

## CORPORATE GOVERNANCE

It is the regular practice at IWKA Aktiengesellschaft to comply with the principles set out in the Transparency and Disclosure Law and the Corporate Governance Code (CGC) as most recently amended. Moreover, compliance with these provisions is continuously monitored and intensified. This applies to the cooperation between the Executive Board and the Supervisory Board as well.

### DECLARATION OF COMPLIANCE

The declarations of compliance of the Executive Board and the Supervisory Board, which have been issued for every financial year starting in December 2002, have in each case been made available for inspection by any interested party on the Company's website at [www.iwka.de](http://www.iwka.de).

The Executive Board on February 22, 2006 and the Supervisory Board on March 8, 2006 submitted identical declarations of compliance for the financial year 2006 in accordance with Article 161 of the AktG (German Corporation Act) and the German Corporate Governance Code as amended on June 2, 2005. 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 June 2, 2005, which was published in the July 12, 2005 electronic edition of the Bundesanzeiger, subject to the following exception:

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). In contrast, emoluments of the Members of the Supervisory Board are disclosed individually in the Corporate Governance Report and are broken down into components (Section 5.4.7, paragraph 3 sentence 1 CGC).

The company now also adheres to the provisions of Section 7.1.2, 1st part of sentence 3 CGC (public availability of the Group financial statements within 90 days of the end of the financial year).

Moreover, IWKA adheres to nearly all proposals contained in the code."

As of March 24, 2006, the combined declarations of the Executive Board and the Supervisory Board have been available to all interested parties on the company's website at [www.iwka.de](http://www.iwka.de).

Because of numerous changes on the Executive Board of the Company, individual disclosure of the compensation of Executive Board Members was not expedient. After the realignment of the Executive Board, disclosures for the 2006 financial year will comply with the requirements of the Corporate Governance Code and the statutory provisions regarding the disclosure of Executive Board Compensation in effect at that time.

### MANAGEMENT AND COMPANY STRUCTURE

In 2005, the realignment of the management and company structure of the IWKA Group was accompanied by major changes in the membership of the company's governing bodies.

In the 2005 financial year, the concentration on core business areas was consistently advanced by the disposal of various entities, including their subsidiaries and participations. The Executive Board and the Supervisory Board assume that it will be possible to bring this process to a conclusion in 2006.

IWKA Aktiengesellschaft, headquartered in Karlsruhe, is the ultimate parent company of the IWKA Group. Its core competencies are consolidated into the following business segments:

- Automotive
- Robotics
- Packaging

Under the direction of the new Chief Executive Officer Wolfgang-Dietrich Hein, the IWKA Group appears on the market under a new logo and a uniform corporate identity for all business segments. In this context, automation technology represents the main business priority. The divisions also operate under their new division logos.



International registrations of these trademarks have been filed.

The hands-on management of the IWKA Group by the IWKA Aktiengesellschaft as a Management Holding Company takes on significantly greater weight and takes the place of the decentralized management principle that had previously been followed. The latter will only be continued to the extent that the business units operations will act as independent legal entities, being responsible for their business and hence also for their results. Controlling the realization of targeted objectives will play a significantly greater role than in the past. Thus Group Management plans to generate added value, for instance in the areas of project and risk management, through distinctive financial management, development of executive talent, brand strategies, strategic sourcing and the opening up of foreign markets.

For the divisions, the main goal is to achieve market leadership from a technical, quality and cost perspective, to create competitive global production systems and also to introduce lean management structures.

In light of this focus, the Supervisory Board resolved that as of April 1, 2006, there will be one additional Executive Board member for each of the three Divisions, who will be responsible for them, in addition to the CEO and an Executive Board member responsible for Finance and Controlling.

The changes described above have also been adopted due to the economically driven slump in capital spending by the automotive industry, which impacted the Automotive and Robotics divisions. The restructuring serves the goal of enhancing transparency at the IWKA Group, of promoting its growth and of regaining or increasing the profitability of the individual business segments. The results are aimed at promoting the convergence of enterprise value and IWKA Aktiengesellschaft's share price. This also accommodates the demands of the capital markets.

#### EXECUTIVE BOARD

The 2005 financial year saw major changes on the Executive Board: The previous Executive Board Chairman Hans Fahr left effective June 3, 2005, as did the previous CFO Hans Lampert – effective October 31, 2005 – and the previous Executive Board Member for Technology Prof. Gunther Reinhart – effective December 31, 2005. Wolfgang-Dietrich Hein was appointed as the new Chief Executive Officer effective September 1, 2005. The roles and responsibilities of the Executive Board are presently performed by CEO Wolfgang-Dietrich Hein and by Dieter Schäfer. In addition, the Supervisory Board has appointed Dr. Jürgen Koch, Gerhard Wiedemann and Bernd Liepert as full members of the Executive Board effective April 1, 2006. As of April 1, 2006, the Executive Board will thus have five members:

Wolfgang-Dietrich Hein, Chief Executive Officer, is responsible for strategic corporate development, investor relations, public relations, Group senior management and legal affairs, and also serves as Labor Director. Dr. Jürgen Koch is re-

sponsible for Finance and Controlling, Gerhard Wiedemann for the Automotive division, Bernd Liepert for the Robotics division and Dieter Schäfer for the Packaging division.

As a rule, the Executive Board members convene at least every fourteen days, and they also keep in constant close contact at other times. The Executive Board ensures that conflicts of interest are avoided.

The emoluments of the Executive Board are composed of fixed and variable components. The fixed components (salary and guaranteed bonus) are paid monthly. The variable emoluments were determined by the result of the Group as well as the dividend and were payable after the Annual General Meeting at which the annual financial statements of the company and of the Group were presented. The nature and amounts of the emoluments are performance-oriented and competitive. Additional information about the emoluments of the Executive Board is found in the Notes to the Financial Statements for 2005 on page 126/127.

Executive Board emoluments have since been restructured. The main components are as follows:

Starting in 2006, Executive Board members will receive a fixed monthly allowance. In addition, there will be a variable component every year tied to the success of the business. This will be made up of three subcomponents of one-third each, which will be linked to the degree of achieving the budgeted EBIT, capital employed and cash flow targets. There will also be a performance curve (target over/under achievement). The variable component can range between zero and 200 percent. If the target is achieved, the variable component comprises approximately 40 to 50 percent of compensation including the fixed allowance. An additional component agreed to, which has longer-term appeal and is meant to reflect risk, is comprised of compensation in the form of phantom shares. These virtual shares include a dividend equivalent for the event that a dividend is paid to shareholders. The preliminary number of phantom shares is the allocated amount set by the Supervisory Board annually for phantom shares in euro divided by the initial value of IWKA shares. After a performance period of three years, EBIT minus the minimum interest rate of 11 percent (EVA) on capital employed by continuing operations is compared to the plan for this period. The preliminary number of phantom shares is multiplied by the resulting number. The number of phantom shares may at most double. They are paid out at the end of the three-year period, unless either party has given notice. Of the paid out amount for the phantom shares, 25 percent must be applied to the purchase of IWKA shares at the going market value until a total value that amounts to 50 percent of the respective board member's fixed annual allowance has been reached. The shares are locked in until the departure of the board member.

The following transactions in company shares by Executive Board members were reported to the company in the past financial year in accordance with § 15a WPHG: Hans Lampert purchased 500 shares on the open market on June 6, 2005 at a price of €19.24 per share, and an additional 700 shares on June 8, 2005 at a price of €19.14 per share.

#### 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 expires at the end of the 2008 Annual General Meeting that resolves on the discharge of the Supervisory Board Members for the 2007 financial year.

Differences with individual investors, which resulted in the Executive Board and Supervisory Board not being discharged during the Annual General Meeting on June 3, 2005, as well as the desire of individual investors for appropriate representation on the Supervisory Board induced the Shareholders' Representatives on the Supervisory Board to announce that they planned to resign their offices effective as of an Extraordinary General Meeting to be convened. These resignations took effect as of the end of the Extraordinary General Meeting on November 9, 2005, at which six new Shareholders' Representatives were elected by individual ballot. These are the following individuals:

- Dr. Rolf Bartke
- Dr. Reiner Beutel
- Dr. Herbert Demel
- Pepyn René Dinandt
- Dr.-Ing. Helmut Leube
- Dr. Herbert Meyer

To the extent that a member of the Supervisory Board was employed in a controlling position at an important business partner, transactions with the latter were subject to the terms and conditions as arms-length transactions. Whenever such transactions were deliberated in the Supervisory Board, the member concerned was neither present during the discussions, nor participated in the decision. The members of the Supervisory Board complied and continue to comply with the arms-length provisions outlined in section 5.4.2 CGC. Procedures continue to ensure that conflicts of interest are avoided (section 5.5 CGC).

At the meeting of the Supervisory Board immediately following the Extraordinary General Meeting on November 9, 2005, Dr. Bartke was elected Chairman of the Supervisory Board. The Extraordinary General Meeting had been informed that if elected to the Supervisory Board, Dr. Bartke planned to be a candidate for this office. Dr. Bartke also serves as Chairman of the Personnel Committee pursuant to § 27 subsection 3 MitbestG (German Act on Company Co-Determination) and Chairman of the Arbitration Committee pursuant to § 27 paragraph 3 German Act on Company Co-Determination; Dr. Meyer serves as the Chairman of the Audit Committee, with particular attention paid to the provisions of section 5.3.2 sentence 2 CGC.

This report indicates that in 2005, the Supervisory Board maintained very close communications within this body and also with the Executive Board. Thus the previous Supervisory Board held three ordinary meetings in the first half of 2005 and two ordinary meetings in the second half of 2005, as well as four additional extraordinary meetings. The new Supervisory Board met at its partly constituent meeting immediately following the Extraordinary General Meeting on November 9, 2005 and at its first ordinary meeting on December 9, 2005. The extraordinary meetings were occasioned especially by the looming changes in the automotive market and the associated deterioration of earnings, as well as Executive Board changes. Finally, a two-day introductory meeting for the new Shareholders' Representatives on the Supervisory Board was held in late 2005, at which the Executive Board presented detailed information about the IWKA Group and the new Supervisory Board members discussed the new corporate strategy of the Executive Board. In urgent cases, the Supervisory Board also adopted resolutions by written procedure. The approval requirements for certain Executive Board transactions – as stipulated in the rules of procedure for the Supervisory Board – were adhered to.

The Supervisory Board formed three Committees from among its members: the Personnel Committee, the Committee pursuant to § 27 (3) MitbestG and the Audit Committee.

The Chairman of the Supervisory Board is briefed by the auditors on the status of their work prior to Supervisory Board meetings. In addition, it has been agreed with the auditors that they will immediately report to the Supervisory Board any material findings or events that arise in the course of the audit and are material to the Supervisory Board task. It has also been agreed with the auditors that they will inform the Supervisory Board and/or note in the audit report any finding of facts during the performance of the audit, indicating that the declarations issued by the Executive Board and Supervisory Board with respect to the Code are in any way incorrect (Section 7.2.3 CGC).

As previously, the Supervisory Board will review the effectiveness of its activities once a year (Section 5.6 CGC), in future at its September meeting.

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.

The members of the Supervisory Board received the following fixed emoluments for the 2005 financial year in early 2006, and the following performance-oriented emoluments for the 2004 financial year in 2005:

○ Supervisory Board member	Fixed emolument in 2005 (in €)	Performance-oriented emoluments in 2005 for 2004 (in €)
Dr. Rolf Bartke	4,791.60	–
Reinhard Engel	28,297.80	117,590.00
Mirko Geiger	18,000.00	64,140.00
Dr. Reiner Beutel	1,742.40	–
Dr. Herbert Demel	871.20	–
Pepyn René Dinandt	871.20	–
Volker Doppelfeld	10,290.00	42,760.00
Prof. Jürgen Hubbert	5,145.00	21,380.00
Dr. Mathias Kammüller	5,145.00	21,380.00
Jürgen Kerner	6,000.00	21,380.00
Dr.-Ing. Helmut Leube	871.20	–
Dr. Herbert Meyer	2,178.00	–
Dipl.-Ing Herbert R. Meyer	6,000.00	21,380.00
Heinz-Jörg Platzek	5,145.00	21,380.00
Walter Prues	12,000.00	42,760.00
Fritz Seifert	6,000.00	21,380.00
Wilhelm Steinhart	6,000.00	21,380.00
Dipl.-Kfm. Christian L. Vontz	5,145.00	21,380.00

The Supervisory Board recommends to the Ordinary General Meeting on June 1, 2006 to amend the Articles of Incorporation by increasing the fixed component of emolument of the Supervisory Board in consideration of the substantially increased demands made on the members of the Supervisory Board in regard to matters and time. The dividend-related variable compensation is to be eliminated because such compensation systems have been criticized in the public domain as not being appropriate. It is intended that recommendations to be resolved on be made to an Ordinary General Meeting in the future regarding variable compensation as soon as reliable legal opinions regarding the permissibility of appropriate models for such variable compensation of the Supervisory Board are available.

Additional information about the emoluments of the Supervisory Board is found in the Notes to the Financial Statements for 2005 on page 126/127.

#### ANNUAL GENERAL MEETING

The Annual General Meeting this year will take place on June 1, 2006. The company will, in future, respond even more fully 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.

In anticipation of the Act on Corporate Integrity and the Modernization of the Right of Avoidance (UMAG) entering into force, the ordinary General Meeting on June 5, 2005 adopted provisional resolutions concerning changes to the Articles of Incorporation in order to accommodate the new provisions of the law.

The act has meanwhile been adopted and become effective. The Executive Board and the Supervisory Board used the authorities granted in the provisional resolutions and the Articles of Incorporation to adjust the provisional resolutions to the final text of the law. The amendment to the Articles of Incorporation has meanwhile become effective by registration in the commercial register on March 6, 2006.

Due to the resignation of the Shareholders' Representatives on the Supervisory Board, it became necessary to hold an Extraordinary General Meeting of Shareholders on November 9, 2005, at which successors to the Shareholders' Representatives were elected.

#### ACCOUNTING AND ANNUAL AUDIT

The IWKA Group has met the requirement of accounting in compliance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) starting with its 2004 financial statements. The audit of the Annual Financial Statements and 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 of the Supervisory Board in accordance with the provisions of the Corporate Governance Code.

#### CONTROL AND RISK MANAGEMENT

A detailed description of risk management at the IWKA Group is included in the risk management chapter of the Annual Report on pages 62 ff. In accordance with legal requirements, it is aimed at the early recognition of risks that could jeopardize the existence of the IWKA Group and its operating companies, in order to make it possible to take measures to minimize, transfer or avoid risk. The risk strategy and policy is guided particularly the business risks, financial risk, including currency risk, and the specific risks in the business segments – in each case from a short-, intermediate- and longer-term perspective.

In this context, controlling is an essential tool of efficient risk management.

#### 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 disclosures under Article 15 WpHG (German Securities Trading Act), releases under Article 15 a WpHG (directors' dealings) and Article 25 WpHG (shareholder share ownership mandatorily to be disclosed), analyst conferences, meetings with financial analysts and investors in Germany and abroad as well as other publications.

All such information is also available in English and is simultaneously published on the Internet. All regular financial reporting dates are published in the Company's financial calendar, which can be found on page 172 of the Annual Report and on the Internet at [www.iwka.de](http://www.iwka.de).