	0.58
Eastern Europe	1.70	0.29
Total	**5.72**	**1.41**

ORGANIZATIONAL STRUCTURE

So that we can react flexibly to changing markets, our production units have a decentralized organization and report to the responsible management of the respective region. To achieve better coordination of our worldwide activities, in connection with the elimination of the Executive Board position for Technology & Plants/Operations, the position of Chief Technical Officer (CTO) was created. The CTO is responsible for the headquarters department of Group Technology and reports directly to the Chairman of the Executive Board. Group Technology coordinates the corporate functions of Operations Control (with the Group's own GPPS – Global Pfleiderer Production System), Technical Inhouse Consulting for process engineering, and Environmental/Safety Management. The functions of the CTO also include the central coordination of the persons responsible for technology and the plant managers at the Pfleiderer Group.

The Pfleiderer Group has defined a large number of metrics for the control of its production processes, which are measured at all the plants. It is quickly noticed if one of these parameters is non-typical, and appropriate action can be taken.

With this organizational matrix, the Group is optimally positioned to continually improve its production processes and to reduce specific consumption. These efforts are aided by GPPS, which measures approximately 80 parameters in the production process and thus allows comparability between the individual plants. By making these comparisons, it is possible to recognize strengths and weaknesses and to realize potential for cost savings.

QUALITY

Our customers depend on us – on our reliability of supply and on the quality of our products. As the Pfleiderer world is increasingly growing together and our products are delivered between our sites and across the borders of the individual business centers, a Group-wide definition of quality has become necessary. Because each site has its own regional requirements and sets its own priorities in quality assurance accordingly.

For this reason, a project group was established in 2009 that first will analyze various structures and processes, and then make proposals for harmonized quality management throughout the Group. The members of this “Pfleiderer Quality Initiative” are the responsible quality managers of the business centers.

A number of key issues have been defined on the basis of the first analysis. These include the harmonized reporting of external complaints and the harmonization of specifications and testing methods. The first report with uniform key figures defined for the entire Group was completed early in 2010. It creates transparency and comparability, thus allowing any weaknesses to be identified and best practices to be transferred from one production unit to another.

The efficient Pfleiderer quality management system will be present throughout our entire value chain in the future, and therefore has an important cross-divisional function at the Group. It has already been decided that the quality executives will continue their successful work in 2010 as the “Quality Committee”. Independently of this development, quality management will continue to perform its duties locally in the individual regions, so that we can react flexibly, quickly and individually to the respective market and customer requirements.

Research and Development

Sustainable, functional, trendy: We place the highest requirements on our products, which gives us competitive advantages. In order to make the maximum use of these advantages, Pfleiderer's research and development work in 2009 concentrated once again on creating innovative products with value added. We presented a lot of new products last year – and many of our products were recognized with major design prizes.

PFLEIDERER PRODUCTS SUPPORT SUSTAINABLE CONSTRUCTION

As a producer of engineered wood that works with a natural resource, we have been committed to the principle of sustainability for decades. This commitment is reflected in our research work and our innovations: One example of this is our "Livingboard" product. Since 2009, Livingboard is the only surface-finished particleboard on the European market to support customers in obtaining the LEED seal of approval in platinum for sustainable construction. The building certification system that is currently the most widespread internationally, Leadership in Energy and Environmental Design (LEED), considers all of the environmentally relevant aspects of a building. It also makes the highest demands in terms of engineered wood, which Livingboard fulfills without exception. For example, in order to gain a point in the "quality of room climate" category, thus allowing the Premium Standard to be awarded, it is not enough to fulfill the strict VOC (volatile organic compound) requirements of emissions of hazardous materials. Particleboards must also be made with glue free of urea-formaldehyde, which is the case with our Livingboard.

see p. 62 Environmenal report

Pfleiderer also fulfills the LEED requirements in the "materials and resources" category with no exceptions. For example, we primarily use wood from as near as possible to our production facilities which is certified according to the guidelines of the Forest Stewardship Council (FSC) for sustainable forestry. Furthermore, a proportion of at least 20% recycled material (pre-consumer) such as sawdust or wood chip is possible in Livingboard particleboard. Furthermore, the Pfleiderer Group in Germany and many other parts of Europe guarantees that – in the spirit of regional supply – the raw materials used from the first inputs to the production stage and then to the construction site do not travel more than 800 kilometers.

In the North American market, we have supported sustainable construction in the spirit of LEED for a long time. Particleboards and medium-density fiberboards from Pfleiderer subsidiary Uniboard can help to gain certification according to LEED criteria. With its NuGreen particleboard, Uniboard allows its North American customers for engineered wood to obtain the maximum number of points that can be achieved in the areas "quality of room climate" and "materials and resources". NuGreen consists completely of recycled wood (pre-consumer) from sustainably managed forests. In addition, this type of particleboard is produced without urea resin.

RESEARCH WORK FOR THE USE OF FAST-GROWING RAW MATERIALS

Against the backdrop of the approaching shortage of wood as a raw material and a result of its increased price, we continue to research into the use of fast-growing alternative raw materials. Cross-over fundamental research on various other issues was carried out in 2009 also in cooperation with Germany's Federal Ministry for Research and Development and with selected universities.

PRIZES FOR INNOVATIVE PFLEIDERER PRODUCTS

http://www.duropal.com

Modern engineered wood is not only sustainable, but is also in line with the spirit of our era in terms of design. HPL-SolidColor, the high-pressure laminate produced by Pfleiderer subsidiary Duropal, combines an attractive appearance with versatile functionality. Thanks to specially developed recipes, this dyed-through laminate material has very good processing properties so that it can be used universally as surface and/or edge material. This very homogenous material is also highly wear resistant. Duropal already received awards for its development in 2008 – the "Architecture Innovation Prize + Office XXL." In 2009, the product was once again a prize winner– this time in the design competition "Interzum Award: Intelligent Material & Design," which takes place in advance of the "Interzum" trade fair, the world's leading trade fair for suppliers of the furniture industry and interior fitters.

http://www.thermopal.com

Pfleiderer subsidiary Thermopal also won an important design prize in 2009. In addition to its standard collection, Thermopal commissioned six renowned design agencies and architects' offices to prepare 54 avant-garde designs for interior fittings. This bold step beyond the usual range of decorative patterns earned Germany's coveted "Red Dot Design Award". This "Designers' Collection" series of decorative surfaces was developed specifically for interior fittings in hotels, shops as well as spa and recreation centers. The "Red Dot" design competition is the biggest initiative of its kind, with more than 11,000 entries from 61 countries. The Designers' Collection from Thermopal convinced the jury in the "Architecture and Interior Design" product group of the "Product Design" category. The assessment criteria included degree of innovation, functionality and formal quality.

Both HPL-SolidColor from Duropal and Designers' Collection from Thermopal have been proposed for the 2010 German Design Prize. This prize is the country's highest official award in the field of design. Each year, a specialized jury recognizes excellent performance in the field of product and communication design.

Research and development at the Pfleiderer Group ensure that our products do well not only in design competitions. Because these new developments are ultimately only successful if they are also appreciated and bought by customers.

Engineered wood is versatile. Depending on the planned application, particleboard or fiberboard can be given various properties. That's why we do a lot to expand these possibilities.

The non-flammable decorative panel "flameprotect compact," which Thermopal launched on the market in 2009, convinced the jury for the "Architecture and Construction Innovation Prize". The purpose behind this award is to select those products from the multitude of construction products offered on the market that fulfill fire-protection requirements particularly well. While most of the fire-resistant panels used in decorative interior fitting can at best be deemed to be "flame resistant", "flameprotect compact" from Thermopal is classified as non-flammable according to European Standard DIN EN 13501-1. This material composed of mineral components thus fulfills the requirements for special constructions. Because, the use of non-flammable materials is stipulated for many areas in meeting rooms, hotels, schools, kindergartens, hospitals and homes.

NEW SURFACES CONVINCE CUSTOMERS WITH AUTHENTIC FEEL AND INDIVIDUAL LOOK

Optics of course plays a major role in the development of our decorative surfaces. But as our products are mainly used in interior fitting, our experts also ensure that they also feel right. At "Interzum", several Pfleiderer subsidiaries presented their surface innovations in 2009.

http://www.industrie.pfleiderer.com

In 2009, Duropal added "Fine Grain" to its product portfolio; this is a particularly matt surface that resembles structural paint and appeals with a perceptible fine-grain effect giving decorative surfaces a texture. The fine grain is also visually perceptible and provides for a lively appearance. The new "Fine Matt" surface from Pfleiderer Industry offers a similar appearance, but has different feel and texture from "Fine Grain". This surface was developed for direct coating and combines visual with haptic effects, creating a natural appearance. "Fine Matt" is harder-wearing than conventional matt surfaces and has proven to be a versatile design element for plain, wood and fantasy decors. Dark plain colors in particular profit from the new structures, because they are less sensitive to finger marks than the previously available matt surfaces.

The new surface “Illusion” makes use of the 3D effect: Soft waves on an absolutely flat surface create the illusion of a visible depth of several centimeters. The appeal is that it is nearly impossible to separate physical reality and perceived visual depth. The eyes see just a two-dimensional image, but the brain sees an illusion of three dimensions.

Our “topX” high-gloss surface quality also premiered at Interzum. This is a surface that is even harder, more scratch resistant and hardwearing than the usual high-pressure laminates. In order to fulfill these requirements, Duropal had to depart from conventional HPL production and go new ways in terms of production technology.

http://www.pergo.com

PERGO FLOOR-LAYING TECHNOLOGY BECOMES MORE ESTABLISHED IN THE MARKET

Pergo, our producer of laminate flooring, once again proved its credentials as a pioneer of innovation and technology in 2009. Our Swedish subsidiary, which is regarded as the inventor of laminate flooring, has marketed its Folddown technology for the glue-free laying of laminate flooring worldwide since 2009. Folddown is a system by which one panel is connected to another simply by being lowered onto it, which makes it much easier to lay laminate flooring. The PerfectFold-Clip developed by Pergo is compatible with all known click systems, including those for other producers.

Through the cooperation between Pergo and the German machine-tool manufacturer, Wächter Packautomatik, which produces industrial equipment for the flooring industry, numerous machines licensed by Pergo are already on the market that insert the clip into the floor panels during the production process. With the marketing of the Folddown solution under license, Pergo has been fully living up to its role as a system supplier since 2009. The first version of the clip was developed for laminate flooring; a version for parquet flooring is also under development. The Pfleiderer subsidiary further developed the clip on the basis of five of its own patents for Folddown technology. In 2009, Pergo concluded license agreements for this technology with Belgian company Unilin as well as with Austrian company Egger GmbH & Co.

Due to the revenue decrease of 20.4% in 2009, Pfleiderer reduced its expenditure for research and development from 4.1 million euros in the prior year to 2.8 million euros.

Environmental Report

As one of the world's leading producers of engineered wood, Pfleiderer is convinced that profitable growth and a responsible approach to the use of scarce resources are by no means mutually exclusive, but that they actually complement each other. It is therefore only natural for the Pfleiderer Group to conserve energy and raw materials, to reduce emissions and to produce sustainable products. This is to the benefit of the environment while reducing costs for the Group, is in line with customers' wishes, and fulfills legal requirements.

We see environmental protection as going far beyond a voluntary commitment. We actually see environmental protection as a key foundation of our corporate strategy. Because a sustainable approach supports us with cost controls and the reduction of risks while making an important contribution to maintaining our long-term competitiveness.

Our understanding of environmental and climate protection is reflected throughout our entire value chain. This is why the three key pillars of our environmental strategy also mark stages of this process: organization, production and products. Here we see areas for concrete action with medium- and long-term targets.

TARGETS OF PFLEIDERER'S ENVIRONMENTAL STRATEGY

One of the mid-term targets in the area of **organization** is to implement transparent processes through the Group-wide introduction of recognized environmental management systems such as ISO 14001. In those regions where we are already successfully certified according to this international standard, we regard it as a constant duty to continually improve our processes. Also in the area of **production**, we keep a watchful eye on the steady optimization of our processes in order to further reduce the input of energy and raw materials while maintaining constant product quality. In line with our environmental strategy, we aim to conserve resources also in the area of **products**: Our Research and Development department is constantly investigating new methods of applying raw materials so as to conserve valuable resources as far as possible. At present, it is occupied with the production of particularly light engineered wood.

FULL INFORMATION ON ENVIRONMENTAL PROTECTION ALSO ON THE PFLEIDERER WEBSITE

http://www.pfleiderer.com/en/responsibility/the-environment-502.html

In 2009, we started publishing statements on our environmental strategy also on the Pfleiderer website. Under the heading "Responsibility", comprehensive information is available on environmental and climate protection at Pfleiderer. For example, with the use of animated graphics, we show the environmentally friendly stages along our value chain. We also explain the connection between wood and the climate, we provide an overview of important environmental certificates that the Pfleiderer Group has obtained, and we name the appropriate contact persons.

We want to create transparency with the new environmental contents of our website. The implementation of this project in 2009 was therefore an important step for us. In this chapter of the Annual Report, we present additional successes and milestones that we reached in 2009 in our three strategic areas of organization, production and products.

ALL GERMAN PLANTS CERTIFIED ACCORDING TO ISO 14001

Our environmental targets and the specific programs are derived from the international environmental management standard ISO 14001, which specifies globally recognized requirements to be placed on an environmental management system. This standard requires a process of continuous improvement in organizations' environmental performance. Starting with the Western Europe region, it is our mid-term goal to have the entire Pfleiderer Group certified according to ISO 14001. We moved appreciably nearer to this target in 2009: All of the Pfleiderer plants at the eight sites in Germany have been certified according to ISO 14001 since last summer. The plants were examined by external institutions and it was confirmed that they are able to monitor and control key environmental factors such as emissions, waste, energy and water consumption, and thus also to improve these factors over the long term.

SUSTAINABLE FORESTRY: A MUST FOR COMPANIES IN THE WOOD SECTOR

At Pfleiderer, environmental protection already starts with purchasing. We take special care in selecting the suppliers of our most important raw material: wood. We do so because we are highly aware of our responsibility towards this natural and renewable resource, and thus consistently follow the principle of sustainable forestry. In this way, we support the goal of only harvesting as much wood as is regenerated. The forests from which we source wood are properly managed and used, keeping them in a healthy condition. At the same time, following the principle of sustainable forestry, many functions of the forest are strengthened, such as maintaining biological diversity and the many possibilities for leisure and recreation.

a-z Glossary – p. 168

For this reason, but also of course for economic reasons, Pfleiderer solely uses wood from sustainably managed and/or certified forests for its products. Thanks to the latest technology, we are able to use recycled wood in the production of our boards. Certification systems such as PEFC (Program for the Endorsement of Forest Certification) or FSC (Forest Stewardship Council) have the goal of sustainable

Even though wood is available in sufficient quantities as a raw material: Only the sustainable use of this resource today will secure the availability of starting materials for our products tomorrow.

forestry and are fundamentally adhered to by Pfleiderer's purchasing departments. These programs support companies that act in accordance with ecological, social and economic standards. In this spirit, Pfleiderer fundamentally does not use wood from non-sustainable or destructive forestry.

http://www.pfleiderer.com/en/responsibility/certification-486.html

Pfleiderer has the medium-term goal of having all its plants certified for the use of wood from forests that are managed sustainably. Because with the relevant certificates, our customers obtain audited certainty: They are guaranteed that the wood in a Pfleiderer product with an FSC seal of approval is from a certified and thus sustainably managed forestry operation. In 2009, additional plants of our North American Pfleiderer subsidiary, Uniboard, were certified according to FSC guidelines: The particleboard plant in Moncure, North Carolina, USA, the laminating plant in Fostoria, Ohio, USA, and the fiberboard plant in Mont-Laurier, Canada, have been FSC-certified since 2009. An overview of the most important international certificates at the Pfleiderer Group is provided in the table on the Pfleiderer website.

RESPONSIBLE USE OF RAW MATERIALS AND ENERGY

We see ourselves as responsible not only for the renewable resource, wood, but also for the other raw materials used for our products. We therefore work consistently on ways to use the required raw materials as economically as possible. The Group-wide database of the Global Pfleiderer Production System (GPPS) offers an overview of the resource consumption of the companies of the Group. This allows strengths and weaknesses to be recognized and potential to be utilized. Comparisons can thus be made within the Group not only in the area of raw materials, but also in the area of energy. If the GPPS shows that more energy is used in one plant than in another, the method selected according to the "best practice" principle can be introduced to reduce energy consumption.

Another instrument with which CO_2 emissions can be specifically monitored at the Group is the Monitoring Guidelines of the European Emission Trading Directive. On the basis of this directive, those Pfleiderer plants that are subject to the European Emission Trading Directive publish their values, which are subsequently checked by an independent certification auditor.

http://www.pfleiderer.com/de/verantwortung/emissionswerte-479.html

We produce most of the energy that is required in our production ourselves. We operate biomass cogeneration plants or other biomass incineration plants at most of our locations. These plants burn wood that could not be used in our production for quality reasons, or that we purchased specifically as fuel. The energy produced in this way flows directly into our production process. This allows us to contribute towards reducing the proportion of fossil fuel in our energy consumption to a minimum. The long-term replacement of fossil fuels with alternative energies is one of Pfleiderer's declared goals.

WATER STAYS IN THE PROCESS CYCLE

We do not recycle only wood, however: As the production of fiberboard is particularly water intensive, we deal particularly economically with water along the lines of integrated plant planning. Some of the waste water from the production process, which is left over from cleaning equipment or from washing and shredding wood chips, is reused at another stage of the production process – as an input material for glue, for example. The remaining volume of water is cleaned and flows back into the production process. As early as in the planning stage for new plants, we ensure that this process is designed as optimally as possible. For example, our fiberboard plant in Grajewo, Poland, is equipped with the latest technological methods of waste water treatment: After the waste water is evaporated, the distillate is returned to the production process. As a result, no waste process water is produced by this plant any more.

http://www.pfleiderer.com/en/responsibility/environmental-policy-485.html

In addition to the resource-conserving recycling of waste water in the production process, we also keep a watchful eye on our emissions in the area of production. We monitor them constantly so that we can continue minimizing them. We decided to do this in the context of our environmental strategy with Group-wide validity.

CLEAN AIR DUE TO PATENTED CLEANING OF DISCHARGE AIR

One example of our constant efforts to gradually reduce our emissions is the innovative method of cleaning discharge air that Pfleiderer subsidiary Uniboard uses at its Canadian sites Sayabec and Mont-Laurier. In a two-stage process, at first the dust is eliminated by means of a water shower. Subsequently, this air is chemically treated and flows into the process cycle in neutralized form. This “scrubber” process applied by Pfleiderer subsidiary Uniboard is unique in this form and is patent protected. The scrubber will be used in a further developed form also in our new plant in Moncure, North Carolina, USA.

NO UNNECESSARY JOURNEYS

We are not only working on ways of consistently reducing the emissions of our production plants, but we are also looking for environmentally compatible solutions in the areas of logistics and transport. Most of our suppliers are located within about 200 kilometers of the plant in question. This avoids unnecessary journeys and reduces the burden on the environment. Furthermore, the Group’s own transport company, JURA-Spedition GmbH, was one of the first companies in Germany to change over its entire fleet of trucks, approximately 60 semitrailer tractors, to the Euro-5 European emission standard. In 2009, JURA-Spedition also carried out individual driver training courses, allowing it to reduce its fleet fuel consumption by 5% compared to 2008.

For many years now, Pfleiderer has limited business trips to a reasonable level and makes frequent use of video or telephone conference calls for discussions involving more than one location. These environmentally friendly communication possibilities were used more intensively in 2009 than in the prior years – also of course due to the global economic and financial crisis and the Group-wide savings plan. Company cars are also regularly checked for the effect and sense of their use.

The Pfleiderer Group takes its social responsibility very seriously also in environmental matters. Our plants certified according to ISO 14001 ensure that our environmental performance is continually improved.

https://www.cdproject.net

PARTICIPATION IN CARBON DISCLOSURE PROJECT

Transparency – particularly with regard to emissions – is important to us. We therefore participated last year for the third time in succession in the Carbon Disclosure Project (CDP). The CDP aims to promote the dialogue between investors and companies on the issue of climate protection and to create more transparency with regard to climate-damaging greenhouse gases. For this reason, it uses comprehensive, standardized questionnaires to collect data and information on CO_2 emissions, climate risks and reduction targets from the 200 largest listed companies in Germany, on a voluntary basis.

WOOD PRODUCTS PROTECT THE CLIMATE

Wood products are deemed to be carbon sinks per se: The CO_2 that the trees have removed from the atmosphere before being processed remains stored in the processed wood, in the finished product, that is. Through this effect, wood products contribute towards reducing greenhouse gases. Wood products also promote forest growth: Sustainable forestry means that only as much wood is harvested as is regenerated. This is how sustainable forestry contributes towards maintaining and even expanding the earth's forests. Those forests consistently oriented towards reforestation are particularly effective in reducing the level of carbon dioxide in the atmosphere; because trees that are growing absorb CO_2 and produce oxygen.

For this reason, the European Panel Federation (EPF) published a policy document in 2009 demanding support for CO_2 storage in wood products. The Federation proposes that future accounting guidelines for forestry management also take into consideration the storage of carbon in wood products. This would create a balance between the relatively short CO_2 storage duration with the thermal incineration of wood and the much longer CO_2 storage when wood is used as a material in products. Sustainably produced wood products are fundamentally climate friendly. This approach and the demands of the EPF are also supported by the Environment Council of the European Union.

SUSTAINABLE PFLEIDERER PRODUCTS

Pfleiderer has long recognized the potential of its brands' sustainable products. For example, raw particleboards for use in buildings such as our Livingboard panels have an environmental product declaration (EPD) from the Institute of Construction and the Environment since 2009. In this way, architects and users find neutral, comprehensive and comparable information on the respective construction material and its sustainability. Pergo, our laminate flooring subsidiary, also makes use of such product declarations.

Pfleiderer also supports its customers in gaining the LEED seal of approval in platinum for sustainable construction. The internationally most widespread building certification system, Leadership in Energy and Environmental Design (LEED), considers all environmentally relevant aspects of a building and places extremely high requirements on the wood materials used. Since 2009 for example, Livingboard from Pfleiderer is the only particleboard on the European market that is LEED certified also in surface-finished form. In the North American market, the Pfleiderer Group has for some time supported sustainable building in the spirit of LEED: Particleboards and MDFs from Pfleiderer subsidiary Uniboard can contribute towards obtaining LEED certification. With its NuGreen particleboard, for example, Uniboard helps its customers to achieve the maximum possible score for wood materials in the areas "Quality of room climate" and "Materials and resources". NuGreen particleboard is made completely of recycled wood and is also produced without any urea resin.

see page 58

Information on the efforts of our Research and Development department to produce panels that are particularly resource conserving can be found in the corresponding chapter of this Annual Report.

OUR PRODUCTS: FULL OF ENERGY UNTIL THE END

Our products store CO_2 during their entire lives. The longer the life of a material made of wood lasts, the greater this storage effect is. At the end of their lives, our products can either be recycled once again or can be incinerated to produce energy, thus helping to replace fossil fuels. When they are burnt, no more CO_2 is released than was stored in the wood during each product's life. Another advantage of incineration is that it results in very little waste.

In all we do, we always have our customers in mind. No matter whether joiners, kitchen or furniture manufacturers, architects or project planners: We supply the optimal engineered wood for each requirement and project. And we do so in high quality and with exceptional reliability. In this way, we generate high added value for our customers – allowing us to succeed in our everyday business in a competitive environment.

Human Resources

The work of our Human Resources department was faced with great challenges in the year 2009: On the one hand, short-time work and personnel reductions; on the other hand, providing motivation to improve integration and ongoing human resources development. Although some planned projects had to be postponed or cancelled due to the strict cost-reduction program, the Pfleiderer Group can look back on successes in the year under review – be it in the areas of integration and intercultural cooperation, human resources development or in various social projects.

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

As of December 31, 2009, the Pfleiderer Group employed a workforce of 5,592 people. Compared to December 31, 2008 (5,777), the total therefore decreased by 185 employees or 3.2%. The number of persons employed in North America increased by 12.2% due to preparations for the start of operation of the MDF plant in Moncure, North Carolina, USA; but in Western and Eastern Europe, the Group had to reduce employee numbers in the context of its cost-reducing program.

This development reflects one of the main areas of human resources work in 2009: Due to the massive drops in demand in the first several months of 2009 and excess market capacity, in addition to cost-reducing actions for external services and raw materials, Pfleiderer was no longer able to rule out capacity adjustments in terms of personnel. Already at the beginning of the year, therefore, the Group was obliged to cut jobs in Eastern Europe. At most of the German plants, Pfleiderer had to require its employees to reduce the hours accumulated on their working-time accounts during the first half of 2009 or to accept non-working shifts and short-time work.

PFLEIDERER COMMENCES TALKS WITH TRADE UNION AND EMPLOYEE COUNCIL

Since demand for Pfleiderer's products recovered somewhat as the year progressed, working times had returned to normal in nearly all the plants in Germany already by the middle of 2009. Only the raw particleboard plant in Gschwend continued with 100% short-time work until the end of 2009 and thereafter. Against this backdrop, Pfleiderer's Executive Board and the management of Business Center Western Europe also entered into discussions with the trade union IG Metall, which is responsible for the engineered wood industry, and the employee councils.

The objective of these negotiations was, and still is, to jointly find measures to be taken with a rapid impact in order to be able to react effectively to the development of demand in Germany. Supplements to the wage-tariff agreements, which exist at most sites in Germany, give the employees there a guarantee for their sites and secure their jobs until 2010. Pfleiderer sees itself as bound to the applicable wage-tariff agreements and remained loyal to them also in 2009. This principle also applies to the year 2010, in which the constructive discussions will be continued. Despite dismissal protection in the supplementary agreements, it was possible in 2009 to begin a process of socially acceptable job reductions in Germany, with a focus on actions such as preretirement part-time work and voluntary severance.

FOCUS ON HUMAN RESOURCES DEVELOPMENT

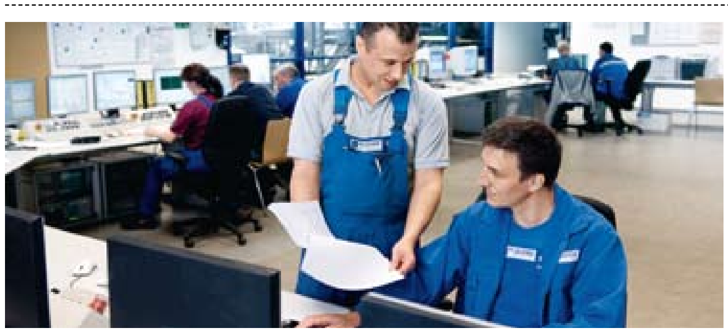
The key challenge for Pfleiderer's Human Resources department in 2009 was certainly achieving the rather opposing goals of short-time work and personnel reductions on the one hand, while providing motivation to improve integration and other human resources development for the workforce on the other. Pfleiderer is fully aware of the importance of each individual employee: After all, the Group owes its excellent position as one of the world's leading producers of engineered wood primarily to its workforce. We therefore intensified our activities in the field of human resources development last year, and introduced a system of structured successor planning. Potential successor candidates are identified from within the Group for all management positions. In this context, the Group-wide program for the recognition and encouragement of high potential was implemented for the first time in the United States and in Sweden – taking cultural differences into consideration.

Another project is also concerned with the future structure of our workforce: In 2009, Pfleiderer's Human Resources department started to tackle the international challenges resulting from demographic change. It is important to utilize the potential synergies that exist between the Group's various locations. An analysis and wide-ranging data collection have already started, and the first results are expected in 2010.

LEARNING FROM EACH OTHER: FURTHER PROGRESS WITH INTERNATIONAL NETWORKING

The Pfleiderer world has grown considerably in recent years. For this reason, international networking continues to be a focus of our human resources work. Ultimately, we profit from shared knowledge, can define best practices, and in this way we can best utilize synergies and can benefit from the potential offered. This is why Pfleiderer continued to place emphasis on the Group-wide exchange of information also in 2009. Annual meetings are organized by an increasing number of departments – from Human Resources and Financial Controlling to Plant Managers. Video and telephone conferences and collaboration on joint projects maintain the contacts between employees and help the Pfleiderer world to grow together.

If required, the Human Resources department provides help with intercultural networking. Employees who are frequently travelling in different culture areas receive specific support. In cooperation with the Chair of Intercultural Management of Heilbronn University, those employees receive training in workshops or on a one-to-one basis. In the workshops, the participants learn to see the respective



We make sure that the right person is sitting at the right desk by means of Group-wide human resources development. Pfleiderer also ensures that valuable know-how is retained within the Group.

Our daily dealings with each other are characterized by mutual respect. This is backed up by our guidelines, which are jointly implemented at all levels of the hierarchy and are adapted to local needs.

country and its culture in a broader context. In this way, background knowledge about a country's cultural history, its legal system, form of government and prevailing value system can facilitate international collaboration within the Group enormously.

MANAGEMENT CONFERENCE DEALS WITH OPPORTUNITIES OF THE CRISIS

The international management conference entitled MoVE (**Mo**re **V**alue and **E**motion) also contributes to the ongoing international networking at the Pfleiderer Group. This conference is an important platform at the Group to bring all the international members of Pfleiderer's top level of management together for a few days. In 2009, MoVE was held under the motto of "Managing the unexpected" and dealt with the challenges and opportunities arising for companies out of the global economic crisis.

EMPLOYEE COUNCILS AND MANAGEMENT IMPLEMENT IMPROVED WORKING CONDITIONS

In 2009, the constructive exchange of opinions between the management, including human resources managers, and the employee councils intensified at Business Center Western Europe. In the context of employee council conferences, members of the employee councils and members of the management, including human resources managers, prepared concepts for the improvement of working conditions. As a result of these projects, new health-friendly shift models were implemented last year and new ways of employee qualification were applied. This year, activities will focus on the issue of employee discussions and a qualification offensive for the level of master technicians and foremen.

INDICATORS FOR DAILY COOPERATION

http://pfleiderer.com/uploads/PF_Guidelines_e.pdf

Our "guidelines for Management and Cooperation" are indicators towards which we orient our everyday work and cooperation. We see management and cooperation as key issues on the way into the future that to a large extent determine whether or not we achieve our goals successfully and profitably. Therefore, with these Guidelines, we have agreed on basic rules to give us support and orientation. This is a matter of leadership, organization and responsibility, as well as the internal attitude towards the Pfleiderer Group and each other. And the guideline process continues: Regular meetings at all departmental levels ensure that the Guidelines are a fixed element of day-to-day work at Pfleiderer.

TOP PRIORITY FOR HEALTH AND SAFETY AT WORK

One of our mottos is “We are a responsible company”. As a company, we bear a lot of responsibility – for our environment, our suppliers, the state and society, and not least of course for our employees. The health and safety at work of the workforce have top priority at Pfleiderer. In the area of health care, the preventive measures we took in 2009 ranged from organized running training to courses on good nutrition.

The offensive we started in the year 2008 on the subject of safety at work was continued in our Business Centers also in 2009. As a result, we were able to significantly reduce the frequency of accidents at work at some Pfleiderer locations already in 2009. We now aim to stabilize this development and to achieve sustainability here. We are pushing forward with the application of best practices. Keeping statistics on accidents at work in the individual plants is a fixed element of our internal reporting system.

http://www.pfleiderer.com/en/careers/tmp1-435.html

PFLEIDERER SHOWS SOCIAL RESPONSIBILITY

Naturally, we also want to fulfill our responsibility towards society. We therefore support numerous social projects by means of activities within and outside the Group. In the year 2009 for example, Pfleiderer trainees helped to create an ecological adventure park for children in Neumarkt, adding several attractions to the facility. With a lot of imagination, a small budget and great commitment, the twelve junior managers installed an “odor bar”, a “fingertip memory” and a “catwalk of the senses”. These additions to the theme park enable children to get to know their senses in a playful way. The social project is a fixed element of our junior managers’ training course.

The opportunity to participate in the regional “Youth Research” contest in the region of Upper Palatinate has been a fixed element of the commercial and technical training of our apprentices for many years. In 2009, we supported this annual competition for the fourteenth time as one of the main sponsors. Right from the start, we have provided our apprentices with space, time and the means to bring their ideas to fruition. Use is often made in the competition of practical ideas from the young people’s working environment. Job starters learn to develop their projects independently, from the idea to its implementation. This promotes key interdisciplinary qualifications such as team spirit, decision-making skills and responsibility, which are important for later working life.

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

Pergo North America provided financial support in 2009 for the US initiative “Just for Kids Campaign”. Its goal is to establish a new children’s hospital in Raleigh, North Carolina, USA, where Pfleiderer has a production facility. Our Russian Pfleiderer subsidiary donated furniture to financially disadvantaged families in Podberezje near Novgorod, and supported the refurbishment of the local kindergarten. Uniboard employees reroofed a holiday camp building for mentally handicapped adults in Canada. Other examples can be seen under the heading “Responsibility” on our website.

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

Composition of subscribed capital

As of December 31, 2009, the subscribed capital of Pfleiderer AG amounted to 136,514,816.00 euros. At the balance sheet date, the share capital was composed of 53,326,100 no-par value registered shares. Due to a capital increase against cash contributions, the subscribed share capital has amounted to 150,166,272.00 euros since February 5, 2010, and is composed of 58,658,700.00 no-par value shares.

All shares confer their holders 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, 2009, Pfleiderer AG held a total of 2,643,458 treasury shares. The Company sold all of those treasury shares on the stock exchange on January 19, 2010.

Restrictions affecting the voting rights or the transfer of shares

The granting of stock options pursuant to the Company's stock option programs is conditional upon the beneficiaries making a personal investment in shares of Pfleiderer AG which are then subject to a lockup period. If a beneficiary sells locked shares prematurely before expiry of the three-year lockup period after stock options are granted, the stock options become void without replacement. At December 31, 2009, 176,562 shares of Pfleiderer AG were locked due to personal investments by stock option beneficiaries.

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

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

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

In accordance with Section 21 Subsection 1 of the German Securities Trading Act (WpHG), Patrick Aurel Pfleiderer, Wiesbaden, PAP Beteiligungs-GmbH, Neumarkt, PAP Vermögensverwaltung GmbH & Co. KG, 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 exceeded the 5% and 10% thresholds on April 20, 2006, and at that time each amounted 10.58%. Ernst-Herbert Pfleiderer, Neumarkt, informed the Company in writing on April 27, 2006, in accordance with Section 21 Paragraph 1 of the German Securities Trading Act (WpHG), that his voting rights in the Company exceeded the 5% and 10% thresholds on April 20, 2006, and amounted to 10.96%. 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 Paragraph 2, Section 22 Subsection 1 Paragraph 1 No. 1 and Section 22 Paragraph 1 Sentence 1 No. 2 of the German Securities Trading Act (WpHG).

In accordance with Section 21 Paragraph 1 of the German Securities Trading Act (WpHG), Wood Engineering Holding B.V., Amsterdam (Netherlands), informed the Company on February 10, 2010, that its voting rights in the Company fell below the threshold of 25% on February 5, 2010, and at that time amounted to 23.30% (13,688,154 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) each informed the Company on February 10, 2010, in accordance with Section 21 Paragraph 1 of the WpHG that their voting rights in the Company fell below the threshold of 25% on February 5, 2010, and at that time each amounted to 23.30% (13,688,154 voting rights). The aforementioned companies also notified the Company that the voting rights are assigned to them in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 of the WpHG.

Shares conferring special control rights

The Company has not issued any shares conferring special control rights.

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

http://www.pfleiderer.com/en/investor-relations/statutes-247.html

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 conveyed 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 Paragraph 1 of the Company's Articles of Incorporation, the Executive Board must have at least two members. In all other respects, the Supervisory Board determines the number of Executive Board members in accordance with Article 6 Paragraph 2 of the Company's 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 company's Articles of Incorporation, the Supervisory Board is authorized to amend the Articles of Incorporation if they affect only the wording. Unless required otherwise by law, Article 21 Paragraph 3 of the Articles of Incorporation stipulates that resolutions of the Annual Shareholders' Meeting require a simple majority of the votes cast or a simple majority of the share capital represented at the time of the resolution.

Powers of the Executive Board to issue or repurchase shares

Authorized Capital

In accordance with Article 4 Paragraph 2 of the Company's Articles of Incorporation, the Executive Board was authorized as of December 31, 2009, with the consent 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 by issuing up to 26,663,050 no-par value shares against cash and/or noncash contributions (authorized capital). Due to a capital increase against cash contributions carried out on February 5, 2010, with utilization of the authorized capital, the Executive Board is currently authorized, with the consent 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 54,605,952.00 euros by issuing up to 21,330,450 no-par value shares against cash and/or non-cash 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 consent of the Supervisory Board, to preclude shareholders' statutory subscription rights in certain cases. Additional details are provided by Article 4 Paragraph 2 of the Company's Articles of Incorporation.

Conditional Capital

By resolution of the Annual Shareholders' Meeting of June 23, 2009, the Executive Board was authorized, with the consent of the Supervisory Board, until June 22, 2014, to issue bonds with warrants and/or convertible bonds ("bonds"), with or without limited terms, in a total volume of up to 200,000,000.00 euros against cash contributions and to grant the bondholders warrant and conversion rights to up to 21,330,440 shares in Pfleiderer AG with a notional interest in the share capital of up to 54,605,926.40 euros. The bond conditions can also include the obligation to exercise conversion rights. These bonds are issued subject to shareholders' statutory subscription rights. However, the Executive Board is authorized, with the consent of the Supervisory Board, to preclude 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 54,605,926.40 euros by the issue of up to 21,330,440 new shares (Conditional Capital I). Further details are governed by the resolution granting authorization of June 23, 2009, and by Article 4 Paragraph 3 of the Company's Articles of Incorporation.

In addition, the Company's share capital has additionally been conditionally increased by up to 1,989,836.80 euros (conditional capital). The conditional capital increase through the issue of up to 777,280 new no-par value shares of the Company will only be implemented to the extent that stock options were granted under the authorization applicable until June 30, 2006, and under the Pfleiderer Stock Option Plan 2001, that the holders of those stock options exercise their rights to subscribe for shares of the Company, and that Company does not settle the stock options by issuing treasury shares or by way of cash compensation. Further details are governed by the resolution granting authorization of July 10, 2001, and by Article 4 Paragraph 4 of the Company's 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 stock options were granted under the authorization applicable until May 31, 2011, and under the Pfleiderer Stock Option Plan 2006, that the holders of those 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. Further details are governed by the resolution granting authorization of June 13, 2006, and by Article 4 Paragraph 5 of the Company's Articles of Incorporation.

Purchase of own shares

On June 23, 2009, the Annual Shareholders' Meeting authorized the Company in accordance with Section 71 Paragraph 1 No. 8 of the German Stock Corporation Act (AktG) to buy the Company's own shares in the period until December 22, 2010, with a notional interest in the current share capital of up to 10%. The shares may be bought through the stock exchange or by way of a public offer to buy shares or a public invitation to make offers to sell shares addressed to all shareholders. The Executive Board was authorized, with the consent of the Supervisory Board, to sell such acquired treasury shares in certain cases with the preclusion of shareholders' subscription rights in a way other than through the stock exchange or on the basis of an offer to all shareholders. Further details are governed by the resolution granting authorization of June 23, 2009. The Company did not make use of the authorization to acquire its own shares in 2009.

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

In the case of a change of control, the banks financing the Pfleiderer Group can make the loans granted to the Group immediately repayable.

In the case of a change of control, the hybrid bond issued in 2007 must be either repurchased by the issuer or continue to be serviced with additional interest.

An agreement exists with the Chairman of the Executive Board granting him an extraordinary right to terminate his contract of service in the case of a change of control. The agreement does not provide for any additional severance compensation beyond the contractual remuneration.

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

Apart from the agreement with the Chairman of the Executive Board of the Company described in the previous paragraph, there are no arrangements with members of the Executive Board or employees that become effective in the case of a takeover bid.

Overall Assessment of the Economic Situation

In 2009, the Executive Board of Pfleiderer AG was faced with the most difficult economic environment in our industry in many years. In addition to declining unit sales, revenues were reduced also by significant price falls and exchange rate movements. Despite achieving cost reductions significantly better than the targeted 80 million euros, it was not possible to avoid a loss for the year. This also led to distressing personnel reductions and a plant closure with the aid of short-time work. As a result of breaching financial covenants, credit agreements with the banks had to be renegotiated. Pfleiderer reached an agreement with the banks, including KfW, on the continuation of the financing until 2013. This puts the Group's financing on a sound footing again, although at higher costs.

Demand revived again in the second half of 2009, particularly in Eastern and Western Europe, and has so far continued improving in the first quarter of 2010. As we have a more favorable cost position than our competitors, we believe we are well prepared to cope with the presently tough competition and to enter the next upswing with bigger market shares than before the crisis.

Events after the Balance Sheet Date

On January 11, 2010, Pfleiderer AG announced that it had reached an agreement with approximately 30 banks on the conditions for long-term and secure financing for the producer of engineered wood. As a result, a financial package of around 800 million euros is now available until the end of 2013. This includes a KfW loan of 140 million euros, which was awarded at usual market conditions from the Germany fund. Compared to 2009, financing costs will increase by a small double-digit million figure.

If the financing agreements had already been signed before the end of 2009, current financing liabilities in the balance sheet would have been 425.8 million euros lower and non-current financial liabilities would have been higher by the same amount.

Independently of Pfleiderer AG, the subsidiary Pfleiderer Grajewo S.A., a company listed on the Polish stock exchange, also held talks with its banks. The financing volume under discussion amounts to the equivalent of approximately 300 million euros. Agreement has already been reached with the five banks involved on a financing package also extending until 2013.

On January 19, 2010, Pfleiderer AG sold 2,643,458 treasury shares, i.e., 4.96% of the share capital, through the stock exchange. The Company thus disposed of all of its treasury shares and achieved sale proceeds of 18.5 million euros.

On February 4, 2010, Pfleiderer AG issued 5,332,600 new shares out of the capital increase of approved capital against cash contributions decided upon with the consent of the Supervisory Board of 13,651,456 euros from 136,514,816.00 euros to 150,166,272.00 euros for a price of 6 euros and 50 cents per share. The shares were placed with institutional investors in Germany and abroad by way of an accelerated bookbuilding procedure. Shareholders' subscription rights were excluded for this issue. Pfleiderer AG realized gross proceeds of 34.7 million euros, which has been applied to reduce the Pfleiderer Group's financial liabilities. The new shares were admitted for trading without a prospectus in the regulated market (Prime Standard) of the Frankfurt Stock Exchange.

As a result of the capital increase, the shareholdings of our shareholders subject to notification rules were diluted and thus fell below certain thresholds. According to its notification of February 10, 2010, OEP now holds 23.30% of Pfleiderer's shares; according to its notification of February 9, 2010, Surteco AG holds 2.74%, and according to its notification of February 12, 2010, Active Value Investors holds 2.87%.

In February 2010, we reached a settlement with the property developer of the MDF plant in Novgorod with regard to the construction work already carried out and the property developer's outstanding claims.

Risk Report

One of the fundamental management tasks is to establish and operate an effective internal control system (ICS) and a risk management system (RMS) in accordance with applicable corporate governance requirements and best practice principles.

Like many other companies, Pfleiderer too is exposed to a large number of risks connected with entrepreneurial activities. The uncertainties and continual changes in various laws and regulations that apply to Pfleiderer AG are counteracted by means of a Group-wide uniform system of control and risk management and the internal auditing process. These instruments are regularly further developed and adapted to changing conditions.

As part of the existing process, the Executive Board and the Supervisory Board are regularly informed about the risks that could significantly influence the business development of the business units or of the Group.

RISK MANAGEMENT SYSTEM

A risk management system that complies with legal requirements is used for the early identification, assessment and appropriate management of significant risks and risks threatening Pfleiderer's continued existence. This risk management system is an integral component of the entire management and reporting process. Its framework is defined in a risk management manual.

The risk management manual provides instructions on:
- risk identification and assessment,
- deciding on the management of current risks and on new or supplementary measures of risk management, and
- tracking risk developments and the measures taken.

External and internal risks are systematically identified for all of the Group's business units and subsidiaries. Risk management is coordinated and continually enhanced by a central unit of Pfleiderer AG. Particular attention is paid to the regular exchange of experience with other companies so that new ideas and methods can be integrated into the own risk management. The management of the operating units is responsible for the early defection, full identification and management of risks. For this purpose, each operating unit and central unit has appointed risk managers who ensure compliance with the risk management system for each area of the Group.

The Group's risk situation is systematically re-evaluated each month. Risks are assessed in terms of their extent of damage and probability of occurrence. In addition, special reports are submitted if the risk situation changes suddenly. The results are consolidated into quarterly reports, which are submitted to the Executive Board, the Chairman of the Supervisory Board, and the Audit Committee.

The Internal Auditing department and the external auditors perform reviews of the risk management system's suitability and effectiveness in order to recognize at an early stage any risks which could pose a threat to Pfleiderer's continuing existence.

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

KEY RISK AREAS

Macroeconomic and political risks as well as industry risks

As a global player, Pfleiderer is exposed to changes in its global business conditions. In fiscal 2009, Pfleiderer was indirectly affected by the financial crisis. The ongoing development of the global crisis and its impact on the world economy cannot yet be finally assessed.

Pfleiderer's business environment is subject to extremely intensive price competition. The Company is faced with strong, internationally active competitors, some of which are larger in certain business segments. In addition to product innovations, Pfleiderer meets this challenge by means of suitable measures for reducing costs and increasing productivity.

The development of business in 2009 was affected by moderate price increases in the international energy and raw material markets. Further price increases for individual raw materials cannot be ruled out in 2010. Pfleiderer uses a large variety of raw materials in its production processes; but since there are sufficient numbers of suppliers of those materials, there is virtually no dependency on individual suppliers. Supply is secured with a multi-sourcing purchasing policy. Supplier failures, supplier delays or quality problems could lead to disturbances of production and thus have a negative impact on profitability. Pfleiderer counteracts these risks by entering into long-term supply agreements and has a highly efficient purchasing organization, which constantly secures the timely availability of raw materials in appropriate quality. The high energy needs with prices often influenced by taxes and other levies for political reasons is a risk in particular for the German sites. We counteract these risks through process optimization and the use of our own power-heat cogeneration plants.

The development of the world economy and of future growth markets has been slowed down considerably by the ongoing global crisis. In this context, it is quite possible that further market consolidation will take place with a sustained effect on Pfleiderer's market position. Another factor is that further customer insolvencies cannot be ruled out in the relevant markets.

Operating risks

Pfleiderer operates production facilities in which machines are mainly kept running continuously in multi-shift operation. The resulting high level of organizational and technical complexity means that in the event of disruptions to the value chain, there is a risk of production interruptions and quality problems, as well as environmental and occupational safety risks. Despite our maintenance management, the risk of fire and explosion can never be entirely ruled out in the wood processing industry. Resulting damage to plant and machinery as well as possible losses due to downtime are covered to the commercially viable extent by appropriate insurance. However, any fire, explosion or environmental damage can 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, and appropriate action and emergency plans have been prepared to deal with any possible occurrences.

Personnel risks

Pfleiderer counteracts possible personnel risks arising from staff fluctuation, loss of know-how, demotivation, insufficient qualification, and competition for specialists and executives with modern human resources tools. Attractive remuneration systems as well as a wide range of training and further training programs have been installed to promote employee loyalty to the Group. Close contacts with selected universities support the recruitment of qualified new talent. Pfleiderer ensures that it has highly qualified talent at all levels, especially skilled production workers, thanks to its vocational training program that is widely recognized for its quality and trains more people than the Company actually needs.

Financing risks

Pfleiderer defines financial risks as liquidity risk, foreign currency risk and interest rate risk, arising in particular from business operations and corporate financing. Managing all the Pfleiderer Group's financial risk by applying appropriate financial monitoring instruments tools is the responsibility of the Corporate Finance department of Pfleiderer AG. The operating units are responsible for managing accounts receivable. In general, business transactions have to be carried out within the insurance limits of the overall credit insurance policy. These framework agreements are negotiated by Corporate Finance.

Following successful negotiations in 2009, Pfleiderer agreed with its banks on new credit conditions at the beginning of 2010. As a result, credit facilities of approximately 800 million euros is available to us until 2013. The package includes a loan of 140 million euros from the Germany fund of the state-owned support bank, KfW. In addition, Pfleiderer's subsidiary listed on the Polish stock exchange reached an basic agreement with its banks covering further loans in złoty amounts equivalent to about 300 million euros. As a result of the new agreements, financing costs will by higher than in 2009 by a small double-digit million amount.

The new credit agreements include financial covenants usual in the market which have to be fulfilled during the term of the loans. As the ongoing development of the global crisis and its effects on the world economy cannot be finally assessed at present, the risk that credit lines might fall due because of the agreed financial covenants not being fulfilled cannot be entirely ruled out. This situation is continuously monitored in order to take timely countermeasures if required.

Risks arising from significant changes in interest rates can be largely ruled out during the planning period due to existing credit lines and additionally agreed interest rate hedges. The Corporate Finance department of Pfleiderer AG regularly monitors developments on financial markets.

Foreign currency risks are of particular importance for the Pfleiderer Group due to the growth of its international operations. The currencies with a fairly major impact are the Polish złoty, the Canadian dollar, the US dollar, the Swedish krona and the Russian ruble. Pfleiderer limits its currency risk through the local procurement of raw materials and equipment (natural hedges) and by means of specific currency hedges.

Derivative financial instruments are used to hedge interest rate and currency exposures with the aim of minimizing risks resulting from fluctuations in exchange rates and market interest rates. The Company's guidelines on risk management and on the application of hedges require that these types of risk are generally hedged. Only marketable interest rate derivatives and currency futures with prime-rated banks are used for this purpose. Derivative financial transactions are limited to hedging the operating business and the related financing. The Company does not enter into derivative financial transactions for speculative purposes.

The Pfleiderer 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 futures, the maximum risk corresponds to the change in the exchange rate of the hedged amount.

Further information, in particular relating to the significance of financial instruments for the net assets, financial position, and results of operations, is provided in the consolidated financial statements according to IFRSs, primarily in the notes on financing instruments and risks.

Regulatory and legal risks

Changes in the legal environment can result in risks for the Group, can increase costs and restrict sales possibilities. We attempt to react to such changes in good time by means of an intensive information policy.

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 legal counsel is obtained if necessary. Pfleiderer has recognized appropriate provisions to cover warranty claims, which the Group is almost inevitably confronted due to its business activities and as a result of the sale of companies in recent years.

On March 4, 2009, as with other companies in the engineered wood sector, the premises of Pfleiderer were searched due to suspicion of anticompetitive behavior. On March 9, 2010, notifications of accusations and hearings involving Pfleiderer AG and its subsidiaries were received from Germany's Federal Antitrust Authority, with reference to proceedings for alleged violation of antitrust regulations by companies in the particleboard industry and their responsible persons. A renowned firm of attorneys has been commissioned to act in these proceedings. Due to the current stage of the proceedings, no reliable estimate can be made of any possible damage. Apart from this, Pfleiderer AG and its subsidiaries are not involved in any in legal or arbitration proceedings which, according to current assessments, could have a material negative impact on the financial situation of the Group.

IT risks

Major disruptions of IT systems can lead to data losses and negative effects on business and production processes, despite backup actions. Potential IT risks such as unauthorized data access or data misuse are limited with a number of measures such as authorization concepts, internal IT security guidelines and IT infrastructure standards, which involve employees, organizations, applications, systems and networks. In addition, technical protection measures such as firewalls or virus scanners are reviewed annually in the context of an internal IT security audit.

Environmental risks

As a company in the engineered wood industry, Pfleiderer is exposed to process-related risks within the framework of its existing production processes. Environmental protection measures and environmentally compatible investments in our production plants make an important contribution towards minimizing environmental pollution and conserving resources sustainably.

In order to minimize potential environmental risks, environmental officers have been trained and deployed at the Group and in the business units, and appropriate guidelines have been issued. According to expert opinions, contamination is to be anticipated at certain production sites, for which we have recognized sufficient provisions. Due to continuous changes in the regulatory environment and advances in research and development, additional expenditure in the areas of the environment and product quality cannot be ruled out for the future.

Risks from buying, selling and restructuring

In connection with restructuring measures, risks can arise from the sale or acquisition of property, companies or other business activities. Appropriate risk strategies are in place for such risks.

Project risks

The processing of major projects is always connected with risks. Technical problems and quality problems with subcontractors can lead to higher costs than planned and cause missed deadlines, as happened in Moncure/USA for example. Pfleiderer is constantly improving its control instruments in order to limit these risks.

INTERNAL CONTROL SYSTEM (ICS)

The ICS at Pfleiderer AG is based on key guidelines, procedures etc., which determine the ICS environment. These are communicated throughout the Group in the following rules for example:

- Code of Conduct, Legality Guidelines
- Manuals (Accounting Manual, Treasury Manual)
- Guidelines (Guidelines for signatures and power of attorney, Guidelines for the prevention of corruption with regard to Compliance, Guidelines on dealing with Non-cash Benefits for customers and employees)
- Rules of procedure

The sets of rules of Pfleiderer AG listed above pursue the following goals:

- Providing instructions for acting daily in business operations in order to adhere to laws and regulations relevant to the Group and to establish internal Group guidelines.
- Ensuring identification with and the management of significant operating, strategic, compliance-relevant and accounting-relevant risks.
- Securing the quality of financial reporting including the development and implementation of processes which quickly generate relevant and reliable information.

SAP software features prominently in the system landscape of Enterprise Resource Planning at Pfleiderer AG. The ISC includes both automated and manual controls.

With regard to the accounting process, the clear allocation of responsibilities and controls (e.g. closing schedule/accounting manual) with regard to preparation of financial statements, based on the ICS environment and the SAP landscape, results in other key elements for risk monitoring and control. This includes the “four-eyes principle,” sensible separation of functions and/or compensating controls as well as access rules for IT systems, e.g. by the regular review of authorization concepts. Manual controls (e.g. IFRS package review) and automated controls (e.g. reconciliation checks in the SAP-SEM consolidation) firmly anchored in the financial statements process have preventive and detective effects, ensuring the completeness, validity and accuracy of transaction data and master data. This makes sure there is sufficient security, so that the consolidated financial statements are prepared in accordance with applicable law despite the potential risks.

Within the context of the audits performed in 2009 by the internal auditing department, in line with professional standards, there was a focus on the ICS as well as on compliance-relevant issues. For the deficits identified during the audit, action plans were prepared and the relevant bodies were informed (Executive Board/Audit Committee/External Auditors). In the context of so-called follow-up audits, the implementation of the action plans was supervised. By regularly reviewing the current ICS for its appropriateness internal auditing and the external auditors ensure that the system is effective in recognizing at an early stage any risks that might jeopardize the existence of the Company.

Responsibility for the ICS – interaction with the Pfleiderer management

A management principle at Pfleiderer is the delegation of entrepreneurial responsibility and authority to the operating units. This principle of subsidiarity draws a clear line between the responsibilities of headquarters and the business units. The Pfleiderer headquarters determine the Group's general strategic and operational targets and bear overall responsibility for the process. The business units are responsible for all operating issues and activities, and are subject to regular monitoring by the Executive Board in the context of the monthly business reviews or by internal auditing.

In the fulfillment of its tasks related to the ICS, the Executive Board is served by local management, which is commissioned with the performance and monitoring of the ICS. The local management is obliged to ensure the transparency and effectiveness of its local sub-ICS systems and their compliance with the goals defined by the Executive Board of Pfleiderer AG. The management of the business units and the headquarters departments is responsible for the implementation of suitable offsetting measures to reduce the probability of occurrence and the effects of risks.

Development in 2009

In the context of the Pfleiderer's Group-wide compliance program, a number of measures were further developed in 2009.

On the one hand, additional Group-wide guidelines and manuals were prepared or updated ("Minimum Internal Control Standard", "Guidelines for Signatures and Power of Attorney"), and Group-wide workshops were carried out to ensure that these guidelines were implemented as effectively and efficiently as possible.

The “Minimum Internal Control Standard” ensures that in all operating units and at the headquarters of the Pfleiderer Group, there is a sufficient extent of standardized internal controlling instructions, and that they are regularly reviewed.

The standards cover all significant processes, such as:
- Purchasing, from ordering to paying
- Accounting & controlling
- Bank & liquidity management
- Wages and salaries payroll
- Fixed assets
- Sales, from ordering to paying
- Inventory management
- Travel expenses
- IT security and controls

On the other hand, Group-wide risk management and ICS workshops were held. Furthermore, a concept was developed and implemented for management evaluation in terms of compliance. These measures serve to ensure that in future assessments of the top managements of Pfleiderer AG, important risk management, ICS and compliance issues are given even more consideration.

OVERALL RISK ASSESSMENT

At present, no risks have been identified at the Pfleiderer Group that could jeopardize the continued existence of the Group. A consolidated consideration of all material risks has been performed to arrive at an overall assessment. However, like any other company, Pfleiderer AG is confronted with potential risks, especially with the uncertainty of global economic developments, which could materially affect the course of its business and its net assets, financial position, and results of operation.

Opportunities and Outlook

Pfleiderer plans to focus its business on the three regions of Western Europe, Eastern Europe and North America also in the future. Particularly in Western Europe and North America, we expect ongoing market consolidation with the reduction of production capacities. This will present us with opportunities to raise our sales prices to an acceptable level once again and to pass on the pressure of rising raw material costs to our customers, even if the revival of demand is only moderate.

The consequences of the financial market crisis will affect economic growth in our sales markets also in 2010. Banks and companies will continue to reduce their levels of debt in 2010, thus dampening growth to less than its potential. Another factor is that rising unemployment could dampen private consumption. Against this backdrop, we anticipate regional differences in the development of demand this year. Whereas in Eastern Europe – especially in Poland – demand should continue improving and our capacity utilization there is likely to remain good, Western Europe may well feature weak demand. Above all our business with office furniture manufacturers and the export business to the United Kingdom will probably not see a revival. In North America, there are several indicators from the real estate market of stabilization or even a slight revival of new construction activity, which should lead to increasing demand for our products after a certain time lag. Furthermore, there are signs in North America of increasing substitution of inexpensive particleboard for solid wood and plywood furniture. Our business in North America will receive additional revenues and earnings impetus due to the ramp-up of MDF production at our plant in Moncure/USA.

In total, revenues in 2010 should increase compared to the prior year, while profitability is likely to remain unsatisfactory. A repeated loss is likely in 2010, despite additional cost-reducing measures of up to 30 million euros solely in the area of administration, due not least to the higher interest expense. A dividend payment for the year 2010 is therefore unlikely. In the year 2011, a significantly better price level for our products, a revival of demand, and lower interest charges due to the gradual debt reduction should lead to a profit being posted once again.

For the years 2010 and 2011, we do not plan capital expenditure in capacity expansion, but only for the maintenance of existing plants. This should amount to significantly less than 100 million euros per annum. When the market stabilizes in Russia, however, we will continue the interrupted construction of our MDF plant in Novgorod, investing an additional 50 to 60 million euros. Our capital expenditure of the past three years will provide us with significant growth opportunities, as we now have more and more efficient production capacities than in the particularly successful year 2007 for example. Compared with then, we now also dispose of the capacities of the MDF plant in Grajewo/Poland, the particleboard and MDF plant in Moncure/USA, and the additional laminating capacities in Novgorod/Russia and Val d'Or/Canada. Furthermore, we will also complete the new MDF plant in Novgorod when the market situation improves.

In the coming years, the Pfleiderer Group will focus on debt reduction, cash management and the further strengthening of its market position. Despite the difficult market situation, we believe that compared to the competition, we are well prepared to achieve our goals.

Disclaimer

This report contains forward-looking statements based on the current assessments of the Pfleiderer management and on certain assumptions concerning future developments. Such statements are subject to risks and uncertainties outside the possible control and/or sphere of influence of Pfleiderer and which therefore cannot be accurately assessed by us. These risks and uncertainties can lead to actual developments differing substantially from the assessments. Those risks and uncertainties include future market and economic conditions, the actions of other market players, the successful integration of new acquisitions, and the realization of expected synergy effects.

Neumarkt, March 17, 2010

Hans H. Overdiek   Heiko Graeve   Pawel Wyrzykowski

Responsibility statement

Pursuant to Section 37y of the German Securities Trading Act (WpHG) in conjunction with Section 37w, Paragraph 2, No. 3 of the German Securities Trading Act (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 net assets, financial position and results of operation of of the Group, and the Group management report includes a fair review of the development and performance of the business and position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Neumarkt, March 17, 2010

Hans H. Overdiek   Heiko Graeve   Pawel Wyrzykowski

Consolidated Financial Statements 2009

CONSOLIDATED FINANCIAL STATEMENTS OF PFLEIDERER AG

FINANCIAL STATEMENTS OF PFLEIDERER AG (EXTRACTS)

CONSOLIDATED FINANCIAL STATEMENTS OF PFLEIDERER AG

Consolidated Balance Sheet (IFRSs) as of 31 December 2009

ASSETS

'000 EUROS	NOTES	Dec. 31, 2009	Dec. 31, 2008
Cash and cash equivalents	IV.1	59,292	46,288
Receivables and other assets	IV.2/3	177,011	125,835
Inventories, net	IV.4	166,386	182,078
Income tax receivables		2,460	5,652
Other current assets		5,806	5,747
Assets from discontinued operations	IV.5	11,602	10,280
Current assets		**422,557**	**375,880**
Property, plant and equipment, net	IV.6	866,084	829,305
Intangible assets, net	IV.7	535,173	540,636
Financial assets	IV.8	4,888	4,665
Deferred tax assets	IV.9	128,862	123,171
Other non-current assets	IV.10	13,652	13,845
Non-current assets		**1,548,659**	**1,511,622**
Total assets		**1,971,216**	**1,887,502**

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

LIABILITIES AND EQUITY

'000 EUROS	NOTES	Dec. 31, 2009	Dec. 31, 2008
Liabilities and other debt	IV.11	234,834	278,956
Financial liabilities	IV.12	800,202	153,408
Other provisions	IV.13	46,880	52,155
Income tax liabilities		8,604	12,556
Other debt		468	1,019
Liabilities from discontinued operations	IV.5	14.331	18,032
Current liabilities		**1,105,319**	**516,126**
Financial liabilities	IV.15	113,294	528,362
Pension provisions	IV.16	15,800	14,983
Deferred tax liabilities	IV.9	81,761	86,167
Other debt	IV.17	5,684	11,306
Other provisions	IV.18	17,659	19,620
Non-current liabilities		**234,198**	**660,438**
Contributions and subscribed capital	IV.19	136,515	136,515
Group reserves including retained earnings brought forward and consolidated profit	IV.19	302,078	369,070
Treasury shares	IV.19	– 43,073	– 43,073
Other comprehensive income	IV.19	– 52,569	– 45,523
Equity of shareholders of Pfleiderer		**342,951**	**416,989**
Hybrid capital	IV.19	260,204	260,204
Minority interests	IV.19	28,544	33,745
Total equity		**631,699**	**710,938**
Total liabilities and equity		**1,971,216**	**1,887,502**

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

Consolidated Income Statement (IFRSs) for the Fiscal Year 2009

'000 EUROS	NOTES	Jan. 1 – Dec. 31, 2009	Jan. 1 – Dec. 31, 2008
Revenues	V.1	1,381,534	1,735,900
Cost of sales	V.2	– 1,046,789	– 1,301,028
Gross profit		**334,745**	**434,872**
Selling expenses	V.3	– 199,961	– 223,334
Administrative expenses	V.4	– 121,314	– 122,388
Research and development costs	V.5	– 2,768	– 4,081
Other operating income and expenses	V.6	– 26,801	12,550
Profit from operations		**– 16,099**	**97,619**
Interest income	V.7	1,307	5,417
Interest expense	V.7	– 50,224	– 57,061
Other financial income, net	V.7	129	– 28,360
Financial income, net	V.7	**– 48,788**	**– 80,004**
Profit from continuing operations before income taxes		**– 64,887**	**17,615**
Income taxes	V.8	8,210	11,173
Profit from continuing operations		**– 56,677**	**28,788**
Profit from discontinued operations	IV.5	– 133	– 325
Income taxes on discontinued operations	IV.5	2,322	– 6,116
Profit/loss for the period		**– 54,488**	**22,347**
of which attributable to minority interests		– 3,190	– 2,445
of which attributable to hybrid capital investors		18,454	18,973
of which attributable to shareholders of Pfleiderer AG		**– 69,752**	**5,819**
Earnings per share (basic)	VI.4	– 1.38	0.11
Earnings per share (diluted)	VI.4	– 1.38	0.11
Earnings per share from continuing operations after minority interests	VI.4	– 1.42	0.24
Earnings per share from discontinued operations	VI.4	0.04	– 0.13
Average number of shares outstanding (basic)	VI.4	50,682,642	50,781,022

Consolidated Statement of Recoginzed Income and Expense

'000 EUROS	NOTES	Jan. 1 – Dec. 31, 2009	Jan. 1 – Dec. 31, 2008
Profit/loss for the period after taxes		**– 54,488**	**22,347**
Currency translation differences	IV.19	– 10,814	– 45,871
Derivative financial instruments	IV.19	1,757	– 3,793
Total of income and expense recognized directly in equity (after taxes)		**– 9,057**	**– 49,664**
Total of income and expense recognized in equity		**– 63,545**	**– 27,317**
Thereof attributable to:			
Minority interests		– 5,201	– 8,487
Hybrid capital investors		18,454	18,973
Shareholders of Pfleiderer AG		– 76,798	– 37,803
Total of income and expense recognized in equity		**– 63,545**	– 27,317

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

Consolidated Cash Flow Statement (IFRSs) for the Fiscal Year 2009

'000 EUROS	NOTES	Jan. 1 – Dec. 31, 2009	Jan. 1 – Dec. 31, 2008
Earnings before interest and income taxes (EBIT)	VI.6	– 16,099	97,619
Net income taxes paid		– 5,414	– 20,481
Depreciation and amortization of fixed assets		116,455	126,122
Gain/loss on the disposal of fixed assets		– 550	– 2,299
Change in pension provisions		– 821	– 221
Cash flow		**93,571**	**200,740**
Change in current assets		17,530	86,257
Change in other non-current assets		1,145	4,293
Change in current liabilities excluding financial debt		– 114,788	– 36,993
Change in non-current liabilities excluding financial debt		– 13,303	– 17,815
Other non-cash income and expense		2,105	– 8,061
Cash flow from operating activities		**– 13,740**	**228,421**
Purchase of intangible assets		– 813	– 4,061
Purchase of property, plant and equipment		– 138,202	– 162,852
Purchase of and proceeds from the acquisition and sale of companies and shares of consolidated companies		– 370	– 30,624
Proceeds from the sale of intangible assets		689	777
Proceeds from the sale of property, plant and equipment		2,421	6,147
Proceeds from the sale of financial assets		34	0
Cash flow from investing activities		**– 136,241**	**– 190,613**
Cash flow from operating activities after investing activities		**– 149,981**	**37,808**
Change in financial liabilities		208,561	84,167
Change in externally factored receivables		– 4,001	4,121
Dividend payments to minority shareholders		0	– 16,825
Dividend payments to hybrid capital investors		0	– 19,407
Dividend payments to shareholders of Pfleiderer AG		0	– 15,290
Interest paid		– 42,943	– 49,095
Interest received		1,307	5,150
Other financing activities/finance leases		– 110	– 2,246
Cash flow from financing activities		**162,814**	**– 9,425**
Net change in cash and cash equivalents		12,833	28,383
Effect of exchange rate fluctuations on cash and cash equivalents		1,688	689
Change in cash and cash equivalents of discontinued operations	VI.6	– 1,513	– 4
of which from operating activities		– 1,513	– 4
Effect of first-time consolidation and of deconsolidation on cash and cash equivalents		– 4	23
Cash and cash equivalents at January 1	IV.1	46,288	17,197
Cash and cash equivalents at December 31	IV.1	59,292	46,288

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

Consolidated Statement of Changes in Equity (IFRSs) for the Fiscal Year 2009

'000 EUROS	NOTES	Subscribed capital	Group reserves, including retained earnings and profit for the period
Balance at January 1, 2009	**IV.19**	**136,515**	**369,070**
Treasury shares			
Change in adjustment item from foreign currency translation			
Measurement of financial derivatives			
Profit for the period or consolidated profit			– 69,752
Hybrid bond buyback			
Deferred dividend payments to hybrid capital investors			
Dividends paid			
Change in scope of consolidation			
Effect of stock option programs			2,760
Balance at December 31, 2009	**IV.19**	**136,515**	**302,078**

'000 EUROS	NOTES	Subscribed capital	Group reserves, including retained earnings and profit for the period
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
Hybrid bond buyback			
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**

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

Treasury shares	OTHER COMPREHENSIVE INCOME Foreign currency translation	Measurement of financial derivatives	Hybrid capital	**Subtotal**	Minority interests	**Total**
– 43,073	**– 41,730**	**– 3,793**	**260,204**	**677,193**	**33,745**	**710,938**
				0		0
	– 8,803			– 8,803	– 2,011	– 10,814
		1,757		1,757		1,757
			18,454	– 51,298	– 3,190	– 54,488
				0		0
			– 18,454	– 18,454		– 18,454
				0		0
				0		0
				2,760		2,760
– 43,073	**– 50,533**	**– 2,036**	**260,204**	**603,155**	**28,544**	**631,699**

Treasury shares	OTHER COMPREHENSIVE INCOME Foreign currency translation	Measurement of financial derivatives	Hybrid capital	**Subtotal**	Minority interests	**Total**
– 43,432	**– 1,891**	**0**	**270,915**	**741,982**	**59,057**	**801,039**
359				– 1,806		– 1,806
	– 39,829			– 39,829	– 6,042	– 45,871
		– 3,793		– 3,793		– 3,793
			18,973	24,792	– 2,445	22,347
			– 10,711	– 10,711		– 10,711
			434	434		434
			– 19,407	– 34,697	– 16,825	– 51,522
	– 10			– 56		– 56
				877		877
– 43,073	**– 41,730**	**– 3,793**	**260,204**	**677,193**	**33,745**	**710,938**

Consolidated Segment Report (IFRSs) for the Fiscal Year 2009

FISCAL YEAR 2009

'000 EUROS	External revenues	Intragroup revenues	Segment earnings (EBIT)
Region Western Europe	714,099	27,843	1,344
Region Eastern Europe	265,156	19,799	2,636
Region North America	401,768	0	4,277
Subtotal	**1,381,023**	**47,642**	**8,257**
Headquarters	0	68,776	– 33,933
Other	511	367	– 1,457
Discontinued activities	0	0	– 133
Consolidation	0	– 116,785	11,167
Pfleiderer Group	**1,381,534**	**0**	**– 16,099**

FISCAL YEAR 2008

'000 EUROS	External revenues	Intragroup revenues	Segment earnings (EBIT)
Region Western Europe	933,818	12,005	112,548
Region Eastern Europe	396,579	23,702	28,945
Region North America	404,945	0	– 20,217
Subtotal	**1,735,342**	**35,707**	**121,276**
Headquarters	0	48,540	– 14,341
Other	558	372	– 419
Discontinued activities	0	0	0
Consolidation	0	– 84,619	– 8,897
Pfleiderer Group	**1,735,900**	**0**	**97,619**

Segment reporting is part of the notes.

Segment assets at Dec. 31	Segment liabilities at Dec. 31	Segment capital expenditure	Scheduled depreciation and amortization	Non-cash expenses
647,884	158,440	16,617	49,518	15,200
520,253	88,791	37,680	26,489	4,125
554,523	77,099	101,113	31,615	1,801
1,722,660	**324,330**	**155,410**	**107,622**	**21,126**
50,514	75,420	2,267	1,079	5,918
9,104	19,226	22	504	0
11,602	14,331	0	0	0
177,336	906,211	0	0	– 63
1,971,216	**1,339,518**	**157,699**	**109,205**	**26,981**

Segment assets at Dec. 31	Segment liabilities at Dec. 31	Segment capital expenditure	Scheduled depreciation and amortization	Non-cash expenses
769,636	195,920	58,681	50,932	9,747
496,325	91,685	60,310	31,559	2,933
419,247	94,326	37,437	28,453	20,739
1,685,208	**381,931**	**156,428**	**110,944**	**33,419**
19,389	41,976	2,247	861	1,476
8,938	18,097	25	544	1,784
10,280	18,033	0	0	0
163,687	716,527	0	0	9,922
1,887,502	**1,176,564**	**158,700**	**112,349**	**46,601**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2009

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 2009 were approved for publication on March 17, 2010.

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 the income statement.

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

II. Exemption in accordance with Section 264b and Section 264 (3) 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" are represented under point 14 "Exemption in accordance with Section 264b and Section 264 (3) of the German Commercial Code".

III. Summary of significant accounting policies

1. Basis of reporting

a-z Glossary – p. 169

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 2009

The amended and supplemented standards IAS 1, Presentation of Financial Statements (revised), IAS 23, Borrowing Costs, IFRS 2, Share-based Payment and IFRS 8, Operating Segments were applied for the first time in 2009. This has led to changes in presentation.

Change in IFRS 1, First-time Adoption of IFRSs and IAS 27, Consolidated and Separate Financial Statements in line with IFRSs

The changes in IFRS 1 and IAS 27 allow companies to determine the cost of an equity interest either at fair value or at the carrying amount in line with the previously applied national accounting regulations in their IFRS individual financial statements on first-time adoption of the International Financial Reporting Standards (IFRSs). This regulation applies both to jointly controlled entities and associated companies and also to subsidiaries. The changes must be applied to fiscal years beginning on or after January 1, 2009.

Change in IFRS 2, Share-based Payment (vesting conditions and cancellations)

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 addition must be applied to fiscal years beginning on or after January 1, 2009. The revised IFRS 2 did not lead to any significant changes when used for the first time by Pfleiderer in the fiscal year 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 did not lead to any significant changes in segmentation.

Amendment to IAS 1, Presentation of the Financial Statements

In September 2008, 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 must be applied to fiscal years beginning on or after January 1, 2009.

Amendment to 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 did not lead to any changes in the Company's accounting as this accounting option had already been utilized in the past.

Amendment to IAS 32, Financial Instruments: Disclosures and IAS 1, Presentation of Financial Statements (revised)

The amendments to IAS 32 and IAS 1 regarding puttable financial instruments and obligations arising on liquidation did not lead to any changes in the accompanying 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 thus standardizes the recognition of revenues attributable to the award credit as multicomponent transactions under IAS 18.13. IFRIC 13 is required to be applied to fiscal years beginning on or after July 1, 2009. The future adoption of this interpretation will not lead to any effects on the Pfleiderer Group's financial statements.

IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 provides information on how the limit in line with IAS 19 is to be determined for a surplus which can be recognized as an asset, and what effects a legal obligation to pay a minimum contribution has on the measurement of assets and obligations arising from defined benefit plans. The amendments to this interpretation must be applied for the first time in reporting periods of fiscal years beginning on or after January 1, 2009.

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 in kind except for business transactions under common control. IFRS 17 should be applied to fiscal years beginning on or after July 1, 2009. An earlier application is recommended. It is not expected that IFRIC 17 will affect future consolidated financials of Pfleiderer AG.

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

The International Accounting Standards Board (IASB) has issued the following standards, interpretations, and amendments to existing standards that have already been adopted by the EU and 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:

Amendment to 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, which means that 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. The amendments to IAS 27 will not lead to any changes.

Amendment to IAS 39, Financial Instruments: Recognition and Measurement

The amendments to IFRIC 9 and IAS 39 clarify how embedded derivatives must be dealt with if a hybrid contract is reclassified from the “at fair value through profit or loss” category. The first-time application of the amendment is for fiscal years beginning on or after January 1, 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. The revised IFRS 3 will lead to changes in the event of acquisitions.

IFRIC 12, Service Concession Arrangements

IFRIC 12 governs the recognition of service concession arrangements between public authorities 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 July 1, 2009. This 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. IFRS 16 should be applied to fiscal years beginning on or after October 1, 2009. An earlier application is recommended. It is not expected that IFRIC 16 will affect future consolidated financial statements of Pfleiderer AG.

Foreign currency translation

The consolidated financial statements are prepared in euros, 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 (euros) at the closing rate at the balance sheet date.

Scope of consolidation

The consolidated financial statements as of December 31, 2009, 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, 29 (previous year: 31) German and 48 (previous year: 49) foreign subsidiaries were consolidated. One subsidiary – Pergo do Brazil Ltd., São Paulo, Brazil – was sold and therefore deconsolidated in the fiscal year. In the fiscal year, FH Frischholz GmbH was merged into

Heller Holz GmbH, and Kunz Informatik GmbH was merged into Pfleiderer Holzwerkstoffe Gschwend GmbH; all of these companies are domiciled in Neumarkt.

The number of fully consolidated companies is calculated as follows:

	Dec. 31, 2009	Dec. 31, 2008
Germany	29	31
Outside Germany	48	49
Total	**77**	**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 netted 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 their prorated 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 or loss.

Acquisitions and sales as well as discontinued operations

Pergo do Brazil Ltd., São Paulo, Brazil, was sold in fiscal year 2009. There were no further changes in the scope of consolidation due to acquisitions, sales and discontinued operations as compared with the 2008 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.

No impairment of goodwill or of other intangible assets was identified on the basis of the impairment tests that were conducted using projections 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, from the current perspective, 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 of the Group (euros) 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 main foreign currencies used by the Group are as follows:

	AVERAGE RATES (1 EURO =)		CLOSING RATES (1 EURO =)	
	2009	2008	**Dec. 31, 2009**	Dec. 31, 2008
UK (GBP)	0.8912	0.7968	0.8881	0.9525
Canada (CAD)	1.5850	1.5595	1.5128	1.6998
Poland (PLN)	4.3292	3.5159	4.1045	4.1535
Romania (RON)	4.2399	3.6840	4.2363	4.0225
Russia (RUB)	44.1402	36.4233	43.1540	41.2830
Sweden (SEK)	10.6219	9.6193	10.2520	10.8700
Switzerland (CHF)	1.5098	1.5868	1.4836	1.4850
Czech Republic (CZK)	26.4528	24.9607	26.4730	28.8750
Hungary (HUF)	280.5032	251.7319	270.4200	266.7000
USA (USD)	1.3932	1.4711	1.4406	1.3917
Ukraine (UAH)	11.2558	7.7416	11.4969	10.8148

Revenue recognition

Revenues are generated mainly from the supply of products and, to a minor extent, from rendering 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 when 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 as defined in IAS 11, 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 as well as 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 are recognized on the basis of an aggregate tax rate of 28.29% (previous year: 28.29%). This is computed on the assumption of a corporate income tax rate (including the solidarity surcharge) for the German companies of 15.83% (previous year: 15.83%) and an average trade tax rate of 12.46% (previous year: 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. Development costs that meet the criteria defined in IAS 38, Intangible Assets, 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 realizable value on the basis of individual values or by applying the weighted average method. FIFO is also used in justified individual cases. Net realizable 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. Thus, the component approach is 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 fiscal year 2009, reported government grants amounted to 15,842 thousand euros (previous year: 17,426 thousand euros). 2,356 thousand euros (previous year: 1,648 thousand euros) was recognized in the income statement in the year under review. The sale of the emission rights granted by the government in 2009 generated 3,250 thousand euros (previous year: 8,442 thousand euros) for the Company in the year under review. 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. An amount was accrued at the level of the expected future tax savings, and the same amount was 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 were adjusted to current corporate planning. The deferred assets item amounted to 2,090 thousand euros (previous year: 7,837 thousand euros), whilst the deferred liabilities totaled 5,348 thousand euros (previous year: 11,239 thousand euros).

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 (as in the previous year, 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. In fiscal year 2009, unlike in previous financial statements, income from the sale of emission certificates amounting to 4,213 thousand euros was classified as reducing cost of sales.

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, Impairment of Assets, 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 units 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 must be written down to the recoverable amount. 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 similar obligations

Provisions for pensions and 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.

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 a variety of provisions, 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 at the same time financial liabilities or equity instruments at another entity.

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
- Leasing liabilities.

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

- Loans and receivables
- Financial assets held for trading
- Available-for-sale assets.

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

- Other financial liabilities measured at amortized cost
- Financial liabilities held for trading
- Derivatives that are designated as hedging instruments.

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

“Loans and receivables” are non-derivative financial assets with fixed or determinable payments which are not listed on an active market. They are recognized for the first time at fair value plus directly attributable transaction costs. Following initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less write-downs. They consist of trade receivables, other extended credits and receivables, and loans.

The assets assigned to the category of **“financial assets held for trading”** are those which are acquired principally with the intention of selling them in the short term or which on initial recognition were part of a portfolio of uniquely identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or which are derivatives, with the exception of those which were designated as financial guarantees or hedging instruments and are effective as such.

“Available-for-sale assets” are non-derivative financial assets which were determined as available for sale and which are not classified as “Loans and receivables”, as “Held-to-maturity investments” or as “Financial assets at fair value through profit or loss”. The assets assigned to this measurement category include equity interests and shares in affiliated companies.

“Financial liabilities measured at amortized cost”: Amortized cost refers to the amount at which a financial liability is measured on initial recognition, less repayments, plus or minus the cumulative amortization of any difference between the original amount and the amount to be repaid at maturity, using the effective interest method. The financial liabilities assigned to this measurement category comprise bonds and other securitized liabilities, trade payables, liabilities to banks, and bond loans (Schuldscheindarlehen).

The financial liabilities assigned to the category of **“financial liabilities held for trading”** are those which were incurred principally with the intention of selling or buying them back in the short term or which on initial recognition were part of a portfolio of uniquely identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or which are derivatives, with the exception of those which were designated as financial guarantees or hedging instruments and are effective as such. The category includes derivative financial liabilities that are not part of an effective hedging relationship in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

The category **"derivatives that are designated as hedging instruments"** are derivative financial instruments in the form of interest and currency 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 when the contractual rights to the cash flows from the financial asset expire or when the financial asset is transferred. The receivables sold are derecognized, except for deductibles, 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 profit or loss. 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, Financial Instruments: Recognition and Measurement, 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 2009, as in the previous year, hedge accounting was used to hedge cash flows from currency and interest hedges, provided the requirements for hedge accounting were met. This means that changes in value resulting from measurement of the hedges on the balance sheet date were 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 respectively a four-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, 2008 and 2009 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 IFRS 8, Operating Segments. 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. Segment results are presented as earnings before interest and taxes (EBIT). Earnings from discontinued operations of –133 thousand euros are attributable in full to the Western Europe region.

IV. Explanatory notes to the consolidated balance sheet

1. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of 59,292 thousand euros were reported as of December 31, 2009 (previous year: 46,288 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, Financial Instruments: Disclosures.

2. RECEIVABLES AND OTHER ASSETS

'000 EUROS	**Dec. 31, 2009**	Dec. 31, 2008
Trade receivables, net	71,478	72,941
Tax refund claims excluding income taxes	12,441	11,665
Receivables from affiliated companies	0	32
Other assets	51,170	11,338
Prepayments	41,922	29,859
Receivables and other assets	**177,011**	**125,835**

The tax refund claims relate primarily to VAT credits of 10,360 thousand euros (previous year: 10,370 thousand euros). Other assets comprise positive fair values for financial instruments of 261 thousand euros (previous year: 1,053 thousand euros). The increase in other assets is due to deposit payments for equipment to be delivered and already completed. The increase in prepayments results primarily from the new plant in Novgorod, Russia.

3. TRADE RECEIVABLES

'000 EUROS	**Dec. 31, 2009**	Dec. 31, 2008
Trade receivables	92,559	99,808
Less specific valuation allowances	– 7,165	– 6,617
Less collective valuation allowances	– 270	– 380
Less deductions for price reductions, sales bonuses, and cash discounts	– 13,646	– 19,870
Trade receivables, net	**71,478**	**72,941**

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, 2009	**6,617**	**380**
Change in scope of consolidation/exchange differences	–75	0
Brought forward	**6,542**	**380**
Additions	4,963	104
Utilization	2,619	15
Reversals	1,721	199
December 31, 2009	**7,165**	**270**

Receivables with a principal amount of 63,261 thousand euros were sold as of December 31, 2009 (previous year: 60,249 thousand euros). The increase is primarily due to the higher revenues year on year in December. Payments and purchase price retentions in the amount of 36,827 thousand euros (previous year: 44,163 thousand euros) resulted in net receivables sold of 26,434 thousand euros (previous year: 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 3,425 thousand euros (previous year: 4,659 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	
'000 EUROS	**Dec. 31, 2009**	Dec. 31, 2008	**Dec. 31, 2009**	Dec. 31, 2008	**Dec. 31, 2009**	Dec. 31, 2008
Receivables not past due and not impaired	103,620	83,946	0	32	4,873	4,649
of which low default risk	35,670	15,647	0	32	4,873	4,649
of which on watch list	270	6	0	0	0	0
Carrying amount of receivables not past due and not impaired	**103,620**	**83,946**	**0**	**32**	**4,873**	**4,649**
Age analysis of delinquency status (past due but not impaired)						
0–30 days	21,162	28,659	0	0	0	0
31–60 days	2,816	4,496	0	0	0	0
61–90 days	1,068	1,527	0	0	0	0
91–180 days	1,867	1,627	0	0	0	0
older than 180 days	4,206	7,414	0	0	0	0
Carrying amount of past due receivables	**31,119**	**43,723**	**0**	**0**	**0**	**0**

The default risk of the trade receivables varies from region to region. Approximately 95% of the receivables in the Business Center Western Europe are covered by credit insurance. At Pergo Europe and in the Eastern Europe region, credit insurance has been taken out for more than half of the receivables. In the USA, the proportion of receivables covered by credit insurance is lower than 10%, whilst no trade receivables have credit insurance in Canada. The maximum credit risk in the Group for the receivables not sold and not covered by credit insurance corresponds to the gross carrying amount of the trade receivables less valuation allowances or the deductible and the gross carrying amount of the loans less recognized amortization.

4. INVENTORIES

Inventories comprise the following items:

'000 EUROS	**Dec. 31, 2009**	Dec. 31, 2008
Raw materials, consumables and supplies	93,809	94,821
Work in progress	7,179	9,972
Finished goods and merchandise	65,398	77,285
Inventories, net	**166,386**	**182,078**

The decrease in inventories is primarily due to targeted efforts relating to the optimization of working capital. In fiscal year 2009, writedowns of 19,059 thousand euros (previous year: 16,127 thousand euros) were recognized in profit or loss, and reversals of writedowns on inventories recognized in prior periods were performed in the amount of 277 thousand euros (previous year: 220 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 2009 fiscal year amounted to 740,666 thousand euros (previous year: 948,767 thousand euros), thus decreasing more significantly than revenues.

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	**2009**	2008
Other income and expenses	– 133	– 325
EBIT	– 133	– 325
EBT	– 133	– 325
Income taxes	2,322	– 6,116
Profit/loss after income taxes	**2,189**	**– 6,441**

The following table shows the balance sheet items reported as assets and liabilities from discontinued operations:

Assets from discontinued operations:

'000 EUROS	Dec. 31, 2009	Dec. 31, 2008
Property, plant and equipment, net	9,893	8,571
Deferred taxes	1,709	1,709
Non-current assets	**11,602**	**10,280**
Assets from discontinued operations	**11,602**	**10,280**

Liabilities from discontinued operations:

'000 EUROS	Dec. 31, 2009	Dec. 31, 2008
Liabilities and other debt	0	2
Other provisions	10,331	10,330
Income tax payables	4,000	7,700
Current liabilities	**14,331**	**18,032**
Liabilities from discontinued operations	**14,331**	**18,032**

Property, plant and equipment principally comprises land and buildings as well as production facilities held for sale. The other provisions mainly relate to the winding-up of the Wind business 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, 2007	**392,681**	**1,070,472**	**77,298**	**73,333**	**1,613,784**
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**
Currency translation	4,615	11,197	789	– 124	16,477
Acquisitions	0	0	0	0	0
Changes in accordance with IFRS 5	0	0	0	0	0
Other changes	0	0	0	0	0
Additions	1,590	14,571	5,445	119,717	141,324
Disposals	– 1,779	– 3,199	– 1,938	– 190	– 7,106
Reclassifications	6,268	28,542	2,851	– 45,492	– 7,831
Cost as of Dec. 31, 2009	**378,349**	**1,122,790**	**88,707**	**154,506**	**1,744,352**
Cumulative depreciation as of Dec. 31, 2007	**– 129,314**	**– 565,680**	**– 49,712**	**0**	**– 744,706**
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**
Currency translation	– 2,063	– 6,761	– 426	0	– 9,251
Acquisitions	0	0	0	0	0
Changes in accordance with IFRS 5	0	0	0	0	0
Other changes	0	0	0	0	0
Additions	– 16,401	– 73,619	– 10,626	0	– 100,646
Disposals	157	2,470	1,166	0	3,793
Reclassifications	654	150	– 784	0	20
Cumulative depreciation as of Dec. 31, 2009	**– 145,179**	**– 668,686**	**– 64,403**	**0**	**– 878,268**
Carrying amount as of Dec. 31, 2008	**240,130**	**480,754**	**27,826**	**80,595**	**829,305**
Carrying amount as of Dec. 31, 2009	**233,170**	**454,106**	**24,302**	**154,506**	**866,084**

The main additions to property, plant and equipment in the fiscal year 2009 resulted from the construction of the MDF/HDF plant in Moncure, USA; in addition, investments for the Russian MDF plant "Pfleiderer MDF OOO" which is under construction also contributed to the additions. Borrowing costs of 2,735 thousand euros (previous year: 2,773 thousand euros) were capitalized. The underlying interest rate on borrowings was between 1.8% and 6.0%.

Of depreciation, 6,869 thousand euros (previous year: 11,153 thousand euros) relates to impairment losses for unused non-current assets in Western Europe and North America the decreased value in use. These impairment losses are mainly reported under other operating expenses. The decrease in depreciation compared to the previous year is principally due to the change in the above impairment losses.

Items of property, plant and equipment were recognized for finance leases in the amount of 320 thousand euros (previous year: 251 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	Total intangible assets
Cost as of Dec. 31, 2007	**189,578**	**471,978**	**2,058**	**663,614**
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**
Currency translation	5,931	– 4,409	0	1,522
Acquisitions	0	212	0	212
Changes in accordance with IFRS 5	0	0	0	0
Other changes	0	0	0	0
Additions	1,335	0	403	1,737
Disposals	– 1,028	0	0	– 1,028
Reclassifications	11,333	0	– 3,502	7,831
Cost as of Dec. 31, 2009	**211,027**	**451,194**	**571**	**662,792**
Cumulative depreciation/amortization as of Dec. 31, 2007	**– 36,399**	**– 63,599**	**0**	**– 99,998**
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/amortization as of Dec. 31, 2008	**– 49,306**	**– 62,576**	**0**	**– 111,882**
Currency translation	– 653	406	0	– 246
Acquisitions	0	0	0	0
Changes in accordance with IFRS 5	0	0	0	0
Other changes	0	0	0	0
Additions	– 15,645	– 164	0	– 15,809
Disposals	339	0	0	339
Reclassifications	– 20	0	0	– 20
Cumulative depreciation/amortization as of Dec. 31, 2009	**– 65,286**	**– 62,333**	**0**	**– 127,619**
Carrying amount as of Dec. 31, 2008	**144,150**	**392,815**	**3,671**	**540,636**
Carrying amount as of Dec. 31, 2009	**145,741**	**388,861**	**571**	**535,173**

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 225 thousand euros (previous year: 551 thousand euros) were capitalized in the fiscal year.

Of the goodwill reported, 171,752 thousand euros (previous year: 169,736 thousand euros) was attributable to the Business Center Western Europe, 95,651 thousand euros (previous year: 109,282 thousand euros) to the Business Center Eastern Europe, and 121,458 thousand euros (previous year: 113,797 thousand euros) to the Business Center North America. The changes are chiefly due to exchange rate fluctuations. The amount of 212 thousand euros reported under "acquisitions" results from the compensation payment made to former shareholders as part of the squeeze-out at Pergo AB.

Amortization of intangible assets totaled 15,645 thousand euros in the 2009 fiscal year (previous year: 15,855 thousand euros) and is mainly reported under the cost of sales item.

In 2009, the Company tested the goodwill reported in the consolidated financial statements for impairment. The impairment tests performed 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 fair value less costs to sell at the level of the cash-generating units. The fair value less costs to sell was determined on the basis of comparable transactions. Capitalization rates of between 8.06% and 12.48% were taken as the basis for the impairment tests. If the weighted average cost of capital increased slightly, the carrying amount for a cash-generating unit with a capitalization rate used in discounting of 11.40% would exceed the calculated fair value less costs to sell. At the balance sheet date, the amount of the fair value less costs to sell corresponds to the carrying amount of this unit. If the borrowing rate in the region increased, the unit's fair value less costs to sell would fall below its carrying amount. Fair value less costs to sell 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. Regionally adjusted growth rates of between 1.5% and 3.0% for extrapolating the perpetual annuity were factored in. The weighted average cost of total capital used in discounting includes an individual beta factor derived from the peer group, an individual tax rate, and an individual capital structure. 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, 2007	**40**	**9**	**4,468**	**4,517**
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**
Currency translation	0	0	0	0
Acquisitions	0	0	0	0
Changes in accordance with IFRS 5	0	0	0	0
Other changes	0	0	0	0
Additions	0	0	261	261
Disposals	0	0	– 38	– 38
Reclassifications	0	0	0	0
Cost as of Dec. 31, 2009	**13**	**9**	**4,872**	**4,894**
Cumulative depreciation as of Dec. 31, 2007	**0**	**– 6**	**0**	**– 6**
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**
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, 2009	**0**	**– 6**	**0**	**– 6**
Carrying amount as of Dec. 31, 2008	**13**	**3**	**4,649**	**4,665**
Carrying amount as of Dec. 31, 2009	**13**	**3**	**4,872**	**4,888**

The other loans include a loan of 4,864 thousand euros (previous year: 4,603 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 tax 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, 2009	Dec. 31, 2008
Receivables and other assets	20,531	18,254
Inventories, net	1,899	8,883
Property, plant and equipment, net	19,551	26,007
Intangible assets, net	1,465	1,563
Financial assets	52	2,158
Pension provisions	2,942	4,653
Other current and non-current liabilities	11,367	4,003
Other current and non-current provisions	8,586	10,770
	66,393	**76,291**
Tax loss carryforwards/interest carryforwards	150,641	118,564
	217,034	**194,855**
Valuation allowances/non-recognition in accordance with IAS 12.34	– 49,717	– 37,742
Netting	– 38,455	– 33,942
Deferred tax assets (after netting)	**128,862**	**123,171**
Receivables and other assets	18,044	9,357
Inventories, net	97	168
Property, plant and equipment, net	50,507	65,466
Intangible assets, net	39,041	40,847
Financial assets	1,122	1,462
Other current and non-current liabilities	11,294	2,502
Other current and non-current provisions	111	307
	120,216	**120,109**
Netting	– 38,455	– 33,942
Deferred tax liabilities (after netting)	**81,761**	**86,167**
Net amount of deferred taxes	**47,101**	**37,004**

The change in the deferred tax assets attributable to items that were not recognized in profit or loss in the 2009 fiscal year amounts to – 947 thousand euros (previous year: 8,989 thousand euros); this amount relates to the effects from foreign currency loans recognized directly in equity. No deferred taxes are recognized in profit or loss on the currency translation differences resulting from the consolidation of foreign subsidiaries. As in the previous year, no deffered taxes are 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 2,090 thousand euros (previous year: 7,837 thousand euros). Pfleiderer MDF Sp. 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, Accounting for Government Grants and Disclosure of Government Assistance. The recognition not affecting profit or loss of the tax benefit in the amount of the future tax savings is matched by an amount of 5,348 thousand euros (previous year: 11,239 thousand euros) reported under other non-current liabilities. In addition, deferred market entrance costs are also recognized (9,008 thousand euros).

11. CURRENT LIABILITIES AND OTHER DEBT

'000 EUROS	Dec. 31, 2009	Dec. 31, 2008
Payments received on account of orders	7,121	483
Trade payables	105,453	160,387
Other current debt	122,260	118,086
Current liabilities and other debt	**234,834**	**278,956**

Other current debt comprises:

'000 EUROS	Dec. 31, 2009	Dec. 31, 2008
Other employee liabilities	31,336	25,570
Collection liabilities for factoring	36,827	44,199
Liabilities from hybrid interest	25,481	7,028
Liabilities from wages and salaries	5,783	6,555
Other taxes	4,655	5,470
Social security contributions retained	2,234	2,470
Other	15,944	26,794
Other current debt	**122,260**	**118,086**

Other types of other current debt include negative fair values of hedging instruments (interest and currency hedges) of 8,665 thousand euros (previous year: 17,489 thousand euros).

12. CURRENT FINANCIAL LIABILITIES

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

'000 EUROS	Dec. 31, 2009	Dec. 31, 2008
Other current liabilities and current portion of longer-term loans	800,137	153,408
Finance leases	65	0
Current financial liabilities	**800,202**	**153,408**

The increase in current financial liabilities is due to the fact that, as a result of the violation of the financial covenants of long-term loan agreements, the non-current portion of the financial liabilities concerned also had to be reported as current liabilities (425,827 thousand euros), since as at December 31, 2009, the Company did not have the unconditional right to defer its settlement for at least 12 months after the balance sheet date. This was no longer the case at the date of approval of the annual financial statements. For details on financial liabilities, please refer to IV.15, Non-current Financial Liabilities, and VI.15, Events After the Balance Sheet Date.

13. OTHER CURRENT PROVISIONS

'000 EUROS	Jan. 1, 2009	Additions	Utilization	Reversals	Currency differences	Dec. 31, 2009
Production	3,731	3,367	3,203	174	955	4,676
Sales and marketing	511	682	512	0	214	895
Other provisions	47,913	23,698	23,939	15,223	8,860	41,309
Other current provisions	**52,155**	**27,747**	**27,654**	**15,397**	**10,029**	**46,880**

Other provisions are recognized mainly for provisions for possible violations of license and patent rights agreements and for litigation risk. All current provisions are expected to be utilized in 2010. The reversal of other current provisions results primarily from the reversal of provisions for litigation of 12,915 thousand euros. As the material risks from the pending antitrust investigations cannot be assessed, it has not been possible to recognize a provision for legal risks.

14. FINANCE LEASES

A lease exists for an energy conversion plant in Garner, North Carolina, USA, which was reported under finance leases on account of its form. As of December 31, 2009, the future minimum lease installments from finance leases are 437 thousand euros (previous year: 350 thousand euros). The present value of minimum lease installments is 378 thousand euros (previous year: 308 thousand euros). The net carrying amounts of assets capitalized as part of finance leases total 320 thousand euros (previous year: 251 thousand euros).

15. NON-CURRENT FINANCIAL LIABILITIES

The Company finances itself mainly with long-term loans which generally bear interest rates based on variable EURIBOR, LIBOR, or WIBOR rates (plus an interest rate margin). Because the financial covenants for long-term loan agreements were not complied with, the non-current portions of the financial liabilities concerned also had to be reported as current liabilities. This was no longer the case at the date of approval of the annual financial statements. The average interest rate for these loans was just under 5.00% p.a. in the fiscal year 2009 (previous year: 5.75% p.a.).

	Dec. 31, 2009		
'000 EUROS	TOTAL	CURRENT PORTION (< 1 YEAR)	NON-CURRENT PORTION (> 1 YEAR)
Liabilities to banks	913,088	800,137	112,951
Finance leases	408	65	343
Financial liabilities	**913,496**	**800,202**	**113,294**

The syndicated loan taken out in December 2006 for an original sum of 400.0 million euros and 268.7 million CAD (177.6 million euros) amounted to 300.1 million euros and 216.5 million CAD (143.1 million euros) at the end of the year after the contractual repayments agreed for the fiscal year 2009 were made. The credit agreement was to be valid until the end of 2011/the beginning of 2012.

This financing and the bond loan (Schuldscheindarlehen) agreements concluded in 2008 with an original volume of 165.0 million euros and bilateral credit facilities with a volume of 350 million SEK (34.1 million euros) and 25.0 million euros were renegotiated during 2009. In January 2010, Pfleiderer reached an agreement with the roughly 30 banks involved regarding the conditions for long-term financing. In addition to the syndicated loan, the bilateral credit agreements (all terms extended until 2013) and the bond loans (155 million euros), funds of 140 million euros are also provided at market conditions by Germany's KfW (Kreditanstalt für Wiederaufbau) as part of the syndicated loan. These funds were granted from the "Germany fund" and originate from the special program "Large enterprises".

As part of this financing package of approximately 800 million euros, partial repayments during the term are planned. Furthermore, the loan agreements contain renegotiated financial covenants in line with standard market terms, which have to be complied with during the term of the loans.

Credit facility agreements for a total of 1,111.4 million PLN (270.8 million euros), 130.0 million RUB (3.0 million euros) and 26.8 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.The subsidiary Pfleiderer Grajewo S.A, which is listed on the Polish stock exchange, also held discussions with banks until March 2010, independently of Pfleiderer AG. The financing volume involved corresponds to approximately 300 million euros. Here too, an agreement was reached with the five banks involved on financing to last until 2013.

As part of the project financing for the Grajewo MDF plant, the material assets of this company 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 principal amount of currently up to 400.0 million PLN (97.5 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 2012. 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 are composed of the following items:

'000 EUROS	**Dec. 31, 2009**	Dec. 31, 2008
Pensions and similar obligations	15,800	14,983
Less similar obligations	– 2,044	– 1,644
Pension obligations	**13,756**	**13,339**

The present value of the defined benefit obligations as of the balance sheet date was 104,110 thousand euros in the year under review (previous year: 96,276 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, 2009:

	GERMANY		CANADA	
%	**2009**	2008	**2009**	2008
Discount factor	5.25	6.00	6.75	6.50
Salary increase rate	2.50	2.50	3.00	3.00
Return on plan assets	7.00	7.00	7.50	6.75
Fluctuation	1.50	1.50	2.00	2.00
Pension adjustments	1.80	1.80	2.50	2.50

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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In 2006, business assets were transferred to an asset trustee, HSBC Trinkaus & Burkhardt AG, and a down-stream 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 2008, 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 are composed of the following items:

'000 EUROS	**2009**	2008
Current service cost	1,721	3,208
Interest expense	6,089	5,683
Plan return on plan assets	– 8,128	– 6,443
Amortization of actuarial gains (losses)	2,082	– 120
Past service cost	– 159	42
Pension expenses	**1,605**	**2,370**

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, 2009, and December 31, 2008:

				GERMANY
'000 EUROS	Defined benefit obligation 2009	Of which not covered by plan assets 2009	Of which covered by plan assets 2009	Plan assets 2009
Defined benefit obligation at beginning of year	**59,782**	**55**	**59,727**	**– 32,849**
Current service cost	419	0	419	0
Interest expense	3,471	3	3,468	0
Expected return on plan assets	0	0	0	– 5,809
Contributions by plan participants	0	0	0	0
Pensions paid	– 4,159	0	– 4,159	2,464
Actuarial gains/losses	4,627	11	4,616	0
Retrospective plan amendments	217	11	206	0
Past service cost	– 159	0	– 159	0
Disposals and transfers	156	7	149	0
Defined benefit obligation at end of year	**64,354**	**87**	**64,267**	**– 36,194**
Unrecognized actuarial gain (loss)	– 695	– 4	– 691	– 27,503
Unrecognized past service cost	– 27	0	– 27	0
Balance at December 31	**63,632**	**83**	**63,549**	**– 63,697**
Excess cover as of December 31				**– 148**

'000 EUROS	CANADA Defined benefit obligation 2009	Of which not covered by plan assets 2009	Of which covered by plan assets 2009	Plan assets 2009
Defined benefit obligation at beginning of year	**41,005**	**0**	**41,005**	**– 30,845**
Current service cost	1,302	0	1,302	0
Interest expense	2,618	0	2,618	0
Expected return on plan assets	0	0	0	– 2,319
Contributions by plan participants	1,046	0	1,046	– 5,122
Pensions paid	– 3,055	0	– 3,055	3,055
Actuarial gains/losses	– 1,899	0	– 1,899	– 1,850
Retrospective plan amendments	0	0	0	373
Past service cost	0	0	0	0
Disposals and transfers	– 1,261	0	– 1,261	1,261
Defined benefit obligation at end of year	**39,756**	**0**	**39,756**	**– 35,447**
Unrecognized actuarial gain (loss)	0	0	0	8,429
Unrecognized past service cost	0	0	0	0
Balance at December 31	**39,756**	**0**	**39,756**	**– 27,018**
Underfunding as of December 31				**12,738**

The defined benefit obligation changed as follows year on year:

'000 EUROS	DEFINED BENEFIT OBLIGATION **2009**	2008
Defined benefit obligation at beginning of year	**100,787**	**106,259**
Current service cost	1,721	2,923
Interest expense	6,089	5,683
Contributions by plan participants	1,046	962
Pensions paid	– 7,214	– 5,553
Actuarial gains/losses	2,728	– 14,141
Retrospective plan amendments	217	154
Past service cost	– 159	– 206
Disposals and transfers	– 1,105	195
Defined benefit obligation at end of year	**104,110**	**96,276**
Unrecognized actuarial gain (loss)	– 695	3,704
Unrecognized past service cost	– 27	– 46
Balance at December 31	**103,388**	**99,934**

The change in the Canadian defined benefit obligation of 4,511 thousand euros from the end of 2008 to the beginning of 2009 is largely due to using the exchange rate valid as at December 31, 2009, 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	
2009	104,110
2008	96,276
2007	114,009
2006	114,925
2005	97,929

The expected return on plan assets of 8,128 thousand euros (previous year: 6,443 thousand euros) was calculated using an interest rate of 7.5% for Canada and 7.0% for Germany, and is netted against the pension expense. The actual returns and expenses from plan assets were 0 thousand euros (previous year: 2,097 thousand euros) and non-realized losses from the valuation of plan assets totaled – 19,074 thousand euros.

The portfolio structure of the plan assets is as follows:

	GERMANY		CANADA	
%	**Dec. 31, 2009**	Dec. 31, 2008	**Dec. 31, 2009**	Dec. 31, 2008
Shares	26.4	11.9	53.5	53.5
Fixed-interest securities	73.6	88.1	46.3	46.2
Other	0.0	0.0	0.2	0.3
	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	
2009	17,652
2008	15,077
Pension benefits paid	
2009	7,198
2008	5,553
Expected pension benefits	
2009	8,221
2010	8,403
2011	8,487
2012	8,622
2013	8,710
2009 – 2013	42,443

17. OTHER NON-CURRENT DEBT

Other non-current liabilities include the deferral of the tax benefit from future income tax savings of 5,348 thousand euros (previous year: 11,239 thousand euros). Pfleiderer MDF Sp. 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, Accounting for Government Grants and Disclosure of Government Assistance. The future tax savings are deferred, while 2,090 thousand euros (previous year: 7,837 thousand euros) is reported under other non-current assets.

18. OTHER NON-CURRENT PROVISIONS

'000 EUROS	Jan. 1, 2009	Additions	Utilization	Reversals	Currency differences	Dec. 31, 2009
Restructuring measures	836	808	1,247	0	135	532
Environmental risks	6,137	2,813	3,398	0	585	6,137
Jubilee payments	3,788	226	719	12	12	3,295
Partial retirement	8,268	573	769	1,345	0	6,727
Other	591	377	0	0	0	968
Other non-current provisions	**19,620**	**4,797**	**6,133**	**1,357**	**732**	**17,659**

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 4.97% (previous year: 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 amounts to 136,514,816 euros as of December 31, 2009. 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 2009.

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 non-cash 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 capital

On June 23, 2009, the Annual Shareholders' Meeting resolved to cancel the authorization issued by the ordinary Annual Shareholders' Meeting on June 19, 2007, regarding issuing bonds with warrants and/or convertible bonds and the conditional capital of 25,600,000.00 euros existing for this purpose, and to authorize the Executive Board, with the approval of the Supervisory Board, until June 22, 2014, 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 up to 21,330,440 new shares in Pfleiderer AG with a notional interest in the share capital of up to 54,605,926.40 euros in close accordance with the conditions for the warrants/convertible bonds. These bonds are generally issued subject to shareholders' statutory subscription rights. 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. For this purpose, the share capital has been conditionally increased by up to 54,605,926.40 euros by the issue of up to 21,330,440 new shares (Conditional Capital I). Further details are governed by the authorization granted on June 23, 2009, and by Article 4(3) of the Articles of Incorporation.

In addition, the Company's share capital has been conditionally increased by up to 1,989,836.80 euros (Conditional Capital). The conditional capital increase of up to 777,280 new no-par value shares will only be implemented to the extent that subscription rights were granted under the authorization applicable until June 30, 2006, and the Pfleiderer Stock Option Plan 2001, 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. Further details are stipulated in Article 4(4) 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. Further details are governed by the authorization granted on June 13, 2006, and by Article 4(5) of the Articles of Incorporation.

Group reserves including retained earnings brought forward and consolidated profit/loss

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

'000 EUROS	2009	2008
January 1	**369,070**	**379,875**
Measurement of/change in stock option plans	2,760	877
Measurement of treasury shares	0	– 2,165
Change in scope of consolidation	0	– 46
Net profit/loss for the Group	– 69,752	5,819
Dividend	0	– 15,290
December 31	**302,078**	**369,070**

The capital reserve forms part of the above-mentioned Group reserves and corresponds to the amount of Pfleiderer AG's capital reserve. Revenue reserves 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, Financial Instruments: Disclosures and Presentation, 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. In previous years, part of this own hybrid bond was reacquired, 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 ordinary Annual Shareholders' 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: 43,073 thousand euros).

Changes in other comprehensive income recognized directly in equity

Foreign currency translation items totaling – 8,803 thousand euros (previous year: – 39,829 thousand euros) were recognized directly in equity in other comprehensive income in the fiscal year 2009. The figures relate to after-tax amounts in each case. In addition, the change (after taxes) in the effective part of interest rate hedging instruments in other comprehensive income was recognized to the value of 1,757 thousand euros (previous year: –3,793 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 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, 2009	Dec. 31, 2008
Balance sheet equity	million euros	631.7	710.9
Financial liabilities	million euros	913.5	681.8
Cash and cash equivalents	million euros	59.3	46.3
Net debt	million euros	854.2	635.5
Gearing	%	**135.2**	**89.4**

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 1,046,789 thousand euros (previous year: 1,301,028 thousand euros) primarily comprises the cost of materials of 733,826 thousand euros (previous year: 943,298 thousand euros) and employee benefits of 146,517 thousand euros (previous year: 158,697 thousand euros).

3. SELLING EXPENSES

The selling expenses of 199,961 thousand euros (previous year: 223,334 thousand euros) primarily comprise outward freight costs amounting to 88,950 thousand euros (previous year: 107,016 thousand euros) and employee benefits of 46,121 thousand euros (previous year: 44,355 thousand euros).

4. ADMINISTRATIVE EXPENSES

Administrative expenses of 121,314 thousand euros (previous year: 122,388 thousand euros) principally relate to employee benefits of 62,132 thousand euros (previous year: 54,363 thousand euros), depreciation of 11,341 thousand euros (previous year: 10,223 thousand euros), services of 9,457 thousand euros (previous year: 12,758 thousand euros), and legal and consulting costs of 9,018 thousand euros (previous year: 23,628 thousand euros).

The following fees were reported as expenses for services rendered in 2009 by the Group auditors KPMG AG Wirtschaftsprüfungsgesellschaft and its associated companies (KPMG Europe LLP):

'000 EUROS	Group parent	Subsidiaries	Total
Other confirmation services	76	245	321
Audit services for financial statements	159	193	352
Other services	37	0	37
Total	**272**	**438**	**710**

5. RESEARCH AND DEVELOPMENT COSTS

Research and development costs amounted to 2,768 thousand euros in 2009 (previous year: 4,081 thousand euros). They mainly comprise employee benefits in the amount of 1,797 thousand euros (previous year: 2,759 thousand euros).

6. OTHER OPERATING INCOME/OTHER OPERATING EXPENSES

'000 EUROS	2009	2008
Other operating income	28,973	48,118
Other operating expenses	55,774	35,568
Net amount	**– 26,801**	**12,550**

Other operating income comprises income from the reversal of provisions of 5,334 thousand euros (previous year: 11,736 thousand euros) and reversals of impairment losses of 1,676 thousand euros (previous year: 3,346 thousand euros). Income from currency translation differences of 4,832 thousand euros (previous year: 6,817 thousand euros) and from insurance compensation of 1,634 thousand euros (previous year: 3,444 thousand euros) are also reported under this item. Other operating expenses comprise expenses including valuation allowances and loss of debts of 6,981 thousand euros (previous year: 4,211 thousand euros) as well as expenses resulting from exchange rate losses of 6,905 thousand euros (previous year: 1,966 thousand euros). In addition, impairments of land and buildings and of property, plant and equipment were recognized in the amount of 6,869 thousand euros (previous year: 10,927 thousand euros). Restructuring expenses, primarily resulting from staff measures, are also reported in the amount of 17,503 thousand euros.

7. FINANCIAL INCOME, NET

'000 EUROS	2009	2008
Interest income	1,307	5,417
Interest expense	– 50,224	– 57,061
Net interest income	**– 48,917**	**– 51,644**
Other financial income, net	129	– 28,360
Financial income, net	**– 48,788**	**– 80,004**

Interest expense principally comprises interest costs on the syndicated loans and the bond loan (Schuldscheindarlehen) 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 2009, this income amounted to 357 thousand euros (previous year: 4,817 thousand euros). Other net financial income largely comprises the net measurement of foreign currency hedges on the balance sheet date at – 7,115 thousand euros (previous year: – 15,508 thousand euros), of interest rate hedging instruments at 1,693 thousand euros (previous year: – 4,093 thousand euros), and from currency translation of foreign currency financial positions at 5,410 thousand euros (previous year: – 5,618 thousand euros). Of the net financial income, the following income and expenses result from financial instruments of the measurement categories in IAS 39, Financial Instruments: Recognition and Measurement:

'000 EUROS	**2009**	2008
Loans and receivables	1,213	262
Financial assets held for trading	265	1,053
Financial liabilities held for trading	– 5,330	– 20,412
Financial liabilities carried at amortized cost	– 44,936	– 57,061
Total	**– 48,788**	**– 76,158**

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	**2009**	2008
Current taxes		
Germany	72	– 15,475
Outside Germany	– 1,700	– 1,711
Deferred taxes		
Germany	– 4,355	10,048
Outside Germany	14,193	18,311
Tax expense (–)/tax income (+)	**8,210**	**11,173**

Deferred tax income comprises among others the recognition of additional deferred tax assets from the remeasurement of tax loss carryforwards outside Germany (6,259 thousand euros) and the opposing valuation allowance for loss carryforwards in Germany (6,937 thousand euros).

Tax income of 2,322 thousand euros (previous year: – 6,116 thousand euros) is attributable to the loss from discontinued operations before taxes of – 133 thousand euros (previous year: – 325 thousand euros). Current and deferred taxes are recognized on the basis of an aggregate tax rate of 28.29% (previous year: 28.29%). This is computed on the assumption of a corporate income tax rate (including the solidarity surcharge) for the German companies of 15.83% (previous year: 15.83%) and an average trade tax rate of 12.46% (previous year: 12.46%). 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	**2009**	2008
Profit from continuing operations before income taxes	– 64,887	17,615
Expected tax expense (–)/tax income (+) based on tax rate of 28.29%	**18,357**	**– 4,983**
Increase/decrease in tax expense resulting from:		
Differences in tax rates	305	– 3,542
Current taxes for prior-periods	– 2,690	8,897
Deferred taxes for prior-periods	– 2,569	– 6,671
Non-deductible operating expenses/permanent differences incl. domestic trade tax add-backs	– 2,572	– 1,299
Tax-free income	4,004	8,981
Valuation allowance on deferred taxes	– 6,926	9,752
Extraordinary effects from the deferral of continuing and discontinued operations	38	92
Extraordinary effects at consolidation level	796	– 227
Other	– 533	173
Actual tax expense (–)/tax income (+)	**8,210**	**11,173**

As of December 31, 2009, the Group had domestic corporate income tax loss carryforwards of 195,346 thousand euros (previous year: 162,914 thousand euros) and domestic trade tax loss carry-forwards of 206,897 thousand euros (previous year: 174,413 thousand euros), and domestic non-tax-deductible interest expense (interest carryforward) of 12,193 thousand euros (previous year: 0 thousand euros) as well as foreign loss carryforwards of 375,921 thousand euros (previous year: 318,385 thousand euros) and foreign non-tax-deductible interest expense of 32,109 thousand euros (previous year: 21,063 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	**2009**	2008
Expiring within		
1 year	1	500
2 years	0	1
3 years	14,765	0
4 years	1,644	0
5 to 9 years	96,112	104,474
10 years or more	154,364	135,125
Indefinite	109,035	78,285
Total international	**375,921**	**318,385**

Valuation allowances on or non-recognition of deferred tax assets on loss carryforwards are recorded in the total amount of 48,912 thousand euros (previous year: 37,742 thousand euros), because their realization within a foreseeable period of time is uncertain based on the circumstances, the legal situation, and the information available. The increase in written down and unrecognized deferred tax assets results from the remeasurement of tax-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 carryforwards (minimum taxation) are 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	**2009**	2008
Guarantees and letters of comfort	92.8	80.2
Warranty obligations	2.8	3.3

Furthermore, credit institutions have issued guarantees in favor of the Group's customers, suppliers, and other contracting partners totaling 33.3 million euros (previous year: 29.5 million euros); corres-ponding guarantee lines are available. These primarily comprise performance guarantees, 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 (detailed information on financial effects, uncertainties relating to the amount or timing, etc.) 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.

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	2009	2008
Opening balance at January 1	**2,083**	**522**
Warranties issued during the reporting period	1,278	2,083
Claims during the fiscal year	– 555	– 522
Reversals and currency effects during the fiscal year	– 184	0
Balance at December 31	**2,622**	**2,083**

2. OTHER FINANCIAL COMMITMENTS/CONTINGENT LIABILITIES

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 20,611 thousand euros (previous year: 20,014 thousand euros). The minimum amount of undiscounted future payments under operating leases and under other financial commitments (such as service contract for hosting and support for SAP) was 145,810 thousand euros (previous year: 120,900 thousand euros). The corresponding payment obligations are due as follows:

'000 EUROS	2009	2008
up to 1 year	40,321	21,091
1 year up to 5 years	82,177	69,723
5 years or more	23,312	30,086
Total payment obligations	**145,810**	**120,900**

The increase in other financial commitments is primarily due to the conclusion of long-term power purchasing contracts totaling 30,633 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 (all between one year and five years) amount to 2,816 thousand euros (previous year: 3,109 thousand euros). As of December 31, 2009, purchase commitments amounted to 58,851 thousand euros (previous year: 170,970 thousand euros). The decrease is chiefly due to capital expenditure for the new construction of the MDF plants in Moncure, USA, and Velikii Novgorod, Russia.

Pfleiderer AG and its subsidiaries are involved in proceedings for alleged violation of antitrust regulations. Due to the current stage of the proceedings, no reliable estimate can be made of any possible damage. For this reason, in accordance with IAS 37.26, no provision has been recognized for this matter at December 31, 2009. A possible fine can amount to up to 10% of the consolidated revenue of the Pfleiderer Group in the financial year prior to the authorities' decision in this matter.

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

		2009	2008
Earnings after minority interests	euros	– 69,751,627	5,818,516
Average number of shares outstanding (basic)	units	50,682,642	50,781,022
Dilutive stock options	units	0	136,483
Average number of shares outstanding (diluted)	units	50,682,642	50,917,505
Earnings per share (basic)	euros	– 1.38	0.11
Earnings per share (diluted)	euros	– 1.38	0.11
Earnings per share from continuing operations after minority interests (basic)	euros	– 1.42	0.24
Earnings per share from continuing operations after minority interests (diluted)	euros	– 1.42	0.24
Earnings per share from discontinued operations (basic)	euros	0.04	– 0.13
Earnings per share from discontinued operations (diluted)	euros	0.04	– 0.13

Of the stock options granted to members of the Executive Board and employees under the 2004, 2006, 2007, 2008 and 2009 stock option programs, no shares (previous year: 136,483 shares) had a dilutive effect. Dilutive effects must be taken into account in calculating earnings per share.

5. DIVIDEND

Pfleiderer AG will not pay a dividend for fiscal 2009, subject to the approval of the Annual General Meeting. No dividend was distributed in the equivalent period of the previous year either.

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 2009, cash flow allocated to discontinued activities resulted exclusively from operating activities and amounted to – 1,513 thousand euros (previous year: – 4 thousand euros).

7. SEGMENT REPORTING

7.1. Structure of segment reporting

In the Group's segment reporting, its activities are classified by geographical region in accordance with IFRS 8, Operating Segments. The reporting format is based on the structure of internal reporting to the chief operating decision maker (the Executive Board) 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. Non-cash segment expenses mainly comprise additions to provisions, impairment losses and valuation allowances. Segment capital expenditure relates to additions to intangible assets and property, plant and equipment. Segment assets are calculated from 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 profit before financial income, net. Segment liabilities do not include any financial liabilities and other interest-bearing liabilities (excluding income tax liabilities and deferred tax liabilities). Because neither interest expenses and income nor income tax expenses and income are included in calculating segment earnings, and these are not relevant as a basis for decision-making by the chief operating decision maker, they are not shown in segment reporting. The reported headquarters mainly consists of the holding companies Pfleiderer AG, Pfleiderer Service GmbH and Pfleiderer Schweiz AG as well as the finance company Pfleiderer Finance B.V. Headquarters performs financing, IT, commercial and legal advisory services for the entire Group. "Other" comprises companies which are neither attributable to the operating segments nor part of headquarters.

8. DISCLOSURES ON FINANCIAL INSTRUMENTS AND RISK INFORMATION

Derivative financial instruments

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 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, EUR/CHF, NOK/SEK, DKK/SEK, CHF/SEK, 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, 2009		Dec. 31, 2008	
'000 EUROS	NOMINAL AMOUNT	FAIR VALUE	NOMINAL AMOUNT	FAIR VALUE
Interest rate derivatives	136,634	– 4,444	259,166	– 7,936
Currency derivates	125,119	– 3,960	146,210	– 8,742
Other derivatives	0	0	242	242
Total	**261,753**	**– 8,404**	**405,618**	**– 16,436**

Derivative financial instruments are reported on the balance sheet at fair value under “Miscellaneous assets” and “Miscellaneous current debt”.

Those financial derivatives are recognized in profit or loss at the balance sheet date for which hedge accounting is not applied.

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.

Disclosures on the carrying amounts and fair values of financial instruments at December 31, 2009

ASSETS

‘000 EUROS	NOMINAL	AMORTIZED COST				FAIR VALUE	
		LOANS AND RECEIVABLES		AVAILABLE-FOR-SALE FINANCIAL ASSETS		FINANCIAL ASSETS HELD FOR TRADING	
		Carrying amounts	Fair values	Carrying amounts	Fair values	Carrying amounts	Fair values
Cash and cash equivalents	59,292						
Receivables and other assets		71,733	71,733				
Derivatives without hedging relationship						261	261
Current assets	**59,292**	**71,733**	**71,733**	**0**	**0**	**261**	**261**
Financial assets				4,888	4,888		
Other assets		2,493	2,493				
Non-current assets	**0**	**2,493**	**2,493**	**4,888**	**4,888**	**0**	**0**
Carrying amounts by measurement category		**74,226**		**4,888**		**261**	
Fair values per class	**59,292**		**74,226**		**4,888**		**261**

EQUITY AND LIABILITIES

‘000 EUROS	AMORTIZED COST		FAIR VALUE		LIABILITIES FROM FINANCE LEASES	
	FINANCIAL LIABILITIES AT AMORTIZED COST		FINANCIAL LIABILITIES HELD FOR TRADING			
	Carrying amounts	Fair values	Carrying amounts	Fair values	Carrying amounts	Fair values
Liabilities and other debt	142,511	142,511				
Financial liabilities	800,202	800,202				
Derivatives not including hedges			8,665	8,665		
Current liabilities	**942,713**	**942,713**	**8,665**	**8,665**	**0**	**0**
Financial liabilities	112,951	112,951			343	343
Non-current liabilities	**112,951**	**112,951**	**0**	**0**	**343**	**343**
Carrying amounts by measurement category	**1,055,664**		**8,665**		**343**	
Fair values per class		**1,055,664**		**8,665**		**343**

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 assets 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, 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 which are measured by the respective counterparties (usually banks) are measured at fair value by discounting the future expected cash flows. 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 2009

'000 EUROS	Net gains	Net losses
Loans and receivables	8,966	11,746
Financial assets held for trading	265	0
Financial liabilities held for trading	1,693	7,380
Financial liabilities measured at amortized cost	2,952	2,140
Total	**13,876**	**21,266**

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, Financial Instruments: Recognition and Measurement.

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 to the Audit Committee. The Internal Audit department regularly reviews the appropriateness and effectiveness of the current risk management system.

Pfleiderer defines financial risks as liquidity risks, default risks, and market risks arising in particular from operating business transactions and their hedging, as well as from Group financing. Managing all the Pfleiderer Group's financial risks by applying appropriate financial management tools is the responsibility of the central finance department of Pfleiderer AG.

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, 2009:

'000 EUROS	Gross outflows	up to 3 months	from 3 months to 1 year	from 1 year to 2 years	from 2 years to 3 years	from 3 years to 4 years	from 4 years to 5 years	more than 5 years
Non-derivative financial liabilities								
Liabilities								
Trade payables	105,453	88,733	16,720	0	0	0	0	0
Liabilities to banks	1,001,317	321,774	148,617	290,654	45,063	132,844	20,082	42,283
Finance lease liabilities	437	14	53	68	5		0	297
Other liabilities/other debts	37,058	37,058	0	0	0	0	0	0
Total	**1,144,265**	**447,579**	**165,390**	**290,722**	**45,068**	**132,844**	**20,082**	**42,580**
Derivative financial liabilities								
Derivates classified as financial liabilities held for trading	8,665	8,665	0	0	0	0	0	0
Total	**8,665**	**8,665**	**0**	**0**	**0**	**0**	**0**	**0**

Due to the closing relating the new financing in January 2010, the maturity structur was newly arranged.

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	9,062	25	77	0
Trade receivables	3,365	1,127	13	0
Receivables from affiliated companies	193,425	1,177	300,608	30,215
Total assets	**205,852**	**2,329**	**300,698**	**30,215**
Liabilities				
Trade payables	– 1,916	– 2,677	– 1,066	0
Liabilities to affiliated companies	– 246	– 5,180	– 38,004	0
Other financial liabilities	**– 38,526**	**0**	**0**	**0**
Total liabilities	**– 40,688**	**– 7,857**	**– 39,070**	**0**
Total assets and liabilities, net	**165,164**	**– 5,528**	**261,628**	**30,215**
Positions economically hedged by derivatives	**113,689**	**0**	**0**	**0**
Net exposure	**51,475**	**– 5,528**	**261,628**	**30,215**

If the euro had appreciated by 10% against the USD, CAD, SEK, and the RUB as of December 31, 2009, equity and the profit/loss for the period would have changed as follows:

'000 EUROS	Equity Dec. 31, 2009	Profit/loss 2009
USD	– 9,168	4,489
CAD	0	503
SEK	– 22,520	– 1,265
RUB	– 2,045	– 702

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 4,396 thousand euros as of December 31, 2009 (previous year: 3,273 thousand euros).

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

'000 EUROS	**Dec. 31, 2009**	Dec. 31, 2008
Fixed-rate financial instruments		
Loans	4,872	4,649
Cash and cash equivalents	59,292	46,288
Financial liabilities	– 473,933	– 354,454
Net exposure of fixed-rate financial instruments	**– 409,769**	**– 303,517**
Variable-rate financial instruments		
Loans	0	0
Cash and cash equivalents	0	0
Financial liabilities	– 439,563	– 327,316
Net exposure of variable-rate financial instruments	**– 439,563**	**– 327,316**

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 is attributed to it (26.9%), One Equity Partners Europe GmbH, Frankfurt am Main, (OEP) can exercise significant influence on the Company. OEP is therefore considered a related party.

There are no trade or other service 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 remuneration and reimbursement of expenses. There are no other additional relationships.

Transactions with related party individuals

In accordance with IAS 24, Related Party Disclosures, Pfleiderer AG also reports on transactions between Pfleiderer AG and related party individuals or their family members. 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 below"), 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 2009, the remuneration of the individual members of the Executive Board was as follows:

'000 EUROS	Fixed salary including non-cash benefits	Severance payments	Performance-related	Total
Hans H. Overdiek (Chairman)	788	0	596	1,384
Heiko Graeve	460	0	400	860
Pawel Wyrzykowski	439	0	336	775
Dr. Robert Hopperdietzel (until Nov. 15, 2009)	587	2,750	358	3,695
Michael Ernst (until Jan. 31, 2009)	125	0	29	154
Total	**2,399**	**2,750**	**1,719**	**6,868**

Total remuneration of the members of the Executive Board amounted to 6,868 thousand euros in the 2009 fiscal year (previous year: 4,534 thousand euros). Additions to pension provisions for the active members of the Executive Board amounted to 131 thousand euros for the 2009 fiscal year (previous year: 561 thousand euros). A stay-on bonus has been agreed with the Chairman of the Executive Board to bind him to the Company until the end of his contract. A provision of 203 thousand euros is recognized for this purpose. In the 2009 fiscal year, the members of the Executive Board were granted 101,560 new options (previous year: 491,176) to subscribe for shares in return for the contribution of a personal investment as part of Pfleiderer AG's Stock Option Plan 2009. At the balance sheet date, members of the Executive Board held a total of 552,794 shares (previous year: 675,448), while members of the Supervisory Board held a total of 1,877,468 shares (previous year: 1,907,438).

Pension obligations to former Executive Board members and their surviving dependants amount to 6,389 thousand euros (previous year: 4,034 thousand euros). Compensation of 240 thousand euros was paid to former members of the Executive Board (previous year: 214 thousand euros) in 2009.

Members of the Supervisory Board received remuneration totaling 678 thousand euros for their activities in the 2009 fiscal year (previous year: 645 thousand euros).

II. SHARE-BASED PAYMENT

The Company decides each year at its own discretion whether to establish a stock option program (SOP), 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. For the Executive Board, the stock options have a seven-year term starting from the SOP 2009 and they may be exercised no sooner than four years after they have been granted, in accordance with the German Law on Executive Board Remuneration. 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 stock option programs is calculated based on the average of the closing prices of the Company's shares on the Frankfurt Stock Exchange in the last three months before the program is launched. 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 ordinary Annual Shareholders' 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). In continuation of the Stock Option Plan 2001, the ordinary Annual Shareholders' 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).

Stock Option Program 2004

On the basis of the stock option plan resolved in 2001 (Stock Option Plan 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

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 496,096 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 will be 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.

Stock Option Program 2009

On the basis of the stock option plan resolved in 2006 (Stock Option Plan 2006), the Stock Option Program 2009 (SOP 2009) was resolved by the Executive Board on June 17, 2009, and by the Working Committee of the Supervisory Board on June 23, 2009. A total of 40 Executive Board members and executives participated in SOP 2009 with 765,432 options. The strike price was 6.38 euros. The exercise prices were between 7.02 euros and 7.98 euros, with a weighted average exercise price of 7.50 euros. Options from the Stock Option Program 2009 will be exercisable for the first time on October 1, 2012, and will be exercisable for the last time on September 30, 2015.

The number of options developed as follows:

2008	SOP 2004 '000 Options	SOP 2006 '000 Options	SOP 2007 '000 Options	SOP 2008 '000 Options	SOP 2009 '000 Options
Outstanding at beginning of year	429	465	793	0	0
Granted				1,388	
Exercised	– 35				
Expired		– 182	– 370		
Outstanding at year end	394	283	423	1,388	0
Exercisable at year end	**394**	**0**	**0**	**0**	**0**

2009	SOP 2004 '000 Options	SOP 2006 '000 Options	SOP 2007 '000 Options	SOP 2008 '000 Options	SOP 2009 '000 Options
Outstanding at beginning of year	394	283	423	1,388	0
Granted					765
Exercised					
Expired	– 66	– 62	– 62	– 211	
Outstanding at year end	328	221	361	1,177	765
Exercisable at year end	**328**	**221**	**0**	**0**	**0**

The fair value of the subscription rights from the 2004, 2006, 2007, 2008 and 2009 stock option programs was estimated using the Black-Scholes method for valuing subscription rights using weighted averages. SOP 2009 was estimated on the basis of the following assumptions as to the valuation of subscription rights using weighted averages:

		2009
Fair value at balance sheet date	euros	5.04
Strike price	euros	6.38
Expected volatility	%	78.1
Term of the option	Years	6.0
Expected dividend yield	%	1.5
Risk-free interest rate	%	3.0

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 2,759 thousand euros (previous year: 928 thousand euros) for the Pfleiderer Group in the reporting year. As in the previous year, no provisions were 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 2009 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 (www.pfleiderer.com/en/investor-relations). Pfleiderer AG has reported in detail on corporate governance in the section of this Annual Report entitled "Corporate Governance Report".

13. PERSONNEL EXPENSES

Personnel expenses totaled 256,567 thousand euros in the fiscal year (previous year: 260,174 thousand euros).

The breakdown of the Company's workforce as of December 31, 2009, was as follows:

	2009	2008
Executive bodies	36	40
Employees	1,952	2,108
Industrial workers	3,604	3,629
Total	**5,592**	**5,777**

14. EXEMPTION IN ACCORDANCE WITH SECTION 264B AND SECTION 264 (3) 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 Nidda GmbH & Co. KG
- Pfleiderer Leasing GmbH & Co.
- Pfleiderer Infrastrukturtechnik GmbH & Co. KG

The following companies made use of the exemption provision in accordance with Section 264 (3) of the German Commercial Code (HGB):

- BHT Bau- und Holztechnik Thüringen GmbH
- Duropal GmbH
- JURA-Spedition GmbH
- Kunz Faserplattenwerk Baruth GmbH
- Pfleiderer Accessories and Services GmbH
- Pfleiderer Europe GmbH
- Pfleiderer Holzwerkstoffe GmbH
- Pfleiderer Holzwerkstoffe Gschwend GmbH
- Pfleiderer Industrie GmbH
- Thermopal GmbH
- Unitherm Baruth GmbH
- wodego GmbH
- Pfleiderer erste Erwerbergesellschaft mbH

15. EVENTS AFTER THE BALANCE SHEET DATE

The following significant events occurred in the period up to March 17, 2010 (date of approval of the financial statements for publication by the Executive Board):

On January 11, 2010, Pfleiderer AG announced that it had reached an agreement with the roughly 30 banks involved regarding the conditions for long-term, secure financing. This financing package is available in the amount of approximately 800 million euros until the end of 2013 and includes a loan from Germany's KfW (Kreditanstalt für Wiederaufbau) in the amount of 140 million euros, which was granted from the "Germany fund" at market conditions. The costs for financing will be higher than in the 2009 fiscal year by an amount in the low double-digit millions.

In February 2010, an out-of-court agreement was reached with a construction company in connection with the construction of the MDF plant in Novgorod, Russia.

On January 19, 2010, the Executive Board of Pfleiderer AG successfully concluded the sale of 2,643,458 treasury shares held by the Company, representing 4.96% of the share capital, through the stock exchange. The Company thereby sold all of its treasury shares and achieved a sale price of 18.5 million euros.

On February 4, 2010, Pfleiderer AG placed 5,332,600 new shares from the increase in the share capital by 13,651,456.00 euros from 136,514,816.00 euros to 150,166,272.00 euros in exchange for cash contributions from the authorized capital at a price of 6.50 euros per share, which was resolved by the Executive Board with the approval of the Supervisory Board. The shares were placed with qualified institutional investors in Germany and abroad by means of an accelerated book-building process. Shareholders' subscription rights were excluded here. The shares were significantly oversubscribed and were distributed widely among a large number of investors. There was particular interest from institutional investors in the UK and in Switzerland. The issue will bring gross proceeds of 34.7 million euros to Pfleiderer AG, which will be used to repay financial liabilities. Following the entry of the implemented capital increase into the Commercial Register, the new shares were admitted without a prospectus for trading on the regulated market (Prime Standard) on the Frankfurt Stock Exchange.

On March 17, 2010, Pfleiderer Grajewo S.A. announced that it reached an agreement with its banks regarding the conditions for long-term financing.

see page 164

Details on the Management Board and the Supervisory Board (committees, additional mandates of Supervisory Board or Management Board members) can be found in the "At a glance" section of the Annual Report.

Neumarkt, March 17, 2010

Hans H. Overdiek   Heiko Graeve   Pawel Wyrzykowski

Consolidated Companies as of December 31, 2009

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%
FOLS Sp. z o.o.	Grajewo (PL)	99.60%
Guangzhou Free Trade Zone Pergo Trading Co. Ltd.	Guangzhou (CN)	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%
Pergo AB	Trelleborg (SE)	100.00%
Pergo AG	Baar (CH)	100.00%
Pergo AS	Hovik (NO)	100.00%
Pergo A/S	Kopenhagen (DK)	100.00%
Pergo Asia Co. Ltd.	Bangkok (TH)	100.00%
Pergo Asia-Pacific Pte. Ltd.	Singapur (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	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.	Neu Delhi (IN)	50.00%
Pergo Ltd.	Tamworth (GB)	100.00%
Pergo NV/SA	Antwerpen (BE)	100.00%
Pergo OY	Esbo (FI)	100.00%
Pergo Schweiz GmbH	Baar (CH)	100.00%
Pfleiderer Accessories 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 GmbH	Neumarkt	100.00%
Pfleiderer Holzwerkstoffe Gschwend GmbH	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-Fiderisspan 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%
Nicht einbezogene Unternehmen:		
Pfleiderer Service Sp. z o.o.	Grajewo (PL)	60.27%
REGION NORTH AMERICA		
Pergo Canada Inc.	Toronto (CA)	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	Baar (CH)	100.00%
Pfleiderer Service GmbH	Neumarkt	100.00%

Auditors' Report

We audited the consolidated financial statements – comprising the consolidated balance sheet, consolidated income statement, statement of income and expenses recognized in Group equity, consolidated statement of changes in equity, consolidated cash flow statement, and the notes to the consolidated financial statements – and the Group management report prepared by Pfleiderer Aktiengesellschaft, Neumarkt, for the fiscal year from January 1 to December 31, 2009. 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, March 17, 2010

Zehnder
Auditor

Rupprecht
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, 2009

ASSETS

'000 EUROS	**Dec. 31, 2009**	Dec. 31, 2008
Fixed assets		
Intangible assets	45	77
Property, plant and equipment	61	70
Financial assets	225,310	225,344
	225,416	**225,491**
Current assets		
Receivables and other assets	620,431	604,500
Securities	22,977	23,847
Cash-in-hand, bank balances	41,626	46,537
	685,034	**674,884**
Prepaid expenses	**5,007**	**2,358**
Total assets	**915,457**	**902,733**

LIABILITIES AND EQUITY

'000 EUROS	**Dec. 31, 2009**	Dec. 31, 2008
Equity		
Share capital	136,515	136,515
Capital reserve	189,158	189,158
Revenue reserves	34,012	34,012
Retained profits	27,191	11,811
Loss for the year (PY: profit)	– 57,049	15,380
	329,827	**386,876**
Provisions		
Provisions for pensions and similar obligations	8,325	8,143
Provisions for taxes	0	1,915
Other provisions	20,168	15,087
	28,493	**25,145**
Liabilities		
Liabilities to banks	378,861	241,561
Trade payables	588	6,054
Liabilities to affiliated companies	177,476	242,456
Other liabilities	212	641
of which taxes: 120 thousand euro (PY: 551 thousand euro)		
of which relating to social security: 2 thousand euro (PY: 9 thousand euro)		
	557,137	**490,712**
Total liabilities and equity	**915,457**	**902,733**

Income Statement (German Commercial Code) for the Fiscal Year 2009

'000 EUROS	2009	2008
Income from investments	0	54,615
Costs of loss absorption	– 35,948	0
Write-downs of long-term financial assets	0	– 4,734
	– 35,948	**49,881**
Income from long-term loans	1	1
Other interest and similar income	30,339	30,332
Interest and similar expenses	– 23,556	– 24,730
	6,784	**5,603**
Income generated by holding company activities	**– 29,164**	**55,484**
Other operating income	62,925	55,639
Wages and salaries	– 10,931	– 8,632
Social security, post-employment and other employee benefit costs	– 1,403	– 1,513
Amortization and write-downs of intangible fixed asstes, depreciation and write-downs of tangible fixed asstes	– 62	– 55
Other operating expenses	– 77,245	– 60,839
Write-downs of securities classified as current assets	– 1,216	– 20,518
Result from ordinary activities	**– 57,096**	**19,566**
Taxes on income	1	– 3,827
Other taxes	46	– 359
Loss for the year (PY: profit)	**– 57,049**	**15,380**

Statement of Changes in Fixed Assets of Pfleiderer Aktiengesellschaft (German Commercial Code) January 1 to December 31, 2009

	COST				
'000 EUROS	Jan. 1, 2009	Additions	Disposals	Reclassifications	Dec. 31, 2009
I. Intangible assets					
1. Concessions, industrial and similar rights and assets, and licenses in such rights and assets	75	22	1	10	106
2. Prepayments	27	8	25	– 10	0
	102	**30**	**26**	**0**	**106**
II. Property, plant and equipment					
Other equipment, operating and office equipment	221	17	6	0	232
	221	**17**	**6**	**0**	**232**
III. Financial assets					
1. Shares in affiliated companies	345,097	0	0	0	345,097
2. Other loans	34	0	34	0	0
	345,131	**0**	**34**	**0**	**345,097**
	345,454	**47**	**66**	**0**	**345,435**

			CUMULATIVE DEPRECIATION		CARRYING AMOUNT	
Jan. 1, 2009	Additions	Disposals	Reclassifications	Dec. 31, 2009	Dec. 31, 2009	Dec. 31, 2008
25	37	1	0	61	45	50
0	0	0	0	0	0	27
25	**37**	**1**	**0**	**61**	**45**	**77**
151	25	5	0	171	61	70
151	**25**	**5**	**0**	**171**	**61**	**70**
119,787	0	0	0	119,787	225,310	225,310
0	0	0	0	0	0	34
119,787	**0**	**0**	**0**	**119,787**	**225,310**	**225,344**
119,963	**62**	**6**	**0**	**120,019**	**225,416**	**225,491**

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
Hanno C. Fiedler
Christopher von Hugo

Audit Committee

Wolfgang Haupt (Chairman)
Frank Bergmann
Dr. Helmut Burmester
Ernst-Herbert Pfleiderer
Wolfgang Rhode

Mediation Committee

Hanno C. Fiedler
Wolfgang Rhode
Ernst-Herbert Pfleiderer
Manfred Schmidt

Nomination Committee

Hanno C. Fiedler
Wolfgang Haupt
Christopher von Hugo
Ernst-Herbert Pfleiderer

OTHER BOARD POSITIONS HELD BY MEMBERS OF THE SUPERVISORY BOARD

Ernst-Herbert Pfleiderer

Chairman of the Supervisory Board of Pfleiderer AG

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

Membership of the following domestic supervisory body comparable to German supervisory boards:

- Deutsche Bank AG, Munich (Advisory Board)

Wolfgang Rhode*)

First Deputy Chairman of the Supervisory Board of Pfleiderer 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

Membership of other statutory supervisory boards:

- Ball Packaging Europe GmbH, Ratingen (Chairman)
- ThyssenKrupp Steel AG, Duisburg (until September 30, 2009)
- MAN Roland AG, Offenbach (Chairman)

Membership of the following foreign supervisory body comparable to German supervisory boards:

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

Membership of the following domestic supervisory bodies comparable to German supervisory boards:

- Commerzbank AG, Düsseldorf (Advisory Board)
- LIC Langmatz GmbH, Garmisch-Partenkirchen (Advisory Board) (until December 31, 2009)

Frank Bergmann*)

- Chemical laboratory technician, Arnsberg
- Chairman of the Group Employee Council of Pfleiderer AG, Neumarkt
- Deputy Chairman of the General Employee Council of Pfleiderer Holzwerkstoffe, Neumarkt
- Chairman of the European Employee Council of Pfleiderer AG
- Member of the Employee Council of Duropal GmbH, Arnsberg

Dr. Helmut Burmester

- Partner of One Equity Partners Europe GmbH, Frankfurt am Main

Membership of other statutory supervisory boards:

- ThyssenKrupp Marine Systems AG, Hamburg (until January 12, 2009)

Membership of the following foreign supervisory body comparable to German supervisory boards:

- VAC Luxembourg S.a.r.l, Luxembourg (Chairman of the Administrative Board)
- Schmolz + Bickenbach AG, Emmenbrücke, Switzerland (Member of the Administrative Board)

Alfred Dennenmoser*)

- Electrician, Leutkirch
- Chairman of the Employee Council of Thermopal GmbH, Leutkirch
- Chairman of the Employee Council of Pfleiderer Holzwerkstoffe GmbH, Neumarkt

Friedhelm Päfgen

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

Membership of the following domestic supervisory body comparable to German supervisory boards:

- Döllken-Kunststoffverarbeitung GmbH, Gladbeck (Deputy Chairman)

Reinhard Hahn*)

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

Wolfgang Haupt

- Businessman, Düsseldorf

Membership of other 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 & Burkhardt Real Estate GmbH, Düsseldorf (Chairman)
- Trinkaus Private Equity M 3 GmbH & Co. KGaA, Düsseldorf (Chairman)

Membership of the following domestic supervisory body comparable to German supervisory boards:

- Shareholders' Committee of Karl Otto Braun GmbH & Co. KG, Wolfstein (Deputy Chairman)

Manfred Schmidt*)

- Chairman of the Employee Council of wodego GmbH and of Pfleiderer Holzwerkstoffe GmbH, Neumarkt

Dr. Melanie Tuchbreiter*)

- Senior Vice President & General Counsel Corporate Unit Legal Affairs, Pfleiderer AG, Neumarkt

Christopher von Hugo

- Managing Director and Partner of One Equity Partners Europe GmbH, Frankfurt am Main

Membership of other statutory supervisory boards:

- ThyssenKrupp Marine Systems AG, Hamburg (until January 12, 2009)
- Süd-Chemie AG, Munich

*) Employee representatives

OFFICES HELD BY MEMBERS OF THE EXECUTIVE BOARD

Hans H. Overdiek

Chief Executive Officer
Strategy, Investor Relations/Corporate Communications, Internal Auditing, IT Strategy, Human Resources, Group Technology

Until November 9, 2009
- BC North America

Since November 9, 2009
- BC Western Europe

Managing Limited Partner of Woodstock Management Beteiligungs GmbH & Co. KG

Woodstock MEP Verwaltungs GmbH
(Managing Director since May 11, 2009)

Membership of the following domestic supervisory bodies comparable to German supervisory boards:
- Regional Advisory Board Bavaria of Dresdner Bank AG and Allianz Deutschland AG (until June 30, 2009)
- Regional Advisory Board South of Commerzbank AG (since July 1, 2009)
- Advisory Board Nobilia-Werke J. Stickling GmbH & Co. KG

Membership of the following foreign supervisory bodies comparable to German supervisory boards:
- Pfleiderer Finance B.V., Deventer, The Netherlands
- Pfleiderer Grajewo S.A., Grajewo, Poland
- Uniboard Canada Inc., Laval, Canada (Chairman of the Board until January 4, 2010, Member of the Board since January 4, 2010)
- Pfleiderer B.V., Deventer, The Netherlands (Supervisory Director)
- Pfleiderer Industrie Ltd., Macclesfield, Cheshire, United Kingdom (Director)
- Pfleiderer Sweden AB, Trelleborg, Sweden (Chairman of the Board)
- Pfleiderer Schweiz AG (since January 28, 2009)
- Pergo AB, Trelleborg, Sweden (Chairman of the Board)
- Pergo LLC, Wilmington, State of Delaware, USA (Chairman of the Board)

Heiko Graeve

Chief Financial Officer
Finance, Taxes, Controlling, Risk Management/Compliance, Data Protection, Accounting, Legal and Insurance, IP

Managing Limited Partner of Woodstock Management Beteiligungs GmbH & Co. KG

Woodstock MEP Verwaltungs GmbH
(Managing Director since May 11, 2009)

Membership of other statutory supervisory boards:
- IGB Beteiligungsgesellschaft Sachsen-Anhalt mbH

Membership of the following foreign supervisory bodies comparable to German supervisory boards:
- Pfleiderer Finance B.V. (since January 1, 2009)
- Pfleiderer Schweiz AG (since January 28, 2009)
- Pfleiderer Grajewo S.A. (since January 12, 2010)

Pawel Wyrzykowski
(since January 1, 2009)
Member of the Executive Board
Strategic Purchasing, Sales, Marketing, Product Strategy, Production, Research and Development

- BC Eastern Europe

Since November 9, 2009
- BC North America

Membership of the following foreign supervisory bodies comparable 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)
- Pfleiderer MDF OOO, Russia (Chairman of the Supervisory Board since December 12, 2009)
- Uniboard Canada Inc. (Member of the Board from November 23, 2009, Chairman of the Board since January 4, 2010)
- Rockwool Polska Sp. z.o.o

Michael Ernst
(until January 31, 2009)
Member of the Executive Board
Human Resources, Legal, Risk Management, Insurance, Organization, IT

Membership of other statutory supervisory boards:
- Incon AG, Taunusstein (Deputy Chairman of the Supervisory Board)

Membership of the following foreign supervisory bodies comparable to German supervisory boards:
- Pfleiderer Grajewo S.A., Grajewo, Poland (until January 5, 2009)
- Pfleiderer Treuhand e.V., Neumarkt (Chairman of the Executive Board until January 31, 2009)

Dr. Robert Hopperdietzel
(until November 15, 2009)
Member of the Executive Board, Deputy Chairman of the Executive Board
Technology, Benchmarking, Investment Management, Research and Development, Information Technology, Strategic Central Purchasing, Environmental Protection, Occupational Safety

Until November 15, 2009
- BC Western Europe

Membership of the following foreign supervisory bodies comparable to German supervisory boards:
- Pfleiderer Grajewo S.A., Grajewo, Poland (Chairman of the Supervisory Board until November 15, 2009)
- Pfleiderer Schweiz AG, Zug, Switzerland (President and Delegate of the Administrative Board until November 15, 2009)
- Pfleiderer Sweden AB, Trelleborg, Sweden (Board of Directors until November 15, 2009)
- Pergo AB, Trelleborg, Sweden (Board of Directors until November 15, 2009)
- Pfleiderer MDF OOO, Russia (Chairman of the Supervisory Board from April 20, 2009 until November 15, 2009)

Glossary

TECHNICAL GLOSSARY

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

CARB
The California Air Resources Board is a Californian environmental authority that prepares draft legislation with regard to air quality. The standards demanded by the commission of experts are internationally regarded as especially strict, which is why some companies have adopted them as a benchmark for their own production.

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.

EPD
Environmental Product Declaration; independently audited certification of the sustainability of products, intended to provide evidence of their quality and ecological balance; a precondition for the certification of sustainable buildings.

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

FSC
The Forest Stewardship Council has its own criteria and system of certification or seal of approval for products made of wood. The goal of this international, independent organization is to promote responsible forestry.

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).

ISO 14001
This is a voluntary standard for environmental management systems with worldwide validity. Environmental management systems regulate all environmentally relevant processes within a company. Environmental protection is to be ensured not only as required by applicable law, but going beyond that, the continuous improvement of environmental effects is also to be attained.

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 pressure and heat, 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 strengths, making it particularly suitable as a construction material for trade fair stands or interior fittings.

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
The Programme for the Endorsement of Forest Certification is the world’s biggest forestry certification system. Its goal is to improve the worldwide use and care of forests while observing 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, depreciation 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.

IFRSs – 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 IFRSs.

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 2010

MARCH 19, 2010
Press conference for
fiscal year 2009, Munich

MARCH 19, 2010
Analysts' conference for
fiscal year 2009, Munich

MAY 7, 2010
Publication of the
Three Months Report 2010
Conference call for analysts /
investors and journalists

JUNE 23, 2010
Annual Shareholders' Meeting 2010, Munich

AUGUST 19, 2010
Publication of the
Six Months Report 2010
Conference call for analysts /
investors and journalists

NOVEMBER 11, 2010
Publication of the
Nine Months Report 2010
Conference call for analysts /
investors and journalists

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PAPER
The Annual Report 2009 is printed on Profisilk paper. As the Pfleiderer Group supports the principle of sustainable forestry, this paper is certified with the seal of approval of the Forest Stewardship Council (FSC). Products with the FSC seal of approval pass through several stages from the forest to the end user, and thus also through several stages of ownership. The crucial factor is that all owners along the product chain are certified. With the help of product-chain certification, the consumer has a guarantee that wood products with the FSC seal are genuinely from a certified and responsibly managed forestry operation.

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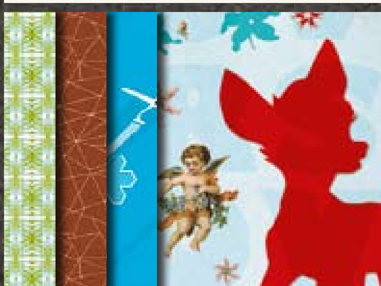
2009 in Review

Revenue slumps in all regions, excess capacities in the market, falling prices for nearly all products: The global financial and economic crisis presented the Pfleiderer Group with great challenges in 2009. The Group decided on a comprehensive course of savings but maintained the key points of its strategy. Not least for this reason, Pfleiderer can look back on some proud achievements also in the crisis year 2009. For example, we had all of the Pfleiderer plants in Germany certified according to international environmental management standard ISO 14001. And Volkswagen decided in favor of Pfleiderer products for the refurbishment of its car showrooms. We have summarized these and other highlights in our review of the year 2009.

1/09 IN FOCUS IN 2009: COST MANAGEMENT
Pfleiderer reacts to the global economic crisis with a comprehensive savings program: The key points of the program include tight cost management, in particular in purchasing and material consumption, combined with a policy of investing only to the extent required for operations. This program will enable Pfleiderer to significantly surpass the defined savings target of more than 80 million euros at the end of 2009.

5/09 PFLEIDERER PRODUCTS TO REFURBISH VOLKSWAGEN SHOWROOMS
Three Pfleiderer subsidiaries are to supply engineered wood, high-pressure laminates and flooring for Volkswagen showrooms in the future. Duropal will supply for example the prizewinning high-pressure laminate HPL SolidColor in the color “Icy White,” matching the decorative counters from wodego. In addition, Pfleiderer subsidiary Pergo will supply high ex flooring in cherry finish for the Volkswagen trading centers.

6/09 ALL GERMAN PFLEIDERER PLANTS ARE CERTIFIED TO ISO 14001
All German Pfleiderer plants are successfully certified according to international environmental management standard ISO 14001. The facilities tested have received external confirmation that they are able to monitor and control key environmental aspects such as emissions, waste and consumption of energy and water, and are thus able to improve these factors over the long term. In this way, Pfleiderer has come appreciably closer to its mid-term goal of having all of the Group's plants certified.



7/09 PRIZES FOR PFLEIDERER PRODUCTS
The prizes come thick and fast for Pfleiderer products in the first half of the year. With the Designers' Collection, an individual collection of decorative surfaces for interior fittings, Pfleiderer subsidiary Thermopal wins Germany's coveted "red dot design award." In addition, Thermopal wins the German "Innovation Prize for Architecture and Construction" for its non-flammable decorative panels. And Duropal convinces the jury with its dyed-through HPL SolidColor product, which gains the "interzum award: intelligent material & design." Both the Designers' Collection and HPL SolidColor have been proposed for the Design Prize 2010 of the Federal Republic of Germany.

11/09 PFLEIDERER STREAMLINES ITS EXECUTIVE BOARD AS PART OF REORGANIZATION
Due to the planned streamlining and realignment of Pfleiderer's organizational structure, Dr. Robert Hopperdietzel steps down from the Executive Board. Dr. Hopperdietzel held Executive Board responsibility for the areas Technology and Operations/Plants, and most recently also for Business Center Western Europe. His responsibilities are now split between the other members of the Executive Board. By taking further measures, Pfleiderer aims to save in excess a double-digit million amount in 2010.

12/09 NEW PRESS AT UNIBOARD
The Pfleiderer subsidiary Uniboard has invested two million US dollars in a new short-cycle press at its plant in Val-d'Or, Canada. This highly flexible facility, which started operation in December 2009, strengthens the leading position of the Pfleiderer subsidiary in the North American market for melamin-faced panel. Through this investment, the site has expanded its existing portfolio and is now able to supply value-added products to the furniture industry and to producers of kitchen and bathroom.

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