

# Corporate Governance report

The Executive Board and Supervisory Board report below on corporate governance at KUKA in accordance with section 3.10 of the German Corporate Governance Code (“GCGC”).

Corporate governance refers to the entire system of managing and monitoring a company and group of companies. This includes in particular a company’s organization, business policy and guidelines as well as internal and external control and monitoring mechanisms. Good, responsible corporate governance is one of KUKA’s core principles. It creates transparency and confidence in KUKA among shareholders, customers and suppliers, the staff, the financial markets and the public.

Again for this reporting year, the Executive Board and Supervisory Board of KUKA Aktiengesellschaft have examined the requirements of the GCGC in detail in its current version as of February 7, 2017 and issue the following declaration of compliance:

## Declarations of compliance

The declarations of compliance of the Executive Board and Supervisory Board that have been issued for every financial year since 2002 are available to the public on the company’s website at [www.kuka.com](http://www.kuka.com).

The identical declarations of the Executive Board (dated January 30, 2020) and the Supervisory Board (February 7, 2020) in accordance with section 161 para. 1 sentence 1 of the German Stock Corporation Act (AktG) and the GCGC read as follows:

“Since issuing the latest declarations of compliance of the Executive Board (January 28, 2019) and of the Supervisory Board (February 15, 2019), KUKA Aktiengesellschaft has complied with the recommendations of the Government Commission on the German Corporate Governance Code as of February 7, 2017, which were published in the *Bundesanzeiger* (German Federal Gazette) dated April 24, 2017, with the exception of the divergences mentioned in these declarations of compliance; it will continue to comply with these recommendations in the future subject to the following divergences:

1. KUKA Aktiengesellschaft does not follow the recommendation for the Supervisory Board outlined in section 3.8 para. 3 of the GCGC. The Group D&O insurance policy does not provide for a deductible for members of the Supervisory Board. In KUKA Aktiengesellschaft’s view, Supervisory Board members do not require a deductible to ensure that they properly fulfill their monitoring role.
2. KUKA Aktiengesellschaft does not follow the recommendation for the chair of the Audit Committee outlined in section 5.3.2 para. 3 of the GCGC. The Chairman of the Audit Committee is not to be regarded as an independent member within the meaning of section 5.4.2 of the GCGC because this person performs a management role for the shareholder controlling KUKA Aktiengesellschaft. As the CFO of Midea Group, the Chairman of the Audit Committee possesses special knowledge and experience in the application of accounting principles and internal control procedures.

KUKA Aktiengesellschaft adheres to almost all the other suggestions contained in the Code.”

The identical declarations of the Executive Board and Supervisory Board have been available on the company’s website at [www.kuka.com](http://www.kuka.com) since February 20, 2020.

## Corporate and management structure

Since January 6, 2017, Midea Group Co., Ltd. (through wholly-owned subsidiaries) has held 94.55% of the shares in KUKA Aktiengesellschaft. KUKA Aktiengesellschaft and its subsidiaries and affiliates form a “subgroup” (hereinafter “KUKA Group”) within Midea Group.

KUKA Group is managed by KUKA Aktiengesellschaft as the Group’s managing holding company. The organization within KUKA Group follows a customer-oriented structure of the operating business divisions (called the KUKA Business Organization). The core goal of the KUKA Business Organization is to focus on KUKA Group’s customers through an appropriate breakdown of the operating divisions into the following segments: (i) Systems, (ii) Robotics, (iii) Swisslog, (iv) Swisslog Healthcare and (v) China (all activities in China are bundled in this segment).

Similarities between the divisions in terms of product portfolios, markets, customers and geographic focus are identified, and intense efforts are made to further develop these similarities. This is an expression of the “One KUKA” approach. However, the divisions remain responsible for their business and thus also for their results. Moreover, as in the past, project and risk managers monitor implementation of the established targets by focusing intensively on key indicators, as well as developing executive staff and maintaining brand strategy.

## Executive Board and Supervisory Board

As a German stock corporation, the statutory rules impose on KUKA Aktiengesellschaft a dual management system comprising the Executive Board and Supervisory Board. The Executive Board is responsible for managing the company. The members of the Executive Board share this responsibility for company management. The Chairman of the Executive Board and Chief Executive Officer coordinates the work of the entire Board; he is responsible for representing and leading the Board in its cooperation with the Supervisory Board and its members. The Supervisory Board appoints, monitors and advises the Executive Board. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board.

## Responsible cooperation between the Executive Board and the Supervisory Board

The common goal of the Executive Board and Supervisory Board is to sustainably increase shareholder value. To this end, the Executive Board and Supervisory Board work closely together in the interest of the company. No former members of the Executive Board sit on the Supervisory Board. The Executive Board reports to the Supervisory Board regularly, in a timely manner, and comprehensively regarding all matters relevant to the company with respect to planning, business development, risk exposure, risk management and any corresponding action taken. The Executive Board also addresses any deviations in the business results from the established plans and targets and explains the causes of such deviations. The Executive Board and/or Chief Compliance Officer also reports to the Supervisory Board regarding corporate compliance.

The Articles of Association and the Supervisory Board's rules of procedure contain provisions ensuring the right of the Supervisory Board to withhold its consent on significant transactions. Further information on cooperation between the Executive Board and the Supervisory Board can be found in the Supervisory Board report on pages 6 to 9.

In fiscal 2019, no consulting or other contracts for work or services existed between Supervisory Board members and the company.

We refer you to the report of the Supervisory Board (page 6) with regard to resolutions passed concerning business events during fiscal 2019 where conflicts of interest could have arisen for members of the Executive and Supervisory Boards.

## Executive Board

The Executive Board of KUKA Aktiengesellschaft consists of three persons: the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and, since November 1, 2019, the Chief Technology Officer (CTO).

In fiscal 2019, the responsibilities of the members of the Executive Board were assigned as follows:

Peter Mohnen, Chief Executive Officer (CEO), is responsible for (i) Group strategy, (ii) public relations (communications & marketing), (iii) personnel and senior group executives, (iv) Internal audit and (v) legal affairs/compliance. Mr. Mohnen is also director of industrial relations at KUKA Aktiengesellschaft.

Mr. Andreas Pabst, Chief Financial Officer (CFO), is responsible for (i) finances and controlling, which includes the financial accounting, controlling, treasury and tax departments, (ii) risk management, (iii) IT, mergers & acquisitions (M&A), (iv) investor relations and (v) facility management.

Prof. Dr. Peter Hofmann, Chief Technology Officer (CTO), is responsible for (i) technical matters, (ii) technology, (iii) Group research & development and (iv) digitalization.

The Executive Board members normally convene at least every 14 days, and otherwise keep in constant close contact.

In accordance with the recommendations of the GCGC (section 4.1.5), the Executive Board takes diversity into consideration when filling managerial positions in the company and, in particular, aims for an appropriate consideration of women. The Executive Board sets targets for the proportion of women at the two management levels below the Board itself (see declaration regarding corporate governance on the website [www.kuka.com](http://www.kuka.com)).

## Executive Board compensation

Executive Board compensation is outlined in the compensation report.

## Supervisory Board

KUKA Aktiengesellschaft's Supervisory Board consists of twelve members as per the Articles of Association, of which six represent the shareholders and six the employees.

The election of employee representatives to the Supervisory Board was held on April 10, 2018, in accordance with the provisions of the German Co-Determination Act (MitbestG). The results of the vote were published in the Federal Gazette (Bundesanzeiger) on April 17, 2018. A new election of Supervisory Board shareholder representatives was held at the Annual General Meeting on June 6, 2018.

The term of office of the Supervisory Board members representing the employees and the members representing the shareholders ends upon adjournment of the Annual General Meeting in 2023. This also applies to substitute members and other successors in office of employees and shareholders who subsequently join the Supervisory Board. This is because section 10 para. 4 sentence 1 of the Articles of Association stipulates that where a Supervisory Board member leaves office early, the term of office of the new Supervisory Board member runs only for the remaining term of office of the retiring member.

The Supervisory Board established the following targets for its future makeup to address the requirement regarding diversity in section 5.4.1 of the GCGC, which are also to be taken into account when recommending candidates to the shareholders at the Annual General Meeting:

- (i) At least two Supervisory Board members shall have sector-specific experience.
- (ii) At least one Supervisory Board member shall have considerable professional experience abroad.
- (iii) At least two Supervisory Board members to be elected at the Annual General Meeting shall be independent in terms of section 5.4.2 of the GCGC and shall not be affected by conflicts of interest in terms of section 5.5.2 of the GCGC.
- (iv) Normally, Supervisory Board members shall be no younger than 35 and no older than 73 years of age at the time of their election.

- (v) A member of the Supervisory Board may carry out his or her mandate for up to a maximum of three consecutive periods in office, although this limit may be ignored in exceptional cases when it is in the company's interests to do so.
- (vi) In addition, the requirements of the German act to promote equal participation of women and men in management positions in the private and public sector (FührposGleichberG) of April 24, 2015 and the targets set by the full Supervisory Board concerning the number of women are to be observed.

In view of the criteria for independence as specified in section 5.4.2 of the GCGC, it should be noted that on account of their management roles within Midea Group the Supervisory Board members in office for fiscal 2019 (i) Dr. Yanmin (Andy) Gu, (ii) Hongbo (Paul) Fang (member of the Supervisory Board until May 31, 2019), (iii) Min (Francoise) Liu and (iv) Dr. Chengmao Xu cannot be regarded as independent according to the definition in section 5.4.2 of the GCGC.

In contrast, the members (i) Professor Dr. Henning Kagermann, Dr. Myriam Meyer and Mr. Alexander Liong Hauw Tan are/were independent as defined in section 5.4.2 of the GCGC, thus meeting the requirement for at least two independent Supervisory Board members who have been elected by the Annual General Meeting.

Mr. Paul Fang resigned from the Supervisory Board with effect from May 31, 2019. Dr. Chengmao Xu was appointed by court order to the Supervisory Board as Mr. Fang's successor with effect from June 17, 2019 (by order of the Augsburg Local Court dated June 12, 2019).

Mr. Alexander Tan resigned from the Supervisory Board with effect from December 31, 2019. Mr. Helmut Zodl was appointed by court order to the Supervisory Board as Mr. Tan's successor with effect from January 24, 2020 (by order of the Augsburg Local Court dated January 23, 2020). The Supervisory Board elected Mr. Zodl as a member of the Audit Committee with its resolution of January 29, 2020. Said committee elected Mr. Zodl as Chairman of the Audit Committee on the same day.

To the extent that members of the Supervisory Board held or hold key positions with important business partners, transactions with them were subject to the standard terms and conditions for arm's length transactions.

The Supervisory Board has formed five committees consisting of Supervisory Board members. These are:

- (i) the Mediation Committee as per section 27 para. 3 of the German Act on Company Co-Determination (MitbestG),
- (ii) the Personnel Committee,
- (iii) the Audit Committee (section 5.3.2 GCGC),
- (iv) the Nomination Committee (section 5.3.3 GCGC), and
- (v) the Strategy and Technology Committee.

In accordance with the provisions of the Corporate Governance Code, the Supervisory Board or the Audit Committee dealt with compliance issues, and the Executive Board reported to this committee accordingly.

It has been agreed with the independent auditor that the Supervisory Board should immediately be notified of any material findings or occurrences related to its work that arise in the course of auditing the financial statements. Finally, it was also agreed with the independent auditor that the independent auditor will inform the Supervisory Board and/or note in its audit report any finding of facts during the performance of the audit indicating that the declarations issued by the Executive Board and the Supervisory Board with respect to the Code are in any way incorrect (section 7.2.3 GCGC).

The Supervisory Board regularly reviews the efficiency of its activities (section 5.6 GCGC). It recently had so-called best practice scenarios presented to it.

## Supervisory Board compensation

The remuneration of the Supervisory Board is also outlined in the compensation report.

## Shareholdings

Members of the Executive and Supervisory Boards or related parties are obliged according to section 19 of the Market Abuse Regulation (MAR) to disclose the purchase or sale of shares in KUKA Aktiengesellschaft, or financial instruments relating thereto, if the value of these transactions within one calendar year reaches or exceeds the sum of €5,000 (the applicable threshold until December 31, 2019). The transactions by persons with management roles or their related parties reported to KUKA Aktiengesellschaft in fiscal 2019 were duly published and can be examined on the company website at [www.kuka.com](http://www.kuka.com).

## Corporate Compliance

KUKA has always applied a high standard of ethical principles. Essential components are strict obedience to the law and value-oriented conduct. These form the basis of the Corporate Compliance Program adopted by the Executive Board in November 2007 and approved by the Supervisory Board in December 2007, which took effect throughout the Group on February 1, 2008. The key contents of the Corporate Compliance Program are contained in the Corporate Compliance Handbook, which comprises several compliance-related guidelines. The Corporate Compliance Handbook was revised and updated in fiscal 2010. It was again reviewed and updated in fiscal 2013 and the version now applicable is dated April 1, 2013. Various guidelines were adapted as of April 1, 2016 so as to adjust to the altered conditions. The handbook was also made more attractive and usable. This new version of the Compliance Handbook was issued to all employees worldwide. A benchmark analysis was performed in fiscal 2018, during which the codes of conduct of companies comparable to KUKA were analyzed. A worldwide in-house employee survey was also conducted in order to identify further potential for optimization.

In accordance with a resolution of the Executive Board, the CEO has ultimate responsibility for the Corporate Compliance Program. A Compliance Committee consisting of persons employed by the Group was established to steer, implement, monitor and develop the Corporate Compliance Program. In addition, compliance officers were established at the Group companies for the individual divisions and regions under the Compliance Committee. The compliance officers are intended to be the employees' direct and (first) point of contact for compliance-related issues. The position of external ombudsman has also been established.

KUKA endeavors to implement compliance together with all employees and external partners. To achieve this goal, various processes and measures are employed which jointly represent the KUKA Compliance Management System (CMS). According to the GCGC recommendations, the KUKA CMS has been recorded in writing and is available for examination by the public on the website at [www.kuka.com](http://www.kuka.com). As a result of the regular changes occurring in the field of compliance, the CMS is a dynamic system and is therefore continuously being adapted to suit any relevant changes, most recently on August 1, 2019.

For KUKA, regular training of its employees is key to anchoring our value-based standards in the company and avoiding any violations of law. For example, since 2011, all KUKA employees have regularly participated in online compliance training based on an in-house e-learning program designed especially for this purpose. The e-learning program was progressively expanded to include all Group companies.

In fiscal 2016, the "Corporate Compliance" e-learning program was revised. Participation in this revised version of the e-learning program is obligatory for all employees throughout the world. The e-learning must be repeated at two-year intervals in order to refresh compliance-related knowledge. In fiscal 2018, the e-learning was integrated on the internal KUKA learning platform and the training process was optimized by means of an automated invitation to new employees throughout the Group to participate in the e-learning. The content of this electronic training course was revised and adapted to the updated Compliance Risk Map in the 2019 reporting year.

An offline version has also been produced for issue to all employees worldwide who do not have their own e-mail address and are therefore unable to participate in digital forms of training. In this way, all employees are reached in a targeted and workplace-related manner, in their respective working environments, and awareness of corporate compliance is created throughout the Group.

In addition to the online training courses, the company also held a series of seminars on selected topics. The content of the face-to-face training is based on the Compliance Risk Map. A further focus is on the importance of leadership behavior in order to integrate corporate compliance into the corporate culture.

## Annual General Meeting

The 2020 Annual General Meeting will take place in Augsburg on June 19, 2020.

Each share is entitled to one vote. No-par-value shares have been issued and global certificates created. The shares are bearer shares. The Executive Board makes it easier for shareholders to exercise their voting rights at the Annual General Meeting by offering them the right to issue powers of attorney to proxies who are appointed by the company and bound by the instructions of the shareholder. The proxies appointed by the company are also available at the Annual General Meeting to the shareholders who are present. In addition, powers of attorney may be issued to financial institutions, shareholder associations or other third parties.

## Accounting and annual audit

Since 2004, the annual financial statements of KUKA Group have been prepared in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) as adopted by the European Union. An independent auditor elected at the Annual General Meeting audits the annual financial statements and the consolidated financial statements. At the recommendation of the Supervisory Board, shareholders at the 2019 Annual General Meeting chose KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, as auditor for the annual financial statements and Group auditor for fiscal 2019 as well as for a potential review of the half-year interim report for fiscal 2019.

In accordance with the provisions of the Corporate Governance Code, the Supervisory Board's Audit Committee reviewed the independence of the auditor, commissioned the auditor to carry out the audit, determined the key audit points and agreed on the fee.

## Opportunity and risk management, controlling

Opportunity and risk management at KUKA Group is described in the risk report included in the annual report on pages 48 to 53. In accordance with legal requirements, the aim of risk management is early identification of any risk that could jeopardize the existence of KUKA Group and its operating companies as going concerns to enable measures to minimize, transfer or avoid risk to be taken. The risk strategy and risk policy is guided in particular by business risks, financial risks (including currency risks), and the specific risks of the divisions – in each case from a short, intermediate and long-term perspective. Controlling in particular is an essential tool for efficient risk management at KUKA Group.

KUKA further optimized opportunity and risk management in 2019. The Executive Board is tasked with adapting opportunity and risk management to changes in the business environment on an ongoing basis.

## Financial publications

The company informs its shareholders, participants in the capital markets, and the media of its position and of significant business events, in particular by publishing quarterly releases, a half-year interim report, and the annual report, holding a financial statements press conference on the annual financial statements and conducting the Annual General Meeting each year. In addition, it issues ad-hoc releases under article 17 of the Market Abuse Regulation (MAR), notifications under article 19 of the MAR (Managers' transactions) and under section 33 of the WpHG (Notification requirements applicable to the party subject to the notification requirement; power to issue statutory orders), holds conferences with analysts, meets with analysts and investors in Germany, and issues other press releases.

All information is published in both German and English and is also available on the company's website from the time of publication. All regular financial reporting dates are published in the company's financial calendar, which can be found on the back cover page of the annual report and on the website at [www.kuka.com](http://www.kuka.com).

## Declaration regarding corporate governance

The corporate governance declaration as per sections 289f and 315d of the German Commercial Code (HGB) is posted on the company's website at [www.kuka.com](http://www.kuka.com).