

CORPORATE GOVERNANCE REPORT

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

Responsible and transparent corporate governance is a fundamental KUKA principle. This applies especially to the cooperation between the Executive Board and the Supervisory Board.

DECLARATION OF COMPLIANCE

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

The identical declarations of the Executive Board dated March 2, 2010 and of the Supervisory Board dated March 5, 2010 in accordance with article 161, para. 1, clause 1 of the German Stock Corporation Act (AktG) and the German Corporate Governance Code read as follows:

“1. KUKA Aktiengesellschaft deviated from the recommendation in section 3.8, clause 4 of the old version of the CGC and from the reproduced legal stipulation in section 3.8, clause 4 of the CGC for the Executive Board members in office until the close of September 30, 2009, insofar as the D&O insurance for these members included only a small deductible. KUKA Aktiengesellschaft considered this deductible sufficient to ensure that Executive Board members would conscientiously carry out their duties in the interests of the company. The employment contracts of new members of the Executive Board, who took office on October 1, 2009 or later, took into consideration the legal requirements regarding deductibles stipulated by article 93, para. 2, clause 3 of the new version of the German Stock Corporation Act (AktG). However, these Executive Board members are still covered by the D&O group policy concluded prior to the amendment to article 93, para. 2, clause 3 of the AktG, which only includes a small deductible. As per the transitional regulation in article 23, para. 1, clause 1 of the Introductory Law for the German Stock Corp. Act (EGAktG), this group policy will be amended on July 1, 2010.

2. KUKA Aktiengesellschaft’s policy for the Supervisory Board deviates from the recommendation outlined in section 3.8, clause 4 of the old version of the CGC and section 3.8, clause 5 of the new version of the CGC. The deductible outlined in the Directors’ and Officers’ group liability insurance (D&O insurance) for Supervisory Board members is canceled effective January 1, 2010. In KUKA Aktiengesellschaft’s view, the deductible for Supervisor Board members is not required to ensure they properly fulfill their monitoring role.

3. Contrary to section 4.2.3, clause 3 of the new version of the CGC, Executive Board member Dr. Bickel will receive a fixed salary only, with no variable compensation component. The company considers it unnecessary to pay a variable component, since the initial term of Dr. Bickel's appointment to the Executive Board is one year. In KUKA Aktiengesellschaft's view, a variable compensation component for an assignment of such short duration will not produce any meaningful long-term incentive.
4. The Executive Board contracts for current Executive Board members do not contain any limitation clauses regarding premature termination of Executive Board duties without material cause (section 4.2.3, clause 11, new version). In view of the short duration of the Executive Board contracts, the company considered an agreement on a severance cap to be unnecessary. Mr. Schulak's Executive Board contract has a term of three years and the Executive Board contracts of the remaining Executive Board members are each valid for one year.
5. The compensation received by members of the Supervisory Board is entirely fixed (section 5.4.6, clause 4, CGC). After examining different variable compensation models and consulting extensively with both internal and external experts, the Supervisory Board is firmly convinced that, in consideration of its independence and all essential aspects, in particular the Supervisory Board's statutory duties, its members' terms of office and the ongoing legal uncertainty, fixed compensation is a reasonable compensation structure while respecting Corporate Governance.

Moreover, KUKA Aktiengesellschaft also adheres to nearly all proposals 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-ag.de since March 10, 2010.

MANAGEMENT AND COMPANY STRUCTURE

KUKA Group consists of KUKA Aktiengesellschaft – the Group's managing holding company – and the two divisions, Robotics and Systems. All Group companies are – with few exceptions – allocated to the two management companies KUKA Roboter GmbH and KUKA Systems GmbH and are directly or indirectly held by these, for the most part 100 percent.

Similarities between the business divisions regarding market and production areas, clients and geographic focus are 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 is achieved through controlling and risk management, strong key data oriented management as well as executive staff development and brand strategies.

The Executive Board of KUKA Aktiengesellschaft consisted of two persons on January 1, 2009; namely, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). KUKA Aktiengesellschaft's articles of association expressly state that the Executive Board may consist of two persons (article 6, paragraph 1 of the company's articles of association). On November 16, 2009, the Supervisory Board resolved to expand the Executive Board by one function; namely, that of Chief Operating Officer (COO) responsible for restructuring and organization. Dr. Bickel was appointed to this position and became a member of the Executive Board on November 17, 2009.

The reorganization is tied to refining and implementing the cost efficiency program.

RESPONSIBLE COOPERATION OF EXECUTIVE BOARD AND SUPERVISORY BOARD

The common goal of the Executive Board and the 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 Executive Board members belong to the Supervisor 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. In the process, 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 of the Executive Board to the Supervisory Board also includes the topic of Corporate Compliance. Articles of association and standard rules of procedure have provisions ensuring 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 8 to 15.

In the financial year 2009, there were no consulting or other services or work contracts in place between Supervisory Board members and the company.

There were no conflicts of interest between Executive Board and Supervisory Board members that would require immediate disclosure

Dr. Bickel is a member of the company's Executive Board and is also a member of the management team of consulting company Alvarez & Marsal Deutschland GmbH, which is under contract to the company. The terms and conditions related to the appointment of Dr. Bickel and signing of his Executive Board contract, as well as the contract between the company and consultants Alvarez & Marsal Deutschland GmbH, were meticulously scrutinized beforehand by the Personnel Committee and the Supervisory Board. In the event of a conflict of interest, Dr. Bickel is obliged to give priority to the interests of KUKA Aktiengesellschaft. Dr. Bickel cannot participate in any decisions as manager of Alvarez & Marsal Deutschland GmbH that involve KUKA Aktiengesellschaft.

EXECUTIVE BOARD

In financial 2009, the Executive Board consisted of two members until November 17, 2009, at which time a third member was added. The following changes took place at the Executive Board level:

Dr. Horst J. Kayser resigned from his position as CEO and Labor Director of KUKA Aktiengesellschaft effective September 30, 2009. Up until the date of his resignation from the Executive Board, Dr. Kayser was in particular responsible for the strategic development of the company, public relations, senior managers of the Group, as well as the personnel and legal departments.

Dr. Till Reuter was appointed Chairman of the Executive Board of KUKA Aktiengesellschaft effective October 1, 2009. As Dr. Kayser's successor, he took over his duties, with the exception of the Personnel department and position of Labor Director, effective October 1, 2009. Dr. Reuter is also responsible for the Investor Relations department.

Dr. Matthias J. Rapp resigned from his position as member of the Executive Board responsible for Finance and Controlling effective September 30, 2009. Until the time of his resignation from the Executive Board, he was in particular responsible for Finance and Controlling and Investor Relations.

Mr. Stephan Schulak was appointed as KUKA Aktiengesellschaft's CFO effective October 1, 2009 and Director of Labor on October 21, 2009. As Dr. Rapp's successor, he took over his responsibilities with exception of the Investor Relations department, effective October 1, 2009. Mr. Schulak was also named Director of Labor and is responsible for the Personnel department.

Dr. Walter Bickel was appointed to the Executive Board as COO effective November 17, 2009. He assumed responsibility for the "Restructuring and Organization" (COO) area of responsibility. In this function, Dr. Bickel is responsible for the "Risk Management", "Organization", "Purchasing", "IT", and "Facility Management" departments.

As a rule, the Executive Board members convene at least every 14 days, and they also keep in constant close contact at other times. The Executive Board avoids conflicts of interest. The members of the Executive Board had no conflicts of interests during the financial year.

COMPENSATION OF THE EXECUTIVE BOARD

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

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 election of employee representatives on the Supervisory Board was held on April 15, 2008. The results of the vote were published in the electronic version of the Bundesanzeiger on April 24, 2008.

The term of office of the employee representatives on the Supervisory Board began immediately after the adjournment of the Annual General Meeting on May 15, 2008 and will end after the adjournment of the Annual General Meeting in 2013.

Mssrs Pepyn René Dinandt and Helmut Gierse resigned from their position on the Supervisory Board of the company effective as of the adjournment of the Annual General Meeting of the company on April 29, 2009. At the Annual General Meeting of the company on April 29, 2009, Mr. Bernd Minning and Dr. Till Reuter were elected as members of the Supervisory Board in place of Mr. Dinandt and Mr. Gierse.

Mr. Minning's and Dr. Reuter's terms of office end as of the adjournment of the Annual General Meeting in 2013.

Dr. Rolf Bartke, Dr. Reiner Beutel, Dr. Herbert Meyer and Dr. Helmut Leube resigned from their positions as members of the Supervisory Board effective September 18, 2009 and stepped down from the panel.

As per the resolution by the Augsburg magistrates court dated September 18, 2009, Prof. Dr. Dirk Abel, Prof. Dr. Uwe Loos, Dr. Uwe Ganzer and Mr. Guy Wyser-Pratte were appointed to the Supervisory Board. The terms of office of Prof. Dr. Abel, Prof. Dr. Loos, Dr. Ganzer and Mr. Wyser-Pratte will end as of the adjournment of the Annual General Meeting in 2010 as per the resolution of the magistrates court.

Dr. Till Reuter was elected as Chairman of the Supervisory Board in the Supervisory Board meeting of September 21, 2009.

Because of Dr. Till Reuter's appointment as Chairman of the Executive Board of the company in compliance with the stipulations of article 105, paragraph 2 of the German Stock Corporation Act, Dr. Reuter resigned from his position of Chairman of the Supervisory Board effective September 29, 2009. His mandate as a member of the Supervisory Board has been suspended since then.

Mr. Bernd Minning was elected as the new Chairman of the Supervisory Board, replacing Dr. Till Reuter, in the Supervisory Board meeting of September 29, 2009.

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 arm's-length transactions.

In the opinion of the Supervisory Board, it has an adequate number of independent members to ensure that the Supervisory Board is able to independently advise and monitor the Executive Board. The independence criteria as per section 5.4.2 are thus fulfilled. Dr. Ganzer, an independent member of the Supervisory Board and its Audit Committee, is a specialist in the fields of accounting and auditing.

During the financial year, members of the Supervisory Board had no conflicts of interest. Six committees consisting of Supervisory Board members were formed by the Supervisory Board. These are:

- (i) the arbitration panel as per article 27, paragraph 3 of the MitbestG (German Act on Co. Co-determination),
- (ii) the Personnel Committee,
- (iii) the Audit Committee (section 5.3.2 CGC),
- (iv) the Nomination Committee (section 5.3.3 CGC),
- (v) the Strategy and Development Committee and
- (vi) the Technology and Production Committee

According to the regulations of the Corporate Governance Code, the Supervisory Board or the Audit Committee dealt with compliance issues and the Executive Board reported to these committees accordingly.

It has been agreed with the independent auditor that the independent auditor 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 is also agreed with the independent auditor that the independent auditor 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 the 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, 2009.

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 Code. The Supervisory Board had resolved to involve the University of Witten/Herdecke to academically monitor the review of the Board's efficiency. The academic monitoring covers a period from 2008 to 2010 within the scope of the research project "High-Performance Boards – Quality and Efficiency in the Supervisory Board Committee" led by the Institute for Corporate Governance at the University of Witten / Herdecke. The Supervisory Board heard a report on the results of this review in its meeting on April 29, 2009.

COMPENSATION OF THE SUPERVISORY BOARD

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

SHAREHOLDING

Dr. Till Reuter has been allocated a total of 1.73 percent of the shares issued by KUKA Aktiengesellschaft. Details hereto can be found in the Management Report p. 59. Other members of the Executive Board do not own shares issued by KUKA. Mr. Guy Wyser-Pratte has been allocated a total of 8.8 percent of the shares issued by KUKA AG. Altogether, the remaining members of the Supervisory Board hold less than 1 percent of the issued shares.

CORPORATE COMPLIANCE

Essential targets are strict obedience to the law and value-oriented behavior. These form the basis of the Corporate Compliance Program passed by the Executive Board in November 2007 and approved by the Supervisory Board in December 2007, which took effect throughout the corporation on February 1, 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. The Corporate Compliance Program is led, implemented, monitored and further developed by a Compliance Committee, consisting of Group employees. A Compliance Officer has been appointed at each of the management companies, KUKA Roboter GmbH and KUKA Systems GmbH. The position of an external ombudsman has also been established. Training for managers and employees was enhanced and continued again in 2009.

ANNUAL GENERAL MEETING

The ordinary Annual General Meeting 2010 will take place in Augsburg on April 29, 2010.

Each share has one vote. Unit shares are distributed and global certificates are created. The shares are bearer shares. The Executive Board makes it easier for the shareholders to exercise their voting rights by offering them the right to issue powers of attorney to proxies who are appointed by the company and 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 the 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 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. The audit of the annual financial statements and of the Group con-

solidated financial statements is performed by an independent auditor, elected by the Annual General Meeting. Per proposal of the Supervisory Board, the Annual General Meeting 2009 elected PricewaterhouseCoopers Aktiengesellschaft, auditors, Frankfurt/Main, as auditor for the annual accounts and group auditor for fiscal 2009 as well as for a potential review of the midyear report of fiscal 2009. The midyear report for fiscal 2009 was reviewed by the auditor based on the aforementioned resolution.

The review of the independence of the auditing firm, the issuing of the audit assignment to it, the determination of audit focuses and the agreement on the fee were undertaken by the Audit Committee of the Supervisory Board in accordance with the provisions of the Corporate Governance Code.

OPPORTUNITIES AND RISK MANAGEMENT AND CONTROLLING

A detailed description of the opportunities including controlling and risk management at KUKA Group is included in the chapter on risk management of the annual report on pages 49 to 55. In accordance with legal requirements, the aim of risk management is the early recognition of risks that could jeopardize the continued existence of 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 long-term perspective. In particular, controlling is an essential tool of efficient risk management at KUKA Group.

KUKA further optimized opportunity and risk management throughout the year 2009. The adaptation of opportunity and risk management to changes in the business environment is an ongoing task of the Executive Board.

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, midyear 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 the Annual Document in accordance with article 10 WpPG (Securities Prospectus Act), ad-hoc releases according to article 15 WpPG (German Securities Trading Act), notices according to article 15a WpPG (Directors' Dealings) and article 26 WpPG (Disclosure of Shareholders and Owners of Certain Financial Instruments), 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 back cover page of this annual report and on the website at www.kuka-ag.de.