

Corporate Governance Report

The principles of transparent, sustainable, value-adding corporate governance are of great importance to the Executive Board and the Supervisory Board of Pfeiderer Aktiengesellschaft. 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 18, 2009, led to changes to the corporate governance principles of Pfeiderer, which were decided upon by the Supervisory Board at its meeting on December 10, 2009.

DECLARATION OF CONFORMITY 2009

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

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

Code Item 4.2.2 Paragraph 1

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

Code Item 4.2.3 Paragraph 3 Sentence 4

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



[http://www.pfeiderer.com/en/
investor-relations/
corporate-governance-242.html](http://www.pfeiderer.com/en/investor-relations/corporate-governance-242.html)

Code Item 4.2.3 Paragraph 4 Sentence 1

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

Code Item 5.1.2 Paragraph 2 Sentence 3

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

Code Item 6.6

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

Code Item 7.1.2 Sentence 4

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



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

COMPLIANCE

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

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

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

These measures are divided into three groups:

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

On 1:

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

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

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

On 2:

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

On 3:

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



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

MANAGEMENT AND CONTROL STRUCTURE

In accordance with German stock corporation law, Pfeiderer AG has a dual management and control structure. The Executive Board has three members and the Supervisory Board has twelve members. The Supervisory Board is composed of equal numbers of shareholder and employee representatives; the latter include two members of the trade union IG Metall. The rules of procedure of the Supervisory Board stipulate the formation of committees. There is currently an Audit Committee with five members, a Working Committee also with five members, a Nomination Committee with four members and a Mediation Committee with four members. Details of the members of the committees and a description of their activities are provided in the Report of the Supervisory Board of this Group Annual Report.

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

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



<http://www.pfeiderer.com/en/investor-relations/directors-dealings-245.html>

REMUNERATION REPORT

Performance-related remuneration of the Executive Board

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

The remuneration received by Executive Board members is composed of fixed and performance-related (variable) components. The fixed components comprise a fixed salary and non-cash benefits. The performance-related components are based directly on the Company's performance, measured by EBITDA and ROCE, and include additional long-term incentive components. They comprise rights to subscribe for shares in accordance with the Company's LONG-TERM INCENTIVE PROGRAM. Moreover, pension commitments have been made to members of the Executive Board and former members of the Executive Board. This remuneration structure largely fulfills the objectives of the provisions of the law. Irrespective of that and of the fact that all the Executive Board members' contracts of service still provide for a relatively long period of office, the Supervisory Board will deal in 2010 with the details of future remuneration systems.

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

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



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

The variable components are based on earnings before interest, taxes, depreciation and amortization (EBITDA), return on capital employed (ROCE) as well as the achievement of personal targets and the performance of the individual Executive Board members.

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

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

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

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

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

Executive Board remuneration in 2009

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

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

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

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

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

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

STOCK OPTION PLAN

At the Annual Shareholders' 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 are issued as part of the 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 and may be exercised no sooner than three years after being granted. Since SOP 2009, a term of seven years applies to the Executive Board members, whereby the stock options of SOP 2009 may be exercised no sooner than four years after being granted, in line with the German Act on the Appropriateness of Management Board Remuneration. The number of stock options granted to eligible participants is calculated based on the amount of the personal investment divided by the strike price and multiplied by a factor of 12 for executives and 18 for members of the Executive Board. The strike price is derived from the Company's average share price during the three months preceding the relevant stock option grant date. A quarter of the stock options may be exercised at a subscription price of at least 110%, 115%, 120%, and 125% of the strike price respectively.



As part of Pfeiderer's LONG-TERM INCENTIVE PROGRAM, members of the Executive Board are granted stock options in exchange for a personal investment. As of the balance sheet date of December 31, 2009, the members of the Executive Board were entitled to 257,508 options under Stock Option Plan (SOP) 2004, a total of 105,696 options under SOP 2006, a total of 138,388 options under SOP 2007, a total of 531,352 options under SOP 2008, and a total of 101,560 options under SOP 2009.

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

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

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

¹⁾ Left the Company as of January 31, 2009. For SOPs 2007 and 2008, exercise is possible given termination of Executive Board membership with due notice until three months after expiry of the lockup period.

²⁾ Joined the Company on June 1, 2008; first participation in SOP 2008

³⁾ Joined the Pfeiderer Group on October 1, 2006; first participation in SOP 2006; left the Company as of November 15, 2009

⁴⁾ Appointed to the Executive Board as of January 1, 2009; the options under SOPs 2006, 2007 and 2008 were acquired as an eligible executive of Grajewo S.A.

⁵⁾ The value of the options is calculated from the fair values of the individual SOPs when granted.

In 2008, the Supervisory Board approved the Pfeiderer management's participation in the Company's success through an additional long-term investment plan. The management founded a limited partnership as an investment instrument for this purpose. The aim of the limited partnership is to acquire shares of Pfeiderer AG up to a total volume of around 5.2 million euros and to hold them over a longer term. This represents an equity interest in Pfeiderer AG of approximately 1.6%. The shares were acquired either through the stock exchange or off-market. One Equity Partners (OEP), which holds an equity interest in Pfeiderer AG of approximately 23.3% through its subsidiary Wood Engineering Holding B.V., provided the limited partnership with a loan amounting to approximately 3.7 million euros. The remaining 1.5 million euros was provided by the management of Pfeiderer AG as cash or non-cash contribution. The bylaws of the limited partnership stipulate a holding period of four years and ensure that no control is exerted by OEP.

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

SUPERVISORY BOARD REMUNERATION

Supervisory Board remuneration comprises a fixed component, an attendance fee, and a performance-related (variable) component. Furthermore, members of the Supervisory Board are reimbursed for any expenses incurred in performing their duties. Each member of the Supervisory Board receives annual fixed remuneration of 33,600 euros, payable following the end of the fiscal year. An attendance fee of 1,500 euros is paid per meeting of the Supervisory Board or of one of its committees attended, except for the meetings of the Mediation Committee formed in accordance with Section 27 Item 3 of the German Codetermination Act (MitbestG). Furthermore, annual performance-related remuneration of 150 euros for every euro cent by which the dividend per share specified in the resolution on the appropriation of profits by the Annual Shareholders' Meeting exceeds 11 euro cents, but no more than the amount of the fixed remuneration paid to each Supervisory Board member, is payable after the resolution on the appropriation of profits has been adopted.

The Chairman of the Supervisory Board receives double the fixed remuneration and performance-related remuneration. Each Deputy Chairman and all chairmen of committees formed by the Supervisory Board receive 1.5 times those amounts, and those members of the Supervisory Board elected to committees receive 1.25 times those amounts. No remuneration is to be paid for membership in the Mediation Committee formed pursuant to Section 27 Item 3 of the Codetermination Act. If a member of the Supervisory Board performs several of the aforementioned functions simultaneously, his fee shall be based solely on that function for which the highest remuneration is paid.

The total remuneration paid to Supervisory Board members amounted to 678 thousand euros (previous year: 645 thousand euros). Remuneration for 2009 does not include a variable component, as the dividend amount was below the required threshold value of 11 euro cents per share.

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

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

* Employee representative