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CORPORATE GOVERNANCE 2006

Good Corporate Governance is a fundamental principle of IWKA Aktiengesellschaft. This applies especially to the cooperation between the Executive Board and the Supervisory Board. Moreover, compliance with these provisions is continuously monitored and intensified.

DECLARATIONS OF COMPLIANCE

The declarations of compliance of the Executive Board and the Supervisory Board that have been issued for every financial year starting in December 2002, have in each case been made available for inspection by any interested party on the company's website at www.iwka.de.

The identically worded declarations in accordance with article 161 German Corporation Act (AktG) and the German Corporate Governance Code as amended on June 12, 2006 that have been issued by the Executive Board (February 12, 2007) and of the Supervisory Board (February 23, 2007) read as follows:

"IWKA Aktiengesellschaft has complied with, and continues to comply with, the recommendations of the Government Commission on the German Corporate Governance Code of June 12, 2006, which were published in the electronic edition of the Bundesanzeiger (German Federal Gazette) dated July 24, 2006, subject to the following exception:

The compensation currently received by members of the Supervisory Board is entirely fixed (Section 5.4.7 para. 2 CGC).

Moreover, IWKA Aktiengesellschaft adheres to nearly all proposals contained in the code."

As of March 20, 2007, the declarations of the Executive Board and the Supervisory Board have been available to all interested parties on the company's website at www.iwka.de.

In accordance with article 17 paragraph 1 of the articles of incorporation of the Company, every member of the Supervisory Board, in addition to reimbursement for expenses, receives a fixed consideration in the amount of € 30,000, which is payable after the end of the financial year.

The variable compensation based on the dividend, which had been applicable previously, attracted criticism as not serving the intended purpose. Moreover taking rulings by the court of last instance into account, there was and presently still is significant legal uncertainty regarding the permissibility of variable compensation for the Supervisory Board. For this reason, the Supervisory Board proposed a change to the articles of incorporation to the Annual General Meeting on June 1, 2006 under which the members of the Supervisory Board receive a fixed consideration. The Annual General Meeting adopted this change. No new insights with respect to the legal assessment that resulted in this change to the articles of incorporation have emerged in recent months. It is intended to submit relevant draft resolutions to the Annual General Meeting in 2008; in making this statement, we are assuming that there will be greater legal certainty by that time with respect to the permissibility of adequate models for variable compensation for the Supervisory Board.

IWKA automation technologies

MANAGEMENT AND COMPANY STRUCTURE

The key goals for the year 2006 was to achieve an operating profit and to spin off discontinued operations. The latter process was completed with the sale of the IWKA Balg- und Kompensatoren-Technologie Group, the Bopp & Reuther Sicherheits- und Regelarmaturen Group, the J.W. Froehlich-Group, HASSIA-Redatron GmbH, GSN Maschinen-Anlagen-Service GmbH, the Boehringer Group and the ARO Group in 2006.

In September 2006, the Executive Board decided with the approval of the Supervisory Board that within the context of its strategy of focusing on core competencies, the IWKA Group should further sharpen its concentration and it is therefore now reviewing a stronger emphasis on the divisions Systems (Automotive) as well as Robotics.

In this context, the Executive Board was examining the possibility of a sale of the Packaging division.

IWKA Aktiengesellschaft, headquartered in Karlsruhe, is the ultimate parent company of the IWKA Group, which currently comprises the following three divisions:

- Systems (previously Automotive)
- Robotics
- Packaging

In the first months of 2007, the company started the process of relocating its business operations to Augsburg, given that approximately 70 percent of the activities of the IWKA Group are already operating in or managed from this location. This will strengthen the efficiency of the management of the Group by IWKA Aktiengesellschaft. As already reported last year, this management structure takes the place of the previously practiced principle of decentralized management; the latter will only be continued to the extent that the operating units will act as independent legal entities and that they are responsible for their business and thus also for their results. Controlling the implementation of established targets will be achieved through project and risk management, strong financial management as well as executive staff development, marketing strategies and the opening up of markets outside of Germany.

With this restructuring we continue to pursue the objectives of increasing transparency in the IWKA Group, of promoting growth and of regaining and increasing the profitability of the divisions.

EXECUTIVE BOARD

The 2006 financial year again saw significant changes in the membership of the company's Executive Board, which are closely linked to the continuing restructuring of the IWKA Group. Details are presented in the Report of the Supervisory Board dated March 27, 2007.

The three members of the Executive Board of the company as of January 1, 2007 are: Gerhard Wiedemann, the Chairman of the Executive Board, is responsible in particular for strategic corporate development, public relations, senior Group executives and legal affairs as well as the Systems division, and serves also as Labor Director. Dr. Jürgen Koch is responsible in particular for Finance and Controlling, for M&A as well as the Packaging division, and Bernd Liepert is responsible for the Robotics division, as well as for information and communications technology.

As a rule, the Executive Board members convene at least every fourteen days, and they also keep in constant close contact at other times. The Executive Board ensures that conflicts of interest are avoided. For the rest, the assignment of responsibility and cooperation on the Executive Board are governed by the rules of procedure as well as the organization chart.

The compensation of the Executive Board is described in the report on compensation below.

Additional information about the compensation of the Executive Board is found in the Notes to the Financial Statements for 2006 on page 113.

SUPERVISORY BOARD

The Supervisory Board is composed in accordance with the German Act on Company Co-Determination and consists of twelve members; six members are elected by the shareholders and six by the employees. The Supervisory Board is elected for a five-year term of office that expires at the end of the 2008 Annual General Meeting that resolves on the discharge of the Supervisory Board Members for the 2007 financial year. In order to avoid future conflicts of interest, Dr. Herbert Demel, who was elected to the Supervisory Board, together with the other representatives of the shareholders, at an extraordinary General Meeting on November 9, 2005 resigned his office at the end of the Annual General Meeting on June 1, 2006. On the same day, the Annual General Meeting elected Prof. Dr.-Ing. Gerd Hirzinger as his successor.

To the extent that a member of the Supervisory Board was employed in a controlling position at an important business partner, transactions with the latter were subject to the standard terms and conditions for arms-length transactions. The members of the Supervisory Board complied and continue to comply with the criteria for independence under Section 5.4.2 CGC. Procedures continue to ensure that conflicts of interest are avoided (Section 5.5 CGC).

No member of the Supervisory Board attended less than half of the meetings of the Supervisory Board in the past financial year (Section 5.4.8 CGC).

The objectives described in this report and the strategy of the IWKA Group adopted in September of 2006 led to very close communications within the Supervisory Board as well as with the Executive Board continuing through 2006.

The Supervisory Board convened for four ordinary meetings in the first half of 2006 and two ordinary meetings in the second half of the year. A further, extraordinary, meeting was held in 2006, which was occasioned by matters related to the Executive Board.

In urgent cases, the Supervisory Board also adopted resolutions by written procedure. The approval requirements for certain Executive Board transactions – as stipulated in the rules of procedure for the Supervisory Board – were adhered to.

The Supervisory Board has formed four committees from among its members: the Personnel Committee, the committees pursuant to article 27 para. 3 German Labor-Management Co-Determination Act (MitbestG), the Audit Committee and Strategy Committees.

As in past years, the Chairman of the Supervisory Board and the Chairman of Audit Committee arrange to receive information about audit activities from the independent auditor in advance of Supervisory Board meetings. It has been agreed with the independent auditor that he will immediately report to the Supervisory Board any material findings or events that arise in the course of the audit of the annual financial statements. It has finally also been agreed with the independent auditor that he will inform the Supervisory Board and/or note in the audit report any finding of facts during the performance of the audit, indicating that the declarations issued by the Executive Board and Supervisory Board with respect to the Code are in any way incorrect (Section 7.2.3 CGC).

In the past year, the Supervisory Board again reviewed the efficiency of its activities (Section 5.6 CGC) at its meeting in September of 2006 and will continue this practice.

The compensation of the Supervisory Board is described in the report on compensation below.

Additional information about the compensation of the Supervisory Board is found in the Notes to the Financial Statements for 2006 on page 117 of the annual report.

ANNUAL GENERAL MEETING

The Annual General Meeting this year will be convened for the first time in Augsburg on May 16, 2007. The company thereby fully satisfies the demand of the financial markets to close out the past financial year by presentation to the Annual General Meeting on a timely basis.

Each share has one vote. Unit shares are issued and global certificates are created. The shares are bearer shares. The Executive Board makes it easier for shareholders to exercise their voting rights in the Annual General Meeting by offering them the right to issue powers of attorney to proxies who are appointed by the company and are bound by directives of the shareholder. Shareholders present at the Annual General Meeting will also be able to reach the proxies appointed by the company at that meeting. It is also possible to issue powers of attorney to financial institutions, shareholder associations and other third parties.

In the context of its strategy for the IWKA Group, the Executive Board already reported in 2006 that even now approximately 70 percent of the business of the IWKA Group is operated from Augsburg. For this reason, the Executive Board decided with the approval of the Supervisory Board to move the IWKA Aktiengesellschaft to Augsburg. It is planned to propose an amendment to the Articles of Incorporation to the Annual General Meeting on May 16, 2007, under which the company name "IWKA Aktiengesellschaft" will be changed to "KUKA Aktiengesellschaft" and the headquarters of IWKA Aktiengesellschaft will be relocated from Karlsruhe to Augsburg.

ACCOUNTING AND AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Since 2004, the annual financial statements for the IWKA Group have been prepared in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS). The audit of the Annual Financial Statements and of the Group Annual Financial Statements is performed by an independent auditor. The review of the independence of the auditor, the issuing of the audit assignment to him, the determination of audit focuses and the agreement on the fee are undertaken by the Audit Committee of the Supervisory Board in accordance with the provisions of the Corporate Governance Code.

CONTROL AND RISK MANAGEMENT

A detailed description of risk management at the IWKA Group is included in the chapter on risk management of the Annual Report on pages 45–48. In accordance with legal requirements, the aim of risk management is the early recognition of risks that could jeopardize the continued existence of the IWKA Group and its operating companies, in order to make it possible to take measures to minimize, transfer or avoid risk. The risk strategy and policy is particularly guided by the business risks, financial markets risk, including currency risk, and the specific risks in the divisions – in each case from a short, intermediate and longer-term perspective. IWKA further optimized risk management throughout the past year. The adaptation of risk management to changes in the business environment is an ongoing task.

In this context, controlling is an essential tool of efficient risk management.

FINANCIAL REPORTING

The company informs its shareholders, the participants in the capital markets and the media about the condition as well as material business events at the company in particular through quarterly reports, interim financial statements, the Annual Report, the press conference reporting on the annual financial statements and the Annual General Meeting of Shareholders. In addition, it issues ad-hoc releases under article 15 German Securities Trading Act (WPHG), notices under article 15 a WpHG (Director's dealings) and under article 26 WpHG (previously article 25 WpHG) (disclosable shareholder share ownership), holds conferences with analysts, talks with analysts and investors in Germany and abroad and issues other press releases.

All such information is also communicated in the English language and is simultaneously published on the Internet. All regular financial reporting dates are published in the company's financial calendar, which can be found on page 162 of this annual report and on the website at www.iwka.de.

REPORT ON COMPENSATION

Compensation of the Executive Board

The report on compensation forms part of the corporate governance report and summarizes the basic principles used to establish the compensation of the Executive Board of IWKA Aktiengesellschaft and explains the structure and level of the Executive Board's remuneration.

The Executive Board members' compensation consists of fixed and variable components. The fixed components comprise a base salary and payments in kind. The variable components include annually recurring components tied to business performance, as well as components that offer long-range incentive and that are tied to risk taking. The base salary is paid in twelve equal monthly installments. The payments in kind of the Executive Board members consist mainly of the use of company vehicles.

The variable component is granted in relation to IWKA Group business performance indicators such as EBIT, capital employed and cash flow. The associated details are established annually by mutual agreement. The variable components include a cap.

For three members of the Executive Board, an earlier/transitional set of rules was partially used, which guaranteed a percentage of the variable compensation component having been paid together with the monthly salary, or which guaranteed the variable compensation component for 2006 to be paid in 2007.

In addition, a phantom share program that provides a long-term incentive was established for the Executive Board for the first time in 2006. Phantom shares are virtual shares that grant the holder the right to cash compensation at the level of the company's current share price. In contrast to stock options, the revenue from phantom shares is based not only on the increase in share value, but the entire value of the share. In addition, a dividend equivalent that mirrors the actual dividend distributed on real IWKA shares will be paid annually during the life of the plan for each virtual share held. However, there are no associated voting rights.

The duration of the program is three calendar years. The present program covers the period 2006 to 2008. At the beginning of the three-year period, the Supervisory Board's Personnel Committee establishes the amount to be granted. This amount is divided by IWKA's current share price, which establishes the preliminary number of phantom shares. The Personnel Committee also establishes the EVA (Economic Value Added) of continuing operations (before taxes) at the beginning of the three-year performance period (EBIT minus minimum interest rate on capital employed (CE) x 0.11 = EVA). The EVA is calculated on the basis of the operating budget, which takes into consideration the budget of the first financial year of the three-year period and the planning of the two following financial years. The cumulative EVA of the three-year performance period is divided by the EVA of continuing operations as per the operating planning from 2006 to 2008. The success factor can vary between 0 and 2.0. The final number of phantom shares depends on the degree of achievement of the success factor, by which the preliminary number of phantom shares is multiplied. Payment is based on the final number of phantom shares at the closing share price (average share price of IWKA shares between January 1, 2009 and the day of the first meeting of the Personnel Committee in 2009).

Each Executive Board member participating is obligated to apply 25 percent of the gross amount paid out to the purchase of IWKA shares at the then current market value. This share purchase serves to build up a level of holdings established at 50 percent of annual compensation in the form of IWKA shares starting in March 2009. The obligation ends with the participant's departure from the IWKA Group. In the event of termination initiated by either party, all allocated phantom shares lapse.

The starting value for the first phantom share program was established at € 21.25, which represents the average price of IWKA shares between January 1 and March 1, 2006, the day of the first meeting of the Personnel Committee of the company's Supervisory Board for the year 2006.

The Supervisory Board will decide anew each year whether or not to grant the Executive Board share-price-oriented compensation. The repeated granting of such compensation in the past does not constitute a right to being granted such or comparable compensation in the future.

The number of phantom shares finally assigned at the end of the performance period depends on the success factor achieved. The number of preliminary phantom shares granted at the beginning of the plan will be multiplied by this factor. At the upper limit, the number of phantom shares is double.

The objective of the program is to ensure that every member of the Executive Board is also an IWKA shareholder. It promotes share ownership among members of IWKA's Executive Board and thereby ties the interests of these corporate members more closely to the interests of the shareholders.

Changing success targets or comparative parameters retroactively is prohibited.

The company approved benefits from the company pension scheme for three members of the Executive Board, which comprise vested rights to pension payments, as well as widows and orphans pensions.

No loans were granted to Executive Board members during the reporting period.

Compensation for 2006

Payments to members of the Executive Board during the 2006 business year totaled € 2,704 thousand. The amounts for the 2006 business year include fixed salary, payments in kind, guaranteed variable compensation, performance-based compensation and compensation in accordance with the phantom share program. This total includes all amounts regardless of whether they were actually paid in 2006 or an accrual formed in the annual financial statements as of December 31, 2006.

The variable annual incentive payment was based on target achievements related to EBIT, capital employed and cash flow during the 2006 business year. For EBIT and capital employed, these incentive payments were based 50 percent on the division for which the Executive Board member is responsible, and 50 percent on the IWKA Group. For EBIT and capital employed, only continuing operations apply, whereas discontinued operations also apply to cash flow. In addition, EBIT, capital employed and cash flow were included in the calculation of the variable incentive at one-third each. In the event the targets are achieved, the variable incentive is paid to each Executive Board member in the form of a predefined sum in euro. In the event of an over or under achievement of the targets, the variable incentive is prorated on the basis of the over or under achievement, which can result in a payment of twice the nominal amount or a reduction to € 0 thousand in the opposite case. No payments were made according to these rules in 2006, since they were first agreed to in 2006.

Instead, in 2006, payments were made exclusively on the basis of the guaranteed variable compensation component for three members of the Executive Board.

The relationship between base salary and performance-based components on an individual basis is shown in the following table:

in € thousands	Fixed salaries including payments in kind*	Performance-related	Provision for the phantom share program	Total
Wolfgang-Dietrich Hein (until Dec. 31, 2006)	627	267 (guaranteed)	–	894
Dr. Jürgen Koch (from April 1, 2006)	224	354 (guaranteed)**	35	613
Bernd Liepert (from April 1, 2006)	236	240**	25	501
Dieter Schäfer (until August 31, 2006)	194	40 (guaranteed)	–	234
Gerhard Wiedemann (from April 1, 2006)	237	200**	25	462

* Payments in kind comprise the use of company cars, payment of hotel costs at the headquarters of the company and premiums for casualty and D&O insurance. The premium for D&O insurance, unlike that for casualty insurance, is not included in the payments in kind because it cannot be allocated on an individual basis, since the company pays a flat premium for the protected group of persons, which extends beyond the members of the Executive Board.

** Provision recognized as of December 31, 2006; payment in 2007.

Phantom share program	Volume granted in € (Fair value at the time of the grant)	Initial share price of the IWKA shares in €	Preliminary number in phantom shares
Wolfgang-Dietrich Hein	–	–	–
Dr. Jürgen Koch	150,000	21.25	7,059
Bernd Liepert	100,000	21.25	4,706
Dieter Schäfer	–	–	–
Gerhard Wiedemann	100,000	21.25	4,706

Other compensation paid to former board members, who left the board in 2006

Mr. Schäfer, who resigned from his position on the Executive Board effective August 31, 2006, continued to receive payment of his monthly fixed salary from September to December 2006. The total gross amount was € 100,000 plus a payment in kind of € 4,000. In January 2007, he received a severance payment of € 631,000. The company vehicle may continue to be used as usual until December 30, 2008, the original end date of the employment contract (taxable benefit).

Mr. Hein, whose contract ended prematurely on December 31, 2006, received a severance payment of € 620,000 in January 2007.

The aforementioned amounts paid to Mr. Schäfer and Hein are included in the total amounts paid to former members of the Executive Board shown in the Notes that form part of the annual financial statements for December 31, 2006.

In 2006, the following amounts were added to pension accruals:

in € thousands	Addition
Wolfgang-Dietrich Hein	–
Dr. Jürgen Koch	–
Bernd Liepert	3
Dieter Schäfer	130
Gerhard Wiedemann	59

The extent to which members of the Executive Board are entitled to benefits from the company pension plan are as follows:

Mr. Schäfer resigned from the Executive Board of the company in 2006 with a vested interest in future pension benefits.

Messrs. Wiedemann and Liepert were entitled to company pension plan benefits from the Group's companies of which they were or are the CEO. These obligations were transferred to IWKA Aktiengesellschaft on April 1, 2006. The Group's companies will be charged for the time prior to the transfer.

The variable incentive payment for Messrs. Wiedemann and Liepert will be reduced by an amount equal to the annual contribution to the pension accrual from 2006 onward.

Compensation of the Supervisory Board

A resolution was passed at the Annual General Meeting of the company on June 1, 2006, which changed the bylaws to require fixed compensation for members of the Supervisory Board.

In addition to reimbursement of expenses, each member of the Supervisory Board will be paid a fixed amount of € 30,000, payable after the end of the business year.

The chair of the Supervisory Board will be paid four times that amount, and the deputy chair's compensation will be double. For chairing the Annual General Meeting, provided it is not being chaired by the head of the Supervisory Board, and for membership in one or more committees that are not of an interim nature, Supervisory Board members will be paid an additional sum of € 30,000. Committee chairs will be paid at most 1 1/2 times the annual remuneration, even if they chair several committees or are members of another committee; this does not apply to the committee as per article 27, para. 3 of the German Act on Company Co-determination (MitbestG).

In addition, for each Supervisory Board meeting, each Supervisory Board member will have a choice of either being reimbursed for expenses or receiving a lump sum payment of € 450 per meeting plus applicable value added tax. This option may only be declared once per year.

For payments due in 2006 for the 2005 business year, the previous provisions of the bylaws still applied, according to which compensation consisted of a fixed and variable component. The fixed component was € 6,000 and the variable component was based on the dividend approved by the Annual General Meeting. If a dividend was approved, € 1,000 were paid for each percentage point the total dividend distribution was greater than 4 percent of the total share capital. The fixed component was payable after the end of the financial year and the variable component after adoption of the respective resolution by the Annual General Meeting. No variable component was paid in 2006. The chair of the Supervisory Board received four times the base compensation and the deputy chair was paid double the amount.

For chairing the Annual General Meeting, provided it was not being chaired by the head of the Supervisory Board, and for membership in one or more committees that were not of an interim nature, Supervisory Board members were paid an additional sum equivalent to their annual remuneration; committee chairs were paid at most 1 1/2 times the annual compensation, even if they chaired of several committees or were members of another committee. The aforementioned ruling did not apply to the committee according to article 27, para. 3 of the German Act on Company Co-determination (MitbestG).

Compensation for the years 2005 and 2006

in € thousands	Payment in 2006 (Compensation for 2005)	Provisions recognized 2006 (Compensation for 2006)
Dr. Rolf Bartke, Chairman of the Supervisory Board and Chairman of the Personnel Committee (since Nov. 9, 2005)	5	165
Mirko Geiger, Deputy Chairman of the Supervisory Board	18	90
Walter Prues	12	60
Dr. Reiner Beutel (since Nov. 9, 2005)	2	60
Dr. Herbert Meyer, Chairman of the Audit Committee (since Nov. 9, 2005)	2	75
Pepyn René Dinandt (since Nov. 9, 2005)	1	30
Dr.-Ing. Helmut Leube (since Nov. 9, 2005)	1	30
Jürgen Kerner	6	30
Herbert R. Meyer	6	30
Fritz Seifert	6	30
Wilhelm Steinhart	6	30
Dr. Herbert Demel (until June 1, 2006)	1	13
Prof. Dr.-Ing. Gerd Hirzinger (since June 1, 2006)	*	18
Reinhard Engel, former Chairman of the Supervisory Board and former Chairman of the Personnel Committee (until Nov. 9, 2005)	28	
Volker Doppelfeld (until Nov. 9, 2005)	10	
Prof. Jürgen Hubbert (until Nov. 9, 2005)	5	
Dr.-Ing. Mathias Kammüller (until Nov. 9, 2005)	5	
Hans-Jörg Platzek (until Nov. 9, 2005)	5	
Dipl.-Kfm. Christian L. Vontz (until Nov. 9, 2005)	5	

* In accordance with the articles of incorporation, payment is only made in 2007.