

## CORPORATE GOVERNANCE

The Executive Board reports – simultaneously for the Supervisory Board – about the Corporate Governance at KUKA in accordance with section 3.10 of the German Corporate Governance Codex (“CGC”) as follows:

Good Corporate Governance is a fundamental principle of KUKA. This applies especially to the cooperation between the Executive Board and the Supervisory Board.

### **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 2002, have in each case been made available for inspection by any interested party on the company’s website at [www.kuka.com](http://www.kuka.com).

The identical declarations of the Executive Board (February 11, 2008) and of the Supervisory Board (February 25, 2008) in accordance with article 161 German Corporation Act (AktG) and the German Corporate Governance Code read as follows:

“KUKA Aktiengesellschaft has since issuing the latest (identical) declaration of compliance of the Executive Board (February 12, 2007) and of the Supervisory Board (February 23, 2007) complied with, and continues to comply with, the recommendations of the Government Commission on the German Corporate Governance Code as amended on June 12, 2006 or respectively since its validity as amended on June 14, 2007, which were published in the electronic edition of the Bundesanzeiger (German Federal Gazette) dated July 20, 2007, inclusive the recommendation to form a nomination committee for the Supervisory Board since its introduction in September 2007, subject to the following exception:

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

Moreover, KUKA Aktiengesellschaft adheres to nearly all proposals contained in the code.”

As of March 5, 2008, the identical declarations of the Executive Board and the Supervisory Board have been available on the company’s website at [www.kuka.com](http://www.kuka.com).

In accordance with article 17 paragraph 1 of the articles of incorporation of the Company as amended at the Annual General Meeting on June 1, 2006, every member of the Supervisory Board, in addition to reimbursement for expenses, receives a fixed compensation. The compensation amounts to € 30,000 – except for the Chairman of the Supervisory Board and the members of the Supervisory Board committees – and is payable after the end of the financial year; the following report on compensation illustrates particulars about the compensation.

After examination of various variable compensation models and intensive internal and external consultation, the Supervisory Board still upholds the opinion that under consideration of its independ-

ency and all essential aspects, especially the statutory duties of the Supervisory Board, the election terms of its members, and the ongoing legal uncertainty, a fixed compensation presents a reasonable compensation while respecting Corporate Governance. The Supervisory Board is convinced that variable compensation elements would have to be applied to the same criteria as the ones for the Executive Board, which may not meet legal objections. The Supervisory Board will continue to diligently follow the development of the case law and judicial literature; the trends at corporations listed on the stock exchange, and naturally potential changes of the CGC, and will review its opinion in the light of possible developments.

#### **MANAGEMENT AND COMPANY STRUCTURE**

After the sale of the Packaging division, completed on April 19, 2007, the KUKA Group now consists of the KUKA Aktiengesellschaft – IWKA Aktiengesellschaft changed its company name to KUKA Aktiengesellschaft on May 16, 2007 on the basis of a resolution passed in the Annual General Meeting – the managing holding of the group, and the two divisions Robotics (formerly Robotics Technology) and Systems (formerly Plant and Systems Technology). With the exception of a few companies, which in the mean time have become inoperative and are 100 percent owned by KUKA Aktiengesellschaft, all companies of the KUKA Group are allocated to one of the business divisions, which are directly or indirectly being held at 100 percent by either the KUKA Roboter GmbH as the management company of the Robotics division or the KUKA Systems GmbH as management company of the Systems division.

The sale of the Packaging division concludes the disposal of discontinued operations. The sale led to a substantially exceptional earning, to the reestablishment of a reasonable equity of the KUKA Group, and to its debt relief.

As announced, the company relocated its business operations to Augsburg in the beginning of 2007. The Annual General Meeting decided on May 16, 2007 to change the registered address to this location simultaneously with the change of the company name.

Similarities between the business divisions regarding market and product areas, clients, and geographic focus are being identified and intensively developed further. Independent thereof, the business divisions are responsible for their business and thus also for their results. Moreover, as before, controlling the implementation of established targets will be achieved through project and risk management, strong key data oriented management as well as executive staff development and marketing strategies.

#### **COOPERATION OF EXECUTIVE BOARD AND SUPERVISORY BOARD**

The common goal of the Executive Board and the Supervisory Board is the sustainable increase of the shareholder value. To this end, Executive Board and Supervisory Board work closely together in the interest of the company. No former Executive Board members belong to the Supervisory Board. The Executive Board reports to the Supervisory Board regularly, in a timely manner, and comprehensively regarding all planning questions, business development, risk assessment, risk management, and any actions taken in this regard. Therewith, the Executive Board also addresses changes in the business development from established plans and goals, and explains the reasons leading to such changes. The

reporting by the Executive Board also includes compliance issues. Bylaws and standard rules of procedure provide that important business transactions are subject to agreement by the Supervisory Board. Details about the cooperation of Executive Board and Supervisory Board can be found in the report of the Supervisory Board on pages 9 to 15.

#### **EXECUTIVE BOARD**

As mentioned in the previous report of the Supervisory Board dated March 27, 2007, the Executive Board member Mr. Gerhard Wiedemann took over as Chairman and Labor Director on January 1, 2007.

The Executive Board of the company therefore continues with three members:

Gerhard Wiedemann, the Chairman of the Executive Board, is in particular responsible for strategic corporate development, public relations, senior group executives, personnel, 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 Investor Relations as well as for M&A. Mr. Bernd Liepert is responsible for the Robotics division, as well as for IT and Marketing. Dr. Koch announced that he will not be available for a contract extension beyond March 31, 2009 for personal reasons.

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 avoids conflicts of interest.

In 2007, Supervisory Board and Executive Board revised their standard rules of procedure and passed the revised versions at the end of November /beginning of December 2007.

To clarify the applicable principles for the business activities of the KUKA Group and according to the Best Practices for companies listed on the Stock Exchange, the Executive Board of KUKA Aktiengesellschaft decided in mid 2007 to establish a Corporate Compliance Program for the KUKA Group. It was passed as planned by the Executive Board at the end of November 2007 and approved and acknowledged by the Supervisory Board immediately afterwards in the beginning of December 2007. The implementation in the KUKA Group, especially the realization of training will likely continue through the first half of 2008. The Corporate Compliance Program is currently embodied in a manual and a total of 15 guidelines, which deal with the fields of law and business activities relevant to the group. According to the resolution of the Executive Board, the Chairman of the Board is the highest competence for this program. It is led, implemented, governed, and further developed by a Compliance Committee, formed on the level of the KUKA Aktiengesellschaft by five persons employed by the Group. Each company appoints a Compliance Officer. Additionally, the position of an external ombudsman will be established.

The Corporate Works Council was engaged in a timely manner as far as rights of codetermination of the Corporate Works Council were affected by the Corporate Compliance.

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 2007 on page 125ff.

#### **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. There were no personnel changes on the Supervisory Board for the fiscal year 2007. The term of office of the members of the Supervisory Board 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. The company's 2008 Annual General Meeting on May 15, 2008 will decide about the seats for representatives of the shareholders on the Supervisory Board; the term of office of the Supervisory Board members elected there starts immediately after this Annual General Meeting. The election process for the election of the representatives of the employees to the Supervisory Board was initiated in October 2007; their term of office also starts immediately after this Annual General Meeting.

To the extent that members of the Supervisory Board were employed in a controlling position with important business partners, transactions with them 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).

At its meeting in September 2007, the Supervisory Board formed a nomination committee according to Section 5.3.3 CGC in addition to the previously existing three committees (Committee according to article 27 paragraph 3 German Labor-Management Co-Determination Act (MitbestG), Personnel Committee, and Audit Committee) with the objective to prepare the passing of a resolution by the Supervisory Committee regarding the election proposals for the shareholders representatives in the Supervisory Board, especially under consideration of the specific requirements of the company. The implementation of the committee shall guarantee that the Supervisory Board can fulfill its objective to elect new Supervisory Board members in a qualified manner.

According to the regulations of the German Corporate Governance Codex, the Supervisory Board or the Audit Committee were engaged with compliance issues and the Executive Board reported to these committees accordingly.

It has been agreed with the independent auditor that he/she 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. Finally, it will also be agreed with the independent auditor that he/she 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). As ordered, the auditor reviewed the interim report per June 30, 2007.

In the past year, the Supervisory Board again reviewed the efficiency of its activities (Section 5.6 CGC) pursuant to the regulations of the Corporate Governance Codex at its meeting in September of 2007. The review was conducted on the basis of a questionnaire and provided an overall positive result.

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 2007 on page 130 / 131 of the annual report.

No member of the Executive Board and the Supervisory Board holds more than 1 percent of the shares issued by KUKA Aktiengesellschaft. The total shares of all Executive Board members and Supervisory Board members does not exceed 1 percent.

#### **ANNUAL GENERAL MEETING**

The ordinary Annual General Meeting 2008 will take place in Augsburg on May 15, 2008.

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.

#### **ACCOUNTING AND AUDIT OF THE ANNUAL FINANCIAL STATEMENTS**

Since 2004, the annual financial statements for the KUKA 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, elected by the Annual General Meeting. Per proposal of the Supervisory Board, the Annual General Meeting 2007 elected Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, as auditor for the annual accounts and group auditor for the fiscal year 2007 as well as for a potential review of the mid year report of the fiscal year 2007. The mid year report of the fiscal year 2007 was reviewed by an auditor for the first time based on the aforementioned resolution.

The review of the independence of the auditor, the issuing of the audit assignment to him / her, 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.

#### **OPPORTUNITIES AND RISK MANAGEMENT**

A detailed description of the opportunities including control and risk management at the KUKA Group is included in the chapter on control and risk management of the Annual Report on pages 53 – 59. In accordance with legal requirements, the aim of risk management is the early recognition of risks that

could jeopardize the continued existence of the KUKA 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. KUKA further optimized opportunity and risk management throughout the year 2007. The adaptation of opportunity and risk management to changes in the business environment is an ongoing task of the Executive Board.

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, mid year statements, the Annual Report, the financial press conference reporting on the annual financial statements, and the ordinary 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 (Disclosure of shareholders and owners of certain financial instruments), 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 the backside coverpage of this annual report and on the website at [www.kuka.com](http://www.kuka.com).