



CREATING GROWTH

ANNUAL REPORT 2007

Corporate Governance Report of Pfeiderer Aktiengesellschaft

At Pfeiderer Aktiengesellschaft, the principles of transparent, sustainable, value-added corporate governance are valued highly. These goals are pursued continually by the Executive Board and all Pfeiderer employees. The amendments to the German Corporate Governance Code made by the Government Commission on June 14, 2007 had no effect on our existing corporate governance principles.

DECLARATION OF CONFORMITY 2007

In accordance with section 161 of the *Aktiengesetz* (AktG – German Stock Corporation Act), the Executive Board and the Supervisory Board of Pfeiderer Aktiengesellschaft announce the extent to which the Company has complied, and will continue to comply, with the recommendations and suggestions of the Government Commission on the German Corporate Governance Code. This declaration has also been published on the Company's Web site.

In 2007, Pfeiderer Aktiengesellschaft complied with the mandatory recommendations of the Government Commission on the German Corporate Governance Code and will in the future comply with these recommendations as amended June 14, 2007 with the following exceptions:

Code 4.2.3 (Executive Board compensation): Pfeiderer Aktiengesellschaft's stock option plan was approved at the Annual General Meeting in 2006 and does not stipulate a cap. No subsequent amendment of the program currently in place is planned.

Code 5.3.3 (Nomination Committee): There was no Nomination Committee in place in 2007, but one will be formed in March 2008.

Code 7.1.2 (accounting and auditing of financial statements): The Annual Press Conference, in which the 2007 consolidated financial statements are made available to the public, will not take place within 90 days after fiscal year-end in 2008, but instead on April 3, 2008 and therefore on the 94th day after the Company's fiscal year-end.

COMPLIANCE

Our definition of compliance includes the tools, guidelines, and measures applied in our Company to ensure adherence to the law. The Executive Board monitors compliance with these regulations and reports regularly to the Supervisory Board on this topic.

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

According to section 15 of the German Securities Trading Act, members of the Executive Board and Supervisory Board of Pfeiderer AG must disclose purchases and sales of Pfeiderer AG shares and related

financial instruments. The announcements we have received have been published without delay on our website at www.pfleiderer.com and disclosed in accordance with section 10 of the German Securities Trading Act.

REMUNERATION REPORT

Performance-based remuneration of the Executive Board

The structure of the remuneration system for the Executive Board is reviewed regularly. The Working Committee of the Supervisory Board is responsible for determining the remuneration of the Executive Board.

The remuneration received by Executive Board members is composed of fixed and performance-based (variable) components. The non-performance-based components comprise a fixed salary and non-wage compensation. The performance-based components are based directly on the Company's performance and include additional long-term incentive compensation components. These comprise rights to subscribe for shares in accordance with the Company's Long-Term Incentive Plan. Moreover, pension commitments have been made to members of the Executive Board and former members of the Executive Board.

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

The fixed salary is paid monthly as basic, non-performance-dependent remuneration. A review of the fixed salaries of the Executive Board members Hans H. Overdiek and Michael Ernst as of January 1, 2007 led to an adjustment of their fixed remuneration. Mr. Overdiek's fixed remuneration was increased as of January 1, 2008 as a result of the extension ahead of schedule of his Executive Board term in 2007 and his simultaneous appointment as Chairman of the Executive Board (he was formerly Executive Board Spokesman).

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

The bonus system was restructured for all Executive Board members as of January 1, 2007. The variable components are now based on earnings before interest, taxes, depreciation, and amortization (EBITDA), the return on capital employed (ROCE), the attainment of personal targets, and the performance of the individual Executive Board members.

In 2007, variable components accounted for around 51% of total income.

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

Component (2007)	Hans H. Overdiek	Michael Ernst	Dr. Robert Hopperdietzel	Derrick Noe
Fixed salary	X	X	X	X
Variable remuneration:				
<i>Consolidated EBITDA</i>	X	X	X	X
<i>Consolidated ROCE</i>	X	X	X	X
<i>Personal targets</i>	X	X	X	X

Executive Board remuneration in 2007

The total remuneration paid to the Executive Board (fixed salary + non-wage compensation + bonuses) totaled €4,267 thousand in fiscal 2007 (previous year: €3,993 thousand). This remuneration for the fiscal year includes a fixed component including non-wage compensation of €2,058 thousand (previous year: €1,396 thousand).

Provisions for pensions for Executive Board members, former Executive Board members, and their surviving dependents amounted to €5,362 thousand (previous year: €5,369 thousand). In fiscal 2007, €273 thousand in remuneration and pensions was paid to former Executive Board members.

Members of the Executive Board held a total of 201,051 shares (previous year: 284,100) as of December 31, 2007.

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

(€)	Fixed salary including non-wage compensation	Performance-based	Total
Hans H. Overdiek	699,095	900,000	1,599,095
Michael Ernst	378,822	434,230	813,052
Dr. Robert Hopperdietzel	554,124	580,460	1,134,584
Derrick Noe	426,192	294,000	720,192
Total	2,058,233	2,208,690	4,266,923

STOCK OPTION PLAN

At the Annual General Meeting on June 13, 2006, the shareholders of Pfeiderer Aktiengesellschaft approved a stock option plan (SOP) for no more than 4,555,330 no-par value shares, under which options will be issued as part of Pfeiderer stock option plans. The Company decides each year at its own discretion whether to establish a stock option plan, who is eligible to participate in it, and how many shares each eligible participant will receive. The stock options are granted to eligible participants on the condition that they make a personal investment. The stock options have a six-year term. They may be exercised no sooner than three years after they have been granted. The number of stock options granted to eligible participants is calculated based on the amount of the personal investment divided by the strike price and multiplied by a factor of 12 for executives and 18 for members of the Executive Board. The strike price is derived from the Company's average share price during the three months preceding the relevant stock option grant date. A quarter of the stock options may be exercised at a subscription price of at least 110%, 115%, 120%, and 125% of the strike price respectively.

As part of Pfeiderer Aktiengesellschaft's Long-Term Incentive Program, members of the Executive Board are granted stock options in exchange for a personal investment. In fiscal year 2007 the members of the Executive Board were granted a total of 214,740 options under the Stock Option Plan 2006 approved by the Annual General Meeting on June 13, 2006. As of the balance sheet date of December 31, 2007, the members of the Executive Board were entitled to 0 options under the Stock Option Plan 2001 (SOP 2001); 0 options under the SOP 2002; a total of 321,884 options under the SOP 2004; 233,160 options under the SOP 2006, and a total of 214,740 options under the SOP 2007. The following table provides a detailed overview broken down by individual Executive Board member:

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

	SOP 2001		SOP 2002		SOP 2004		SOP 2006		SOP 2007	Total	Total	Option value
	Dec. 31,	Dec. 31,	Dec. 31,	Dec. 31,	Dec. 31,	Dec. 31,	Dec. 31,	Dec. 31,	Dec. 31,	Dec. 31,	Dec. 31,	Dec. 31,
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2007	2006	2007**
	options	options	options	options	options	options	options	options	options	options	options	€
Hans H. Overdiek	--	90,450	--	69,336	257,508	257,508	93,264	93,264	95,440	446,212	510,558	1,590,793
Michael Ernst	--	--	--	--	64,376	64,376	46,632	46,632	23,860	134,868	111,008	441,706
Dr. Robert Hopperdietzel	--	--	--	--	--	--	46,632	46,632	47,720	94,352	46,632	270,466
Derrick Noe*	--	--	--	--	--	--	46,632	46,632	47,720	94,352	46,632	270,466
Total	--	90,450	--	69,336	321,884	321,884	233,160	233,160	214,740	769,784	714,830	2,573,430

* from March 15, 2006 to January 14, 2008

** The option value is calculated from the fair value of the individual SOPs at the grant date.

Supervisory Board remuneration

The remuneration paid to the Supervisory Board was set by the 2007 Annual General Meeting and increased to the average level of comparable companies. This remuneration comprises a fixed component, an attendance fee, and a performance-based (variable) component. Furthermore, members of the Supervisory Board are reimbursed for any expenses incurred when performing their duties.

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

The Chairman of the Supervisory Board receives double the fixed remuneration and performance-related remuneration. Each Deputy Chairman and all chairmen of committees formed by the Supervisory Board receive 1.5 times this amount, and those members of the Supervisory Board elected to committees receive 1.25 times the amount stated above. No remuneration shall be paid for membership in the Conciliation Committee formed in accordance with section 27(3) of the MitbestG. If a member of the Supervisory Board performs several of the above mentioned functions simultaneously, his fee shall be based solely on that function for which the highest remuneration is paid.

Based on the amended Articles of Association, the total remuneration paid to Supervisory Board members in fiscal 2007 amounted to €624 thousand (previous year: €378 thousand). The remuneration for the fiscal year includes a fixed component of €583 thousand (previous year: €344 thousand). The following table provides a detailed overview broken down by individual Supervisory Board member:

(€)	Fixed remuneration including attendance fee	Variable component	Total
Ernst-Herbert Pfeleiderer	82,200.00	5,700.00	87,900.00
Frank Bergmann *	22,404.66	1,518.70	23,923.36
from June 19, 2007			
Klaus Bufenberger	22,404.66	1,518.70	23,923.36
from June 19, 2007			
Alfred Dennenmoser *	22,404.66	1,518.70	23,923.36
from June 19, 2007			
Hanno C. Fiedler	58,476.12	3,503.00	61,979.12
Reinhard Hahn *	39,600.00	2,850.00	42,450.00
Wolfgang Haupt	55,900.00	3,978.13	59,878.13
Robert J. Koehler	39,600.00	2,850.00	42,450.00
Frank Kratzsch *	17,287.40	1,339.11	18,626.51
until June 19, 2007			
Friedhelm Päfgen	39,600.00	2,850.00	42,450.00
Wolfgang Rhode *	63,900.00	4,275.00	68,175.00
Josef Rugge-Fechtelpeter*	17,287.40	1,339.11	18,626.51
until June 19, 2007			
Manfred Schmidt *	39,600.00	2,850.00	42,450.00
Dr. Manfred Scholz	24,187.40	2,051.61	26,239.01
until June 19, 2007			
Rainer Stracke *	17,287.40	1,339.11	18,626.51
until June 19, 2007			
Dr. Melanie Tuchbreiter *	20,904.66	1,518.70	22,423.36
from June 19, 2007			
Total	583,044.34	40,999.86	624,044.20

* Employee representatives

Amendments to the Articles of Association

Several amendments to the Articles of Association were resolved at the Annual General Meeting in 2007, including the renewed creation of authorized capital of up to €68,257,408.00 and the option under certain circumstances to increase the Company's share capital contingently by up to €25,600,000.00 by issuing up to 10,000,000 new shares (contingent capital).