

CORPORATE GOVERNANCE 2004

INTRODUCTION AND DECLARATION OF COMPLIANCE

It is the regular practice at IWKA Aktiengesellschaft, as a matter of principle, to comply 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.

DECLARATION OF COMPLIANCE

The declarations of compliance of the Executive Board and the Supervisory Board were issued for the first time in December 2002 and have subsequently been issued every financial year. They have been available to any interested party on the Company's home page at www.iwka.de. The Executive Board on April 14, 2005 and the Supervisory Board on April 15, 2005 submitted identical declarations of compliance for the financial year 2005 in accordance with Article 161 of the AktG (German Corporation Act) and 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 exceptions:

- Information on compensation is disclosed individually in the notes to the financial statements with regard to the Chairman of the Executive Board but not with regard to the other members of the Executive Board, for whom the information is subdivided into fixed and performance-related components (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 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 Aktiengesellschaft, in their material respects, also adheres to the recommendations contained in the Code.

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 and of the Supervisory Board, the Company has complied and is complying with the provisions relating to the classification of compensation between fixed and performance-related components (Sections 4.2.4, sentence 1 and 5.4.5, paragraph 3, sentence 1 CGC). By disclosing individual figures for the compensation of the Chairman of the Executive Board, the Company is also complying with this aspect of the CGC standards. In accordance with Section 4.3.2 CGC, the Chairman of the Supervisory Board informed the Annual General Meeting on July 9, 2004 about the main features of the compensation system.

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 having been approved by the Supervisory Board, they are made public on the following business day. The 90-day period (Section 7.1.2 CGC) is therefore marginally exceeded.

The combined declarations have been available for inspection by any interested party since April 18, 2005 on the Company's home page at www.iwka.de.

MANAGEMENT AND COMPANY STRUCTURE

In the spirit of good corporate governance and following the changed demands of the market as well as our customers and the financial markets, we have continued the sustained development of our focus on core business segments, which we had already initiated in 2003 and continued in 2004. IWKA Aktiengesellschaft, headquartered in Karlsruhe, is the ultimate parent company of the IWKA Group. In mid-2004, it consolidated its business activities into three new core business segments and has continued to develop them since then. They are:

- Automotive Technology
- Packaging Technology
- Robot Technology

The Automotive Technology Division, which supplies equipment and machinery to the automobile industry, is subdivided into the car body and powertrain areas. A total of 57 consolidated companies are grouped under these Divisions.

The operating units continue also under the new concept to act as legally independent companies; each company is responsible for its own business and consequently for its results. Certain transactions are subject to a right of prior approval, which applies to the individual company as well as ultimately also to IWKA Aktiengesellschaft. Such right is derived from the rights of prior approval that the Supervisory Board has set forth vis-à-vis the Executive Board in the rules of procedure for the Supervisory Board. For all significant companies, at least three management meetings are held in each calendar year. Furthermore, the Executive Board of IWKA Aktiengesellschaft also maintains regular close contact with the directors of all significant companies outside of the management meetings and shareholder meetings.

The new structure of the Group makes it possible to take advantage of existing synergies within the Group more effectively than before. As before, IWKA Aktiengesellschaft backs up this concept vis-à-vis the Group companies 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 the capital market as well as from its management. We are convinced that the new Group structure will enhance efficiency, transparency, earning power and acceptance on the part of our business partners and the financial markets, as well as synergy effects within the IWKA Group.

As previously reported on several occasions, the former Process Technology Division is no longer part of our core competencies. In the interim, we have sold significant parts of the groups of companies that belonged to this Division. We will continue to proceed consistently along this path in order to transfer the remaining third into competent hands.

EXECUTIVE BOARD

When deciding on the new Group structure in mid-2004, the Executive Board also adopted operating responsibilities for itself: The Chairman of the Executive Board is responsible for the car body business area of the Automotive Technology Division as well as the Robot Technology Division; the member of the Executive Board for Controlling is responsible for the powertrain business area of the Automotive Technology Division; the member of the Executive Board for Finance is responsible for the companies in the former Process Technology Division and the member of the Executive Board for Technology is responsible for the Packaging Technology Division. The functional responsibilities of the four members of the Executive Board are unchanged from the prior year. In line with the organization chart, major responsibilities of the Chairman of the Executive Board include strategy, senior management and legal affairs. One member each of the

Executive Board is responsible for controlling, internal audit and corporate planning, for finance and investor relations, and for technology, including the human resources function.

In December 2004/January 2005, the Executive Board adopted new Rules of Procedure in particular to accommodate the new organization and the Rules of Procedure of the Supervisory Board as changed in 2004.

As a rule, the Executive Board members meet at least every fourteen days, and they also keep in close contact at other times. The Executive Board ensures that conflicts of interest are avoided (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 2004, 50.4 percent of the compensation are fixed and 49.6 percent are variable and were 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. The nature and amounts of the emoluments are performance-oriented and competitive. The compensation of the Chairman of the Executive Board is disclosed in the notes to the 2004 Group Annual Financial Statements.

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 that runs through to 2008. 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 - does so 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 talks 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 such talks significant business events relating to Group companies and to the Group itself as well as issues pertaining to the Group's performance and financing were discussed in depth. One meeting also dealt with strategic issues 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 a special commitment to the interests of the Company and the IWKA Group. The Supervisory Board ensures that conflicts of interest are avoided (Section 5.5 CGC). The Supervisory Board has 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 Chairman of the Supervisory Board is briefed by the auditor on the status of his audit work prior to Supervisory Board meetings. In addition, it has been agreed with the auditor that he will immediately report to the Supervisory Board any material findings or events that arise in the course of the audit (Section 7.2.3 CGC). At its meeting in December 2004, in particular, the Supervisory Board reviewed the efficiency of its 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 are 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 105.

ANNUAL GENERAL MEETING

The Annual General Meeting this year will take place on June 3, 2005. In this manner, the company responds to the demand of the financial markets to close out the past financial year by presentation to the Annual General Meeting at an earlier date than previously.

Each share has one vote. Unit shares are distributed and global certificates issued. The shares are issued to bearer. The Executive Board makes it easier for shareholders to exercise their voting rights in the Annual General Meeting by offering them the right to issue powers of attorney to proxies who are appointed by the Company and are bound by directives of the shareholder. Shareholders present at the Annual General Meeting will also be able to reach the proxies appointed by the company at that meeting. It is also possible to issue powers of attorney to financial institutions, shareholder associations and other third parties. The report of the Chairman of the Executive Board will be available on the internet immediately after having been delivered.

ACCOUNTING AND ANNUAL AUDIT

The 2004 Annual Financial Statements have been prepared for the first time according to the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS). Thus they comply with the demands that are made on the Annual Financial Statements of publicly listed companies. The audit of the Annual Financial Statements and of the Group Annual Financial Statements is performed by an independent auditor. The review of the independence of the auditor, the issuing of the audit 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 responsible for the internal control and risk management systems of IWKA Group has continued to enhance and expand these tools and instruments in 2004.

FINANCIAL REPORTING

The company informs its shareholders, the participants in the capital markets and the media about the condition as well as material business events of the company especially through quarterly reports, the Annual Report, the press conference presenting the annual financial statements, the Annual General Meeting, ad-hoc releases under Article 15 WpHG (German Securities Trading Act), releases under Article 15 a WpHG (director's dealings) and Article 25 WpHG (disclosable shareholder share ownership), press and analyst conferences, meetings with financial analysts and investors in Germany and abroad as well as 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 145 of this Annual Report and on the internet at www.iwka.de.