

## **Report of the Executive Board to the Annual Shareholders' Meeting regarding Item 8 of the Agenda pursuant to Section 221, Subsection 4 and Section 186, Subsection 4, Sentence 2 German Stock Corporation Act (AktG)**

In the Annual Shareholders' Meeting on July 13, 2006, a resolution was adopted authorizing the Executive Board, subject to receiving the approval of the Supervisory Board and lasting until June 12, 2011, to issue on one or more occasions bearer and/or registered option bonds and/ or convertible bonds to a total nominal amount of 125,000,000 euros and to grant the holders or creditors of option bonds option rights and the holders or creditors of convertible bonds conversion rights for up to 8,000,000 new non par value shares of Pfeiderer Aktiengesellschaft in accordance with such terms as apply to the option bonds or convertible bonds. In order to satisfy the rights of holders or creditors of option bonds and convertible bonds pursuant to this authorization, the capital stock of Pfeiderer Aktiengesellschaft was conditionally increased by up to 20,480,000 euros by the issue of up to 8,000,000 new non par value shares.

To date, the Executive Board has not made use of the authorization of June 13, 2006, to issue option bonds and convertible bonds. This authorization is to be replaced with a new authorization to issue option bonds and/or convertible bonds. Pursuant to the new authorization, the Executive Board is to be authorized, subject to receiving the approval of the Supervisory Board, to issue until June 18, 2012, on one or more occasions, bearer or registered option bonds and/or convertible bonds (hereinafter referred to jointly as "bonds") in a total nominal amount of up to 200,000,000 euros and to grant the holders or creditors of such bonds option or conversion rights to up to 10,000,000 new non par value shares with an proportionate amount of the capital stock of up to 25,600,000 euros, in accordance with the details of the bond conditions.

According to the proposed authorization, Pfeiderer Aktiengesellschaft wishes to be able to issue option bonds and convertible bonds with warrants, conversion rights and/or mandatory conversion rights. The ability to issue bonds enables the Company, depending on the current situation on the financial markets, to make use of attractive means and conditions to obtain financing and thereby supply the Company with capital at low interest rates. The possibility envisaged to issue convertible bonds with conversion obligation extends the scope of this financial instrument.

Depending on the state of the capital markets, apart from in euros, the bonds may be issued in a legal currency of a member state of the OECD. Such bonds may also be issued by majority owned direct or indirect subsidiaries of Pfeiderer Aktiengesellschaft on the German or international capital markets, depending on the situation on the capital markets.

The option or conversion price for a share must amount to at least 100 % of the weighted average daily closing price of the share in Pfeiderer Aktiengesellschaft in Xetra trading over the ten stock exchange trading days prior to the day on which the Executive Board resolves to issue the bonds. Alternatively, the Company can set the option or conversion price for a Pfeiderer share by calculating the weighted average daily closing price of the

share in Pfeleiderer Aktiengesellschaft in Xetra trading on the stock exchange trading days of the subscription rights at the Frankfurt stock exchange, with the exception of the last two stock exchange trading days in the subscription rights; in doing so the option or conversion price must equal at least 100 % of the price as calculated.

The terms and conditions that apply to the option bonds or convertible bonds can stipulate that the Company has the right not to grant shares from conditional capital, but may grant either treasury stock or the equivalent value in cash to creditors of option rights or conversion rights in case of the exercise of the option rights or conversion rights. This enables the Company to finance itself at financial market terms without having to increase its capital. In case of cash payments, shareholders have the benefit of being protected from a dilution in the value of their shares, as no new shares are issued.

In case of bond issues, shareholders generally are to be granted subscription rights. The bonds may also be offered to shareholders by way of an indirect subscription right. This is the case when a bank or bank consortium takes up the issue with a commitment to offer the bonds for subscription to shareholders.

However, pursuant to Section 221, Subsection 4, Sentence 2 in connection with Section 186, Subsection 3, Sentence 4 German Stock Corporation Act (AktG), the Executive Board is entitled, subject to receiving the approval of the Supervisory Board, to exclude subscription rights if the issue price is not significantly lower than the bonds' theoretical market value. By excluding subscription rights, the Company can exploit favourable market conditions at short notice, enabling it to place bonds on the market quickly and flexibly at attractive conditions. Issuing bonds while granting subscription rights is frequently less attractive, as the issue price at which subscription rights are granted must be fixed at a very early stage. This in itself prevents optimum exploitation of the market situation and the bond's value. Due to the statutory periods of notice that apply to subscription rights issues, it is generally necessary to grant a not inconsiderable markdown on the issue price for safety's sake. Due to the subscription period that applies, the Company is also unable to react quickly to any changes in the market. Additionally, uncertainty as to how much of the issue will be taken up makes it difficult to prepare an alternative placement to a third party.

The authorization to exclude subscription rights pursuant to Section 221, Subsection 4, Sentence 2 and Section 186, Subsection 3, Sentence 4 German Stock Corporation Act (AktG) only applies to bonds with attached rights to new shares relating to a proportional amount of the capital stock in total not exceeding 10 % of the capital stock both on the date on which this authorization takes effect and on the date on which the authorization is exercised. Shares which are sold or issued during the term of this authorization by excluding subscription rights in the exercise of other authorizations under direct or analogous application of Section 186, Subsection 3, Sentence 4 German Stock Corporation Act (AktG) are included in this limit of 10 % of the capital stock. By taking account of these shares, dilution of shareholders' shareholdings shall be kept to a minimum.

Pursuant to Section 186, Subsection 3, Sentence 4 German Stock Corporation Act (AktG), the issue price must not be significantly lower than the stock exchange price. In order to comply with this statutory requirement when issuing bonds, before each issue the Executive Board must obtain an expertise from an investment bank or accounting firm not involved in the issue of the bonds, either of which must be experienced in bond issues. The expertise must provide evidence that the issue price is not significantly lower than the bond's market value. Thus, the shareholders shall be protected from a dilution of their shareholding. Shareholders are not economically disadvantaged when their right of subscription is excluded, as the value of the subscription right tends to be close to zero if the issue price is not significantly lower than market value.

The exclusion of fractional amounts from shareholders' subscription rights enables round figures to be achieved when exercising the authorization. This makes it easier to process shareholders' subscription rights. The right to exclude subscription rights in favor of holders of bonds has the advantage that in case of several issues based on the authorization the option or conversion price does not have to be marked down for bonds already issued.

The conditional capital is required in order to serve bonds with attached warrants, conversion rights or mandatory conversion rights with Company shares. In this case, the issue price corresponds to the option price respectively conversion price.

Neumarkt in May 2007

Pfleiderer AG  
The Executive Board

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