IWKA Aktiengesellschaft

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RISKMANAGEMENT 2003

The IWKA Group conducts business around the globe and participates in a number of sectors, which expose it to risks resulting from statutory business practices. Risks that threaten the existence of the Group and its operating companies must be identified at an early date so that steps may be taken to mitigate them or avoid them altogether.

The risk management control cycle, composed of risk strategy and risk policies, is an integral part of our workflow and supports entrepreneurial decision-making. Risk management is made up of early risk identification, risk reporting, risk handling and internal auditing. It is supported by a systematic program of strategic planning, medium-term planning and budgeting, as well as monthly reporting and controlling. Risk management is part of an appropriate organizational process.

All consolidated companies are a direct part of the IWKA Group's risk management system, and all other firms in which we hold an interest are integrated through their management companies. To monitor strategic risks, we make use of early indicators that identify changes in our business environment. Emerging operative risks immediately trigger countermeasures at the relevant levels.

If certain thresholds are exceeded, a report is sent to the Group Executive Board. This ensures that we discern all material risks and initiate any measures that may be necessary. As part of our risk management system, controlling is concentrated on the achievement of the budgeted financial targets that are agreed upon in the course of the planning process. Internal auditing provides for regular assessment of the risk management system concerning functional viability and efficacy. In the case of key business risks arising from claims or liability-related risk, IWKA Aktiengesellschaft intervenes to transfer the risks to insurance companies, thus avoiding any threat to the existence of the Company.

RISKS OF FUTURE DEVELOPMENTS

The IWKA Group is exposed to the typical risks associated with the mechanical engineering and line building business that could have a bearing, not only on the net assets, financial position and earnings situation of individual companies, but also those of the entire Group. These include, among other things, fluctuations in the economic cycle and demand, country risks, exchange rate fluctuations, financial and technological risks. Moreover, all our divisions face fierce international competition, resulting in increasing margin pressure.

We expect a certain recovery from the depressed economic cycle of the past few years in 2004. Alongside growth in demand however, there is evidence of deterioration in general tax conditions in Germany, which will create certain advantages for foreign competitors. It will be more difficult to raise capital, whereas the capital requirement will increase because of the higher amount of the refinancing required. There is evidence of more restrictive bank policies with respect to Financial Governance.

A particular risk for the Automation Technology and Manufacturing Technology Divisions is the increasing market power of carmakers and the resulting downward price pressure. Consolidations among customers are further aggravating the situation. Additional considerations include increased complexity and higher project order values, which lead to downloading risks to suppliers. Expansion into operations and maintenance models is associated with hidden risks related to the significant financing volumes that may be expected. Expansion of export activities leads to additional project and investment risks. Substitution risks particularly threaten the welding guns business area. Robot manufacturers are increasingly faced with the challenge of offering customer solutions which they are able to finance, despite the demand for a high degree of customization and the associated extensive development requirements.

Packaging Technology's high export share is strongly affected by the value of the US dollar. The American market represents slightly more than one-third of the worldwide demand for packaging machines. Continued weakness in the US market would therefore have a significant impact on the Pacunion Group's business. The risks and challenges associated with increased systems integration also apply to Packaging Technology.

In the Process Technology Division, measurement and control technology is impacted by decreasing domestic demand. The export business places a high market-driven demand on product and sales organizations. The automotive sector is challenging the metal bellows and expansion joint operations with increasing pressure on margins and higher development risks in the systems area.

A segment of this business area is the only part of the IWKA Group that is directly affected by the level of car sales achieved by carmakers.

Our diversified Group structure with mutually independent business divisions contributes significantly to reducing the Group's business risks as described above. The geographic distribution of our business expertise also has a stabilizing effect. Each business area is led by a management company that is charged with the task of minimizing business risks, identifying opportunities and exploiting them in ways that lead to higher profits. Integration and cooperation within and among the business units is a core component of this organizational structure. The negative impact of the economic downturn of the past few years was thereby reduced.

In order to reduce the risks in the value chain, we have implemented quality assurance systems and carry out certifications on a regular basis, in keeping with customer requirements. We meet technological challenges through ongoing development related to customer contracts and also by proactively taking our products to the next innovation stage. Our R&D expenditures amount to 2.6 percent, the level recommended by VDMA (German federation of the engineering industries). The actual cost of development is some five percent of sales when additional development costs associated with customer contracts are taken into account.

In response to the risks inherent in cost calculations for major projects, we intensively engage in decentralized project management and controlling, as well as central monitoring of important major projects. We consistently carry out concurrent contract job costing and are able to detect problems at an early stage, allowing us to implement necessary counteractions. The results of careful post calculations are included in subsequent quotation estimates and reduce the risk of error.

We mitigate interest and exchange risks in the operational businesses by utilizing derivative financial instruments that are customary in the market. IWKA Aktiengesellschaft primarily concludes such hedges centrally for the Group companies. The management and use of derivative financial instruments are regulated by internal guidelines and undergo continuous risk analysis. We address the economic risk associated with exchange rates (competitive risk) and strong fluctuation in the leading currencies by globally distributing the IWKA Group's production facilities (natural hedging).

We reduce the liquidity risk by closely monitoring the Group's companies and controlling the payment flows (receivables as well as working capital). The IWKA Group also has adequate lines of credits with banks and a balanced loan maturity structure, as well as a Commercial Paper program in the amount of € 200 million. In response to the more restrictive lending policies of the banks, we are working on expanding our non-bank financing possibilities over the midterm.