

Principles of Corporate Governance Pfleiderer Aktiengesellschaft

AS OF DECEMBER 15, 2005

1. Introduction

Pfleiderer Aktiengesellschaft has committed itself to the following Principles of Corporate Governance. These Principles are designed to ensure that management and supervision of the Company remain transparent, responsible and serve to increase the Company's value. The Supervisory Board and the Board of Management, as well as all other senior executives and employees of the Pfleiderer Group, are committed to this objective. The Board of Management accepts full responsibility for the observance of these Principles of Corporate Governance.

The Supervisory Board and the Board of Management of Pfleiderer AG first confirmed the Company's obligation to maintain principles of corporate governance in November 2002. Pfleiderer AG's Principles of Corporate Governance were formally adopted on January 15, 2003. As a result of amendments made to the German Code of Corporate Governance on June 2, 2005, the following revised Principles now apply with effect from December 15, 2005:

Pfleiderer's Principles of Corporate Governance aim to enhance trust among national and international investors, customers, employees and general public alike regarding the way the Company is managed and supervised.

Pfleiderer's Principles of Corporate Governance reflect conditions laid down by law. They also define what constitutes good national and international corporate conduct and how to act appropriately in the specific markets in which the Company is active.

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

2. Shareholders and the General Meeting

Pfleiderer AG has issued non-par value registered shares. Each share carries one vote. No "golden shares" exist.

The General Meeting decides how net income is appropriated and ratifies the actions of the Board of Management and the Supervisory Board. It elects the public auditors and exercises all its legal rights.

The Board of Management may only exercise such authorization as it may have to issue new shares without pre-emptive rights where such an issue does not to exceed 10 % of subscribed capital. The Company publishes all information and reports, including the Agenda of the General Meeting, via electronic media on the corporate website. The Company offers voting and proxy

voting by Internet to facilitate shareholders' voting rights. The Company can arrange a corporate representative to exercise shareholders' voting rights in accordance with instructions received where required.

3. Board of Management

In the performance of its statutory duties, the Board of Management is bound to act in the Company's best interests and in accordance with principles of good management. The central objective of corporate management is to achieve a sustained increase in corporate value. The key statistic used to determine this is EVA (Economic Value Added).

The Board of Management coordinates corporate strategy with the Supervisory Board, is responsible for its implementation, and must select appropriate effective and efficient instruments to this end. In doing so, it implements suitable systems for planning, supervision and risk management. The Board of Management is committed to acting lawfully and ensures that all statutory regulations are upheld throughout the Pfleiderer Group.

The Board of Management keeps the Supervisory Board regularly informed about all major issues affecting the Company with regard to planning, business developments or risk. Deviations from any previous plans or targets must be reported and justified. The Board of Management is also responsible for the social obligations of the Pfleiderer Group.

In accordance with Sec. 77, German Corporation Act, all members of the Board of Management are jointly and severally charged with running the Company. Terms of reference regulate the allocation of areas of responsibility for each member of the Board of Management, and how the Board of Management cooperate as a whole. Standing orders ensure decisions on matters of fundamental importance are taken by the full Board of Management. Depending on the magnitude of the decision or the financial transaction involved, approval must also be sought from the Supervisory Board.

The Board of Management prepares the consolidated financial statements which it must publicize within 90 days after termination of the Company's financial year. It enables the German Financial Enforcement Reporting Panel and the Federal Financial Supervisory Authority to determine whether the Company's consolidated financial statements comply with the relevant regulations. The Company publishes interim financial reports within 45 days after termination of the relevant reporting period.

The members of the Board of Management must give their full working capacity to the Pfleiderer Group. They are bound to uphold the Company's best interests, and may not pursue any personal interests likely to conflict with those of the Company. The members of the Board of Management may not accept payments or other personal advantages from third parties during the discharge of their duties that might be contrary to the best interests of the Company or its customers.

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

Compensation of members of the Board of Management is regulated by Sec. 87, German Corporation Act. Compensation comprises a fixed salary factor, plus variable components. Variable components depend on the Company's financial situation, the performance and outlook

for the Group, as well as other performance-oriented elements. Stock options serve as variable compensation components, adding a long-term incentive effect. They are issued under a scheme adopted by the General Meeting and Supervisory Board.

Compensation and stock holdings of members of Board of Management are reported in the Company's annual report and in accordance with the German Law on the Publication of Compensation Received by Members of Boards of Management. On Issuance, stock option rights are subject to a 3-year lock-up period. Insider trading rules are met by setting specific periods of time within which the exercising of option rights is suspended.

The Board of Management of Pfeleiderer AG will also adopt rules in compliance with the above mentioned Principles that apply to other senior executives within the Pfeleiderer Group entitled to receive stock options and compensation.

4. Supervisory Board

All members of the Supervisory Board of Pfeleiderer AG must have sufficient knowledge and experience, as well as the necessary personal qualifications, to fulfil their advisory and supervisory duties such that corporate targets can be achieved. Such qualifications must be taken into account when proposing to the General Meeting new members to the Supervisory Board. Members of the Supervisory Board appointed by a German court shall have a limited term of office which expires at the next General Meeting. Shareholders will be informed of the candidate proposed to chair the Supervisory Board.

In order to avoid conflicts of interest, the Supervisory Board comprises a sufficient number of independent members not personally or commercially linked to the Company or its Board of Management. Under its rules of procedure, the Supervisory Board imposes an upper age limit of 70 years on its members.

Members of the Supervisory Board shall apply themselves conscientiously and with care, ensuring that they allocate sufficient time to fulfil their duties.

As a rule, the spokesman or chairman of the Board of Management or a member of the Board of Management may not transfer to the position of chairman of the Supervisory Board or chairman of a committee of the Supervisory Board. Where such a change is however intended, reasons shall be given to the General Meeting.

The Supervisory Board operates in compliance with defined rules of procedure. Its Chairman coordinates its work, chairs its meetings and represents it to outside parties. In order to ensure that he is quickly and fully informed about all major events, the Chairman of the Supervisory Board maintains regular contact with the Chairman or Spokesman of the Board of Management, as well as with the Board of Management as a whole. The Chairman of the Supervisory Board shall keep the other members of the Supervisory Board informed as required.

In order to improve efficiency, the Supervisory Board has set up a working committee and an audit committee. The working committee may take decisions on behalf of the Supervisory Board in accordance with statutory rules and the rules of procedure. The Chairman of the Supervisory Board is not Chairman of the audit committee.

The Chairman of the audit committee must have specialist knowledge and experience in applying rules relating to the preparation of financial statements and internal audit procedures.

The members of the Supervisory Board shall treat all information obtained in the course of their duties as confidential. Each member of the Supervisory Board is bound to uphold the Company's best interests. The Supervisory Board must be informed of any conflicts of interests which might result from a consultancy or directorship function with clients, suppliers, competitors, suppliers of capital or other business associates. Consultancy or other service agreements between a member of the Supervisory Board and the Pfleiderer Group require prior approval by the Supervisory Board.

Remuneration of the Supervisory Board and stock holdings of its members are reported individually in the Company's annual report and its corporate governance report. Shareholder representatives and employee representatives are enjoined to work together on the Supervisory Board in a spirit of consensus. The Supervisory Board shall examine the efficiency of its operations on a regular basis.

Preparations relating to nomination of the public auditor, what particular areas of focus should be taken into account during the audit, as well as matters relating to auditor fees, are dealt with by the audit committee. The audit committee is also responsible for preparing the audit of the consolidated financial statements, including the management report, based on the results of the audit.

Before proposing the public auditor for nomination, the audit committee shall obtain a declaration from the public auditor stating to what extent business, financial, personal or other relations exist between him and his officers, and the Company and its officers.

5. Communication and Information

When communicating with shareholders and the general public, the Board of Management shall provide transparent information, ensuring that communications are punctual, open and comprehensible and treat issues fairly. Where not relieved to the obligation to publish, the Company will publish as quickly as possible any new facts or insider information which may arise within its areas of activity not known to the public, in particular where such information is likely to have a substantial impact on the share price due to its effect on the assets, financial situation or general course of the Company's business. All major recurring financial dates shall be published in advance on the corporate website.

Information about the Company shall be published electronically, in particular via the Internet. All publications are also available in English.

The Board of Management and the Supervisory Board shall report yearly on corporate governance in the Company's annual report. Where deviations to the Recommendations of the German Corporate Governance Code occur, these will be published by the Company as described and in accordance with the relevant statutory requirements (Sec. 161 German Corporation Act). Non-current declarations of compliance to the Code shall be available for inspection for five years on the Company's Internet site.

The Company shall notify on the purchase or sale of shares in the Company, or of financial instruments based thereon, by the Company's officers, or persons standing in close relationship to them, as well as persons with management responsibilities who have regular access to insider information and are entitled to make major decisions, where such purchases or sales

exceed € 5000 annually. The Company shall publish this information in the Company's website in the Internet in accordance with those principles which apply to directors' dealings.

Ownership by members of the Board of Management or the Supervisory Board of shares in the Company, or of financial instruments based thereon, will be notified when the volume directly or indirectly exceeds 1% of the shares issues by the Company. Where total ownership of all members of the Board of Management and the Supervisory Board exceed 1% of the shares issues by the Company, notification will be made separately for the Board of Management and the Supervisory Board.

Neumarkt, dated December 15, 2005

Pfleiderer AG



Board of Management



Supervisory Board