

# Statement according to § 161 of the Corporation Act regarding the observance of the German Corporate Governance Code at IDS Scheer



Value	Change	%Change
3,008.62	30.97 ▲	1.31%
2,649.71	33.35 ▲	1.27%
807.90	2.93 ▲	0.36%
10,714.54	98.03 ▲	0.90%
1,367.10	13.20 ▲	0.96%
626.42	4.70 ▲	0.76%
61.33	0.49 ▼	0.79%

In 2001 the federal government of Germany charged a government commission with the development of a German Corporate Governance Code. This Code was completed in early 2002. It contains three types of standards:

- regulations that describe current norms in German law
- recommendations
- proposals

German companies are only required to observe the regulations. With respect to recommendations, the German Corporation Act (§ 161) requires only that companies listed on stock exchanges must publish an annual statement of observance. Companies may abstain from proposals without explanation.

Since its founding IDS Scheer has operated under responsible corporate governance and has conformed to the greatest extent to the Corporate Governance Code. Both the Executive Board and the Supervisory Board of IDS Scheer are committed to these internal principles; neither body is aware of any incident that would breach these principles.

IDS Scheer's Corporate Governance principles and its behavior are and have been in conformance with the applicable German Corporate Governance Code, most recently that of May 21, 2003, with the exception of the points stated below; the Statement of Observance of the Corporate Governance Code from the previous year, which was supplemented by one item on March 12, 2004, is therefore part of this year's statement as well.

## **Age limitations for executive and supervisory board members**

The German Corporate Governance Code recommends setting age limitations for advisory board members. IDS Scheer perceives this practice as an inappropriate restriction of the rights of the shareholders to select the members of the Supervisory Board. IDS Scheer's corporate governance principles therefore contain no such age limitation.

Similarly, the IDS Scheer principles deviate from the respective recommendation of the Corporate Governance Code in not setting an age limitation for Executive Board members, as this would place a general restriction on the Supervisory Board of IDS Scheer in its selection of appropriate members of the Executive Board.

## **Deductible for D&O insurance**

The German Corporate Governance Code recommends that an appropriate deductible be designated for Directors and Officers (D&O) Liability Insurance. IDS Scheer is fundamentally opposed to this practice, believing that the motivation and responsibility with which the members of the Executive and Supervisory Boards of IDS Scheer approach their duties cannot be improved by such disincentives.

IDS Scheer's corporate governance principles therefore do not impose a deductible, and IDS Scheer plans no change to its current D&O insurance, which does not designate a deductible for board members.

### **Executive Board compensation**

The German Corporate Governance Code recommends that the compensation of Executive Board members be reported in the notes to the consolidated financial statements, broken down into base salary, profit-related components, and components with long-term incentive effect. The code further recommends that these figures be stated separately for each individual. IDS Scheer AG follows the recommendations of the code with regard to the reporting of Executive Board compensation, profit-related components, and components with long-term incentive effect. The recommendation to state these figures separately for each individual has not been followed.

The Executive Board of IDS Scheer AG works together as a group to achieve the company's objectives. The Executive Board and Supervisory Board believe that the performance of the Executive Board can be appropriately evaluated only based upon the overall success of the Executive Board and the success achieved by the company as a whole. For this reason, the company will continue to divide the compensation of the Executive Board into variable and fixed components. In the opinion of the Executive Board and Supervisory Board, the figures for the overall compensation of the Executive Board provides transparency on the compensation structure and compensation amounts that is sufficient to evaluate the appropriateness of the Executive Board members' earnings.

### **Consideration of committee duties in the compensation of supervisory board members**

The German Corporate Governance Code recommends considering position and membership on advisory board committees in the compensation of members of supervisory boards. In addition, it recommends that members of advisory boards receive both set and variable compensation. IDS Scheer believes that such a regulation would not further improve Supervisory Board members' involvement in Supervisory Board duties and committee work. Therefore, neither IDS Scheer's by-laws nor its corporate governance principles impose such consideration.

### **Former executive board members on advisory boards**

The German Corporate Governance Code recommends that no more than two former members of the executive board belong to the advisory board. Currently only one former member of the Executive Board of IDS Scheer is serving on the Supervisory Board; however, IDS Scheer perceives a corresponding regulation as an inappropriate restriction of the rights of the shareholders to select the members of the Supervisory Board. Moreover, this restriction as recommended by the German Corporate Governance Code would result in significant shareholders being excluded from the possibility of serving on the Supervisory Board, inasmuch as they are members of the Executive Board and directly or indirectly hold significant shares of capital stock. IDS Scheer's corporate governance principles therefore contain no such regulation.

Saarbrücken, December 2003 / March 12, 2004



For the Executive Board  
Helmut Kruppke



For the Supervisory Board  
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