

# Principles of Corporate Governance at Pfleiderer Aktiengesellschaft

- As of December 10, 2009 -

## 1. PREAMBLE

Pfleiderer Aktiengesellschaft (Pfleiderer AG) is committed to good corporate governance; that is, to the principles of transparent, responsible management and supervision of the Company with a focus on increasing its value. The Supervisory Board and the Executive Board, as well as all managers and employees of the Pfleiderer Group, are obliged to pursue this goal. The Executive Board is responsible for compliance with the principles of corporate governance throughout the Group.

The Supervisory Board and the Executive Board of Pfleiderer AG initially affirmed the Company's commitment to compliance with good corporate governance in November 2002, and decided on the Principles of Corporate Governance for Pfleiderer AG which have been in force since January 15, 2003. Taking into consideration the amendments to the German Corporate Governance Code effective June 18, 2009, these updated principles apply as of December 10, 2009:

One of the aims of the Principles of Corporate Governance at Pfleiderer is to enhance confidence among national and international investors, customers, employees and the public in the management and supervision of the Company.

Pfleiderer's Principles of Corporate Governance take into account the framework conditions laid down by applicable law and are supplemented by recognized national and international corporate codes of conduct and by the conventions of the market.

Rather than being codes of conduct laid down for all time, Pfleiderer's Principles of Corporate Governance are actually a continuous process. They are reviewed and amended as necessary, taking into account any relevant new legislation and other knowledge and requirements as well as national and international standards. Pfleiderer's Principles of Corporate Governance are published on the Internet on the website of Pfleiderer AG and in the Company's Annual Report.

## 2. SHAREHOLDERS AND ANNUAL GENERAL MEETING

Pfleiderer AG has issued registered shares of no par value, each of which grants its holder one vote. There are no "golden shares."

The Company's Annual General Meeting decides on the appropriation of profits and on ratification of the actions of the Executive Board and the Supervisory Board, elects the external auditors, and exercises all the rights assigned to it by applicable law.

The Executive Board will only make use of authorization to increase the Company's capital with the exclusion of subscription rights if such a capital increase does not exceed 10% of the respective share capital at that time. The Company publishes all documents and reports required for the Annual

General Meeting, including the agenda, using electronic media on the Company's website. In order to facilitate the exercise of shareholders' rights, in particular their voting rights, the Company supports the shareholders by making it possible for them to vote and issue power of proxy on the Internet. The Company provides the shareholders with a voting proxy, who will cast their votes as instructed, if so desired.

### 3. EXECUTIVE BOARD

In the exercise of its tasks within the framework of applicable law, the Executive Board is obliged to pursue the Company's interests and to observe the principles of proper corporate management. The main objective of corporate management is to achieve sustained increases in enterprise value. The key parameter in use is economic value added (EVA).

The Executive Board discusses and reaches agreement with the Supervisory Board with regard to the Company's strategic focus and is responsible for implementing the strategy. It ensures that the instruments used at the Company are effective and efficient. To this end, it makes use of appropriate planning, monitoring and risk-management systems. The Executive Board is bound to the principle of legality and ensures that the Pfleiderer Group complies with applicable law.

The Executive Board regularly informs the Supervisory Board about all relevant issues with regard to planning, business development, the risk situation and risk management. Any deviations from the stated plans and targets are reported and explained. The Executive Board is also responsible for the issue of social responsibility at the Pfleiderer Group.

In accordance with Section 77 of the German Stock Corporation Act (AktG), the Company is managed by the Executive Board in its entirety. The areas of responsibility of the individual members of the Executive Board are laid down in the schedule of responsibilities. The manner of working within the Executive Board is regulated by the Rules of Procedure for the Executive Board, which also specify that decisions of fundamental importance are to be made by the entire Executive Board and that decisions with certain effects and above certain value limits are to be submitted to the Supervisory Board for its prior consent.

The Executive Board prepares the consolidated financial statements and makes them publicly accessible within 90 days of the end of the financial year. It assists the auditors and the Bundesanstalt für Finanzdienstleistungen (Federal Financial Supervisory Authority) with their audits to ensure that the consolidated financial statements comply with applicable accounting regulations (enforcement). Interim reports are made publicly accessible within 45 days of the end of the reporting period.

The members of the Executive Board devote all of their working efforts to the Pfleiderer Group. In the exercise of their tasks, they are obliged to pursue solely the Company's interests and not to pursue any personal interests that conflict with those of the Company. In the performance of their tasks, the members of the Executive Board do not accept any payments or other benefits, either for themselves or third parties, which are likely to have a negative impact on the interests of the Company or its customers.

The Executive Board adheres to the relevant insider regulations and requires senior managers of the Company also to adhere to those principles by providing appropriate insider guidelines.

The remuneration of the members of the Executive Board is based on Section 87 of the German Stock Corporation Act (AktG). The remuneration consists of fixed and variable components. The variable components take into account performance-related elements as well as the Pfeleiderer Group's financial situation, success and prospects for the future. Stock options have been issued as a variable component of remuneration with a long-term incentive effect in accordance with a plan approved by the Annual General Meeting and the Supervisory Board.

The Company's Annual Report provides information on the remuneration and shareholdings of the members of the Executive Board. Rights from stock options can only be exercised after a blocking period of four years starting on the date of issue. The setting of blocking periods ensures that the provisions of insider legislation are adhered to.

By setting appropriate rules for those of the Group's senior managers who are also entitled to stock options, the Executive Board of Pfeleiderer AG will continue to ensure that the aforementioned principles are applied also with regard to the remuneration of the senior managers of the Pfeleiderer Group.

#### 4. SUPERVISORY BOARD

The members of the Supervisory Board of Pfeleiderer AG are persons with the knowledge, experience and personal qualities that are required to perform the advisory and monitoring tasks involved in achieving corporate goals. It is ensured that these requirements are met when candidates for membership of the Supervisory Board are proposed at the Annual General Meeting. If a member is appointed (upon application) to the Supervisory Board by the court, his or her term of membership is at first limited until the next Annual General Meeting. The shareholders will be notified of candidates proposed for membership of the Supervisory Board.

With regard to the composition of the Supervisory Board, care is taken that it has a sufficient number of independent members and that they do not have any personal or business relations with the Company or the Company's Executive Board which could give rise to any conflict of interest. The age limit for members of the Supervisory Board is 70, as specified in the Rules of Procedure for the Supervisory Board.

The members of the Supervisory Board perform their tasks with due care and attention and conscientiously, and ensure that they are sufficiently available to do so.

The speaker or chairman of the Executive Board or a member of the Executive Board should not be elected chairman of the Supervisory Board or chairman of a Supervisory Board committee less than two years after stepping down from the Executive Board. If such a move is intended, it will be explained to the Annual General Meeting.

The Supervisory Board performs its tasks according to the Rules of Procedure for the Supervisory Board. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, chairs

its meetings, represents the Supervisory Board externally, is in regular contact with the Chairman or Speaker of the Executive Board and the members of the Executive Board, and is informed without delay and comprehensively of any important events. The Chairman of the Supervisory Board will also inform the members of the Supervisory Board without delay whenever needed.

In order to enhance its efficiency, the Supervisory Board has established a Working Committee and an Audit Committee. Pursuant to applicable law and the Rules of Procedure for the Supervisory Board, the Working Committee can make decisions on behalf of the Supervisory Board. The Chairman of the Supervisory Board is not simultaneously the Chairman of the Audit Committee.

The Chairman of the Audit Committee is to have special knowledge and experience in the application of accounting principles and internal monitoring procedures. The Audit Committee deals in particular with matters of accounting, risk management and compliance, the required independence of the external auditors, the award of the audit assignment to the external auditors, the determination of the main areas of the audit and the audit fee.

The members of the Supervisory Board are to maintain confidentiality with regard to their work. Each member of the Supervisory Board is obliged to pursue the Company's interests. Any conflicts of interest that could arise due to advisory functions or board functions with customers, suppliers, competitors, lenders or other business associates are to be disclosed to the Supervisory Board without delay. If any members of the Supervisory Board are to provide advisory or other services for the Pfeleiderer Group, this will be decided upon in advance by the Supervisory Board.

The remuneration and share ownership of the members of the Supervisory Board are stated in individualized form in the Company's Annual Report and Corporate Governance Report. Collaboration in the Supervisory Board between the representatives of the shareholders and the representatives of the employees is based on the principle of consensus. The Supervisory Board regularly reviews the efficiency of its work.

The Audit Committee is responsible for preparing the election of the external auditors and the main areas of the audit and for negotiating the audit fee. The Audit Committee is also responsible for preparing the audit of the Company and consolidated financial statements, including the management report, and for explaining the half-yearly and quarterly financial reports to the other members of the Supervisory Board. Before submitting a proposal for the election of the external auditors, the Audit Committee will obtain from the proposed firm of auditors a statement concerning the extent to which there are any business, financial, personal or other relationships between the firm of auditors and its boards and audit managers on the one hand and the Company and its boards on the other.

## 5. COMMUNICATION AND INFORMATION

With regard to communication with the shareholders and the public, the Executive Board is to observe the principles of transparency, timeliness, openness, comprehensibility and equal treatment. Unless exempted from the duty of disclosure in individual cases, it is to disclose without delay any facts or insider information arising within the Company's area of activity and not publicly known, in particular if such facts or information are likely to have a significant impact on the price of the Company's shares or other securities due to their effects on the Company's assets, financial position or general business

development. The main recurring disclosures (financial reporting deadlines) will be made in good time, also on the Company's website.

When disclosing information to the public, use will be made of electronic media, in particular of the Internet. As well as in German, all information will also be made available in the English language.

The Executive Board and the Supervisory Board report each year in on the Company's corporate governance in the Annual Report. If there should be any deviations from the recommendations of the German Corporate Governance Code, they will be disclosed by the Company in the prescribed manner, subject to the provisions of applicable law (Section 161 of the German Stock Corporation Act (AktG)). Declarations of compliance with this Code which have been superseded will be kept on the Company's website for five years.

The Company is to be notified without delay of any acquisition or disposal of shares in the Company or of derivative financial instruments of shares in the Company by boards of the Company or by persons who are in a close relationship with them, or by other persons with management duties who regularly have access to insider information and are authorized to make significant decisions, if the transactions exceed 5,000 euros in a calendar year. The Company will disclose this information on its Internet website in accordance with the guidelines on directors' dealings.

The ownership of shares in the Company or of derivative financial instruments of shares in the Company by members of the Executive Board or Supervisory Board is to be disclosed if it exceeds, directly or indirectly, 1% of the shares issued by the Company. If the total number of shares held by the members of the Executive Board and the members of the Supervisory Board exceeds 1% of the shares issued by the Company, the number of shares held by members of the Executive Board and the number held by members of the Supervisory Board are to be disclosed separately.

**Only the German version with signatures is legally binding.**