

Report of the Executive Board to the Annual Shareholders' Meeting regarding Item 7 of the Agenda pursuant to Section 203, Subsection 2 and Section 186, Subsection 4, Sentence 2 German Stock Corporation Act (AktG)

Item 7 of the Annual Shareholders' Meeting of June 19, 2007, proposes that the Annual Shareholders' Meeting resolve to revoke its previous authorized capital, as decided upon on July 10, 2001, and lasting until June 30, 2006, and to replace that authorized capital with a new authorization to increase capital against contribution in cash and/or in kind.

The resolution to create new authorized capital authorizes the Executive Board, subject to approval of the Supervisory Board, to exclude shareholders' subscription rights.

- a) The Executive Board shall be authorized, subject to receiving the approval of the Supervisory Board, to exclude shareholders' statutory subscription rights pursuant to Section 186, Subsection 3, Sentence 4 German Stock Corporation Act in the case of capital increases against cash contributions. This right to exclude subscription rights enables the targeted placement of new shares on capital markets in Germany and abroad in the interest of the Company, thereby utilizing favorable stock market situations at short notice in order to obtain the highest possible prices close to market activity. When approved capital is used, the discount on the stock market price shall be less than 3 % where possible, and in any case less than 5 % of the current price quoted on the stock exchange. The income achievable when carrying out a placement with exclusion of subscription rights generally results in a far greater inflow of funds than when shares are issued through subscription rights. One major reason for this is that a placement free of a subscription period can be completed immediately after the issue price has been determined; thus, the issue price does not have to take into account the risk of a change in the share price which may occur during the subscription period.

Neither at the time when the authorization comes into effect, nor at the time when exercising the authorization, may the exclusion of subscription rights exceed 10 % of the capital stock. Thus, statutory requirements are complied with and the need of shareholders for protection against the dilution of their holdings is accounted for. This aspect is strengthened by a further restriction which states that even when several capital increases occur within the authorization period, subscription rights cannot be excluded for more than an aggregate total of 10 % of the capital stock. The consideration of shares issued with exclusion of subscription rights under other authorizations to issue new shares pursuant to Section 186, Subsection 3, Sentence 4 German Stock Corporation Act (AktG) prior to the issue of new shares in the context of approved capital, also ensures that no shares can be issued under approved capital excluding subscription rights pursuant to Section 203, Subsections 1 and 2 and Section 186, Subsection 3, Sentence 4 German Stock Corporation Act (AktG) if this resulted in shareholders' subscription rights being excluded for more than a total of 10 % of the capital stock without a particular reason applying. This extended restriction is in the interest of shareholders who wish to maintain the level of their holdings. Furthermore, due to the price of new

shares being issued close to the price quoted on the exchange, every shareholder can maintain the proportion of his or her holding at nearly identical conditions.

- b) The authorization, subject to receiving the approval of the Supervisory Board, to increase the capital stock by up to 20 % of the capital stock against contributions in kind with exclusion of subscription rights in order to acquire enterprises or parts thereof, or participations in enterprises, shall put the Executive Board in a position, given a suitable opportunity, to acquire an enterprise or parts thereof, or a participations in an enterprise in exchange for shares. Depending on the size of such an acquisition and the expectations of the vendor, it may be appropriate or necessary to make payment by way of transferring Company shares. This inevitably requires the exclusion of shareholders' subscription rights. The intended authorization to exclude subscription rights gives the Executive Board, subject to approval of the Supervisory Board, the means to react quickly and flexibly when an opportunity arises and to use Company shares issued by utilizing the approved capital in exchange for the acquisition of enterprises or parts thereof, or participations in enterprises. As the value of enterprises, parts thereof or participations in enterprises to be acquired, and thus the acquisition price, are unknown at present, no fixed issue price can be stated. The valuation of the Company shares shall be oriented towards the applicable price on the stock exchange. The value of the enterprise to be acquired, parts thereof or the participation in the enterprise will be calculated using recognized valuation methods.

The exclusion of subscription rights up to a maximum of 20 % of the capital stock is necessary so that also in the case of a larger acquisition the consideration can be paid in whole or at least in a substantial part in the form of shares in the Company.

- c) The exclusion of subscription rights in favor of holders of option rights and convertible bonds has the advantage that if such authorization is used, the option or conversion price applicable to the holder of existing option rights or convertible bonds does not have to be reduced in accordance with the dilution protection clauses that relate to the option rights or convertible bonds.
- d) The authorization of the Executive Board, subject to receiving the approval of the Supervisory Board, to exclude fractional amounts from shareholders' subscription rights ensures that a practical subscription ratio is maintained and facilitates the technical execution of capital increases with subscription rights.

Overall, the authorization to exclude subscription rights does not have an unreasonably negative effect on the shareholders' interests.

Neumarkt in May 2007

Pfleiderer AG
The Executive Board

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