

CORPORATE GOVERNANCE 2003

INTRODUCTION AND DECLARATION OF COMPLIANCE

It is the practice at IWKA Aktiengesellschaft to comply to the greatest extent possible with the principles set out in the Transparency and Disclosure Law and the Corporate Governance Code (CGC). This applies especially to the cooperation between the Executive Board and the Supervisory Board. For the IWKA Aktiengesellschaft, as the ultimate parent company of the IWKA Group, German law is 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. The Company used the regulations of the Corporate Governance Code to once again improve the communication between the Company Boards and to further expand the risk management system. We firmly believe that good Corporate Governance is not just a question of mere compliance with the wording of the law but also that the spirit of the regulations be observed.

The first declarations of compliance of the Executive Board and the Supervisory Board, relating to financial year 2002, are dated December 13, 2002 (Supervisory Board) and December 16, 2002 (Executive Board). The combined declarations of compliance have been available for inspection by any interested party since December 18, 2002 on the Company's home page at www.iwka.de. Two instances of non-compliance with the compulsory provisions were disclosed in the declarations. The Government Commission approved further changes to the CGC on May 21, 2003. These were published in the July 4, 2003 electronic edition of the Bundesanzeiger (Federal Gazette). Immediately before this publication and immediately before the start of the Annual General Meeting of the Company on July 4, 2003, the Executive and Supervisory Boards submitted identical declarations for the financial year 2003. The combined declarations were made available for inspection on the Company's home page at www.iwka.de immediately after the Annual General Meeting. These declarations were made on the basis of the applicable provisions of the CGC in force at the end of 2002, and as both non-compliance exceptions were still outstanding, no changes were to be noted for the past and the future.

The Executive Board on April 15, 2004 and the Supervisory Board on April 16, 2004 submitted identical declarations of compliance for the financial year 2004 in accordance with the German Corporate Governance Code as amended on May 21, 2003. They read as follows:

- IWKA Aktiengesellschaft has complied with and continues to comply with the recommendations of the Government Commission on the German Corporate Governance Code dated May 21, 2003, which were published in the July 4, 2003 electronic edition of the Bundesanzeiger, subject to the following:
- Information on the compensation of the members of the Executive Board is not disclosed individually in the notes to the Group annual financial statements (Section 4.2.4, sentence 2 CGC); the compensation of the members of the Supervisory Board is not disclosed individually and is not subdivided according to components (Section 5.4.5, paragraph 3 CGC).
- The Group annual financial statements and interim reports were and continue to be prepared in accordance with the still governing provisions of the German Commercial Code (Section 7.1.1 CGC).
- The Group annual financial statements were and are not made available to the public within 90 days after the end of the financial year (Section 7.1.2 CGC).

IWKA will comply with the provisions of the latest version of the CGC, dated May 21, 2003, to the extent that it incorporates provisions relating to advising on and reviewing the compensation system for the Executive Board by the Supervisory Board plenary session, publications on the internet, explanatory comments in the financial report and information regarding the Annual General Meeting.

IWKA Aktiengesellschaft follows most of the Code's suggestions.

The reasons for non-compliance with the compulsory provisions of the CGC are given below:

Concerning the information in the notes to the Group annual financial statements with regard to the compensation of the Executive Board, the Company has complied with the provisions applicable to date relating to the classification of compensation between fixed and performance-related components (Section 4.2.4, sentence 1 CGC). We see no benefit in disclosing individual figures that would outweigh the disadvantages caused by the disclosure. The same applies to the compensation of the members of the Supervisory Board, the structure of which is governed by Article 17 of the Articles of Incorporation.

Accounting standards: We do not underestimate the need to prepare annual financial statements and interim reports in accordance with internationally accepted regulations in order to achieve transparency and comparability.

We also welcome efforts to harmonize the regulations applicable in the preparation of annual financial statements between IFRS/IAS and US-GAAP, so that transparency and comparability are not compromised anew. However, in so doing, one must not lose sight of the fact that the national laws currently in force must take precedence for each company. The regulations of the German Accounting Standards Committee (GASC), with which publicly listed companies must comply, have also resulted in the harmonization of German accounting standards with international standards. Furthermore, the Company has right now also made extensive preparations and prepared trial balance sheets in order to be able to prepare the Group financial statements in accordance with IFRS/IAS at the latest as of December 31, 2005.

90-day period: IWKA Aktiengesellschaft's annual financial statements and the Group's annual 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 approved by the Supervisory Board, are made public on the following business day. The 90-day period (Section 7.1.2 CGC) is therefore only marginally exceeded.

The combined declarations have been available for inspection by any interested party since April 19, 2004 on the Company's home page at www.iwka.de.

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

MANAGEMENT AND COMPANY STRUCTURE

IWKA Aktiengesellschaft, headquartered in Karlsruhe, is the ultimate parent company of the IWKA Group and has 93 consolidated companies. The management principle is one of decentralization. Individual companies are combined under one management company where required to do so by the market. There are seven management companies at present. The operating units act as legally independent companies; each company is responsible for its own business and consequently for its results. For the purpose of enforcing Company policy, the Group companies are in almost all cases wholly-owned by IWKA Aktiengesellschaft, either directly or indirectly through a management company. While the Group companies operate independently with regard to the day-to-day business, any significant business transaction requires prior approval from the management company and IWKA Aktiengesellschaft. For this purpose the Articles of Incorporation of the Group companies require that such approval be obtained. In addition, all management companies and material individual companies hold shareholder meetings at least three times a year. Furthermore, the Executive Board of IWKA Aktiengesellschaft also maintains regular close contact outside the shareholder meetings with the management of both the management

companies and all significant individual companies in order to be able to make decisions on pending issues quickly and in an unbureaucratic manner. This management structure enables the existing synergies of the Group to be both identified and exploited. Finally, IWKA Aktiengesellschaft supports the activities of the Group companies in individual areas through the provision of short-term and long-term financing, engagements and guarantees as well as consulting services. The Group companies benefit from IWKA Aktiengesellschaft's access to capital markets as well as from its management. These advantages would normally not be available to these companies, which are essentially all structured as medium-sized businesses.

EXECUTIVE BOARD

To fulfil its duties, the Executive Board of IWKA Aktiengesellschaft has had four Executive Board members since January 1, 2004, all with functional responsibility. Their individual duties are defined in an organization chart. The most important are as follows: the Chairman is responsible for strategy, senior management and legal matters, and the other Executive Board members are responsible for controlling and planning, for financing and investor relations, and for technology and markets, including the human resources function. During 2003, the Executive Board comprised three Executive Board members, which resulted in particular in the controlling function being under the temporary responsibility of the Chairman of the Executive Board. As a rule, the Executive Board members meet at least every fourteen days, and they also keep in close contact at other times. Here too the governing principle is to make decisions in line with business requirements, in order, when necessary, to act quickly and unbureaucratically. The Executive Board ensures that there are no conflicts of interest (Section 4.3 CGC). The emoluments of the Executive Board consist of fixed and variable components. The compensation system for the Executive Board consists of a monthly cash emolument as well as a cash bonus based on the Group profit and the dividend. In financial 2003, 42.14 percent of the compensation was paid out in fixed monthly amounts and 57.86 percent variable granted in the form of a performance-related bonus; the bonus is payable after the Annual General Meeting, at which the annual financial statements of the Company and the Group are presented.

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 year term of office. The Supervisory Board was elected at the Annual General Meeting on July 4, 2003 for a term of office that expires at the end of the Annual General Meeting and that takes place in 2008. 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 on managing the business. The Executive Board keeps the Supervisory Board fully informed on a timely basis and – where required – in writing. At the end of each quarter, the Supervisory Board is informed in writing by the Executive Board of the performance of the Divisions and the Group as a whole, as well as the forecast for the remainder of the year. In addition, there were regular meetings between the Chairman of the Supervisory Board and the Chairman of the Executive Board as well as the other members of the Executive Board, during which significant business events relating to Group companies and to the Group itself as well issues pertaining to the Group's performance and financing were discussed in depth. Four meetings dealing with strategic issues were held during the course of the year between the Chairman of the Supervisory Board and all members of the Executive Board. As in past years, the Chairman of the Supervisory Board has shown an exceptional commitment to the interests of the Company and the IWKA Group. On April 16, 2004, the Supervisory Board approved new Rules of Procedure that govern not only the rights and duties of the members of the Supervisory Board in relationship to each other, but also in their relationship with the Executive Board. In particular,

the Rules of Procedure include a list of business transactions, for which the Executive Board requires the prior approval of the Supervisory Board. This will further strengthen the already close communication between the Executive and Supervisory Boards. The Supervisory Board ensures that there are no conflicts of interest (Section 5.5 CGC). Following the Supervisory Board elections, the Supervisory Board again formed three committees from among its members; the Personnel Committee, the Committee in accordance with Article 27 (3) MitbestG (German Act on Company Co-Determination) and the Audit Committee. The same persons serve on each of these committees. In particular, the Personnel Committee decides on the content of the Executive Board member employment contracts and submits proposals regarding the appointment of Executive Board members by the Supervisory Board. The Committee formed in accordance with Section 27 (3) MitbestG presents proposals to the Supervisory Board with respect to the appointment of members of the Executive Board in the event that the required two-thirds majority of votes by members of the Supervisory Board is not reached in the first round of voting. This Committee has not yet had to convene. The Audit Committee is particularly responsible for carrying out the duties defined in Section 5.3.2 CGC. If necessary, the Chairman of the Supervisory Board is briefed by the auditors on the status of their audit work prior to Supervisory Board meetings. In carrying out the above activities the Supervisory Board regularly examines the efficiency of his activities (Section 5.6 CGC). In accordance with Article 17 of the Articles of Incorporation the Supervisory Board receives fixed and variable cash emoluments; the latter is based on the amount of the dividend. Additional information regarding the compensation of the Executive Board and the Supervisory Board is shown in the notes to this annual report on page 100.

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

To date, the annual financial statements of IWKA Aktiengesellschaft and the Group annual financial statements have been established in accordance with the provisions of the German Commercial Code. Auditing of both sets of annual financial statements is carried out by an independent auditor. The review of the independence of the auditor, the issue of the auditing assignment to him, the determination of audit focuses and the agreement on the fee are undertaken by the Audit Committee in accordance with the provisions of the Corporate Governance Code.

CONTROL AND RISK MANAGEMENT

The Executive Board is responsible for the internal control and risk management systems of the IWKA Group. It has defined principles and internal guidelines to be applied to ensure the accurate and timely recording of all business transactions, to permit early recognition of risks and to constantly deliver reliable information about the Company's financial position. Business risks can thus be identified at an early stage, allowing countermeasures to be implemented to ensure that achievement of the business goals is secured.

FINANCIAL REPORTING

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

- Quarterly reports,
- Annual Report,
- Press conferences 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 Article 25 WpHG (disclosable shareholder share ownership),
- Press and analyst conferences,
- Meetings with financial analysts and investors in Germany and abroad and
- other publications.

All such information is simultaneously published on the Internet and is also available in English. All regular financial reporting dates are published in the Company's financial calendar, which can be found on page 116 of this report and on the Internet at www.iwka.de.