

RISKMANAGEMENT 2004

IWKA conducts business around the globe and participates in a number of market sectors, which exposes it to the statutory risks resulting from entrepreneurial business activities. Our goal is to identify risks at an early stage, especially those that threaten the existence of the Group and its operating companies, so that steps may be taken to mitigate them or avoid them altogether. Our risk policy is therefore aligned with our efforts to systematically and continually improve shareholder value and to achieve our short- and medium-term goals. The basic principle we follow in dealing with risk is that we knowingly accept clearly defined risks, as long as they are manageable and are unavoidable in our efforts to benefit from potential profits.

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 and risk management, which is supplemented by internal auditing. Risk management is supported by strategic planning, medium-range planning, budgeting, as well as monthly reporting and controlling. Risk management is part of an effective operational process and organizational structure. Risk management within the consolidated companies is reviewed every year in conjunction with the annual audit. To make certain that risk is managed in a uniform and appropriate manner and is in the best interests of the Group, IWKA has established guidelines and provides proper training and controlling programs to ensure that they are followed. Risks are identified by the so-called "risk owners" within the divisions and listed in a summary report.

A comprehensive and regularly conducted reporting process is used to achieve the necessary transparency and ensure timely implementation of countermeasures. This reporting process requires that the Group's companies report on risk developments, the probability that these events will occur and the level of possible damage if they do, in accordance with graded threshold values and aligned with the Group's hierarchical structure. We also monitor early indicators that signal possible changes in general conditions. Emerging operative risks immediately trigger the implementation of countermeasures at the relevant levels. If certain thresholds are exceeded, a report is sent to the Executive Board. All significant 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. This ensures that we identify and manage all material risks, and that IWKA Aktiengesellschaft's Executive and Supervisory Boards are appropriately informed.

Our controllers assign the highest priority to the achievement of budgeted targets, which is an integral element of our risk management system. The internal audit is involved in the regular assessment of the risk management system. IWKA Aktiengesellschaft intervenes to transfer key business risks arising from claims or liability related risks to insurance companies.

BUSINESS RISKS

IWKA Aktiengesellschaft is exposed to the typical risks associated with the mechanical engineering and systems business, which can significantly impact the net worth, financial and earnings positions of individual operating companies or those of the entire Group. In addition to general developments in the economic cycle, which affect the investment plans of our regular customers, we are also exposed to country risks, exchange-rate fluctuations, financial and technical risks. In 2004, the risk of substantial price increases in the

raw materials that IWKA needs and purchases around the globe rose sharply. In 2004, we continued to implement our ongoing cost-cutting and efficiency improvement programs to address business-related pressures, including those associated with general economic conditions. We defined further tasks over and above these programs and integrated them into a new, groupwide program so that we will be able to better manage both external and internal influences in the future.

Reducing the number of divisions in the company from four to three also contributed significantly to reducing the Group's business risks. Each division is led by a management company that is charged with the task of minimizing divisional business risks, identifying opportunities and exploiting them in ways that lead to higher profits. A key element is the integration and cooperation within and between divisions. Our companies manage the risks inherent in cost calculations for major projects through rigorous project management and controlling. IWKA Aktiengesellschaft also uses a major project reporting system to monitor large 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 flow into subsequent quotation estimates. In order to manage and reduce the risks in the value chain, the company employs quality assurance systems and regularly certifies suppliers in keeping with customer requirements. Technological advances are addressed through refinements related to customer orders and proactive in-house product innovation programs. The process is centrally managed on an ongoing basis as part of the FORinnovation program. Our R&D expenditures amount to 2.5 percent, the overall level of the VDMA (Federation of the engineering industries). The actual cost of development is about five percent of sales when additional development costs associated with customer orders are taken into account.

FINANCIAL RISKS/EXCHANGE RATE RISKS

IWKA Aktiengesellschaft manages and mitigates the risks associated with groupwide credit, liquidity, interest and exchange risks. Risks associated with the operational side of the business are managed using derivative financial instruments that are customary in the market. Derivatives are only traded and used in conjunction with core business operations, are regulated by internal guidelines and undergo continuous risk monitoring. We address the business risk associated with the volatility of leading currencies and the resulting exchange risk (competitive risk) by globally distributing the IWKA Group's production facilities so that we have both domestic and international locations, which gives us a type of "natural hedging". We reduce the overall liquidity risk by closely monitoring the Group's companies and controlling the payment flows (receivables as well as working capital management). IWKA Aktiengesellschaft also has adequate lines of credit with banks and a balanced loan maturity structure, as well as a commercial paper program in the amount of € 200 million.

INFORMATION SECURITY

IWKA continuously analyzes its information technologies so that it is able to model existing and future business processes within the IWKA Group through the application of a modern IT architecture, while at the same time achieving the maximum possible level of security. There is also a growing risk associated with the increasing tendency of the Group's companies and its customers, suppliers and other business partners to interact through integrated IT-supported business processes. Existing programs related to information security are continually enhanced to appropriately address these risks.

MARKET RISKS

Because its structure is diverse, IWKA is exposed to a variety of risks. A significant risk for each of our companies is the cyclic nature of the economy, which is reflected in the demand fluctuations in the various market sectors.

In the Automotive Technology Division and also partially in the Robot Technology Division, we consider ourselves particularly exposed to the market conditions in the automotive industry, which is being subjected to increasing price

pressure. In addition, we are experiencing increasing complexity and significantly higher project values, which result in further risks being transferred to suppliers. Included in these new operational models are our expanded turnkey build and operate and maintenance businesses. In order to manage these risks, which result from the prevailing market strength of the carmakers, our Robot Technology Division in particular is striving to expand its activities in the non-automotive sector. Last but not least, there is a credit risk associated with purchasers in the automotive sector.

We are also experiencing increasing competitive pressure in the Packaging Technology Division, where cost pressures on suppliers are rising steadily. The ongoing rationalization among purchasers is leading to overcapacities for packaging machinery. On the other hand, there is the rising importance of packaging as a communications tool in the consumer goods industry, which is leading to an increase in the diversity of packaging methods. This has resulted in a corresponding increase in machine complexity and is a clear opportunity for the Packaging Technology Division to make use of the in-house expertise surrounding the application of the versatile automaton, the robot. Here too, the risks and opportunities associated with expansion into systems integration must increasingly be taken into account. The market in the United States accounts for over one-third of the global packaging market, and because the us share is so large, the overall market is primarily driven by the value of the us dollar. Continued weakness in the American market could therefore have a significant impact on a Packaging Technology Division's business.

The Balg- und Kompensatoren business unit, which is part of the non-core businesses, is being increasingly subjected to falling margins and development risks driven by its automotive sector business. A portion of this business area's profits is directly dependent on how successful carmakers are in selling certain models of their vehicles. The turning machines business unit, which is also part of the non-core businesses and also primarily active in the automotive market, is increasingly pursuing a niche strategy in order to reduce the strong influence of the automotive sector.

RISKS OF FUTURE DEVELOPMENTS/SUMMARY

Looking at the risks from an overall perspective, it is clear that the iwka Group is primarily exposed to market risks. In particular, this includes the business cycle and the dependence on important major customers in the automotive and consumer sectors. Risks resulting from value-added processes are controlled by our risk management system and their potential negative impact is therefore limited. In summary, there are risks associated with high raw material prices, continued margin pressures and the strong euro, which the board is addressing by implementing numerous programs that aim to improve performance and cut costs. The iwka Group risks are manageable and transparent and as far as we are able to determine currently, do not threaten the ongoing existence of the company. Neither do we see any risks that threaten the company's future.