

PRINCIPLES OF CORPORATE GOVERNANCE PFLEIDERER AKTIENGESELLSCHAFT

1. Introduction

The Pfeleiderer Aktiengesellschaft hereby commits itself to the following Principles of Corporate Governance. These Principles are designed to ensure that management and supervision of the Company is transparent and responsible and maintains the objective of increasing of the Company's value. The Supervisory Board and the Management Board, as well as all directors and employees of the Pfeleiderer Group, are committed to this objective, which has been formally resolved by the Supervisory Board in its meeting on November 21, 2002. The Board of Management accepts full responsibility for the observance of these Principles of Corporate Governance.

Pfeleiderer's Principles of Corporate Governance aim to increase the trust of national and international investors, customers, employees and general public alike in the way the Company is managed and supervised.

Pfeleiderer's Principles of Corporate Governance provide guidelines on what constitutes good national and international corporate conduct, and how to act appropriately in the specific markets in which the Company is active.

Pfeleiderer's Principles of Corporate Governance are not fixed for all times, but are part of an ongoing process. As such, they will be reviewed and revised as law changes, and in keeping with other national and international developments. Pfeleiderer's Principles of Corporate Governance will be published on its corporate website and in its annual report.

2. Shareholders and the General Meeting

Pfeleiderer AG has issued registered shares. Each share carries one vote. No "golden shares" exist.

The General Meeting resolves on the appropriation of net income and the ratification of the Management Board and the Supervisory Board. It elects the public auditors and exercises all legal rights.

The Management Board exercises the authorization to issue new shares without pre-emptive rights, the issue not to exceed 10 percent of subscribed capital. The company will publish all information and reports, including the agenda for the General Meeting, using electronic media on the corporate website. The Company offers voting and proxy voting by Internet to facilitate the personal exercise of shareholders' voting rights. The Company will arrange a corporate representative to exercise shareholders' voting rights in accordance with instructions received.

3. The Management Board

The Management Board is bound to act in the Company's best interests and in accordance with the Rules of Good Management when performing its statutory duties. The sustainable increase of corporate value is the major objective of corporate management. The key statistic used to determine this is EVA (Economic Value Added).

The Management Board coordinates corporate strategic direction together with the Supervisory Board, and is responsible for its implementation. It selects effective and efficient instruments. In doing so it implements systems for planning, controlling and risk management. The Management Board is committed to acting lawfully, and to ensuring that all legal provisions are upheld.

The Management Board informs the Supervisory Board regularly about all issues of importance to the company relating to planning, business development and risk. Deviations from any previous plans or targets are reported and explained. The Management Board tends to the social responsibilities of the Pfeleiderer Group.

According to Sec. 77, German Stock Corporation Act, the Management Board is in full charge of running the Company. Terms of Reference regulate the allocation of areas of responsibility for each member of the Management Board and how the Management Board works together. Standing Orders state that decisions to be made on matters of fundamental importance lie to the full Management Board. Depending on the magnitude of the decision or financial transaction involved, approval must also be given by the Supervisory Board.

The members of the Management Board give their full working capacity to the Pfeleiderer Group. They are bound by the Company's best interests and may not pursue personal interests which would conflict with the interests of the Company. The members of the Management Board shall not accept payments, or other personal advantages, from third parties during the discharge of their duties which would interfere with the best interests of the Company or its customers.

The Management Board accepts the specific insider trading rules and commits management as a whole to comply with the terms of these rules.

Compensation of the members of the Management Board is regulated by Sec. 87, German Stock Corporation Act. Compensation comprises a fixed salary and variable components. The variable components depend on the financial situation of the Company, performance and outlook of the Group, as well as performance-oriented elements. Stock options serve as variable compensation components with a long-term incentive effect. They are issued according to a plan adopted by the General Meeting and the Supervisory Board. Compensation and stock holdings are reported in the corporate annual report. Stock option rights must be exercised within 3 years of issuance at most. Insider trading rules are applied by setting periods during which the exercise of option rights is suspended.

The Management Board of Pfeleiderer AG has adopted rules that also apply to senior management eligible to receive stock options. It shall also ensure that compensation for senior management throughout the Group is in accordance with these rules.

4. Supervisory Board

The Supervisory Board of Pfeleiderer AG is composed of members with the required expert knowledge, and specific abilities and experience to enable them to fulfil their advisory and supervisory duties so that corporate targets are achieved. These qualifications are taken into account when accepting nominations for election to the Supervisory Board. The members of the Supervisory Board must have sufficient personal time to perform their duties.

The Supervisory Board issues Standing Orders. The Chairman of the Supervisory Board regularly maintains contact with the Chairman of the Management Board and the Management Board, and is informed without delay about any important events. The Chairman of the Supervisory Board then informs the members of the Supervisory Board.

In order to increase its efficiency, the Supervisory Board has formed a Working Committee and an Audit Committee. The Working Committee may take decisions on behalf of the Supervisory Board in accordance with applicable statutory rules and the Standing Orders. The Chairman of the Supervisory Board is not Chairman of the Audit Committee.

The members of the Supervisory Board shall keep any information relating to their duties secret. Each member of the Supervisory Board is bound by the Company's best interests. The Supervisory Board is informed of any conflicts of interests which may result from a consultancy or directorship function with clients, suppliers, suppliers of capital or other business associates. Advisory and other service agreements between a member of the Supervisory Board and the Pfeleiderer Group require approval by the Supervisory Board.

Compensation of the Supervisory Board and stock holdings of its members are reported in the corporate annual report. Representatives of the shareholders and the employees shall work together on the Supervisory Board on a basis of consensus.

Preparations relating to the election of the public auditor, what emphasises the audit should take, and matters relating to auditor fees lie to the Audit Committee. The Audit Committee is also responsible for preparing the audit of the Consolidated Financial Statements including the Management Report.

5. Communication and Information

When communicating with shareholders and the general public, the Management Board shall maintain a policy of transparency, punctual timing, openness, comprehensibility and fair treatment. It shall publish all new facts which may arise within the Company's areas of activity not known to the public where these facts are likely to have a substantial impact on the share price due to their effect on the assets, financial situation or general course of the Company's business. All major financial dates are published in advance on the corporate website.

Information about the Company is published via the Internet. All publications are available in English.

The Company shall notify any purchase or sale of Company shares made by members of the Management Board or the Supervisory Board, or by related parties, on the corporate website in accordance with the rules of "Directors' Dealings".

Neumarkt, January 15, 2003

Pfleleiderer AG

The Management Board