KUKA

Q1/17
INTERIM REPORT

Developments in the first quarter of 2017

Orders received increase by nearly 29.6% to 967.3 million euro in Q1/17

Sales revenues grow by almost 25,7% to 790.8 million euro

The **EBIT margin** reaches 5.0% before purchase price allocation for Swisslog and before growth investment

Earnings after taxes came in at 26.6 million euro in Q1/17 after 20.9 million euro in Q1/16

Key figures

in € millions	Q1/16	Q1/17	Change in %
Orders received	746.5	967.3	29.6
Order backlog (Mar. 31)	1,733.4	2,264.1	30.6
Sales revenues	629.1	790.8	25.7
Gross profit	176.6	195.3	10.6
in % of sales revenues	28.1	24.7	–
Earnings before interest and taxes (EBIT)	31.4	36.9	17.5
in % of sales revenues	5.0	4.7	–
Earnings before interest, taxes, deprecation and amortization (EBITDA)	48.6	55.5	14.2
in % of sales revenues	7.7	7.0	–
Earnings after taxes	20.9	26.6	27.3
Earnings per share (undiluted) in €	0.54	0.67	24.1
Earnings per share (diluted) in €	0.54	0.67	24.1
Capital expenditure (annual average)	19.0	15.3	-19.5
Equity ratio in % (Mar. 31)	32.7	33.2	–
Net liquidity/debt (Mar. 31)	179.0	5.0	-97.2
Employees (Mar. 31)	12,433	13,565	9.1

Foreword

Dear Shareholders,

KUKA has got off to a very successful start this year. In the first quarter we posted orders received amounting to 967.3 million euro.. This corresponds to an increase of almost 30 percent on the previous year. All divisions contributed to this result with a double-digit growth rate. Sales revenues were up 25.7 percent year-on-year from 629 million euro to 791 million euro. This increase is attributable to the high level of orders in the preceding quarters.

The EBIT margin before purchase price allocation for Swisslog and before growth investment was 5.0 percent in the first quarter, compared with 5.4 percent in the previous year. We are on course to meet our guidance targets for the full year.

This quarter's highlight is our fantastic appearance at Hannover Messe. Covering an area of around 800 square meters, our exhibits included the Smart Factory, the biggest networked trade fair application in our company's history.

The Smart Factory was capable of manufacturing, packaging and delivering a customized product for trade fair visitors in an extremely short lead time. The product was a puzzle, manufactured in a batch size of 1, that the visitors could collect straight away. The visitors chose their own image for their puzzle: in addition to default images, they could also upload their own photos or have a photographer take a picture of them standing next to a mobile, autonomous KMR iiwa robot. The application unites the technological spectrum of all KUKA divisions: the Smart Factory combines KUKA's technologies, products, solutions and skills into a highly flexible and networked production system.

Exhibiting at neighboring booths were the start-ups connyun and Roboception, which complement our KUKA expertise very well. While connyun is developing a platform for an ecosystem with partners, Roboception is endowing our robots with a sense of vision and perception.

We were especially pleased to welcome German Chancellor Angela Merkel and the Polish Prime Minister Barbara Szydło as visitors to the KUKA booth. This we regard as a measure of recognition for our employees and our technologies.

Our customers too have accorded us recognition, with KUKA Systems, for example, being chosen by General Motors as Supplier of the Year in the Powertrain & Bodyshop category.

We have thus made a successful start to the year and I am looking forward to further successful projects with the KUKA team.

Sincerely,

Dr. Till Reuter

KUKA and the capital market

KUKA shares rise 14.2% in Q1/17

Since the start of the year, the worldwide stock markets have progressed positively. The European stock markets continued to benefit from low interest rates, the expansive monetary policy of the European Central Bank and the positive economic news from Asia. These positive factors have greatly outweighed the critical issues such as Brexit and other political uncertainties. The DAX rose by 7.2% to 12,313 points and the MDAX by 7.7% to 23,904 points in the first quarter.

The strong global demand for robots and automation solutions and the positive key financial indicators for 2016 as a whole are having a positive impact on the development of KUKA shares. Altogether, the price of KUKA shares rose by 14.2% from €88.55 at year-end 2016 to €101.10 on March 31, 2017. Share prices developed within a range of -7.7% to +21.0% in KUKA's peer group (companies that have a similar business base and are of a comparable size).

The Executive and Supervisory Boards of KUKA AG will recommend to shareholders at the Annual General Meeting on May 31, 2017 that a dividend of €0.50 per entitled share will be paid.

Completion of share transfer to MECCA/Midea

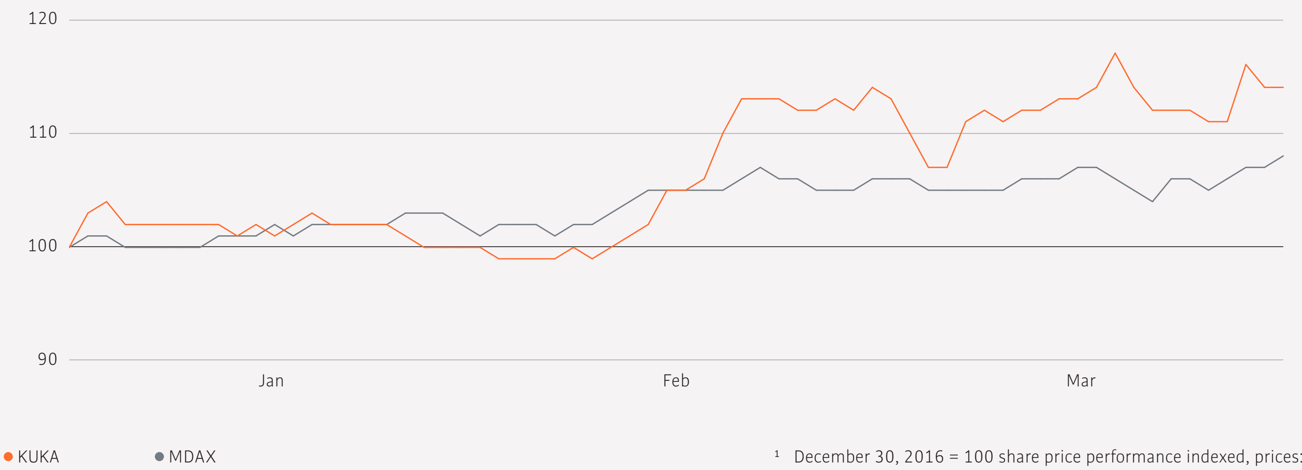
MECCA International (BVI) Limited, an indirect wholly-owned subsidiary of Midea Group Co., Ltd., published the tender document for a voluntary public takeover bid in the form of a cash offer to the shareholders of KUKA AG on June 16, 2016 to acquire all no-par-value bearer shares of KUKA with a pro rata amount of share capital of €2.60 per share in return for payment of a cash consideration each of €115.00 per KUKA share tendered for sale.

The period for accepting the takeover bid ended on July 15, 2016 and the extended acceptance period ended on August 3, 2016. On August 8, 2016 MECCA/Midea announced that 94.55% of KUKA shareholders had accepted the offer. The takeover was subject to antitrust and foreign economic approvals.

All completion conditions for the takeover bid were then met by December 29, 2016.

The takeover bid was concluded on January 6, 2017. The last price of the "KUKA shares tendered for sale" (WKN: A2BPXK, ISIN: DE000A2BPXK1) was determined on January 2, 2017 before they were transferred to Midea upon completion of the takeover. The "KUKA shares tendered for sale" were converted back into "normal" KUKA shares (WKN: 620440, ISIN: DE0006204407).

KUKA share price performance
January 1 – March 31, 2017 [1]



[1] December 30, 2016 = 100 share price performance indexed, prices: Xetra

Consolidated management report

Economic environment

Demand for cars

Global car market set to grow by 3% in 2017

The car market in Germany recorded a 7% increase in the first three months of 2017 according to the German Automotive Industry Association (VDA). The sales of German manufacturers also increased by 5% in the US market in the first quarter of 2017, despite the overall market in the USA experiencing a slight decline of -1%. The VDA is anticipating growth of 3% in the global car market for 2017 and 85 million new car registrations. According to the forecast, Europe will record slight growth with 17.6 million cars. Germany should remain stable at a high level with an estimated total of 3.35 million new registrations. The Chinese market is expected to grow by 5% to 25 million new car registrations. According to the VDA forecast, the US car market will maintain its record sales of 17.5 million light vehicles in 2017.

The pace of the contest to innovate the best technologies is increasing worldwide, especially in terms of digital networking and electromobility. In order to maintain their international competitive position in the future, the German automotive manufacturers are planning to step up their investment in alternative drive systems to up to €40 billion by 2020 according to the VDA. The VDA is expecting manufacturers to more than treble their range of electric car models by 2020. This means that the roughly 30 models at present would increase to almost 100.

Global automation trend continues

Sales figures for robot-based automation are rising worldwide. According to an estimate by the International Federation of Robotics (IFR), the average growth rate between 2015 and 2018 will be at least 15%. The IFR is anticipating an average growth rate between 2016 and 2018 of 20 – 30% in China alone. Average growth in Europe and the Americas is estimated at 10%. The main reason for the rise in demand for automation solutions is the improvement of production processes in order to remain competitive. Product life cycles are becoming ever shorter and demand among consumers is increasing worldwide. However, quality requirements are also becoming more stringent. This necessitates flexible production solutions. Industrial robots can be used to implement new concepts and solutions. The IFR estimates that the number of newly installed industrial robots will increase to a total of 1.3 million between 2015 and 2018.

Business performance

Orders received

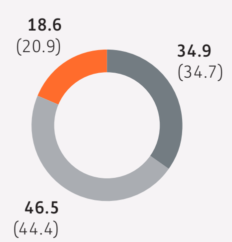
KUKA Group

In the past quarter, KUKA Group's volume of orders received was €967.3 million. Thus KUKA reached its second-highest record level in a quarter, surpassing the figure of the prior-year quarter by 29.6% (Q1/16: €746.5 million). All divisions contributed to this good result with double-digit growth rates compared to the previous year. The Robotics division achieved a gain of 27.2% on the previous year, the Systems division increased by 15.6% and Swisslog even grew by 83.1%. All three segments (Automotive, General Industry and Service) recorded high demand.

KUKA Robotics

In the first quarter of 2017, the Robotics division reported orders received totaling €307.4 million, surpassing the €300 million mark for the second time in succession. Compared to the same period last year (Q1/16: €241.7 million), this represents growth of 27.2%. In the first quarter of 2017, orders received in the Automotive segment reached a total volume of €107.3 million. Compared to the prior-year quarter, this corresponds to an increase of 28.0% (Q1/16: €83.8 million). The orders were mainly due to call-offs from framework contracts of German and American automobile manufacturers. General Industry business also increased, with orders received rising from €107.4 million (Q1/16) to €143.0 million in the first quarter of 2017, accounting for growth of 33.1%. This increased the proportion of General Industry business in the overall volume of orders received by 4.7%. Simultaneously, the Service business was boosted by the high demand for industrial robots in recent years. In this segment, orders received were up from €50.5 million (Q1/16) to €57.1 million (Q1/17), an increase of 13.1%.

Robotics orders received by segment Q1/17 (Q1/16)
in % of total



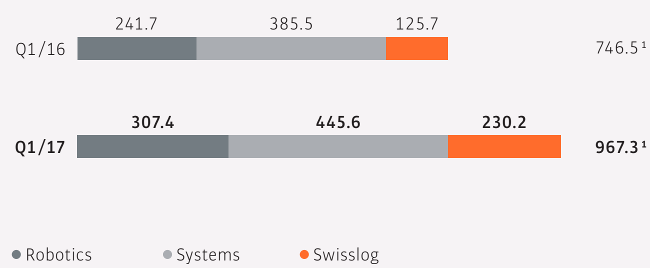
KUKA Systems

The Systems division generated orders received worth €445.6 million in the first quarter of 2017. Compared to the previous year's result for the same period (€385.5 million), this represents a rise of 15.6%. Both the Body Structure business and Assembly & Test grew significantly in the past quarter.

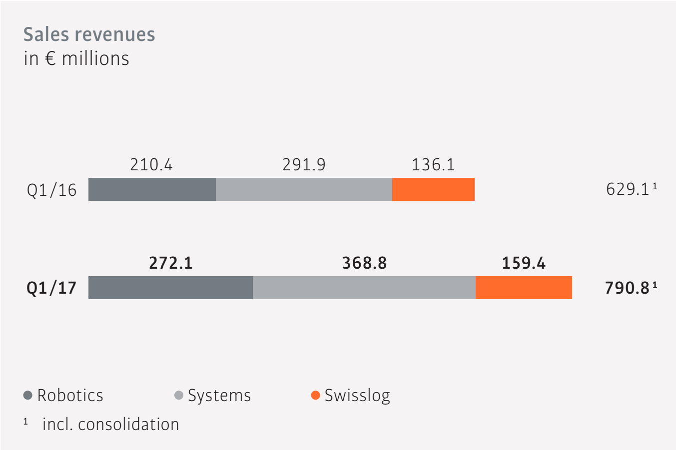
Swisslog

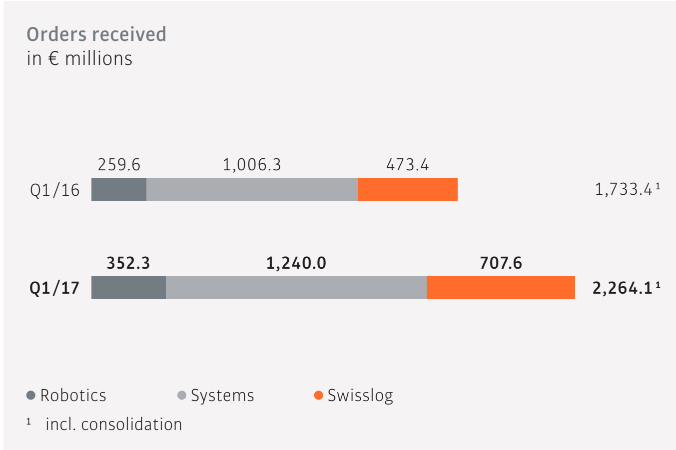
In the first quarter of 2017, the Swisslog division achieved orders received totaling €230.2 million (Q1/16: €125.7 million), equivalent to an increase of 83.1%. The positive development over the previous quarters has continued into 2017. This trend has been driven by the Logistics segment, which showed substantial growth.

Orders received
in € millions



[1] incl. consolidation





Sales revenues

KUKA Group

KUKA Group generated sales revenues totaling €790.8 million in the first quarter of 2017. Compared to the same quarter in the previous year, revenues improved by 25.7% (Q1/16: €629.1 million). All divisions contributed to this positive development. Robotics registered an increase of 29.3%, Systems 26.3% and Swisslog 17.1%.

KUKA Robotics

In the first quarter of 2017, sales revenues in the Robotics division rose to €272.1 million. This represents an increase of 29.3% on the result for the first quarter of 2016 (Q1/16: €210.4 million). One of the reasons for this is the good demand in the General Industry and Automotive segments.

KUKA Systems

Sales revenues of the Systems division amounted to €368.8 million, corresponding to an increase of 26.3% on the prior-year quarter (Q1/16: €291.9 million). Thanks to the strong level of orders received in 2016, project execution, and hence revenue generation, increased substantially in the first quarter of 2017 compared to the same period last year. All regions (Europe, the Americas and Asia) contributed to this increase.

Swisslog

In the first quarter of 2017, the Swisslog division achieved sales revenues amounting to €159.4 million. Compared to the same quarter last year, the figure rose by 17.1% (Q1/16: €136.1 million). The high volumes of orders received during the past quarter led to growth in revenues for Swisslog.

Book-to-bill ratio and order backlog

KUKA Group

The book-to-bill ratio, in other words the ratio of orders received to sales revenues, improved significantly. This indicator benefited from the high volumes of orders received and reached 1.22 in the past quarter (Q1/16: 1.19). This figure significantly surpassed that of the prior-year quarter. As the orders received exceeded the sales revenues, the order backlog within the Group also increased during the quarter under review, reaching an amount of €2,264.1 million as of March 31, 2017. Compared to the prior-year quarter, the order backlog was 30.6% higher (March 31, 2016: €1,733.4 million).

KUKA Robotics

In the first quarter of 2017, the book-to-bill ratio at the Robotics division was 1.13, whereas it had been 1.15 in the same quarter last year. As of March 31, 2017, the order backlog totaled €352.3 million excluding framework contracts won especially in the Automotive segment. Compared to the reference value for the previous year, this represents an increase of 35.7% (March 31, 2016: €259.6 million).

KUKA Systems

The book-to-bill ratio in the Systems division amounted to 1.21 in the first quarter of 2017 (Q1/16: 1.32). As of March 31, 2017, the Systems division had an order backlog of €1,240.0 million. This is a significant increase of 23.2% on the comparable figure for the previous year (March 31, 2016: €1,006.3 million).

Swisslog

In the first quarter of 2017, the Swisslog division reported a book-to-bill ratio of 1.44, thus reaching a higher figure than in the prior-year quarter (Q1/16: 0.92). The order backlog amounted to €707.6 million as of March 31, 2016, which here too was considerably higher (49.5%) than the previous year's value (March 31, 2016: €473.4 million).

EBITDA

KUKA Group

In the first quarter of 2017, KUKA Group generated earnings before interest, taxes, depreciation and amortization (EBITDA) amounting to €55.5 million (Q1/16: €48.6 million), corresponding to a growth of 14.2%.

EBIT

KUKA Group

Earnings before interest and taxes (EBIT) for KUKA Group rose by 17.5% from €31.4 million (Q1/16) to €36.9 million in the first quarter of 2017. The EBIT margin decreased from 5.0% (Q1/16) to 4.7% (Q1/17), essentially caused by the slightly greater increase in the cost of sales compared with sales revenues.

Robotics

In the reporting period, the Robotics division achieved an EBIT of €25.9 million (Q1/16: €21.2 million). The EBIT margin at 9.5% was lower than for the previous year (Q1/16: 10.1%), partly attributable to the higher cost of sales.

Systems

The Systems division generated an EBIT of €26.3 million in the first quarter of 2017. Compared to the prior-year quarter, this corresponds to a rise of 37.7% (Q1/16: €19.1 million). The EBIT margin increased from 6.5% (Q1/16) to 7.1% (Q1/17).

Swisslog

In the first quarter of 2017, EBIT was -€1.9 million (Q1/16: -€0.7 million) for the Swisslog division, and the EBIT margin was -1.2% (Q1/16: -0.5%) in the past quarter.

Performance of the devisions

Key Figures Robotics

in € millions	Q1/16	Q1/17	Change in %
Orders received	241.7	307.4	27.2
Order backlog (Mar. 31)	259.6	352.3	35.7
Sales revenues	210.4	272.1	29.3
Gross profit	85.7	96.3	12.4
in % of sales revenues	40.7%	35.4%	–
Earnings before interest and taxes (EBIT)	21.2	25.9	22.2
in % of sales revenues	10.1%	9.5%	–
Earnings before interest, taxes, depreciation and amortization (EBITDA)	26.6	31.8	19.5
in % of sales revenues	12.6%	11.7%	–
Employees (Mar. 31)	4,302	4,923	14.4

Key Figures Systems

in € millions	Q1/16	Q1/17	Change in %
Orders received	385.5	445.6	15.6
Order backlog (Mar. 31)	1,006.3	1,240.0	23.2
Sales revenues	291.9	368.8	26.3
Gross profit	53.9	59.8	10.9
in % of sales revenues	18.5%	16.2%	–
Earnings before interest and taxes (EBIT)	19.1	26.3	37.7
in % of sales revenues	6.5%	7.1%	–
Earnings before interest, taxes, depreciation and amortization (EBITDA)	23.3	30.5	30.9
in % of sales revenues	8.0%	8.3%	–
Employees (Mar. 31)	5,176	5,249	1.4

Key Figures Swisslog

in € millions	Q1/16	Q1/17	Change in %
Orders received	125.7	230.2	83.1
Order backlog (Mar. 31)	473.4	707.6	49.5
Sales revenues	136.1	159.4	17.1
Gross profit	37.2	39.4	5.9
in % of sales revenues	27.3%	24.7%	–
Earnings before interest and taxes (EBIT)	-0.7	-1.9	> 100
in % of sales revenues	-0.5%	-1.2%	–
Earnings before interest, taxes, depreciation and amortization (EBITDA)	5.0	4.4	-12.0
in % of sales revenues	3.7%	2.8%	–
Employees (Mar. 31)	2,574	2,714	5.4

Financial position and performance

Earnings

In the reporting period, KUKA Group posted sales revenues totaling €790.8 million (Q1/16: €629.1 million). At €967.3 million, the volume of orders received represents the second-highest level in a quarter for the Group. The order backlog reached a new peak of €2,264.1 million (Q1/16: €1,733.4 million). The gross earnings from sales increased compared to the same quarter of the previous year by €18.7 million to €195.3 million. Taking into account the slightly greater increase in the cost of sales compared to sales revenues, this results in a gross profit margin at Group level of 24.7% in the first quarter of 2017 (Q1/16: 28.1%).

The sales, research & development and administration costs totaled €157.4 million (Q1/16: €143.8 million) – an increase of €13.6 million or 9.5%. The increase in selling costs was €9.9 million, while a rise of €2.3 million was attributable to administrative expenses. At €31.3 million, the expenses for research and development shown on the income statement for the first quarter of 2017 were slightly higher than for the prior-year quarter (Q1/16: €29.9 million). In relation to sales revenues, the overall overhead costs were reduced from 22.9% to 19.9%.

KUKA stands for Industrie 4.0 made in Germany and is a driving force behind the associated digitization of production processes with its products and key technologies. The networking of automated manufacturing technologies with traditional mechanical engineering and intelligent IT systems lays the foundation for combining highly-quality single-piece production with the benefits of series production. Complex process steps are optimized and dovetailed with a focus on flexibility and cost-efficiency. The approaches which KUKA adopts for Industrie 4.0 are very diverse: from the development of conceptual ideas to real customer projects supported by the close networking of the R&D department, sales and customers. From the ongoing development of human-robot collaboration with sensitive systems – with only small safety fencing or without any at all – through IT networking to investments in start-ups and strategic partnerships. Supporting these activities, KUKA continuously invests in major internal projects to harmonize, standardize and optimize Group-wide processes with a focus on a customer-oriented organization.

These steps and measures will clearly involve extensive investments being made in the future as well (growth investments of approximately €45 million are planned in 2017) which are reflected not only in the costs for research and development, administration and sales but also in the cash flow from investment activities for company acquisitions or a stronger equity base for certain subsidiaries. This makes it all the more interesting when taking a look at the current results of these investments.

It is worth mentioning a few examples here that are already being implemented.

With KUKA Connect, KUKA has developed a new cloud-based software platform that allows customers to easily view the data of their KUKA robots from anywhere in the world and thus to increase the performance and effectiveness of their production operations. Detailed applications are being developed by the sales team in joint workshops with customers. The new start-up connyun founded in 2016 and responsible for the development of a cloud-based platform forms the technical basis for KUKA Connect.

Other notable examples are new, future-oriented technologies such as machine learning via algorithms and the use of 3D cameras on the smart KUKA LBR iiwa lightweight robot (e.g. for automatic sorting after a short training phase).

The opening of a further TechCenter at the end of January 2017 at the Augsburg site is a further example worthy of mention in this context. The six KUKA TechCenters provide consultation and support services worldwide and facilities for the development of joint solutions or the performance of feasibility studies by KUKA with its customers, integrators and system partners.

Or, building on the Power ON program, KUKA is digitally connecting goods, information and financial flows with the Digital Business Cloud. Furthermore, in the second quarter of 2017 KUKA has launched a project for aligning its own organization with various customer ecosystems. The optimization of the communication culture between KUKA and its customers and partners, which has been ongoing since 2017, is also to be seen in this context. This builds especially on the cooperation with Salesforce, which enables KUKA to achieve much closer interaction of customers and partners with sales, service and marketing employees along the entire value chain.

Finally, reference should also be made to the development of highly-qualified employees in all functional areas. Compared to Q1/16, the number of employees in research and development rose by 114, while in sales it increased by 170.

The aim of all this is to support customers with integrated solutions in order to optimize their value creation and to inspire them with solution ideas and concepts for the factory of the future.

The costs of €4.1 million (Q1/16: €4.7 million) incurred for new developments in the period under review were capitalized and will be reported as scheduled amortization in subsequent financial statements. Current research and development expenditures include €2.4 million in depreciation, compared to €1.9 million in Q1/16. This results in a capitalization ratio of 12.4% (Q1/16: 14.4%).

Earnings before interest and taxes (EBIT) for the first three months of this year increased by 17.5% from €31.4 million in Q1/16 to €36.9 million. The EBIT margin for the first quarter of 2017 dropped slightly compared to the same quarter of the previous year from 5.0% to 4.7%.

Without taking into account the scheduled depreciation amounting to €2.8 million arising from the purchase price allocation in connection with the acquisition of Swisslog Group, the EBIT margin would be 5.0%.

	Q1/16	Q2/16	Q3/16	Q4/16	Q1/17
EBIT (in € millions)	31.4	15.3	35.9	44.6	36.9
EBIT margin (in %)	5.0%	2.2%	5.0%	4.9%	4.7%
EBITDA (in € millions)	48.6	32.9	56.7	67.1	55.5
EBITDA margin (in %)	7.7%	4.7%	8.0%	7.4%	7.0%

The Robotics division's margin of 9.5% was slightly below that of the previous year (10.1%). Swisslog achieved a lower EBIT margin of -1.2% as compared with Q1/16 (-0.5%). Adjusted for the effects of purchase price allocation, the margin was 0.6% (Q1/16: 1.5%). The EBIT margin of the Systems segment showed a positive development. Here, the EBIT margin rose to 7.1% (Q1/16: 6.5%).

EBITDA (earnings before interest, taxes, depreciation and amortization) rose to €55.5 million from €48.6 million in the same quarter of the previous year. Depreciation and amortization during the reporting period amounted to €18.6 million (Q1/16: €17.2 million). €5.8 million of this (Q1/16: €5.4 million) was attributable to Robotics, €4.3 million (Q1/16: €4.2 million) to Systems, €6.3 million (Q1/16: €5.8 million) to Swisslog and €2.2 million (Q1/16: €1.8 million) to other areas.

The financial result is below the income of €1.0 million in Q1/16 with an expenditure of €0.9 million.

Interest income was €2.1 million, down from €3.5 million in Q1/16. This mainly includes income from finance leases. Currency effects in the area of financing are shown in the financial result. The net effect in the first quarter amounted to -€0.7 million (Q1/16: €1.4 million).

Interest expenditure from the promissory note loan placed in October 2015 amounted to €0.9 million (Q1/16: €0.9 million). The net interest expense for pensions was €0.4 million (Q1/16: €0.5 million).

Earnings before taxes (EBT) in the first three months of 2017 totaled €36.0 million, compared to €32.4 million in Q1/16. In the period under consideration, taxes amounted to €9.4 million (Q1/16: €11.5 million). This represented a tax rate of 26.1% (Q1/16: 35.5%).

Earnings after taxes were €26.6 million, 27.3% higher than in the prior-year quarter (Q1/16: €20.9 million). The undiluted earnings per share increased correspondingly from €0.54 to €0.67.

Consolidated income statement (condensed)

in € millions	Q1/16	Q1/17
Sales revenues	629.1	790.8
EBIT	31.4	36.9
EBITDA	48.6	55.5
Financial result	1.0	-0.9
Taxes on income	-11.5	-9.4
Earnings after taxes	20.9	26.6

Financial position

The cash earnings are an indicator derived from the earnings after taxes, adjusted for income taxes, net interest, cash-neutral depreciation on tangible and intangible assets, together with other non-cash expenses and income. Cash earnings increased by 12.5% and amounted to €55.0 million in the first quarter of 2017 (Q1/16: €48.9 million).

Cash flow from current business operations decreased to -€82.0 million (Q1/16: -€44.5 million). One cause of this reduction is the scheduled payment of mandatory provisions from 2016. However, the strong increase in trade working capital of €89.4 million to €518.5 million had a much greater impact on the cash flow from current business operations. The high order backlog and order intake, in particular, caused an increase in inventories, trade receivables and receivables from construction contracts.

The following overview shows the development of trade working capital:

in € millions	Dec. 31, 2016	Mar. 31, 2017
Inventories less advance payments	223.2	297.0
Trade receivables and receivables from construction contracts	888.9	979.0
Trade payables and liabilities from construction contracts	683.0	757.5
Trade working capital	**429.1**	**518.5**

In the first three months of 2017, investments amounting to €15.3 million (Q1/16: €19.0 million) were made. Capital investment in tangible assets totaled €7.8 million and concerned technical plant and equipment as well as operating and office equipment. Intangible asset investments totaled €7.5 million, of which €4.1 million was for internally generated intangible assets. There were outflows of cash amounting to €1.4 million in connection with the acquisition of further shares in KBee AG, Munich and Nebbiolo Technologies Inc., Delaware/USA. Outstanding purchase price liabilities in the amount of €11.6 million were also settled for acquisitions from previous years (Reis Group, UTICA). The cash flow from investment activities amounted to -€25.5 million in total (Q1/16: -€18.0 million).

The cash flow from current business operations plus cash flow from investment activities resulted in a free cash flow of -€107.5 million (Q1/16: -€62.5 million).

The cash flow from financing activities amounted to -€1.1 million (Q1/16: €0.6 million).

As a result, the cash and cash equivalents available to KUKA Group at March 31, 2017 totaled €256.9 million (March 31, 2016: €430.9 million). Compared to December 31, 2016, the cash and cash equivalents decreased by €107.3 million (December 31, 2016: €364.2 million).

Syndicated loan for KUKA Aktiengesellschaft

KUKA AG finances itself through a syndicated loan agreement ("SFA – Syndicated Facilities Agreement") which came into effect in April 2015 as part of a refinancing operation with an original term to March 30, 2020. This included two extension options each for one year. The first extension option was exercised in 2016. The second extension option available to KUKA was requested at the start of 2017. As all banks of the SFA approved a further extension, the new final maturity date is now March 30, 2022.

After an amendment came into effect on November 28, 2016, KUKA has a guaranteed credit line from the SFA of €200.0 million and a cash line with the same volume of €200.0 million at its disposal, which can also be used for guarantees as previously. The syndicated loan agreement is unsecured and contains only the customary equal treatment clauses and negative pledges. Covenants for leverage and interest coverage are agreed for the SFA. For further details, please refer to the company's 2016 annual report.

As of the reporting date, the utilization of the guarantee facility and cash credit line from the syndicated loan agreement of KUKA AG amounted to a total of €177.3 million (December 31, 2016: €170.9 million).

Consolidated cash flow statement (condensed)

in € millions	Q1/16	Q1/17
Cash earnings	48.9	55.0
Cash flow from current business operations	-44.5	-82.0
Cash flow from investment activities	-18.0	-25.5
Free cash flow	**-62.5**	**-107.5**

Net worth

The balance sheet total of KUKA Group increased by €63.6 million from €2,543.9 million as at December 31, 2016 to €2,607.5 million as at the reporting date.

Compared to the end of the previous year, non-current assets decreased slightly to €829.9 million as at March 31, 2017 (December 31, 2016: €838.1 million). In this connection, tangible assets declined by €3.4 million, finance lease receivables by €3.7 million and the other receivables and assets by €0.3 million. Amounts totaling €4.1 million were included for investments accounted for using the at-equity method (December 31, 2016: €4.2 million). Deferred tax assets amounted to €48.9 million (December 31, 2016: €48.8 million), with €12.5 million being attributable to losses carried forward (December 31, 2016: €9.8 million).

The value of current assets amounted to €1,777.6 million as of March 31, 2017 (December 31, 2016: €1,705.8 million). Further explanations regarding the current assets are included in the notes on the financial position.

Within the reporting period, equity increased from €840.2 million to €866.4 million. The increase results from earnings after taxes amounting to €26.6 million. Exchange rate effects (essentially USD, CHF and CNY) had the effect of reducing equity by €3.3 million altogether. The valuation of pension provisions including the associated deferred taxes in the first quarter of 2017, while not affecting earnings, resulted in equity increasing by €2.9 million due to a slight rise in the interest rate level and a positive, actual development in plan assets. Minority interests increased slightly from -€0.3 million as of December 31, 2016 to -€0.4 million as of March 31, 2017.

The equity ratio, i.e. the ratio of equity to the balance sheet total, is 33.2%, which is slightly higher than the ratio of 33.0% at the end of the 2016 financial year.

The non-current and current financial liabilities totaled €251.9 million, which compares to €251.2 million at December 31, 2016 and primarily relate to the existing syndicated loan agreement and the issued promissory note loan.

The decrease in pension provisions and similar obligations by €5.0 million is primarily attributable to the effect of the actuarial valuation not affecting net income already described in the previous section in relation to equity changes.

Current liabilities increased from €1,258.1 million as of December 31, 2016 to €1,300.6 million as of March 31, 2017. The seasonal increase in liabilities in the personnel sector such as accruals for unused leave was one of the factors contributing to this. Details of the liabilities for the trade working capital are included in the notes on the financial position.

The existing net liquidity of the Group, i.e. the liquid assets less the current and non-current financial liabilities, dropped from €113.0 million at year-end 2016 to €5.0 million as at March 31, 2017.

Group net worth

in € millions	Dec. 31, 2016	Mar. 31, 2017
Balance sheet total	2,543.9	2,607.5
Equity	840.2	866.4
in % of balance sheet total	33.0%	33.2%
Net liquidity	113.0	5.0

KUKA recorded a return on capital employed (ROCE) of 15.6% in the first quarter of 2017 with average capital employed of €948.1 million as of March 31, 2017 (December 31, 2016: €783.0 million).

The ROCE of the individual segments is shown in the table below.

Return on capital employed (ROCE)

in % of capital employed	Dec. 31, 2016	Mar. 31, 2017
Group [1]	16.2	15.6
of which Robotics	51.7	47.5
of which Systems	42.8	30.2
of which Swisslog [2]	1.5	-2.5

[1] incl. consolidations

[2] incl. impairment charges due to purchase price allocation

Research & development

The research & development (R&D) expenditure of KUKA Group amounted to €31.3 million in the first quarter of 2017 (Q1/16: €29.9 million), slightly above the value for the same period of the previous year. R&D expenditure is attributable predominantly to the Robotics division. At Systems, research and development activities are mainly processed within the framework of customer projects.

In the first quarter of 2017, KUKA continued to work on key technologies for Industrie 4.0 such as human-robot collaboration, mobility and smart platforms as well as products for the specific requirements of the focused growth markets. KUKA showcased intelligent solutions for the Smart Factory at Hannover Messe (Hanover Trade Fair) and in doing so demonstrated the added value which customers stand to gain from the mega trend of digitization in their production operations.

KUKA at Hannover Messe – Hello Industrie 4.0_we connect you

KUKA presented the largest networked trade fair application in the company's history under the slogan "Hello Industrie 4.0_we connect you". The Smart Factory brought together all of the technologies, products, solutions and skills that KUKA has to offer in order to create a highly flexible and networked production system, showing the added value of digitized production. The intelligent factory was capable of manufacturing, packaging and delivering a highly customized product for trade fair visitors in an extremely short lead time. The product was a puzzle, manufactured in a batch size of 1, that the visitors could collect straight away. The visitors were able to view the production status of their puzzle online at any time and were notified when the puzzle was finished.

The Smart Factory is the product of intelligent collaboration involving all of the KUKA companies: robotics and systems expertise from Robotics, Systems and Industries, production logistics from Swisslog as well as IT and software know-how.

SynQ

A key element of the Smart Factory was "Synchronized Intelligence", or SynQ for short, the new software platform from Swisslog. It controlled and monitored all of the logistics work steps related to the puzzle production process, from the order procedure and the organization of packaging materials right through to collection. SynQ made use of an interface to communicate with the machinery and robots and also communicated with each customer by e-mail. The software created replenishment orders, arranged the delivery of materials and produced statistics for all of the automated processes. This ensured that the processes were transparent and verifiable.

KUKA Connect

All of the robots and machinery in the Smart Factory were linked via the cloud-based software solution KUKA Connect. Based on open global standards, KUKA Connect uses extensive data analyses and the latest fog computing platform in order to offer customers maximum transparency with regard to their connected KUKA robots. Thanks to the standardized user interface, it is possible to observe and analyze the status and detect any potential malfunctions or imminent failures in good time. This reduces the costs of day-to-day production due to service requirements or downtimes.

KUKA Innovation Award presented

Five teams of finalists demonstrated their "Advanced Mechatronics" applications with the LBR iiwa at the KUKA booth over the course of Hannover Messe. Dr. Bernd Liepert, KUKA Chief Innovation Officer and patron of the competition, handed over the prize of €20,000 to the winners at the KUKA booth.

Best Product 2017: Condition Monitoring from Swisslog gains award at LogiMAT 2017

Swisslog won the "Best Product 2017" prize in the "Software, Communications, IT" category with Condition Monitoring at LogiMAT 2017. The solution concept impressed the jury of scientists and specialist journalists, as it makes a significant contribution towards rationalizing, saving costs and increasing productivity in internal logistics. Condition Monitoring is a user-friendly plug-in for the intelligent software SynQ and a component of the Cockpit Manager. Critical elements can be identified precisely and in a targeted manner in the warehouse and unexpected wear-induced system failures can be prevented. The modern data analysis offers important impetus for intralogistics towards the goal of a service-driven industry with performance-related pay-per-use business models.

ACPaQ – fully-automated solution for forming mixed pallets

Another intralogistics innovation, the robot-based solution ACPaQ, has emerged as a result of the pooling of intra-Group expertise comprising robotics and intralogistics know-how. Swisslog presented the system for fully-automated mixed carton picking and palletizing to the specialist audience for the first time at LogiMAT. Swisslog is introducing ACPaQ to help automate one of the key areas of intralogistics for successful trading enterprises: the process involves assembling mixed pallets tailored to store requirements from unmixed pallets. The innovative palletizing system has a highly modular design. It combines robotics solutions for depalletizing and palletizing with the light goods warehouse technology CycloneCarrier and uses a fully-automated process controlled by the warehouse management software SynQ to ensure that cartons can be picked in the distribution centers in accordance with the store layout, product groups or classes two to three times quicker than with conventional methods.

Employees

As of March 31, 2017 KUKA Group employed 13,565 people. This is an increase of 9.1% compared to the previous year's reporting date (March 31, 2016: 12,433). The Robotics division's headcount rose by 14.4% from 4,302 to 4,923. The new employees were hired in all customer segments – Automotive, General Industry and Service. At KUKA Systems, the workforce increased by 1.4% from 5,176 to 5,249. The Swisslog division had 2,714 employees at the end of the first quarter of this year, 5.4% more than on the reporting date of the previous year (March 31, 2016: 2,574). At the end of the first quarter, there were 3,553 employees at the Augsburg site. Compared with the 2016 reporting date, this represented an increase of 6.6% from 3,334.

Opportunities and risk report

Overall, KUKA Group's named risks relate to the business performance of the divisions and financial risks associated with currency exchange rate fluctuations and corporate financing. The Executive Board is not aware of any individual or aggregated risks that could threaten the company's existence. Strategically and financially, the company is positioned to be able to take advantage of business opportunities. For information on risks affecting EBIT, please also refer to the detailed report on pages 56 and following of the management report in the 2016 annual report.

Outlook

Given the current economic forecasts and general conditions, KUKA expects high demand in the 2017 financial year, particularly from the North America and Asia regions, and here especially from China. The demand in Europe is expected to remain relatively stable overall. From a sector perspective, a positive development is predicted for the General Industry market. This is due in part to the low penetration rate of robot-based automation in some areas and in part to new robot types and technologies enabling the efficiency of production stages previously characterized by a low degree of automation to be improved. Automotive customers have already significantly increased investments over the past few years.

On the basis of the current general conditions, KUKA is anticipating sales revenues of around €3.1 billion in the full year 2017. Both customer segments – General Industry and Automotive – and from a regional viewpoint, China and North America, should make a positive contribution to sales revenue development. Based on the current economic environment and the anticipated development of sales, KUKA Group expects to achieve an EBIT margin of more than 5.5% before purchase price allocation for Swisslog and also before investment in growth amounting to about €45 million. The expenditure for purchase price allocation at Swisslog should amount to about €10 million in 2017 and thus be at the level of the previous year.

Interim Report (condensed)

Group income statement

of KUKA Aktiengesellschaft for the period January 1 – March 31, 2017

in € millions	Q1/16	Q1/17
Sales revenues	**629.1**	**790.8**
Cost of sales	-452.5	-595.5
Gross income	**176.6**	**195.3**
Selling expenses	-60.6	-70.5
Research and development costs	-29.9	-31.3
General and administrative expenses	-53.3	-55.6
Other operating income	2.8	2.6
Other operating expenses	-3.2	-2.6
Loss from companies consolidated at equity	-1.0	-1.0
Earnings from operating activities	**31.4**	**36.9**
Reconciliation to earnings before interest and taxes (EBIT)		
Earnings before interest and taxes (EBIT)	**31.4**	**36.9**
Depreciation and amortization	17.2	18.6
Earnings before interest, tax and amortization (EBITDA)	**48.6**	**55.5**
Interest income	3.5	2.1
Interest expense	-2.5	-3.0
Financial result	**1.0**	**-0.9**
Earnings before tax	**32.4**	**36.0**
Taxes on income	-11.5	-9.4
Earnings after taxes	**20.9**	**26.6**
(of which: attributable to minority interests)	(-0.2)	(-0.1)
(of which: attributable to shareholders of KUKA AG)	(21.1)	(26.7)
Earnings per share (undiluted) in €	**0.54**	**0.67**
Earnings per share (diluted) in €	**0.54**	**0.67**

Statement of comprehensive income

of KUKA Aktiengesellschaft for the period January 1 – March 31, 2017

in € millions	Q1/16	Q1/17
Earnings after taxes	**20.9**	**26.6**
Items that may potentially be reclassified to profit or loss		
Translation adjustments	-11.7	-3.3
Items that are not reclassified to profit or loss		
Changes of actuarial gains and losses	-12.1	3.8
Deferred taxes on changes of acturial gains and losses	2.2	-0.9
Changes recognized directly in equity	**-21.6**	**-0.4**
Comprehensive income	**-0.7**	**26.2**
(of which: attributable to minority interests)	(-0.2)	(-0.1)
(of which: attributable to shareholders of KUKA AG)	(-0.5)	(26.3)

Group cash flow statement

of KUKA Aktiengesellschaft for the period January 1 – March 31, 2017

in € millions	Q1/16	Q1/17
Net income after taxes	**20.9**	**26.6**
Income taxes	13.4	9.1
Net interest result	-1.0	0.8
Depreciation of intangible assets	7.7	8.6
Depreciation of tangible assets	9.5	10.0
Other non-payment related income	-3.0	-3.0
Other non-payment related expenses	1.4	2.9
Cash earnings	**48.9**	**55.0**
Result on the disposal of assets	0.2	0.0
Changes in provisions	-14.4	-23.0
Changes in current assets and liabilities		
Changes in inventories	-19.4	-84.7
Changes in receivables and deferred charges	-56.0	-107.9
Changes in liabilities and deferred income (excl. financial debt)	8.4	88.1
Income taxes paid	-11.2	-9.2
Investments/financing matters affecting cash flow	-1.0	-0.3
Cash flow from operating activities	**-44.5**	**-82.0**
Payments from disposals of fixed assets	0.5	0.8
Payments for capital expenditures on intangible assets	-9.7	-7.5
Payments for capital expenditures on tangible assets	-9.3	-7.7
Payments for the acquisition of consolidated companies and other business units	-1.6	-13.0
Interest received	2.1	1.9
Cash flow from investing activities	**-18.0**	**-25.5**
Free cash flow	**-62.5**	**-107.5**
Proceeds from/payments for the acceptance/repayment of bank loans	1.8	0.0
Payments from grants received	1.0	0.3
Interest paid	-2.2	-1.4
Cash flow from financing activities	**0.6**	**-1.1**
Payment-related changes in cash and cash equivalents	**-61.9**	**-108.6**
Exchange rate-related and other changes in cash and cash equivalents	-3.4	1.3
Changes in cash and cash equivalents	**-65.3**	**-107.3**
(of which net increase/decrease in restricted cash)	(0.1)	(-0.1)
Cash and cash equivalents at the beginning of the period	496.2	364.2
(of which restricted cash at the beginning of the period)	(3.2)	(1.1)
Cash and cash equivalents at the end of the period	**430.9**	**256.9**
(of which restricted cash at the end of the period)	(3.3)	(1.0)

Group consolidated balance sheet

of KUKA Aktiengesellschaft as of March 31, 2017

Assets

in € millions	Dec. 31, 2016	Mar. 31, 2017
Non-current assets		
Intangible assets	445.1	443.9
Property, plant and equipment	261.2	257.8
Financial investments	4.9	5.3
Investments accounted for at equity	4.2	4.1
	715.4	**711.1**
Finance lease receivables	57.7	54.0
Income tax receivables	0.0	0.0
Other long-term receivables and other assets	16.2	15.9
Deferred taxes	48.8	48.9
	838.1	**829.9**
Current assets		
Inventories	318.8	400.4
Receivables and other assets		
Trade receivables	353.2	324.6
Receivables from construction contracts	535.7	654.4
Finance lease receivables	9.6	9.6
Income tax receivables	33.4	31.1
Other assets, prepaid expenses and deferred charges	90.9	100.6
	1,022.8	**1,120.3**
Cash and cash equivalents	364.2	256.9
	1,705.8	**1,777.6**
	2,543.9	**2,607.5**

Equity and liabilities

in € millions	Dec. 31, 2016	Mar. 31, 2017
Equity		
Subscribed capital	103.4	103.4
Capital reserve	306.6	306.6
Revenue reserve	430.5	456.8
Minority interests	-0.3	-0.4
	840.2	**866.4**
Non-current liabilities, provisions and accruals		
Financial liabilities	249.6	249.6
Other liabilities	28.0	27.7
Pensions and similar obligations	122.7	117.7
Deferred taxes	45.3	45.5
	445.6	**440.5**
Current liabilities		
Financial liabilities	1.6	2.3
Trade payables	459.3	522.4
Advances received	95.6	103.4
Liabilities from construction contracts	223.7	235.1
Income tax liabilities	40.0	39.7
Other liabilities and deferred income	280.0	262.9
Other provisions	157.9	134.8
	1,258.1	**1,300.6**
	2,543.9	**2,607.5**

Development of Group equity

of KUKA Aktiengesellschaft for the period January 1 – March 31, 2017

in € millions	Number of shares outstanding	Subscribed capital	Capital reserve	Revenue reserves: Translation gains/losses	Revenue reserves: Actuarial gains and losses	Revenue reserves: Annual net income and other revenue reserves	Equity to shareholders	Minority interests	Total
Jan. 1, 2016	**38,501,259**	**100.1**	**265.3**	**53.0**	**-15.2**	**329.8**	**733.0**	**-0.5**	**732.5**
Earnings after taxes	–	–	–	–	–	21.1	21.1	-0.2	20.9
Other earnings	–	–	–	-11.7	-9.9	–	-21.6	–	-21.6
Comprehensive income	**–**	**–**	**–**	**-11.7**	**-9.9**	**21.1**	**-0.5**	**-0.2**	**-0.7**
Capital increase from conversions	1,274,211	3.3	41.3	–	–	–	44.6	–	44.6
Change in scope of consolidation/other changes	–	–	–	–	–	-0.6	-0.6	–	-0.6
Mar. 31, 2016	**39,775,470**	**103.4**	**306.6**	**41.3**	**-25.1**	**350.3**	**776.5**	**-0.7**	**775.8**
Jan. 1, 2017	**39,775,470**	**103.4**	**306.6**	**61.0**	**-23.8**	**393.3**	**840.5**	**-0.3**	**840.2**
Earnings after taxes	–	–	–	–	–	26.7	26.7	-0.1	26.6
Other earnings	–	–	–	-3.3	2.9	–	-0.4	–	-0.4
Comprehensive income	–	**–**	**–**	**-3.3**	**2.9**	**26.7**	**26.3**	**-0.1**	**26.2**
Mar. 31, 2017	**39,775,470**	**103.4**	**306.6**	**57.7**	**-20.9**	**420.0**	**866.8**	**-0.4**	**866.4**

Group notes on the quarterly report (condensed)

Group segment reporting

of KUKA Aktiengesellschaft for the period from January 1 – March 31, 2017

	Robotics		Systems		Swisslog		KUKA AG and other companies		Reconciliation and consolidation		Group	
in € millions	Q1/16	Q1/17	Q1/16	Q1/17	Q1/16	Q1/17	Q1/16	Q1/17	Q1/16	Q1/17	Q1/16	Q1/17
Orders received	241.7	307.4	385.5	445.6	125.7	230.2	–	–	-6.4	-15.9	746.5	967.3
Order backlog (Mar. 31)	259.6	352.3	1,006.3	1,240.0	473.4	707.6	–	–	-5.9	-35.8	1,733.4	2,264.1
Group external sales revenues	202.6	266.0	290.4	365.3	136.1	159.0	–	–	–	0.5	629.1	790.8
in % of Group sales revenues	32.2%	33.6%	46.2%	46.2%	21.6%	20.1%	–	–	–	–	100.0%	100.0%
Intra-Group sales	7.8	6.1	1.5	3.5	0.0	0.4	–	19.7	-9.3	-29.7	–	–
Sales revenues by division	**210.4**	**272.1**	**291.9**	**368.8**	**136.1**	**159.4**	**–**	**19.7**	**-9.3**	**-29.2**	**629.1**	**790.8**
Gross profit	**85.7**	**96.3**	**53.9**	**59.8**	**37.2**	**39.4**	**–**	**20.4**	**-0.2**	**-20.6**	**176.6**	**195.3**
in % of sales revenues of the division	40.7%	35.4%	18.5%	16.2%	27.3%	24.7%	–	–	–	–	28.1%	24.7%
EBIT	**21.2**	**25.9**	**19.1**	**26.3**	**-0.7**	**-1.9**	**-8.1**	**-13.7**	**-0.1**	**0.3**	**31.4**	**36.9**
in % of sales revenues of the division	10.1%	9.5%	6.5%	7.1%	-0.5%	-1.2%	–	–	–	–	5.0%	4.7%
EBITDA	**26.6**	**31.8**	**23.3**	**30.5**	**5.0**	**4.4**	**-6.3**	**-11.5**	**0.0**	**0.3**	**48.6**	**55.5**
in % of sales revenues of the division	12.6%	11.7%	8.0%	8.3%	3.7%	2.8%	–	–	–	–	7.7%	7.0%
Assets	459.1	530.6	709.3	1,025.5	614.4	612.8	547.3	604.6	-443.7	-471.9	1,886.4	2,301.6
Employees (Mar. 31)	4,302	4,923	5,176	5,249	2,574	2,714	381	679	–	–	12,433	13,565

IFRS/IAS accounting standards

KUKA Aktiengesellschaft, headquartered in Augsburg, has prepared its interim financial statements for the period ending March 31, 2017 in line with the IAS 34 “Interim Financial Reporting Guidelines” as adopted by the European Union. The company has elected to prepare a condensed version in accordance with this standard. The condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements as of December 31, 2016. Unless stated to the contrary, all values are stated in € millions.

The consolidated financial statements were prepared according to the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IAS) as approved by the European Union. The term IFRS also includes all valid international accounting standards (IAS). The interpretations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Standards Interpretations Committee (IFRS IC) – supplemented by the guidelines stipulated in section 315a para. 1 of the German Commercial Code (HGB) – were also taken into consideration.

KUKA Aktiengesellschaft is a 94.55% subsidiary of MECCA International (BVI) Limited, Tortola/British Virgin Islands, an indirect wholly-owned subsidiary of Midea Group Co. Ltd., Foshan City, Guangdong Province/China. KUKA Aktiengesellschaft is incorporated in the consolidated financial statements of Midea Group Co. Ltd., Foshan City/China, which are available from the website www.cninfo.com.cn or directly on the website of Midea Group Co. Ltd. at http://www.midea.com/global/investors/financial_statements.

Scope of consolidation

There were no changes to the scope of consolidation in the first quarter of 2017.

Investments in associates and joint ventures

As of the reporting date, the investment carrying amount of the associated companies KBee AG, Munich, Yawei Reis Robot Manufacturing (Jiangsu) Co., Ltd., Yangzhou/China as well as of the joint venture Chang’an Reis Robotic Intelligent Equipment (Chongqing) Co., Ltd., Chongqing/China, was valued at €4.1 million; the effect on earnings of these companies was -€1.0 million.

In the first quarter of 2017, shares amounting to €0.9 million were purchased in KBee AG.

Accounting and valuation methods

With the exception of the changes outlined below, the same valuation methodology and accounting principles as those used for the consolidated financial statements for the 2016 financial year were applied in preparing this consolidated interim report. For further information, please refer to the consolidated financial statements dated December 31, 2016, which form the basis of the interim report presented here. This is also available on the Internet at www.kuka.com.

Changes in accounting and valuation methods

No new standards or interpretations based on endorsement by the European Union have become mandatory since the start of the 2017 financial year.

Earnings per share

Earnings per share break down as follows:

	Q1/16	Q1/17
Net income for the year attributable to the shareholders of KUKA AG (in € millions)	21.1	26.7
Weighted average number of shares outstanding (No. of shares)	39,059,122	39,596,383
Undiluted/diluted earnings per share	0.54	0.67

Undiluted earnings per share due to shareholders of KUKA Aktiengesellschaft were calculated in accordance with IAS 33 and the weighted average number of shares outstanding for the year.

In the first three months of 2017, the weighted average number of shares in circulation was 39.6 million (March 31, 2016: 39.1 million shares).

Equity

The capital stock of KUKA Aktiengesellschaft amounts to €103,416,222.00 (March 31, 2016: €103,416,222.00). This is subdivided into 39,775,470 (March 31, 2016: 39,775,470) no-par-value bearer shares outstanding. Each share carries one vote.

IAS 19 employee benefits

Changes in the discount rates affect the pension provisions and give rise to actuarial gains and losses. The development of discount rates applied by KUKA for countries with significant pension obligations is shown in the table below:

in %	Dec. 31, 2016	Mar. 31, 2017
Germany	1.50	1.55
Switzerland	0.60	0.55
UK	2.60	2.70
Sweden	2.50	2.90
USA	3.96 – 4.00	3.89 – 3.90

Due to a slight increase in the interest rate level in Germany, the United Kingdom and Sweden and the positive, actual development of plan assets (primarily at the Swiss companies), actuarial income of €3.8 million was recorded in the first quarter of 2017. The actuarial effects were reported under equity as an income-neutral sum of €2.9 million, taking deferred taxes into account.

Promissory note loan

KUKA AG issued an unsecured promissory note loan with a total volume of €250.0 million on October 9, 2015. After deducting the transaction costs, KUKA received a total of €248.9 million from this issue.

The total volume was placed in two separate tranches. Tranche 1 has a volume of €142.5 million with an original term to maturity of five years; tranche 2 has a volume of €107.5 million and an original term to maturity of seven years. The issue price was 100.0% with a denomination per unit of €0.5 million. Repayment shall occur at 100.0%, payable in one sum on maturity of each fixed-term tranche. The promissory note loan carries interest coupons of 1.15% for tranche 1 and 1.61% for tranche 2. Interest payments are made at yearly intervals on October 9.

The promissory note loans contain a change-of-control clause that entitles the promissory note investors to request repayment of the investment on the next interest payment date after a change of control. The closing of the takeover bid by Midea was a change of control pursuant to the promissory note document. Despite the fact that some investors made use of the right to redeem their units in connection with the change of control, KUKA does not expect there to be any redemption obligations at the redemption date on October 9, 2017.

On initial recognition, the promissory note loan was carried on the balance sheet at fair value less transaction costs of €1.1 million. The difference between the amount paid out (less transaction costs) and the repayment amount is recognized in the interest result for the term of each tranche using the effective interest method. Taking account of the transaction costs, the effective interest rate rises to 1.24% for tranche 1 and 1.67% for tranche 2.

The carrying amount stands at €249.2 million as of March 31, 2017 (December 31, 2016: €249.2 million). Interest amounting to €1.6 million (December 31, 2016: €0.8 million) was deferred.

Syndicated loan for KUKA Aktiengesellschaft

KUKA AG finances itself in part through a syndicated loan agreement (“SFA” – Syndicated Facilities Agreement) which came into effect in April 2015 as part of a refinancing operation with an original term to March 30, 2020. This included two extension options each for one year. The first extension option was exercised in 2016. The second extension option available to KUKA was requested at the start of 2017. As all banks of the SFA approved a further extension, the new final maturity date is now March 30, 2022.

After an amendment came into effect on November 28, 2016, KUKA has a guaranteed credit line from the SFA of €200.0 million and a cash line with the same volume of €200.0 million at its disposal, which can also be used for guarantees as previously. The syndicated loan agreement is unsecured and contains only the customary equal treatment clauses and negative pledges. Covenants for leverage and interest coverage are agreed for the SFA. For further details, please refer to the company’s 2016 annual report.

As of the reporting date, the utilization of the guarantee facility and cash credit line from the syndicated loan agreement of KUKA AG amounted to a total of €177.3 million (December 31, 2016: €170.9 million).

Guarantee facility lines from banks and surety companies

The guarantee facilities promised by banks and surety companies outside the syndicated loan agreement amounted to €124.0 million on March 31, 2017 (December 31, 2016: €124.0 million) and were available to be utilized in full. As of the reporting date, the amount exercised was €84.2 million (December 31, 2016: €87.2 million).

Asset-backed securities program

In June 2011, KUKA Group set up an ABS (Asset-Backed Securities) facility with a volume of €25.0 million. Under the terms of this program, €22.2 million was utilized as of March 31, 2017. The volume was used entirely as of December 31, 2016.

Financial instruments measured at fair value

IFRS 13 defines how to determine fair market value and expands on disclosures related to the fair market value. The standard does not include any requirements regarding the cases for which fair value is to be used. Here, fair value is defined as the price that would be paid by independent market participants in an arm's length transaction at the evaluation date if an asset were sold or a liability transferred. In accordance with IFRS 13, assets and liabilities evaluated at market values are to be attributed to the three levels of the fair value hierarchy. The three levels of the fair value hierarchy are defined as follows:

Level 1
Quoted prices in active markets for identical assets or liabilities

Level 2
Inputs other than quoted prices that are observable either directly or indirectly

Level 3
Inputs for assets and liabilities that are not based on observable market data

The following table shows the breakdown of the financial assets and liabilities measured at fair value:

Mar. 31, 2017

in € millions	Level 2	Level 3	Total
Financial assets	8.1	3.4	11.5
Financial liabilities	7.1	–	7.1

Dec. 31, 2016

in € millions	Level 2	Level 3	Total
Financial assets	9.6	2.1	6.7
Financial liabilities	13.0	–	3.8

There are currently no financial assets assigned to level 1 of the fair value hierarchy. The assets in level 2 mainly relate to forward exchange transactions carried as assets or liabilities. The value is determined with the aid of standard financial mathematical techniques, using current market parameters such as exchange rates and counterparty credit ratings (mark-to-market method) or quoted prices. Middle rates are used for this calculation. The level 3 financial assets include units in investments not traded on the market.

All other financial instruments are reported at amortized cost and mainly correspond to the book values.

Segment reporting

The internal reporting and organizational structure subdivides KUKA into the KUKA Robotics, KUKA Systems and Swisslog segments. Key financial indicators are determined for all three segments. Earnings before interest and taxes (EBIT) are used as the key indicator with regard to managing segment profits.

The main elements of the segment reports are contained in the management report on the Robotics, Systems and Swisslog operating business divisions, as well as in the tables at the beginning of the notes to the quarterly report.

Cash flow statement

The cash flow statement shows changes to KUKA Group's liquidity position in accordance with IAS 7. This item comprises all funds recognized on the balance sheet as cash and cash equivalents; i.e. cash in hand, checks and cash balances with financial institutions, provided that they are available within three months. Cash and cash equivalents of €1.0 million (December 31, 2016: €1.1 million) are subject to restrictions. These restrictions relate to a government-funded contract in Brazil and government funding for eligible development projects with a German company.

Contingent liabilities and other financial commitments

There has been no material change in other financial obligations and contingent liabilities since December 31, 2016.

Related party disclosures

Due to the change in shareholdings (see the section "Takeover of KUKA by Midea Group"), Voith Group and Loh Group are no longer included among the related parties. The group of related parties has been expanded to include the companies allocable to Midea Group.

Aside from these changes, the group of related parties has remained unchanged compared to December 31, 2016 in terms of associated companies, joint ventures and non-consolidated subsidiaries.

In the first quarter of 2017, services to the value of €1.3 million were performed by related parties, and services to the value of €2.9 million were received by them.

Furthermore, as of the reporting date, the sums outstanding in relation to dealings with related parties amounted to €1.3 million for receivables and €0.8 million for liabilities and other obligations.

The contractually agreed, future capital contributions to KBee AG are to be made depending on the achievement of certain milestones and amount to a further €1.3 million. There are currently significant differences in opinion between the parties regarding the interpretation of certain components of the contract in respect of the stage of development and series maturity of the robot developed by KBee AG and the arrangements for further collaboration, including the associated company and licensing agreements.

Takeover of KUKA by Midea Group

On June 16, 2016, MECCA International (BVI) Limited, Tortola/British Virgin Islands, an indirect wholly-owned subsidiary of Midea Group Co. Ltd. (Midea) published the bid document for the public tender offer for KUKA Aktiengesellschaft (KUKA). The takeover bid was made in the form of a cash offer of €115.0 per KUKA share and was addressed to all KUKA shareholders.

At the end of June 2016, based on the fairness opinion, the Executive Board recommended that KUKA shareholders accept the offer. KUKA shareholders were able to offer their shares to Midea up to August 3, 2016 during a grace period (due to the 30% minimum acceptance threshold being exceeded).

After the grace period expired, the stake held by MECCA in KUKA amounted to 94.55% taking into account the tendered shares.

Completion of the takeover was subsequently dependent on antitrust and regulatory authorizations in the various countries in which KUKA operates. Following the sale of the Aerospace operating division in mid-December 2016, the final outstanding condition was met in order to fulfill the security-related requirements of the US authorities CFIUS (Committee on Foreign Investment in the United States) and DDTC (Directorate of Defense Trade Controls). The takeover of KUKA Aktiengesellschaft by MECCA International (BVI) Limited was approved by the aforementioned US authorities on December 29, 2016.

All the closing conditions of the takeover bid of June 16, 2016 were therefore met and the takeover bid was finally settled effective January 6, 2017.

For further details, please refer to the company's 2016 annual report.

Events of material importance after the end of the reporting period

From the balance sheet date to the date of this report there have been no events subject to reporting requirements that had an impact on the financial position and performance of the company.

Augsburg, April 26, 2017

The Executive Board

Dr. Till Reuter Peter Mohnen

Financial calendar 2017

Annual General Meeting, Augsburg	May 31, 2017
Interim report to mid-year	August 2, 2017
Interim report for the first nine months	October 30, 2017

This quarterly report was published on April 27, 2017, and is available in German and English from KUKA Aktiengesellschaft Corporate Communications/Investor Relations department. In the event of doubt, the German version applies.

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