

CORPORATE GOVERNANCE 2002

INTRODUCTION AND DECLARATION OF COMPLIANCE

Even before the Transparency and Disclosure Law of July 19, 2002 and the Corporate Governance Code came into force, it was IWKA Aktiengesellschaft's practice to proceed in accordance with these principles to a great extent. This applies especially to the cooperation between the Executive Board and the Supervisory Board. For IWKA AG, as the controlling company of the IWKA Group, German law was and is primarily applicable, in particular the laws governing corporations, co-determination, and the capital markets as well as the German Commercial Code and the company's Articles of Incorporation. Beyond that, when the German Act on Corporate Control and Transparency (KonTraG) of April 27, 1998 came into effect, the Company took the opportunity to improve its decision-making and monitoring processes; among other things, this applies to the expansion of the risk management system, which is also audited by the auditor. We have also taken advantage of the coming into force of the rules of the Corporate Governance Code to once again improve communication between the organs of the Company in light of these provisions. We allowed ourselves to be guided by the conviction that good Corporate Governance is not distinguished by mere compliance with the letters of the law but by compliance with the rules in respect of substance.

Consequently, when the Executive Board and the Supervisory Board submitted the declaration of compliance in accordance with Article 161 AktG they noted only two deviations from the compulsory provisions of the Corporate Governance Code and even discovered a high degree of consonance with the recommendations made in this regulatory framework. The Supervisory Board's declaration of compliance is dated December 13, 2002 and that of the Executive Board is dated December 16, 2002. The combined declarations have been accessible to any interested parties since Dec. 18, 2002 on the company's home page at www.iwka.de. The joint declaration reads as follows:

"IWKA Aktiengesellschaft meets the compulsory provisions of the Government Commission on the German Corporate Governance Code with the two exceptions indicated below:

- The Group financial statements and the interim reports are being established in accordance with the still governing provisions of the German Commercial Code (Section 7.1.1).
- The Group financial statements will not be accessible to the public within 90 days after the end of the financial year (Section 7.1.2).

To a considerable extent, IWKA Aktiengesellschaft also complies with the recommendations contained in the Code."

These two exceptions were made for the following reasons:

Accounting standards: We do not underestimate the necessity to establish annual financial statements and interim reports in accordance with internationally recognized rules in order to make transparency and comparability possible.

We also welcome efforts to harmonize the rules for the establishment of annual financial statements between IAS (International Accounting Standards) and US-GAAP, in order not to make the required transparency and comparability once again relative. However, in doing so, it is necessary to take note of the fact that applicable laws must take precedence for each company. The regulations of the German

Accounting Standards Committee (GASC), which must be observed by publicly listed companies, have also resulted in the harmonization of the accounting standards in Germany with international standards. Furthermore, the Company has already undertaken extensive preparations and established financial statements in order to be able to easily establish the Group financial statements in accordance with IAS in the future.

90-day period: IWKA Aktiengesellschaft's annual financial statements and the Group financial statements are regularly submitted to the Supervisory Board by the Executive Board after they have been audited by the auditor in the first half of April, and after being adopted they are published by the Supervisory Board on the following business day. The 90-day period (Section 7.1.2 Corporate Governance Code), however, is only minimally exceeded.

Additionally, we adhere to the principles of good corporate governance as follows:

MANAGEMENT AND COMPANY STRUCTURE

The IWKA Aktiengesellschaft, located in Karlsruhe, is the ultimate parent company of the IWKA Group. It is the management holding company of 197 companies and participations, which are organized into four Divisions. The management principle is one of decentralization; the Divisions operate by means of legal entities; each Company is responsible for its own business and therefore also for its results. For the purpose of enforcing the Company policy, in almost all cases IWKA Aktiengesellschaft has a direct or indirect total shareholding and at least a majority shareholding in the Group companies and has a minority shareholding only in exceptional cases. Whereas the Group companies operate independently with regard to the day-to-day business, important actions require prior approval by IWKA Aktiengesellschaft.

For this purpose the Articles of Incorporation of the Group companies require the management to obtain IWKA Aktiengesellschaft approval in certain cases. An additional component of the communication between IWKA Aktiengesellschaft and its Group companies has been institutionalized in that at all important Companies a minimum of three shareholder meetings per calendar year are held. Over and above that the Executive Board of IWKA Aktiengesellschaft also maintains regular close contact with the management of the Group companies beyond the shareholder meetings in order to be able to make pending decisions quickly and unbureaucratically. This management organization permits the recognition and implementation of existing synergies in the Group. Finally, IWKA Aktiengesellschaft supports the activities of the Group companies in individual areas with short-term and long-term financing, engagements and guarantees as well as with consulting services. The Group companies benefit from IWKA Aktiengesellschaft's access to the capital market as well as from its management. These are advantages that would otherwise not be available to these companies, which are all structured as medium-sized businesses.

EXECUTIVE BOARD

To accomplish its tasks, the Executive Board of IWKA Aktiengesellschaft currently comprises three Executive Board members with functional responsibility. The individual tasks are defined in an organization chart. The most important tasks include the following: the Chairman is responsible for strategy, human resources and legal issues as well as provisionally controlling tasks, another Executive Board member is responsible for financing and investor relations, and another Executive Board member is responsible for technology and marketing.

The Executive Board members meet regularly for board meetings and beyond that keep in close touch with each other. Here too the principle applies of orienting decisions to the requirements of the business in order to be able to act quickly and unbureaucratically, if necessary. The Executive Board ensures that conflicts of interest are avoided (Section 4.3 Corporate Governance Code). In financial 2002, the emoluments for the Executive Board comprise fixed and variable components. The remuneration system for the Executive Board consists of a monthly cash emolument

as well as a cash bonus that is based on the Group earnings as well as the dividend. 56.1 percent of the remuneration are paid out in fixed monthly installments and 43.9 percent are variable and are granted in the form of a success-oriented bonus payable in the month of July.

SUPERVISORY BOARD

The Supervisory Board is composed in accordance with the German Act on Company Co-Determination and consists of twelve members; six members are elected by the shareholders and six by the employees. The Supervisory Board is elected for a five years term. In the event of a parity of votes during voting, the Chairman of the Supervisory Board has two votes, if there is also a parity of votes in a second voting. The Supervisory Board supervises and advises the Executive Board in its management of business. The Executive Board keeps the Supervisory Board informed on a timely basis, comprehensively and – to the extent necessary - in writing. At the end of each quarter, the Supervisory Board is informed by the Executive Board in writing of the development of the Divisions and of the Group as well as of the prospective course until year's end. In addition, meetings are held four times annually between the Chairman of the Supervisory Board and all members of the Executive Board where strategic issues are dealt with. In addition, numerous conversations are held between the Chairman of the Supervisory Board and the Chairman of the Executive Board and on a case-by-case basis with other members of the Executive Board, during which important member company or Group business items as well as issues of Group performance and financing are discussed in depth. Prior approval by the Supervisory Board is required for important actions to be undertaken by the Executive Board. The Supervisory Board ensures that conflicts of interest are avoided (Section 5.5 Corporate Governance Code).

The Supervisory Board has formed three committees from among its members, the Personnel Committee, the Committee based on Article 27 (3) MitbestG (German Act on Company Co-Determination) and the Audit Committee. The members of these committees are the same persons. The Personnel Committee makes decisions regarding the content of the Executive Board member employment contracts and makes proposals regarding the appointment of Executive Board members who are appointed by the full session of the Supervisory Board. The Committee based on Article 27 (3) MitbestG presents proposals to the Supervisory Board with respect to the appointment of members of the Executive Board, if the required two-thirds majority of votes by members of the Supervisory Board are not achieved during the first round of voting. So far this committee has not had to convene. The Audit Committee is responsible for the tasks intended for it under Section 5.3.2 of the Corporate Governance Code. Prior to each Supervisory Board meeting, the Chairman of the Supervisory Board is briefed by the auditor on his activities. On the basis of the above activities, the Supervisory Board regularly examines the efficiency of his activities (Section 5.6 Corporate Governance Code). Substantial criteria of this examination are the adherence to corporate planning and the successful performance of the Company. The Supervisory Board receives fixed and variable cash emolument; the latter is dependent on the amount of the dividend. You will find additional information on the remuneration of the Executive Board and the Supervisory Board in the notes on page 104 of this annual report.

ANNUAL GENERAL MEETING

The Annual General Meeting takes place as a rule on the first Friday in the month of July. Each share has one vote. Unit shares are distributed and global certificates are issued. The shares are issued to the bearer. Those shareholders are entitled to participate in the Annual General Meeting who have deposited their shares in time in accordance with the Articles of Incorporation. The Executive Board makes it easier for the shareholders to exercise their voting rights by offering them the right to issue powers of attorney to proxies who are appointed by the Company and bound by directives.

In addition, it is also possible to issue powers of attorney to financial institutions, associations of shareholders and other third parties.

ACCOUNTING AND ANNUAL AUDIT

So far, IWKA Aktiengesellschaft's annual financial statement and the Group financial statements have been established in accordance with the provisions of the German Commercial Code. Auditing of the annual financial statement and the Group financial statements is carried out by an independent auditor. In the future the Audit Committee will undertake to examine the independence of the auditor, to issue the auditing assignment to him, to determine the auditing focuses and to agree on the fee.

CONTROL AND RISK MANAGEMENT

The Executive Board is responsible for the IWKA Group's internal controlling and risk management system. It has defined principles and internal guidelines in order to ensure accurate and timely accounting of all business transactions, to permit early identification of risks and constantly deliver reliable information about the Company's financial situation. With this system entrepreneurial risks are identified early on, so that there is the possibility of taking countermeasures designed to secure the achievement of business goals.

FINANCIAL REPORTING

The Company keeps its shareholders, the participants in the capital market and the media informed through regular, open and prompt reporting on the condition and material occurrences in the business of the company. This information is presented in particular via

- Quarterly reports,
- Annual Report,
- Press conference presenting the annual financial statements,
- Annual General Meeting,
- Ad-hoc releases under Article 15 WpHG (Securities Trading Act), releases under Article 15a WpHG (directors' dealings) and under Article 25 WpHG (disclosable shareholder share ownership),
- Press and analyst conferences,
- Conferences with financial analysts and investors in Germany and abroad and
- other publications.

All the information is published simultaneously on the Internet and is also available in the English language.

The dates of the regular financial reporting are published in the financial calendar, which is reflected on page 112 of this report and on the Internet at www.iwka.de.