# Six-Month Report

JANUARY 1 – JUNE 30, 2011

**- Preliminary and unaudited -**

PFLEIDERER
AKTIENGESELLSCHAFT

# Interim Report on the Six Months Ended June 30, 2011

- First-half revenue up by 9.4 percent compared with prior-year period to 595.3 million euros
- Adjusted EBITDA* of 54.1 million euros in first half of year represents margin of 9.1 percent
- First-half EBIT improves by 19.1 million euros to 16.2 million euros
- Revenue in Eastern Europe grows by 30.9 percent compared with prior-year period
- Creditors' meeting and shareholders' meeting approve restructuring concept with large majorities

## Pfleiderer Group: Key figures for the first half of 2011

(Presentation of continuing operations – the business in North America is presented as discontinued operations and the prior-year figures have been adjusted accordingly.)

| Amounts in millions of euros | Jan. 1 - June 30, 2011 | Jan. 1 - June 30, 2010 (adjusted) | Apr. 1 - June 30, 2011 | Apr. 1 - June 30, 2010 (adjusted) |
|---|---|---|---|---|
| Revenue | 595.3 | 543.9 | 293.0 | 276.5 |
| International share (in percent) | 64.5 | 61,7 | 64.9 | 62,1 |
| EBITDA | 44.2 | 38.5 | 20.9 | 19.8 |
| EBITDA adjusted for extraordinary effects* | 54.1 | 39.1 | 28.8 | 20.0 |
| Adjusted margin EBITDA (in percent) | 9.1 | 7.2 | 9.8 | 7.2 |
| EBIT | 16.2 | -2.9 | 6.9 | -1.2 |
| EBT of continuing operations | -49.4 | -2.8 | -29.7 | 4.7 |
| Loss for the period | -74.9 | -18.9 | -38.7 | -2.4 |
| Net loss attributable to shareholders of Pfleiderer AG | -85.3 | -27.1 | -44.1 | -7.2 |
| Loss per share – basic (in euros) | -1.45 | -0.47 | -0.75 | -0.13 |
| Loss per share – diluted (in euros) | -1.45 | -0.47 | -0.75 | -0.13 |
| Loss per share of discontinued operations (in euros) | -0.43 | -0.32 | -0.16 | -0.14 |
| Number of employees at end of period | 5,177 | 5,579 | 5,177 | 5,579 |
| Germany | 2,200 | 2,406 | 2,200 | 2,406 |
| Outside Germany | 2,977 | 3,173 | 2,977 | 3,173 |
| Average number of shares outstanding (basic) | 58,658,700 | 57,350,044 | 58,658,700 | 57,350,044 |

| Amounts in millions of euros | June 30, 2011 | Dec. 31, 2010 | Change |
|---|---|---|---|
| Total assets | 1,398.6 | 1.417.5 | -1.3% |
| Equity | -12.8 | 42.0 | |
| Equity ratio | -0.9% | 3.0% | |
| Net debt | 689.1 | 960.1 | Not comparable |

*) Adjusted for restructuring costs

# Contents

# Foreword by the Chairman of the Executive Board

## Dear Shareholders, Ladies and Gentlemen,

Pfleiderer has some eventful months behind it. The course of the year 2011 so far has been marked by the far-reaching financial and operational restructuring that our company is going through. The restructuring is leading to considerable changes and major cuts: for you as shareholders and for our creditors, but also for our employees. At the same time, it offers an opportunity to make a new start: After the restructuring is completed, the new Pfleiderer Group will be smaller and more focused, but should also have laid the foundation for profitable and future-oriented business operations. It will have reduced its debt substantially, will thus have to bear a significantly lower burden of interest payments and capital repayments, and will also have a more solid equity base.

We have meanwhile overcome some decisive obstacles on this path: In May, after long and intensive negotiations with our first-lien creditors, we reached an agreement on a new financing concept calling for a reduction in our financial debt of more than 700 million euros, thanks to the waiver of claims. This is connected with a drastic capital cut followed by a capital increase of up to 100 million euros, as well as the adequate interim financing of our operating activities. In June, our hybrid bondholders approved this concept with a vote of 88 percent of those present. Then in July, you, our shareholders, gave your approval at an extraordinary shareholders' meeting with a substantial majority of 93 percent.

I would like to take this opportunity to thank you once again on behalf of the Executive Board and the Supervisory Board for making that responsible decision. The current situation of our operating activities shows that Pfleiderer is not only capable of restructuring, but is also well worth the effort. We have made good progress with the repositioning, although – and I'm not trying to hide the fact – we still have a long and hard path ahead of us.

This progress is only partly reflected by the figures for the first half of the year. The interim consolidated financial statements do not yet take into consideration the actions for financial restructuring, because the required actions could not yet be implemented due to the legal action taken contesting the decisions of the bondholders' and shareholders' meetings. Accordingly, the Pfleiderer Group has once again posted a substantial loss of 74.9 million euros for the first six months of the year, primarily due to significant interest expenses and restructuring costs. However, the increase in revenue of a good 9 percent to 595 million euros and the improvement in earnings before interest and taxes (EBIT) of 19.1 million euros to 16.2 million euros are encouraging signs of our return to good health. The figures reflect our activities in Western and Eastern Europe, on which we intend to focus in the future. The reported revenue and Group EBIT do not include our business in North America, which is to be sold in line with the restructuring concept agreed upon with our creditors, and is therefore presented for the first time separately in the interim consolidated financial statements as discontinued operations.

The biggest growth driver of the first half of the year was Eastern Europe, where we achieved an increase in revenue of almost 31 percent with significant volume growth for nearly all product groups. Although revenue in the Western Europe region increased by only about 2 percent, it is necessary to consider that our production capacities were specifically reduced by the closure of three plants in Germany that we decided upon in autumn 2010 and carried out in the middle of this year. These actions, as hard and painful as they were for the sites affected, made a substantial contribution towards reducing excess capacity in the market, achieving higher capacity utilization at our five remaining plants in Germany, and significantly improving our margins. As a result, Pfleiderer’s operating activities in Germany have been in the black since the beginning of 2011, and the segment earnings of the Western Europe region improved by approximately 82 percent in the first half of the year to 16.6 million euros.

Even though the German engineered-wood industry is in a better situation than in the recession years of 2009 and 2010, it is clear that in the foreseeable future, the industry will not return to the levels of unit sales achieved before the crisis. This is a clear difference between our industry and most other sectors in Germany, which are meanwhile experiencing a strong upswing. The disruptions in the engineered-wood industry are not only of a cyclical nature, but also include a significant structural component. According to the European Panel Association, the production of particleboard in Germany fell from 8.0 million cubic meters in 2007 to 6.5 million cubic meters in 2010, and has recovered only slightly since then. On the one hand, we have slumps in major export markets, because demand for particleboard there has not yet recovered and the price competitiveness of the German engineered-wood industry has declined. In Germany, the burning of our most important raw material in biomass combined heat and power plants is state subsidized and has thus led to significant shortages of waste wood and resulting price increases. Here we have a situation of one form of usage suffering serious disadvantages for the benefit of another for political reasons. In order to reduce the import of fossil fuels such as oil, the government has accepted rising imports of wood and furniture. Due to the high cost of wood, German particleboard prices are now amongst the highest in Europe, which is leading to the reversal of long-established trading patterns. While Germany was a net exporter of particleboard until 2010, the Association of the Engineered Wood Industry has calculated that this situation has reversed since the first quarter of 2011, with corresponding dampening effects on prices and capacity utilization here. On the other hand, some of our customers have permanently transferred their operations to Eastern Europe, due not only to lower production costs, but also to more attractive particleboard prices. In view of these structurally new challenges, it was essential for us to thoroughly examine our former strategy and production base. We therefore closed plants with high variable production costs such as Nidda and Gschwend or with geographically unfavorable locations such as Ebersdorf. We are adapting to a permanently smaller market, in which we intend to specialize even more in innovative value-added products such as lightweight panels or surface-finished panels. We have already had some initial operational success.

The Group’s strategic repositioning also includes the planned disposal of our North American operations. That has several reasons: On the one hand, the US real-estate market has still not recovered from the consequences of the financial-market crisis, and hopes of recovery and growth have not been realized from one year to another. On the other hand, lasting losses from operating activities are an unacceptable burden for the Group. The restructuring of our North American operations in a still-shrinking market would not have been very promising. Due to the low level of synergies with the European business and the high complexity of intercontinental management, we decided to reduce these risks by selling the operations. We plan to carry out this sale process by the middle of 2012, and therefore present our North American activities in our balance sheet and income statement for the first half of 2011 as discontinued operations.

How will the implementation of the restructuring concept now continue? The realization of the capital and financing actions approved by hybrid bondholders and shareholders is contingent upon the relevant resolutions being entered in the Commercial Register. Stating various reasons, several creditors and shareholders have taken legal action against those resolutions; in both cases Pfleiderer has initiated so-called court release proceedings. At first instance, the Frankfurt District Court has rejected our application for release relating to the creditors' meeting. We will appeal against that ruling. We assume that a verdict on our appeal and also on the release proceedings in connection with the resolutions of the shareholders' meeting will be made during the first quarter of 2012.

Following a thorough examination of the lawsuits, we are confident that we will receive the required court release, allowing us to overcome the decisive obstacle for the completion of the capital actions within the planned timeframe of June 30, 2012 at the latest. By acquiring the shares allotted to them, the existing shareholders will have the opportunity to increase their stake in the company, which will at first be diluted to approximately 1 percent by the capital cut, to approximately 16 percent. This still represents a massive dilution of their equity interest; but this is the only way to realize the essential reduction of the Pfleiderer Group's debt and to return to an adequate equity base.

The financial crisis, turmoil in the engineered-wood industry and also some homegrown problems have brought our company to the verge of bankruptcy. But we have worked hard to achieve the opportunity to overcome this threatening phase. In this context, I would like to express my special gratitude to all of the Group's employees, who with full commitment have made their own contributions also in this very difficult time so that Pfleiderer can return to a successful path.

Our primary goal is to return to profitable growth as a European engineered-wood company with a sound balance sheet, and to achieve operating margins comparable with the average of our best competitors. I am firmly convinced that Pfleiderer is strong enough to do that.

Neumarkt, November 3, 2011

Hans H. Overdiek

Chairman of the Executive Board

# Interim Group Management Report

(Preliminary and unaudited)

## Economic Situation

The German economy lost some impetus in the first half of 2011. After gross domestic product (GDP) in the first quarter of the year still increased by 1.5 percent compared with the previous quarter, it only rose by 0.1 percent in the second quarter (compared with the first), according to estimates by the Federal Statistical Office. Economic expansion has been dampened by the uncertainty about the peripheral euro countries, a slow end to expansive monetary policy, the phasing out of state stimulus programs and growth weaknesses in some export markets. But for full-year 2011, the leading German economic-research institutes anticipate strong GDP growth in Germany of approximately 2.9 percent in their autumn expertise (2010: 3.5 percent). For 2012, they expect to see a growth rate of 0.8 percent.

According to the first estimates of the US Department of Commerce, GDP in the United States grew by an annualized 1.0 percent in the second quarter of 2011, following a revised figure of 0.4 percent for the first quarter. The US economy is thus recovering significantly more slowly than in previous upswing phases, and above all too slowly to have a positive impact on the labor market. Growth has been driven by stimulus from foreign trade and companies' investment. On the one hand, the weak dollar has helped; on the other hand, low taxes have enhanced companies' ability to invest. But private consumption has been very weak with growth of just 0.1 percent in the second quarter due to the ongoing high unemployment. The Case-Shiller index of home prices stabilized at a low level in April and May, following a fall of 3.5 percent in the first quarter of 2011 compared with the prior-year period. The recovery of the US real-estate market is an important precondition for a revival of private consumption and of our markets there.

In Eastern Europe, the economic upswing continued. After the Russian economy already grew by 4.0 percent last year, the International Monetary Fund expects growth of another 4.8 percent in 2011. Worldwide demand for raw materials is strong again and is the main driver of growth in Russia. For Poland, the IMF anticipates growth of 3.8 percent, the same as last year.

According to the Association of German Wood-Based Panel Industries (VHI), in the first six months of this year, sales of engineered wood in Germany increased by 9.0 percent compared with the prior-year period. The ifo index of business sentiment in the German wood industry worsened continuously in June and July, but improved again in August. The sub-index of the furniture industry climbed again in July and August following a sharp decline in June. According to the VHI, sales by the German furniture industry increased in in the first six months of the year by 7.3 percent compared with the prior-year period. The strongest growth was for sales of office furniture at 22.8 percent, but sales of kitchen furniture also grew by a strong by 5.3 percent. In North America, markets for engineered wood continued their decline in the first half of 2011. According to the Composite Panel Association (CPA), particleboard volumes fell by 4.4 percent compared with the prior-year period, with minus 2.0 percent in the United States and minus 9.8 percent in Canada. Capacity utilization of North American particleboard plants was 57.9 percent in June, according to the CPA. Demand for MDF fell by 4.0 percent compared with the first half of last year and capacity utilization of MDF plants was 68.5 percent in June.

## Revenue and Earnings – Comparison of Q1 2011 with Q1 2010

For the first quarter of 2011, our business in North America is presented as discontinued operations; firstly, to reflect the decision to sell that was made in the second quarter, and secondly, to allow better comparability with the second quarter. The prior-year figures have been adjusted for full comparability, as have the figures for the second quarter and first half of 2010.

In the first quarter of 2011, the Pfleiderer Group generated **total revenue** of 302.3 million euros, which is 13.0 percent higher than in the first quarter of last year. Exchange-rate effects were responsible for 4.1 million euros of this increase; the rest was caused by prices. While unit sales of raw particleboard declined by approximately 31.0 percent, unit sales of surface-finished panels and of MDF/HDF increased slightly. Laminate flooring also showed slight volume growth. Both unit sales and prices developed quite differently from one region to another. The proportion of revenue generated outside Germany in the first quarter was 64.0 percent, compared with 61.3 percent in the prior-year quarter.

In the first quarter of 2011, higher sale prices largely compensated for the increase in raw-material costs for the first time in more than two years, and in combination with lower depreciation led to growth in the **gross margin** from 21.9 percent to 24.1 percent. Gross profit increased by 24.3 percent to 72.9 million euros.

First-quarter **EBITDA** increased from 18.7 million euros to 23.3 million euros. Positive exchange-rate effects, in particular relating to the Swedish krona, contributed earnings of 0.3 million euros. EBITDA for the first quarter of 2011 also includes special expenses of 2.0 million euros for restructuring. The unadjusted EBITDA margin thus amounted to 7.7 percent; the margin adjusted for special items was 8.4 percent.

As a result of the impairments already recognized in the 2010 consolidated financial statements, depreciation and amortization fell to 13.9 million in the first quarter of this year (Q1 2010: 20.5 million euros). This means that **EBIT** increased to 9.4 million euros, from minus 1.8 million euros in the prior-year quarter.

The significant worsening of the **net financial expense** from 5.7 million euros to 29.0 million euros resulted on the one and from the increased debt, the higher interest burden and costs of refinancing such as legal, bank and consultant expenses. Other financial expense of 3.5 million euros includes charges of 6.9 million euros from the valuation of financial items in foreign currencies and income of 3.5 million euros from the fair valuation of interest and currency-hedging instruments.

The **result of continuing operations before taxes** amounted to a loss of 19.7 million euros, compared with a loss of 7.5 million euros in the first quarter of last year. In the first quarter of this year, we recognized a **deferred tax asset** of 1.2 million euros. After loss attributable to other shareholders and hybrid bondholders and losses from discontinued operations (15.3 million euros), the loss attributable to shareholders of Pfleiderer AG amounts to 41.3 million euros (Q1 2010: loss of 19.9 million euros). This results in diluted and basic **loss per share** of 71 euro cents (Q1 2010: loss per share of 39 euro cents). The loss per share for continuing operations amounts to 45 euro cents (Q1 2010: loss per share of 19 euro cents).

## Revenue and Earnings – Comparison of Q2 2011 with Q2 2010

Second-quarter **revenue** of the continuing operations of the Pfleiderer Group of 293.0 million euros was 6.0 percent higher than in the prior-year quarter. Exchange-rate effects were responsible for 7.3 million euros of the increase; the rest was caused by price effects. Unit sales were just over 9 percent lower than in the prior-year quarter, due in particular to the closure of the plant in Ebersdorf. While volumes of MDF and surface-finished panels increased by approximately 2 percent, unit sales of raw particleboard decrease by about 28 percent. Laminate flooring also showed slight growth. The proportion of revenue generated outside Germany reached 64.9 percent, compared with 62.1 percent in the second quarter of last year.

Gross profit increased from 60.2 million euros to 70.5 million euros. However, significant increases in raw-material prices compared with the prior-year quarter – especially for wood and chemicals (glue and input materials) were offset by cost-reducing actions, price increases, and lower depreciation and amortization, and improved the **gross margin** to 23.4 percent (Q2 2010: 21.8 percent). The balance of other operating income and expenses of minus 5.0 million euros mainly comprises provisions for restructuring costs at BC West.

Second-quarter **EBITDA** increased to 20.9 million euros, compared with 19.8 million euros in 2010. The EBITDA margin in the second quarter was thus 7.1 percent, compared with 7.2 percent a year earlier. Positive exchange-rate effects contributed 0.4 million euros of total earnings, in particular from the Polish zloty and the Russian ruble. Adjusted for one-time charges of 7.9 million euros, EBITDA amounted to 28.8 million euros and the margin was 9.8 percent.

**EBIT** of 6.9 million euros was higher than in the second quarter of last year (minus 1.2 million euros). Depreciation and amortization amounted to 14.0 million euros (Q2 2010: 21.0 million euros).

The significant worsening of **net financial result** from income of 5.8 million euros to an expense of 36.6 million euros resulted on the one hand from increased debt, the higher interest burden and costs of refinancing such as legal, bank and advisory expenses. It was not yet possible to implement the reduction of the interest burden called for in the restructuring concept because lawsuits initiated by shareholders and hybrid bondholders against the decisions of the shareholders' and bondholders' meeting are still pending. Other financial income of 2.5 million euros includes income of 4.4 million euros from the valuation of financial items denominated in foreign currencies as well as losses of 1.8 million euros from the fair valuation of interest-hedging instruments. In the prior-year quarter, other financial result amounted to income of 17.5 million euros, due in particular to income from the valuation of financial items denominated in foreign currencies.

Due to the factors listed above, the **result of continuing operations before taxes** amounted to a loss of 29.7 million euros, compared with a profit of 4.7 million euros in the prior-year quarter. In the second quarter of this year, we recognized a **tax benefit** of 0.7 million euros. After loss attributable to other shareholders and hybrid bondholders and losses from discontinued operations (9.6 million euros), the loss attributable to shareholders of Pfleiderer AG amounts to 44.1 million euros (Q2 1010: loss of 7.2 million euros). The statement of income also includes the claims of the hybrid bondholders of 4.6 million euros; this amount was not paid out, but was recognized as a liability in the balance sheet. This results in diluted and basic **loss per share** of 75 euro cents (Q2 2010: loss per share of 13 euro cents). The loss per share for continuing operations amounts to 59 euro cents (Q2 2010: 1 euro cent).

## Segment Report Q1 and Q2

### Segment overview (Q1)

| | Western Europe | | Eastern Europe | | North America* discontinued | | Group* | |
|---|---|---|---|---|---|---|---|---|
| Amounts in millions of euros | Q1 11 | Q1 10 | Q1 11 | Q1 10 | Q1 11 | Q1 10 | Q1 11 | Q1 10 |
| Revenue | 206.5 | 193.6 | 102.1 | 76.6 | 89.2 | 95.1 | 391.4 | 355.6 |
| EBIT | 10.1 | 5.7 | 5.6 | -3.4 | -7.0 | -4.3 | 2.6 | -6.1 |
| *EBIT margin* | *4.9%* | *2.9%* | *5.5%* | *-4.4%* | *-7.8%* | *-4.5%* | *0.7%* | *-1.7%* |
| Capital expenditure | 3.0 | 2.9 | 0.6 | 3.7 | 0.6 | 17.9 | 4.2 | 24.6 |
| Employees at end of period | 2,394 | 2,649 | 1,581 | 1,578 | 1,097 | 1,239 | 5,273 | 5,591 |

* North America is presented as discontinued operations. Due to consolidation, Group figures differ from the totals for the regions.

### Segment overview (Q2)

| | Western Europe | | Eastern Europe | | North America* discontinued | | Group* | |
|---|---|---|---|---|---|---|---|---|
| Amounts in millions of euros | Q2 11 | Q2 10 | Q2 11 | Q2 10 | Q2 11 | Q2 10 | Q2 11 | Q2 10 |
| Revenue | 198.1 | 202.1 | 99.8 | 77.6 | 90.8 | 104.9 | 383.8 | 381.4 |
| EBIT | 6.5 | 3.4 | 5.5 | 3.4 | -1.5 | -0.2 | 5.4 | -0.4 |
| *EBIT margin* | *3.3%* | *1.7%* | *5.5%* | *4.4%* | *-1.6%* | *0.7%* | *1.4%* | *-0.1%* |
| Capital expenditure | 3.4 | 6.1 | 1.7 | 3.6 | 2.1 | 11.3 | 7.3 | 21.1 |
| Employees at end of period | 2,393 | 2,629 | 1,587 | 1,577 | 1,094 | 1,257 | 5,177 | 5,579 |

* North America is presented as discontinued operations. Due to consolidation, Group figures differ from the totals for the regions.

As a result of the positive development in Eastern Europe and exchange-rate effects, the regions' weighting shifted in the second quarter compared with the prior-year period. Above all, Eastern Europe gained importance and accounted for 33.5 percent of the revenue of continuing operations in the second quarter, compared with 27.7 percent in the prior-year period. This dynamic region is thus increasingly developing into the growth driver of the Pfleiderer Group.

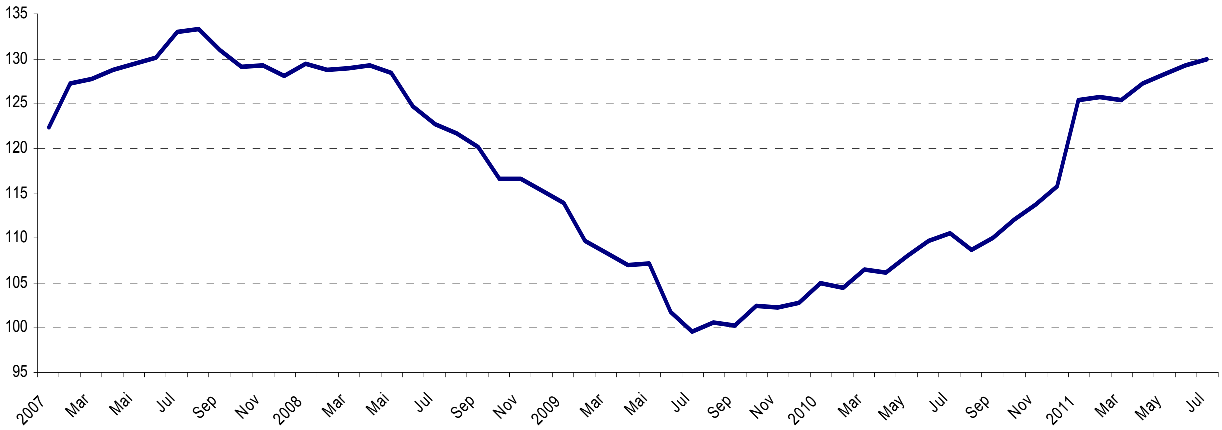
**Western Europe**

The Western Europe region posted a decrease in revenue of 2.0 percent compared with the second quarter of 2010 to 198.1 million euros. In the comparison, however, it must be considered that the Ebersdorf plant no longer contributed any revenue in the second quarter due to its closure in Januar y 2011. As a result, unit sales of raw particleboard actually fell by about 50 percent compared with the prior-year period. But unit sales of raw MDF/HDF also decreased slightly by 3.5 percent. On the other hand, unit sales of surface-finished panels increased by 3.9 percent. But prices increased significantly compared with the prior-year period for all product groups, most of all for raw particleboard. This was mainly due to the plant closures of the past two years, which have brought demand and production capacities in Germany more or less into equilibrium.

On the side of customer industries, all sectors with the exception of home-improvement stores reduced their demand for non-surface-finished products, most of all in the furniture industry. However, we were able to increase our unit sales of surface-finished panels, especially in the furniture industry. With laminate flooring, we achieved volume growth of 3.6 percent in Europe compared with the prior-year period, due to our new sales strategy based on extending our product offering to the mid-price segment. The main growth was achieved in the mid-price segment.

EBIT of the Western Europe region increased to 6.5 million euros, compared with 3.4 million euros in the prior-year quarter. Higher sale prices compensated for the increase in raw-material costs. Excluding one-time effects, EBIT amounted to 12.7 million euros.

**Prices of raw particleboard in Germany**
Price index 2005 = 100




Source: Federal Statistical Office

**Eastern Europe**
With revenue growth of 28.6 percent to 99.8 million euros in the second quarter, we posted the biggest regional increase in revenue compared with the prior-year quarter in Eastern Europe. Without exchange-rate effects, revenue would have been 3.1 million euros lower. While volumes of raw particleboard and HDF increased by nearly 20 percent, unit sales of surface-finished panels remained at the prior-year level. The trend towards rising sale prices was also apparent in Eastern Europe and was responsible for double-digit revenue growth. This compensated for ongoing increases in raw-material costs.

EBIT reached 5.5 million euros, compared with 3.4 million euros in the second quarter of last year. Higher unit sales and higher prices more than offset substantial increases in raw-material costs, of 29 percent for wood for example.

**North America**
Due to the planned sale of the North American business, its results are presented as discontinued operations. The revenue generated in our North American sales markets fell compared with the second quarter of 2010 by 13.4 percent to 90.8 million euros. Exchange-rate effects reduced revenue by 22.8 million euros. Along with the general market trend in North America, our unit sales of raw particleboard decreased by 4.7 percent compared with the prior-year period. Demand in the market was thus higher than in 2009, but weaker than in 2010 following the discontinuation of subsidies in the real-estate sector. Unit sales of surface-finished panels actually fell by 15.2 percent because of a temporary order

loss. Due to the ongoing ramp-up of the plant in Moncure, we were able to more than double our unit sales of MDF compared with the prior-year quarter, although the total market shrank by 7.7 percent. Revenue from sales of laminate flooring slumped by nearly one third, partially as a result of a substantial decrease in orders from a major customer. Competition became tougher in particular due to cheap imports from Asia.

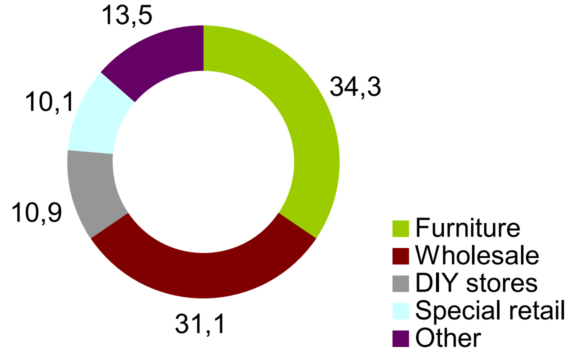
As a result of the lower revenue, second-quarter EBIT fell to minus 1.5 million euros, compared with minus 0.2 million euros in 2010. It was not possible to pass on to customers the price increases for glue, energy and paper.

## Revenue and Earnings – Comparison of H1 2011 with H1 2010

The **revenue** of the continuing operations of the Pfleiderer Group of 595.3 million euros in the first half of this year was 9.4 percent higher than in the prior-year period. Exchange-rate effects were responsible for 7.4 million euros of the increase. Due to the plant closures, unit sales of panels fell by 10 percent. This was mainly related to the drop in demand for raw particleboard in the Western Europe region. As a result of plant closures in Ebersdorf, but also caused by a deliberate shift in focus towards surface-finished products, unit sales of raw particleboard fell by nearly 30 percent. Unit sales of surface-finished panels and of MDF each increased by approximately 3 percent. With laminate flooring, we were able to increase our unit sales also by about 3 percent compared with the first half of last year due to the expanded product offering. Compared with the prior-year period, panel prices increased at double-digit rates in most product groups in both Western and Eastern Europe, thus compensating for ongoing increases in raw-material costs.

As cost of sales increased at a lower rate than revenue, the **gross margin** increased from 21.9 percent to 24.1 percent, while gross profit rose from 118.8 million euros to 143.4 million euros. This improvement was achieved despite the ongoing increase in the ratio of material costs to revenue. The balance of other operating income and expense resulted in an expense of 4.8 million euros, mainly representing the allocation to restructuring provisions.

**Revenue by industry H1 2011**
in percent




**EBITDA** of continuing operations increased to 44.2 million euros, from 38.5 million euros in the first half of 2010. The EBITDA margin for the reporting period was thus 7.4 percent, compared with 7.1 percent in the prior-year period. Exchange-rate effects, especially in connection with the Polish zloty, made a positive contribution to earnings of 0.7 million euros. Without the one-time charges relating to the restructuring, EBITDA would have been at 54.1 million euros and the margin at 9.1 percent.

**EBIT** of 16.2 million euros was higher than the prior-year result of minus 2.9 million euros. There was a positive impact from the reduction in depreciation and amortization to 28.0 million euros (41.5 million euros).

The **net financial expense** of 65.6 million euros (H1 2010: income of 0.1 million euros) was impacted compared with the prior-year period not only by lower interest income, but in particular by higher interest expenses due to increased debt and the costs of refinancing. It was not yet possible to implement the reduction of the interest burden called for in the restructuring concept because lawsuits initiated by shareholders and hybrid bondholders against the decisions of the shareholders' and bondholders' meeting are still pending. Whereas there was other financial income of 23.9 million euros in the prior-year period, the various items included here added up to an expense of 1.0 million euros in the first half of 2011. This primarily reflects a loss of 2.4 million euros on the valuation of financial items in foreign currencies as well as income of 1.1 million euros from the mark-to-market valuation of interest-hedging instruments.

The **result of continuing operations before taxes** amounted to a loss of 49.4 million euros, compared with a loss of 2.8 million euros in the prior-year period. In the first half of the year, we recognized a **tax expense** of 0.6 million euros, compared with a tax benefit of 2.1 million euros in the prior-year period. Discontinued operations were responsible for a loss of 24.9 million euros (H1 2010: loss of 19.2 million euros). This results in a loss for the period of 74.9 million euros (H1 2010: loss for the period of 18.9 million euros). Earnings of 0.8 million euros are attributable to minority interests. The statement of income also includes the claims of hybrid bondholders of 9.7 million euros; this amount was not paid out but was recognized as a liability in the balance sheet. A loss of 85.3 million euros is therefore attributable to the shareholders of Pfleiderer AG, compared with a loss of 27.1 million euros for the first half of 2010.

This results in a basic **loss per share of continuing operations** of 103 euro cents, compared with a loss of 16 euro cents for the prior-year period. Discontinued operations were responsible for an additional loss per share of 43 euro cents (H1 2010: loss of 32 euro cents).

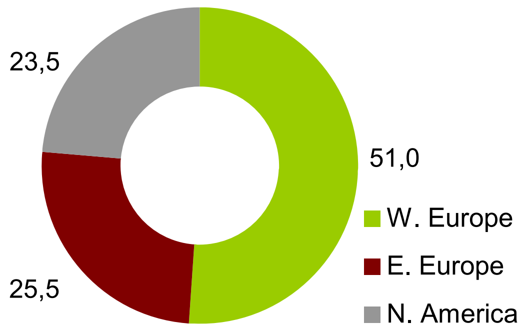
## Segment Report H1

### Segment overview

| Amounts in millions of euros | Western Europe H1 11 | Western Europe H1 10 | Eastern Europe H1 11 | Eastern Europe H1 10 | North America discontinued H1 11 | North America discontinued H1 10 | Group* H1 11 | Group* H1 10 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 404.6 | 395.7 | 201.9 | 154.2 | 180.0 | 193.1 | 775.2 | 737.0 |
| EBIT | 16.6 | 9.1 | 11.1 | 0.0 | -8.2 | -4.6 | 8.0 | -6.5 |
| *EBIT margin* | *4.1%* | *2.3%* | *5.5%* | *0.0%* | *-4.6%* | *-2.4%* | *1.0%* | *-0.9%* |
| Capital expenditure | 6.4 | 9.0 | 2.3 | 7.3 | 2.7 | 29.2 | 11.5 | 45.7 |
| Number of employees | 2,393 | 2,629 | 1,587 | 1,577 | 1,094 | 1,257 | 5,177 | 5,579 |

* North America is presented as discontinued operations. Due to consolidation, Group figures differ from the totals for the regions.

**Revenue by region**
in %




### Western Europe

In the first half of 2011, the Western Europe region posted revenue growth compared with the prior-year period of 2.2 percent to 404.6 million euros.  Lower unit sales resulting from the closure of the Ebersdorf plant were offset by rising sale prices. Volumes of raw particleboard fell by nearly 50 percent while volumes of raw MDF and HDF approached the prior-year levels. There was slight growth in unit sales of surface-finished panels, and also of laminate flooring thanks to the expanded product range. In the customer industries, the business with raw particleboard declined sharply, especially with furniture manufacturers. However, customers in this segment bought more surface-finished products. The business with home-improvement stores also improved.

EBIT of 16.6 million euros for the Western Europe region was 81.6 percent higher than in the prior-year period (H1 2010: 9.1 million euros). Earnings for the first half of the year include 6.4 million euros of restructuring costs and one-time effects.

### Eastern Europe

With an increase of 30.9 percent to 201.9 million euros, we posted the biggest revenue growth in the first half of the year in Eastern Europe. Of that growth, 4.7 million euros was due to exchange-rate effects. Unit sales increased across all product groups, but in particular for MDF/HDF.

The region's EBIT increased significantly to 11.1 million euros from 0.0 million euros in the prior-year period. This earnings improvement was achieved despite the substantial rises in raw-material costs, of approximately 23 percent for wood for example.

**North America**
Due to the planned sale of the North American business, its results are presented as discontinued operations. The revenue generated in our North American sales markets fell compared with the first half of 2010 by 6.8 percent to 180.0 million euros. The main factor behind the fall was exchange-rate movements, accounting for a fall of 19.0 million euros.

While unit sales of raw particleboard decreased by 5.7 percent, we more than doubled our unit sales of MDF/HDF due to the ramp-up of production in Moncure. Sales of surface-finished panels were depressed by a temporary order loss. Unit sales of laminate flooring fell by nearly 30 percent after a major customer significantly reduced its orders. The trend towards cheaper products in the area of laminate flooring is continuing. While particleboard prices remained roughly at the prior-year level, prices of MDF/HDF fell significantly. Overall, economic developments in general and the recovery of the real-estate market in particular did not fulfill expectations.

EBIT for the first half of 2011 amounted to minus 8.2 million euros, compared with minus 4.6 million euros for the first half of last year.

## Financial Position – Comparison of June 30, 2011 with December 31, 2010

Due to the reclassification in the first half of 2011 of our North American activities into assets and liabilities of discontinued operations, the interim consolidated financial statements are comparable with those as of December 31, 2010 only to a limited extent. Compared with the end of 2010, the balance sheet total fell slightly by 1.3 percent to 1,398.6 million euros. While on the **assets side,** current assets increased by 12.0 percent to 549.4 million euros, non-current assets fell by 8.4 percent to 849.2 million euros. This change on the assets side of the balance sheet is due to the presentation of all the assets of the North America region as assets of discontinued operations.

The structure of the **liabilities side** is still affected by the Group's upcoming new financing. Until the steps agreed upon in the context of the new financing are implemented, including the capital increase, these non-current financial liabilities will be presented as current. The main changes on the liabilities side of the balance sheet result from the presentation of all the liabilities of the North America region as liabilities of discontinued operations, as required by the decision to dispose of the entire business in that region. The development of earnings reduced equity by 85.3 million euros, and this led to negative equity of the Pfleiderer shareholders of minus 371.7 million euros. Total equity decreased by 54.7 million euros to minus 12.8 million euros. Currency translation had an opposing effect and increased equity by 19.1 million euros. As a result of all effects, the equity ratio fell from 3.0 percent and became negative.

The Group's **net debt** including the North American financial liabilities increased compared with the end of 2010 by 60.7 million euros to 1,020.8 million euros.

## Cash Flows

In the first half of 2011, the Group had a net cash outflow from operating activities of 1.2 million euros, compared with a net cash inflow of 69.6 million euros in the prior-year period. This cash outflow is mainly the result of our suppliers' shorter payment terms.

## Capital Expenditure

Capital expenditure including advance payments in the first half of 2011 fell compared with the prior-year period by 34.2 million euros to 11.5 million euros. Of that total, 6.4 million euros was invested in the Western Europe region and 2.3 million euros was invested in the Eastern Europe region. An amount of 2.7 million euros was invested In North America. Sales of property, plant and equipment yielded proceeds of 17.8 million euros.

## Workforce

The number of persons employed by the Group at June 30, 2011 was 7.2 percent lower than a year earlier at 5,177. In Western Europe, the workforce decreased by 9.2 percent to 2,393 as a result of the plant closures. In Eastern Europe, the workforce expanded slightly by 0.6 percent to 1,587. In North America, the number of persons employed fell by 13.0 percent to 1,094. Compared with the end of 2010, the Group's workforce contracted by 196 persons.

## Events after the Interim Balance Sheet Date

At an extraordinary shareholders' meeting held on July 21, 1011, the Executive Board and the Supervisory Board proposed carrying out a massive capital cut in a magnitude that would lead to the shareholders at first holding only approximately 1 percent of Pfleiderer's share capital; but they would then be able to raise their equity interest to approximately 16 percent by way of a capital increase. In order to return to a sound equity base, the plans call for a debt waiver of approximately 305 million euros plus accumulated interest and fees and a cash capital increase resulting in an injection of funds of up to 100 million euros.

After the balance sheet date of June 30, 2011, several lawsuits were initiated by hybrid bondholders and shareholders contesting the resolutions of the creditors' meeting and the shareholders' meeting. We have applied in court for release proceedings in both cases. On October 27, the Frankfurt District Court rejected our application for release relating to the creditors' meeting. Pfleiderer will appeal against that ruling.

The Federal Antitrust Authority is carrying out preliminary investigations in Germany of Pfleiderer AG, some of its subsidiaries, and competitors in the engineered-wood industry concerning illegal price fixing. On September 15, 2011, the Federal Antitrust Authority imposed a fine on Pfleiderer and competitors. Pfleiderer has waived its right to appeal against the fine, so the verdict of an infringement of antitrust law is final.

As successor to Hanno C. Fiedler, who stepped down from the Supervisory Board as of August 31, 2011, Florian Kawohl was appointed as a new member by court order upon an application by Pfleiderer's Executive Board and Supervisory Board. With the departure of Mr. Fiedler, the position of Supervisory Board Chairman had also become vacant. As a successor in this function, the Supervisory Board elected Harald Joachim Joos on September 16, 2011; Mr. Joos had been appointed as a member of the Supervisory Board by court order on July 12, 2011.

As of October 17, 2011, Pawel Wyrzykowski and Heiko Graeve stepped down from the Executive Board. The tasks of Mr. Wyrzykowski and Mr. Graeve will be performed by the other members of the Executive Board, Hans H. Overdiek, Chairman of the Executive Board, and Hans-Joachim Ziems.

## Risk Report

One of the fundamental management tasks is to establish and implement an effective internal control (IC) and risk-management (RM) system complying with the requirements of corporate governance and best practices.

Like other companies, Pfleiderer is exposed to a large number of risks connected with entrepreneurial activities. In order to counteract such uncertainties and to meet the requirements of constant changes in the applicable laws and regulations of various jurisdictions, the Pfleiderer Group has established IC, RM and internal auditing systems that are uniform throughout the Group. These instruments are continually further developed and regularly adapted to changing conditions.

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

The tasks and organization of risk management at Pfleiderer and the risks to which the company is exposed were described in detail in the Management Report of Annual Report 2009. That document can be seen on the website of Pfleiderer AG at www.pfleiderer.com under the heading "Investor Relations/Reports and Presentations," and can be downloaded if required.

The Pfleiderer Group is subject to a number of risks, which can be summarized as follows:

### Restructuring and financing risks

- Pfleiderer is in an earnings and liquidity crisis with a high level of debt, which is threatening its existence. The balance sheet structure is to be improved by the financial restructuring decided upon by the creditors, including a capital increase in which new shares will be offered. But it is uncertain as to whether the earnings and liquidity situation can be improved on a sustained basis.
- The ongoing stabilization of the Pfleiderer Group requires the implementation of an operational restructuring concept, for which there is no guarantee of success.
- Pfleiderer has to fulfill various operating and financial conditions, which are stipulated in the restructuring credit agreement and in the senior-debt credit agreements. These conditions restrict the operating scope for action of the Pfleiderer Group. Any breaches of these conditions may result in the termination of the credit agreements and possibly in the insolvency of Pfleiderer.
- It is not certain that the funds available to Pfleiderer will be sufficient to take the measures required in the context of the restructuring concept.
- Due to the restructuring, Pfleiderer's ability to pay dividends will be substantially affected or even excluded in the coming years.

- Even after the restructuring actions are concluded and the partial waiver of claims takes effect, the Pfleiderer Group will still be highly indebted, which may restrict its flexibility in the management of its business.
- It is not certain that Pfleiderer can generate sufficient cash flows from operating activities to make interest payments and capital repayments of the ongoing financing, or that Pfleiderer will have access to sufficient financing possibilities if or when required.
- If the proceeds from the sale of the two North American business centers, Panel North America and Flooring North America, are lower than the credit liabilities held by those business centers, further impairments may be required. In addition, those credits would have to be repaid from the cash flows of the other business centers.
- Uncertainty concerning the future composition of the Executive Board may have a negative impact on Pfleiderer's business operations.
- If the planned MDF plant in Novgorod cannot be completed in good time, the implementation of the restructuring concept will be jeopardized.
- As a result of restructuring and the difficult financial situation, Pfleiderer might not be able to make the required investment to modernize its production facilities and keep them competitive or to establish additional production plants.

### Market risks

- Increased production costs due to higher prices of raw materials, of other materials required for production, or of energy may lead to falling margins and earnings in the extremely competitive environment in which the Pfleiderer Group is active.
- Pfleiderer's business depends on the general economy, in particular on demand for furniture and for construction and renovation.

### Entrepreneurial risks

- Dependence on major customers may have a negative impact on Pfleiderer's business operations and earnings.
- Pfleiderer is subject to exchange-rate risks.
- Interest-rate fluctuations and risks from hedging transactions may reduce Pfleiderer's earnings.
- Pfleiderer's balance sheet includes a substantial amount of assets for which there is a risk of impairment, such as goodwill, property, plant and equipment and inventories.
- The emission-limiting regulations set by the European Union for the engineered-wood industry may be made stricter.
- The stricter environmental requirements of the Province of Quebec (in Canada) for industrial plants as of June 30, 2016 will require re-equipping and cost-intensive investment of a content and magnitude that cannot yet be properly estimated.
- Stricter regulation in the European Union of the use of formaldehyde – a key material in the methods used by Pfleiderer to produce engineered wood – might necessitate changes in the production process and/or materials used as well as cost-intensive investments.

- Pfleiderer might be responsible for action with regard to land and water pollution at its production sites.
- There is a risk that Pfleiderer's provisions for pension obligations are not fully covered by the contractual trust arrangement (CTA).
- Industrial property rights essential for Pfleiderer's business operations might be contested.
- Pfleiderer's insurance cover might prove to be inadequate.
- It is not certain that Pfleiderer will continue to be able to recruit and retain highly qualified executives.
- Pfleiderer must add qualified specialists to its workforce; it is not certain that it will be possible to recruit and retain sufficient skilled workers.
- The Pfleiderer Group is dependent on the uninterrupted operation of its computer and IT systems. Pfleiderer has also started a project to harmonize its heterogeneous IT environment, the realization of which is not guaranteed.
- Customers and/or competitors may claim compensation for damages in connection with antitrust proceedings brought against Pfleiderer.
- There is a risk that Pfleiderer might not be able to collect receivables from its customers.

### Tax risks

Pfleiderer and the other owners of the Pfleiderer Group are subject to a large number of tax risks:

- Substantial additional taxes may become due as a result of future tax field audits.
- In connection with the financial restructuring of the Pfleiderer Group, additional tax expenses may arise in other tax jurisdictions outside Germany.
- Additional tax expenses may arise in connection with the cash settlement of warrants with options.
- Tax-loss carryforwards and other non-utilized losses and/or interest carryforwards may be lost.

## Opportunities and Outlook

Pfleiderer's opportunities depend to a great degree on the implementation of the operating and financial restructuring concept at the individual subsidiaries. In December 2010, Pfleiderer reached a standstill agreement with its first-lien creditors in order to work out a financial and operating restructuring concept. In May 2011, Pfleiderer AG agreed with the creditor of Financing Circle West, i.e. financial liabilities excluding Eastern Europe, on the financial details of the Group's restructuring concept, and signed the related contracts. The contracts call for a debt waiver by the creditors to the financial liabilities of Pfleiderer AG and key subsidiaries (excluding Financing Circle Eastern Europe) in an amount of 40 percent of the credit lines utilized at May 5, 2011, in addition to a portion of the accumulated interest and fees. With the implementation of these measures by the end of 2011, this would represent an amount of 380 million euros.

In May 2011, the creditors also provided an additional amount of 100 million euros in the form of a senior collateralized loan obligation (super senior). Half of the super-senior loan is to be repaid after the capital changes are carried out. For the ongoing credit lines, the covenants are to be suspended for two years after the waiver.

At an extraordinary shareholders' meeting held on July 21, 1011, the Executive Board and the Supervisory Board proposed carrying out a massive capital cut in a magnitude that would lead to the shareholders at first holding only approximately 1 percent of Pfleiderer's share capital; but they would then be able to increase their equity interest to approximately 16 percent by way of a capital increase. In order to return to a sound equity base, this cash capital increase should then result in an injection of funds of up to 100 million euros. Of that total, 60 million euros should be raised by those of the creditors who participate in the capital increase, while up to 40 million euros should come from the shareholders of Pfleiderer AG or from third parties. Those creditors are also prepared to provide another super senior loan of up to 40 million euros to cover the amount of the capital increase that is not raised from the shareholders or third parties; so the planned injection of funds of 100 million euros is assured in any event.

When the capital increase is completed, those creditors will hold at least 80 percent of the increased share capital of Pfleiderer AG. That proportion can increase to the extent that neither the current shareholders nor third parties acquire the new shares allotted to them in the capital increase. The majority position reflects the significant waiver of claims and the guarantee of the cash injection from the super senior loan of up to 40 million euros. The current shareholders can increase their proportion of share capital by up to 15 percentage points from approximately 1 percent to approximately 16 percent by acquiring the new shares allotted to them in the capital increase for cash contributions of up to 40 million euros. The holders of the hybrid bond issued in 2007 with a nominal volume of 275 million euros have fully waived their rights and decided to swap their bonds for 4 percent of the share capital after the capital increase has been carried out. Including the accumulated unpaid interest, this represents further debt relief of approximately 340 million euros.

Other creditors who also waive 40 percent of their claims but do not wish to participate in the capital increase will receive bonds with warrants, which can be converted into shares under certain conditions.

On the creditors' side, the debt reduction described above is subject to the measures being taken that were agreed upon by the bondholders and the shareholders in separate meetings. The actions described above – provided they are realized – will lead to a significant debt reduction for the Pfleiderer Group and will restore a sound equity base. On October 27, the Frankfurt District Court rejected our application for release relating to the creditors' meeting. Pfleiderer will appeal against this ruling. If the legal action taken by hybrid bondholders or shareholders against the action decided upon is successful or if not all of the contractual terms of the restructuring concept are fulfilled, the capital increase and the waiver of claims will no longer take place and the creditors will be able to make their claims due immediately with utilization of their collateral. The existence of Pfleiderer AG as a going concern would then be jeopardized.

The operational restructuring concept is based on the following key points:

- The sale of the North American business in order to stop losses and reduce the complexity of the organization.
- The restructuring of Western European operations by closing plants. That should bring supply and demand into equilibrium again. Good progress has already been made; production capacity of par-

ticleboard in Germany of approximately 6.5 million square meters will be faced with demand of a good 6 million square meters, according to the European Panel Federation. In 2009, total production capacity in Germany was still 8 million square meters. This has already led to significant scope for price adjustment, with the result that producers in Western Europe are now operating in the black again.

- The enhanced efficiency of indirect functions by reducing the size of headquarters and the rationalization of processes through better integration.
- And finally, participation in the growth in Eastern Europe by investing in the continued construction of the MDF plant in Novgorod.

A condition for all our opportunities is that the financial and operational restructuring concept is implemented successfully. The revenue generated by the Group's continuing operations is likely to grow by a medium-to-high single-digit percentage in full-year 2011 due to the market recovery and despite the plant closures. The Eastern Europe region will probably grow at a double-digit rate, while Western Europe will remain fairly flat as a result of the plant closures. In the year 2012, we currently anticipate a decrease in Group revenue, as we assume that our business operations in North America will be sold. On a comparable basis, however, Pfleiderer expects to achieve further growth also in 2012, unless the current framework conditions worsen substantially, due for example to an exacerbating sovereign-debt crisis.

The earnings situation of the Group and thus of Pfleiderer AG will be substantially affected in the year 2011 by the costs of restructuring. Despite a significant improvement in our operating activities, we continue to anticipate an operating loss for the full year. A further improvement in the Group's operating profitability is expected in the year 2012.

## Disclaimer

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

Neumarkt, November 3, 2011

Hans H. Overdiek    Hans-Joachim Ziems

# Responsibility Statement

## Statement pursuant to Section 37y of the German Securities Trading Act (WpHG) in conjunction with Section 37w Subsection 2 No. 3 of the WpHG

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

Neumarkt, November 3, 2011

Hans H. Overdiek　　　Hans-Joachim Ziems

# Pfleiderer Shares

In the first half of 2011, the price of Pfleiderer shares was primarily affected by the results of the restructuring negotiations. The accumulated losses consumed the shareholders' capital and the consequential restructuring actions call for a massive dilution of the old shareholders' equity. This put the share price under pressure and on June 30, 2011, the shares were listed at 45 euro cents, which is 81.6 percent lower than the price at the end of 2010.

## Key Figures

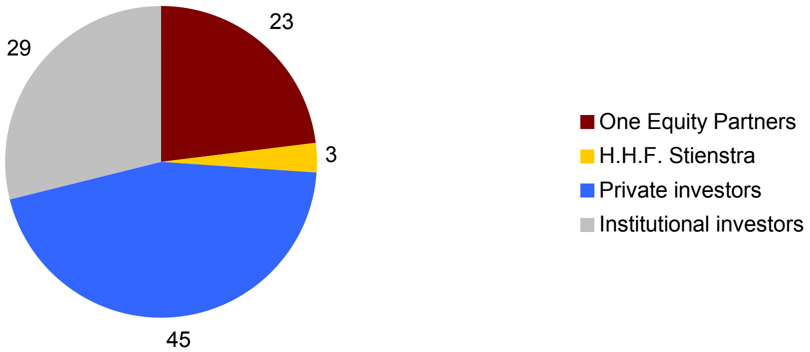
| | | H1 2011 | H1 2010 |
|---|---|---|---|
| Share price | | | |
| lowest | euros | 0.411 | 3.60 |
| highest | euros | 2.45 | 7.33 |
| closing | euros | 0.449 | 4.13 |
| Number of shares at end of period | | 58,658,700 | 58,658,700 |
| Market capitalization at end of period | million euros | 26 | 242 |
| Earnings per share (continuing operations) | euros | -1.45 | -0.45 |
| Average daily trading [1] | | 503,000 | 401,600 |

| | | |
|---|---|---|
| German securities identification number | | 676474 |
| ISIN | | DE0006764749 |
| Reuters symbol | | PFDGn.DE |
| Bloomberg symbol | | PFD4 GY |
| Stock exchanges | | Xetra, Frankfurt am Main, regional stock exchanges |
| Free float on June 30, 2011 | percent | 76.7 |
| Stock-exchange segment | | Prime Standard |

1 Number of shares per day on Xetra

# Shareholder Structure

In percent




As of June 2011

# Condensed Interim Consolidated Financial Statements

(Preliminary and unaudited)

## Consolidated Statement of Income (IFRS)

| In thousands of euros | Jan. 1 – June 30, 2011 | Jan. 1 – June 30, 2010 (adjusted) | Apr. 1 – June 30, 2011 | Apr. 1 – June 30, 2010 (adjusted) |
|---|---|---|---|---|
| Revenue | 595,270 | 543,916 | 293,004 | 276,513 |
| Cost of sales | -451,853 | -425,069 | -222,487 | -216,300 |
| **Gross profit** | **143,417** | **118,848** | **70,517** | **60,213** |
| Selling expenses | -72,063 | -76,822 | -34,857 | -39,181 |
| Administrative expenses | -48,845 | -50,964 | -23,105 | -25,885 |
| Research and development expenses | -1,445 | -1,300 | -709 | -616 |
| Other operating income and expense | -4,828 | 7,296 | -4,980 | 4,295 |
| **Operating profit** | **16,236** | **-2,942** | **6,867** | **-1,175** |
| Interest income | 5,392 | 7,449 | 2,553 | 4,115 |
| Interest expense | -69,988 | -31,275 | -41,638 | -15,754 |
| Other financial income/expense | -995 | 23,927 | 2,520 | 17,472 |
| **Financial income/expense, net** | **-65,591** | **101** | **-36,564** | **5,833** |
| **Profit/loss of continuing operations before taxes** | **-49,355** | **-2,841** | **-29,697** | **4,659** |
| Income taxes | -565 | 2,071 | 669 | 766 |
| **Profit/loss of continuing operations** | **-49,919** | **-770** | **-29,028** | **5,424** |
| Loss of discontinued operations | -24,880 | -19,152 | -9,622 | -8,010 |
| Income taxes on discontinued operations | -66 | 1,049 | -37 | 139 |
| **Loss for the period** | **-74,865** | **-18,873** | **-38,688** | **-2,446** |
| thereof attributable to minority interests | 756 | -950 | 485 | 162 |
| thereof attributable to hybrid bondholders | 9,716 | 9,151 | 4,885 | 4,601 |
| **thereof attributable to shareholders of Pfleiderer AG** | **-85,338** | **-27,074** | **-44,058** | **-7,209** |
| Loss per share – basic | -1.45 | -0.47 | -0.75 | -0.13 |
| Loss per share – diluted | -1.45 | -0.47 | -0.75 | -0.13 |
| Earnings/loss per share from continuing operations after minority interests | -1.03 | -0.16 | -0.59 | 0.01 |
| Loss per share from discontinued operations | -0.43 | -0.32 | -0.16 | -0.14 |
| Average number of shares issued (basic) | 58,658,700 | 57,350,044 | 58,658,700 | 57,350,044 |

## Consolidated Statement of Comprehensive Income

| In thousands of euros | Jan. 1 – June 30, 2011 | Jan. 1 – June 30, 2010 (adjusted) | Apr- 1 – June 30, 2011 | Apr. 1 – June 30, 2010 (adjusted) |
|---|---|---|---|---|
| **Loss for the period** | **-74,865** | **-18,873** | **-38,688** | **-2,446** |
| Currency translation differences | 19,157 | 28,645 | -2,044 | -868 |
| Derivative financial instruments | 63 | 1,005 | 111 | 502 |
| **Total of income and expense recognized directly in equity (after taxes)** | **19,220** | **29,650** | **-1,933** | **-366** |
| **Total of income and expense recognized in equity** | **-55,645** | **10,777** | **-40,620** | **-2,812** |
| **Thereof attributable to:** | | | | |
| Minority interests | 969 | 3,187 | 530 | -764 |
| Hybrid bondholders | 9,716 | 9,151 | 4,885 | 4,601 |
| Shareholders of Pfleiderer AG | -66,330 | -1,561 | -46,036 | -6,649 |
| **Total of income and expense recognized in equity** | **-55,645** | **10,777** | **-40,620** | **-2,812** |

## Consolidated Balance Sheet

**Assets**

| In thousands of euros | June 30, 2011 | Dec. 31, 2010 |
|---|---|---|
| Cash and cash equivalents | 38,065 | 55,739 |
| Receivables and other assets | 167,484 | 161,980 |
| Inventories, net | 118,586 | 168,685 |
| Income tax receivables | 2,290 | 4,006 |
| Other assets | 6,506 | 8,188 |
| Assets of discontinued operations | 216,510 | 92,192 |
| **Current assets** | **549,441** | **490,790** |
| Property, plant and equipment, net | 479,412 | 541,499 |
| Intangible assets, net | 306,741 | 316,827 |
| Financial assets | 5,285 | 5,361 |
| Deferred tax assets | 51,097 | 57,210 |
| Other assets | 6,638 | 5,859 |
| **Non-current assets** | **849,173** | **926,756** |
| **Total assets** | **1,398,614** | **1,417,546** |

**Equity and liabilities**

| In thousands of euros | June 30, 2011 | Dec. 31, 2010 |
|---|---|---|
| Payables and other debt | 147,943 | 198,752 |
| Financial liabilities | 501,265 | 777,259 |
| Provisions | 20,400 | 34,701 |
| Tax liabilities | 5,157 | 5,142 |
| Other debt | 1,500 | 321 |
| Liabilities from discontinued operations | 427,117 | 14,536 |
| **Current liabilities** | **1,103,382** | **1,030,711** |
| Financial liabilities | 225,869 | 238,571 |
| Retirement benefit obligation | 10,460 | 21,376 |
| Deferred tax liabilities | 50,302 | 57,214 |
| Other debt | 6,543 | 6,990 |
| Provisions | 14,834 | 20,724 |
| **Non-current liabilities** | **308,008** | **344,875** |
| Share capital | 150,166 | 150,166 |
| Reserves including retained earnings and profit for the period | -517,928 | -433,499 |
| Other comprehensive income | -3,901 | -22,908 |
| **Equity of shareholders of Pfleiderer AG** | **-371,662** | **-306,241** |
| Hybrid capital | 327,281 | 317,564 |
| Minority interests | 31,606 | 30,637 |
| Total equity | **-12,776** | **41,960** |
| **Total equity and liabilities** | **1,398,614** | **1,417,546** |

## Consolidated Statement of Cash Flows (IFRS)

| In thousands of euros | Jan. 1 – June 30, 2011 | Jan. 1 – June 30, 2010 (adjusted) |
|---|---|---|
| Earnings before interest and taxes (EBIT) | 16,236 | -2,942 |
| Net income taxes paid | 997 | 12 |
| Depreciation and amortization | 27,970 | 41,461 |
| Gain/loss on the disposal of fixed assets | -388 | -566 |
| Change in retirement benefit obligation | 2,358 | 1,747 |
| **Cash inflow** | **47,173** | **39,712** |
| Change in current assets | -45,104 | -33,139 |
| Change in other non-current assets | -1,156 | 5,954 |
| Change in current liabilities excluding financial debt | -1,079 | 56,954 |
| Change in non-current liabilities excluding financial debt | -1,970 | 1,758 |
| Other non-cash expense and income | 909 | -1,661 |
| **Cash flow from operating activities** | **-1,227** | **69,578** |
| Payments for intangible assets | -1,198 | -242 |
| Payments for property, plant and equipment | -8,114 | -26,485 |
| Proceeds from the sale of property, plant and equipment | 17,787 | 1,777 |
| **Cash flow from investing activities** | **8,475** | **-24,950** |
| **Cash flow from operating activities and investing activities** | **7,248** | **44,628** |
| Change in financial liabilities | 40,703 | -110,580 |
| Change in externally factored receivables | -4,349 | -27,960 |
| Capital increase | 0 | 34,229 |
| Sale of treasury shares | 0 | 18,165 |
| Interest paid | -50,655 | -26,013 |
| Interest received including accrued interest on hybrid bonds | 347 | 117 |
| Other financing activities | -132 | -843 |
| **Cash flow from financing activities** | **-14.086** | **-112,885** |
| Net change in cash and cash equivalents | -6,838 | -68,257 |
| Effects of exchange-rate changes on cash held in foreign currencies | 32 | 1,654 |
| Change in cash and cash equivalents from discontinued operations | -9,036 | 42,070 |
| *from ongoing business activities* | *-7,707* | *-56,277* |
| *From investing activities* | *-2,755* | *-36,365* |
| *From financing activities* | *1,426* | *134,712* |
| Change in cash and cash equivalents from first-time consolidation and deconsolidation | 0 | 0 |
| Cash and cash equivalents at Jan. 1 (excluding North America region) | 53,907 | 44,725 |
| Cash and cash equivalents at June 30 (excluding N. America in 2010) | 38,065 | 20,192 |

# Consolidated Statement of Changes in Equity (IFRS)

| In thousands of euros | Issued share capital | Reserves including retained earnings and profit for the period | Treasury shares | Other comprehensive income Foreign currency translation | Other comprehensive income Valuation of financial derivatives | **Subtotal** | Hybrid capital | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2011** | **150,166** | **-433,499** | **0** | **-22,975** | **67** | **-306,241** | **317,564** | **30,637** | **41,960** |
| Increase in issued capital | | | | | | **0** | | | **0** |
| Treasury shares | | | | | | **0** | | | **0** |
| Change in adjustment item from | | | | | | | | | |
| currency translation | | | | 18,969 | | **18,969** | | 188 | **19,157** |
| Valuation of financial derivatives | | | | | 38 | **38** | | 25 | **63** |
| Profit/loss for the period | | -85,338 | | | | **-85,338** | 9,716 | 756 | **-74,865** |
| Deferred payment to hybrid | | | | | | | | | |
| bondholders | | | | | | **0** | | | **0** |
| Effect of stock option plans | | 909 | | | | **909** | | | **909** |
| **Balance at June 30, 2011** | **150,166** | **-517,928** | **0** | **-4,006** | **105** | **-371,662** | **327,280** | **31,606** | **-12,776** |

| In thousands of euros | Issued share capital | Reserves including retained earnings and profit for the period | Treasury shares | Other comprehensive income Foreign currency translation | Other comprehensive income Valuation of financial derivatives | **Subtotal** | Hybrid capital | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2010** | **136,515** | **302,078** | **-43,073** | **-50,533** | **-2,036** | **342,951** | **260,204** | **28,544** | **631,699** |
| Increase in issued capital | 13,651 | 20,700 | | | | **34,351** | | | **34,351** |
| Treasury shares | | -24,908 | 43,073 | | | **18,165** | | | **18,165** |
| Change in adjustment item from | | | | | | | | | |
| currency translation | | | | 24,508 | | **24,508** | | 4,137 | **28,645** |
| Valuation of financial derivatives | | | | | 1,005 | **1,005** | | | **1,005** |
| Profit/loss for the period | | -27,074 | | | | **-27,074** | 9,151 | -950 | **-18,873** |
| Deferred payment to hybrid | | | | | | | | | |
| bondholders | | | | | | **0** | -9,151 | | **-9,151** |
| Effect of stock option plans | | 1,340 | | | | **1,340** | | | **1,340** |
| **Balance at June 30, 2010** | **150,166** | **272,136** | **0** | **-26,025** | **-1,031** | **395,246** | **260,204** | **31,731** | **687,181** |

## Condensed Group Segment Report (IFRS)
## H1

| Jan. 1 - June 30, 2011<br>In thousands of euros | External revenue | Internal revenue | Segment earnings EBIT | Segment assets at June 30, 2011 |
|---|---|---|---|---|
| Region Western Europe | 396,274 | 8,349 | 16,556 | 524,282 |
| Region Eastern Europe | 192,303 | 9,643 | 11,059 | 533,632 |
| Region North America | 0 | 0 | 0 | 0 |
| **Subtotal** | **588,577** | **17,992** | **27,615** | **1,057,914** |
| Headquarters | 0 | 28,999 | -11,581 | 68,173 |
| Other | 475 | 189 | -304 | 7,148 |
| Discontinued operations | 179,952 | 0 | -8,201 | 154,368 |
| Consolidation | -173,734 | -47,180 | 8,707 | 111,011 |
| **Pfleiderer Group** | **595,270** | **0** | **16,236** | **1,398,614** |

| Jan. 1 - June 30, 2010<br>In thousands of euros | External revenue | Internal revenue | Segment earnings EBIT | Segment assets at Dec. 3, 2010 |
|---|---|---|---|---|
| Region Western Europe | 377,600 | 18,129 | 9,143 | 485,363 |
| Region Eastern Europe | 146,412 | 7,822 | -32 | 534,574 |
| Region North America | 0 | 0 | 0 | 156,232 |
| **Subtotal** | **524,012** | **25,951** | **9,111** | **1,176,169** |
| Headquarters | 0 | 37,244 | -12,201 | 54,256 |
| Other | 450 | 634 | -399 | 7,431 |
| Discontinued operations | 193,055 | 0 | -1,504 | 92,192 |
| Consolidation | -173,601 | -63,829 | 1,767 | 87,498 |
| **Pfleiderer Group** | **543,916** | **450** | **6,867** | **1,417,546** |

## Condensed Group Segment Report (IFRS)
## Q2

| Apr. 1 - June 30, 2011<br>In thousands of euros | External revenue | Internal revenue | Segment earnings EBIT | Segment assets at June 30, 2011 |
|---|---|---|---|---|
| Region Western Europe | 194,241 | 3,949 | 6,493 | 524,282 |
| Region Eastern Europe | 95,415 | 4,372 | 5,480 | 533,632 |
| Region North America | 0 | 0 | 0 | 0 |
| **Subtotal** | **289,656** | **8,321** | **11,973** | **1,057,914** |
| Headquarters | 0 | 13,778 | -5,100 | 68,173 |
| Other | 185 | 91 | -269 | 7,148 |
| Discontinued operations | 90,832 | 0 | -1,504 | 154,368 |
| Consolidation | -87,669 | -22,190 | 1,767 | 111,011 |
| **Pfleiderer Group** | **293,004** | **0** | **6,867** | **1,398,614** |

| Apr. 1 - June 30, 2010<br>In thousands of euros | External revenue | Internal revenue | Segment earnings EBIT | Segment assets at Dec. 31, 2010 |
|---|---|---|---|---|
| Region Western Europe | 189,757 | 12,263 | 3,442 | 485,363 |
| Region Eastern Europe | 74,044 | 3,608 | 3,435 | 534,574 |
| Region North America | 0 | 0 | 0 | 156,232 |
| **Subtotal** | **263,801** | **15,871** | **6,877** | **1,176,169** |
| Headquarters | 0 | 14,882 | -7,952 | 54,256 |
| Other | 161 | 92 | -400 | 7,431 |
| Discontinued operations | 104,879 | 0 | -208 | 92,192 |
| Consolidation | -92,328 | -30,845 | 507 | 87,498 |
| **Pfleiderer Group** | **276,513** | **0** | **-1,176** | **1,417,546** |

Internal reporting takes place on the basis of IAS/IFRS financial statements. Therefore, no explanation of the reconciliation to the consolidated financial statements is necessary. The composition of the segments has not changed compared with the previous periods. Corporate-financing activities and holding-company functions are reported under “Headquarters.” “Other” includes those companies that do not fulfill the defining criteria of a reportable segment.

# Notes to the Condensed Interim Consolidated Financial Statements for the Six Months Ended June 30, 2011

(Preliminary and unaudited)

## 1. Basis of presentation

The preliminary and unaudited condensed interim consolidated financial statements and interim group management report have been prepared in accordance with IAS 34 Interim Reporting and German Accounting Standard No. 16 (DRS 16). Please refer to our preliminary and unaudited Annual Report 2010 for further information. The preliminary and unaudited consolidated financial statements and group management report for the year ended December 31, 2010 as published in our Annual Report 2010 form the basis for these interim consolidated financial statements.

These preliminary and unaudited interim consolidated financial statements have been prepared in accordance with Section 315a of the German Commercial Code (HGB) “Consolidated Financial Statements According to International Accounting Standards“ and in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the International Accounting Standards Board (IASB), as adopted by the European Union under Regulation No. 1606/2002 of the European Parliament and the European Council concerning the application of international accounting standards in the EU. The requirements of the applied standards have been entirely fulfilled and allow the presentation of the actual situation with regard to the assets, liabilities, financial position and profit or loss of Pfleiderer AG.

The consolidation principles have not changed compared with December 31, 2010.

The preliminary and unaudited condensed interim consolidated financial statements do not include all of the notes and disclosures that are required for annual consolidated financial statements, and should therefore be read in conjunction with the preliminary and unaudited consolidated financial statements for the year ended December 31, 2010 (www.pfleiderer.com). Where no notes or disclosures have been made to these preliminary and unaudited interim consolidated financial statements, no material changes have occurred compared with the notes and disclosures to the preliminary and unaudited consolidated financial statements for the year ended December 31, 2010.

Material occurrences and transactions as well as risks threatening the Pfleiderer Group’s existence are explained in the interim group management report.

The strategic repositioning of the Pfleiderer Group that was decided upon in the second quarter as a result of the restructuring concept includes the sale of the business activities in North America, which constitute a separate major line of business or geographical business unit. The “Region North America” was therefore to be presented as of June 30, 2011 as discontinued operations, in line with IFRS 5. The non-current assets and liabilities already classified as held for sale in the preliminary and unaudited consolidated financial statements for the year ended December 31, 2010 are now joined by the following assets and liabilities from the discontinued operations of the business unit “Region North America”:

Assets of discontinued operations:

| In thousands of euros | June 30, 2011 | Dec. 31, 2010 |
|---|---|---|
| Cash and cash equivalents | 5,541 | 0 |
| Receivables and other assets | 34,058 | 0 |
| Inventories | 52,411 | 0 |
| **Current assets** | **92,010** | **0** |
| Property, plant and equipment | 44,326 | **0** |
| Intangible assets | 8,184 | **0** |
| Other non-current assets including deferred taxes | 3,473 | 0 |
| **Non-current assets** | **55,983** | 0 |
| **Assets of discontinued operations** | **147,993** | 0 |

Liabilities of discontinued operations:

| In thousands of euros | June 30, 2011 | Dec. 31, 2010 |
|---|---|---|
| Liabilities excluding financial liabilities | 54,368 | 0 |
| Financial liabilities | 327,472 | 0 |
| **Current assets** | **381,840** | **0** |
| Financial liabilities | 9,797 | 0 |
| Provisions including pension obligation | 16,115 | 0 |
| Other non-current liabilities including deferred taxes | 3,761 | 0 |
| **Non-current liabilities** | **29,673** | **0** |
| **Liabilities of discontinued operations** | **411,513** | **0** |

The operating activities of the discontinued operations developed as follows:

| In thousands of euros | Jan. 1 – June 30, 2011 | Jan. 1 – June 30, 2010 |
|---|---|---|
| Revenue | 179,952 | 193,055 |
| Gross profit | 28,944 | 38,969 |
| **Operating loss (EBIT)** | **-8,201** | **-3,582** |
| Financial expense | -16,679 | -14,566 |
| **Loss before taxes** | **-24,880** | **-18,148** |
| Income taxes | -66 | 1,049 |
| **Loss after taxes** | **-24,946** | **-17,099** |

## 2. Accounting principles

Recognition and measurement, as well as the notes and disclosures, are based on the same accounting policies and calculation methods that were applied in the preparation of the preliminary and unaudited consolidated financial statements for the year 2010. This applies in particular to the going-concern assumption. Various new or amended standards and interpretations of the IASB or of the IFRIC have been recognized by the European Union. The effects of these standards and interpretations are only of minor importance for the financial statements of the Pfleiderer Group.

## 3. Dividends

Pfleiderer AG has not paid a dividend for the year 2010, neither was a dividend paid for the year 2009.

## 4. Shares held by Executive Board and Supervisory Board members and stock option plans

At June 30, 2011, the members of the Executive Board of Pfleiderer AG held 353,190 shares (prior year 552,794) and 501,020 share options (prior year 1,134,504). The members of the Supervisory Board held 1,519,262 shares (prior year 10,563) and 6,580 share options (prior year 6,580). Within the framework of the stock option plan of Pfleiderer AG, the members of the Executive Board were not granted any options to subscribe for shares in return for an equity investment in the first six months of 2011.

No share options were in the money at June 30, 2011; therefore, no share options contributed towards an arithmetical dilution of earnings per share.

## 5. Changes in the Boards

Herbert Noichl was appointed as an interim member of the Supervisory Board on February 4. In this function, Mr. Noichl succeeds to Friedhelm Päfgen, who stepped down from his position as of December 31, 2010. Wolfgang Haupt stepped down from the Supervisory Board for personal reasons as of March 1, 2011. Dr. Helmut Burmester stepped down from his position as of February 17, 2011. Effective February 17, Christopher von Hugo stepped down from his position as Chairman of the Supervisory Board and also departed from the Supervisory Board. As of February 18, 2011, Hanno C. Fiedler took over as Chairman of the Supervisory Board on an interim basis until the next shareholders' meeting. The Nuremberg District Court appointed Alfred Hagebusch as a member of the Supervisory Board by court order of March 30, 2011. As successor to Mr. Fiedler, who left the Supervisory Board as of August 31, 2011, Florian Kawohl was appointed by court order upon the request of the company's Executive Board and Supervisory Board. With the departure of Mr. Fiedler, the position of Supervisory Board Chairman had become vacant. As the successor to this position, the Supervisory Board elected Harald Joachim Joos, who had already been appointed as a member of the Supervisory Board by court order of July 12, 2011.

Effective March 31, Ernst Pelzer stepped down from the Executive Board. Hans-Joachim Ziems was appointed as a new member of the Executive Board with responsibility for restructuring as of April 5. Pawel Wyrzykowski and Heiko Graeve left the Executive Board on October 17.

## 6. Events after the Interim Balance Sheet Date

Events after the interim balance sheet date are listed in the Interim Group Management Report.

Neumarkt, November 3, 2011

Hans H. Overdiek

Hans-Joachim Ziems