

Pfleiderer AG
Ingolstädter Strasse 51
D-92318 Neumarkt
Germany

Phone: +49 (0)9181/28-8044

Fax: +49 (0)9181/28-606

E-mail: Hauptversammlung2006@pfleiderer.com

www.pfleiderer.com



INVITATION TO
ANNUAL GENERAL MEETING 2006

Pfleiderer Aktiengesellschaft
Neumarkt i. d. Opf., Germany

We hereby invite the shareholders
of the Company to its

Annual General Meeting
on Tuesday, June 13, 2006
at 10.30 am C.E.T.

at Hotel Hilton München Park,
Am Tucherpark 7,
80538 Munich, Germany.

German Securities ID 676 474

International Security Identification Number DE0006764749

Agenda

1. Presentation of the Formally Approved Financial Statements, the Approved Consolidated Financial Statements, the Combined Management Report for Pfeleiderer Aktiengesellschaft and the Pfeleiderer Group for the Fiscal Year 2005 and the Report of the Supervisory Board

The aforementioned documents are available for inspection at the registered office of Pfeleiderer Aktiengesellschaft at Ingolstädter Straße 51, 92318 Neumarkt, Germany, as well as on our Internet homepage at www.pfleiderer.com under "Investor Relations/ Reports". Shareholders can receive a copy of these documents on request.

2. Resolution on the distribution of balance sheet profit

The Board of Management and the Supervisory Board propose to resolve:

The balance sheet profit of Pfeleiderer Aktiengesellschaft from the last fiscal year 2005 in the amount of 8,000,000.00 euros shall be paid out to the amount of 7,980,825.00 euros to pay a dividend of 0.15 euros per no-par value share entitled to dividends. The remaining amount of 19,175.00 euros shall be carried forward. The dividend shall be paid out from June 14, 2006.

The proposal to distribute unappropriated profits takes into account 120,600 shares not entitled to dividend which are expected to be held by the Company on the day of the General Meeting. The number of shares entitled to receive dividends can change up to the date of the General Meeting. In this case, while maintaining a dividend payment of 0.15 euros per no-par value share entitled to dividends, a correspondingly adjusted resolution on the amount of profit to be distributed will be suggested to the General Meeting.

3. Ratification of the Actions of the Members of the Board of Management for the Fiscal Year 2005

The Board of Management and the Supervisory Board propose to ratify the actions of the Board of Management.

4. Ratification of the Actions of the Members of the Supervisory Board for the Fiscal Year 2005

The Board of Management and the Supervisory Board propose to ratify the actions of the Supervisory Board.

5. Resolution to Change the Objective of the Company and to Amend the Articles of Association

Due to the disposal of the Business Centers track systems and Poles & Towers, the Pfeleiderer Group is no longer active in the field of products and systems for infrastructure for traffic, communications and energy. Due to the acquisitions made in North America, the field of laminate flooring has joined the Group's activities. In order to take account of this, the objective of the Company is to be adjusted accordingly.

The Board of Management and the Supervisory Board propose to resolve:

Article 2 (1) of the Articles of Association shall be amended as follows:

“(1) The objective of the Company is to control a group of companies which in particular are active in the fields of products and systems for furniture and buildings, in particular carriers, surface materials and floorings. The Company's activities include the development, manufacture and distribution of such products, the trade in raw, ancillary and pre-products, unfinished and finished products and goods, as well as the generation of energy.”

6. Resolution to create new authorized capital and to amend the Articles of Association

The previous authorized capital of 51,200,000.00 euros as per Article 4(2) of the Company's Articles of Association has been used following the resolution of the Board of Management on March 27, 2006 with the approval of the Supervisory Board to increase share capital to 27,241,216.00 euros. The outstanding authorization of the Board of Management to increase the share capital expires on June 30, 2006. Accordingly a new authorized capital shall be created.

The Board of Management and the Supervisory Board propose to resolve:

a) Revocation of the existing authorized capital

The authorized capital under Article 4 (2) of the Company's Articles of Association, resolved by the General Meeting on July 10, 2001, shall be revoked insofar as no use of it has been made.

b) Creation of new authorized capital

Subject to approval by the Supervisory Board and until June 12, 2011, the Board of Management is authorized to increase the Company's share capital in one or more instalments by a total amount of up to 68,257,408.00 euros by issuing new no-par value registered shares in exchange for cash and/or non-cash contributions (authorized capital). In such cases, the shareholders shall be granted subscription rights.

However, subject to the approval by the Supervisory Board, the Board of Management is authorized to exclude shareholders' subscription rights

- in the case of an increase in capital in exchange for cash, if at the date on which the issue price is set the issue price of the new shares is not materially below the market price of the company's shares of the same type in the sense of Sec. 203 (1) and (2), Sec. 186 (3) sentence 4 German Stock Corporation Act (AktG). Such exclusion of subscription rights is limited to 10 percent of the Company's existing share capital at most, both at the time when this authorization takes effect as well as at the time when 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 Sec. 186 (3) sentence 4 German Stock Corporation Act (AktG) are included in this limit of 10 percent share capital;
- in the case of an increase in capital in exchange for non-cash contributions in order to acquire companies, parts of companies or participating rights in companies;

- as far as necessary to grant holders of warrants or convertible bonds issued by the Company or by majority owned direct or indirect subsidiaries of the Company subscription rights to new shares to the extent that the holders of such rights would be entitled to after the exercise of these rights, respectively after the performance of the conversion obligations;
- in order to eliminate fractional amounts.

Subject to approval by the Supervisory Board, the Board of Management is authorized to decide on the further conditions relating to the execution of share capital increases on the basis of the authorized capital.

c) Amendment to the Articles of Association

Article 4 (2) of the Company's Articles of Association shall be amended to read as follows:

“(2) Subject to approval by the Supervisory Board and until June 12, 2011, the Board of Management is authorized to increase the Company's share capital in one or more instalments by a total amount of up to 68,257,408.00 euros by issuing new no-par value registered shares in exchange for cash and/or non-cash contributions (authorized capital). In such cases, the shareholders shall be granted subscription rights.

However, subject to the approval by the Supervisory Board, the Board of Management is authorized to exclude shareholders' subscription rights

- in case of an increase in capital in exchange for cash if at the date on which the issue price is set the issue price of the new shares is not materially below the market price of the company's shares of the same type in the sense of Sec. 203 (1) and (2), Sec. 186 (3) sentence 4 German Stock Corporation Act (AktG). Such exclusion of subscription rights is limited to 10 percent of the Company's existing share capital at most, both at the time when this authorization takes effect as well as at the time when 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 Sec. 186 (3) sentence 4 German Stock Corporation Act (AktG) are included in this limit of 10 percent share capital;

- in the case of an increase in capital in exchange for non-cash contributions in order to acquire companies, parts of companies or participating rights in companies;
- as far as necessary to grant holders of warrants or convertible bonds issued by the Company or by majority owned direct or indirect subsidiaries of the Company subscription rights to new shares to the extent that the holders of such rights would be entitled to after the exercise of these rights, respectively after the performance of the conversion obligations;
- in order to eliminate the subscription of fractions amounts.

Subject to approval by the Supervisory Board, the Board of Management is authorized to decide on the further conditions relating to the execution of share capital increases on the basis of the authorized capital.”

- d) Authorization to amend the wording of the Articles of Association

The Supervisory Board is authorized to amend the wording of the Articles of Association in accordance with the completion of capital increases using authorized capital and after expiration of the authorization term.

7. Resolution on the authorization to issue option bonds and/or convertible bonds, the creation of new conditional capital and an amendment to the Company’s Articles of Association

The existing authorization of the Board of Management, granted by the General Meeting on July 10, 2001, to issue option bonds and/or convertible bonds with attached warrants or conversion rights for up to 8,000,000 new no-par value shares of the Company expires on June 30, 2006. Accordingly, a new authorization shall be granted to issue option bonds and/or convertible bonds.

The Board of Management and the Supervisory Board propose to resolve:

- a) Revocation of the existing authorization to issue option bonds and/or convertible bonds

The authorization lasting until June 30, 2006 and granted by the General Meeting on July 10, 2001 to the Board of Management, subject to approval by the Supervisory Board, to issue option bonds and/or convertible bonds up to a total nominal amount of 125,000,000.00 euros with maximum maturities of ten years and to grant holders or creditors of option bonds option rights respectively holders or creditors of convertible bonds conversion rights for up to 8,000,000 new no-par value shares in the Company in accordance with the terms applicable to the option bonds or convertible bonds, is revoked.

- b) Creation of a new authorization to issue option bonds and/or convertible bonds

Subject to the approval by the Supervisory Board and until June 12, 2011, the Board of Management is authorized to issue on one or more occasions bearer or registered option bonds and/or convertible bonds (hereinafter together termed "bonds") to a total nominal amount of up to 125,000,000.00 euros and to grant holders or creditors of option rights or conversion rights for new shares in the Pfeleiderer Aktiengesellschaft up to a proportion of share capital of maximum 20,480,000.00 euros in accordance with the terms applicable to the option bonds or convertible bonds.

Other than in euros, the bonds may also be issued in a legal currency of a member state of the OECD – such issue to be limited to the corresponding euro value. Such bonds may also be issued by majority owned direct or indirect subsidiaries of Pfeleiderer Aktiengesellschaft; in this case the Board of Management is authorized, subject to approval by the Supervisory Board, to undertake to guarantee that the issuing company repay the bond and to issue holders of such bonds new shares in Pfeleiderer Aktiengesellschaft in order to fulfil such option rights or conversion rights as holders of these bonds may have.

Bond issues shall be divided into several equally entitled parts (hereinafter referred to as “fractional bond issue”).

When option bonds are issued, each bond shall carry one or more warrants which entitle the holder to subscribe to new shares in Pfleiderer Aktiengesellschaft in accordance with such terms as the Board of Management may lay down in respect of the options. The proportionate amount of the shares subscribable per fractional bond issue in the share capital may not exceed the nominal amount of the fractional bond issue.

When convertible bonds are issued, the holders or creditors of the fractional bond issue are entitled to convert their fractional bond issues into new shares in Pfleiderer Aktiengesellschaft in accordance with such terms as the Board of Management may lay down in respect of the convertible bonds.

The conversion ratio is calculated by dividing the nominal amount of a fractional bond issue by the fixed conversion price for one new share in the Company. The conversion ratio may also be arrived at by dividing the issue price of a fractional bond issue by the fixed conversion price for one new share in the Company, even where the fractional bond issue price is lower than the nominal amount of the fractional bond issue. The conversion ratio can be rounded up or down to the next full figure; furthermore, an additional payment made in cash can be fixed. Apart from that, fractional amounts can be consolidated and/or compensated by cash payment. The terms relating to the convertible bonds can stipulate the obligation to convert at the bond's maturity or at another point in time. The proportionate amount in share capital of the shares issued upon conversion may not exceed the nominal amount of the fractional bond issue.

The terms and conditions of the option bonds respectively of the convertible bonds may stipulate that the exchange ratio is variable when attached option rights or conversion rights are exercised or when fulfilling obligatory conversion rights or a right of exchange and/or that the option or conversion price be variable within a price range fixed depending on the development of the price of shares in the Company during the term of the option rights or conversion rights.

The option or conversion price for a share – this also applies when a variable conversion rate or variable option or conversion price applies – must amount to at least 80 percent of the weighted average daily closing price of the share of Pfeiderer Aktiengesellschaft in XETRA trading (or a functionally comparable successor system to XETRA) over the ten stock exchange trading days before the day on which the Board of Management resolves the issue of the option bonds or convertible bonds or at least 80 percent of the weighted average daily closing price of the share in Pfeiderer Aktiengesellschaft in XETRA trading (or a functionally comparable successor system to XETRA) on the days when the subscription rights are traded at the Frankfurt stock exchange, with the exception of the last two trading days of the trade in the subscription rights.

The terms and conditions of the option bonds respectively convertible bonds may stipulate that treasury stock from Pfeiderer Aktiengesellschaft be granted when option rights or conversion rights are exercised. Furthermore, it may be stipulated that the Company does not grant shares in Pfeiderer Aktiengesellschaft to the holders of option rights respectively conversion rights but rather pays the equivalent value in cash.

Sec. 9 (1) German Stock Corporation Act (AktG) notwithstanding, due to a dilution protection clause the exercise or conversion price can be reduced in accordance with the terms that apply to the options or convertible bonds by payment of a corresponding amount in cash when options are exercised or bonds are converted or when a conversion obligation is fulfilled, respectively by reduction of the additional payment. Such a reduction will occur when during the exercise or conversion period Pfeiderer Aktiengesellschaft increases its share capital while granting shareholders subscription rights or when Pfeiderer Aktiengesellschaft or its majority owned direct or indirect subsidiaries issue additional option bonds or convertible bonds or other option rights and the holders of option rights or conversion rights are not granted subscription rights to the extent that they would be entitled to after the exercise of the option right or conversion right. Instead of payment in cash or the reduction of an addi-

tional payment – where possible – the conversion ratio may be adjusted by division by the reduced conversion price. Apart from that, the terms that apply can stipulate an adjustment of the option or bond rights in case that share capital is reduced or in case of measures which could lead to a dilution of the value of the option rights or convertible rights.

If bonds are issued, shareholders have a statutory subscription right. Bonds may be subscribed by one or more banking institutions, provided such institutions offer the bonds for subscription to shareholders. However, the Board of Management, subject to approval by the Supervisory Board, is entitled to exclude shareholders' right to subscribe providing the issue price is not significantly lower than the bond's theoretical market value when calculated using recognized financial mathematical methods. Market value shall be determined through an expertise obtained from an experienced investment bank or accounting firm not involved in the issue of the bond in question. The authorization to exclude subscription rights only applies to bonds with attached warrants or conversion rights relating to a proportional amount of share capital in total not exceeding 10 percent of share capital neither at time at which this authorization takes effect, nor at the time when this 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 Sec. 186 (3) sentence 4 German Stock Corporation Act (AktG) are included in this limit of 10 percent share capital. The Board of Management is further authorized, subject to approval by the Supervisory Board, to exclude fractional amounts from the subscription rights of shareholders which occur as a result of the subscription ratio, as well as to exclude subscription rights as far as necessary in order to grant subscription rights to holders or creditors of option rights or conversion rights respectively holders/creditors of bonds which are mandatorily convertible, to the extent that such holders or creditors would be entitled to after the exercise of the option rights or conversion rights, respectively after the fulfilment of the conversion obligations.

The Board of Management is authorized, subject to approval by the Supervisory Board, to determine – itself, respectively in agreement with the organs of those of majority owned subsidiaries of the Company which issue such options and/or convertible bonds – further conditions relating to the issue and terms of the option bonds and/or convertible bonds, in particular their rate of interest, issue price, maturity period and denomination, the option or conversion price and the time when warrants or bonds can be converted.

c) Creation of new conditional capital

The share capital shall be conditionally increased by up to 20,480,000.00 euros by the issue of up to 8,000,000 new shares. The conditional increase in capital shall serve to provide shares to holders or creditors of option bonds or convertible bonds issued by Pfeleiderer Aktiengesellschaft or one of its majority owned direct or indirect subsidiaries in accordance with the authorization stated above under b) until June 12, 2011. New shares shall be issued in accordance with the option price or conversion price to be fixed as described above under b). The conditional increase in capital shall only be carried out insofar as the option rights or conversion rights are exercised or as the holders respectively creditors of mandatorily convertible bonds fulfil their obligation to convert. The new shares shall participate in profits from the start of the fiscal year in which they are created as a result of the exercise of warrants or conversion rights or as a result of the fulfilment of the conversion obligation of mandatorily convertible bonds. The Board of Management is authorized to set out the further details of the performance of the conditional capital.

d) Amendment to the Articles of Association

Article 4 (3) of the Articles of Association shall be amended to read as follows:

“(3) The share capital is conditionally increased by up to 20,480,000.00 euros by the issue of up to 8,000,000 new shares (conditional capital). The conditional increase in capital shall only be performed to the extent that

- a) holders or creditors of warrants or conversion rights connected with option bonds or convertible bonds to be issued in accordance with the authorization resolved by the General Meeting on June 13, 2006 by Pfeleiderer Aktiengesellschaft or one of its majority owned direct or indirect subsidiaries up until June 12, 2011 make use of their option rights or conversion rights or
- b) the holders respectively creditors of mandatorily convertible bonds to be issued in accordance with the authorization resolved by the General Meeting on June 13, 2006 by Pfeleiderer Aktiengesellschaft or one of its majority owned direct or indirect subsidiaries up until June 12, 2011 fulfil their obligation to convert such bonds.

The new shares shall participate in profits from the start of the fiscal year in which they are created as a result of the exercise of option rights or as a result of the fulfilment of the conversion obligation of mandatorily convertible bonds.

- e) Authorization to amend the wording of the Articles of Association

The Supervisory Board is authorized to amend the wording of the Articles of Association corresponding to the extent of the issue of subscription shares under the terms of this authorization and after expiration of the authorization term.

8. Resolution on the reduction of the existing conditional capital to serve the Stock Option Plan 2001, on the authorization to issue stock options (Pfleiderer Stock Option Plan 2006), on the creation of a new conditional capital as well as an on the amendment of the Articles of Association

The General Meeting of July 10, 2001 has authorized the Board of Management and the Supervisory Board to grant subscription rights to new shares (hereinafter referred to as “stock options”) in order to provide a stock option plan for members of the Board of Management and other senior management (Stock Option Plan 2001).

Stock options issued under the terms of this authorization currently entitle participants to subscribe to 777,280 no-par value shares. Said authorization expires on June 30, 2006. Hence, a new authorization to issue stock options shall be resolved.

For these purposes, the authorization of the General Meeting of July 10, 2001 to grant stock options for new shares in performance of the Stock Option Plan 2001 shall be revoked to the extent that no use of it has been made. The conditional capital pursuant to Article 4 (4) of the Articles of Association which serves the rights of holders of already issued subscription rights shall be reduced by 8,937,523.20 euros from 10,927,360.00 euros to 1,989,836.80 euros. The Board of Management and – as far as participants are members of the Board of Management – the Supervisory Board shall furthermore be authorized to grant stock options for an additional 4,555,330 no-par value shares of the Company to its employees, to members of its general management and to employees of affiliated companies, as well as to members of the Company's Board of Management (Pfleiderer Stock Option Plan 2006). A new conditional capital in the amount of 11,661,644.80 euros shall be created in order to fulfil stock options pertaining to the Pfleiderer Stock Option Plan 2006.

The Board of Management and the Supervisory Board propose to resolve:

- a) Revocation of the existing authorization to grant stock options

The authorization granted by the General Meeting on July 10, 2001 to the Board of Management and Supervisory Board to issue stock options for a total of 4,268,500 new no-par value shares in the Company until June 30, 2006 in order to fulfil a stock option plan for members of the General Management of affiliated companies, the Company's and its affiliated companies' senior management and members of the Board of Management of the Company shall be revoked insofar as no use has been made of such options.

- b) Reduction of conditional capital pursuant to Article 4 (4) of the Articles of Association

The conditional capital pursuant to Article 4 (4) of the Articles of Association in the amount of 10,927,360 euros shall be reduced by 8,937,523.20 euros to 1,989,836.80 euros.

- c) Creation of conditional capital to serve the Pfeleiderer Stock Option Plan 2006

The Company's share capital shall be conditionally increased by up to 11,661,644.80 euros (conditional capital). Conditional capital shall be used to issue up to 4,555,330 no-par value Company shares to serve stock options granted under the terms of the Pfeleiderer Stock Option Plan 2006. The conditional capital increase by issue of up to 4,555,330 new no-par value shares shall only be carried out to the extent to which stock options have been granted under the terms of the Pfeleiderer Stock Option Plan 2006, the holders of such stock options exercise such rights to claim Company shares and the Company does not fulfil such claims by using treasury stock or by way of cash compensation. Such new no-par shares shall participate in profits from the beginning of the fiscal year in which they are issued.

- d) Creation of a new authorization to grant stock options in order to fulfil a stock option plan

Up to and including May 31, 2011, the Board of Management is authorized to grant stock options for new no-par value Company shares in order to carry out a stock option plan for members of the General Management of affiliated companies, members of senior management of the Company beneath Board of Management level and members of senior management of affiliated companies beneath General Management level. This authorization shall apply analogously to the Supervisory Board with regard to granting stock options to members of the Board of Management.

Stock options shall be granted in accordance with the following conditions:

- (1) Stock options

The stock options entitle to subscription to a total of 4,555,330 new no-par value shares in the Company. The subscription ratio is 1:1, that is, every stock option granted entitles to subscription of one no-par value share in the Company. The shares issued shall participate in profits from the beginning of the fiscal year in which they are issued.

(2) Persons entitled to stock options and allocation of stock options

The groups of persons entitled to stock options are as follows: members of the Company's Board of Management (Group 1); members of the General Management of the Company's affiliated companies (Group 2); senior management of the Company beneath Board of Management level and senior management of affiliated companies of the Company beneath General Management level (Group 3).

A total of 4,555,330 stock options shall be issued for all groups inclusively during the term of the stock option plan up to and including May 31, 2011. Stock options shall be allocated to the individual groups entitled to stock options as follows:

- For members of Group 1 a total of up to 970,596 stock options;
- For members of Group 2 a total of up to 1,488,247 stock options;
- For members of Group 3 a total of up to 2,096,487 stock options.

Members of the Board of Management and senior management of the Company beneath the level of Board of Management who are simultaneously members of the General Management of affiliated companies shall be entitled to receive stock options solely to the extent provided for members of Group 1 or Group 2 respectively. The decision as to who is entitled to stock options within the individual groups and the number of stock options to be granted to these participants shall be made by the Supervisory Board in the event that participants are members of the Board of Management; in all other cases this decision shall be taken by the Company's Board of Management.

(3) Personal investment

The granting of stock options is conditional on the participant making a personal investment in the shares (hereinafter referred to in this sense as "investment shares").

Investment shares held by participants shall be subject to a waiting period (“lock-up period”, cf. (5)) and are to be transferred to a separate, blocked custodian account. If locked up investment shares are partly or completely disposed of or in case of a compulsory execution in locked up shares before the expiry of the lock-up period, a corresponding part of the stock options granted shall be forfeited without any substitution whatsoever.

(4) Acquisition period

Stock options can be acquired, depending on the personal investment made, on one or more occasions per year from September 1, 2006 to May 31, 2011 according to an annual stock option program issued once or several times. Stock options should generally be issued three to six months after the General Meeting. Insofar as stock options are granted to members of the Board of Management, such details shall be stipulated by the Supervisory Board; in all other cases the Board of Management shall decide.

(5) Lock-up period

Stock options may not be exercised before the expiry of a waiting period (“lock-up” period) of three years from the day on which the respective stock options are granted.

(6) Exercise period

Stock options can be exercised in the three years following the lock-up period. During this exercise period, stock options may not be exercised within 20 trading days of the Frankfurt Stock Exchange before the date of announcement of the half-yearly report, the quarterly report or the report on the interim consolidated annual result. Apart from that participants must observe such legal restrictions as apply, for example the German Securities Trading Act (insider trading).

(7) Option price, target

The price to be paid when exercising option rights to acquire a share (option price) is at least 110 percent of the base price. The base price is calculated from the average closing

prices in XETRA trading of the Company's share on all days over the last three months before the date on which the stock option is issued. The option price may not be lower than the proportionate amount of share capital per share. The option price is the target price at the same time.

(8) Dilution protection

Should during the term of the option rights a change in the Company's share capital or should restructuring measures that have a direct effect on the Company's equity capital (for example, spin-offs) occur during such term, the Company is entitled, but not obliged, to adjust the option price in such manner that the total value thereafter largely corresponds to the total value of the option rights granted to participants directly before the change. Other option rights granted – if applicable – in the course of said changes shall be taken into account when determining the total value. An adjustment of the option price by the Company shall not be effected insofar as this is not legally permitted, already provided for by statutory law or insofar as the changes or restructuring measures only marginally affect the total value of the option rights. Adjustments shall be made by the Supervisory Board insofar as members of the Board of Management are affected and in all other cases by the Board of Management.

(9) Non-transferability of option rights

Apart from inheritance, option rights cannot be transferred, sold or pledged.

(10) Serving the option rights

The Company is entitled to serve option rights through new shares issued under the conditional capital or through the Company's own shares in the Company (treasury stock) or to grant participants cash compensation.

The decision as to which method the Company chooses in each individual case shall be made by the Supervisory Board insofar as members of the Board of Management are affected and in all other cases by the Board of Man-

agement. In making their decision, the Supervisory Board respectively the Board of Management shall primarily take into account the best interests of the shareholders and the Company.

Cash compensation shall correspond to the difference in amount between the option price and the average price of the share in the Company in XETRA trading over the last five trading days on the stock exchange prior to the date on which the option is exercised.

(11) Other rules

Further details concerning the granting of option rights and terms and conditions relating to the exercise of options shall be decided by the Supervisory Board as far as members of the Board of Management are affected and in all other cases by the Board of Management.

Among such further provisions are in particular

- The decision on whether a stock option program is to be run once or repeatedly every year in order to carry out a stock option plan.
- The determination of the terms and conditions on how to perform the stock option plan and any annual option programs.
- The method used to allocate and exercise stock options.
- The stipulation of the amount of personal investment in Company shares as a pre-condition for granting option rights.
- The Regulation of the treatment of option rights in special cases, for example if a participant leaves the Company's service or deceases.
- The Regulation of the amount of the option price itself and the target price, thereby maintaining a minimum threshold of 110 percent of the base price.
- The Regulation of matters of taxation and charges involved when option rights are exercised or shares sold, or cash compensations paid to participants.

(12) Obligation to report

The Board of Management shall report each fiscal year in the Annual Report on the initiation of annual programs, the degree of completion of the Stock Option Plan and on stock options granted to participants.

- e) Article 4 (4) of the Articles of Association shall be amended to read as follows:

“(4) The Company’s share capital is conditionally increased by up to 1,989,836.80 euros (conditional capital). The conditional capital shall be carried out by the issue of up to 777,280 new no-par value shares in the Company only to the extent to which subscription rights have been granted within the context of the authorization which is valid until 20 June, 2006 and within the Pfeleiderer Stock Option Plan 2001 and to which the holders of these option rights actually made use of their right to subscribe to shares in the Company and the Company does neither grant any of its own shares nor compensation in cash in fulfilment of the options. Such new no-par value shares shall participate in profits from the beginning of the fiscal year in which they are issued.”

- f) Article 4 of the Articles of Association shall be extended to include a new paragraph (5) to read as follows:

“(5) The Company’s share capital is conditionally increased by up to 11,661,644.80 euros (conditional capital). The conditional capital shall be carried out by the issue of up to 4,555,330 new no-par value shares in the Company only to the extent to which subscription rights will be granted within the context of the authorization which is valid until May 31, 2011 and within the Pfeleiderer Stock Option Plan 2006 and to which the holders of these option rights actually make use of their right to subscribe to shares in the Company and the Company does neither grant any of its own shares nor compensation in cash in fulfilment of the options. Such new no-par value shares shall participate in profits from the beginning of the fiscal year in which they are issued.”

- g) The Supervisory Board is authorized to amend the wording of the Articles of Association corresponding to the issue of subscription shares and after expiration of the authorization term.

9. Resolution to amend the Articles of Association pursuant to the Act of Corporate Integrity and Modernization of Rescission Right (Gesetz zur Unternehmensintegrität und Modernisierung des Anfechtungsrechts (UMAG))

The Act of Corporate Integrity and Modernization of Rescission Right, which came into force in Germany on November 1, 2005, supplemented Sec. 131 (2) of the German Stock Corporation Act with a second sentence; said sentence specifies that the Chairman of the General Meeting may be authorized by the Company's Articles of Association to restrict the shareholders' question- and speaking right to an appropriate time limit and to determine any relevant conditions to be applied.

The Board of Management and the Supervisory Board propose to resolve:

Article 20 (2) of the Company's Articles of Association shall be amended to read as follows:

“(2) The Chairman conducts the General Meeting, determines the sequence in which agenda items are dealt with, as well as the sequence and manner of voting. The Chairman is authorized to reasonably restrict the shareholders' question- and speaking right and to set an appropriate time limit in particular for the duration of the entire General Meeting, the discussion of individual agenda items as well as for individual contributions of comments or questions.”

10. Resolution and authorization to acquire its own shares (treasury stock)

In a resolution adopted by the General Meeting on June 14, 2005, the Company has been authorized until December 13, 2006 to acquire its own shares (treasury stock) up to 10 percent of the share capital. This authorization shall be renewed for a further period of 18 months until December 12, 2007.

The Board of Management and the Supervisory Board propose to resolve:

- a) In accordance with Sec. 71 (1) No. 8 German Stock Corporation Act (AktG) the Company is authorized until December 12, 2007 to purchase its own shares (treasury stock) up to a calculated 10 percent of the Company's present capital stock.

The shares may be purchased through the stock exchange, or by means of a public purchase offer addressed to all shareholders.

If acquired through the stock exchange, the amount paid by the Company per share may not exceed the weighted average of the closing prices of the share in the XETRA trading system (or a functionally comparable successor system to XETRA) on the last three days of trading before the purchase is made by more than 10 percent and may not be more than 10 percent lower than that price. In the case of a public offering, the offered purchase price (excluding incidental charges) may not exceed the weighted average of the closing prices of the share in the XETRA trading system (or a functionally comparable successor system to XETRA) on the last ten days of trading prior to the day of publication of the offering by more than 25 percent and may not be more than 5 percent lower than that price. The volume of the offering can be limited. If total subscription of the offering exceeds the volume offered, shares must be accepted in ratio to the total number of shares offered. Preferential purchases of small numbers of up to 50 shares offered for purchase to the Company per shareholder can be provided for.

The authorization to acquire its own shares granted by the General Meeting on June 14, 2005 ends when this new authorization comes into effect.

- b) Subject to approval by the Supervisory Board, the Board of Management is authorized to dispose of treasury stock other than through the stock exchange or by offer to all shareholders, thereby excluding shareholders' subscription rights, provided that the treasury stock is sold at a price not significantly below the price quoted on the stock exchange for Company shares issued under the same terms at the time of disposal. The applicable share price is the weighted average of the closing prices

of the share in the XETRA trading system (or a functionally comparable successor system to XETRA) on the last three days of trading prior to the sale of the shares. This authorization to exclude subscription rights is restricted to a maximum of 10 percent of the Company's share capital both on the date when this authorization comes into force and on the date on which it is exercised. Shares which are issued during the term of this authorization by excluding subscription rights in the exercise of other authorizations under direct or analogous application of Sec. 186 (3) sentence 4 German Stock Corporation Act (AktG) are included in this limit of 10 percent share capital.

- c) Furthermore, the Board of Management is authorized to sell treasury stock to third parties other than through the stock exchange or by offer to all shareholders, thereby excluding shareholders' subscription rights, in the context of acquisitions of companies, parts of companies or participating interests.
- d) Furthermore, the Board of Management is authorized to use treasury stock acquired under this authorization to fulfill option rights arising from the exercise of option rights as issued or to be issued in accordance with the Pfeiderer Stock Option Plan which was resolved by the General Meeting of July 10, 2001 under Item 5 of the Agenda or in accordance with the Pfeiderer Stock Option Plan which was resolved by the General Meeting of June 13, 2006 under Item 8 of the Agenda
- e) Furthermore, the Board of Management is authorized to sell treasury stock, thereby excluding subscription rights, to participants in Pfeiderer Stock Option Programs based on the Pfeiderer Stock Option Plan as resolved by the General Meeting of June 13, 2006 under Item 8 of the Agenda to the extent that participants are obliged under the conditions of the scheme to make a personal investment in Company shares as a precondition for the granting of option rights. The sales price may not be significantly lower than the quoted stock exchange price. Insofar as company shares are sold to members of the Board of Management the above stated authorizations under d) and e) shall apply to the Supervisory Board.

- f) Furthermore, the Board of Management is authorized to use treasury stock, thereby excluding subscription rights, to fulfill option rights or conversion rights arising from the exercise of option rights or conversion rights or from the performance of conversion obligations which were granted respectively imposed in the context of the authorization to issue option bonds and/or convertible bonds resolved by the General Meeting of June 13, 2006 under Item 7 of the Agenda.
- g) Furthermore, the Board of Management is, subject to approval of the Supervisory Board, authorized without further resolution by the General Meeting to retire and cancel company shares acquired as a result of the aforementioned authorization. The cancellation results in a reduction of share capital. The Supervisory Board is authorized to amend the wording of the Articles of Association to the extent to which shares are retired and cancelled. Alternatively, the Board of Management is entitled to determine that the share capital remains unchanged on the cancellation of treasury shares and that the proportionate share in share capital of the remaining shares is increased pursuant to Sec. 8 (3) German Stock Corporation Act (AktG). In this case, the Board of Management is authorized to adjust the number of shares stated in the Articles of Association.
- h) The above stated authorizations to acquire treasury stock, retire and cancel treasury stock, re-sell or re-use it in another manner can also be exercised in partial amounts.
- i) Pursuant to Secs. 71 (1) No. 8 and 186 (3, 4) German Stock Corporation Act (AktG), statutory subscription rights of shareholders to the Company's own shares are excluded to the extent that such shares are used in accordance with the authorizations given under b) to f) above.

11. Appointment of auditor for the Financial Statements and Consolidated Financial Statements for the Fiscal Year 2006

The Supervisory Board proposes that the General Meeting appoint KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Berlin and Frankfurt am Main, as auditor for the Financial Statements and Consolidated Financial Statements for the fiscal year 2006.

Reports to the General Meeting

Report of the Board of Management to the General Meeting regarding Item 6 of the Agenda pursuant to Secs. 203 (2), 186 (4) sentence 2 German Stock Corporation Act (AktG):

Item 6 of the General Meeting of June 13, 2006 proposes that the General Meeting resolve to revoke its previous authorized capital, as authorized on July 10, 2001 and lasting until June 30, 2006, and to replace that authorization with a new authorization to increase capital against cash and/or non-cash contributions.

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

- a) The Board of Management shall be authorized, subject to approval by the Supervisory Board, to exclude shareholders' statutory subscription rights pursuant to Sec. 186 (3) sentence 4 German Stock Corporation Act (AktG) in case of capital increases against cash. 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 authorized capital is used, the discount on the stock market price shall be less than 3 percent where possible, and in any case less than 5 percent 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 percent of the share capital. 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 percent of the share capital. The consideration of shares issued with exclusion of subscription rights under other authorizations to issue new shares pursuant to Sec. 186 (3) sentence 4 German Stock Corporation Act (AktG) prior to the issue of new shares in the context of authorized capital, also ensures that no shares can be issued under authorized capital excluding subscription rights pursuant to Secs. 203 (1) and (2) and 186 (3) sentence 4 German Stock Corporation Act (AktG) if this resulted in shareholders' subscription rights being excluded for more than a total of 10 percent of the share capital 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 holding at nearly identical conditions.

- b) The authorization, subject to approval by the Supervisory Board, to increase share capital against non-cash contributions with exclusion of subscription rights in order to acquire companies, parts of companies or participating interests, shall put the Board of Management in a position, given a suitable opportunity, to acquire companies, parts of companies or a participating interest 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 Board of Management, subject to approval by the Supervisory Board, the means to react quickly and flexibly when an opportunity arises and to use Company shares issued by complete or partly use of the authorized capital in exchange for the acquisition of companies, parts of companies or participating interests.

As the value of companies, parts thereof or participating interests 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 company to be acquired, parts thereof or participating interests will be calculated using recognized valuation methods.

The proposed authorized capital in the amount of 68,257,408.00 euros corresponds to 50 percent of the Company's share capital in the amount of 136,514,816.00 euros. An amount in this region is necessary in case of a larger acquisition in order to be able to pay the purchase price completely or at least to a significant amount by using Company shares.

- c) The exclusion of subscription rights in favour of holders of warrants 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 Board of Management, subject to approval by 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.

Report of the Board of Management to the General Meeting regarding Item 7 of the Agenda pursuant to Secs. 221 (4), 186 (4) sentence 2 German Stock Corporation Act (AktG):

In the General Meeting on July 10, 2001 a resolution was adopted authorizing the Board of Management, subject to approval by the Supervisory Board and lasting until June 30, 2006, to issue on one or more occasions bearer and/or registered option bonds and/or convertible bonds to a total nominal amount of 125,000,000.00 euros with maximum maturities of ten years and to grant the holders respectively creditors of option bonds option rights respectively the holders or creditors of convertible bonds conversion rights for up to 8,000,000 new no-par value shares of Pfeleiderer 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 share capital of Pfeleiderer Aktiengesellschaft has been conditionally increased by up to 20,480,000.00 euros by the issue of up to 8,000,000 new no-par value shares.

To date, the Board of Management has not made use of the authorization to issue option bonds and convertible bonds. With the creation of new conditional capital, and subject to approval by the Supervisory Board, the Board of Management shall be authorized again until June 12, 2011 to issue on one or more occasions option bonds and/or convertible bonds (hereinafter both termed “bonds”) to a total nominal amount of up to 125,000,000.00 euros and to grant to holders or creditors of bonds option rights respectively conversion rights for up to 8,000,000.00 new no-par value shares in the Company with a proportional amount of up to 20,480,000.00 euros of the share capital in accordance with such terms as apply to the bonds.

According to the proposed authorization, Pfeleiderer Aktiengesellschaft wishes to continue 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 Pfeleiderer 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 80 percent of the weighted average daily closing price of the share in Pfeleiderer Aktiengesellschaft in XETRA trading over the ten stock exchange trading days prior to the day on which the Board of Management resolves to issue the bonds. Alternatively, the Company can set the option or conversion price for a Pfeleiderer share by calculating the weighted average daily closing price of the share in Pfeleiderer Aktien-

gesellschaft 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 of trade in the subscription rights; in doing so the option or conversion price must equal at least 80 percent 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 additional 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 Sec. 221 (4) sentence 2 in conjunction with Sec. 186 (3) sentence 4 German Stock Corporation Act (AktG) the Board of Management is entitled, subject to approval by the Supervisory Board, to exclude subscription rights if the issue price is not significantly lower than the bond's 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 Sec. 221 (4) sentence 2 in conjunction with Sec. 186 (3) sentence 4 German Stock Corporation Act (AktG) only applies to bonds with attached rights to new shares relating to a proportional amount of share capital in total not exceeding 10 percent of share capital 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 Sec. 186 (3) sentence 4 German Stock Corporation Act (AktG) are included in this limit of 10 percent share capital. By taking account of these shares, dilution of shareholders' shareholdings shall be kept to a minimum.

According to Sec. 186 (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 Board of Management 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 bonds 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 favour 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.

Report of the Board of Management to the General Meeting regarding Item 8 of the Agenda

The General Meeting shall once again authorize the Board of Management and the Supervisory Board to grant subscription rights for new shares in implementation of the Stock Option Plan 2006 for the members of the Board of Management and other senior management. The new conditional capital pursuant to Item 8 of the Agenda for the Annual General Meeting to be held on June 13, 2006 is designed to enable the Company to issue new no-par value shares and to offer them to participants in the Pfeiderer Stock Option Plan 2006 if they exercise stock options.

Stock options are internationally and meantime also in Germany, an important part of the benefits policies of listed companies. Stock options create the possibility of offering senior management in Germany and abroad attractive and competitive terms of remuneration.

A sustained improvement of the shareholder value of Pfeiderer Aktiengesellschaft, reflected in a long-term rise in the stock price of the Pfeiderer share can only be achieved through lasting motivation of the senior management of Pfeiderer Aktiengesellschaft and its affiliated companies.

The granting of stock options both secures and promotes this motivation because with stock options both shareholders and employees profit similarly from the resulting increase of the shareholder value.

In the opinion of the Board of Management and Supervisory Board, the stock option plan is urgently required to enable the companies of the Pfeiderer Group to remain particularly attractive to highly qualified senior management staff in future. Such a system of remuneration, which to a large extent is dependent on performance, is critical to the future success of Pfeiderer Aktiengesellschaft.

With the share-oriented component of remuneration, the orientation of senior management towards the corporate strategy is promoted; furthermore the commitment of senior managers to the economic development of the Group overall is emphasized. The granting of stock options provides a special performance incentive for senior management, the benchmark for which is reflected in the price of the Pfeiderer share and the aspired increase of the shareholder value.

The Board of Management and Supervisory Board therefore propose to create the possibility to issue stock options with subscription rights for up to 4,555,330 new no-par value shares of Pfeleiderer Aktiengesellschaft in the context of the Pfeleiderer Stock Option Plan until May 31, 2011. This is the required volume in order to be able to offer to the entitled groups of participants competitive remuneration in future.

The proposal for the Pfeleiderer Stock Option Plan 2006 specifically provides for the following:

- (1) Those entitled to participate in the stock option plan are members of the Company's Board of Management, members of the general management of affiliated companies, senior management of the Company from levels below the Board of Management and the general management of affiliated companies. The maximum total volume of stock options amounts to 4,555,330 subscription rights. This volume is divided among the groups of those with entitlement as follows:

The members of the Company's Board of Management together receive a maximum of 970,596, the members of the general management of affiliated companies together receive a maximum of 1,488,247 and senior management beneath the Company's Board of Management and the general management of affiliated companies together receive a maximum of 2,096,487 subscription rights. The Board of Management, and insofar as participants are members of the Board of Management the Supervisory Board, shall decide on those persons entitled to stock option rights within the three groups and the number of stock options to be granted to them.

- (2) The granting of stock options is conditional on the participant making a personal investment in the Company's shares. Varying levels of personal investment will take into account the individual contributions of those with entitlement to stock options. There are two alternative methods of personal investment to be used at the participant's discretion: either the holder of the stock option provides a certain amount of money for which the Company's shares are purchased on his or her account, or the person makes use of Pfeleiderer shares already held privately by him or her in order to make the personal investment. Such shares held as a personal investment are blocked for a period of three years starting from the granting of the subscription rights and may only be sold once this period has ended.

- (3) The subscription rights may be issued by the Board of Management or Supervisory Board during the period between September 1, 2006 and May 31, 2011 one or more times per year in accordance with an annual stock option program set up once or several times depending on the personal investment made by the participant. As a rule the subscription rights are generally granted three to six months after the General Meeting. Stock options may only be exercised by participants after the expiry of a waiting period of three years from the day on which the respective stock options were granted. This will ensure that only medium and long-term rises in shareholder value can result in the exercise of stock option rights. This rule also serves to enhance senior management's loyalty to the Company.
- (4) The stock options can be exercised within the three years following the expiry of the waiting period. During the exercise period, stock options may not be exercised within 20 trading days of the Frankfurt Stock Exchange prior to the date of announcement of the half-yearly report, the quarterly report or the report on the interim consolidated annual result
- (5) Each stock option is intended to provide entitlement to subscribe to one Pfleiderer share against payment of a subscription price determined from a base price plus a premium. The base price is calculated from the average closing prices in XETRA trading of the Company's share during the last three months prior to the date on which the stock option is issued. The premium payable in addition to the base price amounts to at least 10 percent of the base price. The stock option plan thus complies with the statutory requirement to specify a target price when granting stock options. The target price is linked to the absolute development of the stock exchange quotation of the Pfleiderer share. The exercise of option rights only becomes economically worthwhile if the share price is higher than the option price.

Pfleiderer Aktiengesellschaft is entitled to adjust the option price if changes in the Company's share capital or restructuring measures are adopted that have a direct effect on the Company's equity capital during the term of the option rights. This is designed to avoid dilution of the option rights.

- (6) Apart from inheritance, option rights cannot be transferred, sold or pledged.
- (7) The Company is entitled to serve stock options through new shares issued under the conditional capital created for this purpose, or through the Company's own shares based on the authorization of the Board of Management also proposed to the General Meeting to acquire Pfeleiderer's own shares or to grant participants cash compensation. The decision as to which method the Company chooses in each individual case lies with the Board of Management and Supervisory Board which shall primarily take into account the interests of shareholders and the Company. The cash compensation shall correspond to the difference in amount between the option price and the average price of the Company's share in XETRA trading over the last five stock exchange trading days prior to the date on which the option is exercised.
- (8) Other details concerning the stock option plan and its terms, particularly the rules on the level of the option price and the target price shall be decided by the Board of Management and, insofar as members of the Board of Management are to be granted stock options, by the Supervisory Board.
- (9) In order to secure the option rights conditional capital amounting to 11,661,644.80 euros, divided into 4,555,330 shares, is to be created. The total conditional capital including the conditional capital which serves the issue of shares relating to option rights arising from the Stock Option Plan 2001, corresponds to 10 percent of the current share capital. The Board of Management and Supervisory Board consider this proportion to be justified in view of the number of participants, the term of the stock options and the positive effects associated with the stock option plan.

The Board of Management and Supervisory Board are convinced that the proposed stock option plan is particularly suited to providing a lasting performance incentive to the senior management of the Pfeleiderer Group, so contributing in the interests of the Company and its shareholders to a rise in the shareholder value.

Report of the Board of Management to the General Meeting regarding Item 10 of the Agenda pursuant to Secs. 71 (1) no. 8, 186 (4) sentence 2 German Stock Corporation Act (AktG)

Under the proposed resolution in item 10 of the Agenda of the General Meeting on June 13, 2006, Pfeleiderer Aktiengesellschaft is re-authorized pursuant to Sec. 71 (1) no. 8 German Stock Corporation Act (AktG) to purchase its own shares (treasury stock) of up to 10 percent of current share capital. In accordance with Sec. 71 (1) no. 8 German Stock Corporation Act (AktG), the previous authorization granted by the General Meeting on June 14, 2005 has been limited to 18 months and expires on December 13, 2006. Therefore, the authorization shall now be renewed until December 12, 2007.

The renewed authorization will enable Pfeleiderer Aktiengesellschaft to acquire treasury stock by purchasing its own shares and so to realize associated advantages in the interests of Pfeleiderer Aktiengesellschaft and its shareholders, in particular with regard to serving its stock option scheme. The legal framework prescribed by Sec. 71 (2), 71d and 71e German Stock Corporation Act (AktG) sets limits on this authorization. In particular, it means that the new authorization does not apply if and to the extent to which existing or earlier authorizations to acquire own shares have been executed to acquire treasury stock up to the permissible limit and shares acquired in this manner have neither been sold nor retired and cancelled.

When acquiring treasury stock, the Company is obliged to comply with the doctrine of equal treatment as laid down by the German Stock Corporation Act. Acquisition of treasury stock can only be made via the stock exchange or via a public offer to buy such stock addressed to all shareholders. This means that all shareholders have an equal opportunity to sell shares to the Company, should it decide to make use of its authorization to acquire its own shares.

According to the proposed authorization, shares acquired in this manner by the Company can be retired and cancelled without any further resolution by the General Meeting. As a result, the share capital of Pfeleiderer Aktiengesellschaft will be reduced or the ratio of share capital to remain-

ing shares increased accordingly. Furthermore, treasury stock can be sold by a public offering to all shareholders or via the stock exchange. The methods of selling treasury stock permitted ensure that shareholders are treated equally when treasury stock is re-issued.

The proposed resolution authorizes the Board of Management to use treasury stock, thereby excluding shareholders' subscription rights.

- a) Pursuant to Sec. 71 (1) no. 8 sentence 5 German Stock Corporation Act (AktG), the proposed authorization under b) enables the Board of Management, subject to approval by the Supervisory Board, to sell treasury stock other than via the stock exchange or through an offer to all shareholders. This is conditional on the Pfleiderer shares being sold at a price that conforms to Sec. 186 (3) sentence 4 German Stock Corporation Act (AktG), whereby the selling price must not be significantly lower than the price quoted on the stock exchange at the time of sale. The proposed resolution defines the relevant stock exchange price in question to be the weighted average closing price in XETRA trading of the Company's share over the last three days of trading prior to sale of the Pfleiderer shares. This ensures that the Pfleiderer Aktiengesellschaft shareholders' interests are not negatively affected by random prices.

Authorization to sell treasury stock other than via the stock exchange or by offer to all shareholders is in the best interests of the Company and the shareholders. Enabling treasury stock to be sold while excluding shareholders' subscription rights pursuant to Sec. 186 (3) sentence 4 German Stock Corporation Act (AktG) is to the advantage of Pfleiderer Aktiengesellschaft, for example if Pfleiderer shares can be sold to institutional investors in suitable cases, or in order to introduce Pfleiderer shares to foreign stock exchanges. Excluding shareholders' subscription rights provides Pfleiderer Aktiengesellschaft with the necessary means to react both quickly and flexibly, as well as economically, to favourable stock exchange scenarios without having to pursue the expensive and time-consuming process of introducing a rights issue.

Authorization is limited to a maximum of 10 percent of the Company's share capital. This restriction complies with legal requirements to protect shareholders from a dilution of their investment. By taking

into account shares already issued under Sec. 186 (3) sentence 4 German Stock Corporation Act (AktG) under other authorizations excluding shareholders' subscription rights when treasury stock is sold, no treasury stock can be sold under exclusion of shareholders' subscription rights pursuant to Sec. 71 (1) no. 8 and Sec. 186 (3) sentence 4 German Stock Corporation Act (AktG) if this resulted in shareholders' subscription rights being excluded in respect of more than 10 percent of the capital stock without adequate reason.

- b) On account of the authorization proposed under c), Pfeleiderer treasury stock can also be used as payment when acquiring companies, parts of companies or participating interests in companies. This enables Pfeleiderer Aktiengesellschaft in suitable cases to acquire companies, parts of companies or participating interests in companies not by paying cash, but by assigning treasury stock. Thus, the Company's cash liquidity remains unaffected, at the same time reducing the extent of financing needed to cover the purchase price. International competition and globalization of the economy make this form of payment increasingly relevant. No specific plans exist to use the authorization. The Board of Management will report to the General Meeting in each case if the authorization has been used.
- c) Furthermore, under d) and e) of the proposed resolution, the Board of Management, and in the case of shares being issued to members of the Board of Management, the Supervisory Board, shall be authorized to use Pfeleiderer Aktiengesellschaft treasury stock to serve option rights under the Pfeleiderer Stock Option Scheme 2001 as approved by the General Meeting on July 10, 2001 or under the Pfeleiderer Stock Option Scheme 2006 for senior management as approved by the General Meeting on June 13, 2006 under Item 8 of the Agenda, to the extent that such options have been or are to be issued; in addition, the Board of Management respectively the Supervisory Board shall be authorized to sell Pfeleiderer Aktiengesellschaft treasury stock to participants in stock option schemes insofar as participants are obliged to acquire Pfeleiderer shares in order to be eligible for the granting of stock options. In this case, the issue price may not be significantly lower than the quoted stock exchange price. This authorization to re-issue treasury stock exclu-

sively sets out to whom Pfeleiderer shares can be sold. Shareholders' statutory subscription rights are excluded on account of this regulation.

In the General Meeting of 2001, the Pfeleiderer Stock Option Plan 2001 for senior management was explained and subsequently adopted by the Meeting. The Pfeleiderer Stock Option Plan 2006 for resolution under item 8 of the Agenda of the General Meeting on June 13, 2006 is explained in a report prepared by the Board of Management. The possibility of granting Pfeleiderer Aktiengesellschaft treasury stock in order to fulfil subscription rights of those entitled arising from the issue of stock options is a suitable mechanism by which to counteract dilution of the capital assets and voting rights which would occur when covering subscription rights by creating new shares issued under conditional capital. Whether, and to what extent, the authorization to issue treasury stock to cover subscription rights is used, or whether and to what extent they are rather covered by issuing new shares from conditional capital, is decided by the Board of Management or, in the case of subscription rights pertaining to a member of the Board of Management, by the Supervisory Board, whereby both Boards must primarily bear in mind the best interests of shareholders and Pfeleiderer Aktiengesellschaft alike.

- d) Furthermore, under f) the Board of Management shall be authorized to use treasury stock acquired on the basis of the authorization in order to serve subscription rights and conversion rights arising from the exercise of option rights or conversion rights or the fulfilment of conversion obligations by holders of option bonds and/or convertible bonds issued by Pfeleiderer Aktiengesellschaft as authorized by the General Meeting of June 13, 2006 under Item 7 of the Agenda. If the Company chooses to make use of this possibility it is not necessary to call up conditional capital under Article 4 (3) of the Articles of Association. Accordingly, this additional possibility does not impinge on shareholders' interests.

Overall the interests of the shareholders are not unreasonably affected by the authorization to preclude subscription rights.

Notices and Other Information for Shareholders

Notices pursuant to Sec. 128 (2) sentences 6 to 8 German Stock Corporation Act (AktG)

Memberships in the Company's Supervisory Board or in supervisory boards of banking institutions as defined by Sec. 128 (2) sentence 6 German Stock Corporation Act (AktG) do not exist.

The Company has not been notified pursuant to Sec. 21 German Securities Trading Act (WpHG) of a banking institution participating in the Company in a way that requires statutory notification.

The following banking institutions belong to the consortium that underwrote the most recent issue of securities within the last five years by Pfeleiderer Aktiengesellschaft:

Bayerische Hypo- und Vereinsbank AG

Berenberg Bank Joh. Berenberg, Gossler & Co. KG

Attendance at the General Meeting

Registration

Pursuant to Article 18 of the Articles of Association, shareholders listed in the Company's register of shareholders who have given notice of their intention to participate at the meeting by no later than Tuesday, June 6, 2006 are entitled to participate in the General Meeting and to exercise voting rights.

Shareholders listed in the Company's register of shareholders may notify Pfeleiderer Aktiengesellschaft of their intention to attend in writing at the following address:

Pfeleiderer Aktiengesellschaft
"Hauptversammlung 2006"
c/o Computershare GmbH
Carl-Zeiss-Straße 8
85247 Schwabhausen
Germany

or by fax at
+49 (0)81 38/93 06 99 80

or by e-mail at
Hauptversammlung2006@pfeleiderer.com.

Further details about registration are provided in the registration forms.

If a banking institution is entered in the register of shareholders it may only exercise voting rights attaching to shares it does not own if it has been authorized to do so by the shareholder.

Proxy voting

Shareholders entered in the Company's register of shareholders can cast their votes by proxy by issuing a power of attorney, for example to a banking institution or shareholders' association. In such cases the proxies must register, or be registered by the shareholder, in good time. If neither a banking institution nor a shareholders' association or similar entity pursuant to Sec. 135 (8) German Stock Corporation Act (AktG) has been given right of representation, power of attorney must be given in writing.

As a special service, once again this year we are offering shareholders the right to be represented at the General Meeting through employees of the Company operating in accordance with your instructions. Power of attorney and any relevant instructions can be transmitted in writing, telegraphically or electronically to the above address, fax number or e-mail address.

Further details on proxy voting are enclosed with the documents sent to shareholders and are shown in the Internet at www.pfleiderer.com under "Investor Relations/Annual General Meeting".

The Company will send the Invitation and Agenda to the General Meeting convened for June 13, 2006 as well as documents for registration and power of attorney to shareholders listed in its register of shareholders.

Applications and enquiries

Shareholders may address any applications and enquiries regarding the General Meeting exclusively to

Pfleiderer Aktiengesellschaft

"Hauptversammlung 2006"

Ingolstädter Straße 51

92318 Neumarkt

Telefax +49 (0)9181/28-6 06

or by e-mail to

Hauptversammlung2006@pfleiderer.com.

Applications from shareholders which have to be made public will be published promptly on receipt on the Company's Internet site at

www.pfleiderer.com under "Investor Relations/Annual General Meeting".

All applications relating to items on the Agenda that have been received at the above stated addresses by May 29, 2006 before midnight will be taken into account. Any statements by the Company's administration will also be posted at the above named Internet site.

Broadcast of the Statement by the Spokesman of the Board of Management

The statement by the Spokesman of the Board of Management may be viewed live in the Internet in the “Investor Relations/Annual General Meeting” area of the website www.pfleiderer.com and afterwards will be held available there as a recording.

Neumarkt, May 2006

Pfleiderer Aktiengesellschaft
The Board of Management

This invitation to the General Meeting together with the Agenda was published in the Electronical Federal Gazette (elektronischer Bundesanzeiger) on May 3, 2006.

Financial Calendar 2006

June 13, 2006

Annual Shareholder Meeting 2006,
Munich

August 8, 2006

Publication of the
Six-Month-Report 2006

November 8, 2006

Publication of the
Nine-Month-Report 2006

This invitation is published in German and English.
In case of discrepancies, the German version shall prevail.



Annual General Meeting 2006:

**Hilton München Park, Am Tucherpark 7, 80538 Munich, Germany
Phone 0 89 / 38 45-0, www.hilton.com**

Due to limited parking space at the hotel, we recommend you come to the General Meeting by public transport using the park & ride system. Your ticket for the Meeting includes a free travel ticket for the inner circle of the Munich Transport System (MVV) valid for June 13, 2006.

Arrival by public transport:

Take the "U-Bahn" (underground) or "S-Bahn" (suburban line) to "Münchener Freiheit" or "Ostbahnhof". Then change to bus number 54 and get off at "Am Tucherpark" (in front of the Hilton München Park).

Arrival by car:

After leaving the autobahn, take the "Mittleren Ring" in the north-east of Munich until the exit marked "Am Tucherpark". After the exit turn right at the first set of traffic lights.