



**Annual General Meeting of IWKA Aktiengesellschaft**

**July 9, 2004  
Stadthalle Karlsruhe**

**Presentation by  
Hans Fahr  
Chairman of the Executive Board  
IWKA Aktiengesellschaft**

**The spoken word shall prevail!**

Honored shareholders,  
Distinguished guests,  
Ladies and gentlemen,

***"Only those who are flexible can accomplish much!"***

I would again like to make this guiding IWKA principle the theme of my presentation for the 2004 Annual General Meeting. I want to demonstrate to you that we live this principle at IWKA. We did it during the past fiscal year and will continue to do so in the future!

On this note and in the name of my fellow board members, I welcome you to this year's Annual General Meeting of IWKA Aktiengesellschaft. We are very pleased that you took time to come to Karlsruhe, and I can see that there is a great deal of interest in our company when I look at this impressive assembly. You have demonstrated your genuine interest in IWKA Aktiengesellschaft by participating, and we are very grateful. I also want to thank the media for attending.

IWKA can look back on successful growth - not only last year. I would like to illustrate this using our core objectives as a guide.

**First topic: continuous improvement of our earnings power**

Although our sales remained relatively constant during the difficult economic climate between 2000 and 2003, growing 3 percent, our EBITA (earnings before interest, taxes, amortization) grew 46 percent during the same period of time. We achieved this exclusively through internal growth! Comparable companies had to reduce their targets during the same timeframe.

The EBITA to sales ratio improved during the same period to produce an operating rate of return that grew from 3.1 percent in 2000 to 4.4 percent in 2003.

**Second topic: continuous improvement in the return on capital employed (ROCE)**

By strengthening our operative earnings power and through disciplined management of working capital, we were able to steadily reduce the level of bound capital.

The return on capital employed rose from 6.1 percent in 2000 to 11 percent in 2003. In other words, it almost doubled. Capital employed during the same period fell by 11.5 percent while business volume remained steady.

**Third topic: continuous debt reduction**

Since 1999, the year we had the highest debt, the Group's net liabilities declined steadily, from EUR 432 to EUR 225 million. Our frugal use of capital led to positive free cash flow every year, which enabled us to reduce net liabilities from 1999 to 2003 by 48 percent.

Our gearing (debt capital compared to equity) improved by 86 percent during the same period and is now under 60 percent.

**Fourth topic: our share price has out-performed the DAX and MDAX for years**

IWKA's successful business policies over the last few years are also clearly reflected in the higher share price. Although IWKA was unable to completely isolate itself from the general trend, in principle the stock has outperformed the comparative indices every year since 2001. This trend continues during the current business year.

The share price performance compared to the DAX and MDAX is clearly not merely a result of the participation of a few individual investors, as some have stated. It had already started in 2001.

**Fifth topic: our dividend and dividend yield**

For years, IWKA has distinguished itself by paying a steady dividend and offering a high dividend yield - even in times of weak economy. IWKA has therefore been an attractive investment for our shareholders.

**All these things clearly show that we have visibly and continuously improved our performance.** We applied the same principles in establishing our strategic direction for the future.

**The highlights of our 2003 business development are as follows:**

- + Significantly improved EBIT: up 10.5 percent
- + Earnings from ordinary activities: up 22.4 percent - even though order receipts and sales revenue were slightly lower than the year before
- + We were able to improve return on capital employed to 11 percent, a 1.4 percent increase.
- + This enabled us to cover our cost of capital
- + We were able to significantly cut our debt - by 9 percent; gearing improved by 6 percent
- + Although our net income was "only" EUR 23.4 million, we were able to amortize EUR 20.4 million in goodwill during the period. We retained about EUR 40 million in earnings - you can see it in our cash flow - which amounts to a net return of 1.7 percent of sales revenue or 11.3 percent of equity.

Many of our companies continued to grow successfully under the stewardship of IWKA Aktiengesellschaft. Once again, the numbers reflect our company's performance improvement.

The Automation Technology Division's particularly strong performance resulted in even higher operating profit. The success was by no means a given, but was earned through hard work. The market responded to the success of our welding systems and robotics businesses with significantly fiercer price competition.

Although the Manufacturing Technology Division's order receipts were hampered by weak demand related to the business cycle and were not as

high as the previous year, its operating result was maintained at roughly the same level as the previous year. This result was also achieved in the face of strong competitive pressure in the market.

In 2003, the Process Technology Division companies were able to achieve the turnaround and make a positive profit contribution. We delivered what I promised at the Annual General Meeting a year ago.

An unfavorable exchange rate and weak demand globally had the greatest impact on the Packaging Technology Division. This resulted in a marked drop in sales revenue in a number of the division's companies, which in turn led to significantly lower operating profits.

In order to secure our future and expand our leading market position, we directly invested about EUR 60 million, or 2.6 percent of sales revenue, for **research and development** in the Group during the last fiscal year.

These outlays are supplemented by research and development work stemming from customer orders. The overall expenditure for research and development is therefore considerably higher, totaling almost 5 percent. The focus remains on high-performance products, production processes, production systems and services. In 2003, IWKA companies introduced over fifty noteworthy product innovations to the market. My time limit only permits me to present one representative example from the Packaging Technology Division:

The importance of non-European **markets** is steadily increasing and the trend toward relocating production facilities continues. As a result, IWKA companies are systematically focusing their attention on important growth opportunities, in addition to the traditional European and North American markets. Asia - particularly China – is a market with significant potential. Many carmakers have entered into joint ventures with established Chinese factories. The local domestic automotive industry is also experiencing significant rates of growth. China is also becoming an increasingly attractive market for sourcing materials. Many of IWKA's companies have therefore intensified their activities in Asia and have signed up representatives or founded and expanded subsidiaries in China. IWKA

companies now have seven Chinese business locations from which they manufacture and sell their products, purchase components, train their customers and locally offer their service and engineering expertise. It is interesting to note that here the need for our plant engineering and assembly expertise is higher than the demand for our robots.

Honored shareholders,

The Executive Board of IWKA Aktiengesellschaft proposes that the net retained earnings be used to pay a dividend of EUR 0.66 per share, corresponding to a total distribution of EUR 17.6 million. A further EUR 13.9 million of IWKA Aktiengesellschaft's net income will be added to revenue reserves.

IWKA is one of the German stock market's strongest dividend payers, which alongside the Group's declining net debt, gets positive reviews from analysts and the trade press. Our course of action is always focused on the goal of **sustainably** improving IWKA's shareholder value. Total shareholder return is defined as the sum of share price appreciation and dividend payments. Over the past years, IWKA's total shareholder return has been positive. In the 3 1/2 years since 2001 it has averaged almost 18 percent annually.

IWKA enjoys the confidence of renowned analysts at numerous banking institutions. Eighteen analysts presently cover the stock. Thirteen of these recommend purchasing or overweighting our equity, four are advising investors to hold and one gives it an underweight rating. The number of one-on-one discussions with investors in the first half of 2004 as a result of rising interest in IWKA has increased by a factor of five over the previous year.

Honored shareholders, distinguished guests,

Please allow me a moment to state our position regarding the acquisition of IWKA shares by private investors or investment funds:

Each investor has an original objective when purchasing IWKA shares. Some are traders, looking for short-term gains from a rapid increase in the stock price, while others acquire their shares as part of a long-term

investment plan. I am sure it does not come as a surprise when I tell you that the Executive Board of a joint stock company is equally responsible for profit improvement and the long-term growth of the enterprise. In other words, we want to promote the consistent, profitable growth of our company. This means, for example, reinvesting sufficient earnings in research and development and making sufficient capital investments to enable us to secure our technological leadership for the benefit of our customers. **It can therefore not be in the company's best interests to focus exclusively on short-term results.**

I am sure that over the course of the day we will hear various opinions on this subject. Members of the Board of Directors have had detailed discussions with our shareholders over the past number of weeks and months. We take objective and reasoned arguments seriously and consider them in our strategy. It is just as clear, however, that we do not share the view that the Group should be largely split up. In our opinion, this would not be in the best interests of the majority of the shareholders. To focus strictly on "robots and a little automation technology" would mean breaking up IWKA. It would destroy the foundation on which we have built our present success. The growth of the IWKA Group originated in our line engineering and assembly business - robots were added later. Our strength lies in systems integration, systems engineering and assembly. We would be exposed to countless risks if we were to restrict ourselves to robot manufacturing.

Just ask our customers! They need - and increasingly demand - a stable partner. We have an obligation to our most important and loyal customers. They confirm our chosen direction. Anyone who gambles with these strong customer relationships is placing the company at risk!

**What this means**, dear shareholders, **is that we must also invest in areas where steady profits do not yet appear to be guaranteed.** As I already emphasized when I stood here last year, we will maintain a flexible strategy and if necessary, quickly adapt to new market conditions. During the course of 2003, for example, we stepped up our focus on the core competencies that will secure a profitable future for the company.

What is the IWKA Group's mandate?

1. IWKA is a systems integrator. We are capable of integrating our machinery and systems to supply and install entire sections of a manufacturing line. This is precisely what customers demand and value. We have solutions expertise in this area. If our customers so desire, we will also operate the system on their behalf. This will enable us to establish a global network - systems integration.
2. We focus on the markets of the automotive sector, particularly on the areas of car body and power train manufacturing, as well as on the consumer goods packaging market.
3. Our Group enjoys technological leadership in robotics technology. In this area, we have the expertise and strength to expand our portfolio of robotics products and even to create new markets.
4. Our corporate objectives are continuous growth and profit improvement and to secure the long-term future of the company by satisfying our customers.

This mandate now leads us to **repositioning our company**. In order to better serve our customers, we will focus even more clearly than to date on our core markets. This new group structure **no longer** has four pillars consisting of the Automation Technology, Manufacturing Technology, Process Technology and Packaging Technology Divisions. Instead, the structure will consist of three lean business units that mutually complement and inspire one another. Our structure has three elements:

**Robot technology - automotive technology - packaging technology**

1. Robotics is the new IWKA's core technology. The Group's foundation will be robot technology. Divisions that are able to apply robot technology will be built on this foundation. The Robot Technology Division supplies products and services to our Automotive Technology and Packaging Technology Divisions.

Robot Technology in return receives pertinent assignments from the application divisions.

2. The chassis manufacturing systems unit (KUKA Anlagenbau), together with the power train manufacturing systems unit, the most important part of today's Manufacturing Technology Division, will merge with the Automotive Technology Division. This division is presently already a heavy user of robot technology. This is where we will pool our comprehensive engineering and systems integration know-how for our major customers in the global automotive industry.
3. The Packaging Technology Division will use robotics more extensively. Our market position here is outstanding, and we will significantly strengthen this division's systems expertise. It is the only way we can satisfy increasing customer demand, which is now following what has long been reality in the automotive sector. Our pharmaceutical/cosmetics, foodstuffs and dairy customers are increasingly asking suppliers to deliver complete systems rather than stand-alone machines.
4. The Robot Technology Division will not work exclusively for the Automotive and Packaging Technology Divisions. Instead, it will be the basis of business activities with the remaining industries or for the development of new applications. There are no limits to the imagination when it comes to robotics. Of course, we will have a cost-conscious and targeted approach to applying robotics in new markets. Key concepts include robot applications in the low-temperature sector, in medical technology and logistics, as well as the wide world of entertainment. It is quite possible that completely new business sectors will emerge over the course of the next few years, which will be completely based on robot technology. So you see, IWKA can be expanded if the objectives are clear - our foundation is strong enough!

Let me now explain the genuine synergies we will have:

- Robot technology is already an important component of car body assembly systems and its significance in this area will even increase.
- Robot technology is currently becoming a key component of packaging systems. More and more packaging solutions are being built with the help of applied robotics. A significant part of our experience and expertise in building automotive plants will be applied to make our packaging technology solutions successful. Without a doubt, carmaking has a particularly high level of sophistication when it comes to automation technology. Similar solutions can also be applied to packaging processes. IWKA is probably the only company that participates in both markets and thus offers customers a unique value proposition, which we will actively market. We see no reason to decimate these strengths.
- KUKA Motion Control offers robot control systems; that is, software, which can be applied both in the automotive sector as well as packaging technology markets. KUKA Motion Control is presently already being used in 100 applications throughout the industry.
- Robotics is an advanced crossover technology that requires significant investment in research and development. We will accelerate development work in this division and increase the level of available R&D funding, as we will for other cross-divisional developments.

In addition to the items presented above, enhanced synergies in the areas of product-related services, field service or general contractor models will be generated among the IWKA divisions.

I would like to expressly highlight that the effect of these synergies among individual IWKA divisions is exactly opposite to that of any possible cross-subsidization!

Our **Automotive Technology Division** will stick to its objective of staying respectively becoming number one in its target markets. The division will grow in line with market growth, but it will also penetrate new market sectors. The main success factors will be:

- new technologies such as laser applications, dry machining, multi-spindle machine tools and clinching technology
- outstanding engineering expertise by globally networking our IWKA engineers; delving into and mastering end-to-end process chains and the digital factory
- expanding our systems expertise right up to taking general contractor responsibility

Our **Packaging Technology Division** is particularly serious about its role as one of IWKA's three supporting pillars in the international marketplace. Although the division's EBITA was 4 percent in 2002, in 2003 it lost ground because of the weak economy and an unfavorable exchange rate with respect to the dollar. The impact on sales and profits was still being felt in the first half of 2004. As you can imagine, I am not satisfied with this development; even more reason for the Group to clearly refocus its strategy and activities on profit improvement and growth, as it has now done. This division had grown through acquisitions and as a result had many different facets. Over the past few years, it has been restructured, simplified and made more market oriented. The Packaging Technology Division is now entering a second phase and has signed on to new objectives; these include:

- clearly focusing on the three market sectors  
pharmaceuticals/cosmetics, foodstuffs and dairy products
- differentiating itself from its competitors by offering customers technical innovations to their customers
- strengthening its systems capability and benefiting from the Automotive Technology Division's experience and methodology

Effective immediately, management responsibilities in the Pacunion management company have been aligned with the respective market segments. We have strengthened the management team. As of July 1<sup>st</sup>, two experienced gentlemen have been added to the Pacunion management organization.

IWKA's new structure takes effect immediately. It will be implemented in the segment reporting as of January 1, 2005. We are very serious about IWKA's new process, and the Executive Board has set itself clear goals and a tight schedule. In order to ensure quick implementation of the required changes, my fellow board colleagues and I will personally take direct responsibility for individual divisions effective immediately. We are prepared to work hard to achieve our goals.

As astute listeners, you will already have asked yourself: what is to become of the companies in the present Process Technology Division? We have already announced that the respective companies are to be transferred to competent new entrepreneurial managers. Please allow me to make a few personal comments to the employees of these companies. After all, we are talking about IWKA companies with a long-standing tradition. Be assured, that over the past number of years we have had but one objective; namely, to turn around the Process Technology Division and make the once money-losing operation into a successfully managed business. As demonstrated by the figures in the current business year, we have clearly turned the corner and returned to profitability.

Some of the companies up for sale in the Process Technology Division include a series of independent groups of companies that could not have been sold at a reasonable price in the difficult economic environment of the past two years. Now that the restructuring programs we introduced have started to bear fruit and economic prospects have improved, the time is ripe to implement the divestiture decisions made by the Executive Board - quickly and with determination, but without undue haste. After all, we do not intend to give away these valuable entities. We have hired Rothschild and Drueker & Co. as professional M&A consultants to support us in selling these companies. Individual projects are proceeding well and are

fully on schedule. Our Goldman Sachs strategy consultants have also confirmed this. I'm sure you will understand that I am unable to give you further details about future planned divestitures, since M&A processes always require a significant degree of confidentiality. However, I can report to you right now, honored shareholders, on the first steps. The following Process Technology Division companies or parts of companies will change hands:

1. Bopp & Reuther Messtechnik GmbH, based in Speyer. The company participates in the market for flow measurement of liquids.
2. Wartungs- und Prüfdienst GmbH, also based in Speyer. The company offers measuring systems calibration for tankers and filling stations.
3. MARCON Ingenieurgesellschaft mbH, located in Hamburg. The company participates in the market for liquid loading systems.
4. HEINRICHS Messtechnik GmbH of Cologne. The company specializes in technology to measure mass.
5. One product segment of the French company, TUBEST S.A., located in Fère-en-Tardenois, has been sold.

While we were able to report last week already on the sale of Bopp & Reuther Messtechnik-related entities, the sale of HEINRICHS is new. The above companies together had total sales revenue of around EUR 23 million during the last business year and employ about 225 persons.

At this point, I would like to extend my good wishes to the management of the individual enterprises. May their operations enjoy good luck and a successful future.

Let me turn to the economic environment and the business development for the current year.

The slight recovery in Germany's economic performance during the fourth quarter of 2003 and business growth in the United States continued during

the first half of 2004. In Asia, economic growth improved significantly.

However, the Executive Board and the companies' management boards are also being challenged by emerging risks. I would like to briefly name three:

- Global economic growth and the high demand from China have led to a significant increase in raw material prices over the past few months, particularly for steel. The increase in steel prices is presently a challenge for all companies that use steel in their processes. Some IWKA Group companies are also affected to varying degrees. These companies are responding with appropriate cost-cutting measures.
- Our future Automotive Technology and Robot Technology Divisions are being affected by strong downward pressure on prices and margins in the automotive industry.
- Last but not least, open discussions about breakup scenarios for IWKA are severely testing our customers' faith.

All the more reason for me to find pleasure in reporting to the Annual General Meeting, that IWKA was able to extend the first quarter's positive trend at the close of the first half of the 2004 business year. According to preliminary figures, the Group's order receipts came in at EUR 1,304 million, EUR 54 million, (4 percent) higher than the previous year.

This puts us in a position to also achieve our goals during the following quarters. Order receipts and sales revenue go hand-in-hand with continuous improvement in earnings power as well as a higher return on capital employed.

Our technological expertise and our strong market positions enable to us to generate profitable business growth around the world as a systems integrator. We expect that business development during the first half year will be extended to the second half of the current fiscal year.

That is:

- order receipts higher than the previous year
- sales revenue at roughly the same level as last fiscal year
- further improvement in the operating result

Ladies and gentlemen,

We are creating a highly advanced systems and robotics group of companies that is even more intensely focused on customer needs than in the past and never loses sight of the goal to steadily improve shareholder value.

I thank our employees for their energetic commitment to the success of our company. I also thank our shareholders for their loyalty to the our company. I promise you, honored shareholders, that your support for a changing, even more powerful IWKA will prove worthwhile.

Thank you very much for your attention.