RISK REPORT

GENERAL PRINCIPLES

The KUKA Group conducts business around the globe, which exposes the company to numerous potential risks. The goal of entrepreneurial management is to minimize risks and take advantage of opportunities, in order to systematically and continuously improve shareholder value and achieve the target objectives.

Risk management

KUKA continuously and systematically identifies external and internal risks in all business units and subsidiaries and evaluates them consistently throughout the Group with respect to their potential level of damage and likelihood of the events occurring. The precise risks are categorized into worst, medium and best-case scenarios and appropriate accruals or revaluations are formed on the balance sheet. Prior to the quarterly reports, a steering committee analyzes the identified risks. The responsible persons evaluate the plausibility and define possible management alternatives. A risk summary is subsequently generated, which includes identification of the top ten risks and a summary of the overall risk situation. The Robotics and Systems divisions' top ten risks, and Group risks derived from them, are updated monthly and are a fixed agenda item of the monthly reporting process, as well as the Executive Board, Supervisory Board and Audit Committee meetings.

The managers of the divisions and subsidiaries are directly responsible for the early identification, control and communication of risks. Risk coordinators in the central and decentralized business units ensure that the reporting process is uniform and consistent with the defined reporting channels and that the reporting thresholds are in line with the size of the company. Companies are always obligated to provide internal ad hoc reports for risks that exceed certain reporting thresholds. KUKA Aktiengesellschaft's risk management system is coordinated by a head-office administrator and is an integral part of the overall budgeting, control and reporting process.

The Group's risk management system makes it possible for executive management to identify material risks at an early stage and take appropriate steps to counter them as well as monitor the mitigating measures. Regular audits of the risk management process by the internal audit department ensure efficiency and continuous improvement. In addition, the external auditors check that the early risk identification procedure integrated into the risk management system is suitable for identifying risks at an early stage that threaten the existence of the company.

MARKET AND BUSINESS RISKS

In 2008, KUKA felt the impact of the international financial crisis and the plummeting worldwide automotive industry sales. For example, in November an order valued at about € 23 million awarded to LSW Maschinenfabrik GmbH in Bremen, a 100-percent owned subsidiary of KUKA Aktiengesellschaft, by GETRAG Transmission Manufacturing LLC, Indiana / USA was canceled. On November 17, 2008, GETRAG filed for bankruptcy protection under the terms of Chapter 11 of the US Bankruptcy Code. This event impacted KUKA the operating result in the amount of € 20.8 million in 2008.

In addition, the financial position of most automobile manufacturers deteriorated significantly in 2008, particularly that of the three largest American carmakers, Ford, General Motors and Chrysler. This is reflected in the low credit rating assigned to these companies by various rating agencies. About 70 percent of the KUKA Group's exposure to these three manufacturers is on the American Continent and about 30 percent in Europe. The exposure to these companies is mitigated using a strict process of expediting receivables, as well as regular exposure reporting. In addition, new orders that exceed a certain value are only accepted with prior approval of the Executive Board and after applying certain securitization measures (guarantees, down payments, etc.).

KUKA is also exposed to the changing investment behavior of its regular customers in the various market subsectors. It is further exposed to country risks, such as patent and brand protection in Asia, exchange rate fluctuations, financial and technical risks and the risk of substantial price increases of key raw materials.

PERFORMANCE RISKS

KUKA Robotics

The risks in the robotics markets relate primarily to the spending behavior of the customers and the continuing price pressure in the automotive industry. Furthermore, the even greater cost consciousness of all customers around the world, particularly the automotive sector and its suppliers, is causing them to keep their robots in service longer, which in turn leads to lower spending on replacements.

KUKA Robotics counters such trends by continually developing new products and applications that offer customers quantifiable financial advantages driven by very short paybacks. The efforts focus on opportunities to further enhance innovative applications in the medical technology and other consumer-related areas. In fiscal 2008, the KUKA Group spent € 33.7 million on research and development. The majority of the spending was on robotics.

A key component of the corporate strategy is to develop new markets outside the automotive industry by expanding the customer base into general industry. In fiscal 2008, orders from such customers accounted for 41.8 percent of the Robotics division's orders received. One example of such a market is healthcare technology. In addition, the company continues to press ahead with efforts to expand its business in America and Asia.

Exchange-rate advantages benefit KUKA competitors' business in some areas. Increased distribution of value added across various local currencies will make the profitability of the company less susceptible to exchange-rate fluctuations.

KUKA Systems

A key risk for the Systems division is in the capital spending decisions of the automotive sector, which in turn are strongly influenced by the global business and investment climate. The effects of the international financial market crisis on orders received, as well as our customers' capital spending and payment activities, became particularly noticeable in the fourth quarter of 2008. For example, projects planned for 2008 were postponed to the following year. In addition, carmakers' cost reduction programs have a positive impact on the business on the one hand because of greater demands for better efficiency and more flexible production lines. On the other hand, they impact negatively because of the reduced capital spending overall. The long duration of the project management phase and the infrequency of the orders received, as well as price and competitive pressures, can expose the company to sales and profit risks. Exposure of our American subsidiaries in particular to the risk associated with the three major US carmakers Ford, General Motors and Chrysler is reduced through a strict project and receivables management program. Due to the project nature of the business, there are also the additional risks of cost estimation errors and contractual penalties. These are continuously monitored and accrued for.

We further mitigate risk by diversifying regionally, spreading our business activities across Europe, North America and increasingly Asia. Asia in particular is seen as an area of further potential, since the automotive industry wants to participate in Asia's economic growth and is therefore building and expanding local manufacturing facilities. The increasing model variety in the automotive industry has a positive effect on orders received, since it results in rising demand for flexible production lines. This enables systems integrators and suppliers to participate in new business opportunities. US carmakers in particular will have to spend money to further adjust their manufacturing systems in order to remain competitive by catering to the demand for smaller, more fuel-efficient cars.

Pay-on-production contracts such as the one entered into by KUKA Toledo Productions Operations (KTPO) offer additional opportunities and risks. Chrysler was sold by Daimler AG in August 2007, and in 2008, Chrysler's credit rating continued to deteriorate. In addition, the sale of Chrysler triggered a change of control clause, which led to the redemption in 2008 of the financing for KUKA's Jeep Wrangler car body assembly line. The Jeep Wrangler brand offers above-average business opportunities in comparison to other American cars, in which KUKA participated in 2008. There is risk associated with the stronger dependence on passenger car sales and manufacturing volumes in the American car market.

A thorough analysis of the aircraft and solar industries indicates that they too offer potential opportunities. The first orders have already been received.

CORPORATE STRATEGY RISKS

The goal of KUKA's two divisions is to be among the technology and market leaders in their target markets. Consistently enhancing their technologies through coordinated innovation programs is therefore of primary importance. A key task is to identify the opportunities and risks of technical innovations in a timely manner and evaluate them with respect to feasibility. The company mitigates the impact of incorrect market assessment by conducting regular market and competitor analyses, some of which are decentralized. This is supported by application-oriented developments, partnerships with systems integrators and alliances; for example, the cooperative research being done with the German Aerospace Center (DLR) in Wessling near Munich, with RWTH Aachen and with the university clinic in Aachen.

Using effective quality assurance systems in combination with regular certification programs helps convince purchasers that we offer customer-oriented products and solutions and strengthens our companies' positions in their target markets. For example, KUKA Roboter GmbH won the Manufacturing Excellence Award 2008. Both the overall prize and the award in the product innovation category went to Augsburg because of the company's outstanding performance in regard to dealing with customers, processes and innovative products.

The corporate strategy is managed by a central KUKA AG department and is regularly reviewed and coordinated with the divisions. Crossover technologies and concepts are developed at the joint Innovation Center. Uniform procedures and processes generate synergies that help the company meet the demands of the market for innovative products and solutions. R&D controllers are assigned by Robotics and Systems for this purpose.

Centralized generic, administrative and support functions such as accounting and payroll strengthen cooperation within the Group, lead to uniform processes that meet compliance requirements, create synergies and therefore optimize costs. Additional functions and divisions will follow in 2009.

PERSONNEL RISKS

KUKA relies on qualified specialists and managers to achieve its goals. In today's very competitive marketplace, it is therefore a constant challenge to attract these human resources to the Group and ensure they identify with the company over the long term. There is an increasing demand for well educated and motivated employees, especially in the world's growth markets. In Germany, there is also evidence of an increasing shortage of qualified personnel, particularly in the technical area. This requires that the company has appropriate in-house training programs and permanently stays in tune with the job market and job seekers. KUKA works closely with local and national universities and research institutes, such as the University of Augsburg, RWTH Aachen and the German Aerospace Center (DLR). The entire topic is made even more acute by the increasingly recognizable demographic shift. Already now, the number of candidates and the quality of the applicants in some areas, such as future apprentices, is steadily declining.

Centralized and decentralized training and continuing education programs for employees at all levels ensure that the Group's people have the indispensable expert skills they require. The in-house and international trainee program offers young recruits the opportunity to get to know various business areas and foreign companies. The 190 apprentices to be trained by the KUKA Group by year-end will be quickly integrated into the company and subsequently offered a permanent position if possible.

A key task is to ensure that the KUKA Group is unaffected by future demographic trends. Entrepreneurial thinking and management styles are also encouraged by tying variable incentives to managers' remuneration packages, which are paid according to business performance. This is supported by an employee share program. The performance criteria for assessing variable incentives were redefined for all managers of the major companies. As of fiscal 2009, these will all be the same following the Excecutive Board's remuneration: one-third for EBIT, one-third for capital employed and one-third for free cash flow.

INFORMATION SYSTEMS RISKS

IT is a strategic tool used to achieve cost-related business goals. A key requirement for cost-effectively and smoothly operating IT systems is to standardize and integrate them to form the basis of efficient, end-to-end business processes. Over the course of 2008, considerable progress was made in harmonizing the accounting IT systems and aligning them with the general strategic direction of the Group. The technical and architectural aspects of the IT systems must also align with the security and availability needs of the business processes.

By regularly reviewing and optimizing the IT systems in use, as well as the relevant guidelines and organizational structures, the company is able to minimize the risks posed by the increasing potential threats from external sources, as well as the growing dependence of the business processes on a functioning IT system. An ongoing IT service continuity management process prevented interference with business processes. IT is also permanently integrated into the KUKA Group's opportunity and risk management process. In addition to the annual IT review, external auditors conduct spot checks of the IT departments regarding their adherence to legal requirements. Regular qualitative and quantitative benchmark comparisons are also conducted with external IT service providers to identify potential improvement opportunities. In addition, risks were analyzed and reduced in a number of companies during the reporting period by conducting internal audits and business continuity management reviews.

FINANCIAL RISKS

One of KUKA AG's primary tasks is to coordinate and control the Group's financing requirements and ensure that KUKA remains financially independent. With this goal in mind, the KUKA Group optimizes the Group's financing and limits its financial risks. The standardized, group-wide treasury reporting system implemented in 2007 was further enhanced for this purpose. In addition, the Group's overall liquidity risk is reduced by closely monitoring the Group's companies and their control of payment flows.

The Group's financing is by contract secured until the end of 2010 by a syndicated loan of € 305.0 million, a convertible bond with a face value of € 69.0 million issued on May 9, 2006, an ABS program (regular sale of receivables) valued at up to € 25.0 million introduced in December 2006 and other bilateral credit lines with credit insurance companies and banks. Interest rates are analyzed regularly to control these risks and the results are an important part of our risk management system. A change in the interest rate of 1 percent referred to the period end would alter the KUKA Group's interest income by € 0.1 million.

Transaction-related currency exchange risks are hedged using forward foreign exchange contracts (primarily futures and swap transactions). Details of the central currency management process are provided under Financial Instruments on pages 115 to 116 of the Group notes. As a basic principle, all KUKA Group companies must secure their foreign currency positions as soon as they arise. Translation risks, that is, valuation risks associated with balance sheet items whose value has been converted from a foreign currency are not hedged. The risk associated with the volatility of leading currencies and the resulting economic exchange risk (competitive risk) is mitigated by having production facilities in several countries (natural hedging). Internal guidelines are used to control the use of derivatives. Associated risks are continuously monitored internally.

The impact of the international financial market crisis will send the global real economy into a slump, which could also have a negative impact on the Group's cash flow from operating activities. In general, the economic downturn has made access to credit and the capital markets more difficult and there is a risk that refinancing costs could increase if the turbulence in the international financial markets continues. In addition, reduced liquidity could cause the financial markets to charge higher interest rates on loans.

Given these conditions, KUKA has taken appropriate precautions regarding liquidity, increasing the frequency and depth of the liquidity planning activities and regularly analyzing various scenarios and simulations regarding the liquidity and financing situation.

COMPLIANCE RISKS

The risks associated with compliance can lead to fines, sanctions, legal directives regarding future business conduct, forfeiture of profits, exclusion from certain businesses, loss of union concessions or other restrictions. Furthermore, involvement in potential corruption proceedings could harm the overall reputation of the KUKA Group and could have a negative impact on efforts to compete for business in both the public and private sectors. Such proceedings could also have a negative impact on the relationship the KUKA Group has with business partners upon which it depends, as well as its ability to find new business partners. It could also have a negative impact on the company's ability to pursue strategic projects and transactions that may be important for the business, e. g., joint ventures or other forms of cooperation. Ongoing or future proceedings could lead to the suspension of some existing contracts and third parties, including competitors, could initiate legal proceedings against the KUKA Group for substantial sums of money.

In order to make these risks transparent and controllable, a Corporate Compliance Program was introduced in early 2008. It applies to all German and international KUKA companies and all managers around the globe have been trained. The initiative did not uncover any substantial risks, since the company is actively countering any exposure by mitigating risks at an early stage and striving to eliminate risk sources, e. g., by aligning its business processes.

OTHER RISKS

The KUKA Group continuously monitors other risks and mitigates these as far as possible. There is no evidence of environmental risks from operational activities, since the company does not use hazardous materials. Where possible, legal risks are limited by using standardized general contracts. The Group's legal departments support the business operations and thereby help limit risks. A Group-wide Directors and Officers Liability Insurance policy is in place that covers, among others, the business management bodies (Executive Board and managers) and supervisory bodies (Supervisory, administrative and advisory boards) of the German and foreign Group subsidiaries. Existing insurance policies are reviewed annually in order to weigh the relationship between the insurance protection and deductible amount versus the risk premium. The Executive Board subsequently makes the final decision.

The shareholder structure is regularly analyzed to assess a possible takeover of the company. Because it has operations around the world, the KUKA Group is required to observe numerous international and country-specific regulations, mostly related to the laws of the particular country, as well as financial administration rules. There is a risk that countries could implement duties should the company fail to properly observe laws and other regulations. Tax audits in particular could have a negative impact on the Group. Should the auditors find compliance issues, the company could be liable for payment of interest charges, penalties and tax backpayments. Appropriate precautions based on experience are taken for such tax risks.

SUMMARY

Considering the risks from an overall perspective, it is clear that the KUKA Group is primarily exposed to market risks. This includes in particular the effects of the international financial market crisis, which have worsened the economic downturn. There is also the issue of dependency on major customers in the automotive sector, particularly in the case of our American subsidiaries. Among the greatest risks to which the KUKA Group is exposed are its contracts with the American carmakers General Motors, Chrysler and Ford, all in financial difficulties. These customers are being regularly monitored with particular care.

The KUKA Group's risks are manageable and transparent, and as far as we are currently able to foresee, do not threaten the company's survival. Neither do we see any risks that could threaten the company's future business or legal existence.